THERMAGE INC
Form S-4
August 11, 2008
**Table of Contents**

**As filed with the Securities and Exchange Commission on August 11, 2008**

**Registration No. 333-**

# SECURITIES AND EXCHANGE COMMISSION

**Washington, D.C. 20549**

# FORM S-4

**REGISTRATION STATEMENT**

**UNDER**

**THE SECURITIES ACT OF 1933**

# THERMAGE, INC.

**(Exact name of Registrant as specified in its charter)**

| **Delaware** | **3845** | **68-0373593** |
|---|---|---|
| **(State or other jurisdiction of incorporation or organization)** | **(Primary Standard Industrial Classification Code Number)** | **(I.R.S. Employer Identification Number)** |

**25881 Industrial Boulevard**

**Hayward, CA 94545**

**(510) 782-2286**

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

**Stephen J. Fanning**

**Chairman, President and Chief Executive Officer**

**Thermage, Inc.**

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

*Copies to:*

**Chris F. Fennell, Esq.**

**Robert T. Ishii, Esq.**

**Alexander D. Phillips, Esq.**

**Wilson Sonsini Goodrich & Rosati**

**Professional Corporation**

**650 Page Mill Road**

**Palo Alto, CA 94304**

**(650) 493-9300**

**Eric Jensen, Esq.**

**Gordon Ho, Esq.**

**Cooley Godward Kronish LLP**

**Five Palo Alto Square**

**3000 El Camino Real**

**Palo Alto, CA 94306**

**(650) 843-5000**

**Approximate date of commencement of proposed sale to the public:** Upon consummation of the transaction described herein.

If the securities being registered on this form are being offered in connection with the formation of a holding company and there is compliance with General Instruction G, 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, 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. ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

| | | | |
|---|---|---|---|
| Large accelerated filer ¨ | | Accelerated filer | x |
| Non-accelerated filer ¨ (Do not check if a smaller reporting company) | | Smaller reporting company | ¨ |

**CALCULATION OF REGISTRATION FEE**

| Title of Each Class of Securities to be Registered | Amount to be Registered(1) | Proposed Maximum Offering Price Per Share | Proposed Maximum Aggregate Offering Price(2) | Amount of Registration Fee |
|---|---|---|---|---|
| Common Stock, $0.001 par value | 24,000,000(3) | N/A | $0 | $0 |

(1) This registration statement relates to common stock, $0.001 par value per share, of Thermage, Inc. expected to be issued in connection with the transaction described herein.

(2) Estimated solely for the purpose of calculating the registration fee required by the Securities Act of 1933, as amended, and computed pursuant to Rule 457(f)(2) and (3). The proposed maximum aggregate offering price has been estimated as $0 because (i) the amount of cash to be paid by Thermage pursuant to the merger ($25.0 million) exceeds (ii) the product of (A) the par value of a share of Reliant capital stock ($0.001) and (B) 10,084,444 shares of Reliant capital stock to be exchanged in connection with the merger. Reliant Technologies is a privately held corporation with no market for its securities.

(3) Includes up to an aggregate of 400,000 shares of Thermage common stock issuable upon cancellation and conversion of certain Reliant warrants or upon the future exercise of other assumed Reliant warrants.

**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 that specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933, as amended, or until the Registration Statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.**

**Table of Contents**

**The information in this proxy statement/prospectus/information statement is not complete and may be changed. Thermage, Inc. may not issue these securities until the registration statement filed with the Securities and Exchange Commission is effective. This proxy statement/prospectus/information statement is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.**

**Subject to Completion, Dated August 11, 2008**

**PROXY STATEMENT/PROSPECTUS/INFORMATION STATEMENT**

Thermage, Inc. and Reliant Technologies, Inc. have entered into a merger agreement under which Reliant will merge with a wholly-owned subsidiary of Thermage and the stockholders of Reliant will become stockholders of Thermage. The closing of this merger is subject to the approval of the stockholders of Thermage and certain other closing conditions. Certain Reliant stockholders holding the requisite number of shares to approve the transaction have already acted by written consent to approve this transaction.

In the merger, all shares of Reliant capital stock will be exchanged for aggregate merger consideration of 23,600,000 shares of Thermage common stock and approximately $25.0 million in cash. The cash portion of the merger consideration payable to Reliant stockholders upon completion of the first merger is subject to a number of adjustments, including adjustments for (i) the amount, if any, by which Reliant s working capital at the closing is less than negative $1.0 million, (ii) the amount, if any, by which Reliant s net indebtedness at closing is greater than $7.0 million and (iii) the amounts payable in respect of Reliant stock options and Reliant restricted stock units. Following completion of the merger, Reliant will be a wholly-owned subsidiary of Thermage, Reliant stockholders will own approximately 49.5% of the outstanding common stock of the combined company and current Thermage stockholders will own approximately 50.5% of the outstanding common stock of the combined company based on shares outstanding as of July 31, 2008.

Upon completion of the merger, each outstanding share of Reliant s common stock will be converted into the right to receive a combination of cash and shares of Thermage common stock, as more fully described in this proxy statement/prospectus/information statement.

Thermage common stock is listed on the NASDAQ Global Market under the symbol THRM. On August 8, 2008, the closing sales price of Thermage common stock was $2.33 per share.

A special meeting of the stockholders of Thermage will be held at 25881 Industrial Boulevard, Hayward, California 94545, on [ ], 2008, at 10:00 a.m., local time, at which the stockholders of Thermage will be asked to consider and vote upon a proposal to approve the issuance of Thermage common stock in connection with the proposed merger.

On July 7, 2008, certain Reliant stockholders of record holding a majority of the outstanding shares of the capital stock and a majority of the outstanding shares of preferred stock executed a written consent adopting the merger agreement and approving of the transactions contemplated thereby. This proxy statement/prospectus/information statement serves as notice to all Reliant stockholders of these actions by written consent. **IN CONNECTION WITH THE SPECIAL MEETING OF STOCKHOLDERS OF THERMAGE, WE ARE NOT ASKING RELIANT STOCKHOLDERS FOR A PROXY AND RELIANT STOCKHOLDERS ARE NOT REQUESTED TO SEND US A PROXY.**

This proxy statement/prospectus/information statement provides you with detailed information about the merger, a description of which begins on page 56. We strongly urge you to read and carefully consider this proxy statement/prospectus/information statement in its entirety, including the matters referred to under Risk Factors beginning on page 17.

**Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of the Thermage common stock to be issued in the merger or determined if this proxy statement/prospectus/information statement is accurate or adequate. Any representation to the contrary is a criminal offense.**

The date of this proxy statement/prospectus/information statement is [ ], 2008, and this proxy statement/prospectus/information statement and the accompanying proxy card are first being mailed to the stockholders of Thermage on or about [ ], 2008.

Table of Contents

**MERGER PROPOSAL YOUR VOTE IS IMPORTANT**

Dear Thermage Stockholders:

As announced in July 2008, Thermage, Inc. and Reliant Technologies, Inc. entered into a definitive merger agreement under which Thermage will acquire Reliant in a stock and cash transaction.

Thermage s board of directors has unanimously approved the transaction, as further described herein, including the issuance of shares of Thermage common stock, and the merger agreement pursuant to which Reliant will become a wholly-owned subsidiary of Thermage.

The transaction cannot be completed unless Thermage stockholders approve the issuance of 23,600,000 shares of Thermage common stock in connection with the acquisition of Reliant by Thermage at a special meeting of stockholders or any adjournment or postponement thereof. Certain Thermage stockholders, holding approximately 38% of the outstanding shares of Thermage, have agreed to vote in favor of such issuance of shares of Thermage common stock. The stockholders of Reliant have already approved the transaction by written consent. More detailed information about Thermage and Reliant and the proposed transaction is contained in this proxy statement/prospectus/information statement. **We encourage you to carefully read this proxy statement/prospectus/information statement before voting, including the section entitled Risk Factors beginning on page 17.**

Thermage s board of directors unanimously recommends that Thermage stockholders vote FOR the issuance of shares of Thermage common stock in connection with the merger.

The date, time and place of the special stockholders meeting is as follows:

[ ], 2008

10:00 a.m. local time

25881 Industrial Boulevard

Hayward, California 94545

Your vote is very important. Whether or not you plan to attend Thermage s special meeting of stockholders, please take the time to vote by completing and mailing to us the enclosed proxy card or voting instructions or by submitting your proxy or voting instructions by telephone or over the Internet. If your shares are held in street name, you must instruct your broker in order to vote. If you do not instruct your broker how to vote shares, your shares will have no effect on the outcome of the proposals being made at the special meeting.

Sincerely,

Stephen J. Fanning

*Chairman, President and Chief Executive Officer*

*Thermage, Inc.*

**NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THE SECURITIES TO BE ISSUED IN CONNECTION WITH THIS PROXY STATEMENT/PROSPECTUS/INFORMATION STATEMENT, OR DETERMINED IF THIS PROXY STATEMENT/PROSPECTUS/INFORMATION STATEMENT IS ACCURATE OR COMPLETE. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.**

This proxy statement/prospectus/information statement is dated [ ], 2008, and is first being mailed to stockholders of Thermage on or about [ ], 2008.

Table of Contents

## THERMAGE, INC.

25881 Industrial Boulevard

Hayward, California 94545

(510) 259-7117

**NOTICE OF SPECIAL MEETING OF STOCKHOLDERS**

**To Be Held [ ], 2008**

Dear Stockholders of Thermage:

You are cordially invited to attend a special meeting of stockholders of Thermage, Inc. at 25881 Industrial Boulevard, Hayward, California 94545 on [ ], 2008, at 10:00 a.m. local time. At the special meeting, you will be asked to consider, vote upon and approve the following proposals:

1. To approve the issuance of 23,600,000 shares of Thermage common stock pursuant to the Agreement and Plan of Merger and Reorganization dated as of July 7, 2008 by and among Thermage, Relay Acquisition Company, LLC, a Delaware limited liability company and a wholly-owned subsidiary of Thermage, and Reliant Technologies, Inc., a Delaware corporation, and with respect to Articles VIII and X only, Steven Mendelow as Securityholder Representative and U.S. Bank National Association as Escrow Agent.

2. To transact any other business that properly comes before the special meeting or any adjournments or postponements thereof pursuant to Thermage s bylaws.

These proposals are described more fully in the proxy statement/prospectus/information statement accompanying this notice. Please give your careful attention to all of the information in the proxy statement/prospectus/information statement.

Only stockholders of record at the close of business on [ ], 2008, the record date for the special meeting, are entitled to notice of and to vote at the special meeting and any adjournments or postponements thereof. Approval of the proposal relating to the issuance of shares of Thermage common stock will require the affirmative vote of the holders of a majority of the shares of Thermage s common stock represented in person or by proxy and entitled to vote at the special meeting.

**Thermage s board of directors has unanimously approved the issuance of shares of Thermage common stock pursuant to the merger agreement and recommends that Thermage stockholders vote FOR the issuance of shares of Thermage common stock pursuant to the merger agreement.**

**Your vote is important. To ensure that your shares are represented at the special meeting, we encourage you to complete, date, sign and promptly return your proxy card in the enclosed postage-paid envelope or follow the instructions for telephone or Internet voting, whether or not you plan to attend the special meeting in person. You may revoke your proxy in the manner described in the proxy statement/prospectus/information statement at any time before it has been voted at the special meeting. Any stockholder attending the special meeting may vote in person even if the stockholder has returned a proxy.**

By Order of the Board of Directors,

Stephen J. Fanning

*Chairman, President and Chief Executive Officer*

[ ], 2008

Hayward, California

Table of Contents

## ADDITIONAL INFORMATION

See the section entitled Where You Can Find More Information on page 214 of this proxy statement/ prospectus/information statement for more information about the documents referred to in this proxy statement/ prospectus/information statement.

You should rely only on the information contained in this proxy statement/prospectus/information statement in deciding how to vote on the proposal set forth in this proxy statement/prospectus/information statement. No one has been authorized to provide you with information that is different from that contained in this proxy statement/prospectus/information statement. This proxy statement/prospectus/information statement is dated [ ], 2008. You should not assume that the information contained in this proxy statement/prospectus/information statement is accurate as of any date other than that date.

This proxy statement/prospectus/information statement does not constitute an offer to sell, or a solicitation of an offer to buy, any securities, or the solicitation of a proxy, in any jurisdiction to or from any person to whom it is unlawful to make any such offer or solicitation in such jurisdiction. Information contained in this proxy statement/prospectus/information statement regarding Reliant has been provided by Reliant; and information contained in this proxy statement/prospectus/information statement regarding Thermage, Relay Merger Corp. and Relay Acquisition Company, LLC has been provided by Thermage.

Table of Contents

**TABLE OF CONTENTS**


| | Page |
|---|---|
| Questions and Answers About the Transaction and Special Meeting of Thermage Stockholders | iii |
| Summary of the Proxy Statement/Prospectus/Information Statement | 1 |
| Thermage Summary Financial Data | 10 |
| Reliant Summary Financial Data | 12 |
| Summary Unaudited Pro Forma Condensed Combined Financial Data | 14 |
| Comparative and Historical Per Share Market Price and Dividend Information | 15 |
| Risk Factors | 17 |
| Risks Related to the Transaction | 17 |
| Risks Related to Thermage | 21 |
| Risks Related to Reliant | 36 |
| Cautionary Statement Regarding Forward-Looking Statements | 51 |
| The Special Meeting of the Thermage Stockholders | 52 |
| General | 52 |
| Date, Time and Place of the Special Meeting | 52 |
| Purpose of the Thermage Special Meeting | 52 |
| Recommendation of the Thermage Board of Directors | 52 |
| Admission to the Special Meeting | 52 |
| Record Date and Stockholders Entitled to Vote | 53 |
| How You Can Vote | 53 |
| Adjournment and Postponement | 54 |
| Required Vote and Quorum | 54 |
| Abstentions and Broker Non-Votes | 54 |
| Voting by Thermage Directors and Executive Officers | 54 |
| Revoking Your Proxy | 54 |
| Other Matters | 55 |
| Solicitation of Proxies and Expenses | 55 |
| Stockholders Sharing an Address | 55 |
| The Merger | 56 |
| Background of the Merger | 56 |
| Thermage s Reasons for Entering into the Merger | 60 |
| Opinion of Thermage s Financial Advisor | 62 |
| Recommendation of the Thermage Board of Directors | 69 |
| Reliant s Reasons for Entering into the Merger | 70 |
| Recommendation of the Reliant Board of Directors | 71 |
| Vote Required for Thermage | 71 |
| Vote Required for Reliant | 72 |
| Interests of Certain Persons in the Transaction | 72 |
| Governmental and Regulatory Approvals | 73 |
| Restrictions on Sales of Shares of Thermage Common Stock Received in the Transaction | 73 |
| Listing on NASDAQ Global Market of Thermage Shares Issued Pursuant to the Transaction | 74 |
| Appraisal Rights for Thermage | 74 |
| Appraisal Rights for Reliant | 74 |
| Accounting Treatment of the Transaction | 74 |
| Material U.S. Federal Income Tax Consequences of the Merger | 75 |
| Agreements Related to the Integrated Merger | 78 |
| The Merger Agreement | 78 |
| Reliant Support Agreements | 96 |
| Thermage Voting Agreements | 97 |

**Table of Contents**

**TABLE OF CONTENTS (Continued)**


| | Page |
|---|---|
| Lock-up Agreements | 98 |
| Note and Security Agreement | 98 |
| License Agreement | 98 |
| Reliant Certificate Amendment | 98 |
| Unaudited Pro Forma Condensed Combined Financial Statements | 99 |
| Notes to Unaudited Pro Forma Condensed Combined Financial Statements | 103 |
| Information About Thermage | 107 |
| Thermage Selected Financial Data | 125 |
| Thermage Management s Discussion and Analysis of Financial Condition and Results of Operation | 127 |
| Information About Reliant | 138 |
| Reliant Selected Consolidated Financial Data | 149 |
| Reliant Management s Discussion and Analysis of Financial Condition and Results of Operations | 150 |
| Management | 169 |
| Current Board of Directors and Executive Officers of Thermage | 169 |
| Executive Compensation Relating to Thermage | 175 |
| Executive Compensation Relating to Reliant | 186 |
| Transactions With Related Persons, Promoters and Certain Control Persons | 195 |
| Certain Relationships and Related Party Transactions of Thermage | 195 |
| Certain Relationships and Related Party Transactions of Reliant | 195 |
| Security Ownership by Certain Beneficial Owners for Thermage | 196 |
| Security Ownership by Certain Beneficial Owners for Reliant | 199 |
| Description of Thermage s Capital Stock | 201 |
| Market Price of and Dividends on Thermage s Common Equity and Related Stockholder Matters | 205 |
| Market Price of and Dividends on Reliant s Common Equity and Related Stockholder Matters | 207 |
| Comparison of Stockholder Rights | 208 |
| Authorized Capital Stock | 208 |
| Board of Directors | 208 |
| Removal of Directors | 209 |
| Filling Vacancies on the Board of Directors | 209 |
| Stockholder Action by Written Consent | 209 |
| Amendment of Certificate of Incorporation | 210 |
| Amendment of Bylaws | 210 |
| Indemnification of Officers and Directors | 210 |
| Stockholder Proposals | 212 |
| Legal and Tax Matters | 213 |
| Experts | 213 |
| Where You Can Find More Information | 214 |
| Index to Financial Statements | F-1 |
| Annex A Agreement and Plan of Merger and Reorganization | A-1 |
| Annex B Form of Voting Agreement | B-1 |
| Annex C Form of Support Agreement | C-1 |
| Annex D Opinion of Stanford Group Company | D-1 |
| Annex E Form of Certificate of Amendment of Amended and Restated Certificate of Incorporation of Reliant Technologies, Inc. | E-1 |
| Annex F Section 262 of the Delaware General Corporation Law | F-1 |

Table of Contents

## QUESTIONS AND ANSWERS ABOUT THE TRANSACTION

## AND SPECIAL MEETING OF THERMAGE STOCKHOLDERS

*The following are some questions that stockholders of Thermage, Inc., or Thermage, and Reliant Technologies, Inc., or Reliant, may have regarding the proposed transaction and special meeting of Thermage stockholders, and brief answers to those questions. Thermage and Reliant urge you to read carefully the entirety of this proxy statement/prospectus/information statement because the information in this Q&A section may not provide all the information that may be important to you with respect to the proposed merger and the issuance of Thermage common stock in connection with the merger. Additional information is also contained in the annexes to this proxy statement/prospectus/information statement.*

**Q: What is the merger?**

A: The merger will combine the businesses of Thermage and Reliant. Under the proposed integrated merger, Relay Merger Corp., a wholly-owned subsidiary of Thermage, will be merged with and into Reliant, with Reliant continuing as the surviving company. Following this first merger, Reliant will be merged with and into Relay Acquisition Company, LLC, a wholly-owned subsidiary of Thermage. Relay Acquisition Company, LLC will continue as the surviving company in the second merger and will be a wholly-owned subsidiary of Thermage.

**Q: What will Reliant stockholders receive in the merger?**

A: If we complete the first merger, all shares of Reliant capital stock will be exchanged for aggregate merger consideration of 23,600,000 shares of Thermage common stock and approximately $25.0 million in cash. The cash portion of the merger consideration payable to Reliant stockholders upon completion of the first merger is subject to a number of adjustments, including adjustments for (i) the amount, if any, by which Reliant s working capital at the closing is less than negative $1.0 million, (ii) the amount, if any, by which Reliant s net indebtedness at closing is greater than $7.0 million and (iii) the amounts payable in respect of Reliant stock options and Reliant restricted stock units. The value of the stock portion of the merger consideration payable to Reliant stockholders upon completion of the first merger may vary due to possible changes in market value of the Thermage common stock to be received. As a result, the exact consideration that a Reliant stockholder will receive is not known as of the date of this proxy statement/prospectus/information statement as it will depend on the magnitude of the adjustments, if any, described above. All Reliant stockholders will also have a portion of the merger consideration that they would otherwise be entitled to receive deposited in an escrow account that will be used to compensate Thermage if Thermage is entitled to indemnification under the merger agreement.

**Q: Will Thermage stockholders receive any shares as a result of the merger?**

A: No. Thermage stockholders will continue to hold the Thermage shares they currently own.

**Q: What vote is required by Thermage stockholders to approve the issuance of Thermage common stock?**

A: The affirmative vote of the holders of a majority of the Thermage shares represented, in person or by proxy, and entitled to vote at the Thermage special meeting at which a quorum is present is required to approve the issuance of Thermage common stock in connection with the merger. Thermage stockholders who collectively hold approximately 38% of the outstanding common stock of Thermage, as of July 7, 2008, have agreed to vote all of their shares in favor of approval of the issuance of Thermage common stock in connection with the merger.

Table of Contents

**Q: What approval is required by Reliant stockholders to adopt the merger agreement and approve the transactions contemplated thereby?**

A: The requisite approval of holders of Reliant capital stock necessary to adopt the merger agreement and approve the transactions contemplated thereby already has been obtained via written consent, as of July 7, 2008.

**Q: Does Thermage s board of directors recommend voting in favor of the issuance of Thermage common stock in connection with the proposed merger?**

A: Yes. After careful consideration, Thermage s board of directors unanimously determined that the merger is advisable and is fair to, and in the best interests of, Thermage and its stockholders. Thermage s board of directors unanimously recommends that Thermage stockholders vote FOR the issuance of Thermage common stock in connection with the merger.

For a description of the factors considered by the Thermage board of directors in making its determination, see the section entitled The Merger Thermage s Reasons for Entering into the Merger on page 60.

**Q: Did Reliant s board of directors recommend voting in favor of the merger?**

A: Yes. After careful consideration, Reliant s board of directors unanimously determined that the merger is advisable and is fair to, and in the best interests of, Reliant and its stockholders. Reliant s board of directors unanimously recommended that Reliant stockholders adopt the merger agreement and approve the transactions contemplated thereby.

For a description of the factors considered by the Reliant board of directors in making its determination, see the section entitled The Merger Reliant s Reasons for Entering into the Merger on page 70.

**Q: Will I be entitled to appraisal rights in connection with the merger?**

A: The stockholders of Reliant may be entitled, under certain circumstances, to appraisal rights under Delaware law. For a detailed discussion of appraisal rights under Delaware law, please see The Merger Appraisal Rights for Reliant beginning on page 74.

**Q: When do you expect to complete the merger?**

A: We are working to complete the merger as quickly as possible. We anticipate completing the merger during the fourth calendar quarter of 2008.

For a description of the conditions precedent to completion of the merger, see the section entitled The Merger Agreement Conditions to Completion of the First Merger beginning on page 92.

**Q: Will Reliant stockholders recognize gain or loss for U.S. federal income tax purposes as result of the merger?**

A: Thermage and Reliant each expect the merger to qualify as a reorganization for U.S. federal income tax purposes. If the merger qualifies as a reorganization, the U.S. federal income tax consequences of the merger to each Reliant stockholder will vary depending on whether that stockholder receives Thermage common stock and cash or exercises appraisal rights and receives only cash in exchange for that stockholder s Reliant stock.

Assuming that the merger qualifies as a reorganization, a Reliant stockholder that does not exercise appraisal rights generally will recognize gain (but will not be permitted to recognize loss) for U.S. federal income tax purposes equal to the lesser of (i) the amount of cash received by such stockholder and (ii) the

Table of Contents

excess of the amount of cash and the fair market value of Thermage common stock received by such stockholder over such stockholder s tax basis in the Reliant stock surrendered. A Reliant stockholder that exercises appraisal rights generally will recognize gain or loss equal to the difference between the amount of cash received by such stockholder and such stockholder s tax basis in the Reliant stock surrendered. As discussed below in Material U.S. Federal Income Tax Consequences of the Merger, the fair market value of stock of the newly formed Reliant subsidiary received in the Distribution (as defined herein) will be treated by Thermage and Reliant for U.S. federal income tax purposes as cash received from Thermage in the merger in an amount equal to the fair market value of the stock of such subsidiary.

Tax consequences are complex. Reliant stockholders should consult with their own tax advisors as to the tax consequences to them of the merger as well as review the more detailed description of the tax consequences of the merger entitled Material U.S. Federal Income Tax Consequences of the Merger on page 75.

**Q: What risks should I consider in deciding whether to vote in favor of the merger?**

A: You should carefully review the section of this proxy statement/prospectus/information statement entitled Risk Factors beginning on page 17, which presents risks and uncertainties relating to the transaction and the businesses of each of Thermage and Reliant.

**Q: Will my rights as a Thermage stockholder be different from my rights as a Reliant stockholder?**

**A:** Yes. Upon completion of the merger, you will become a Thermage stockholder. There are important differences between the rights of stockholders of Thermage and stockholders of Reliant. Please carefully review the description of these differences in the section of this proxy statement/prospectus/information statement entitled Comparison of Stockholder Rights beginning on page 208.

**Q: What do I need to do now?**

A: We urge you to carefully read and consider the information contained in this proxy statement/prospectus/ information statement, including the annexes, and to consider how the merger and the issuance of shares in connection with the merger will affect you as a stockholder. You also may want to review the documents referenced under the section entitled Where You Can Find More Information on page 214. Thermage stockholders should then vote as soon as possible in accordance with the procedures provided in this proxy statement/prospectus/information statement. We are not asking Reliant stockholders for a proxy and Reliant stockholders are not requested to send us a proxy.

**Q: How do I vote?**

A: Thermage stockholders should complete and sign your proxy card and return it in the enclosed envelope as soon as possible, or follow the instructions on your proxy card to submit your proxy over the Internet, so that your shares may be represented at the special meeting. If you return your proxy card but do not include instructions on how to vote your proxy, Thermage will vote your shares **FOR** the proposals being made at the special meeting unless your shares are held in street name in a brokerage account. You may also attend the special meeting and vote in person instead of submitting a proxy.

**Q: What happens if I do not vote?**

A: If you are a Thermage stockholder and you do not submit a proxy card or vote at the special meeting, your shares will not be counted as present for the purpose of determining a quorum and will have no effect on the outcome of the proposal to approve the issuance of shares of Thermage common stock in connection with the merger. If you submit a proxy card and affirmatively elect to abstain from voting, your proxy will be counted as present for the purpose of determining the presence of a quorum but will not be voted at the special meeting. As a result, your abstention will have the same effect as a vote *against* the issuance of Thermage common stock in connection with the merger.

Table of Contents

**Q: If my shares are held in street name by my broker, will my broker vote my shares for me?**

A: If you are a Thermage stockholder, your broker cannot vote your shares unless you provide instructions on how to vote in accordance with the information and procedures provided to you by your broker. If you do not instruct your broker how to vote shares, your shares will have no effect on the outcome of the proposals being made at the special meeting.

For a more complete description of voting shares held in street name, see the section entitled The Special Meeting of the Thermage Stockholders on page 52.

**Q: Can I change my vote after I have mailed my signed proxy?**

A: If you are a Thermage stockholder and you want to change your vote, send the corporate secretary of Thermage a later-dated, signed proxy card before the Thermage special meeting or attend the special meeting and vote in person. You may also revoke your proxy by sending written notice to the Thermage corporate secretary before the special meeting. If you have instructed your broker to vote your shares, you must follow your broker s directions in order to change those instructions.

**Q: Should Reliant stockholders send in their stock certificates now?**

A: No. Reliant stockholders should not send in their stock certificates now. After the merger is completed, Thermage will arrange for the delivery to Reliant stockholders of written instructions for exchanging their Reliant stock certificates. Thermage stockholders should not submit their stock certificates because their shares will not be converted in the merger.

**Q: Whom should I call with questions?**

A: If you have any questions about the merger or if you need additional copies of this proxy statement/prospectus/information statement or the enclosed proxy, you should contact:

| **Thermage, Inc. Stockholders:** | **Reliant Technologies, Inc. Stockholders:** |
|---|---|
| *Thermage, Inc.* | *Reliant Technologies, Inc.* |
| 25881 Industrial Boulevard | 464 Ellis Street |
| Hayward, California 94545 | Mountain View, California 94043 |
| (510) 259-7117 | (650) 605-2275 |
| Attn: Investor Relations | Attn: Marta Woods |

**You may also obtain additional information about Thermage from documents filed with the Securities and Exchange Commission by following the instructions in the section entitled Where You Can Find More Information on page 214.**

Table of Contents

**SUMMARY OF THE PROXY STATEMENT/PROSPECTUS/INFORMATION STATEMENT**

*The following is a summary of the information contained in this proxy statement/prospectus/information statement. This summary may not contain all of the information that is important to you. You should carefully read this entire proxy statement/prospectus/information statement and the other documents to which we refer. In particular, you should read the annexes attached to this proxy statement/prospectus/information statement, including the merger agreement which is attached as Annex A and is incorporated by reference into this proxy statement/prospectus/information statement. You may obtain additional information without charge by following the instructions in the section entitled Where You Can Find More Information beginning on page 214 of this proxy statement/prospectus/information statement.*

**The Companies**

***Thermage, Inc.*** **(see page 107)**

***Relay Acquisition Company, LLC***

***Relay Merger Corp.***

25881 Industrial Boulevard

Hayward, California 94545

(510) 259-7117

http://www.thermage.com

Thermage designs, develops, manufactures and markets medical devices for the non-invasive treatment of wrinkles. The Thermage® procedure can be performed on any part of the body where treatment of wrinkles is desired. The ThermaCool® system uses patented monopolar radiofrequency, or RF, energy to heat and shrink collagen and tighten 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 as a non-invasive alternative to surgical procedures that cost up to tens of thousands of dollars and can involve weeks of recovery. Thermage offers, and is continuing to develop, a variety of ThermaTips designed to optimize the Thermage procedure for new conditions and different parts of the body.

***Reliant Technologies, Inc.*** **(see page 138)**

464 Ellis Street

Mountain View, California 94043

Phone: (888) 437-2935

http://www.reliant-tech.com

Reliant is a medical device company that designs, develops and markets non-surgical therapies for the treatment of various skin conditions under the Fraxel brand. Reliant believes its Fraxel laser systems have created a new class of skin rejuvenation therapy and provide patients with consistent and effective treatments that can be delivered quickly without significant pain or downtime. Fraxel laser systems are used by physicians to treat a broad range of skin conditions that include wrinkles and fine lines, acne and surgical scars, pigmentation, sun damage, uneven tone and texture and melasma. Patients undergo treatments from Reliant s Fraxel laser systems in order to reverse the signs of aging, achieve healthier, younger looking skin and improve their overall appearance. Fraxel laser systems represent a new class of skin rejuvenation therapy based on fractional resurfacing technology, which Reliant introduced and commercialized in 2004. Reliant believes that fractional resurfacing offers significant advantages over other alternatives for skin rejuvenation. Reliant s fractional resurfacing technology can achieve advanced aesthetic results by creating thousands of microscopic treatment

1

Table of Contents

zones per square centimeter which affect only a fraction of the total skin in the area of treatment. Reliant s products utilize optimized laser wavelengths and its proprietary laser delivery system which enables the delivery of precise dosages of energy, quickly, consistently and safely.

The internet addresses provided in this proxy statement/prospectus/information statement are textual references only. The Thermage and Reliant websites, including Reliant s product website located at www.fraxel.com, are not part of this proxy statement/prospectus/information statement.

**Structure of the Integrated Merger (see page 78)**

Under the terms of the proposed integrated merger, Relay Merger Corp., a wholly-owned subsidiary of Thermage formed for the purpose of the first merger, will be merged with and into Reliant and Reliant will continue as the surviving company in the first merger. Immediately following the first merger, Reliant will merge with and into Relay Acquisition Company, LLC, a wholly-owned subsidiary of Thermage formed for the purpose of the second merger, and Relay Acquisition Company, LLC will continue as the surviving company in the second merger and will be a wholly-owned subsidiary of Thermage. As a result of the integrated merger, holders of Reliant capital stock will become holders of Thermage common stock. The terms and conditions of each of the mergers are contained in the merger agreement, which is attached as Annex A to this proxy statement/prospectus/information statement. Please carefully read the merger agreement as it is the legal document that governs the proposed transaction.

**Merger Consideration (see page 79)**

Upon completion of the first merger, Reliant stockholders will be entitled to receive aggregate merger consideration consisting of approximately $25.0 million in cash and 23,600,000 shares of Thermage common stock, which will represent approximately 49.5% of the outstanding common stock of the combined company, based on shares of Thermage common stock outstanding as of July 31, 2008. The cash portion of the merger consideration payable to Reliant stockholders upon completion of the first merger is subject to a number of adjustments, including adjustments for (i) the amount, if any, by which Reliant s working capital at the closing is less than negative $1.0 million, (ii) the amount, if any, by which Reliant s net indebtedness at closing is greater than $7.0 million and (iii) the amounts payable in respect of Reliant stock options and Reliant restricted stock units. The value of the stock portion of the merger consideration payable to Reliant stockholders upon completion of the first merger may vary due to possible changes in market value of the Thermage common stock to be received. As a result, the exact consideration that a Reliant stockholder will receive is not known as of the date of this proxy statement/prospectus/information statement as it will depend on the magnitude of the adjustments, if any, described above. All Reliant stockholders will also have a portion of the merger consideration that they would otherwise be entitled to receive deposited in an escrow account that will be used to compensate Thermage if Thermage is entitled to indemnification under the merger agreement.

At the effective time of the first merger, each issued and outstanding share of Reliant capital stock will be converted into the right to receive a combination of cash and shares of Thermage common stock in accordance with the terms of the merger agreement which approximates the terms of the amended and restated certificate of incorporation of Reliant in effect as of the date of the merger agreement. Holders of each series of Reliant preferred stock will receive payment of the greater of (A) their respective liquidation preference as set forth below and (B) the per share merger consideration payable in respect of a share of Reliant common stock in a combination of cash and shares of Thermage common stock on a pro rata basis with all other recipients of the merger consideration, other than holders of Reliant stock options and Reliant restricted stock units who will be paid solely in cash. Payment of the liquidation preference shall be made to holders of Reliant preferred stock prior to any payment or allocation of merger consideration to holders of Reliant common stock, provided, however, that in the event that holders of Reliant common stock are allocated less than $0.50 per share, such

Table of Contents

holders shall be paid $0.50 per share of Reliant common stock and the merger consideration allocated and paid to holders of Reliant preferred stock will be reduced pro rata in proportion to the merger consideration. In the event that the merger consideration allocated to each share of Reliant common stock after the aggregate liquidation preference has been paid is greater than the liquidation preference set forth below, the holder shall be entitled to receive the per share consideration payable in respect of Reliant common stock.

| Series | Liquidation Preference |
|---|---|
| Series A | $ 4.50 |
| Series B | $ 4.50 |
| Series C | $ 10.53 |
| Series D | $ 15.09 |
| Series E | $ 15.00 |

Holders of Reliant preferred stock are entitled to receive approximately $68,780,959 in satisfaction of the aggregate liquidation preference in respect of outstanding shares of Reliant preferred stock. The actual stock consideration and cash consideration to be paid per share of Reliant capital stock at closing will depend upon numerous variable factors, including the average trading price of Thermage common stock during the 30 days prior to the closing, the total cash consideration payable after adjustments for the closing working capital and the net indebtedness at closing and the cash consideration payable to holders of Reliant options and restricted stock units.

Assuming that the capitalization of Reliant at closing is as set forth in Comparison of Stockholder Rights Authorized Capital Stock and assuming that the closing working capital of approximately negative $1.0 million, net indebtedness at closing of $7.0 million, and that the average trading price of Thermage common stock during the 30-day period ending the third day immediately preceding the closing date is $2.50, each share of Reliant preferred stock outstanding as of the closing (other than Series A preferred stock and Series B preferred stock) would receive a combination of cash and shares of Thermage common stock with a value equal to the respective liquidation preference as set forth above. Given these assumptions, holders of Reliant common stock outstanding as of the closing would be entitled to receive a combination of cash and shares of Thermage common stock with a value equal to approximately $4.62 per share and because this amount is greater than $4.50, holders of shares of Series A preferred stock and Series B preferred stock would receive the consideration payable per share of Reliant common stock in lieu of the liquidation preference. An amount of cash equal to 10% of the value of the merger consideration received per share would be withheld from the merger consideration paid at closing and placed in the escrow account. If funds remain in the escrow account after the expiration of the escrow period, the cash consideration received by each Reliant stockholder will increase.

Reliant stockholders will not know the dollar value of the Thermage common stock they will receive in the first merger until the first merger is completed. The dollar value of the Thermage common stock will depend upon its market price when the first merger is completed.

The number of shares of Thermage common stock to which a Reliant stockholder is entitled to receive will be aggregated and any fractional shares will be paid out as set forth below in The Merger Agreement Fractional Shares. The terms and conditions of the escrow fund are described in more detail in the section entitled The Merger Agreement Escrow Fund.

You should be aware that the above per share amounts are estimates only and are subject to change under certain circumstances as described above and set forth more fully in the merger agreement attached as Annex A to this registration statement. The actual consideration you receive in exchange for your Reliant capital stock may be more, less or the same as these estimates.

Table of Contents

The maximum number of shares of Thermage common stock to be issued by Thermage in the first merger was fixed at the time the merger agreement was signed.

**Treatment of Reliant Stock Options and Restricted Stock Units (see pages 82 and 83)**

No outstanding Reliant stock options shall be assumed, continued or substituted for by Thermage. As of immediately prior to the effective time of the first merger, and contingent upon the effectiveness of the first merger, each then outstanding Reliant stock option will become immediately vested and exercisable in full. Options to purchase shares of Reliant common stock shall be treated in the manner provided in the merger agreement and summarized in the section entitled The Merger Agreement Treatment of Reliant Stock Options beginning on page 82 of this proxy statement/prospectus/information statement. No outstanding Reliant restricted stock units shall be assumed, continued or substituted for by Thermage. Reliant restricted stock units shall be treated in the manner provided in the merger agreement and summarized in the section entitled The Merger Agreement Treatment of Reliant Restricted Stock Units beginning on page 83 of this registration statement.

**Treatment of Reliant Warrants (see page 83)**

Except for Reliant warrants that cannot be cancelled pursuant to their terms by virtue of the first merger, Thermage shall not assume any Reliant warrants. Warrants to purchase shares of Reliant common stock shall be treated in the manner provided in the merger agreement and summarized in the section entitled The Merger Agreement Treatment of Reliant Warrants beginning on page 83 of this proxy statement/prospectus/information statement.

**Fractional Shares (see page 81)**

Thermage will not issue any fractional shares of common stock in connection with the first merger. Instead, each holder of Reliant capital stock who would otherwise be entitled to receive a fraction of a share of Thermage common stock will be entitled to receive cash, without interest, in an amount equal to such fraction multiplied by the closing price of Thermage common stock on the trading day immediately preceding the closing date.

**Effective Time and Timing of Closing (see page 78)**

We will complete the first merger when all of the conditions to completion of the first merger are satisfied or waived. The first merger will become effective when the certificate of merger we file with the State of Delaware is accepted for filing or at a later time if we specify a later time in the certificate. Immediately thereafter, we will complete the second merger.

While we cannot predict the exact timing, we currently expect to complete the integrated merger in the fourth calendar quarter of 2008.

**Conditions to Completion of the First Merger (see page 92)**

Each of Reliant s and Thermage s obligation to complete the first merger is subject to the satisfaction or waiver of a number of conditions, including:

- that the registration statement, of which this proxy statement/prospectus/information statement is a part, be effective;
- that the Reliant stockholders shall have adopted the merger agreement and approved the transactions contemplated thereby, including the appointment of Steven Mendelow as the stockholder representative and that the Thermage stockholders shall have approved the issuance of Thermage common stock to Reliant stockholders pursuant to the merger agreement;

Table of Contents

that (i) the waiting period (and any extension thereof) applicable to the transactions contemplated by the merger agreement under any antitrust or competition legal requirements of any jurisdiction in which Thermage or Reliant have substantial business or operations or where Thermage and Reliant mutually agree to make a filing under applicable antitrust or competition legal requirements, shall have expired or been terminated; (ii) all clearances, consents, approvals, authorizations and orders applicable to the transactions contemplated by the merger agreement which are required under any antitrust or competition legal requirement of any jurisdiction in which Thermage or Reliant have substantial business or operations, or in which Thermage and Reliant mutually agree to make a filing under applicable antitrust or competition legal requirements, shall have been received, and (iii) all governmental authorities that have the authority to enforce any such antitrust or competition legal requirements shall have approved, cleared or decided neither to initiate proceedings or otherwise intervene in respect of the transactions contemplated by the merger agreement;

no governmental authority of competent jurisdiction shall have enacted, issued, promulgated, entered, enforced or deemed applicable to the first merger any legal requirement that is in effect and has the effect of making the first merger illegal in any jurisdiction in which Thermage or Reliant have substantial business or operations or which has the effect of prohibiting, preventing or otherwise restraining the consummation of the first merger in any jurisdiction in which Thermage or Reliant have substantial business or operations;

no governmental authority of competent jurisdiction shall have issued or granted any order (whether temporary, preliminary or permanent) that has the effect of making the first merger illegal in any jurisdiction in which Thermage or Reliant have substantial business or operations or which has the effect of prohibiting, preventing or otherwise restraining the consummation of the first merger;

the shares of Thermage common stock issuable in the first merger and the shares of Thermage common stock issuable in respect of all assumed warrants, shall have been authorized for listing on the NASDAQ Global Market upon official notice of issuance;

receipt of opinions by the parties of their respective tax counsel, in form and substance reasonably satisfactory to them and as further described in The Merger Material U.S. Federal Income Tax Consequences of the Merger beginning on page 75 of this proxy statement/prospectus/information statement, that the merger will qualify as a reorganization pursuant to Section 368(a) of the Internal Revenue Code of 1986, as amended (the Code );

completion of the distribution of the shares of Spinco, as described below;

that each company s representations and warranties in the merger agreement are true and correct, to the extent set forth in the merger agreement, except when the failure of such representations or warranties to be true and correct has not resulted, and would not reasonably be expected to result in, individually or in the aggregate with other such failures, a material adverse effect, to the other party;

that each party has complied in all material respects with its covenants and agreements in the merger agreement, to the extent set forth in the merger agreement; and

that no material adverse effect exist with respect to either company.

**Termination of the Merger Agreement (see page 95)**

Reliant and Thermage may mutually agree at any time to terminate the merger agreement without completing the first merger.

5

Table of Contents

In addition, either of Reliant or Thermage may, without the consent of the other, terminate the merger agreement in any of the following circumstances:

- if any governmental authority of competent jurisdiction shall have: (i) enacted, promulgated or issued or deemed applicable to the first merger any legal requirements that would make completion of the merger illegal in any jurisdiction in which Thermage or Reliant have substantial business operations, or (ii) issued or granted any final non-appealable order of a federal or state court in effect that has the effect of making the first merger illegal or would otherwise prohibit, prevent or restrain the first merger in any jurisdiction in which Thermage or Reliant have substantial business operations;

- if the first merger is not completed by January 7, 2009; or

- if the Thermage stockholders do not approve the issuance of Thermage common stock to Reliant stockholders at the Thermage stockholder meeting.

In addition, Thermage may, without the consent of Reliant, terminate the merger agreement if:

- there has been a breach of any representation, warranty, covenant or agreement of Reliant contained in the merger agreement such that the closing conditions regarding such representations, warranties and covenants would not be satisfied and such breach has not been cured within 30 calendar days after written notice to Reliant, unless the breach, by its nature, cannot be cured through the exercise of commercially reasonably efforts.

In addition, Reliant may, without the consent of Thermage, terminate the merger agreement if:

- there has been a breach of any representation, warranty, covenant or agreement of Thermage contained in the merger agreement such that the closing conditions regarding such representations, warranties and covenants would not be satisfied and such breach has not been cured within 30 calendar days after written notice thereof to Thermage, unless the breach, by its nature, cannot be cured through the exercise of commercially reasonably efforts; or

- the Thermage board of directors or any committee thereof has changed its recommendation in favor of the issuance of Thermage common stock to Reliant stockholders in a manner adverse to Reliant, the Thermage board of directors approves or recommends that its stockholders recommend an alternative acquisition transaction with respect to Thermage or Thermage enters into a contract for an alternative acquisition transaction with respect to Thermage.

**Payments by Thermage following Termination (see page 96)**

Thermage would be required to pay Reliant a termination fee of $3.5 million if the merger agreement is terminated under certain circumstances. Alternatively, if Thermage stockholder approval has not been obtained at the stockholder meeting called with respect to the issuance of stock pursuant to the first merger, Thermage will pay the transaction expenses of Reliant up to $1.3 million.

**Non-Solicitation by Thermage and Reliant (see page 86)**

Thermage and Reliant have agreed that each party will not:

- solicit, initiate, knowingly encourage or facilitate or induce any inquiries regarding any acquisition proposals by third parties;

furnish to any third party any nonpublic information, or take any other action to facilitate any inquiries or the making of any proposal that constitutes or would reasonably be expected to lead to a third party acquisition proposal;

Table of Contents

participate or engage in discussions with any third party with respect to any acquisition proposal;

approve, endorse or recommend any third party acquisition proposal;

enter into any letter of intent, memorandum of understanding or contract contemplating or otherwise relating to any third party acquisition proposal or such transaction; or

terminate, amend or waive any rights under any standstill or other similar contract with a third party.

Thermage and Reliant must promptly notify the other party by oral and written notice if it receives any other acquisition proposals or requests for nonpublic information or request for information it receives which would reasonably be expected to lead to an acquisition proposal or inquiries with respect to, or which it reasonably believes might lead to, an acquisition proposal. The party providing the notification must also provide the identity of the third party making the acquisition proposal and a copy of all written materials provided in connection with such proposal.

If Thermage receives an acquisition proposal from a third party that its board determines otherwise is or is reasonably likely to lead to a superior proposal, as defined in the merger agreement, it may furnish nonpublic information to the third party making the acquisition proposal and engage in negotiations with the third party regarding such proposal if its board of directors determines that failure to do so would be reasonably expected to be a breach of its fiduciary obligations under Delaware law and at least three business days prior to engaging in any discussions or negotiations or furnishing non-public information, Thermage gives Reliant written notice of the identity of the third party and the material terms and conditions of the acquisition proposal and contemporaneously with the furnishing of any non-public information to a third party, Thermage furnishes Reliant with such information.

**Change in Thermage Board Recommendation (see page 89)**

The Thermage board of directors may withhold, withdraw, amend or modify its recommendation to its stockholders to vote in favor of the issuance of common stock in connection with the first merger, if Thermage receives a superior proposal (as defined in the merger agreement), and after discussions with Reliant, the Thermage board of directors reasonably determines in good faith, after consultation with outside legal counsel and after considering in good faith any counter-offer or proposal made by Reliant, that the failure to effect such change in recommendation would be reasonably likely to result in a breach of its fiduciary duties under Delaware law.

**Vote Required for Reliant and Reliant Support Agreements (see pages 72 and 96)**

The stockholders of Reliant adopted the merger agreement and approved the transactions contemplated thereby, including the first merger by written consent shortly after the execution of the merger agreement.

In addition, Reliant s executive officers, directors and their affiliates holding more than 50% of Reliant s capital stock on an as-converted-to-common-stock-basis have entered into support agreements pursuant to which each such stockholder agreed to vote his, her or its shares of Reliant capital stock in favor of the adoption of the merger agreement and approval of the transactions contemplated thereby and against any action that would delay or prevent the first merger and against any alternative transaction. In connection with the support agreements, these stockholders granted an irrevocable proxy appointing members of the Thermage board of directors, and each of them individually, as their sole and exclusive attorneys and proxies to vote their shares in accordance with the terms of the support agreements.

**Thermage Voting Agreements (see page 97)**

As an inducement to Reliant entering into the merger agreement, Thermage s executive officers, directors and certain stockholders entered into a voting agreement with Reliant in which each has agreed, among other

Table of Contents

things, to vote his, her or its shares of Thermage capital stock in favor of the issuance of Thermage capital stock to Reliant stockholders pursuant to the terms of the merger agreement and against any action that would delay or prevent the first merger and against any alternative transaction. These persons have the right, as of July 7, 2008, to vote a total of approximately 38% shares of Thermage common stock. In connection with the voting agreements, these persons have granted an irrevocable proxy appointing members of the Reliant board of directors, and each of them individually, as their sole and exclusive attorneys and proxies to vote their shares in accordance with the terms of the voting agreements.

**Lock-up Agreements (see page 98)**

Concurrently with the execution and delivery of the merger agreement, the executive officers and directors (and their respective affiliates) of Thermage and the executive officers and directors (and their respective affiliates) of Reliant entered into lock-up agreements pursuant to which each of the signatories agreed not to sell or otherwise transfer any shares of Thermage common stock held at the closing of the first merger until the first business day after Thermage announces earnings for the first full quarter after the closing.

**Note and Security Agreement (see page 98)**

In connection with the execution of the merger agreement, Thermage extended an advance of $5.0 million to Reliant pursuant to a secured bridge financing. The advance is evidenced by a secured promissory note issued by Reliant and secured by a subordinated lien on substantially all assets of Reliant excluding intellectual property pursuant to the terms of a security agreement between Reliant and Thermage. Amounts outstanding at the closing under this $5.0 million advance will be considered as part of Reliant s net indebtedness for purposes of the purchase price adjustments pursuant to the merger agreement.

**License Agreement (see page 98)**

Prior to and in connection with the first merger, Reliant will irrevocably and exclusively license, with limited exceptions, to a newly formed wholly owned subsidiary, which we refer to as Spinco, Reliant patents and non-exclusively license certain Reliant know-how for use outside of the field of aesthetics. The license will be royalty free and fully paid. All of the shares of Spinco will be distributed to certain of the current Reliant stockholders in a taxable dividend prior to the closing of the first merger. As a result, Thermage will posses the right to Reliant patents only within the aesthetics field. Reliant has only immaterial sales, and has no products planned or currently under development which use the Reliant intellectual property outside of the aesthetics field.

**Reliant Certificate Amendment (see page 98)**

The Reliant board of directors and the requisite number of Reliant stockholders have approved an amendment to the certificate of incorporation of Reliant. The amendment provides that Reliant may make a distribution of shares of Spinco to holders of Reliant Series A preferred stock, Reliant Series B preferred stock and Reliant common stock without making an equivalent distribution to the other holders of Reliant preferred stock. In addition, the amendment provides that upon the closing of the first merger pursuant to the merger agreement, holders of Reliant preferred stock and Reliant common stock will only be entitled to receive the amounts they are entitled to receive under the merger agreement. A copy of the amendment to Reliant s certificate of incorporation, which will be filed prior to the first merger with the Secretary of State of the State of Delaware, is included as Annex D to this proxy statement/prospectus/information statement.

**Material U.S. Federal Income Tax Consequences of the Merger (see page 75)**

It is a closing condition of the transaction that each of Wilson Sonsini Goodrich & Rosati, Professional Corporation, outside counsel to Thermage, and Cooley Godward Kronish LLP, outside counsel to Reliant, issue a tax opinion to their respective clients to the effect that the merger will qualify as a reorganization within the meaning of Section 368(a) of the Code. If the merger so qualifies, the U.S. federal income tax consequences of the merger to each Reliant stockholder will vary depending on whether that stockholder receives Thermage

Table of Contents

common stock and cash or exercises appraisal rights and receives only cash in exchange for that stockholder s Reliant stock. For purposes of the discussion below, the Distribution (as defined herein) of shares of the newly-formed Reliant subsidiary to the Reliant stockholders will be treated by Thermage and Reliant as the payment of additional cash in the merger in an amount equal to the fair market value of the stock of such subsidiary.

Assuming that the merger qualifies as a reorganization, a Reliant stockholder who does not exercise appraisal rights generally will recognize gain (but will not be permitted to recognize loss) for U.S. federal income tax purposes equal to the lesser of (i) the amount of cash received by such stockholder and (ii) the excess of the amount of cash and the fair market value of the Thermage common stock received by such stockholder over such stockholder s tax basis in the Reliant stock surrendered. A Reliant stockholder that exercises appraisal rights generally will recognize gain or loss equal to the difference between the amount of cash received by such stockholder and such stockholder s tax basis in the Reliant stock surrendered.

**TAX MATTERS CAN BE COMPLICATED AND THE TAX CONSEQUENCES OF THE MERGER TO YOU WILL DEPEND ON THE FACTS OF YOUR OWN SITUATION. YOU SHOULD READ THE SECTION ENTITLED THE MERGER MATERIAL U.S. FEDERAL INCOME TAX CONSEQUENCES OF THE MERGER BEGINNING ON PAGE 75 OF THIS PROXY STATEMENT/PROSPECTUS/INFORMATION STATEMENT. IN ADDITION, YOU ARE URGED TO CONSULT YOUR OWN TAX ADVISORS TO FULLY UNDERSTAND THE TAX CONSEQUENCES OF THE MERGER TO YOU, INCLUDING THE APPLICABILITY AND EFFECT OF FEDERAL, STATE, LOCAL AND FOREIGN INCOME AND OTHER TAX LAWS.**

**Opinion of Thermage s Financial Advisor (see page 62)**

*Fairness Opinion Received by Thermage*. Stanford Group Company delivered its opinion to Thermage s board of directors that, as of July 6, 2008 and based on and subject to the factors and assumptions set forth therein, the merger consideration to be paid by Thermage was fair to Thermage from a financial point of view.

The full text of the written opinion of Stanford Group Company, dated July 6, 2008, which sets forth the assumptions made, procedures followed, matters considered, qualifications and limitations on and scope of the review undertaken by Stanford Group Company, is attached to this proxy statement/prospectus/information statement as Annex D. Stanford Group Company provided its opinion for the information and assistance of Thermage s board of directors in connection with its consideration of the merger. The written opinion of Stanford Group Company is not a recommendation as to how any holder of Thermage common stock should vote with respect to the issuance of shares of Thermage common stock in the merger. **Thermage urges you to read the entire opinion carefully**.

Table of Contents

**THERMAGE SUMMARY FINANCIAL DATA**

The summary statement of operations data for the years ended December 31, 2005, 2006 and 2007 and the summary balance sheet data as of December 31, 2006 and 2007 are derived from our audited financial statements that are included elsewhere in this proxy statement/prospectus/information statement. The summary statement of operations data for the six-month periods ended June 30, 2007 and June 30, 2008 and summary balance sheet data as of June 30, 2008 are derived from our unaudited interim financial statements included elsewhere in this proxy statement/prospectus/information statement.

Our historical results are not necessarily indicative of future operating results. Our operating results for the six months ended June 30, 2008 should not be considered indicative of operating results for the full fiscal year or any other future period. The summary financial data set forth below should be read in conjunction with our financial statements, and the related notes thereto, and Thermage Management s Discussion and Analysis of Financial Condition and Results of Operations, included elsewhere in this proxy statement/prospectus/information statement.

| | Years Ended December 31, | | | Six Months Ended June 30, | |
|---|---|---|---|---|---|
| | 2005 | 2006 | 2007 | 2007 | 2008 |
| | (in thousands, except share and per share data) | | | | |
| **Statement of Operations Data:** | | | | | |
| Net revenue | $ 40,655 | $ 54,320 | $ 63,101 | $ 32,654 | $ 34,112 |
| Cost of revenue | 12,309 | 15,259 | 15,976 | 8,970 | 8,453 |
| Gross margin | 28,346 | 39,061 | 47,125 | 23,684 | 25,659 |
| Operating expenses | | | | | |
| Sales and marketing | 19,997 | 24,071 | 26,195 | 13,189 | 14,415 |
| Research and development | 8,908 | 9,639 | 9,099 | 4,698 | 4,904 |
| General and administrative | 7,414 | 9,973 | 11,300 | 5,467 | 7,598 |
| Litigation settlement gain | (1,646) | | | | |
| Total operating expenses | 34,673 | 43,683 | 46,594 | 23,354 | 26,917 |
| Income (loss) from operations | (6,327) | (4,622) | 531 | 330 | (1,258) |
| Interest and other income | 340 | 768 | 2,520 | 1,184 | 1,146 |
| Interest, warrants and other expense | (1,549) | (55) | | | |
| Income (loss) before income taxes and cumulative effect of change in accounting principle | (7,536) | (3,909) | 3,051 | 1,514 | (112) |
| Provision for income taxes | | | (271) | (147) | (86) |
| Net income (loss) before cumulative effect of change in accounting principle | (7,536) | (3,909) | 2,780 | 1,367 | (198) |
| Cumulative effect of change in accounting principle | (697) | | | | |
| Net income (loss) | $ (8,233) | $ (3,909) | $ 2,780 | $ 1,367 | $ (198) |
| Net income (loss) per share basic and diluted: | | | | | |
| Before cumulative effect of change in accounting principle | $ (2.06) | | | | |
| Cumulative effect of change in accounting principle | (0.19) | | | | |
| Net income (loss) per share basic | $ (2.25) | $ (0.60) | $ 0.12 | $ 0.06 | $ (0.01) |
| Net income (loss) per share diluted | $ (2.25) | $ (0.60) | $ 0.11 | $ 0.06 | $ (0.01) |

| | | | | | |
|---|---|---|---|---|---|
| Weighted average shares outstanding used in calculating net income (loss) per common share: | | | | | |
| Basic | 3,664,990 | 6,561,648 | 23,241,031 | 23,041,983 | 23,743,043 |
| Diluted | 3,664,990 | 6,561,648 | 24,884,458 | 24,761,794 | 23,743,043 |

Table of Contents

| | As of December 31, 2006 | 2007 | As of June 30, 2008 |
|---|---|---|---|
| | | (in thousands) | |
| **Balance Sheet Data:** | | | |
| Cash and cash equivalents | $ 45,915 | $ 13,650 | $ 15,358 |
| Marketable investments | | 38,707 | 36,882 |
| Working capital | 46,153 | 55,834 | 58,243 |
| Total assets | 59,875 | 68,727 | 69,630 |
| Total stockholders equity | $ 49,121 | $ 58,118 | $ 60,369 |

Table of Contents

**RELIANT SUMMARY FINANCIAL DATA**

The summary statement of operations data for the years ended December 31, 2005, 2006 and 2007 and the summary balance sheet data as of December 31, 2006 and 2007 are derived from our audited consolidated financial statements that are included elsewhere in this proxy statement/prospectus/information statement. The summary consolidated statement of operations data for the six-month periods ended June 30, 2007 and June 30, 2008 and summary consolidated balance sheet data as of June 30, 2008 are derived from our unaudited interim financial statements included elsewhere in this proxy statement/prospectus/information statement.

Our historical results are not necessarily indicative of future operating results. Our operating results for the six months ended June 30, 2008 should not be considered indicative of operating results for the full fiscal year or any other future period. The summary financial data set forth below should be read in conjunction with our consolidated financial statements, and the related notes thereto, and Reliant Management s Discussion and Analysis of Financial Condition and Results of Operations, included elsewhere in this proxy statement/prospectus/information statement.

| | Year ended December 31, | | | Six Months ended June 30, | |
|---|---|---|---|---|---|
| | 2005 | 2006 | 2007 | 2007 | 2008 |
| | | | (in thousands) | | |
| **Consolidated Statements of Operation Data**: | | | | | |
| Net revenues: | | | | | |
| Products | $ 33,699 | $ 56,412 | $ 68,664 | $ 34,478 | $ 38,892 |
| Services and other | 101 | 1,078 | 1,812 | 803 | 2,074 |
| Total net revenues | 33,800 | 57,490 | 70,476 | 35,281 | 40,966 |
| Cost of revenues: | | | | | |
| Products | 16,988 | 26,527 | 31,692 | 15,650 | 14,698 |
| Services and other | | 120 | 1,029 | 362 | 1,534 |
| Total cost of net revenues | 16,988 | 26,647 | 32,721 | 16,012 | 16,232 |
| Gross profit | 16,812 | 30,843 | 37,755 | 19,269 | 24,734 |
| Operating expenses: | | | | | |
| Research and development | 7,854 | 10,458 | 13,932 | 6,135 | 6,806 |
| Sales and marketing | 9,748 | 23,343 | 33,315 | 16,471 | 17,832 |
| General and administrative | 10,962 | 17,506 | 14,575 | 6,540 | 6,996 |
| Total operating expenses | 28,564 | 51,307 | 61,822 | 29,146 | 31,634 |
| Loss from operations | (11,752) | (20,464) | (24,067) | (9,877) | (6,900) |
| Interest income | 57 | 544 | 355 | 239 | 25 |
| Interest expense | (762) | (1,533) | (902) | (421) | (473) |
| Gains (losses) on preferred stock warrant liability | (207) | 528 | 6,676 | (734) | 651 |
| Other income (expense), net | (46) | 30 | 201 | (92) | (3) |
| Loss before income taxes and cumulative effect of change in accounting principle | (12,710) | (20,895) | (17,737) | (10,885) | (6,700) |
| Provision for income taxes | (10) | (10) | (25) | (10) | (3) |
| Net loss before cumulative effect of change in accounting principle | (12,720) | (20,905) | (17,762) | (10,895) | (6,703) |
| Cumulative effect of change in accounting principle | (5,493) | | | | |
| Net loss | $ (18,213) | $ (20,905) | $ (17,762) | $ (10,895) | $ (6,703) |

12

**Table of Contents**

| | As of December 31, 2006 | As of December 31, 2007 | As of June 30, 2008 |
|---|---|---|---|
| | | (in thousands) | |
| **Consolidated Balance Sheet Data:** | | | |
| Cash, cash equivalents and short-term investments | $ 9,474 | $ 5,714 | $ 5,858 |
| Working capital (deficiency) | (4,039) | (23) | (1,741) |
| Total assets | 31,326 | 26,136 | 23,652 |
| Preferred stock warrant liability | 7,967 | 1,505 | 865 |
| Current and long-term debt | 6,204 | 6,503 | 8,989 |
| Redeemable convertible preferred stock | 45,486 | 60,660 | 60,704 |
| Common stock and additional paid in capital | 14,829 | 22,209 | 26,290 |
| Total stockholder s deficit | $ (48,632) | $ (59,013) | $ (61,635) |

Table of Contents

**SUMMARY UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL DATA**

The following table presents summary unaudited pro forma combined financial data which reflects the proposed merger of Thermage and Reliant. The summary unaudited pro forma condensed combined financial data are derived from and should be read in conjunction with the unaudited pro forma condensed combined financial statements and related notes thereto included in this proxy statement/prospectus/information statement. See Unaudited Pro Forma Condensed Combined Financial Statements beginning on page 99.

| | Six Months Ended June 30, 2008 | | | |
|---|---|---|---|---|
| | Historical | | Pro Forma | |
| | Thermage | Reliant | Adjustments | Combined |
| | (in thousands, except per share data) | | | |
| **Unaudited Pro Forma Condensed Combined Statement of Operations Data:** | | | | |
| Net revenue | $ 34,112 | $ 40,966 | $ | $ 75,078 |
| Loss from operations | (1,258) | (6,900) | (1,861) | (10,019) |
| Loss before income taxes | (112) | (6,700) | (3,075) | (9,887) |
| Net loss | $ (198) | $ (6,703) | $ (3,075) | $ (9,976) |
| Net loss per share: | | | | |
| Basic and diluted | $ (0.01) | | | $ (0.21) |
| Weighted average common shares outstanding: | | | | |
| Basic and diluted | 23,743 | | | 47,343 |

| | Year Ended December 31, 2007 | | | |
|---|---|---|---|---|
| | Historical | | Pro Forma | |
| | Thermage | Reliant | Adjustments | Combined |
| | (in thousands, except per share data) | | | |
| Net revenue | $ 63,101 | $ 70,476 | $ | $ 133,577 |
| Income (loss) from operations | 531 | (24,067) | (3,721) | (27,257) |
| Income (loss) before income taxes | 3,051 | (17,737) | (11,522) | (26,208) |
| Net income (loss) | $ 2,780 | $ (17,762) | $ (11,522) | $ (26,504) |
| Net income (loss) per share basic | $ 0.12 | | | $ (0.57) |
| Net income (loss) per share diluted | $ 0.11 | | | $ (0.57) |
| Weighted average shares outstanding: | | | | |
| Basic | 23,241 | | | 46,841 |
| Diluted | 24,884 | | | 46,841 |

| | As of June 30, 2008 | | | |
|---|---|---|---|---|
| | Historical | | Pro Forma | |
| | Thermage | Reliant | Adjustments | Combined |
| | (in thousands) | | | |
| **Unaudited Pro Forma Condensed Combined Balance Sheet Data:** | | | | |
| Cash and cash equivalents | $ 15,358 | $ 5,858 | $ | $ 21,216 |
| Marketable investments | 36,882 | | (25,000) | 11,882 |
| Working capital | 58,243 | (1,741) | (27,712) | 28,790 |

| | | | | |
|---|---|---|---|---|
| Total assets | 69,630 | 23,652 | 56,150 | 149,432 |
| Long-term liabilities | 892 | 3,579 | (77) | 4,394 |
| Redeemable convertible preferred stock | | 60,704 | (60,704) | |
| Total stockholders equity (deficit) | $ 60,369 | $ (61,635) | $ 113,445 | $ 112,179 |

Table of Contents

## COMPARATIVE AND HISTORICAL PER SHARE MARKET PRICE AND DIVIDEND INFORMATION

Thermage s common stock trades on the NASDAQ Global Market under the symbol THRM since our initial public offering on November 9, 2006. There is currently no public market for Reliant s common stock.

As of August 8, 2008, there were approximately 90 holders of record of our common stock, one of whom was CEDE & Co., a large clearing house that holds shares in its name for banks, brokers and institutions, in order to expedite the sale and transfer of stock. Since many stockholders shares are listed under their brokerage firm s name, we believe the actual number of stockholders is approximately 3,200. As of such date, 24,068,910 shares of Thermage common stock were outstanding.

The following table shows the high and low sales prices per share of Thermage common stock as reported on the NASDAQ Global Market on (1) July 3, 2008, the last full trading day preceding public announcement that Thermage and Reliant had entered into the merger agreement, and (2) August 8, 2008.

| | Thermage Common Stock | |
|---|---|---|
| | High | Low |
| July 3, 2008 | $ 2.65 | $ 2.61 |
| August 8, 2008 | $ 2.36 | $ 2.29 |

The following table sets forth quarterly high and low sales prices of Thermage common stock for the indicated periods:

| | Thermage Common Stock | |
|---|---|---|
| | High ($) | Low ($) |
| **Year Ending December 31, 2008** | | |
| Third Quarter (through August 8, 2008) | $ 2.99 | $ 2.16 |
| Second Quarter | 3.58 | 2.47 |
| First Quarter | 6.32 | 3.10 |
| **Year Ended December 31, 2007** | | |
| Fourth Quarter | 7.98 | 5.43 |
| Third Quarter | 9.08 | 6.94 |
| Second Quarter | 9.10 | 6.80 |
| First Quarter | 10.70 | 7.00 |
| **Year Ended December 31, 2006** | | |
| Fourth Quarter (beginning November 10, 2006) | 8.15 | 6.40 |

The foregoing tables show only historical information. These tables may not provide meaningful information to Thermage stockholders in determining whether to approve the issuance of shares of Thermage common stock in connection with the merger. Thermage stockholders should review carefully the other information contained in this proxy statement/prospectus/information statement in considering whether to approve the issuance of shares of Thermage common stock in connection with the merger. Also see the section entitled Where You Can Find More Information on page 214 of this proxy statement/prospectus/information statement.

***Dividend Policy for Thermage***

Thermage has never paid or declared any cash dividends on its common stock and does not anticipate paying any cash dividends on its common stock in the foreseeable future. Thermage intends to retain all available funds and any future earnings, if any, to fund the development and expansion of its business. The Thermage board of directors will determine the timing and amount of any such future dividends.

Table of Contents

***Dividend Policy for Reliant***

Reliant has never declared or paid any cash dividends on its capital stock. Reliant does not anticipate paying any cash dividends on its capital stock for the foreseeable future. In addition, Reliant s loan agreements with its current lenders contain covenants prohibiting the payment of cash dividends without the lenders consent.

Table of Contents

## RISK FACTORS

*If the transaction is completed, Thermage and Reliant will operate as a combined company in a market environment that is difficult to predict and that involves significant risks, many of which will be beyond the combined company s control. In addition to information regarding Thermage and Reliant contained elsewhere in this proxy statement/prospectus/information statement, you should carefully consider the risks described below before voting your shares. Additional risks and uncertainties not presently known to us or that we do not currently believe are important to an investor, if they materialize, also may adversely affect the transaction, Thermage, Reliant and the combined company.*

### Risks Related to the Transaction

**Thermage and Reliant must overcome significant challenges in integrating their businesses, operations and product offerings in order for Thermage to realize the benefits of the acquisition of Reliant.**

The merger will not achieve its anticipated benefits unless Thermage successfully combines its operations with those of Reliant and integrates the two companies business operations and products in a timely manner. Integrating Thermage and Reliant will be a complex, time-consuming and expensive process and may result in revenue disruption and operational difficulties if not completed in a timely and efficient manner. Prior to the merger, Thermage and Reliant operated independently, each with its own business, business culture, markets, clients, employees and systems. Following the merger, the combined company must operate as a combined organization utilizing common information communication systems, operating procedures, financial controls and human resource practices, including benefits, training and professional development programs. There may be substantial difficulties, costs and delays involved in integrating Thermage and Reliant. These difficulties, costs and delays may include:

- the potential disruption of the combined company s ongoing business and diversion of management resources;
- the possibility that the business cultures of Thermage and Reliant will not be compatible;
- the difficulty of incorporating acquired products, technology and rights into the combined company s products and services;
- unanticipated expenses related to integration of Thermage and Reliant operations;
- the impairment of relationships with employees and customers as a result of any integration of new personnel;
- potential unknown liabilities associated with the acquired business and technology of Reliant;
- costs and delays in implementing common systems and procedures, including financial accounting systems and customer information systems; and
- potential inability to retain, integrate and motivate key management, marketing, technical sales and customer support personnel.

The combined company may not succeed in addressing these risks or any other problems encountered in connection with the merger. The success of the merger depends upon the combined company realizing the potential benefits and synergies sought by Thermage and Reliant, including improved market position through product bundling, enhanced consumable opportunities, cross-selling opportunities by an expanded sales force, and operational cost savings. If the benefits and synergies of the merger do not exceed the costs associated with the merger, including any dilution to Thermage stockholders resulting from the issuance of shares in connection with the merger, Thermage s business and financial results could be harmed.

17

Table of Contents

**Customer uncertainty related to the merger could harm the combined company.**

Thermage s or Reliant s customers may, in response to the announcement of the merger, delay or defer purchasing decisions. Any delay or deferral in purchasing decisions by Thermage s or Reliant s customers could adversely affect the business of the combined company.

**The merger may result in loss of Thermage and Reliant employees.**

Despite Thermage s and Reliant s efforts to retain their key employees, the companies might lose some of their key employees following the merger. Competition for qualified technical, engineering, sales and management employees in the aesthetics industry is intense. Competitors and other companies may recruit employees prior to the merger and during the integration process following the closing of the merger, which has become a common practice in life sciences industry mergers. In addition, any real or perceived differences in the policies, compensation levels and culture between Reliant and Thermage may cause Reliant employees to leave. As a result, employees of Reliant or the combined company could leave with little or no prior notice, which could cause delays and disruptions in the efforts to integrate the two companies and result in expenses associated with finding replacement employees. Thermage and Reliant cannot assure you that the combined company will be able to attract, retain and integrate employees following the merger.

**The market price of Thermage common stock may decline as a result of the merger.**

The market price of Thermage common stock could decline as a result of the merger, based on the occurrence of a number of events, including:

- the failure to successfully integrate Reliant into Thermage;
- delays or failure in the integration of Reliant and Thermage products and technology;
- the belief that Thermage has not realized the perceived benefits of the acquisition of Reliant in a timely manner or at all; and
- the potential negative effect of the merger on Thermage s operating results, including the impact of amortization of intangible assets, other than goodwill, created by the merger.

**Reliant stockholders will receive a fixed number of shares of Thermage common stock, regardless of the market price of Thermage common stock. Declines in the market price of Thermage common stock will reduce the value received by Reliant stockhholders in the merger. Increases in the market price of Thermage common stock will increase the value paid by Thermage in consideration of the merger.**

Under the terms of the merger agreement, a fixed number of shares of Thermage common stock will be issued in exchange for shares of Reliant capital stock, and there is no mechanism to adjust this number of shares based on changes in the market price for Thermage common stock. As a result, there will be no adjustment for changes in the market price of Thermage common stock. Furthermore, Reliant is not permitted to withdraw from the merger solely because of changes in the market price of Thermage common stock. As a result of the fixed number of shares, the specific dollar value of Thermage common stock received by Reliant stockholders upon completion of the merger will depend on the market value of Thermage common stock at the time of completion of the merger. A decline in the market price for Thermage common stock will result in a decline in the value received by Reliant stockholders. An increase in the market price for Thermage common stock will result in an increase in the value paid by Thermage in consideration of the merger.

The price of Thermage common stock has been volatile in the past and will likely continue to fluctuate in the future. See the section entitled Risk Factors Risks Related to Thermage. We expect that the price of our common stock will fluctuate substantially. Information regarding the market price of Thermage common stock, including its historical trading range and a trading price on a recent date is set forth under the section entitled

Table of Contents

Comparative and Historical Per Share Market Price and Dividend Information, as well as information regarding fluctuations in the value to be received by Reliant stockholders as a result of the merger.

**Failure to complete the merger could harm Thermage s and Reliant s business and could cause a decline in Thermage s stock price.**

Failure to complete the merger could harm the businesses of Thermage and Reliant in a number of ways. The transaction costs, including accounting, legal and certain financial advisory fees, must still be paid, without any offsetting benefits from the merger. Customers and strategic partners may delay or defer decisions concerning either company until the merger is completed or abandoned. In the event Reliant elects to seek another merger or business combination, it may not be able to find another party willing to pay an equal or greater price than the price to be paid in the merger. During the time while the merger agreement is in effect, Reliant is prohibited from soliciting, initiating or encouraging or entering into certain transactions, such as a merger, sale of assets or other business combination with a party other than Thermage. This uncertainty could cause Reliant employees to leave Reliant. In addition, if the merger is not completed, the market price of Thermage common stock could decline, to the extent that the market price of Thermage common stock reflects a market belief that the merger will be completed and its potential benefits realized.

**Thermage and Reliant expect to incur significant costs associated with the merger.**

Thermage estimates that it will incur direct transaction costs of approximately $3.1 million associated with the merger, which will be included as a part of the total purchase cost for accounting purposes. In addition, Reliant estimates that it will incur direct transaction costs of approximately $1.8 million. Thermage and Reliant believe the combined entity may incur charges to operations, which are not currently reasonably estimable, in the quarter in which the merger is completed or the following quarters, to reflect costs associated with integrating the two companies. Thermage expects to incur severance costs, retention bonus and other integration costs in the quarter in which the merger is completed and also expects ongoing charges for amortization of intangibles, consisting primarily of purchased technology, trade name, customer relationships and a collaboration agreement acquired in the merger. There can be no assurance that the combined company will not incur additional material charges in subsequent quarters to reflect additional costs associated with the merger. Thermage will pay up to an aggregate of approximately $25.0 million in cash to stockholders of Reliant and will incur additional cash expenditures in connection with the merger. These payments will significantly deplete Thermage s capital resources after payment of these amounts, Thermage will have less than $20.0 million of cash, cash equivalents and marketable securities. In the future Thermage may be required to seek debt or equity financing should the combined company require additional liquidity.

**Prior to the closing of the merger, Thermage and Reliant are prohibited from initiating, or are severely restricted in their ability to consider, potentially more favorable transactions.**

The merger agreement prohibits Thermage and Reliant from soliciting alternative acquisition proposals and prohibits Reliant from considering unsolicited acquisition proposals. The merger agreement also places significant restrictions on the ability of Thermage to consider or pursue unsolicited acquisition proposals by third parties that may become available prior to the closing of the merger. These contractual terms make it less likely that either Thermage or Reliant would be able to complete an alternative transaction to the merger, even if these other potential opportunities could be considered more favorable by their respective stockholders.

**There may be sales of substantial amounts of Thermage common stock after the merger, which could cause Thermage s stock price to fall.**

A substantially large number of shares of Thermage common stock may be sold into the public market within a short period of time following the closing of the merger, including a substantial number of shares that

Table of Contents

will be available for resale by certain former stockholders of Reliant and certain other stockholders of Thermage who are not parties to lock-up agreements that restrict the timing of the resale of these shares. As a result, our stock price could fall. Under the lock-up agreements, additional shares will be released and available for sale in the public market on the first business day after Thermage announces earnings for the first full quarter after the closing date of the merger. A sale of a large number of newly-released shares of Thermage common stock could therefore result in a sharp decline in Thermage s stock price. In addition, the sale of these shares could impair Thermage s ability to raise capital through the sale of additional stock. See the sections entitled The Merger Restrictions on Sales of Thermage Common Stock Received in the Transaction on page 73 and Agreements Related to the Integrated Merger Lockup Agreements on page 98.

**Reliant officers and directors have conflicts of interest that may have influenced them to support or approve the merger.**

Some of the directors and officers of Reliant have interests in the merger that are different from, or in addition to, your interests, including the following:

- In connection with, and effective upon the closing of, the merger, Leonard DeBenedictis, the current Chief Technology Officer of Reliant, will be the Chief Technology Officer of Thermage, and certain other executive officers may enter into offer letters for employment with Thermage.

- Following the closing of the merger, three individuals from the current Reliant board of directors, Eric B. Stang, Leonard DeBenedictis, Henry E. Gauthier, William T. Harrington, M.D., Maynard A. Howe, Ph.D., Steven Mendelow, Glen D. Nelson, M.D., Robert J. Quillinan and Robert Zollars, will be appointed to the Thermage board of directors.

- Each of Reliant s executive officers, including Eric B. Stang, Leonard DeBenedictis, Andrew H. Galligan, Keith J. Sullivan and Jeffrey S. Jones, has provisions in his employment agreement providing for acceleration of equity awards and/or severance in connection with a change of control of Reliant.

- For six years after the closing of the merger, Thermage has agreed to maintain in effect, for the benefit of each current and former officer or director of Reliant party to an indemnification agreement at the date of the merger agreement, the existing director s and officer s insurance policies or an insurance and indemnification policy that is not less favorable than the existing director s and officer s insurance policies.

- Prior to and in connection with the merger, Reliant will irrevocably and exclusively license to a newly formed wholly owned subsidiary, referred to as Spinco, Reliant patents and non-exclusively license certain Reliant know-how for use outside of the field of aesthetics. The license will be royalty free and fully paid. All of the shares of Spinco will be distributed to holders of Reliant s Series A preferred stock, Series B preferred stock and common stock in a taxable dividend prior to the closing of the first merger. Each executive officer and director of Reliant holds common stock, Series A preferred stock, Series B preferred stock and/or options to purchase common stock.

For the above reasons, the directors and officers of Reliant could be more likely to favor the merger than if they did not hold these interests. Reliant stockholders should consider whether these interests may have influenced these directors and officers to support or recommend the merger.

**Litigation relating to Section 2115 of the California General Corporation Law could adversely impact the merger.**

Although Reliant is incorporated in the state of Delaware, Reliant may be subject to Section 2115 of the California General Corporation Law, which purports to require corporations with a specified nexus to California to comply with a number of California s statutory corporate law provisions (a quasi-California corporation ).

Table of Contents

To the extent Reliant is deemed to be a quasi-California corporation, Section 2115 would require that the principal terms of the definitive merger agreement also be approved by holders of a majority of the outstanding shares of the common stock of Reliant. Reliant currently meets the requirements of a quasi-California corporation specified under Section 2115. In a recent Delaware Chancery Court case in which neither Reliant nor Thermage was involved, the Delaware Supreme Court affirmed the Delaware Chancery Court s decision that because a company was incorporated in Delaware, only Delaware law applied to its internal affairs, including the voting rights of the class of stockholders. Reliant has not received the vote of the holders of a majority of the outstanding shares of its common stock and the receipt of such vote is not a condition to closing in the definitive merger agreement. If a Reliant stockholder were to challenge the merger based upon the requirements of Section 2115, the resulting litigation could delay or prevent the closing of the merger, and any litigation could be expensive and time-consuming and could divert management s attention from Thermage s and Reliant s core businesses.

**Risks Related to Thermage**

*In the following section discussing risks facing Thermage, references to we, us, our and ours refer to Thermage.*

**Risks Related to the Thermage Business**

**We may not be able to achieve sustainable profitability even if we are able to generate significant revenue.**

While we have had five consecutive quarters of profitable results through the end of 2007, we incurred a loss in the first quarter ended March 31, 2008 and we were profitable during the second quarter ended June 30, 2008. In the past, we have expanded our business and increased our expenses in order to grow revenue. We expect this trend to continue for the foreseeable future. For example, in order to promote revenue growth and geographic expansion, during the fourth quarter of 2007, we began to execute a plan to increase our U.S. sales force by about 50% in headcount, which we substantially achieved by the first quarter of 2008. We will have to increase our revenue while effectively managing our expenses in order to achieve sustained profitability. Our failure to achieve sustained profitability could negatively impact the market price of our common stock.

**It is difficult to forecast future performance, which may cause our financial results to fluctuate unpredictably.**

Our limited operating history makes it difficult for us to predict future performance. Historically, the demand for our ThermaCool system has varied from quarter to quarter. A number of factors, over which we have limited or no control, may contribute to fluctuations in our financial results, such as:

- delays in receipt of anticipated purchase orders;
- seasonal variations in patient demand for aesthetic procedures;
- the potential impact of general economic conditions on the demand for aesthetic procedures;
- performance of our independent distributors;
- positive or negative media coverage of our ThermaCool system, the Thermage procedure or products of our competitors or our industry;
- our ability to obtain further regulatory clearances or approvals;

delays in, or failure of, product and component deliveries by our subcontractors and suppliers;

changes in the length of the sales process;

customer response to the introduction of new product offerings; and

fluctuations in foreign currency.

Table of Contents

In addition, we expect to continue to evaluate potential strategic acquisitions of complementary businesses, products or technologies. We incurred approximately $1.0 million pursuing such a strategic acquisition in the first quarter of 2008. We may incur similar expenses in future periods as we continue to evaluate potential strategic transactions. Such expenditures could negatively impact our financial performance in future periods.

**If there is not sufficient patient demand for Thermage procedures, practitioner demand for our ThermaCool system, including our single-use ThermaTips, could drop, resulting in unfavorable operating results.**

Most procedures performed using our ThermaCool system are elective procedures, the cost of which must be borne by the patient, and are not reimbursable through government or private health insurance. The decision to undergo a Thermage procedure is thus driven by consumer demand. Our business is sensitive to a number of factors that influence the level of consumer spending, including political and economic conditions such as recessionary environments, the levels of disposable consumer income, consumer debt, interest rates and consumer confidence. Declines in consumer spending on aesthetic procedures could have an adverse effect on our operating results. Consumer demand may be influenced by a number of factors, such as:

- our sales and marketing efforts directed toward consumers, as to which we have limited experience and resources;
- the extent to which physicians recommend our procedures to their patients;
- the cost, safety and effectiveness of a Thermage procedure versus alternative treatments; and
- general consumer sentiment about the benefits and risks of aesthetic procedures.

Our financial performance could be materially harmed in the event that any of the above factors discourage patients from seeking Thermage procedures.

**Any acquisitions that we make could disrupt our business and harm our financial condition.**

Our growth strategy includes evaluation of potential strategic acquisitions of complementary businesses, products or technologies. We may also consider joint ventures and other collaborative projects. We incurred approximately $1.0 million pursuing such a strategic acquisition in the three months ended March 31, 2008. We may incur similar expenses in future periods as we continue to evaluate potential strategic transactions. Such expenditures could negatively impact our financial performance in future periods.

On July 7, 2008, we and Reliant jointly announced that we had entered into a definitive merger agreement under which we will acquire Reliant for approximately $25.0 million in cash and 23,600,000 shares of Thermage common stock, subject to post closing adjustments. In addition, we have agreed to provide bridge financing to Reliant in the amount of $5.0 million. The proposed transaction will require stockholder approval and is expected to close during the fourth quarter of 2008.

We may not be able to successfully integrate the combined business, products or technologies. In addition, the integration of such acquisition and management of any collaborative project may divert management s time and resources from our core business and disrupt our operations. We have not acquired companies or products in the past. If we decide to expand our product offerings, we may spend time and money on projects that do not increase our revenue. Any cash acquisition we pursue would diminish funds available to us for other uses, and any stock acquisition would dilute our stockholders ownership. While we from time to time evaluate potential collaborative projects and acquisitions of businesses, products and technologies, and anticipate continuing to make these evaluations, besides the proposed transaction with Reliant, we have no present understandings, commitments or agreements with respect to any other acquisitions or collaborative projects.

Table of Contents

**We are totally dependent upon the success of our ThermaCool system, which has a limited commercial history. If the ThermaCool system fails to increase market acceptance, our business will suffer.**

We introduced our ThermaCool system in 2002, and expect that sales of our ThermaCool system, including our line of single-use ThermaTips, will account for substantially all of our revenue for the foreseeable future. We expect to continue to expand our line of ThermaTips for new applications. This may not occur when expected, or at all, which would negatively affect our anticipated revenue. Our ThermaCool system may not significantly penetrate current or new markets. If demand for the ThermaCool system does not increase as we anticipate, or declines, our business, financial condition and results of operations will be harmed.

**Our success depends on growing physician adoption of our ThermaCool system and continued use of our ThermaTips.**

Our target physician customers typically already own one or more aesthetic device products. Our ability to grow our business and convince physicians to purchase our ThermaCool system depends on the success of our clinical and sales and marketing efforts. Our business model involves both a capital equipment purchase of our ThermaCool RF generator and continued purchases by our customers of single-use ThermaTips. This may be a novel business model for many potential customers who may be used to competing products that are either exclusively capital equipment, such as many laser-based systems, or that are exclusively single-use products, such as Botox or dermal fillers. We must be able to demonstrate that the cost of our ThermaCool system and the revenue that the physician can derive from performing procedures using our product are compelling when compared to the cost and revenue associated with alternative products. When marketing to plastic surgeons, we must also, in some cases, overcome a bias against non-invasive aesthetic procedures. If we are unable to increase physician adoption of our ThermaCool system and use of our ThermaTips, our financial performance will be adversely affected.

**We may fail to effectively build and manage our sales force or to market and distribute our ThermaCool system.**

We rely on a direct sales force to sell our ThermaCool system in the United States. During the fourth quarter of 2007, we began to expand and realign our U.S. sales force to better address customer needs. We began to execute our plan to increase our U.S. sales force by about 50% in headcount and realign resources into two groups, with about two-thirds of the sales force focusing on existing customers on sales of treatment tips, upgrades and training, and the remainder focusing on securing new accounts. As the Company grows, we expect to grow or realign, if necessary, our sales organization to meet our anticipated sales objectives. There are significant risks involved in building and managing our sales organization, including risks related to our ability to:

- hire qualified individuals as needed;
- provide adequate training for the effective sale of our ThermaCool system; and
- retain and motivate our sales employees.

In addition, sales to non-traditional practitioners of aesthetic procedures is a key element of our growth strategy. However, our sales force historically has sold primarily to dermatologists and plastic surgeons. Also, our ThermaCool system competes with products that are well-established in the market. Accordingly, it is difficult for us to predict how well our sales force will perform. Our failure to adequately address these risks could have a material adverse effect on our ability to sell our ThermaCool system, causing our revenue to be lower than expected and harming our results of operations.

**We may not be successful in selling and marketing our new products.**

The commercial success of the products and technologies we develop will depend upon the acceptance of these products by physicians and their patients. It is difficult for us to predict how successful recently introduced products and procedures, or products we are currently developing, will be over the long term. If the products we

Table of Contents

develop do not gain market acceptance, our revenues and operating results could suffer. In addition, we expect to face significant competition in our new products, in some cases from companies that are more established, market more widely known products and have greater resources than we do. We may not be able to differentiate our new products sufficiently from our competitors products to achieve significant market penetration. As a result of these factors, we may incur significant sales and marketing expenses for our new products without achieving commercial success, which could harm our business and our competitive position.

**We are involved in intellectual property litigation, which could be costly and time consuming, and may impact our future business and financial performance.**

We advised Alma Lasers Ltd. and Alma Lasers, Inc. (together Alma ) as early as February 2006 that its Accent product infringed numerous Thermage patents. A number of these patents are the same as those at issue in our 2004 litigation against Syneron, which was settled in 2005 with Syneron acknowledging the validity of these patents in a paid license. In April 2007, Alma filed a complaint in federal court in Delaware seeking a declaratory judgment of non-infringement, and invalidity of nine of Thermage s U.S. patents. On June 20, 2007, we filed an answer to this complaint and counterclaims, alleging that Alma infringed one or more claims of ten of Thermage s U.S. patents. Our counterclaims were subsequently amended on December 10, 2007 to include a claim of infringement of an eleventh Thermage patent. Among other things, our counterclaim alleges that both Alma s Harmony and Accent XL systems infringe our patents. In addition to damages and attorney fees, we have asked the court to enjoin Alma from engaging in further infringement. Alma has responded to all our counterclaims by denying infringement and alleging invalidity of all 11 U.S. patents asserted by us. The litigation is active and discovery is ongoing. In May and June 2008, Alma filed with the U.S. Patent and Trademark Office requests that eight of 11 of the patents asserted by us be reexamined. Our intellectual property has not been tested at trial. If we initiate litigation to protect our rights, we run the risk of having our patents invalidated, which would undermine our competitive position.

Litigation related to infringement and other intellectual property claims, with or without merit, is unpredictable, can be expensive and time-consuming and could divert management s attention from our core business. If we lose this kind of litigation, a court could require us to pay substantial damages, and prohibit us from using technologies essential to our ThermaCool system, any of which would have a material adverse effect on our business, results of operations and financial condition. We do not know whether necessary licenses would be available to us on satisfactory terms, or whether we could redesign our ThermaCool system or processes to avoid infringement.

Our industry has been characterized by frequent intellectual property litigation. Our competitors or other patent holders may assert that our ThermaCool system and the methods we employ are covered by their patents. If our ThermaCool system or methods are found to infringe, we could be prevented from marketing our ThermaCool system. In addition, we do not know whether our competitors or potential competitors have applied for, or will apply for or obtain, patents that will prevent, limit or interfere with our ability to make, use, sell, import or export our ThermaCool system. Competing products may also appear in other countries in which our patent coverage might not exist or be as strong. If we lose a foreign patent lawsuit, we could be prevented from marketing our ThermaCool system in one or more countries.

In addition, we may hereafter become involved in litigation to protect our trademark rights associated with our company name or the names used with our ThermaCool system. Names used with our ThermaCool system and procedures may be claimed to infringe names held by others or to be ineligible for proprietary protection. If we have to change the name of our company or ThermaCool system, we may experience a loss in goodwill associated with our brand name, customer confusion and a loss of sales.

**Intellectual property rights may not provide adequate protection for our ThermaCool system, which may permit third parties to compete against us more effectively.**

We rely on patent, copyright, trade secret and trademark laws and confidentiality agreements to protect our technology and ThermaCool system. As of June 30, 2008, we had 32 issued U.S. patents and 21 issued foreign

Table of Contents

patents outside of the United States, mostly covering our ThermaCool system. Some of our system components are not, and in the future may not be, protected by patents. Additionally, our patent applications may not issue as patents or, if issued, may not issue in a form that will be advantageous to us. Any patents we obtain may be challenged, invalidated or legally circumvented by third parties. Consequently, competitors could market products and use manufacturing processes that are substantially similar to, or superior to, ours. We may not be able to prevent the unauthorized disclosure or use of our technical knowledge or other trade secrets by consultants, vendors, former employees or current employees, despite the existence generally of confidentiality agreements and other contractual restrictions. Monitoring unauthorized uses and disclosures of our intellectual property is difficult, and we do not know whether the steps we have taken to protect our intellectual property will be effective. Moreover, we do not have patent rights in all foreign countries in which a market may exist, and where we have applied for foreign patent rights, the laws of many foreign countries will not protect our intellectual property rights to the same extent as the laws of the United States.

In addition, competitors could purchase our ThermaCool system and attempt to replicate some or all of the competitive advantages we derive from our development efforts, willfully infringe our intellectual property rights, design around our protected technology or develop their own competitive technologies that fall outside of our intellectual property rights. If our intellectual property is not adequately protected so as to protect our market against competitors products and methods, our competitive position could be adversely affected, as could our business.

**Performing clinical studies on, and collecting data from, the Thermage procedure is inherently subjective, and we have limited data regarding the efficacy of our ThermaCool system. If future data is not positive or consistent with our prior experience, rates of physician adoption will likely be harmed.**

We believe that in order to significantly grow our business, we will need to conduct future clinical studies of the effectiveness of the ThermaCool system. Clinical studies of aesthetic wrinkle treatments and cellulite are subject to a number of limitations. First, these studies do not involve well-established objective standards for measuring the effectiveness of treatment. Subjective, before and after, evaluation of the extent of change in the patient s appearance, performed by a medical professional or by the patient, is the most common method of evaluating effectiveness. A clinical study may conclude that a treatment is effective even if the change in appearance is subtle and not long-lasting. Second, 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.

Most published studies of our ThermaCool system have investigated the tissue-tightening effect of our monopolar RF technology in procedures on the face, using a single treatment with our first generation 1.0 $cm^2$ ThermaTip and our prior procedure protocol, which involved the use of fewer energy pulses at a higher power than our current procedure protocol. We have not conducted any head-to-head clinical studies that compare results from treatment with our ThermaCool system to surgery or treatment with other aesthetic devices. Without head-to-head studies against competing alternative treatments, which we have no current plans to conduct, potential customers may not find clinical studies of our technology sufficiently compelling to purchase our ThermaCool system. If we decide to pursue additional studies in the future, they could be expensive and time consuming, and the data collected may not produce favorable or compelling results. If the results of such studies do not meet physicians expectations, our ThermaCool system may not become widely adopted, physicians may recommend alternative treatments for their patients, and our business may be harmed.

**The failure of our ThermaCool system to meet patient expectations or the occurrence of unpleasant side effects from the Thermage procedure could impair our financial performance.**

Our future success depends upon patients having a positive experience with the Thermage procedure in order to increase physician demand for our products, as a result of both individual patients repeat business and as a result of word-of-mouth referrals. We believe that patients may be dissatisfied with the Thermage procedure if they find it to be too painful. Furthermore, Thermage patients may experience temporary swelling or reddening of the skin as a procedure side effect. In rare instances patients may receive burns, blisters, skin discoloration or

Table of Contents

skin depressions. Experiencing excessive pain, any of these side effects or adverse events could discourage a patient from having a Thermage procedure or discourage a patient from having additional procedures or referring Thermage procedures to others. In order to generate repeat and referral business, we also believe that patients must be satisfied with the effectiveness of the Thermage procedure. Results obtained from a Thermage procedure are subjective and may be subtle. A Thermage treatment may produce results that may not meet patients expectations. If patients are not satisfied with the procedure or feel that it is too expensive for the results obtained, our reputation and future sales will suffer.

**To successfully market and sell our ThermaCool system internationally, we must address many issues with which we have limited experience.**

International sales accounted for 48% of our revenue for the year ended December 31, 2007, and 50% of our revenue for the first six months ended June 30, 2008. We believe that a significant portion of our business will continue to come from international sales through increased penetration in countries where we currently sell our ThermaCool system, combined with expansion into new international markets. However, international sales are subject to a number of risks, including:

- difficulties in staffing and managing our international operations;
- difficulties in penetrating markets in which our competitors products are more established;
- reduced or no protection for intellectual property rights in some countries;
- export restrictions, trade regulations and foreign tax laws;
- fluctuating foreign currency exchange rates;
- foreign certification and regulatory clearance or approval requirements;
- difficulties in developing effective marketing campaigns for unfamiliar, foreign countries;
- customs clearance and shipping delays;
- political and economic instability; and
- preference for locally produced products.

If one or more of these risks were realized, it could require us to dedicate significant resources to remedy the situation, and if we are unable to find a solution, our revenue may decline.

**To market and sell our ThermaCool system internationally, we depend on distributors, and they may not be successful.**

We currently depend primarily on third-party distributors to sell and service our ThermaCool system internationally and to train our international customers, and if these distributors terminate their relationships with us or under-perform we may be unable to maintain or increase our level of international revenue. We will also need to engage additional international distributors to grow our business and expand the territories in which we sell our ThermaCool system. Distributors may not commit the necessary resources to market, sell and service our ThermaCool system to the

level of our expectations. If current or future distributors do not perform adequately, or if we are unable to engage distributors in particular geographic areas, our revenue from international operations will be adversely affected.

**We compete against companies that have more established products, longer operating histories and greater resources, which may prevent us from achieving significant market penetration or increased operating results.**

The aesthetics market is highly competitive and dynamic, and is marked by rapid and substantial technological development and product innovations. Demand for our ThermaCool system could be diminished

Table of Contents

by equivalent or superior products and technologies offered by competitors. Specifically, our ThermaCool system competes against a variety of offerings in the aesthetics market, including laser and other light-based medical devices, pharmaceutical products such as Botox, filler injections, chemical peels, microdermabrasion, liposuction, cosmetic surgical procedures and less invasive surgical solutions such as implanted sutures. Our closest competitors are makers of laser and other light-based devices, which include public companies such as Candela, Cutera, Cynosure, Lumenis, Palomar Medical Technologies and Syneron Medical, as well as many private companies.

Competing in the aesthetics market could result in price-cutting, reduced profit margins and loss of market share, any of which would harm our business, financial condition and results of operations. Our ability to compete effectively depends upon our ability to distinguish our company and our ThermaCool system from our competitors and their products, and on such factors as:

- safety and effectiveness;
- product pricing;
- success of our marketing initiatives;
- compelling clinical data;
- intellectual property protection;
- quality of customer support; and
- development of successful distribution channels, both domestically and internationally.

Some of our competitors have more established products and customer relationships than we do, which could inhibit our market penetration efforts. For example, we have encountered, and expect to continue to encounter, situations where, due to pre-existing relationships, potential customers decided to purchase additional products from our competitors. Potential customers also may need to recoup the cost of expensive products that they have already purchased from our competitors and thus may decide not to purchase our ThermaCool system, or to delay such purchase. If we are unable to achieve continued market penetration, we will be unable to compete effectively and our business will be harmed.

In addition, some of our current and potential competitors have significantly greater financial, research and development, manufacturing, and sales and marketing resources than we have. Our competitors could utilize their greater financial resources to acquire other companies to gain enhanced name recognition and market share, as well as new technologies or products that could effectively compete with our existing product line. Given the relatively few competitors currently in the market, any business combination could exacerbate any existing competitive pressures, which could harm our business.

**Competition among providers of devices for the aesthetics market is characterized by rapid innovation, and we must continuously develop new products or our revenue may decline.**

While we attempt to protect our ThermaCool system through patents and other intellectual property rights, there are few barriers to entry that would prevent new entrants or existing competitors from developing products that compete directly with ours. For example, while we believe our monopolar RF technology maintains a strong intellectual property position, there are other companies employing competing technologies which claim to have a similar clinical effect to ours. Additionally, there are others who may market monopolar RF technology for competing purposes in a direct challenge to our intellectual property position. As we continue to create market demand for a non-surgical, non-invasive way to treat wrinkles, competitors will enter the market with other products making similar or superior claims. We expect that any competitive advantage we may enjoy from our current and future innovations may diminish over time, as companies successfully respond to our, or create their own, innovations. Consequently, we believe that we will have to continuously innovate and improve our ThermaCool

27

Table of Contents

system and technology to compete successfully. If we are unable to innovate successfully, our ThermaCool system could become obsolete and our revenue will decline as our customers purchase competing products.

**Negative publicity and other publicly-available information regarding our Thermage procedure could harm demand, which would adversely affect sales and our financial performance.**

We have in the past experienced, and expect that in the future we will experience, negative media exposure. Such publicity may present negative individual physician or patient experience regarding the safety or effectiveness of the Thermage procedure. Competitors could attempt to use such publicity to harm our reputation and disrupt current or potential future customer relationships. While, to date, we have not observed a material impact on our quarterly financial results of operations from negative publicity, future results could be negatively impacted. Additionally, while we believe that obtaining positive publicity is important to our success, and it is an important component of our marketing efforts, we have also not observed a material impact on our quarterly financial results of operations from positive publicity.

Our reputation and competitive position may be harmed not only by negative media exposure, but also by other publicly-available information suggesting that our Thermage procedure is not safe. For example, we file adverse event reports with the FDA that are publicly available on the FDA s website if our product may have caused or contributed to a serious injury or malfunctioned in a way that would likely cause or contribute to a serious injury if it were to recur. Competitors may attempt to harm our reputation by pointing to isolated injuries that have been reported or publicized, or by claiming that their product is superior because they have not filed as many adverse event reports with the FDA. Such negative publicity and competitor behavior could harm our reputation and our future sales.

**We outsource the repair of key elements of our first generation ThermaCool RF generator to a single repair subcontractor.**

We outsource the repair of our first generation RF generator to a single repair subcontractor, Stellartech. If Stellartech s operations are interrupted, we may be limited in our ability to repair equipment. Stellartech is dependent on trained technical labor to effectively repair our ThermaCool RF generator. In addition, Stellartech is a medical device manufacturer and is required to demonstrate and maintain compliance with the FDA s Quality System Regulation, or QSR. If Stellartech fails to comply with the FDA s QSR, its repair operations could be halted and our ability to repair first generation ThermaCool systems would be impaired.

**Our manufacturing operations and those of our key manufacturing subcontractors are dependent upon third-party suppliers, making us vulnerable to supply shortages and price fluctuations, which could harm our business.**

Several components and materials that comprise our ThermaCool system are currently manufactured by a single supplier or a limited number of suppliers. In many of these cases, we have not yet qualified alternate suppliers and rely upon purchase orders, rather than long-term supply agreements. A supply interruption or an increase in demand beyond our current suppliers capabilities could harm our ability to manufacture our ThermaCool system until new sources of supply are identified and qualified. Our reliance on these suppliers subjects us to a number of risks that could harm our business, including:

- interruption of supply resulting from modifications to or discontinuation of a supplier s operations;
- delays in product shipments resulting from uncorrected defects, reliability issues or a supplier s variation in a component;
- a lack of long-term supply arrangements for key components with our suppliers;
- inability to obtain adequate supply in a timely manner, or to obtain adequate supply on commercially reasonable terms;

Table of Contents

- difficulty locating and qualifying alternative suppliers for our components in a timely manner;
- production delays related to the evaluation and testing of products from alternative suppliers, and corresponding regulatory qualifications;
- delay in delivery due to our suppliers prioritizing other customer orders over ours;
- damage to our brand reputation caused by defective components produced by our suppliers;
- increased cost of our warranty program due to product repair or replacement based upon defects in components produced by our suppliers; and
- fluctuation in delivery by our suppliers due to changes in demand from us or their other customers.

Any interruption in the supply of components or materials, or our inability to obtain substitute components or materials from alternate sources at acceptable prices in a timely manner, could impair our ability to meet the demand of our customers, which would have an adverse effect on our business.

**If, in the future, we decide to perform additional manufacturing functions internally that we currently outsource, our business could be harmed by our limited manufacturing experience and related capabilities.**

We currently perform certain value-added and proprietary manufacturing processes internally at our principal facility, and we outsource the manufacture of components, subassemblies and certain finished products to a limited number of third parties. For financial or operational purposes, we may elect to perform additional component or system manufacturing functions internally. In that event, we may face a number of challenges beyond those that we currently address in our internal assembly, inspection, testing and certification activities. Implementing complex or specialized manufacturing processes could lead to difficulties in producing sufficient quantities of manufactured items that meet our quality standards and that comply with applicable regulatory requirements in a timely and cost-effective manner. In addition, if we experience these types of internal manufacturing difficulties, it may be expensive and time consuming to engage a new or previous subcontractor or supplier to fulfill our replacement manufacturing needs. The occurrence of any of these events could harm our business.

Problems in our manufacturing processes, or those of our manufacturing subcontractors, that lead to an actual or possible malfunction in the ThermaCool system, may require us to recall product from customers and could disrupt our operations. Our results of operations, our reputation and market acceptance of our products could be harmed if we encounter difficulties in manufacturing that result in a recall or patient injury, and delays in our ability to fill customer orders.

**We may not be able to develop an alternative cooling system that will be in compliance with changing environmental regulations in a timely or cost-effective manner.**

The cooling capability of our ThermaCool RF generators relies upon a hydroflurocarbon, or HFC, called R134a, to protect the outer layer of the skin from over-heating while our device delivers RF energy to the subcutaneous tissue. New environmental regulations phasing out certain HFCs over the next decade have been adopted or are under consideration in a number of countries, and recent European Union directives require the phase-out of certain HFCs and place certain restrictions which became effective in July 2007 on the import of R134a, and new products that utilize R134a. Our research and development staff continues to develop an alternative cooling system to address changing environmental regulations. We have also put in place a solution for the European Union import restrictions. If we are unable to develop an alternative cooling system for our device in a timely or cost-effective manner, our ThermaCool system may not be in compliance with changing environmental regulations, which could result in fines, civil penalties and the inability to sell our products in certain major international markets.

Table of Contents

**We forecast sales to determine requirements for components and materials used in our ThermaCool system, and if our forecasts are incorrect, we may experience delays in shipments or increased inventory costs.**

We keep limited materials, components and finished product on hand. To manage our manufacturing operations with our suppliers, we forecast anticipated product orders and material requirements to predict our inventory needs up to six months in advance and enter into purchase orders on the basis of these requirements. Our limited historical experience may not provide us with enough data to accurately predict future demand. If our business expands, our demand for components and materials would increase and our suppliers may be unable to meet our demand. If we overestimate our component and material requirements, we will have excess inventory, which would increase our expenses. If we underestimate our component and material requirements, we may have inadequate inventory, which could interrupt, delay or prevent delivery of our ThermaCool system to our customers. Any of these occurrences would negatively affect our financial performance and the level of satisfaction our customers have with our business.

**Even though we require training for users of our ThermaCool system and do not sell our ThermaCool system to non-physicians, there exists a potential for misuse, which could harm our reputation and our business.**

While we only sell our ThermaCool system to licensed physicians who have met our training requirements, Federal regulations allow us to sell our ThermaCool system to licensed practitioners. The definition of licensed practitioners varies from state to state. As a result, our ThermaCool system may be operated by licensed practitioners with varying levels of training, and in many states by non-physicians, including physician assistants, registered nurses and nurse practitioners. Thus, in some states, the definition of licensed practitioner may result in the legal use of our ThermaCool system by non-physicians. Outside the United States, our independent distributors sell in many jurisdictions that do not require specific qualifications or training for purchasers or operators of our ThermaCool system. We do not supervise the procedures performed with our ThermaCool system, nor can we be assured that direct physician supervision of our equipment occurs according to our recommendations. We, and our distributors, require purchasers of our ThermaCool system to undergo an initial training session as a condition of purchase, but do not require ongoing training. In addition, we prohibit the sale of our system to companies that rent our system to third parties without our approval, but cannot prevent an otherwise qualified physician from contracting with a rental company in violation of their purchase agreement with us. The use of our ThermaCool system by non-physicians, as well as noncompliance with the operating guidelines set forth in our training programs, may result in product misuse and adverse treatment outcomes, which could harm our reputation and expose us to costly product liability litigation.

**Product liability suits could be brought against us due to defective design, labeling, material or workmanship, or misuse of our ThermaCool system, and could result in expensive and time-consuming litigation, payment of substantial damages and an increase in our insurance rates.**

If our ThermaCool system is defectively designed, manufactured or labeled, contains defective components or is misused, we may become subject to substantial and costly litigation by our customers or their patients. Misusing our ThermaCool system or failing to adhere to operating guidelines could cause significant skin damage and underlying tissue damage. In addition, if our operating guidelines are found to be inadequate, we may be subject to liability. We have been and may, in the future, be involved in litigation related to the use of our ThermaCool system. Product liability claims could divert management s attention from our core business, be expensive to defend and result in sizable damage awards against us. We may not have sufficient insurance coverage for all future claims. We may not be able to obtain insurance in amounts or scope sufficient to provide us with adequate coverage against all potential liabilities. Any product liability claims brought against us, with or without merit, could increase our product liability insurance rates or prevent us from securing continuing coverage, could harm our reputation in the industry and reduce product sales. Product liability claims in excess of our insurance coverage would be paid out of cash reserves, harming our financial condition and reducing our operating results.

Table of Contents

The dielectric material in our ThermaTips may degrade with prolonged operation of our device, which could, in turn, lead to skin burns. Our research and development staff continues to be innovative in designing and implementing strategies to mitigate the risks associated with breakdown of the dielectric material in our ThermaTips. If we are unable to address this issue effectively, we could be subject to product liability litigation, as well as damage to our reputation in the marketplace, as a result of potential injury to patients.

**After-market modifications to our ThermaTips by third parties and the development of counterfeit treatment tips could reduce ThermaTip sales, expose us to product liability litigation and dilute our brand quality.**

Third parties have introduced adulterated after-market modifications to our ThermaTips which have enabled re-use of our ThermaTips in multiple procedures. Because our ThermaTips are designed to withstand a finite number of firings, modifications intended to increase the number of firings could result in patient injuries caused by the use of worn-out or damaged ThermaTips. In addition, third parties may seek to develop counterfeit treatment tips that are compatible with our ThermaCool system and available to practitioners at lower prices than our own. If security features incorporated into the design of our ThermaCool system are unable to prevent after-market modifications to our ThermaTips or the introduction of counterfeit treatment tips, we could be subject to reduced ThermaTip sales, product liability lawsuits resulting from the use of damaged or defective goods and damage to our reputation for providing a quality product.

**We depend on skilled and experienced personnel to operate our business effectively. If we are unable to recruit, hire and retain these employees, our ability to manage and expand our business will be harmed, which would impair our future revenue and profitability.**

Our success largely depends on the skills, experience and efforts of our officers and other key employees. Many of our officers and key employees do not have employment contracts with us and can terminate their employment at any time. The loss of any of our senior management team members could weaken our management expertise and harm our business.

Our ability to retain our skilled labor force and our success in attracting and hiring new skilled employees will be a critical factor in determining whether we will be successful in the future. We may not be able to meet our future hiring needs or retain existing personnel. We will face particularly significant challenges and risks in hiring, training, managing and retaining engineering and sales and marketing employees, as well as independent distributors, most of whom are geographically dispersed and must be trained in the use and benefits of our ThermaCool system. Failure to attract and retain personnel, particularly technical and sales and marketing personnel, would materially harm our ability to compete effectively and grow our business.

## Risks Related to Regulatory Matters

**If we fail to obtain and maintain necessary FDA clearances for our ThermaCool system and indications, if clearances for future products and indications are delayed, not issued or rescinded or if there are federal or state level regulatory changes, our commercial operations would be harmed.**

Our ThermaCool system is a medical device that is subject to extensive regulation in the United States by the FDA for manufacturing, labeling, sale, promotion, distribution and shipping. Before a new medical device, or a new use of or claim for an existing product, can be marketed in the United States, it must first receive either 510(k) clearance or premarket approval from the FDA, unless an exemption applies. Either process can be expensive and lengthy. The FDA s 510(k) clearance process usually takes from one to three months, but it can last significantly longer. The process of obtaining premarket approval is much more costly and uncertain than the 510(k) clearance process, and it generally takes from one to three years, or even longer, from the time the application is filed with the FDA.

Table of Contents

Medical devices may be marketed only for the indications for which they are approved or cleared. We have obtained 510(k) clearance for the non-invasive treatment of wrinkles and rhytids. However, our clearances can be revoked if safety or effectiveness problems develop. We also are subject to Medical Device Reporting regulations, which require us to report to the FDA if our product causes or contributes to a death or serious injury, or malfunctions in a way that would likely cause or contribute to a death or serious injury. Our ThermaCool system is also subject to state regulations which are, in many instances, in flux. Changes in state regulations may impede sales. For example, federal regulations allow our ThermaCool system to be sold to, or on the order of, licensed practitioners, as determined on a state-by-state basis. As a result, in some states, non-physicians may legally purchase and operate our ThermaCool system. However, a state could change its regulations at any time, disallowing sales to particular types of end users. We cannot predict the impact or effect of future legislation or regulations at the federal or state levels.

The FDA and state authorities have broad enforcement powers. Our failure to comply with applicable regulatory requirements could result in enforcement action by the FDA or state agencies, which may include any of the following sanctions:

- warning letters, fines, injunctions, consent decrees and civil penalties;
- repair, replacement, refunds, recall or seizure of our product;
- operating restrictions or partial suspension or total shutdown of production;
- refusing our requests for 510(k) clearance or premarket approval of new products, new intended uses or modifications to our existing product;
- withdrawing 510(k) clearance or premarket approvals that have already been granted; and
- criminal prosecution.

If any of these events were to occur, our business could be harmed.

**If we modify our FDA-cleared device, we may need to seek and obtain new clearances, which, if not granted, would prevent us from selling our modified product or require us to redesign our product.**

Any modifications to an FDA-cleared device that would significantly affect its safety or effectiveness or that would constitute a major change in its intended use would require a new 510(k) clearance or possibly a premarket approval. We may not be able to obtain additional 510(k) clearances or premarket approvals for new products or for modifications to, or additional indications for, our existing product in a timely fashion, or at all. Delays in obtaining future clearances would adversely affect our ability to introduce new or enhanced products in a timely manner, which in turn would harm our revenue and potential future profitability. We have made modifications to our device in the past and may make additional modifications in the future that we believe do not or will not require additional clearances or approvals. If the FDA disagrees, and requires new clearances or approvals for the modifications, we may be required to recall and to stop marketing the modified device, which could harm our operating results and require us to redesign our product.

**If we or our repair subcontractor fail to comply with the FDA s Quality System Regulation, our business would suffer.**

We and our repair subcontractor are required to demonstrate and maintain compliance with the FDA s Quality System Regulation, or QSR. The QSR is a complex regulatory scheme that covers the methods and documentation of the design, testing, control, manufacturing, labeling, quality assurance, packaging, storage and shipping of our product. The FDA enforces the QSR through periodic unannounced inspections. We have been, and anticipate in the future to be, subject to such inspections. Our failure, or the failure of our repair subcontractor, to take satisfactory corrective action in response to an adverse QSR inspection could result in enforcement actions, including a public warning letter, a shutdown of our manufacturing operations, a recall of our product, civil or criminal penalties or other sanctions, which would cause our sales and business to suffer.

32

Table of Contents

**We may be unable to obtain or maintain international regulatory qualifications or approvals for our current or future products and indications, which could harm our business.**

Sales of our ThermaCool system outside the United States are subject to foreign regulatory requirements that vary widely from country to country. In addition, the FDA regulates exports of medical devices from the United States. Complying with international regulatory requirements can be an expensive and time-consuming process and approval is not certain. The time required to obtain clearance or approvals, if required by other countries, may be longer than that required for FDA clearance or approvals, and requirements for such clearances or approvals may significantly differ from FDA requirements. We primarily rely upon third-party distributors to obtain most regulatory clearances and approvals required in other countries, and these distributors may be unable to obtain or maintain such clearances or approvals. Our distributors may also incur significant costs in attempting to obtain and in maintaining foreign regulatory approvals or qualifications, which could increase the difficulty of attracting and retaining qualified distributors. If our distributors experience delays in receiving necessary qualifications, clearances or approvals to market our products outside the United States, or if they fail to receive those qualifications, clearances or approvals, we may be unable to market our products or enhancements in international markets effectively, or at all. In addition, if we are unable to anticipate, plan or comply with changes in foreign regulatory requirements, our business may be significantly affected. To support the registration of products outside the United States, we must comply with and be registered to the ISO 13485: 2003 Quality System Standard. Failure to adequately maintain our ISO 13485: 2003 registration may adversely impact or prevent the registration of our products in some foreign countries.

## Risks Related to Our Capital Requirements and Finances

**While we believe we currently have adequate internal control over financial reporting, we are required to assess our internal control over financial reporting on an annual basis and any future adverse results from such assessment could result in a loss of investor confidence in our financial reports and have an adverse effect on our stock.**

Pursuant to the Sarbanes-Oxley Act of 2002 and the rules and regulations promulgated by the SEC, we are required to maintain disclosure controls and procedures and adequate internal control over financial reporting. Under such requirements, we much furnish in our Form 10-K a report by our management regarding the effectiveness of our internal control over financial reporting. The report includes, among other things, an assessment of the effectiveness of our internal control over financial reporting as of the end of our fiscal year, including a statement as to whether or not our internal control over financial reporting is effective. This assessment must include disclosure of any material weaknesses in our internal control over financial reporting identified by management. While we currently believe our internal control over financial reporting is effective, the effectiveness of our internal controls in future periods is subject to the risk that our controls may become inadequate because of changes in conditions. The effectiveness of our controls and procedures may in the future be affected by a variety of factors, including:

- faulty human judgment and simple errors, omissions or mistakes;
- fraudulent action of an individual or collusion of two or more people;
- inappropriate management override of procedures; and
- the possibility that any enhancements to controls and procedures may still not be adequate to assure timely and accurate financial information.

If we are unable to assert that our internal control over financial reporting is effective in any future period, or if our auditors are unable to express an opinion on the effectiveness of our internal controls, or conclude that our internal controls are ineffective, or if we fail to maintain adequate and effective internal control over financial reporting, we could lose investor confidence in the accuracy and completeness of our financial reports, which could have an adverse effect on our stock price.

Table of Contents

**Risks Related to Our Common Stock**

**If our public guidance or our future operating performance does not meet investor expectations, our stock price could decline.**

We provide guidance to the investing community regarding our anticipated future operating performance. In the past we have updated guidance because our actual results were different than originally anticipated. Our business typically has a short sales cycle, so that we do not have significant backlog of orders at the start of a quarter, and our ability to sell our ThermaCool system successfully is subject to many uncertainties, as discussed. In light of these factors, it is difficult for us to estimate with accuracy our future results. Our expectations regarding these results will be subject to numerous risks and uncertainties that could make actual results differ materially from those anticipated. If our actual results do not meet our public guidance or our guidance or actual results do not meet the expectations of third-party financial analysts, our stock price could decline significantly.

**We expect that the price of our common stock will fluctuate substantially.**

The market price of our common stock is likely to be highly volatile and may fluctuate substantially due to many factors, including:

volume and timing of sales of our ThermaCool system;

the introduction of new products or product enhancements by us or our competitors;

disputes or other developments with respect to our intellectual property rights or the intellectual property rights of others;

our ability to develop, obtain regulatory clearance or approval for and market new and enhanced products on a timely basis;

hiring or departure of executive officers or key employees;

product liability claims or other litigation;

quarterly variations in our or our competitors results of operations;

sales of large blocks of our common stock, including sales by our executive officers and directors;

developments in our industry;

media exposure of our ThermaCool system or products of our competitors;

changes in governmental regulations or in the status of our regulatory approvals or applications;

changes in earnings estimates or recommendations by securities analysts; and

general market conditions and other factors, including factors unrelated to our operating performance or the operating performance of our competitors.

These and other factors may make the price of our stock volatile and subject to unexpected fluctuation.

**A sale of a substantial number of shares of our common stock may cause the price of our common stock to decline.**

If our stockholders sell substantial amounts of our common stock in the public market, for example, liquidation of shares held by our principal shareholders, including shares issued upon the exercise of outstanding options or warrants, the market price of our common stock could decline. These sales also might make it more difficult for us to sell equity or equity-related securities in the future at a time and price that we deem reasonable or appropriate.

Table of Contents

**Our directors, officers and principal stockholders have significant voting power and may take actions that may not be in the best interests of our other stockholders.**

Our officers, directors and principal stockholders each holding more than 5% of our common stock collectively control approximately 40% of our outstanding common stock. As a result, these stockholders, if they act together, will be able to significantly influence the management and affairs of our company and most matters requiring stockholder approval, including the election of directors and approval of significant corporate transactions. This concentration of ownership may have the effect of delaying or preventing a change in control and might adversely affect the market price of our common stock. This concentration of ownership may not be in the best interests of our other stockholders.

**Anti-takeover provisions in our Amended and Restated Certificate of Incorporation and Bylaws, and Delaware law, contain provisions that could discourage a takeover.**

Our certificate of incorporation and bylaws, and Delaware law, contain provisions that might enable our management to resist a takeover, and might make it more difficult for an investor to acquire a substantial block of our common stock. These provisions include:

- a classified board of directors;
- advance notice requirements to stockholders for matters to be brought at stockholder meetings;
- a supermajority stockholder vote requirement for amending certain provisions of our amended and restated certificate of incorporation and bylaws;
- limitations on stockholder actions by written consent; and
- the right to issue preferred stock without stockholder approval, which could be used to dilute the stock ownership of a potential hostile acquirer.

These provisions might discourage, delay or prevent a change in control of our company or a change in our management. The existence of these provisions could adversely affect the voting power of holders of common stock and limit the price that investors might be willing to pay in the future for shares of our common stock.

**We have a large number of authorized but unissued shares of stock, which could negatively impact you if you purchase our common stock.**

Our certificate of incorporation provides for 100,000,000 shares of authorized common stock, of which approximately 75.9 million shares will be available for future issuance, and 10,000,000 shares of preferred stock, all of which will be available for future issuance. The issuance of additional shares of common stock may have a dilutive effect on earnings per share and relative voting power. We could use the shares of common stock that are available for future issuance in dilutive equity financing transactions, or to oppose a hostile takeover attempt or delay or prevent changes in control or changes in or removal of management, including transactions that are favored by a majority of the stockholders or in which the stockholders might otherwise receive a premium for their shares over then-current market prices or benefit in some other manner.

Our board of directors will be authorized, without further stockholder approval, to issue up to 10,000,000 shares of preferred stock with such rights, preferences and privileges as our board may determine. These rights, preferences and privileges may include dividend rights, conversion rights, voting rights and liquidation rights that may be greater than the rights of our common stock. As a result, the rights of holders of our common stock will be subject to, and could be adversely affected by, the rights of holders of any preferred stock that may be issued in the future.

Table of Contents

**We have not paid dividends in the past and do not expect to pay dividends in the future, and any return on investment may be limited to the value of our stock.**

We have never paid cash dividends on our common stock and do not anticipate paying cash dividends on our common stock in the foreseeable future. The payment of dividends on our common stock will depend on our earnings, financial condition and other business and economic factors affecting us at such time as our board of directors may consider relevant. If we do not pay dividends, our stock may be less valuable because a return on investment will only occur if our stock price appreciates.

**Risks Related to Reliant**

**Risks Related to Reliant s Business**

**Reliant has a limited history of operations with its Fraxel laser systems and Reliant has a history of net losses.**

Reliant began the development of fractional laser technology and the design of its first Fraxel laser systems in 2001. Reliant commercially launched its first laser system, the Fraxel SR750 laser system, the predecessor to its Fraxel re:store laser system, in North America in late 2004 and outside North America in early 2005. Consequently, Reliant has a limited operating history with its Fraxel laser systems upon which you can evaluate its business. Reliant incurred net losses of approximately $18.2 million, $20.9 million, and $17.8 million in 2005, 2006 and 2007, respectively, and as of June 30, 2008, Reliant had an accumulated deficit of $87.9 million. The future success of the combined businesses will depend on a number of factors, including Reliant s ability to increase sales and distribution capabilities, increase consumable treatment tip sales, successfully develop and receive regulatory approval for new applications for the Fraxel laser systems, and control costs, which it may be unable to do.

**Reliant currently derives substantially all of its revenue from sales of the Fraxel laser systems and the consumable treatment tips required to perform procedures. These products were recently introduced and could fail to generate significant revenue or achieve market acceptance.**

Reliant s current product offering consists of the Fraxel laser systems and the consumable treatment tips required to perform treatments with the Fraxel laser systems. As of June 30, 2008, substantially all of Reliant s revenue has been derived from the sale of its Fraxel re:store laser system, its predecessor the Fraxel SR750 laser system, the Fraxel re:fine laser system and associated consumables. Reliant expects that its Fraxel laser systems and associated consumables will account for substantially all of its revenue for at least the next several years.

Reliant s Fraxel laser systems have limited product and brand recognition and have been used by only a limited number of practitioners. Additionally, Fraxel laser systems implement a recently developed technology which is referred to as fractional resurfacing. Reliant may have difficulty gaining widespread acceptance of the Fraxel laser systems among physicians and patients for a number of reasons, including:

- their failure to understand or recognize the benefits of fractional resurfacing;
- failure to differentiate Reliant s systems and technology from other laser or light-based skin aesthetic systems and technology;
- failure to establish the Fraxel brand in the marketplace and to realize the benefits of Reliant s investment in branding;
- the absence of reimbursement from third-party sources for procedures performed with Reliant s products;
- actual or perceived liability risks associated with the use of Reliant s technologies or procedures;

Table of Contents

- the costs of the Fraxel laser systems and Reliant s consumable treatment tips;
- the introduction or existence of competing products or procedures that may be cheaper, more effective, safer or easier to use than the Fraxel laser systems or marketed by companies with greater resources, better known brands or with a larger installed base of treatment systems;
- adverse results from any long-term clinical studies or patient experience relating to the safety or effectiveness of the Fraxel laser systems; and
- the actual or perceived effectiveness of the Fraxel laser systems compared to other surgical and non-surgical treatments for improving skin texture and appearance or for treating a number of aesthetic skin conditions including wrinkles around the eyes, acne and surgical scars, pigmented lesions (including age spots, sun damage and melasma), and soft tissue coagulation.

If physicians and patients do not adopt fractional resurfacing technology or Fraxel laser systems in significant numbers, Reliant s operating results would be harmed.

**Reliant competes against a number of companies, many of which have longer operating histories, more established products and greater resources, which may prevent it from achieving significant market penetration or improved operating results.**

Reliant s products compete directly against laser and light based skin rejuvenation products offered by companies such as Alma Lasers, Cutera, Cynosure, Lumenis, Lutronic, Palomar Medical Technologies, Sciton, and Syneron Medical. Palomar Medical Technologies and, more recently, Lutronic, have obtained FDA 510(k) clearance for laser products, claiming a Fraxel laser system as a predicate device, and other companies may do the same. Reliant also competes against existing and emerging laser and light-based products that in many cases require a lower initial capital investment by the practitioner and that may have treatment prices significantly lower than those performed with Reliant s products. In addition, Reliant competes against existing and emerging treatment alternatives such as cosmetic surgery, chemical peels, dermabrasions, microdermabrasions, Botox, dermal fillers and collagen injections. These alternative procedures often require a lower initial capital investment by the practitioner, are well established with a larger number of practitioners, and may be less invasive than Reliant s procedures. Some of Reliant s competitors are publicly-traded companies and others have significantly greater operating histories than Reliant, and many of them may enjoy several competitive advantages, including:

- greater name recognition;
- more extensive intellectual property protection;
- established relationships with practitioners and other health care professionals;
- established domestic and international distribution networks;
- additional lines of products or existing treatment systems, and the ability to offer rebates or bundle products to offer higher discounts or incentives to gain a competitive advantage;
- greater experience in conducting research and development, manufacturing, clinical trials, obtaining regulatory approval for products and marketing approved products; and

greater financial resources for product development, sales and marketing and patent litigation.

Additionally, some of Reliant s potential customers may have already invested significant capital in one or more of its competitors treatment systems or laser systems and, as a result, may be unwilling or unable to invest additional amounts in the purchase of Reliant s system.

Table of Contents

Reliant s ability to compete effectively depends upon its ability to distinguish its company and its products from its competitors and their products, and includes such factors as:

- product performance;
- product pricing;
- development of successful distribution channels, both domestically and internationally;
- success and timing of new product development and introduction;
- development of a recognized consumer brand; and
- intellectual property protection.

If Reliant is unable to compete effectively as a result of these factors or in these areas, it will not be able to achieve its targeted market penetration and its business will be harmed.

**If Reliant is unable to convince patients and physicians, particularly physicians who are not specialists already active in the field, that Fraxel laser systems are an effective alternative to existing therapies and treatments, Reliant s operating results will be significantly harmed.**

Fraxel laser systems treat patients through fractional resurfacing, a relatively new technology in the field of treatments for aesthetic skin conditions. Reliant believes that physicians and patients will not adopt Fraxel laser treatments unless they determine, based on experience and other factors, that the procedure is a safe and effective alternative to existing therapies and treatments, including those offered by other aesthetic laser companies. Physicians who are not specialists already active in the field are likely to be especially cautious in adopting Fraxel laser treatments. If Fraxel laser systems do not receive support from an increasing number of physicians and other health care providers, or if new long-term studies or comparative studies generate results that are not as favorable as Reliant s current clinical results, fewer physicians may purchase Reliant s systems and fewer patients may elect to undergo Reliant s procedure. As a result, Reliant s operating results and business would be harmed.

To achieve increasing sales of Fraxel laser systems over time, Reliant believes it must continue to penetrate the market for the treatment of aesthetic skin conditions and expand physicians education with respect to the Fraxel laser systems. Reliant s current U.S. list prices for Fraxel laser systems exceed the list prices of laser systems offered by some competitors. Moreover, many competing laser systems do not require the purchase of consumable treatment tips, and could be perceived by practitioners as providing roughly equivalent results for patients at a lower initial investment or without the additional cost of consumable tips. Not all physicians who may be otherwise interested in performing procedures with Fraxel laser systems may be willing to make such a capital investment, particularly physicians who are not specialists already active in the field. Furthermore, there are less expensive alternative procedures that can be used to treat some of the skin conditions that Fraxel laser systems treat and require little or no capital investment, such as microdermabrasions, Botox injections, dermal fillers and chemical peels. As a result, Reliant cannot be certain of gaining greater market acceptance of Fraxel laser systems and therefore may not achieve further revenue growth or become profitable. Failure of Fraxel laser systems to significantly penetrate current or new markets would negatively impact Reliant s business, financial condition and results of operations.

**Because Reliant generates a significant percentage of its revenue at the end of each quarter, delays in sales beyond the end of a particular quarter can substantially diminish its revenue for that quarter.**

Reliant has typically generated, and expects to continue to generate, the majority of the sales of its Fraxel laser systems in the final month of each quarter, with a significant portion of such revenue generated in the last week of the quarter. A delay in shipments beyond the end of a

particular quarter could substantially diminish Reliant s anticipated revenue for that quarter. In addition, many of Reliant s expenses must be incurred whether

Table of Contents

or not it generates revenue. As a result, if orders are not received when expected in any given quarter, revenues could fall short of its expectations, in which case expenditure levels would be disproportionately high in relation to revenue for that quarter.

**Reliant s quarterly financial results are difficult to predict and are likely to fluctuate significantly from period to period and could be below expectations.**

Reliant s limited operating history and short commercialization experience make it difficult to predict future performance. Due to the price of Reliant s Fraxel laser systems, variations in unit sales and/or product mix can cause revenue to vary significantly from quarter to quarter. In addition, Reliant s Fraxel laser systems utilize consumable treatment tips that need to be replaced following a certain amount of usage. Reliant bases its production, inventory and operating expenditure levels on anticipated orders of the Fraxel laser systems and consumable treatment tips. In recent quarters, the majority of Reliant s sales have occurred in the last part of the quarter, and, if orders are not received when expected in any given quarter, revenues could fall short of its expectations, in which case expenditure levels would be disproportionately high in relation to revenue for that quarter. A number of additional factors, over which Reliant has limited control, may contribute to fluctuations in Reliant s quarterly financial results, such as:

- market pricing of aesthetic laser products and procedures or related maintenance or services;
- utilization levels of Reliant s consumable treatment tips;
- seasonal factors and timing of the sale of the Fraxel laser systems;
- spending related to expansion of Reliant s sales, marketing, manufacturing and administrative staff and product development activities;
- timing of orders received;
- performance of Reliant s international third-party distributors;
- timing of marketing campaigns by Reliant or its competitors;
- media coverage of Reliant or the industries in which it operates;
- Reliant s ability to train practitioners in using the Fraxel laser systems;
- delays in, or failure of, delivery of components by Reliant s suppliers;
- delays in the introduction or acceptance of Reliant s future products;
- introductions of new and improved products by competitors;

increases in the length of Reliant s sales cycle, particularly as it introduces new products targeted at a broader group of practitioners;

product recalls;

levels of returns and repairs;

issuances, and changes in value, of equity grants;

fluctuations in foreign currencies;

general financial, economic and political reasons;

fluctuations in Reliant s product or channel mix;

changes in Reliant s ability to obtain and maintain regulatory approvals and their timing;

Reliant s ability to recruit and retain talented sales personnel; and

reductions in the efficiency of Reliant s manufacturing or shipping processes.

Table of Contents

These factors, many of which are not within Reliant s control, may cause its revenue and other quarterly results of operations to fluctuate substantially. For example, Fraxel laser system sales that are initially expected to fall into one quarter may not be made until the following quarter. In addition, customers may purchase the consumable treatment tips in bulk quantities infrequently as opposed to as needed throughout the year.

**As a result of seasonal patterns in Reliant s revenue, its quarterly results may fluctuate.**

Reliant has experienced seasonal patterns in the sale of its Fraxel laser systems. Historically, a disproportionate amount of Reliant s sales have occurred during the fourth quarter primarily as a result of the tax incentives available to its physician customers for capital equipment purchased prior to year end. In particular, approximately 32%, 39% and 27% of Reliant s net revenues for the years ended December 31, 2005, December 31, 2006 and December 31, 2007, respectively, were generated during the fourth quarter of each year. In the future, Reliant s seasonal sales patterns may become more pronounced and may cause a shortfall in revenue as compared to expenses in a given period, which would substantially harm its business and results of operations. Reliant does not expect these seasonal patterns to change significantly in the foreseeable future.

**Reliant is dependent on sole-source suppliers, in particular IPG Photonics, and the loss of any of these suppliers, their failure to comply with applicable regulations, or their inability to supply Reliant with an adequate amount of high-quality materials could harm Reliant s business.**

Reliant depends on several sole-source suppliers to develop and manufacture the critical components used in the Fraxel laser systems. Reliant depends exclusively on IPG Photonics, or IPG, to supply it with the highly specialized fiber lasers used in the Fraxel re:store and Fraxel re:fine products. Reliant has entered into a supply agreement with IPG that terminates in December 2009. Reliant is currently unaware of any alternative suppliers that could manufacture a fiber laser meeting the required specifications and quality standards and believe it could take a year or longer to locate and qualify an alternative supplier of the fiber laser, if ever. In the event IPG was to cease supplying Reliant with fiber lasers, Reliant cannot assure you that it would be able to locate an alternative supplier or that any alternative supplier could supply Reliant with fiber lasers in a timely manner and on reasonable terms or at all. While many of the other components used in the Fraxel laser systems are available from multiple sources, Reliant obtains some components, including the scanning wheel, scanning wheel motor and $CO_2$ laser for the Fraxel re:pair product, from single sources. To be successful, Reliant s manufacturers and suppliers must provide it with the components of its systems in requisite quantities, in compliance with regulatory requirements, in accordance with agreed upon specifications, at acceptable cost and on a timely basis. Reliant s reliance on these sole-source suppliers subjects it to a number of risks that could harm its business, including:

- Reliant may not receive the number of quality parts it requires from its suppliers should these suppliers give other customers needs a higher priority than Reliant s;
- Reliant may experience interruptions of supply resulting from modifications to or temporary or permanent interruptions in a supplier s operations;
- Reliant may experience delays in product shipments or product unavailability resulting from uncorrected defects, regulatory noncompliance, reliability issues or a supplier s variation in a component;
- Reliant may be unable to obtain adequate supply in a timely manner, or on commercially reasonable terms;
- Reliant may have difficulty locating and qualifying alternative suppliers for its components in a timely manner;
- suppliers may discontinue parts or otherwise refuse to supply parts to Reliant;

suppliers may raise prices on Reliant s parts to the point where production of its laser systems is less profitable or is not commercially viable;

Table of Contents

- once Reliant identifies alternative suppliers, it could experience production delays related to the evaluation and testing of products from those alternative suppliers and to obtaining corresponding regulatory qualifications; and

- some of Reliant s suppliers are small, privately-held companies which could encounter financial or other difficulties that could cause them to modify or discontinue their operations at any time.

Any interruption in the supply of components or materials, or Reliant s inability to obtain substitute components or materials from alternate sources at acceptable prices in a timely manner, could impair Reliant s ability to meet the demand of its customers, which would have an adverse effect on its business.

**Reliant has limited marketing, sales and distribution capabilities and experience, and its efforts in most geographic regions outside the United States are dependent on third parties.**

In the United States, Reliant currently markets and sells its products primarily to plastic surgeons and dermatologists through a direct sales force that it began assembling in 2004. As a result, Reliant s direct sales force has limited experience in marketing and selling Reliant s products, and it competes directly against the experienced and well-funded sales organizations of some of Reliant s competitors. Reliant also markets its products to general practitioners, gynecologists, ophthalmologists and others. Reliant sells its products outside the United States generally through third-party distributors, and recently started to sell directly in Germany and the United Kingdom. Reliant s distributor agreements are for limited periods, usually one year, and Reliant generally grants the distributor the exclusive right to sell its products in the assigned territory, although the distributor is permitted to also represent products that could be deemed competitive to Reliant s Fraxel laser systems.

Reliant s future revenue growth will largely depend on its success in maintaining and expanding its marketing, sales and distribution channels, which will likely be an expensive and time-consuming process. Reliant is highly dependent upon the efforts of its sales force, and internationally, the efforts of third-party distributors, to increase its revenue. Reliant will face significant challenges and risks in training, managing and retaining these employees. Reliant may not be able to hire sufficient sales personnel to service demand for its products. With respect to international sales, Reliant cannot assure you that it will be able to enter into agreements with additional third-party distributors on commercially reasonable terms, or at all. Additionally, Reliant s existing distribution agreements are short-term and it cannot assure you that it will be able to renew them on commercially reasonable terms, or at all. The loss of one or more of Reliant s distributors could have a material adverse effect on its business. Even if Reliant is able to enter into agreements with additional third-party distributors and renew its existing agreements, its third-party distributors may not commit the necessary resources to effectively market, sell and distribute its products and services. Reliant also faces challenges in training its third-party distributors on the benefits of Reliant s products and in ensuring Reliant s third-party distributors have sufficient incentive to focus their efforts on selling its products. If Reliant is unable to maintain and expand its direct and third-party marketing, sales and distribution networks, it may be unable to sell enough of its products for its business to be profitable and its financial condition and results of operations will suffer.

**Because Reliant launched its first Fraxel laser system in 2004, it lacks published long-term data regarding the safety and efficacy of Fraxel laser systems. If any long-term data is not positive or consistent with Reliant s limited short-term data, its business will suffer.**

Reliant s Fraxel laser systems have only recently been introduced, and practitioners may choose not to purchase Fraxel laser systems until they receive additional published long-term data and recommendations from prominent physicians and other health care providers that Reliant s systems are safe and effective. Because Reliant launched its first Fraxel laser system in 2004, there is no data available regarding the long-term safety and efficacy of Fraxel laser systems, and the results in Reliant s existing clinical studies may not be indicative of results that will be experienced by patients over time. Clinical studies of aesthetic treatments are subject to a

Table of Contents

number of limitations. These studies do not involve well-established objective standards for measuring the effectiveness of treatment. Subjective before and after evaluation of the extent of change in the patient s appearance, performed by a medical professional or by the patient, is the most common method of evaluating effectiveness. A clinical study may conclude that a treatment is effective even if the change in appearance is subtle and not long-lasting. Furthermore, some of Reliant s existing data has been produced in studies that involve relatively small patient groups, and the data may not be reproducible in larger and more diverse patient populations or with less skilled practitioners. Additional long-term patient follow-up studies may indicate that Fraxel laser systems are not as safe and effective as Reliant believes or are as safe and effective as alternative treatments offered by others now or in the future. If new independent studies or comparative studies generate long-term results that are not as favorable as Reliant s current clinical results, Reliant s business will suffer.

**Reliant s products and products in development may cause undesirable side effects that could limit their use, require their removal from the market or prevent further development.**

The potential side effects associated with treatments using Fraxel laser systems may include bruising, redness, infection, swelling, burning, blistering, eye damage and undesirable pigmentation changes. These side effects may limit the use of Fraxel laser systems, particularly if physicians or patients perceive that the risk of side effects outweighs the benefits. If a severe side effect were to be associated with any of Reliant s products, Reliant could be required by the U.S. Food and Drug Administration, or FDA, or other regulators to suspend the marketing of the products, conduct additional safety tests and potentially cease the sale of its products. More severe effects associated with Reliant s products or products in development, including those that require reporting under Medical Device Reporting, or MDR, regulations, may be observed in the future. In addition, Reliant faces the potential for product liability claims from patients who experience side effects, whether or not any action is taken by a regulatory authority. Undesirable side effects could prevent Reliant from achieving or maintaining market acceptance of the affected product or could substantially increase the costs and expenses of commercializing the product. As of June 30, 2008, pursuant to the MDR regulations, Reliant has reported to the FDA 16 incidents related to scarring or necessary medical intervention to preclude the formation of scarring following treatments with the Fraxel SR750 laser or the Fraxel re:store laser. Two of these incidents also involved infections.

**Reliant s ability to compete depends upon its ability to innovate, develop and commercialize new products and product enhancements, and identify new markets for its products and technology.**

The market for aesthetic skin procedures is highly competitive and dynamic, and marked by rapid and substantial technological development and product innovations and aggressive sales and marketing activities by competitors. Because of the size of the market for aesthetic skin procedures, Reliant anticipates that new or existing competitors will develop competing products, procedures or clinical solutions. These products, procedures or clinical solutions could be more effective, less invasive, easier to perform or less costly than Reliant s Fraxel procedures. The introduction of new products, procedures or clinical solutions by competitors may result in price reductions, reduced margins or loss of market share and may render Reliant s products obsolete. In addition, there are few barriers that prevent new entrants or existing companies from developing additional products in this market, including products that compete directly with Reliant s. For example, existing competitors have developed products based on fractional resurfacing technology. To be successful, Reliant must, among other things, enhance its products, develop new and innovative applications of fractional resurfacing and design, develop and market new products that successfully respond to competitive developments. The success of any product enhancement or new product offering will depend on several factors, including Reliant s ability to:

- develop or acquire new products that either add to or significantly improve Reliant s current product portfolio;
- successfully establish the Fraxel brand in the minds of consumers thus driving demand for new and existing products;

Table of Contents

convince Reliant s current and future customers that any new product or product upgrade would be an attractive revenue-generating addition to their practices;

sell the Fraxel laser systems to additional customers, general practitioners, gynecologists, ophthalmologists, and others;

discover, test and validate new applications for the Fraxel laser systems;

protect the Fraxel laser systems with defensible intellectual property;

timely process Reliant s regulatory filings and satisfy and maintain all regulatory requirements for commercialization;

maintain effective research collaborations; and

maintain effective sales and marketing strategies.

Reliant may be unable, however, to develop new products and technologies or new applications for its products, at the rate it expects, or at all, which could adversely affect its ability to grow and its financial results.

**Reliant sells its Fraxel laser systems internationally and is subject to various risks relating to such international activities which could adversely affect its international sales and operating performance.**

During the year ended December 31, 2007 and the six months ended June 30, 2008, 38% and 35%, respectively, of Reliant s net revenues was attributable to sales to areas outside of the United States. Reliant believes that a significant percentage of its future revenue will come from international sales as it expands its overseas operations and develop opportunities in additional international areas. During the year ended December 31, 2005, 18% of Reliant s net revenues was attributable to sales in South Korea. Reliant s international business may be adversely affected by changing economic, political and regulatory conditions in foreign countries. Because the majority of Reliant s sales are currently denominated in U.S. dollars, if the value of the U.S. dollar increases relative to foreign currencies, its products could become more costly to the international consumer, and therefore less competitive in international markets, which could affect its financial performance. Furthermore, fluctuations in exchange rates could reduce Reliant s revenue and affect demand for its products. Engaging in international business inherently involves a number of other difficulties and risks, including:

required compliance with existing and changing foreign regulatory requirements and laws;

export or import restrictions;

controls relating to the import and use of technology;

pricing pressure that Reliant has experienced internationally;

laws and business practices favoring local companies;

longer payment cycles;

difficulties in enforcing agreements and collecting receivables through certain foreign legal systems;

political and economic instability;

potentially adverse tax consequences, tariffs, customs charges, bureaucratic requirements and other trade barriers;

international terrorism and anti-American sentiment;

cultural acceptance and attitudes towards aesthetic treatments;

difficulties in penetrating markets in which Reliant s competitors products are more established;

Table of Contents

- difficulties and costs of staffing and managing foreign operations; and

- difficulties in protecting or procuring intellectual property rights.

If one or more of these risks occurs, it could require Reliant to dedicate significant resources to remedy, and if it is unsuccessful at finding a solution, Reliant s financial results will suffer.

**Procedures using Fraxel laser systems may be performed by non-physicians, which could increase the potential for misuse of Reliant s products, which could harm Reliant s reputation and business.**

Regulations in many states permit Reliant to sell its products only to licensed practitioners. Not all licensed practitioners may be specifically trained in performing aesthetic procedures. Additionally, in some states Reliant s products may be used by non-physicians, such as a nurse practitioners, technicians or physician assistants under the supervision of a licensed practitioner. Outside the United States, many regions do not require specific qualifications or training for purchasers or operators of Reliant s products. Reliant develops and markets its products with these users in mind. However, Reliant s products may be operated by persons with varying levels of experience and training. The lack of experience and training, and the use of Reliant s products by non-physicians, may result in product misuse and adverse treatment outcomes, which could harm Reliant s reputation and expose it to costly product liability litigation. In addition, some states have introduced legislation that restricts the use of laser treatment systems to physicians, or designated specialists which may negatively impact other licensed practitioner s decision to purchase Reliant s laser systems.

**If third parties are able to supply consumable treatment tips for Fraxel laser systems to Reliant s customers, Reliant s business could be adversely impacted.**

Reliant s consumable treatment tips are protected by an encryption technology that is designed to authenticate that the tips are supplied by Reliant or by a supplier authorized by Reliant. In March 2006, Reliant became aware that a third party had been able to reprogram its tips for the Fraxel SR750 laser systems. In August 2006, Reliant became aware that this third party had begun selling such refurbished tips to some of Reliant s customers. The Fraxel SR750 laser system, the predecessor to the Fraxel re:store laser system, is currently not actively marketed by Reliant. Reliant does not believe that any third party has been able to reprogram the tips for the other Fraxel laser systems. However, it is possible that a third party may be able to do so. In addition, a third party may find other methods of circumventing Reliant s encryption technology and other technological barriers that Reliant has employed to ensure that only Reliant s tips are used with Fraxel laser systems. If a third party is able to supply consumable treatment tips to Reliant s customers, this could result in:

- a reduction in the rate of consumable treatment tip sales by Reliant;

- price pressure on Reliant s sales of its consumable treatment tips;

- reduction in the safety or efficacy of treatments performed with the Fraxel laser systems; and

- damage to the Fraxel brand and associated loss of goodwill.

**Reliant has limited experience manufacturing Fraxel laser systems and consumable treatment tips in commercial quantities, which could adversely impact its business.**

Reliant began manufacturing its first Fraxel laser systems and consumable treatment tips in late 2004. Because Reliant has only limited experience in manufacturing in commercial quantities, Reliant may encounter unforeseen situations that would result in delays or shortfalls. Reliant faces significant challenges and risk in manufacturing Fraxel laser systems and consumable treatment tips, including:

Reliant s production processes may have to change to accommodate any significant future expansion of its manufacturing operations and growth;

key components of Fraxel laser systems are currently provided by a single supplier or limited number of suppliers, and Reliant does not maintain large inventory levels of these components;

Reliant has limited experience manufacturing Fraxel laser systems in compliance with FDA s Quality System Regulation; and

to increase Reliant s manufacturing output significantly, it will have to attract and retain qualified employees, who may be in short supply, for the assembly and testing operations.

If Reliant is unable to keep up with demand for Fraxel laser systems, its revenue could be impaired, market acceptance for Fraxel laser systems could be adversely affected and Reliant s customers might instead purchase competitors products.

**Reliant forecasts sales to determine requirements for components and materials used in its products and if its forecasts are incorrect, it may experience either delays in shipments or increased inventory carrying costs.**

Reliant keeps limited materials and components on hand. To manage its manufacturing operations with its suppliers, Reliant forecasts anticipated product orders and material requirements to predict its inventory needs up to six months in advance and enter into purchase orders on the basis of these requirements. Reliant s limited historical experience may not provide it with enough data to accurately predict future demand. If Reliant s business expands, its demand for components and materials would increase and its suppliers may be unable to meet its demand. If Reliant overestimates its component and material requirements, it will have excess inventory. If Reliant underestimates its component and material requirements, it may have inadequate inventory, which could interrupt, delay or prevent delivery of its products to its customers. Any of these occurrences could negatively affect Reliant s financial performance and the level of satisfaction its customers have with its products.

**Components used in Reliant s products are complex in design, and any defects not discovered prior to shipment to customers could result in warranty claims, reducing Reliant s revenue and increasing its cost.**

In manufacturing its products, Reliant depends upon third parties for the supply of various components. Many of these components require a significant degree of technical expertise to produce. If Reliant s suppliers fail to produce components to specification, or if the suppliers, or Reliant, use defective materials or workmanship in the manufacturing process, the reliability and performance of Reliant s products will be compromised. In addition, the consumable treatment tips used by the Fraxel laser systems are currently designed to permit a number of treatments per tip, prior to replacement. If the consumable treatment tips wear out at a faster pace than Reliant expects, its customers may become dissatisfied and sales revenue may be harmed.

If Reliant s products contain defects that cannot be repaired easily and inexpensively, Reliant may experience:

loss of customer orders and delay in order fulfillment;

damage to its brand reputation;

increased cost of its warranty program due to product repair or replacement;

product recalls;

additional regulatory filings;

inability to attract new customers;

diversion of resources from its manufacturing and research and development departments into its service department; and

legal claims against it.

Table of Contents

The occurrence of any one or more of the foregoing could negatively affect Reliant s financial performance and the level of satisfaction its customers have with its business.

**The expense and potential unavailability of insurance coverage for Reliant s customers could adversely affect Reliant s ability to sell its products and its financial condition.**

Some of Reliant s customers and prospective customers may have difficulty in procuring or maintaining liability insurance to cover their operation and use of the Fraxel laser systems. Medical malpractice carriers are withdrawing or reducing coverage in certain states or substantially increasing premiums. If this trend continues or worsens, Reliant s customers may discontinue using the Fraxel laser systems and, industry-wide, potential customers may opt against purchasing laser and other light based products due to the cost or inability to procure adequate and/or cost effective insurance coverage.

**Reliant depends on skilled and experienced personnel to operate its business effectively. If Reliant is unable to recruit, hire and retain these employees, its ability to manage and expand its business will be harmed, which would impair future revenue and operating performance.**

Reliant s success will depend on its ability to attract and retain qualified personnel in the future, including scientists, clinicians, engineers and other highly skilled personnel. Competition for scientists, clinicians and engineers, is intense and Reliant may not be able to retain its personnel. The loss of the services of scientists, clinicians or engineers could prevent the implementation and completion of Reliant s objectives, including the development and introduction of its products. Reliant s ability to retain its skilled labor force and its success in attracting and hiring new skilled employees will be a critical factor in determining whether it will be successful in the future. Reliant will face particularly significant challenges and risks in hiring, training, managing and retaining engineering and sales and marketing employees, as well as independent distributors, most of whom are geographically dispersed and must be trained in the use and benefits of Reliant s products. Failure to attract and retain personnel, particularly technical and sales and marketing personnel, would materially harm Reliant s ability to compete effectively and grow its business.

**Risks Related to Intellectual Property**

**Reliant may be involved in future costly intellectual property litigation, which could impact its future business and financial performance.**

The medical device industry, and the aesthetic laser industry in particular, is characterized by extensive litigation and administrative proceedings over patent and intellectual property rights. Whether a product infringes a patent involves complex legal and factual issues, the determination of which is often uncertain. A third party has asserted and third parties may in the future assert, that Reliant s products and/or the methods it employs are covered by their patents or other intellectual property rights. In particular, in April 2006, Reliant received a letter from a third party asserting that its use of infrared laser technology in its laser systems potentially implicates patents exclusively licensed to the third party. Reliant engaged in discussions with the third party subsequent to receipt of the letter but Reliant does not believe that such third party possesses intellectual property rights that pertain to Reliant s products. In November 2007, Reliant received a letter from a third party asserting that Reliant needed a license to a patent not owned by Reliant. Reliant does not believe that the assertions of the third party have merit. Because patent applications can take many years to issue, there may be applications now pending of which Reliant is unaware that may later result in issued patents that Reliant s technology or its Fraxel laser systems may infringe. There also may be existing patents of which Reliant is unaware that one or more components of its Fraxel laser system may inadvertently infringe. In addition, Reliant s competitors may apply for and obtain patents that could prevent, limit or interfere with Reliant s ability to make, use, sell or import its products.

Table of Contents

Any litigation or claim against Reliant may cause it to incur substantial costs, could place a significant strain on its financial resources, divert the attention of management from its business and harm its reputation. If an asserted patent were upheld as valid and enforceable against Reliant and Reliant were found to infringe, Reliant could be prevented from selling its products unless and until it could obtain a license to use the technology covered by such patents or are able to redesign its products to avoid infringement. A license may not be available at all or on terms acceptable to Reliant, and Reliant may not be able to redesign its products to avoid any infringement. Modification of Reliant s products or development of new products that do not infringe could require Reliant to conduct additional clinical trials and to obtain new or modified approvals or clearances from the FDA, and other regulatory bodies, which would be time-consuming, expensive and uncertain. If Reliant is not successful in obtaining a license or redesigning its products, it may be unable to sell its products and its business would suffer.

Reliant may become involved in litigation not only as a result of alleged infringement of a third party s patents or other intellectual property rights but also to protect its own intellectual property. Reliant may become involved in litigation to protect the trademark rights associated with its brand names, including the names of its products. Although Fraxel is Reliant s registered trademark, Reliant did not adopt the name until 2004 and does not know whether others will assert that this name infringes their trademark rights. In addition, other names Reliant chooses for its products may be claimed to infringe trademarks held by others. If Reliant has to change the name of its products, it may experience a loss in goodwill associated with its brand names, customer confusion and a loss of sales.

**Reliant s intellectual property rights may not provide adequate protection for some or all of its products, which may permit third parties to compete against it more effectively.**

Reliant s success depends significantly on its ability to protect Reliant s proprietary rights and technologies used in its products. Reliant relies on a combination of patent, copyright, trademark and trade secret laws, and nondisclosure, confidentiality and other contractual restrictions to protect its technology and products. Some of the components of the Fraxel laser systems, such as Reliant s consumable treatment tips, currently are not, and in the future may not, be protected by Reliant s issued patents. Reliant has filed numerous patent applications for several of these components; however, its patent applications may not issue as patents or, if issued, may not issue in a form that will be advantageous to Reliant. Reliant s issued patents, and those that may issue in the future, may be challenged, invalidated based on prior art or legally circumvented by third parties. In addition, Reliant s issued patents do not preclude new or existing competitors from developing competing technologies based on fractional resurfacing generally. Consequently, Reliant s competitors have developed products based on fractional resurfacing technology and could market products and use manufacturing processes that are substantially similar, or superior, to Reliant s. Although Reliant has taken steps to protect its intellectual property and proprietary technology, Reliant cannot assure you that third parties will not be able to design around its current or future patents. Additionally, Reliant may not be able to prevent the unauthorized disclosure or use of its technical and proprietary information by consultants, vendors, former employees or current employees, despite the existence generally of confidentiality agreements and other contractual restrictions. Monitoring unauthorized uses and disclosures of Reliant s intellectual property is difficult and imprecise, and Reliant does not know whether the steps it has taken to protect its intellectual property will be effective. Moreover, the laws of many foreign countries will not protect Reliant s intellectual property rights to the same extent as the laws of the United States.

Reliant relies on licenses to use various patent rights that may be material to its business. Reliant has entered into an exclusive, royalty bearing, worldwide license with respect to a pending patent application with Massachusetts General Hospital relating to the method and apparatus used in the Fraxel laser systems. Under the agreement Reliant has made a milestone payment to Massachusetts General Hospital. Additionally, Reliant pays a royalty on the sale of the Fraxel laser systems as defined in the agreement. Reliant does not own the patent application that underlies this license. Reliant s right to use the underlying technology and employ the inventions claimed in the licensed patent application is subject to Reliant abiding by the terms of the license. In addition, Reliant does not control the prosecution of the patent application subject to this license or the strategy for determining when the patent(s), if any, should be enforced. As a result, Reliant is largely dependent upon

Table of Contents

Massachusetts General Hospital to determine the appropriate strategy for prosecuting and enforcing the resultant patent(s), if any.

If Reliant s intellectual property is not adequately protected against competitors products and methods, its competitive position could be adversely affected.

**Risks Related to Regulatory Matters**

**If Reliant fails to comply with the extensive government regulations relating to its business, it may be subject to fines, injunctions and other penalties that could harm its business.**

Reliant s medical device products and operations are subject to extensive regulation by the FDA and various other federal, state and foreign governmental authorities. Government regulations and foreign requirements specific to medical devices are wide ranging and govern, among other things:

- design, development and manufacturing;
- testing, labeling and storage;
- clinical trials in humans;
- product safety;
- marketing, sales and distribution;
- premarket clearance or approval;
- record keeping procedures;
- advertising and promotion;
- post-market surveillance, including reporting of deaths or serious injuries and malfunctions that, if they were to recur, could lead to death or serious injury; and
- product import and export.

If Reliant fails to comply with applicable government regulations, the FDA, state, foreign and other governmental authorities have broad enforcement powers. Reliant s failure to comply with applicable regulatory requirements could result in enforcement action which may include any of the following sanctions:

- public warning letters, fines, injunctions, consent decrees and civil penalties;

repairs, replacements, refunds, recalls or seizures of Reliant s products;

operating restrictions or partial suspension or total shutdown of production;

refusing Reliant s requests for 510(k) clearance or premarket approval of new products, new intended uses, or modifications to existing products;

withdrawing 510(k) clearance or premarket approvals that have already been granted; and

criminal prosecution.

If any of these events were to occur, they could harm Reliant s business.

**Reliant may incur significant liability if it is determined that Reliant is promoting off-label use of its products in violation of federal or state regulations in the United States.**

In the course of practicing medicine, physicians may use Reliant s medical devices for an indication that has not been cleared or approved by the FDA or other applicable regulatory agencies. Although the FDA and other

Table of Contents

regulatory agencies do not regulate a physician s choice of treatments, the FDA and other regulatory agencies do restrict communications on the subject of off-label use. Reliant may not promote its medical devices for off-label uses. The FDA and other regulatory agencies actively enforce regulations prohibiting promotion of off-label uses and the promotion of products for which marketing clearance has not been obtained. If FDA determines that Reliant has improperly promoted off-label uses, it could request that Reliant modify its training or promotional materials or subject it to FDA enforcement actions. It is also possible that other federal, state or foreign enforcement authorities might take action if they consider promotional or training materials to constitute promotion of an off-label use, which could result in significant fines or penalties under other statutory authorities.

**If Reliant fails to comply with the FDA s Quality System Regulation and laser performance standards, its manufacturing operations could be halted and its business would suffer.**

Reliant is required to demonstrate and maintain compliance with the FDA s Quality System Regulation, or QSR. The QSR is a complex regulatory scheme that imposes methods, procedures and documentation requirements with respect to manufacturing and quality assurance activities, including the design, testing, control, manufacturing, labeling, quality assurance, packaging, storage and shipping of Reliant s products. Reliant is also subject to similar state and foreign requirements. Because Reliant s products involve the use of lasers, its products also are covered by a performance standard for lasers set forth in FDA regulations. The laser performance standard imposes specific record-keeping, reporting, product testing and product labeling requirements. These requirements include affixing warning labels to laser products, as well as incorporating certain safety features in the design of laser products.

The FDA and state governmental agencies enforce the QSR and similar regulations and the laser performance standards through unannounced inspections. Reliant has been, and anticipates in the future to be, subject to such inspections. The FDA inspected Reliant s facility in February 2005, and one 483 inspectional observation was noted. The observation noted the omission of a test procedure to verify the control system of the Fraxel SR750 laser system for the key switch removal process. In response to the observation, Reliant implemented a manufacturing test procedure in March 2005. Reliant cannot assure you that FDA would agree that its test procedure satisfactorily resolved the observation. Reliant s failure to take satisfactory corrective action in response to an adverse QSR inspection or its failure to comply with applicable laser performance standards and state requirements could result in significant FDA enforcement action against Reliant, which could cause Reliant s sales and business to suffer.

**Product sales or introductions may be delayed or canceled as a result of the FDA regulatory process, which could cause Reliant s sales or financial performance to decline.**

Before Reliant may market a new or significantly modified medical device in the United States, Reliant generally must first obtain either 510(k) clearance or premarket approval, or PMA, from the FDA. The process of obtaining and maintaining such regulatory clearances and approvals from the FDA and similar regulatory authorities abroad can be costly and time consuming, and Reliant cannot assure you that such clearances and approvals will be granted or maintained. The FDA s 510(k) clearance process usually takes from three to twelve months, but it can last significantly longer. The process of obtaining premarket approval is much more costly and uncertain, and generally takes from one to three years, or even longer, from the time a PMA application is filed with the FDA. Reliant may not be able to obtain additional 510(k) clearances or PMAs for new products or for modifications to, or additional 510(k) clearances or premarket approvals for, its existing products in a timely fashion, or at all. Delays in obtaining future clearances or approvals would adversely affect Reliant s ability to introduce new or enhanced products in a timely manner, which in turn would harm Reliant s revenue and potential future profitability. The FDA may also change its policies, adopt additional policies, or revise existing regulations, each of which could prevent or delay 510(k) clearance or premarket approval of Reliant s products, or could impact its ability to market its currently cleared device. Even Reliant s new products or modified products eligible for the 510(k) process may be delayed or fail to receive required clearances.

Table of Contents

Delays in obtaining regulatory clearances and approvals may:

- delay or prevent or preclude commercialization of products Reliant develops;
- require Reliant to perform costly procedures;
- diminish any competitive advantages that Reliant may attain; and
- reduce Reliant s ability to generate revenues.

Reliant has received 510(k) clearance from the FDA permitting it to market the Fraxel SR750 laser system, the Fraxel re:store laser system, the Fraxel re:fine laser system and the Fraxel re:pair laser system for multiple treatment indications. Reliant cannot assure you that the clearance of the Fraxel laser systems for any or all of these indications will not be withdrawn if safety or effectiveness problems develop. For example, Reliant is subject to medical device reporting, or MDR, regulations, which require it to report to the FDA if its product causes or contributes to a death or serious injury, or malfunctions in a way that would likely cause or contribute to a death or serious injury. As of June 30, 2008, Reliant has reported 16 incidents related to scarring and/or infection to the FDA under the MDR regulations. In some instances, the FDA has required Reliant to provide follow up information relating to MDR reports. If any MDR reports that Reliant files lead the FDA to conclude that the Fraxel laser systems presents an unacceptable risk to patients, Reliant may be forced to recall the product or withdraw it permanently from the market.

Reliant does not currently have any 510(k) submissions pending with the FDA. Reliant cannot assure you that future 510(k) clearances will be granted in a timely fashion, or at all. Delays in receipt or failure to receive new clearances or approvals or the failure to maintain existing clearances could reduce Reliant s sales, financial performance and future growth prospects.

**Modifications to the Fraxel laser systems may require new marketing clearances or approvals or require Reliant to cease marketing or recall the modified products until such clearances or approvals are obtained.**

Any modification to a 510(k)-cleared device that could significantly affect its safety or effectiveness, or that would constitute a major change in its intended use, design or manufacture, requires a new 510(k) clearance or, possibly, approval of a premarket approval application. The FDA requires every manufacturer to make this determination in the first instance, but the FDA may review and reject any manufacturer s decision. Reliant has made modifications to elements of its Fraxel laser systems for which it has not sought additional 510(k) clearance. The FDA may not agree with Reliant s decisions regarding whether new clearances or approvals are required. If the FDA disagrees with Reliant, Reliant may be required to cease marketing or to recall the modified product until it obtains clearance or approval. In addition, Reliant could be subject to significant regulatory fines or penalties.

**Reliant may be unable to obtain or maintain international regulatory qualifications or approvals for its current or future products and indications, which could harm its business.**

Sales of Reliant s products outside the United States are subject to foreign regulatory requirements that may vary widely from country to country. Regulatory approval in the United States does not ensure regulatory approval in international jurisdictions. In addition, exports of medical devices from the United States are regulated by the FDA. Complying with international regulatory requirements can be an expensive and time-consuming process and approval is not certain. The time required to obtain clearances or approvals, if required by other countries, may be longer than that required for FDA clearances or approvals, and requirements for such clearances or approvals may significantly differ from FDA requirements. Reliant may be unable to obtain or maintain regulatory qualifications, clearances or approvals in other countries. Reliant may also incur significant costs in attempting to obtain and in maintaining foreign regulatory approvals or qualifications. If Reliant experiences delays in receiving necessary qualifications, clearances or approvals to market its products outside the United States, or if it fails to receive those qualifications, clearances or approvals, Reliant may be unable to market its products or modifications in international markets effectively, or at all.

Table of Contents

## CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This proxy statement/prospectus/information statement contains forward-looking statements that involve risks and uncertainties, as well as assumptions, that, if they never materialize or prove incorrect, could cause the results of Thermage, Reliant or the combined company to differ materially from those expressed or implied by such forward-looking statements. Forward-looking statements generally are identified by the words expects, anticipates, believes, intends, estimates, should, would, strategy, plan and similar expressions. All statements oth statements of historical fact are statements that could be deemed forward-looking statements.

If any of these risks or uncertainties materializes or any of these assumptions proves incorrect, results of Thermage and Reliant could differ materially from the expectations in these statements. The forward-looking statements included in this proxy statement/prospectus/information statement are made only as of the date of this proxy statement/prospectus/information statement, and neither Thermage nor Reliant is under any obligation to update their respective forward-looking statements and neither party intends to do so.

Table of Contents

## THE SPECIAL MEETING OF THERMAGE STOCKHOLDERS

### General

Thermage is furnishing this proxy statement/prospectus/information statement to Thermage stockholders in connection with the solicitation of proxies by the Thermage board of directors for use at the special meeting of Thermage stockholders, including any adjournment or postponement of the special meeting.

### Date, Time and Place of the Special Meeting

Thermage will hold a special meeting of its stockholders on [ ], 2008, promptly at 10:00 a.m. local time at 25881 Industrial Boulevard, Hayward, California 94545.

### Purpose of the Thermage Special Meeting

At the Thermage special meeting, including any adjournment or postponement thereof, Thermage stockholders will be asked to consider, vote upon and approve the following proposals:

1. To approve the issuance of 23,600,000 shares of Thermage common stock pursuant to the Agreement and Plan of Merger and Reorganization dated as of July 7, 2008 by and among Thermage, Relay Acquisition Company, LLC, a Delaware limited liability company and a wholly owned subsidiary of Thermage, and Reliant, and with respect to Articles VIII and X only, Steven Mendelow as Securityholder Representative and U.S. Bank National Association as Escrow Agent.

2. To transact any other business that properly comes before the special meeting or any adjournments or postponements thereof pursuant to Thermage s bylaws.

A copy of the merger agreement is attached to this proxy statement/prospectus/information statement as Annex A. Thermage stockholders are encouraged to read the merger agreement in its entirety.

THE MATTERS TO BE CONSIDERED AT THE THERMAGE SPECIAL MEETING ARE OF GREAT IMPORTANCE TO THERMAGE STOCKHOLDERS. ACCORDINGLY, THERMAGE STOCKHOLDERS ARE URGED TO READ AND CAREFULLY CONSIDER THE INFORMATION PRESENTED IN THIS PROXY STATEMENT/PROSPECTUS/INFORMATION STATEMENT, AND TO COMPLETE, DATE, SIGN AND PROMPTLY RETURN THE ENCLOSED PROXY CARD IN THE ENCLOSED PRE-ADDRESSED POSTAGE-PAID ENVELOPE.

### Recommendation of the Thermage Board of Directors

After careful consideration, the Thermage board of directors determined that the transaction is advisable, is fair to and is in the best interests of Thermage and its stockholders, and unanimously approved the issuance of shares of Thermage common stock pursuant to the merger agreement. **The Thermage board of directors unanimously recommends that the Thermage stockholders vote FOR the issuance of shares of Thermage common stock pursuant to the merger agreement.**

**If your submitted proxy card does not specify how you want to vote your shares, your shares will be voted FOR the proposals described above.**

### Admission to the Special Meeting

Only Thermage stockholders as of the close of business on [ ], 2008, and other persons holding valid proxies for the special meeting are entitled to attend the Thermage special meeting. Thermage stockholders and their proxies should be prepared to present valid government-issued photo identification. Thermage stockholders

Table of Contents

who are not record holders but hold shares through a broker or nominee (i.e., in street name ) should provide proof of beneficial ownership on the record date for the Thermage special meeting, such as their most recent account statement prior to [ ], 2008, or other similar evidence of ownership. Anyone who does not provide valid government-issued photo identification or comply with the other procedures outlined above upon request may not be admitted to the special meeting.

**Record Date and Stockholders Entitled to Vote**

*Record Holders*. Record holders of Thermage common stock at the close of business on [ ], 2008, the record date, may vote at the special meeting. On August 8, 2008, Thermage had 24,068,910 outstanding shares of common stock, which were held by approximately 90 record holders.

*Registered Stockholders*. If your shares are registered directly in your name with Thermage s transfer agent, American Stock Transfer & Trust Company, you are considered, with respect to those shares, the stockholder of record, and these proxy materials are being sent to you by Thermage. As the stockholder of record, you have the right to grant your voting proxy directly to Thermage or to vote in person at the special meeting.

*Street Name Stockholders*. If your shares are held in a stock brokerage account or by a bank or other nominee, you are considered the beneficial owner of shares held in street name. These proxy materials are being forwarded to you by your broker or nominee, who is considered, with respect to those shares, the record holder. As the beneficial owner, you have the right to direct your broker or nominee how to vote, and you are also invited to attend the special meeting. However, since you are not the record holder, you may not vote these shares in person at the special meeting unless you follow your broker s procedures for obtaining a legal proxy. Your broker or nominee has enclosed a voting instruction card for you to use.

A complete list of the stockholders entitled to vote at the special meeting will be available for examination by any stockholder for any purpose germane to the special meeting, during ordinary business hours, for a period of at least 10 days prior to the special meeting, at the offices of Thermage, Inc., 25881 Industrial Boulevard, Hayward, California 94545. Such list will also be available for examination at the special meeting.

**How You Can Vote**

You can only vote your shares if you are either represented by proxy or eligible to vote your shares in person at the special meeting. You can submit your proxy by:

- the Internet, as described on the proxy card;
- telephone, as described on the proxy card; or
- mail, by completing and returning the enclosed proxy card.

If you hold shares through a bank, broker or other nominee, please provide your voting instructions by Internet or telephone (if available) or mail in accordance with the instructions contained on your voting instruction card. If you return a properly signed proxy card, we will vote your shares as you direct.

Stockholders may receive more than one set of voting materials, including multiple copies of this proxy statement/prospectus/information statement and multiple proxy cards or voting instruction cards. For example, stockholders who hold shares in more than one brokerage account may receive a separate voting instruction card for each brokerage account in which shares are held. Stockholders of record whose shares are registered in more than one name will receive more than one proxy card. The Thermage board of directors urges Thermage stockholders to complete, sign, date and return each proxy card and voting instruction card they receive for the Thermage special meeting.

Table of Contents

**Adjournment and Postponement**

Thermage s bylaws provide that a special meeting of the stockholders may be adjourned from time to time. When a meeting is adjourned to another time or place, notice need not be given of the adjourned meeting if the time and place thereof are announced at the meeting at which the adjournment is taken. At the adjourned meeting, Thermage may transact any business which might have been transacted at the original meeting. If the adjournment is for more than 30 days or if after the adjournment a new record date is fixed for the adjourned special meeting, a notice of the adjourned special meeting will be given to each stockholder of record entitled to vote at the special meeting.

**Required Vote and Quorum**

Holders of Thermage common stock are entitled to one vote for each share held as of the record date. Approval of the proposal to be voted on by Thermage stockholders regarding the issuance of shares of Thermage common stock in connection with the merger requires the affirmative vote of the holders of a majority of the shares of common stock of Thermage represented, in person or by proxy, and entitled to vote at the special meeting.

Attendance at the meeting in person or by proxy of holders of shares representing a majority of the outstanding shares of Thermage common stock constitutes a quorum. If a quorum is not present at the Thermage special meeting, we expect that the meeting will be adjourned or postponed to solicit additional proxies.

We currently expect that American Stock Transfer & Trust Company, Thermage s transfer agent, will tally the votes. Proxy instructions, ballots and voting tabulations that identify individual stockholders are handled in a manner that protects your voting privacy. Thermage will not disclose your vote except to allow for the tabulation of votes and certification of the vote, to facilitate a successful proxy solicitation and as necessary to meet applicable legal requirements.

**Abstentions and Broker Non-Votes**

Any abstentions will be counted for purposes of determining the presence or absence of a quorum and will have the same effect as votes against the approval of the proposals considered at the special meeting.

In the event that a broker, bank, custodian, nominee or other record holder of Thermage s common stock indicates on a proxy that it does not have discretionary authority to vote certain shares on a particular matter, which is called a broker non-vote, those shares will not be considered for purposes of determining the number of shares entitled to vote with respect to a particular proposal on which the broker has expressly not voted, but will be counted for purposes of determining the presence or absence of a quorum for the transaction of business.

**Voting by Thermage Directors and Executive Officers**

As of July 31, 2008, Thermage s directors, executive officers and their affiliates, as a group, beneficially owned and were entitled to vote approximately 970,060 shares of Thermage common stock, or approximately 4.0% of the total outstanding shares of Thermage.

**Revoking Your Proxy**

You can change your vote or revoke your proxy at any time before the final vote at the special meeting. To do so, if you are the record holder, you may:

- send a written, dated notice to the corporate secretary of Thermage at Thermage s principal executive offices stating that you would like to revoke your proxy;
- complete, date and submit a new later-dated proxy card;

Table of Contents

vote at a later date by telephone or by using the Internet; or

vote in person at the special meeting. Your attendance alone will not revoke your proxy.

If you hold shares through a bank, broker or other nominee, you must contact your financial institution, broker or nominee for information on how to revoke your proxy or change your vote. Attendance at the meeting will not cause your previously granted proxy to be revoked unless you specifically so request.

Written notices of revocation to the Corporate Secretary of Thermage should be addressed to Corporate Secretary, Thermage, Inc., 25881 Industrial Boulevard, Hayward, California 94545.

If you hold your shares in street name, you must give new instructions to your broker prior to the special meeting or obtain a signed legal proxy from the broker to revoke your prior instructions and vote in person at the meeting.

Any Thermage stockholder who has a question about the transaction or the approval of the issuance of shares of Thermage common stock pursuant to the merger agreement, or how to vote or revoke a proxy, or who wishes to obtain additional copies of this proxy statement/prospectus/information statement, should contact:

Investor Relations

Thermage, Inc.

25881 Industrial Boulevard

Hayward, California 94545

Phone: (510) 259-7117

Email: IR@thermage.com

**Other Matters**

Other than the proposal described in this proxy statement/prospectus/information statement, the Thermage board of directors knows of no other matters to be acted upon at the special meeting. If any other matter should be duly presented at the special meeting in accordance with Thermage s bylaws and upon which a vote properly may be taken, shares represented by all proxies received by Thermage will be voted with respect thereto in accordance with the judgment of the persons named as attorneys in the proxies.

**Solicitation of Proxies and Expenses**

Thermage will pay the expenses incurred in connection with the filing, printing and mailing of this proxy statement/prospectus/information statement. Thermage will be responsible for any fees incurred in connection with the solicitation of proxies for the Thermage special meeting. In addition to solicitation by mail, the directors, officers, employees and agents of Thermage may solicit proxies from Thermage stockholders by telephone or other electronic means or in person. Brokerage houses and other custodians, nominees and fiduciaries will be requested to forward soliciting materials to the beneficial owners of shares held of record by these persons. Thermage also may use several of its regular employees, who will not be specially compensated, to solicit proxies from Thermage stockholders, either personally or by telephone, Internet, telegram, facsimile or special delivery letter.

**Stockholders Sharing an Address**

Thermage stockholders sharing an address with another stockholder may receive only one set of proxy materials at that address unless they have provided contrary instructions. Any such stockholder who wishes to receive a separate set of proxy materials now or in the future may write or call Thermage to request a separate copy of these materials as follows: Corporate Secretary, Thermage, Inc., 25881 Industrial Boulevard, Hayward, California 94545, or Investor Relations at (510) 259-7117.

55

Table of Contents

## THE MERGER

*The following is a description of the material aspects of the proposed merger and related transactions. The following description may not contain all of the information that is important to you. You should read carefully this entire proxy statement/prospectus/information statement, including the section entitled Risk Factors beginning on page 17, and the other documents we refer to for a more complete understanding of the transaction.*

### Background of the Merger

Both Thermage and Reliant regularly evaluate strategic opportunities, including potential mergers with other companies, acquisitions of other companies or assets, and other strategic alliances. The terms and conditions of the merger agreement and the merger are the result of arm s length negotiations between representatives of Thermage and of Reliant. The following is a summary of the background of these negotiations.

From March 2007 through July 2007, Stephen Fanning (President and Chief Executive Officer of Thermage) and Eric Stang (President and Chief Executive Officer of Reliant) met in person or spoke by telephone on a number of occasions to familiarize each other with their respective companies and to discuss potential strategic relationships or transactions between the two companies.

Beginning in June 2007, Thermage requested that its financial advisor, Thomas Weisel Partners LLC, prepare detailed analyses of a potential business combination with Reliant, and Thermage began more focused consideration of a strategic opportunity with Reliant.

On July 20, 2007, Thermage and Reliant entered into a mutual nondisclosure agreement.

On August 2, 2007, Mr. Fanning, Mr. Stang, Laureen DeBuono (then-Chief Financial Officer of Thermage), Andrew Galligan (Chief Financial Officer of Reliant) and Dan Ferrari (Vice President, Business and Financial Planning of Thermage) met to present business and financial information to one another regarding the two companies and to discuss the synergies and strategic rationale of a potential business combination.

From August 3 to September 12, 2007, Mr. Fanning and Mr. Stang continued to hold further exploratory discussions regarding a potential business combination of Reliant and Thermage.

On September 12, 2007, Mr. Stang indicated to Mr. Fanning in a telephone discussion that Reliant intended to pursue its initial public offering rather than a business combination with Thermage.

From September to November 2007, Reliant continued to pursue an initial public offering. Reliant completed the SEC registration statement review process and transaction marketing efforts, but it was unable to complete the offering on acceptable terms. Reliant withdrew its registration statement on November 15, 2007.

On November 19, 2007, Mr. Stang contacted Mr. Fanning and suggested holding further discussions on a potential business combination.

On November 21, 2007, Mr. Fanning and Mr. Stang met to discuss a potential transaction, but suspended discussions as a result of differing valuation expectations.

In mid-December 2007, the parties resumed discussions. On December 21, 2007, Mr. Fanning, Ms. DeBuono and Mr. Ferrari met with Mr. Stang, Reliant directors Leonard DeBenedictis, Henry Gauthier and William Harrington, and Reliant board observer Robert Ward. The parties continued to exchange information and hold additional discussions through the end of December 2007.

Table of Contents

On January 4, 2008, Thermage presented a preliminary written proposal to Reliant outlining an offer to acquire Reliant.

From January 4 to January 17, 2008, Thermage and Reliant negotiated terms of a potential transaction. During this period, the parties tentatively agreed on terms that would form the basis for a term sheet, including an approximate equity split of the combined company between the respective current stockholders of Thermage and Reliant.

On January 18, 2008, the Thermage board of directors met and reviewed the status of the acquisition discussions with Reliant. Representatives of Thomas Weisel Partners LLC, Thermage s financial advisor, and Wilson Sonsini Goodrich & Rosati, Professional Corporation, Thermage s corporate counsel, participated in the meeting and addressed questions of the board. The board reviewed potential synergies of a combination as well as potential benefits and risks of the transaction to Thermage and its stockholders. The board also discussed a preliminary timeline of the proposed transaction and structural and legal aspects of the transaction. The board authorized Thermage management to move forward with discussions and negotiations and provided guidance on the proposed terms.

On January 22, 2008, Thermage presented a draft of a preliminary, non-binding term sheet and no-shop agreement to Reliant.

From January 22 to March 6, 2008, the parties negotiated the preliminary, non-binding term sheet and no shop agreement. The parties also exchanged due diligence request lists and conducted due diligence on the parties respective businesses.

On February 12, 2008, the Thermage board of directors met and reviewed the status of the acquisition discussions with Reliant, including the proposed terms and conditions and various analyses of the transaction prepared by management. Representatives of Wilson Sonsini Goodrich & Rosati participated in the meeting and addressed questions of the board. The board also discussed the strategic rationale for the transaction. The board authorized management to continue the discussions and negotiations with Reliant and provided guidance on the proposed terms.

On February 15, 2008, Thermage formally engaged Thomas Weisel Partners LLC as financial advisor.

On February 29, 2008, Mr. Fanning and Clint Carnell (Chief Operating Officer of Thermage) made a presentation to the Reliant board of directors regarding Thermage and the proposed transaction.

In early March 2008, Reliant informed Thermage that it had received an all-cash alternative acquisition proposal that reflected a substantial premium over the last price offered by Thermage to Reliant.

On March 5, 2008, the Thermage board of directors met and reviewed recent developments that had taken place in the acquisition discussions with Reliant. Representatives of Thomas Weisel Partners and Wilson Sonsini Goodrich & Rosati participated in the meeting and addressed questions of the board. The board discussed the alternative proposal received by Reliant and noted that Reliant s board of directors was expected to meet the following day to consider this proposal. After additional discussion, the board authorized Thermage management to present a revised, non-binding proposal to Reliant as outlined by management and Thermage s financial advisors.

On March 6, 2008, Thermage presented a revised offer to Reliant, and the parties executed a 14-day no shop agreement restricting Reliant from participating in acquisition discussions with other parties.

On March 11, 2008, the Thermage board of directors met and reviewed recent transaction developments. The board also received an update regarding the planned due diligence process. At this meeting, Thermage s financial

Table of Contents

and legal advisors also led a discussion regarding structural and procedural aspects of the transaction. Later this day, Thermage presented an initial draft of a definitive merger agreement to Reliant.

From March 11 to March 14, 2008, Thermage continued to conduct business, financial and legal due diligence on Reliant.

On March 14, 2008, members of management of each of Thermage and Reliant participated in due diligence meetings at the offices of Wilson Sonsini Goodrich & Rosati. Thermage s counsel distributed drafts of ancillary agreements, including bridge loan documents to Reliant s counsel.

On March 16, 2008, the Thermage board of directors met to review the status of the transaction. Representatives of Thomas Weisel Partners and Wilson Sonsini Goodrich & Rosati participated in the meeting and addressed questions of the board. Thermage s counsel reviewed the board s fiduciary duties, and management reviewed the results of due diligence reviews to date. Thermage s financial advisors presented a preliminary financial analysis of the transaction, and counsel reviewed the terms and conditions of the definitive merger agreement and the status of negotiations regarding key terms. The board authorized management and the company s legal and financial advisors to continue to pursue the transaction on the terms discussed.

From March 17 to March 21, 2008, counsel to each of Thermage and Reliant negotiated the definitive merger agreement, bridge loan documentation, no-shop extension and other ancillary agreements. Thermage continued to conduct financial, legal and business due diligence. Mr. Fanning contacted significant pre-IPO venture capital stockholders regarding the possibility of signing a nondisclosure agreement in order to discuss the transaction and the possibility of executing a voting agreement to support the transaction.

On March 21, 2008, the parties extended the expiration time of the no-shop agreement until 11:59 p.m. on March 24, 2008.

On March 24, 2008, counsel to each of Thermage and Reliant continued to negotiate the definitive merger agreement and ancillary agreements.

On March 24, 2008, the Reliant board of directors met and determined to terminate all discussions and negotiations with Thermage regarding the proposed transaction.

On March 24, 2008, at approximately the same time as the Reliant board meeting, the Thermage board of directors met to consider the transaction, during which meeting counsel reviewed the status of negotiations of the definitive agreement and the board received due diligence reports. The Thermage board meeting adjourned early when Mr. Stang telephoned Mr. Fanning to communicate the Reliant board s decision to terminate discussions.

From March 25 to June 27, 2008, Mr. Fanning and Mr. Stang communicated occasionally about the industry and Mr. Stang raised the possibility of restarting talks under a significantly altered transaction structure which was rejected by Mr. Fanning.

On June 12, 2008, Thermage received an unsolicited acquisition offer to buy Thermage from a third party ( Company A ).

On June 19, 2008, the Thermage board of directors met to consider the proposal by Company A. Representatives of Stanford Group Company and Wilson Sonsini Goodrich & Rosati participated in the meeting and addressed questions of the board. Stanford Group Company presented an analysis of Company A s proposal, and counsel reviewed the board s fiduciary duties in considering the proposal. The board discussed information regarding Company A and various analyses of the offer, including comparable companies, premiums paid and discounted cash flow analyses, an accretion/dilution analysis and the assumptions underlying such analyses. Following this discussion, the board determined to reject Company A s offer, and Thermage communicated this rejection to Company A.

On June 27, 2008, Mr. Stang contacted Mr. Fanning to indicate that Reliant would like to proceed with a transaction on substantially similar terms to those last discussed on March 24, 2008, except for a carve-out of

Table of Contents

certain technology outside of the field of aesthetics. Following this discussion, Mr. Fanning informally contacted members of the Thermage board of directors to advise them of Reliant s renewed interest in a transaction.

On June 30, 2008, Mr. Fanning, Mr. Ferrari and Jack Glenn (Chief Financial Officer of Thermage) met with Mr. Stang to perform management financial and other business due diligence regarding Reliant.

On July 1, 2008, counsel to each of Thermage and Reliant met with Mr. Fanning and Mr. Stang to negotiate key terms of the proposed transaction which were based largely on the same terms as those discussed on March 24, 2008, with the exception of the carve-out of certain technology outside of the field of aesthetics. Among other terms, Thermage insisted on receiving the requisite Reliant stockholder approval by written consent immediately after the execution of a definitive merger agreement, and Reliant agreed to this term.

From July 1 to July 2, 2008, Thermage continued to conduct updated due diligence on Reliant, and the parties negotiated a definitive merger agreement and ancillary agreements.

On July 2, 2008, Company A submitted another unsolicited acquisition offer to acquire Thermage.

On July 3, 2008, the parties continued to negotiate the definitive merger agreement and ancillary agreements, including a bridge loan agreement and an employment agreement for Reliant s Chief Technology Officer. Thermage continued to conduct updated due diligence on Reliant.

On July 3, 2008, the Thermage board of directors met to receive an update on the status of the transaction. Representatives of Stanford Group Company and Wilson Sonsini Goodrich & Rosati participated in the meeting and addressed questions of the board. The board received a review of its fiduciary duties from counsel, preliminary due diligence reports from management and counsel, a preliminary financial analysis from bankers, a description of terms of definitive merger agreement and an update on negotiations. The board authorized management and the company s legal and financial advisors to continue to negotiate to see if an acceptable resolution of open items could be achieved. At this meeting, the board also considered the revised offer made by Company A. Thermage s financial advisor presented an analysis of the offer and counsel reviewed the board s fiduciary duties. The board concluded that Company A s offer was highly speculative and contingent, and that it should not be pursued by Thermage, particularly in light of the advanced status of discussions with Reliant regarding a business combination. Following this discussion, the board authorized management to reject Company A s offer.

From July 4 through July 6, 2008, the parties negotiated final versions of the definitive merger agreement and ancillary agreements. Thermage completed its additional due diligence process.

On July 5, 2008, Thermage formally engaged Stanford Group Company to render a fairness opinion.

On July 6, 2008, the Reliant board of directors met to consider authorizing the company to enter into the proposed definitive merger agreement with Thermage. Following this meeting, Reliant proposed a collar arrangement to provide Reliant certain rights in the event that the Thermage stock price falls below a certain level. Thermage rejected this proposal, and Mr. Fanning and Mr. Stang negotiated certain final terms. In order to address this concern, Reliant and Thermage agreed to revise the merger agreement to provide that if the Thermage stock price drops to a level that would result in the per share merger consideration being received by Reliant s common stockholders pursuant to Reliant s charter documents equaling less than $0.50 per share, then the common per share merger consideration would be fixed at $0.50 per share and the merger consideration to be received by Reliant s preferred holders would be adjusted downward accordingly such that the overall amount of merger consideration would not change. The Reliant board of directors met again to consider authorizing the company to enter into the revised merger agreement. Representatives of Piper Jaffray and Cooley Godward Kronish LLP, Reliant s corporate counsel, participated in the meeting and addressed questions of the board. The board approved the merger agreement and the transactions contemplated thereby and authorized management to execute and deliver the merger agreement and ancillary agreements. Following these discussions, on the same date, the Thermage board of directors met to consider authorizing the company to enter into the proposed definitive merger agreement with Reliant. Representatives of Stanford Group Company and Wilson Sonsini

Table of Contents

Goodrich & Rosati participated in the meeting and addressed questions of the board. The board received final due diligence reports, a report on status of the definitive merger agreement and a review of the resolution of open issues, and a report by Thermage s financial advisors, including presentation of the Stanford Group Company fairness opinion. The board approved the transaction and authorized management to execute the definitive merger agreement and ancillary agreements.

On July 7, 2008, the parties executed the definitive merger agreement. Shortly thereafter, executive officers, directors and certain stockholders of Thermage delivered executed voting agreements and lock-up agreements, and executive officers, directors and certain stockholders of Reliant delivered executed support agreements, lock-up agreements and written consents.

On July 7, 2008, prior to the opening of the financial markets, the parties issued a press release announcing the proposed transaction. Later that day, Mr. Fanning and Mr. Stang held a joint investor conference call to review the proposed transaction.

On July 25, 2008, Thermage received an unsolicited written offer from a different third party ( Company B ), of substantially similar size to Thermage, proposing the acquisition of Thermage for $4.50 per share of Thermage common stock by Company B, exclusive of Thermage s proposed transaction with Reliant. The offer did not specify the nature or source of the proposed consideration.

On July 26, 2008, Thermage provided Reliant with notice of Company B s proposal, as required by the merger agreement.

On July 31, 2008, the Thermage board of directors held a regularly scheduled meeting at which Company B s proposal was considered. After extensive discussion, including the presentation of analyses by financial advisors and a review of fiduciary duties and provisions of the Reliant merger agreement by counsel, the board of directors concluded that Company B s offer was not a bona fide acquisition proposal that was reasonably likely to lead to a superior proposal to the merger with Reliant and the failure to engage in discussion would normally be expected to be a breach of the board s fiduciary duties under Delaware law. The board of directors reached this conclusion, among other factors, due to the contingent nature of the offer, particularly with respect to the nature of the consideration, the ability of Company B to consummate such a transaction, the board s belief that the long-term value of Thermage was well in excess of the price offered by Company B, and the likelihood that pursuing Company B s offer would significantly disrupt Thermage s integration planning process with Reliant and thereby put at risk the benefits of the transaction.

**Thermage s Reasons For Entering into the Merger**

At a meeting held on July 6, 2008, the Thermage board of directors concluded that the merger was consistent with and in furtherance of the long-term business interests of the company and fair to, and in the best interests of, Thermage and its stockholders, and that the merger agreement was advisable. Accordingly, the Thermage board of directors determined to recommend that the stockholders approve the issuance of shares of Thermage common stock pursuant to the merger agreement. The summary set forth below briefly describes the primary reasons, factors and information taken into account by the Thermage board of directors in reaching its conclusion. The Thermage board did not assign any relative or specific weights to the factors considered in reaching such determination, and individual directors may have given differing weights to different factors.

In the course of its deliberations regarding the merger, the Thermage board of directors consulted with Stanford Group Company regarding the financial aspects of the merger and with representatives of Wilson Sonsini Goodrich & Rosati, Professional Corporation, outside counsel to Thermage, regarding the fiduciary duties of the members of the board of directors, legal due diligence matters and the terms of the merger agreement and related agreements. The Thermage board of directors also considered the following potentially positive factors, among others, in connection with its review and analysis of the merger, including.

- the belief that the combined companies will be able to expand their position in the global market and establish a leadership position in the skin tightening and skin resurfacing and rejuvenation markets;

- the strategic fit between Thermage and Reliant;

Table of Contents

the belief that the complementary business models and customer bases of Reliant and Thermage will provide an opportunity to offer a broader range of complementary products to both new and existing customers;

the synergies of the combined company, including improved market position through product bundling, enhanced consumable opportunities and cross-selling opportunities by an expanded sales force;

the cost savings synergies that may be achieved from marketing, information technology and administrative and other operating efficiencies;

historical information concerning Reliant s and Thermage s respective businesses, financial performance and condition, operations, technology, management and competitive position;

the financial analyses of the Stanford Group Company presented to the Thermage board of directors on July 6, 2008 including, without limitation, analyses regarding current and historical market prices, prices paid in comparable acquisitions, valuations implied by multiple of certain measures of financial performance and forecasted financial results and valuations of comparable companies, and the opinion of the Stanford Group Company delivered to the Thermage board of directors, that, as of the date of such opinion, the merger consideration to be paid by Thermage was fair, from a financial point of view, to Thermage and to Thermage s stockholders (the full text of the written opinion is attached to this proxy statement/prospectus/information statement as Annex D, which you are urged to read in its entirety);

enhanced ability to retain key personnel and integrate the two companies given the close proximity of each company s corporate headquarters and manufacturing operations;

the impact of the merger on our customers and employees; and

the results of the due diligence review with respect to Reliant conducted by Thermage s management and its financial and legal advisors.

The Thermage board of directors also considered a number of potentially negative factors in its deliberations concerning the merger, including:

the risk that the potential benefits and cost synergies sought in the merger might not be fully realized;

the risk that the combined company s financial results will not meet expectations given the current economic climate;

the limitations imposed on the conduct of our business prior to the completion of the merger, including the fact that Thermage would be required to pay Reliant a $3.5 million termination fee in connection with termination of the merger agreement in certain circumstances, and that Thermage is subject to certain other restrictions regarding its solicitation of or negotiation with regard to any acquisition proposal as well as certain requirements regarding the disclosure to Reliant of any unsolicited acquisition proposals Thermage receives;

the risks relating to Reliant s business and how they would affect the operations of the combined company;

the risk that the merger might not be completed in a timely manner or at all;

the effect of the public announcement of the merger on our ability to attract and retain key management, marketing, technical, administrative and other personnel;

the substantial charges to be incurred in connection with the merger, including costs of integrating the businesses and transaction expenses arising from the merger;

the risk that, despite the efforts of the combined company, key management, marketing, technical, administrative and other personnel might not remain employed by the combined company;

the challenges of integrating the businesses of Thermage and Reliant; and

the other risks and uncertainties set forth in the section entitled Risk Factors.

Table of Contents

The foregoing information and factors considered by the Thermage board of directors are not intended to be exhaustive but are believed to include all of the material factors considered by the Thermage board of directors. In view of the wide variety of factors considered in connection with its evaluation of the merger and the complexity of these matters, the Thermage board of directors did not find it useful, and did not attempt, to quantify, rank or otherwise assign relative weights to these factors. In considering the factors described above, individual members of the Thermage board of directors may have given different weight to different factors. The Thermage board of directors conducted an overall analysis of the factors described above, including thorough discussions with, and questioning of, Thermage s management and Thermage s legal advisors, and unanimously approved the merger agreement and the transaction contemplated thereby, including the merger.

**Opinion of Thermage s Financial Advisor**

The Thermage board of directors engaged Stanford Group Company ( Stanford ) to render a fairness opinion with respect to the merger. At a meeting of the Thermage board of directors on July 6, 2008, Stanford delivered its oral opinion, which opinion was subsequently confirmed in writing, to the effect that, as of July 6, 2008, and based upon and subject to the factors, assumptions, procedures, qualifications and limitations set forth in the written opinion and described below, the merger consideration to be paid by Thermage in accordance with the terms of the Agreement and Plan of Merger and Reorganization dated July 7, 2008 (the Merger Agreement ) was fair to Thermage from a financial point of view.

The amount and form of consideration to be paid in the merger was determined through arm s-length negotiations between Reliant and Thermage and not by Stanford. Stanford was not asked to consider, and the Stanford opinion does not address, the underlying business decision of Thermage to engage in the merger, the relative merits of the merger as compared to other business strategies that might exist for Thermage, or the effect of any other transaction in which Thermage might engage. Stanford expressed no opinion or recommendation as to the value of Thermage common stock when and if issued in the merger or the prices at which shares of Thermage will trade at anytime.

The full text of the written opinion of Stanford, dated July 6, 2008, which sets forth the assumptions made, matters considered, qualifications, and limitations on and scope of the review undertaken by Stanford, is attached to this proxy statement/prospectus/information statement as Annex D and is incorporated herein by reference, all as consented to by Stanford. You are encouraged to, and should, read the Stanford opinion carefully and this summary of the written opinion of Stanford is qualified in its entirety by reference to the full text of such opinion. A materially complete discussion of the fairness opinion is set forth in this proxy statement/prospectus/information statement. The Stanford opinion addresses only the fairness, from a financial point of view, to Thermage of the merger consideration to be paid by Thermage. The Stanford opinion does not address any other aspect of the merger and does not express an opinion or recommendation to any director, stockholder or other person as to how to vote or act with respect to the merger. No limitations were imposed by the Thermage board of directors with respect to the investigations made or procedures followed by Stanford in rendering its opinion. In addition, the Stanford opinion does not express an opinion with respect to the amount or nature or any other aspect of any compensation payable to or to be received by any officers, directors or employees of any party to the merger, or any class of such persons, relative to the merger consideration pursuant to the Merger Agreement or with respect to the fairness of any such compensation. Finally, the Stanford opinion does not express an opinion as to the value of Thermage s common stock when issued pursuant to the merger or the prices at which Thermage s common stock will actually trade at any time.

The following is a summary of the various sources of information and valuation methodologies used by Stanford in arriving at its opinion.

In arriving at its opinion, Stanford:

- reviewed a draft of the Merger Agreement;
- reviewed certain publicly available information concerning Reliant and Thermage and certain other relevant financial and operating data of Reliant and Thermage furnished to it by Reliant and Thermage;

Table of Contents

reviewed the historical stock prices and trading volumes of Thermage common stock;

held discussions with members of management of Reliant and Thermage concerning the current operations of and future business prospects for Reliant and Thermage and joint prospects for the combined company, including the potential cost savings and other synergies that may be achieved by the combined company;

reviewed certain financial forecasts with respect to Reliant and Thermage prepared by the respective managements of Reliant and Thermage and held discussions with members of such management concerning those forecasts;

reviewed certain research analyst projections with respect to Thermage and held discussions with members of the management of Thermage concerning those projections;

compared certain publicly available financial data of companies whose securities are traded in the public markets and that it deemed relevant to similar data for Reliant;

reviewed the financial terms of certain other business combinations that it deemed generally relevant;

compared the relative contributions of each of Reliant and Thermage to the combined entity s expected financial performance following the merger; and

reviewed such other financial studies and analyses and considered such other matters as it deemed appropriate.

In connection with its review and arriving at its opinion, Stanford assumed and relied upon the accuracy and completeness of all of the financial, accounting, legal, tax and other information discussed with or reviewed by Stanford for purposes of its opinion and has neither attempted to verify independently nor assumed responsibility for verifying any of such information. With respect to the financial forecasts for Reliant and Thermage provided to us by the management of Reliant and Thermage, Stanford assumed, with Thermage s consent and based upon discussions with such management, that such forecasts had been reasonably prepared on bases reflecting the best currently available estimates and judgments of such management, at the time of preparation, of the future operating and financial performance of Reliant, Thermage and the combined company. Stanford relied, without independent verification, upon the estimates of Reliant s management and Thermage s management of the potential cost savings and other synergies, including the amount and timing thereof, that may be achieved as a result of the merger. Stanford expressed no opinion with respect to any of such forecasts or estimates or the assumptions on which they were based and did not verify independently such assumptions, forecasts or estimates.

Stanford relied on advice of counsel given to Thermage as to all legal matters with respect to Thermage, the merger and the Merger Agreement. Stanford did not assume any responsibility for or make or obtain any independent evaluation, appraisal or physical inspection of the assets or liabilities of Reliant or Thermage, nor did Stanford evaluate the solvency or fair value of Reliant or Thermage under any state or federal laws relating to bankruptcy, insolvency or similar matters. Stanford s services to Thermage in connection with the merger were comprised of rendering an opinion of the fairness, from a financial point of view, to Thermage of the merger consideration to be paid by Thermage and does not address Thermage s underlying business decision to engage in the merger or the relative merits of the merger as compared to other business strategies that might be available to Thermage. Stanford s opinion was necessarily based upon economic, monetary and market conditions and other circumstances as they existed and could be evaluated by Stanford on the date of its opinion. It should be understood that, although subsequent circumstances and events may affect its opinion, Stanford does not have any obligation to update or revise its opinion and Stanford expressly disclaims any responsibility to do so.

In addition, in rendering its opinion, Stanford has assumed, with Thermage s consent, that the merger will qualify as a reorganization within the meaning of Section 368(a) of the Internal Revenue Code of 1986 and that the merger will be consummated upon the terms and subject to the conditions set forth in the Merger Agreement, without waiver, modification or amendment of any material term, condition or agreement thereof and that, in the course of obtaining the necessary regulatory or third party approvals, consents and releases for the merger, no

63

Table of Contents

delay, limitation, restriction or condition will be imposed that would have an adverse effect on Reliant, Thermage or the contemplated benefits of the merger.

The following is a summary of the principal financial analyses Stanford performed to arrive at its opinion. Some of the summaries of financial analyses set forth below include information presented in tabular format. In order to fully understand the financial analyses, the tables must be read together with the text of each summary. The tables alone do not constitute a complete description of the financial analyses. Considering the data set forth in the tables without considering the full narrative description of the financial analyses, including the methodologies and assumptions underlying the analyses, could create a misleading or incomplete view of the financial analyses. Additionally, although the financial metrics of the selected public aesthetic companies were used for comparison purposes, none of them is directly comparable to Reliant or Thermage or the combined company.

Stanford performed certain of the financial analyses set forth below by comparing three separate cases as follows:

Management Case Excluding Synergies

Excludes transaction adjustments such as amortization and foregone interest

Management Case With Synergies

Includes $14.0 million in synergies consisting of $3.1 million in cost of goods sold and $10.9 million in operating expenses

Includes transaction adjustments such as amortization and foregone interest

Downside Case With Synergies

Assumes slower revenue growth with constant gross margins and constant dollar value of operating expenses

Includes $14.0 million in synergies consisting of $3.1 million in cost of goods sold and $10.9 million in operating expenses

Includes transaction adjustments such as amortization and foregone interest

All three cases were based upon management projections provided by both Reliant s and Thermage s management team.

***Selected Public Companies Trading Analysis***

Stanford reviewed certain publicly available financial information relating to the following nine selected public aesthetic companies:

BioForm Medical

Candela

Cutera

Cynosure

Mentor

Obagi Medical Products

Palomar Medical Technologies

Syneron Medical

Thermage

Although none of the selected companies is directly comparable to Reliant, the companies included were chosen because they are publicly traded companies with operations that for purposes of analysis may be considered similar to certain operations of Reliant.

Table of Contents

Using publicly available financial and share price information, Stanford analyzed, among other things, the equity value and the enterprise value for each selected public aesthetic company. Enterprise value is the difference between each selected public aesthetic company s fully-diluted market capitalization as of July 6, 2008 and the net debt for each selected company. The number of shares outstanding and the net cash for each selected public aesthetic company was as of the last reported quarter for each selected public aesthetic company and pro forma for subsequent equity financings, to the extent applicable to each such selected company. Stanford also calculated and compared various financial multiples and ratios for the selected companies, based on estimates for the selected public aesthetic companies. With respect to the selected public aesthetic companies, Stanford calculated, among other things:

- Enterprise value as a multiple of 2008E Revenue
- Enterprise value as a multiple of 2009E Revenue
- Enterprise value as a multiple of 2010E Revenue
- Enterprise value as a multiple of 2008E EBITDA
- Enterprise value as a multiple of 2009E EBITDA
- Enterprise value as a multiple of 2010E EBITDA
- Equity value as a multiple of 2008E Net Income
- Equity value as a multiple of 2009E Net Income
- Equity value as a multiple of 2010E Net Income

The financial and valuation data analyzed as part of this analysis included:

| | Selected Public Companies: 3rd Quartile | Selected Public Companies: 1st Quartile |
|---|---|---|
| 2008E Revenue | 0.3x | 1.4x |
| 2009E Revenue | 0.6x | 1.3x |
| 2010E Revenue | 1.0x | 1.5x |
| 2008E EBITDA | 5.9x | 6.6x |
| 2009E EBITDA | 3.4x | 5.2x |
| 2010E EBITDA | 3.8x | 4.3x |
| 2008E Net Income | 11.2x | 17.9x |
| 2009E Net Income | 9.0x | 12.9x |
| 2010E Net Income | 7.6x | 11.0x |

Stanford then used these multiples to calculate the implied enterprise value and equity value of Reliant based on the Management Case Excluding Synergies, the Management Case With Synergies and the Downside Case With Synergies.

The analysis yielded an implied enterprise value range of $18.9 million - $199.3 million and an implied equity value range of $11.9 million - $192.3 million for the Management Case Excluding Synergies.

The analysis yielded an implied enterprise value range of $52.5 million - $199.3 million and an implied equity value range of $45.5 million - $192.3 million for the Management Case With Synergies.

The analysis yielded an implied enterprise value range of $24.1 million - $171.5 million and an implied equity value range of $17.1 million - $164.5 million for the Downside Case Excluding Synergies.

Table of Contents

***Selected Precedent Transactions Analysis***

Stanford reviewed selected data for Reliant and compared this data to corresponding data from a group of ten selected merger and acquisition transactions. Each of the merger and acquisition transactions met the following criteria:

- Transaction completed since December 2003;
- Transaction value between $50.0 million - $250.0 million;
- Target company was a U.S.-headquartered medical device company; and
- Target company was revenue generating.

The selected precedent transactions (Target/Acquirer) reviewed by Stanford were:

- Liposonix/Medicis
- Lifecore Biomedical/Warburg Pincus
- MediSystems/NxStage Medical
- Enpath Medical/Greatbatch
- ZEVEX/Moog
- RITA Medical Systems/AngioDynamics
- Miltex/Integra LifeSciences
- Compex Technologies/ReAble Therapeutics
- Horizon Medical Products/Rita Medical Systems
- Breg/Orthofix International

The financial and valuation data analyzed as part of this analysis included:

| | 3rd Quartile | 1st Quartile |
|---|---|---|
| Implied Enterprise Value/LTM Revenue | 1.6x | 2.8x |

Stanford then used these multiples to calculate the implied enterprise value of Reliant. The analysis yielded an implied enterprise value range of $124.5 million - $215.6 million and an implied equity value range of $117.5 million - $208.6 million.

***Discounted Cash Flow Analysis***

Stanford conducted a discounted cash flow analysis for Reliant for the purpose of determining the company s enterprise and equity values under the Management Case Excluding Synergies, the Management Case With Synergies and the Downside Case With Synergies.

Stanford calculated the unlevered free cash flows that Reliant is expected to generate during fiscal years 2009 through 2013 based upon financial projections prepared by the management of Reliant and Thermage in connection with the proposed transaction. Stanford also calculated a range of terminal values of Reliant at the end of the five-year period ending 2013 by applying an exit EBITDA multiple of 4.0x to 7.0x based on the Selected Public Companies Trading Analysis. The unlevered free cash flows and the range of terminal values were then discounted to present values using a range of discount rates from 13.3% to 17.3%, which were chosen by Stanford based upon an analysis of the cost of capital. The present value of the unlevered free cash flows and the range of terminal values were then adjusted for Reliant s estimated 2008 fiscal year-end net debt to obtain the present value of the free cash flows.

Table of Contents

The analysis yielded the following implied enterprise value range and equity value range for Reliant:

| | Enterprise Value | Equity Value |
|---|---|---|
| Management Case Excluding Synergies | $135.0 million - $236.0 million | $128.0 million - $229.0 million |
| Management Case With Synergies | $185.0 million - $310.0 million | $178.0 million - $303.0 million |
| Downside Case With Synergies | $113.0 million - $190.0 million | $106.0 million - $183.0 million |

***Contribution Analysis***

Stanford analyzed the contribution of each of Reliant and Thermage to the pro forma combined company with respect to revenue, gross profit, and EBITDA (before subtracting stock based compensation expense) and net income for fiscal years 2008 through 2009. The relative contribution analyses were prepared comparing the Management Case Excluding Synergies, the Management Case With Synergies and the Downside Case with Synergies. For purposes of the contribution analysis, Stanford assumed that the contributions with respect to revenue, gross profit, EBITDA and net income reflected each company s contribution to the combined company s pro forma enterprise value. Equity value contributions were derived by adjusting enterprise value contributions for outstanding net debt of both companies. The analyses yielded the following pro forma contributions:

***Management Case Excluding Synergies***

| | 2008 | 2009 |
|---|---|---|
| **Revenue** | | |
| Thermage contribution | 43.9% | 44.4% |
| Reliant contribution | 56.1 | 55.6 |
| **Gross Profit** | | |
| Thermage contribution | 49.0% | 49.9% |
| Reliant contribution | 51.0 | 50.1 |
| **EBITDA** | | |
| Thermage contribution | NM% | 62.3% |
| Reliant contribution | NM | 37.7 |
| **Net Income** | | |
| Thermage contribution | NM% | 73.8% |
| Reliant contribution | NM | 26.2 |

***Management Case With Synergies***

| | 2008 | 2009 |
|---|---|---|
| **Revenue** | | |
| Thermage contribution | 43.9% | 44.4% |
| Reliant contribution | 56.1 | 55.6 |
| Synergies contribution | 0.0 | 0.0 |
| **Gross Profit** | | |
| Thermage contribution | 47.6% | 48.8% |
| Reliant contribution | 49.6 | 48.9 |
| Synergies contribution | 2.8 | 2.3 |
| **EBITDA** | | |
| Thermage contribution | (0.7)% | 32.0% |
| Reliant contribution | 0.5 | 19.4 |
| Synergies contribution | 100.2 | 48.6 |
| **Net Income** | | |
| Thermage contribution | 13.5% | 46.5% |
| Reliant contribution | (65.1) | 16.4 |
| Synergies contribution | 151.6 | 37.1 |

67

Table of Contents

***Downside Case With Synergies***

| | 2008 | 2009 |
|---|---|---|
| **Revenue** | | |
| Thermage contribution | 44.9% | 44.9% |
| Reliant contribution | 55.1 | 55.1 |
| Synergies contribution | 0.0 | 0.0 |
| **Gross Profit** | | |
| Thermage contribution | 48.6% | 49.2% |
| Reliant contribution | 48.5 | 48.3 |
| Synergies contribution | 2.9 | 2.5 |
| **EBITDA** | | |
| Thermage contribution | (0.9)% | 24.3% |
| Reliant contribution | (18.4) | (3.3) |
| Synergies contribution | 119.3 | 79.0 |
| **Net Income** | | |
| Thermage contribution | 21.3% | 48.8% |
| Reliant contribution | (191.4) | (40.8) |
| Synergies contribution | 270.1 | 92.0 |

The summary set forth above does not contain a complete description of the analyses performed by Stanford, but does summarize the material analyses performed by Stanford in rendering its opinion. The preparation of a fairness opinion is a complex process that involves various judgments and determinations as to the most appropriate and relevant quantitative and qualitative methods of financial and valuation analysis and the application of those methods to the particular circumstances involved. The opinion is, therefore, not readily susceptible to partial analysis or summary description. Stanford believes that its analyses must be considered as a whole and that selecting portions of its analyses and the factors considered, without considering all of the analyses and factors, would create a misleading and incomplete view of the processes underlying its opinion. Stanford based its analysis on assumptions that it deemed reasonable, including assumptions concerning general business and economic conditions, industry-specific factors and other matters, many of which are beyond the control of Reliant and Thermage or the combined company. Included in these assumptions were that there would be no material changes in the regulatory and other legal framework in which Reliant and Thermage operate, that the market would be accepting of the products being developed by Reliant and Thermage and that there would not be a material change in the competitive landscape in which Reliant and Thermage operate. Stanford did not form an opinion as to whether any individual analysis or factor, whether positive or negative, considered in isolation, supported or failed to support its opinion. In arriving at its opinion, Stanford considered the results of all its analyses and did not attribute any particular weight to any one analysis or factor considered by it, but rather made qualitative judgments as to the significance and relevance of each analysis and factor. Stanford arrived at its ultimate opinion based on the results of all analyses undertaken by it and assessed as a whole and believes that the totality of the factors considered and analyses performed by Stanford in connection with its opinion operated collectively to support its determination as to the fairness to Thermage of the merger consideration to be paid by Thermage from a financial point of view.

The analyses performed by Stanford, particularly those that rely on estimates and projections which are based upon numerous factors or events beyond the control of Reliant and Thermage or the combined company or their respective advisors, are not necessarily indicative of actual values or actual future results, which may be significantly more or less favorable than suggested by such analyses. None of the public companies used in the selected public companies trading analysis described above are identical to Reliant, and none of the transactions used in the selected precedent transactions analysis described above are identical to the merger. Accordingly, an analysis of selected public companies and selected precedent transactions is not strictly mathematical; rather, it involves complex considerations and judgments concerning the differences in financial and operating characteristics of the companies and transactions and other factors that could affect the value of Reliant and the public trading

Table of Contents

values of the companies and transactions to which they were compared. Additionally, analyses relating to the values of businesses or assets do not purport to be appraisals or necessarily reflect the prices at which businesses or assets may actually be sold. None of Reliant, Thermage, the combined company, Stanford or any other person assumes responsibility if future results are materially different from those projected.

Stanford s opinion was just one of the many factors taken into consideration by Thermage s board of directors. Consequently, Stanford s analysis should not be viewed as determinative of the decision of Thermage s board of directors with respect to the fairness to Thermage of the merger consideration to be paid by Thermage from a financial point of view.

Stanford has not previously been engaged by Thermage to provide investment banking or other services on matters unrelated to the merger. Stanford and its affiliates may provide investment banking and financial advisory services to Thermage, and may receive fees for the rendering of such services.

In addition, Stanford and its affiliates may actively trade the equity securities of Thermage for their own account or for the accounts of their customers and, accordingly, may at any time hold a long or short position in such securities.

Thermage paid Stanford a total of $250,000 in connection with rendering its fairness opinion in this transaction. Such fee was not contingent upon consummation of the merger. In addition to this fee, Thermage will reimburse Stanford for certain of its out-of-pocket expenses and Thermage has agreed to indemnify Stanford against certain liabilities, including liabilities under federal securities laws, in connection with the delivery of its opinion. The terms of the fee arrangement with Stanford, which are customary in transactions of this nature, were negotiated on an arm s-length basis between Thermage and Stanford, and the Thermage board of directors was aware of the arrangement.

Stanford was selected by the Thermage board of directors to render an opinion to the Thermage board of directors because Stanford is a recognized investment banking firm that has substantial experience in transactions involving the valuation of businesses and their securities in connection with mergers and acquisitions. Stanford member FINRA/SIPC is part of Stanford Financial Group, a privately held global network of independent, affiliated financial services companies led by Chairman and CEO Sir Allen Stanford. Stanford Financial Group s core businesses are private wealth management and investment banking for institutions and emerging growth companies. The Stanford Financial Group of companies provides private and institutional investors with global expertise in asset allocation strategies, investment advisory services, award-winning policy and equity research, international private banking and trust administration, commercial banking, investment banking, merchant banking, institutional sales and trading, real estate investment and insurance. Additionally, as part of its investment banking business, Stanford is continually engaged in the valuation of businesses and their securities in connection with mergers and acquisitions, negotiated underwritings, competitive biddings, secondary distributions of listed and unlisted securities, private placements and valuations for corporate and other purposes and other transactions for corporate and other purposes.

**Recommendation of the Thermage Board of Directors**

After careful consideration and deliberation, and based on the foregoing analysis, as well as information evaluated at board meetings, including a meeting of the Thermage board of directors held on July 6, 2008, the Thermage board of directors determined that the transaction is advisable, and is fair to and in the best interests of Thermage and its stockholders, and unanimously approved the transaction and the merger agreement. The Thermage board of directors unanimously recommends that the Thermage stockholders vote FOR the issuance of shares of Thermage common stock pursuant to the merger agreement.

Table of Contents

**Reliant s Reasons for Entering into the Merger**

In considering the transaction with Thermage, the Reliant board of directors consulted with Piper Jaffray & Co. regarding the financial aspects of the merger and consulted with representatives of Cooley Godward Kronish, LLP, outside counsel to Reliant, regarding the fiduciary duties of the members of the board of directors, legal due diligence matters and the terms of the merger agreement and related agreements. Based on these consultations and the factors discussed below, the Reliant board of directors unanimously determined that the merger and the merger agreement are substantively and procedurally fair to, and in the best interests of, Reliant stockholders.

In the course of reaching that determination and recommendation, the Reliant board of directors considered a number of factors supporting the proposed transaction in its deliberations, including the following:

- its knowledge of Reliant s business, financial condition, results of operations and prospects, competitive position and its belief that the proposed transaction is more favorable to Reliant stockholders than any other strategic alternative reasonably available to Reliant, including remaining as a stand-alone entity;

- its belief that Reliant faces many challenges in its efforts to increase stockholder value as an independent company, including the need to obtain additional financing and the risks associated with obtaining additional financing and the likely terms on which it would be able to obtain that financing, developing and commercializing new products, obtaining and maintaining regulatory approvals and other execution risks, as well as business and market risks generally;

- Reliant s financial projections, including the risks related to the achievement of such projections in light of Reliant s prior history of achieving its projections and current market conditions;

- its view that it was not reasonable to expect that Reliant would be able to solicit or conclude an alternative transaction with another party at a higher price, based on the process Reliant conducted and the results of such process;

- the merger consideration to be received by Reliant stockholders in the merger;

- the merger consideration is a mix of cash and stock, which provides Reliant s stockholders both an immediate cash value and the opportunity to participate in the long-term value of Reliant through ownership of Thermage common stock following the merger;

- a public offering for Reliant would be very difficult and the merger will provide Reliant stockholders liquidity through merger consideration consisting of shares of Thermage common stock which is currently traded on the NASDAQ Global Market;

- Thermage, as a public company, is better positioned than Reliant to raise additional capital;

- the combined company will be led by experienced senior management and board of directors;

- the ability to create a spin-off company, to which, prior to the merger, Reliant can exclusively license its patents and non-exclusively license its know-how for use outside of the field of aesthetics, which will provide certain Reliant stockholders the opportunity to participate in the long-term value of Reliant s patents and know-how outside of the field of aesthetics through their receipt of stock of the spin-off company in connection with the merger;

the fact that Thermage would be required to pay Reliant a $3.5 million termination fee in connection with termination of the merger agreement in certain circumstances (as described in the sections entitled Termination of the Merger Agreement on page 95 and Payments by Thermage following Termination on page 96);

that, at the time of signing of the merger agreement, Thermage and Reliant would enter into a loan arrangement whereby Thermage would loan Reliant $5.0 million, thus satisfying Reliant s short-term cash needs while avoiding an equity or debt financing on terms that could have been very dilutive to the Reliant stockholders, and the fact that the loan would not become due as a result of termination of the merger agreement, if it is terminated; and

the likelihood that the merger will be consummated on a timely basis, including the likelihood that the merger will receive all necessary regulatory approvals.

Table of Contents

The Reliant board of directors also considered a number of additional potentially countervailing factors in its deliberations concerning the merger, including the following:

- the price volatility of Thermage s common stock, which may reduce the value of the Thermage common stock that Reliant stockholders will receive upon the consummation of the merger;
- the possibility that the merger might not be completed and the potential adverse effect of the public announcement of the merger on Reliant s reputation and ability to obtain financing in the future;
- the risk of diverting management s attention from other strategic priorities;
- that, under the terms of the merger agreement, Reliant agreed that it will carry on its business in the ordinary course of business consistent with past practice and, subject to specified exceptions, that Reliant will not take a number of actions related to the conduct of its business;
- the challenges and costs of combining the operations and the substantial expenses to be incurred in connection with the merger, including the risks that delays or difficulties in completing the integration and the inability to retain key employees as a result of the management and other changes that will be implemented in integrating the business could adversely affect the combined company s operating results and preclude the achievement of some benefits anticipated from the merger;
- the risk of a delay in the closing of the merger due to the need for a Thermage stockholder vote and the risk that the Thermage stockholders will not approve the merger; and
- various other applicable risks associated with the combined company and the merger, including those described in the section of this proxy statement/prospectus/information statement entitled Risk Factors.

The foregoing information and factors considered by the Reliant board of directors are not intended to be exhaustive but are believed to include all of the material factors considered by the Reliant board of directors. In view of the wide variety of factors considered in connection with its evaluation of the merger and the complexity of these matters, the Reliant board of directors did not find it useful, and did not attempt, to quantify, rank or otherwise assign relative weights to these factors. In considering the factors described above, individual members of the Reliant board of directors may have given different weight to different factors. The Reliant board of directors conducted an overall analysis of the factors described above, including thorough discussions with, and questioning of, Reliant s management and Reliant s legal advisors, and unanimously approved the merger agreement and the transaction contemplated thereby, including the merger.

**Recommendation of the Reliant Board of Directors**

After careful consideration and deliberation, and based on the foregoing analysis, as well as information evaluated at board meetings, including a meeting of the Reliant board of directors held on July 6, 2008, the Reliant board of directors determined that the transaction is advisable, and is fair to and in the best interests of Reliant and its stockholders, and unanimously adopted the merger agreement and approved the transactions contemplated thereby. The Reliant board of directors unanimously recommended that the Reliant stockholders adopt the merger agreement and approve the transactions contemplated thereby.

**Vote Required for Thermage**

Approval of the proposal regarding the issuance of shares of Thermage common stock pursuant to the merger agreement requires the affirmative vote of holders of a majority of the shares of Thermage common stock represented, in person or by proxy, and entitled to vote at the special meeting. For a description of the treatment and effect of abstentions and broker non-votes, see The Special Meeting of the Thermage

Stockholders Abstentions and Broker Non-Votes in this proxy statement/prospectus/information statement.

Table of Contents

**Vote Required for Reliant**

The adoption of the merger agreement and approval of the transactions contemplated thereby required the effective vote of (i) a majority of the outstanding shares of Reliant common stock and Reliant preferred stock, voting together as a single class with each share of Reliant common stock entitled to cast one vote and each share of Reliant preferred stock entitled to cast a number of votes equal to the number of shares of Reliant common stock into which such share of Reliant preferred stock is convertible, pursuant to the requirements of the Delaware General Corporation Law, and (ii) a majority of the outstanding shares of Reliant preferred stock, voting as a separate class, pursuant to the requirements of Reliant s certificate of incorporation. The approval of the amendment to the certificate of incorporation of Reliant also required the vote of a majority of the outstanding shares of Reliant Series C preferred stock, Series D preferred stock and Series E preferred stock, voting together as a single class. Shortly after the execution of the merger agreement on July 7, 2008, Reliant received completed and executed actions by written consent from stockholders holding the requisite number of shares of Reliant common stock and preferred stock necessary under the Delaware General Corporation Law and Reliant s certificate of incorporation to adopt the merger agreement and approve the transactions contemplated thereby, including the approval of the amendment to the certificate of incorporation. See the section entitled Risk Factors Risks Related to the Transaction Litigation relating to Section 2115 of the California General Corporation Law could adversely impact the merger.

Pursuant to this action by written consent, Reliant stockholders approved (1) the adoption of the merger agreement and approval of the transactions contemplated thereby, including the appointment of Steven Mendelow as stockholder representative, (2) an amendment to the certificate of incorporation of Reliant that provides that (a) Reliant may make a distribution of shares of Spinco to holders of Reliant Series A preferred stock, Reliant Series B preferred stock and Reliant common stock without making an equivalent distribution to the other holders of Reliant preferred stock, and (b) upon the closing of the first merger pursuant to the merger agreement, holders of Reliant preferred stock and Reliant common stock will only be entitled to receive the amounts they are entitled to receive under the merger agreement and (3) the license agreement with Spinco and the distribution of shares of Spinco to holders of Series A preferred stock, Series B preferred stock and common stock.

**Interests of Certain Persons in the Transaction**

Reliant stockholders should be aware that Reliant s directors and executive officers and certain other persons may have interests in the transaction that are different from, or in addition to, the interests of Reliant stockholders generally, as described below. The board of directors of Reliant was aware of and considered these potentially conflicting interests when it adopted the merger agreement and approved the transactions contemplated thereby. These interests include, among other things, the following:

*Board of Directors and Management*

Following the closing of the merger, Leonard DeBenedictis, the current Chief Technology Officer of Reliant, will be the Chief Technology Officer of Thermage. In addition, following the closing of the merger, three individuals from the current Reliant board of directors, Eric B. Stang, Leonard DeBenedictis, Henry E. Gauthier, William T. Harrington, M.D., Maynard A. Howe, Ph.D., Steven Mendelow, Glen D. Nelson, M.D., Robert J. Quillinan and Robert Zollars, will be appointed to the Thermage board of directors.

The employment agreements Reliant has with its executive officers provide the following severance and change of control arrangements:

***Eric B. Stang, President and Chief Executive Officer.*** See the section entitled Management Executive Compensation Relating to Reliant Severance and Change of Control Arrangements.

***Leonard DeBenedictis, Chief Technology Officer.*** See the section entitled Management Executive Compensation Relating to Reliant Severance and Change of Control Arrangements.

***Andrew H. Galligan*, *Chief Financial Officer.*** In the event Mr. Galligan is employed with Reliant on the effective date of a change of control then the final 12 months of vesting of his then-unvested stock awards will become immediately vested. In the event Mr. Galligan is employed with Reliant, or a successor entity, for 12 months after a change of control, upon the one-year anniversary of the change

72

Table of Contents

of control, the second to last 12 months of vesting of his then-unvested stock awards will become immediately vested. Furthermore, if Mr. Galligan is terminated without cause or resigns for good reason in the period beginning one month prior to a change of control and ending just prior to the one-year anniversary of the change of control, then all then-unvested stock awards will become immediately vested. In the event Mr. Galligan is terminated without cause at any time or he resigns for good reason at any time prior to or within 12 months of a change of control, Mr. Galligan will commence a consulting relationship with Reliant or the successor entity. Mr. Galligan will serve as a consultant for six months and during that time will be entitled to receive his base salary and will be eligible to receive reimbursement for the cost of continuation of his then-current group heath insurance benefits.

***Keith J. Sullivan, Vice President of Sales, and Jeffrey S. Jones, Chief Operating Officer.*** In the event of a change of control, the final 12 months of Mr. Sullivan s and Mr. Jones then unvested stock awards will become immediately vested. Furthermore, in the event Reliant terminates Mr. Sullivan s and Mr. Jones employment without cause or if either of them resigns for good reason within 12 months following a change of control, then such individual will be eligible to receive severance pay equal to six months of his then-current base salary plus up to six months reimbursement for the cost of continuation of his then-current group heath insurance benefits and all of his then unvested stock awards will become immediately vested.

*Indemnification; Directors and Officers Insurance*

For six years after the closing of the merger, Thermage has agreed to maintain in effect, for the benefit of each current and former officer or director of Reliant party to an indemnification agreement at the date of the merger agreement, the existing director s and officer s insurance policies or an insurance and indemnification policy that is not less favorable than the existing director s and officer s insurance policies. Thermage shall not, however, be required to pay an annual premium for such director s and officer s insurance policy that is in excess of 300% of the annual premium at the time of the merger agreement for the existing director s and officer s insurance policy.

*Employment Agreements*

In connection with, and effective upon the closing of, the merger, Leonard DeBenedictis has entered into an offer letter with Thermage to serve as Chief Technology Officer of Thermage, and certain other officers may also enter into offer letters for employment with Thermage.

*Spinco*

Prior to and in connection with the merger, Reliant will irrevocably and exclusively license to a newly formed wholly owned subsidiary, referred to as Spinco, Reliant patents and non-exclusively license certain Reliant know-how for use outside of the field of aesthetics. The license will be royalty free and fully paid. All of the shares of Spinco will be distributed to holders of Reliant s Series A preferred stock, Series B preferred stock and common stock in a taxable dividend prior to the closing of the first merger. Each executive officer and director of Reliant holds common stock, Series A preferred stock, Series B preferred stock and/or options to purchase common stock.

**Governmental and Regulatory Approvals**

The parties are not aware of any governmental or regulatory approvals required in order to complete the transaction. However, governments, states or private persons may challenge the transaction at any time before or after its completion. There can be no assurance that a challenge to the transaction will not be made or that, if a challenge is made, we will prevail.

**Restrictions on Sales of Shares of Thermage Common Stock Received in the Transaction**

The shares of Thermage common stock to be issued in connection with the proposed merger will be registered under the Securities Act. Concurrently with the execution and delivery of the merger agreement, the executive officers and directors (and their respective affiliates) of Thermage and the executive officers and directors (and their

Table of Contents

respective affiliates) of Reliant entered into lock-up agreements pursuant to which each of the signatories agreed not to sell or otherwise transfer any shares of Thermage common stock held at the closing of the first merger until the first business day after Thermage announces earnings for the first full quarter after the closing.

Persons who may be deemed to be affiliates of Reliant prior to the transaction may not sell any of the shares of Thermage common stock received by them in connection with the transaction except pursuant to:

- an effective registration statement under the Securities Act covering the resale of those shares; or
- any other applicable exemption under the Securities Act.

In addition, persons who become affiliates of Thermage after the transaction will be required to comply with Rule 144, promulgated under the Securities Act, if they wish to sell or otherwise transfer any of the shares of Thermage common stock they hold. Thermage s registration statement on Form S-4, of which this proxy statement/prospectus/information statement forms a part, does not cover the resale of shares of Thermage common stock to be received in connection with the transaction by persons who may be deemed to be affiliates of Reliant prior to the transaction or Thermage after the transaction.

**Listing on the NASDAQ Global Market of Thermage Shares Issued Pursuant to the Transaction**

Thermage s common stock is currently traded on the NASDAQ Global Market under the symbol THRM. Thermage intends to apply for inclusion on the NASDAQ Global Market of the shares of our common stock to be issued and reserved for issuance in connection with the merger. NASDAQ s approval of this application is a condition of the consummation of the merger.

**Appraisal Rights for Thermage**

Under Delaware law, holders of Thermage common stock are not entitled to appraisal rights in connection with the merger because Thermage common stock is listed on the NASDAQ Global Market.

**Appraisal Rights for Reliant**

Subject to compliance with the procedures set forth in Section 262 of the Delaware General Corporation Law, or DGCL, Reliant stockholders who do not vote in favor of, or consent to, the adoption of the merger agreement and approval of the transactions contemplated thereby and otherwise comply with the requirements of the DGCL will not receive the merger consideration in exchange for their shares, but instead will be entitled to appraisal rights in connection with the first merger, whereby such stockholders may receive the appraised value of their shares of Reliant capital stock held by them in accordance with the provisions of such Section 262 of the DGCL. The applicable Delaware statute is attached as Annex F to this proxy statement/prospectus/information statement. Failure to take any of the steps required under Section 262 of the DGCL on a timely basis may result in a loss of those appraisal rights.

**Accounting Treatment of the Transaction**

The transaction will be accounted for as a purchase transaction for accounting and financial reporting purposes, in accordance with U.S. generally accepted accounting principles. Thermage will be treated as the acquiring corporation. After the transaction, the results of operations of Reliant will be included in the consolidated financial statements of Thermage. The purchase price will be allocated based on the fair values of the assets acquired and the liabilities assumed. Pursuant to Statements of Financial Accounting Standards No. 141, Business Combinations and No. 142, Goodwill and Other Intangible Assets, goodwill is not amortized. Rather, goodwill will be subject to at least annual assessment for impairment based on a fair value test. A final determination of the required purchase accounting adjustments, including the allocation of the purchase price to the assets acquired and liabilities assumed based on their respective fair values, has not yet been made. Thermage will determine the fair value of assets and liabilities and will make appropriate business combination accounting adjustments. However, for purposes of disclosing unaudited pro forma information in this proxy statement/prospectus/information statement, Thermage has made a preliminary determination of the purchase price allocation, based upon current estimates and assumptions, which is subject to revisions upon consummation of the transaction.

74

Table of Contents

**Material U.S. Federal Income Tax Consequences of the Merger**

The following discussion summarizes the material U.S. federal income tax considerations of the initial merger of Merger Sub I into Reliant, the subsequent merger of Reliant into Merger Sub II and the Distribution (collectively, the Transaction ) that are expected to apply generally to U.S. Holders (as defined below) of Reliant common and preferred stock upon an exchange of their Reliant stock for Thermage common stock in the Transaction. This summary is based upon current provisions of the Code, existing Treasury Regulations under the Code and current administrative rulings and court decisions, all of which are subject to change or different interpretation. Any change, which may or may not be retroactive, could alter the tax consequences to Reliant or the stockholders of Reliant as described in this summary. In addition, this summary assumes the truth and satisfaction of the statements and conditions described below as the basis for the tax opinions of Wilson Sonsini Goodrich & Rosati, Professional Corporation, tax counsel to Thermage, and Cooley Godward Kronish LLP, tax counsel to Reliant. No attempt has been made to comment on all U.S. federal income tax consequences of the Transaction that may be relevant to particular U.S. Holders, including holders:

- who are subject to special tax rules such as dealers in securities, foreign persons, mutual funds, regulated investment companies, real estate investment trusts, insurance companies, banks or other financial institutions or tax-exempt entities;
- who are subject to the alternative minimum tax provisions of the Code;
- who acquired their shares in connection with stock option, warrant or stock purchase plans or in other compensatory transactions;
- who hold their shares as a hedge or as part of a hedging, straddle or other risk reduction strategy;
- partnerships and other pass-through entities and investors in pass-through entities;
- who do not hold their shares as capital assets;
- whose shares constitute qualified small business stock with the meaning of Section 1202 of the Code; or
- who have a functional currency other than the U.S. dollar.

In addition, the following discussion does not address the tax consequences of the Transaction under state, local and foreign tax laws. Furthermore, the following discussion does not address any of the following:

- the tax consequences of transactions effectuated before, after or at the same time as the Transaction, whether or not they are in connection with the Transaction; or
- the tax consequences of the receipt of Thermage shares other than in exchange for Reliant shares.

For purposes of this discussion, a U.S. Holder means a beneficial owner of Reliant common or preferred stock who is:

an individual who is a citizen or resident of the United States;

a corporation (or other entity taxable as a corporation for U.S. federal income tax purposes) created or organized in the United States or under the laws of the United States or any subdivision thereof;

an estate the income of which is includible in gross income for U.S. federal income tax purposes regardless of its source; or

a trust (other than a grantor trust) if (A) a court within the United States is able to exercise primary supervision over the administration of the trust and one or more U.S. persons have the authority to control all substantial decisions of the trust or (B) it has a valid election in place to be treated as a U.S. person.

**HOLDERS OF RELIANT COMMON AND PREFERRED STOCK ARE ADVISED AND EXPECTED TO CONSULT THEIR OWN TAX ADVISORS REGARDING THE U.S. FEDERAL INCOME TAX CONSEQUENCES OF THE TRANSACTION IN LIGHT OF THEIR PERSONAL CIRCUMSTANCES AND THE CONSEQUENCES OF THE TRANSACTION UNDER STATE, LOCAL AND FOREIGN TAX LAWS.**

Table of Contents

It is a condition to the consummation of the transaction that each of Wilson Sonsini Goodrich & Rosati, Professional Corporation, outside counsel to Thermage, and Cooley Godward Kronish LLP, outside counsel to Reliant, render a tax opinion to their respective clients to the effect that the Transaction will qualify as an exchange pursuant to Section 368(a) of the Code. The tax opinion of Wilson Sonsini Goodrich & Rosati, Professional Corporation, and the tax opinion of Cooley Godward Kronish LLP, discussed in this section are each conditioned upon certain assumptions stated in their respective tax opinions and certain customary representations being delivered by Thermage, Reliant, Relay Merger Corp. and Relay Acquisition Company, LLC.

No ruling from the IRS has been or will be requested in connection with the Transaction. In addition, stockholders of Reliant should be aware that the tax opinions discussed in this section are not binding on the IRS, the IRS could adopt a contrary position and a contrary position could be sustained by a court. In addition, if any of the representations or assumptions upon which the closing tax opinions of Wilson Sonsini Goodrich & Rosati, Professional Corporation, and Cooley Godward Kronish LLP are based are inconsistent with the actual facts, the tax consequences of the Transaction could be adversely affected.

Thermage and Reliant intend that the Transaction will be treated as a reorganization pursuant to Section 368(a) of the Code. The discussion below assumes that the Transaction qualifies as a reorganization, and, except where specifically indicated, for purposes of this discussion of the tax consequences to Reliant stockholders, the Distribution will be treated by Thermage and Reliant as the payment of additional cash in the Transaction in an amount equal to the fair market value of the Spinco stock received.

Reliant will obtain a valuation of Spinco and will notify Reliant stockholders of the appraised value of the Spinco stock received in the Distribution. However, stockholders of Reliant should be aware that the valuation of Spinco as determined by the appraisal will not be binding on the IRS, and the IRS might challenge the valuation and assert that additional gain should be recognized in connection with the receipt of Spinco stock.

*Exchange of Reliant Stock for a Combination of Thermage Common Stock and Cash*. Except as discussed below under *Cash in Lieu of Fractional Thermage Common Stock* and *Cash in Satisfaction of Appraisal Rights*, a Reliant stockholder generally will recognize any gain, but not loss, that it realizes pursuant to the Transaction.

Such stockholder will recognize gain equal to the lesser of:

- the amount of cash that it receives pursuant to the Transaction; and
- the excess of the amount of cash and the fair market value of Thermage stock received by such stockholder over such stockholder s tax basis in the Reliant stock surrendered.

For this purpose, each Reliant stockholder must calculate the amount of gain or loss separately for each block of shares of Reliant common or preferred stock that it surrenders. Each Reliant stockholder therefore should consult with its own tax advisor with respect to the manner in which cash and Thermage common stock should be allocated among different blocks of Reliant stock.

*Tax Basis and Holding Period.* The tax basis of Thermage common stock received by a Reliant stockholder in the Transaction will be equal to such stockholder s tax basis in the Reliant stock surrendered therefor reduced by the amount of any cash received and increased by any gain recognized by such stockholder in the Transaction. The holding period of Thermage common stock received by a Reliant stockholder in the Transaction will be equal to such stockholder s holding period in the Reliant stock exchanged therefor. If a Reliant shareholder owns multiple blocks of Reliant stock, such stockholder should consult its tax advisor with respect to the proper allocation of the tax basis and holding periods of its Reliant stock among the Thermage common stock received in the Transaction. A Reliant stockholder who receives shares of Spinco in the Distribution will have a tax basis in such shares equal to the fair market value of such shares and its holding period for such shares will begin on the date the Transaction is consummated.

Table of Contents

*Character of Recognized Gain.* Any gain that a Reliant stockholder recognizes generally will be treated as capital gain. If a Reliant stockholder s holding period in a block of its Reliant stock is greater than one year as of the consummation of the Transaction, then such stockholder s capital gain with respect to that block will constitute long-term capital gain. Currently, long-term capital gains are generally subject to U.S. federal income tax at a maximum rate of 15% in the hands of certain U.S. holders such as individuals.

*Treatment of Payments from Escrow.* Although its exact application is unclear, the installment method should allow a Reliant stockholder receiving cash payments from escrow after the taxable year of such stockholder in which the Transaction is consummated to allocate a portion of such stockholder s taxable gain from the Transaction to the taxable year(s) in which such escrow payments are received. However, a stockholder receiving such escrow payments will likely have some portion of such payments recharacterized as imputed interest taxable at ordinary income rates.

*Cash in Lieu of Fractional Thermage Common Stock.* If a Reliant stockholder receives cash instead of a fractional share of Thermage common stock, it will recognize a taxable gain or loss based upon the difference between the amount of cash that stockholder receives with respect to such fractional share and its tax basis in the shares of Reliant stock that is allocated to such fractional share.

*Cash in Satisfaction of Appraisal Rights.* A Reliant stockholder which exercises appraisal rights and receives a cash payment for its Reliant common or preferred stock should generally recognize gain or loss measured by the difference between the amount of cash received and such stockholder s tax basis in such stock. Any gain or loss that such stockholder recognizes generally will be treated as capital gain or loss. If such stockholder s holding period in a block of its Reliant stock is greater than one year as of the consummation of the Transaction, then such stockholder s capital gain or loss with respect to that block will constitute long-term capital gain or loss. Currently, long-term capital gains are generally subject to U.S. federal income tax at a maximum rate of 15% in the hands of certain U.S. holders such as individuals. The use of capital losses to offset ordinary income from other sources is subject to limitations.

*Treatment of Thermage and Reliant.* No gain or loss will be recognized by Thermage or Reliant solely as a result of the mergers, although either Thermage or Reliant will likely recognize gain or loss as a result of the Distribution.

Certain Reliant stockholders may be required to attach a statement to their tax returns for the year in which the Transaction is consummated that contains the information listed in Treasury Regulation Section 1.368-3(b), if applicable. Reliant stockholders are urged to consult their own tax advisors with respect to the applicable reporting requirements.

*Backup Withholding.* Any cash payments to Reliant stockholders in connection with the Transaction may be subject to backup withholding on a holder s receipt of cash (not including any shares received in the Distribution and otherwise treated as cash for purposes of this discussion), unless such holder furnishes a correct taxpayer identification number and certifies that he or she is not subject to backup withholding or such stockholder is otherwise exempt from backup withholding. Any amount withheld under the backup withholding rules will generally be allowed as a refund or credit against the holder s U.S. federal income tax liability, provided the required information is furnished to the IRS.

**THE PRECEDING DISCUSSION IS INTENDED ONLY AS A SUMMARY OF CERTAIN U.S. FEDERAL INCOME TAX CONSEQUENCES OF THE TRANSACTION AND DOES NOT PURPORT TO BE A COMPLETE ANALYSIS OR DISCUSSION OF ALL OF THE TRANSACTION S POTENTIAL TAX EFFECTS. RELIANT STOCKHOLDERS ARE URGED TO CONSULT THEIR OWN TAX ADVISORS AS TO THE SPECIFIC TAX CONSEQUENCES TO THEM OF THE TRANSACTION, INCLUDING TAX RETURN REPORTING REQUIREMENTS AND THE APPLICABILITY AND EFFECT OF FEDERAL, STATE, LOCAL, FOREIGN AND OTHER APPLICABLE TAX LAWS.**

Table of Contents

## AGREEMENTS RELATED TO THE INTEGRATED MERGER

*This section of the proxy statement/prospectus/information statement describes material aspects of the agreements related to the integrated merger. While we believe that the description covers the material terms of the agreements related to the integrated merger, this summary may not contain all of the information that is important to you. Thermage stockholders should review carefully the other information contained in this proxy statement/prospectus/information statement in considering whether to approve the issuance of shares of Thermage common stock pursuant to the merger agreement. See the section entitled Where You Can Find More Information on page 214 of this proxy statement/prospectus/information statement.*

### The Merger Agreement

The following is a summary of the material provisions of the merger agreement. This summary is qualified in its entirety by reference to the merger agreement, a copy of which is attached as Annex A to this proxy statement/prospectus/information statement and is incorporated into this proxy statement/prospectus/information statement by reference. You should read the merger agreement in its entirety, as it is the legal document governing the integrated merger, and the provisions of the merger agreement are not easily summarized.

#### *Structure of the Integrated Merger*

The transaction is structured as a two-step merger which is referred to herein as the integrated merger. In the first merger, which is structured as a reverse-triangular merger, Relay Merger Corp., a wholly owned subsidiary of Thermage formed for the purpose of the first merger, will merge with and into Reliant. Relay Merger Corp. will cease to exist as a separate corporate entity and Reliant will continue as the surviving corporation and as a wholly owned subsidiary of Thermage. Immediately following the first merger, Thermage will cause the second merger to be effected. In the second merger, which is structured as a forward triangular merger, Reliant as the surviving corporation in the first merger will merge with and into Relay Acquisition Company, LLC, a wholly owned subsidiary of Thermage formed for the purpose of the second merger. Thereafter, Relay Acquisition Company, LLC will continue as the surviving corporation and as a wholly owned subsidiary of Thermage. Unless otherwise determined by Thermage, prior to the effective time of the first merger, the certificate of formation of the combined company shall be amended and restated as of the effective time of the second merger to be identical to the certificate of formation of Relay Acquisition Company, LLC as in effect immediately prior to the effective time of the second merger; provided, however, that at the effective time of the second merger, Article I of the certificate of formation of the combined company shall be amended and restated in its entirety to read as follows: The name of the corporation is Reliant Technologies, LLC.

#### *Effective Time and Timing of Closing*

The first merger will be completed and become effective when the certificate of merger related to the merger of Relay Merger Corp. with and into Reliant is filed with the Secretary of State of the State of Delaware, or at such later time as we may agree and as is specified in the certificate of merger, in accordance with Delaware law. The closing of the first merger will take place as soon as practicable after all conditions to the first merger have been satisfied or waived, or on such other date as we may agree. We currently anticipate that we will complete the first merger promptly after approval of the Thermage stockholders has been obtained, assuming Thermage s stockholders give their requisite approvals and all other conditions to the first merger have been satisfied or waived. Immediately thereafter, Thermage will cause the second merger to be completed and the second merger become effective when the certificate of merger related to the merger of Reliant with and into Relay Acquisition Company, LLC is filed with the Secretary of State of the State of Delaware, or at such later time as we may agree and as is specified in the certificate of merger, in accordance with Delaware law.

Table of Contents

***Merger Consideration***

Upon completion of the first merger, subject to indemnification and escrow arrangements described below in The Merger Agreement Survival of Representations and Warranties; Escrow, Reliant stockholders will be entitled to receive aggregate merger consideration consisting of approximately $25.0 million in cash and 23,600,000 shares of Thermage common stock. The $25.0 million in cash will be decreased by:

- the amount, if any, by which the closing working capital of Reliant at the closing is less than negative $1.0 million;
- the amount, if any, by which the net indebtedness of Reliant at closing is greater than $7.0 million;
- the amount of cash payable to the holders of Reliant stock options; and
- the amount of cash payable to the holders of Reliant restricted stock units.

As a result of these adjustments as well as adjustments in the allocation of the stock portion of the consideration among Reliant stockholders which depends upon the average trading price of Thermage common stock for the 30-day period ending on the date that is three days prior to the closing, the exact consideration that a Reliant stockholder will receive is not known as of the date of this proxy statement/prospectus/information statement and will depend on the magnitude of these adjustments and fluctuations in the trading price of Thermage common stock.

At the effective time of the first merger, each issued and outstanding share of Reliant capital stock will be converted into the right to receive a combination of cash and shares of Thermage common stock in accordance with the terms of the merger agreement which approximates the terms of the amended and restated certificate of incorporation of Reliant in effect as of the date of the merger agreement. Pursuant to the merger agreement, holders of each series of Reliant preferred stock will receive payment of the greater of (A) their respective liquidation preference as set forth below and (B) the per share merger consideration payable in respect of a share of Reliant common stock in a combination of cash and shares of Thermage common stock on a pro rata basis with all other recipients of the merger consideration, other than holders of Reliant stock options and Reliant restricted stock units who will be paid solely in cash. Payment of the liquidation preference shall be made to holders of Reliant preferred stock prior to any payment or allocation of merger consideration to holders of Reliant common stock, provided, however, that in the event that holders of Reliant common stock are allocated less than $0.50 per share, such holders shall be paid $0.50 per share of Reliant common stock and the merger consideration allocated and paid to holders of Reliant preferred stock will be reduced pro rata in proportion to the merger consideration.

| Series | Shares outstanding as of July 31, 2008 | Liquidation Preference | Total |
|---|---|---|---|
| Series A | 2,363,074 | $ 4.50 | $ 10,633,833 |
| Series B | 3,191,293 | $ 4.50 | $ 14,360,819 |
| Series C | 664,760 | $ 10.53 | $ 6,999,923 |
| Series D | 1,443,770 | $ 15.09 | $ 21,786,489 |
| Series E | 999,993 | $ 15.00 | $ 14,999,895 |

Holders of Reliant preferred stock are entitled to receive approximately $68,780,959 in satisfaction of the aggregate liquidation preference in respect of outstanding shares of Reliant preferred stock; however, in the event that the merger consideration allocated to each share of Reliant common stock after the aggregate liquidation preference has been paid is greater than the liquidation preference set forth above the holder shall be entitled to receive the per share consideration payable in respect of Reliant common stock in lieu of the liquidation preference.

Table of Contents

The actual stock consideration and cash consideration to be paid per share of Reliant capital stock at closing will depend upon numerous variable factors, including the average trading price of Thermage common stock during the thirty days prior to the closing, the total cash consideration payable after adjustments for the closing working capital and the net indebtedness at closing and the cash consideration payable to holders of Reliant options and restricted stock units. Assuming that the aggregate amount payable in respect of Reliant stock options and Reliant restricted stock units is approximately $7.4 million and that Reliant has working capital at the closing of approximately negative $1.0 million, net indebtedness at closing of $7.0 million, and that the average trading price of Thermage common stock during the 30-day period ending the third day immediately preceding the closing date is $2.50, each share of Reliant preferred stock (other than Series A preferred stock and Series B preferred stock) would receive a combination of cash and shares of Thermage common stock with a value equal to the respective liquidation preference as set forth above. Holders of Reliant common stock would be entitled to receive a combination of cash and shares of Thermage common stock with a value equal to approximately $4.62 per share and because this amount is greater than $4.50, holders of shares Series A preferred stock and Series B preferred stock would receive the consideration payable per share of Reliant common stock in lieu of the liquidation preference.

An amount of cash equal to 10% of the value of the merger consideration will be withheld pro rata from the merger consideration paid to stockholders and holders of in-the-money options and warrants and holders of restricted stock units at closing and placed in the escrow account. If funds remain in the escrow account after the expiration of the escrow period, such funds will be distributed pro rata to such stockholders, optionholders, warrantholders and holders of restricted stock units.

The number of shares of Thermage common stock to which a Reliant stockholder is entitled to receive will be aggregated and any fractional shares will be paid out as set forth below in The Merger Agreement Fractional Shares. The terms and conditions of the escrow fund are described in more detail in the Section entitled The Merger Agreement Escrow Fund.

You should be aware that the above per share amounts are estimates only and are subject to change under certain circumstances as described above and set forth more fully in the merger agreement attached as Annex A to this proxy statement/prospectus/information statement. The actual consideration you receive in exchange for your Reliant capital stock may be more, less or the same as these estimates.

The maximum number of shares of Thermage common stock to be issued by Thermage in the first merger was fixed at the time the merger agreement was signed. At the time the merger agreement was signed, the parties valued the Thermage common stock at $2.96 per share based on the average closing price per share of Thermage common stock on the NASDAQ Global Market for the 30 days immediately preceding July 4, 2008. However, Thermage common stock trades on the NASDAQ Global Market and is subject to price fluctuation. Therefore, the value of the Thermage common stock you receive in the first merger cannot be known at the date of this proxy statement/prospectus/information statement. In addition, each share of Reliant preferred stock is entitled to receive the greater of liquidation preference applicable to the series of preferred stock as set forth above and the amount payable per share of Reliant common stock. Depending on the value of Thermage common stock at the time of the closing, holders of Reliant preferred stock may receive more or less than the liquidation preference.

The value of the Thermage common stock you receive in the first merger may be equal to, less than or greater than its value on the date the merger agreement was signed and/or the date of this proxy statement/prospectus/information statement.

Table of Contents

Below is a comparison of the effect the fluctuations in the per share price the Thermage common stock could have on the merger consideration received in the first merger based on the same assumptions described above.

| | $1.50 | $2.50 | $3.50 |
|---|---|---|---|
| Series A | $ 3.90 | $ 4.62 | $ 6.94 |
| Series B | $ 3.90 | $ 4.62 | $ 6.94 |
| Series C | $ 9.13 | $ 10.53 | $ 10.53 |
| Series D | $ 13.08 | $ 15.09 | $ 15.09 |
| Series E | $ 13.01 | $ 15.00 | $ 15.00 |
| Common | $ 0.50 | $ 4.62 | $ 6.94 |

The above per share values are estimates only and are subject to change under certain circumstances as set forth more fully in the merger agreement, including a change in the closing working capital of Reliant, a change in the net indebtedness of Reliant, a change in the number of shares of Reliant capital stock, including exercises of outstanding stock options and warrants. The actual value of the consideration you receive in exchange for your Reliant capital stock may be more, less or the same as these estimates.

See the section entitled Market Price of and Dividends on Thermage s Common Equity and Related Stockholder Matters beginning on page 205 for a description of the historical value of Thermage capital stock. Reliant stockholders are urged to obtain current market quotations for Thermage common stock and to review carefully the other information contained in this proxy statement/prospectus/information statement. See the section entitled Where You Can Find More Information on page 214.

***Fractional Shares***

Thermage will not issue any fractional shares of common stock in connection with the first merger. Instead, each holder of Reliant capital stock who would otherwise be entitled to receive a fraction of a share of Thermage common stock will be entitled to receive cash, without interest, in an amount equal to such fraction multiplied by the closing price of Thermage common stock on the trading day immediately preceding the closing date.

***Exchange of Reliant Stock Certificates for Thermage Stock Certificates***

As soon as practicable following the effective time of the first merger, the exchange agent for the first merger will mail to each record holder of Reliant capital stock a letter of transmittal and instructions for surrendering the record holder s Reliant stock certificates in exchange for the consideration to be received by Reliant stockholders in the first merger. Only those holders of Reliant capital stock who properly surrender their Reliant stock certificates in accordance with the exchange agent s instructions will receive:

- certificates representing the number of whole shares of Thermage common stock to which they are entitled pursuant to the merger agreement;
- cash representing the cash portion of the consideration to which they are entitled pursuant to the merger agreement (less such holder s portion of the indemnification escrow amount); and
- cash in lieu of any fractional share of Thermage common stock.

The surrendered certificates representing Reliant capital stock will be canceled. After the effective time of the first merger, each certificate representing shares of Reliant capital stock that has not been surrendered will represent only the right to receive each of the items, as the case may be, enumerated above. Following the completion of the first merger, Reliant will not register any transfers of Reliant capital stock on its stock transfer books. Holders of Reliant capital stock should not send in their Reliant stock certificates until they receive a letter of transmittal from the exchange agent for the first merger, with instructions for the surrender of Reliant stock certificates.

81

Table of Contents

***Appraisal Rights***

Subject to compliance with the procedures set forth in Section 262 of the Delaware General Corporation Law, or DGCL, Reliant stockholders who do not vote in favor of, or consent to, the adoption of the merger agreement and approval of the transactions contemplated thereby and otherwise comply with the requirements of the DGCL will not receive the merger consideration in exchange for their shares, but instead will be entitled to appraisal rights in connection with the first merger, whereby such stockholders may receive the appraised value of their shares of Reliant capital stock held by them in accordance with the provisions of such Section 262 of the DGCL. The applicable Delaware statute is attached as Annex F to this proxy statement/prospectus/information statement. Failure to take any of the steps required under Section 262 of the DGCL on a timely basis may result in a loss of those appraisal rights.

***Distributions with Respect to Unexchanged Shares***

Holders of Reliant capital stock are not entitled to receive any dividends, payment in lieu of any fractional shares or other distributions on Thermage common stock until the first merger is completed. After the first merger is completed, holders of Reliant capital stock will be entitled to dividends, payment in lieu of any fractional shares and other distributions declared or made after completion of the first merger with respect to the number of whole shares of Thermage common stock which they are entitled to receive upon exchange of their Reliant capital stock, but they will not be paid any dividends, payment in lieu of any fractional shares or other distributions on the Thermage common stock until they surrender their Reliant stock certificates to the exchange agent in accordance with the exchange agent instructions. After surrender of the certificates, such holders will receive any such dividends, payments in lieu of any fractional shares or other distributions to which they are entitled as cash without interest.

***Transfers of Ownership and Lost Stock Certificates***

If the payment of the portion of the merger consideration to which a Reliant stockholder is entitled is to be paid to a person other than the person in whose name the certificates surrendered in exchange therefore are registered, it will be a condition of payment that the certificates so surrendered be properly endorsed and otherwise in proper form for transfer (including, if requested, a medallion guarantee), and that the persons requesting such payment will have paid to Thermage or any agent designated by it any transfer or other taxes required. In the event that any certificates representing Reliant capital stock shall have been lost, stolen or destroyed, the holder of such certificate may need to deliver a bond prior to receiving any merger consideration.

***Treatment of Reliant Stock Options***

No outstanding Reliant stock options shall be assumed, continued or substituted for by Thermage. As of immediately prior to the effective time of the first merger, and contingent upon the effectiveness of the first merger, each then outstanding Reliant stock option will become immediately vested and exercisable in full. At the effective time, each Reliant stock option will be cancelled and converted into a right to receive a cash payment equal to (i) the number of shares of Reliant common stock underlying the Reliant stock option multiplied by (ii) the excess, if any, of (A) the amount of merger consideration to which each outstanding share of Reliant common stock is entitled in the first merger, minus (B) the total amount of the exercise price due under such option.

***Treatment of Reliant Restricted Stock***

As of immediately prior to the effective time of the first merger, and contingent upon the effectiveness of the first merger, each share of Reliant restricted stock shall become fully vested, and any reacquisition or repurchase rights held by Reliant with respect to such Reliant restricted stock will lapse. Each share of vested Reliant restricted stock will be treated in the same manner as shares of Reliant common stock.

Table of Contents

***Treatment of Reliant Restricted Stock Units***

No outstanding Reliant restricted stock units shall be assumed, continued or substituted for by Thermage. At the effective time of the first merger, each then outstanding Reliant restricted stock unit will, to the extent then vested (taking into account any accelerated vesting as a result of the first merger in accordance with the terms of the Reliant restricted stock units), be converted into and shall become a right to receive an amount in cash, without interest, with respect to each share subject thereto, equal to the amount of merger consideration to which each outstanding share of Reliant common stock is entitled in the first merger. A portion of such consideration shall be withheld and placed in the escrow account.

***Treatment of Reliant Warrants***

Except for Reliant warrants that cannot be cancelled pursuant to their terms by virtue of the first merger, Thermage shall not assume any Reliant warrants. At the effective time, each Reliant warrant then outstanding with an exercise price per share that is less than the consideration payable with respect to the shares of Reliant preferred stock or Reliant common stock, as applicable, then subject to purchase under such in-the-money warrant, will, to the extent permitted pursuant to the terms of such in-the-money warrant, be cancelled and converted without exercise into the right to receive the consideration payable for each share of Reliant preferred stock or Reliant common stock, as applicable, then subject to the extent such warrant is in-the-money.

Any Reliant warrant that cannot be cancelled pursuant to its terms by virtue of the first merger and is not tendered by the holder thereof in exchange for the treatment described in the paragraph above shall be assumed by Thermage to the extent not exercised prior to the closing. Each such assumed Reliant warrant will be converted into a warrant to acquire the consideration the holder of such Reliant warrant would have been entitled to receive at the effective time of the first merger had such holder exercised with a cash payment of the exercise price such Reliant warrant prior to the effective time of the first merger. Each Reliant warrant assumed shall otherwise be subject to the same terms and conditions (including as to vesting and exercisability, if applicable) as were applicable under the respective Reliant warrant immediately prior to the effective time.

***Representations and Warranties***

The merger agreement contains customary representations and warranties made by Thermage and Reliant regarding aspects of their respective businesses. In particular, the assertions embodied in the representations and warranties contained in the merger agreement are qualified by information in confidential disclosure schedules provided by Thermage and Reliant to each other in connection with the signing of the merger agreement. These disclosure schedules contain information that modifies, qualifies and creates exceptions to the representations and warranties set forth in the merger agreement. Moreover, certain representations and warranties in the merger agreement were used for the purpose of allocating risk between Thermage and Reliant rather than establishing matters as facts. Accordingly, you should not rely on the representations and warranties in the merger agreement as characterizations of the actual state of facts about Thermage or Reliant. In addition, certain representations and warranties are qualified by the likelihood of a material adverse effect. See the section entitled The Merger Agreement Definition of Material Adverse Effect beginning on page 94 of this proxy statement/prospectus/information statement. These representations and warranties relate to the following subject matters with respect to each party:

- corporate organization, qualifications to do business, corporate standing and corporate power;
- ownership of subsidiary capital stock and the absence of certain restrictions or encumbrances with respect to the capital stock of any significant subsidiary as well as the corporate organization, qualifications to do business, corporate standing and corporate power of such subsidiaries;
- absence of violation of the certificate of incorporation and bylaws and the certificates of incorporation, bylaws and similar organizational documents of subsidiaries;

Table of Contents

capitalization;

corporate authorization to enter into and consummate the transactions contemplated by the merger agreement and the enforceability of the merger agreement;

governmental and regulatory approvals required to complete the first merger;

absence of any conflict or violation of any applicable legal requirements, corporate charter and bylaws, of each of Reliant and Thermage and the charter, bylaws and similar organizational documents of their respective subsidiaries as a result of entering into and consummating the transactions contemplated by the merger agreement;

the effect of entering into and consummating the transactions contemplated by the merger agreement on material contracts;

financial statements;

internal controls and procedures;

the absence of undisclosed liabilities;

absence of certain changes in the business from December 31, 2007 through July 7, 2008, the date of the merger agreement, including:

- any material adverse effect;
- amendments to its certificate of incorporation or bylaws;
- authorization of any sale or issuance of securities;
- any incurrence of indebtedness for borrowed money;
- any declaration of any dividend;
- any increase in salary or compensation or any grants of severance or termination pay to officers, directors or employees;
- any acquisition, sale, lease, license or disposal of material assets;

any change in any method of accounting, except as required by generally accepted accounting principles;

any changes to tax reporting or tax accounting;

entering into or amending certain types of significant contracts;

any sale or license of intellectual property or modification or amendment of any existing agreement relating to intellectual property, other than in the ordinary course;

acquisition;

any capital expenditure or expenditures in excess of specified amounts;

commencement or settlement of any lawsuit; and

any material revaluation of assets;

compliance with applicable laws;

litigation;

significant contractual agreements;

employee benefit plans and labor relations;

its real properties;

taxes;

Table of Contents

compliance with applicable environmental laws and regulations;

intellectual property;

product liability claims;

compliance with health care laws;

compliance with food and drug administration rules and regulations;

insurance;

transactions with affiliates;

payment, if any, required to be made to brokers and agents on account of the integrated merger;

accuracy of information supplied in this proxy statement/prospectus/information statement and the related registration statement filed by Thermage with the SEC;

the inapplicability of state takeover statutes to the first merger;

In addition, Reliant made representations and warranties regarding:

contributions made to the entity it will spin out prior to the closing.

In addition, Thermage made representations and warranties regarding:

filings and reports with the SEC;

the sufficiency of cash on hand at the closing of the first merger to pay the full aggregate amount of the cash consideration in the first merger and to satisfy its obligations under the merger agreement;

The representations and warranties of Reliant contained in the merger agreement will survive the first merger for a period of twelve months from completion of the first merger. The representations and warranties of Thermage contained in the merger agreement will not survive the first merger, but they form the basis of certain conditions to Thermage s and Reliant s obligations to complete the first merger.

***Covenants of Thermage and Reliant***

Except as contemplated by the merger agreement, Thermage and Reliant have agreed that, until completion of the first merger or termination of the merger agreement, it will and will cause its subsidiaries to (i) conduct its business in the usual, regular and ordinary course, in substantially the same manner as previously conducted and in compliance with all applicable legal requirements, (ii) pay its debts and taxes when due (subject

to good faith disputes over such debts or taxes), (iii) pay or perform all material obligations when due, and (iv) use commercially reasonable efforts to (A) preserve intact its present business organization, (B) keep available the services of its present officers and employees, and (C) preserve its relationships with customers, suppliers, distributors, licensors, licensees, and others with which it has significant business dealings. In addition, Reliant shall notify Thermage no less than five business days in advance of applying for, abandoning or letting lapse any U.S. or foreign patents.

Under the merger agreement, Reliant and Thermage also agreed that, until the earlier of the completion of the first merger or termination of the merger agreement, or unless the other party consents in writing, neither Reliant nor Thermage will:

adopt or propose any change to its certificate of incorporation or bylaws;

issue or authorize the issuance of any securities other than the issuance of common stock pursuant to stock options, grants of purchase rights under an employee stock purchase plan or grants to newly hired employees or refresh grants to current employees;

Table of Contents

amend the terms of any of its securities or the securities of its subsidiaries;

incur any indebtedness for borrowed money, guarantee any indebtedness or issue any debt securities or create a lien over any of its assets;

declare, set aside or pay any dividends or other distributions of property on shares of capital stock;

propose or adopt a plan of complete or partial liquidation, dissolution, merger, consolidation, restructuring, recapitalization or other reorganization of it or its subsidiaries;

forgive any loans to any of its employees, officers or directors;

increase compensation payable to officers or employees or grant any severance or termination pay or enter into any severance agreement with any director, officer or other employee;

adopt or amend any plan providing for employee benefits;

make any deposits or contributions of cash or other property to fund or in any other way secure the payment of compensation and benefits under any employee benefit plans;

enter into or amend any collective bargaining agreement;

acquire, sell, lease, license or dispose of any properties or assets, except pursuant to existing contracts or in the ordinary course and consistent with past practices;

adopt or change accounting methods other than as required by generally accepted accounting practices;

make or change any material tax election;

enter into any material contract other than for the sale of products in the ordinary course of business consistent with past practices;

amend in any material respect any material contract or grant any release or relinquishment of material rights;

sell, assign, transfer, license or sublicense, pledge or otherwise encumber any right to intellectual property other than non-exclusive licenses in the ordinary course of business consistent with past practices;

acquire any business or corporation;

mortgage, pledge or subject to lien any assets or properties;

make any expenditures or commitments in excess of the amounts in the merger agreement;

commence or settle any legal proceedings, except as described in the merger agreement;

materially revalue any of its assets except as required by GAAP;

take any or agree to any actions that would prevent Reliant from performing its obligations under the merger agreement or result in any conditions under the merger agreement not to be satisfied.

***Non-solicitation by Thermage and Reliant***

From the date of the merger agreement until the earlier of the termination of the merger agreement or the effective time of the first merger, each of Thermage and Reliant have agreed that neither it, nor any of its subsidiaries, nor any of its officers or directors or the officer and directors of its subsidiaries will, and that it will use its reasonable best efforts to cause any investment banker, attorney or other advisor or representative retained by it or its subsidiaries to not (and will not authorize or knowingly permit them to), directly or indirectly:

solicit, initiate, knowingly encourage or facilitate, or induce the making, submission or announcement of, an acquisition proposal, as defined in the merger agreement;

Table of Contents

furnish to any person any nonpublic information with respect to it or any of its subsidiaries, or afford access to its or its subsidiaries business, properties, assets, books or records in a manner intended to facilitate any inquiries or the making of any proposal that constitutes or would reasonably be expected to lead to, any acquisition proposal, or take any other action intended to assist or facilitate any inquiries or the making of any proposal that constitutes or would reasonably be expected to lead to an acquisition proposal;

participate or engage in discussions with any person with respect to any acquisition proposal;

approve, endorse or recommend any acquisition proposal;

enter into any letter of intent, memorandum of understanding or other contract contemplating or otherwise relating to any acquisition proposal; or

terminate, amend or waive any rights under any standstill or other similar contract with a third party.

However, if Thermage receives an unsolicited, bona fide written acquisition proposal from a third party, then Thermage may:

engage or participate in negotiations with the third party with respect to the acquisition proposal; and

furnish nonpublic information relating to Thermage pursuant to a confidentiality agreement containing customary limitations and with terms at least as restrictive as the confidentiality agreement in place between Thermage and Reliant, provided that Thermage gives concurrent written notice to Reliant of its intention to furnish this information and contemporaneously furnishes to Reliant the nonpublic information furnished to the third party to the extent not previously furnished;

but only if:

Thermage s board of directors reasonably determines in good faith, after consultation with outside legal counsel, that the failure to take such action would reasonably be expected to be a breach of its fiduciary duties under Delaware law;

Thermage s board of directors reasonably determines in good faith, after consultation with its financial advisor and outside legal counsel, that such acquisition proposal constitutes or is reasonably likely to lead to a superior proposal as defined in the merger agreement;

at least three business days prior to engaging or participating in any such discussions or negotiations with, or furnishing any non-public information to the third party, Thermage gives Reliant written notice of the identity of such party and the material terms and conditions of the acquisition proposal (unless such acquisition proposal is in written form, in which case Thermage shall give Reliant a copy of all written materials comprising or relating thereto) and of Thermage s intention to engage or participate in discussions or negotiations with, or furnish non-public information to, such party; and

contemporaneously with furnishing any non-public information to such third party, Thermage furnishes such non-public information to Reliant (to the extent such information has not been previously furnished to Reliant).

An acquisition proposal with respect to either Thermage or Reliant means any offer or proposal relating to any acquisition transaction which is any transaction or series of related transactions, other than the integrated merger, involving:

any purchase or acquisition by any person or group directly or indirectly of a 15% or greater interest in the total outstanding equity interests or voting securities of the party or any tender offer or exchange offer that, if consummated, would result in any person or group beneficially owning 15% or more of the total outstanding equity interests or voting securities of the party;

any acquisition or purchase of 50% or more of any class of equity or other voting securities of one or more subsidiaries of a party, the business(es) of which, individually or in the aggregate, generate or constitute 15% or more of the net revenues, net income or assets (in each case, as of or for the

Table of Contents

12-month period ending on the last day of the applicable party s most recently completed fiscal year) of such party and its subsidiaries, taken as a whole;

any merger, consolidation, business combination or other similar transaction involving the party or one or more of its subsidiaries, the business(es) of which, individually or in the aggregate, generate or constitute 15% or more of the net revenues, net income or assets (as of or for the 12-month period ending on the last day of the applicable party s most recently completed fiscal year) of such party and its subsidiaries, taken as a whole, pursuant to which the stockholders of such party or such subsidiary or subsidiaries, as applicable, immediately preceding such transaction hold less than 85% of the equity interests in the surviving or resulting entity of such transaction;

any sale, lease (other than in the ordinary course of business consistent with past practice), exchange, transfer, license (other than in the ordinary course of business consistent with past practice), acquisition or disposition of assets of the party that generate or constitute 15% or more of the net revenues, net income or assets (as of or for the 12-month period ending on the last day of the applicable party s most recently completed fiscal year) of such party and its subsidiaries, taken as a whole;

any liquidation, dissolution, recapitalization or other significant corporate reorganization of the party or one or more of its subsidiaries the business(es) of which, individually or in the aggregate, generate or constitute 15% or more of the net revenues, net income or assets (in each case, as of or for the 12-month period ending on the last day of the applicable party s most recently completed fiscal year) of such party and its subsidiaries, taken as a whole.

A superior proposal, with respect to either Thermage or Reliant, means any, bona fide written acquisition proposal received by such party subsequent to the date of the merger agreement involving the acquisition of all of the outstanding voting securities of such party (i) which, if any cash consideration is involved, is not subject to any financing contingencies (and if financing is required, such financing is then fully committed to the third party making such acquisition proposal) and (ii) with respect to which the board of directors of the applicable party shall have reasonably determined in good faith (after consultation with a financial advisor of nationally recognized standing and its outside legal counsel, and after taking into account, among other things, the financial, legal and regulatory aspects of such proposed acquisition transaction, as well as any counter-offer or proposal made by the other party) that (A) the acquiring party is reasonably capable of timely consummating the proposed acquisition transaction on the terms proposed and without unreasonable delay and (B) the proposed acquisition transaction would, if timely consummated in accordance with its terms, be more favorable to the stockholders of the applicable party (in their capacity as such), from a financial point of view, than (x) the transactions contemplated by the merger agreement (or any counter-offer or proposal made by the other party) determined on a basis of long-term value, without consideration of changes in Thermage s stock price or trading volume in and of itself and (y) any acquisition proposal received by such party during the three months prior to the date of the merger agreement.

Thermage and Reliant have also agreed to promptly, but in all cases within 24 hours, notify the other party orally and in writing of:

any acquisition proposal it receives,

any request for nonpublic information it receives that would reasonably be expected to lead to an acquisition proposal; or

any inquiry it receives with respect to, or which would reasonably be expected to lead to any acquisition proposal.

Thermage or Reliant, as the case may be, shall provide the other party with oral and written notice of the material terms and conditions of the acquisition proposal, request or inquiry, including copies of all written materials comprising or relating to such proposal and the identity of the person or group making the acquisition proposal, request or inquiry. Thermage has further agreed to keep Reliant reasonably informed on a current basis of the status of any discussions with respect to any acquisition proposal and the material terms and conditions,

Table of Contents

including all amendments or proposed amendments, of any acquisition proposal, request or inquiry it receives. Finally, Thermage and Reliant have agreed to provide the other party with three business days written notice prior to any meeting of its board of directors at which the board of directors will consider any acquisition proposal.

***Change in Thermage Board Recommendation***

In response to a superior proposal that has not been withdrawn, the Thermage board of directors may withhold, withdraw, amend or modify its recommendation in favor of the issuance of Thermage common stock in connection with the first merger, if:

- Thermage has received an acquisition proposal that is a superior proposal;
- Thermage stockholders have not approved the issuance of Thermage common stock in connection with the first merger;
- Prior to changing its recommendation, Thermage provides Reliant with written notice of its intention to effect a change of recommendation at least five business days prior to effecting such change, which shall include (i) the most current version of the definitive agreement, (ii) the identity of the person or group making the superior proposal, and (iii) the opportunity to meet to discuss in good faith a modification to the terms and conditions of the merger agreement so that the transactions contemplated thereby may be effected;
- Reliant has not made, within five business days after receipt of Thermage s written notice of its intention to effect a change of recommendation, a counter-offer or proposal that the Thermage board of directors reasonably determines in good faith, after consultation with its financial advisor and outside legal counsel, is at least as favorable to its stockholders as the superior proposal; and
- after discussions with Reliant, the Thermage board of directors reasonably determines in good faith, after consultation with outside legal counsel and after considering in good faith any counter-offer or proposal made by Reliant, that the failure to effect such change in recommendation would be reasonably likely to result in a breach of its fiduciary duties under Delaware law.

The obligation of Thermage to call, give notice of, convene and hold a stockholders meeting pursuant to the merger agreement and to submit the proposal to approve the issuance of Thermage common stock in connection with the first merger to the Thermage stockholders shall not be limited or otherwise affected by the commencement, disclosure, announcement or submission to it of any acquisition proposal, or by any change of recommendation. Further, the commencement, disclosure, announcement or submission to either Thermage or Reliant of any acquisition proposal, or any change of recommendation shall not permit Thermage or Reliant to submit to a vote of its stockholders proposals other than, in the case of Thermage, for the issuance of Thermage common stock in connection with the first merger and, in the case of Reliant, for the adoption of the merger agreement and approval of the transactions contemplated thereby.

***Other Covenants***

The merger agreement contains a number of other covenants by Thermage and Reliant including:

*Preparation of Registration Statement and Information Statement.* Thermage and Reliant agreed to promptly prepare and file this proxy statement/prospectus/information statement and the registration statement of which it is a part, and Thermage agreed to promptly prepare and file the registration statement following the execution of the merger agreement. Both parties also agreed to use commercially reasonable efforts to have the registration statement declared effective by the SEC as promptly as practicable. Reliant agreed to furnish information regarding Reliant and its stockholders as reasonably required.

*Meeting of Stockholders.* Thermage agreed to take all actions necessary to hold the special meeting of its stockholders to consider and vote upon the issuance of shares of Thermage common stock in connection with the first merger.

89

Table of Contents

*Access to Information.* Reliant agreed to afford Thermage reasonable access during the period prior to the effective time of the first merger to an employee list, officers and other employees for discussion regarding Reliant s core business and processes, and officers and other employees of Reliant for limited technical discussions to facilitate integration of Reliant technology in the combined company.

*Confidentiality.* Thermage and Reliant agreed that any information obtained from the other during the period prior to the effective time of the first merger shall be governed by confidential nondisclosure agreements.

*Public Announcements.* Thermage and Reliant have agreed to consult with one another before issuing any press release or otherwise making any public statements about the first merger or related transactions, unless otherwise required by any applicable laws or regulations.

*Reliant Options and Warrants*. Reliant has agreed to use its commercially reasonable efforts to allow for the treatment of Reliant stock options, Reliant restricted stock units and Reliant warrants in connection with the first merger described in the merger agreement, including (i) obtaining any consents from, and delivering any notices to, holders of Reliant stock options or Reliant warrants and (ii) amending the terms of its equity incentive plans or arrangements.

*Financials.* Reliant agreed to provide within 30 days following the last day of each fiscal quarter ending after March 31, 2008, the unaudited balance sheet as of the end of the last day of such fiscal quarter and the related unaudited statements of income, cash flow and stockholders equity for the three-month period then ended, and promptly upon the completion of such audit, the audited consolidated balance sheets as of December 31, 2007 and related consolidated statements of income, cash flow and stockholders equity for the 12-month period then ended. In addition, Reliant agreed to use its commercially reasonable efforts to assist Thermage in the preparation of pro forma financial statements required or advisable to be included in any Current Report on Form 8-K or any other report, registration statement or definitive proxy statement to be filed by Thermage.

*Termination of 401(k) Plans and Other Plans.* Reliant and Thermage agreed to cooperate in good faith prior to the closing with respect to the appropriate treatment following the closing of any plans of Reliant and its ERISA affiliates intended to include Internal Revenue Code (the Code ) Section 401(k) arrangements in order to effectuate orderly transition in respect of such plans and minimize any adverse effect on participating employees with respect to any such transition. Reliant agreed, if requested by Thermage, to adopt resolutions to terminate its 401(k) plans effective no later than the date immediately preceding the effective date of the first merger. As soon as practicable after the effective time, all participants in any 401(k) plans terminated at the request of Thermage will become participants in comparable 401(k) arrangements of Thermage.

*Treatment as a Reorganization*. Thermage and Reliant have each agreed to use their reasonable best efforts to, and to cause their respective subsidiaries to, cause the integrated merger to qualify as a reorganization within the meaning of Section 368(a) of the Code. Thermage and Reliant each agreed to use their reasonable best efforts to have their respective counsel render opinions that the integrated merger constitutes a reorganization within the meaning of Section 368(a) of the Code and have agreed to execute and deliver certificates containing customary representations at such time or times as reasonably requested by such counsel.

*Spreadsheet.* Reliant shall deliver a spreadsheet which shall separately list, as of the closing, the names and address information of all Reliant stockholders, holders of Reliant stock options, holders of Reliant warrants and holders of Reliant restricted stock units, information about the number and type of securities held by each such holder as well as the amount and type of consideration to be paid to each holder at the closing and the amount of cash that will be contributed to the escrow fund, if any, on behalf of such holder.

*FIRPTA Compliance.* On the effective date of the first merger, Reliant shall deliver to Thermage a FIRPTA compliance certificate in a form reasonably acceptable to Thermage.

Table of Contents

*Board of Directors of Thermage Following the Integrated Merger*

The Thermage board of directors agreed to take all actions necessary such that, immediately following completion of the integrated merger, the Thermage board of directors will consist of six directors designated by the Thermage board of directors and three directors designated by the Reliant board of directors.

*Indemnification and Insurance*

The merger agreement provides that after the completion of the first merger, Thermage will, and will cause the surviving company (as a wholly owned subsidiary) to indemnify and hold harmless the individuals who on or prior to the effective time were officers, directors and employees of Reliant and its subsidiaries to the extent currently provided in Reliant s certificate of incorporation and bylaws and will honor and fulfill in all respects Reliant s obligations under any indemnification agreements in effect as of the date of the merger agreement between Reliant or any of its subsidiaries and any of its current or former directors and officers. Thermage has agreed to purchase a directors and officers insurance tail policy under Reliant s existing directors and officers insurance policy which will provide coverage no less advantageous overall than the existing coverage for a period of six years following the effective time of the first merger, so long as the tail policy does not cost more than 300% of the current annual premium for such insurance for the entire six-year period.

*Employee Benefits*

The merger agreement provides that Thermage shall provide or cause to be provided to each employee of Reliant and its subsidiaries as of the effective time compensation (in the aggregate) and health, welfare and pension benefits that are substantially similar in the aggregate to those provided to similarly situated employees of Thermage and its subsidiaries. Such covenant does not include equity compensation. Thermage also agreed to recognize or to cause the surviving company to recognize prior service with Reliant or its subsidiaries of each employee of Reliant and its subsidiaries who are employed by Thermage or one of its subsidiaries following the effective time in connection with all employee benefit plans, programs or policies (including vacation and severance, but excluding the sabbatical program) of Thermage or its subsidiaries in which such employees are eligible to participate following the effective time for purposes of eligibility and vesting and determination of level of benefits (but not for purposes of benefit accruals or benefit amounts under any defined benefit pension plan or to the extent that such recognition would result in duplication of benefits). Thermage also agreed to cause or to cause the surviving company to cause any pre-existing conditions or limitations and eligibility waiting periods (to the extent that such waiting periods would be inapplicable, taking into account service with Reliant) under any group health plans of Thermage or its subsidiaries to be waived with respect to the continuing employees and their eligible dependents.

***Regulatory Approvals***

Each of Thermage and Reliant agreed to use its reasonable best efforts to take or cause to be taken all actions to consummate and make effective the transactions contemplated by the merger agreement, to obtain all necessary consents, waivers and approvals, to effect all necessary registrations and filings; provided, however, that Thermage shall not be required to agree to any divestiture by Thermage or Reliant or any of Thermage s subsidiaries or affiliates, of shares of capital stock or of any business, assets or property of Thermage or its subsidiaries or affiliates, or of Reliant or its affiliates, or of the imposition of any material limitation on the ability of any of them to conduct their own business or own or exercise control of such assets, properties and stock.

***Distribution***

In connection with the transaction, Reliant will irrevocably and exclusively license to a newly formed wholly owned subsidiary, referred to as Spinco, Reliant patents and non-exclusively license certain Reliant know-how for use outside of the field of aesthetics. All of the shares of the newly formed Reliant subsidiary will

Table of Contents

be distributed to Reliant stockholders holding Reliant Series A preferred, Series B preferred or common stock prior to the closing of the first merger (the Distribution ). For U.S, federal income tax purposes, the Distribution will be treated as part of the consideration received by the Reliant stockholders in exchange for their Reliant stock, as described in Material U.S. Federal Income Tax Consequences of the Merger see page 75.

***Conditions to Completion of the First Merger***

Each of Reliant s and Thermage s obligation to complete the first merger is subject to the satisfaction or waiver of a number of conditions, including:

that the registration statement, of which this proxy statement/prospectus/information statement is a part, be effective;

that the Reliant stockholders shall have adopted the merger agreement and approved the transactions contemplated thereby, including the appointment of Steven Mendelow as the stockholder representative and that the Thermage stockholders shall have approved the issuance of Thermage common stock to Reliant stockholders pursuant to the merger agreement;

that (i) the waiting period (and any extension thereof) applicable to the transactions contemplated by the merger agreement under any antitrust or competition legal requirements of any jurisdiction in which Thermage or Reliant have substantial business or operations or where Thermage and Reliant mutually agree to make a filing under applicable antitrust or competition legal requirements, shall have expired or been terminated; (ii) all clearances, consents, approvals, authorizations and orders applicable to the transactions contemplated hereby which are required under any antitrust or competition legal requirement of any jurisdiction in which Thermage or Reliant have substantial business or operations, or in which Thermage and Reliant mutually agree to make a filing under applicable antitrust or competition legal requirements, shall have been received, and (iii) all governmental authorities that have the authority to enforce any such antitrust or competition legal requirements shall have approved, cleared or decided neither to initiate proceedings or otherwise intervene in respect of the transactions contemplated by the merger agreement;

No governmental authority of competent jurisdiction shall have enacted, issued, promulgated, entered, enforced or deemed applicable to the first merger any legal requirement that is in effect and has the effect of making the first merger illegal in any jurisdiction in which Thermage or Reliant have substantial business or operations or which has the effect of prohibiting, preventing or otherwise restraining the consummation of the first merger in any jurisdiction in which Thermage or Reliant have substantial business or operations;

No governmental authority of competent jurisdiction shall have issued or granted any order (whether temporary, preliminary or permanent) that has the effect of making the first merger illegal in any jurisdiction in which Thermage or Reliant have substantial business or operations or which has the effect of prohibiting, preventing or otherwise restraining the consummation of the first merger;

the shares of Thermage common stock issuable in the first merger and the shares of Thermage common stock issuable in respect of all assumed warrants, shall have been authorized for listing on the NASDAQ Global Market upon official notice of issuance;

Thermage shall have received an opinion of Wilson Sonsini Goodrich & Rosati, Professional Corporation, and Reliant shall have received an opinion of Cooley Godward Kronish LLP, each dated as of the closing and each to the effect that the integrated merger will qualify as a reorganization within the meaning of Section 368(a) of the Code; *provided, however,* that this condition shall nonetheless be deemed to be satisfied with respect to both Thermage and Reliant if either Wilson Sonsini Goodrich & Rosati, Professional Corporation or Cooley Godward Kronish LLP renders such opinion;

the completion of the distribution of the shares of Spinco;

that each company s representations and warranties in the merger agreement are true and correct, to the extent set forth in the merger agreement, except when the failure of such representations or warranties

Table of Contents

to be true and correct has not resulted, and would not reasonably be expected to result in, individually or in the aggregate with other such failures, a material adverse effect, to the other party;

that each party has complied in all material respects with its covenants and agreements in the merger agreement, to the extent set forth in the merger agreement; and

that no material adverse effect exist on either company.

***Survival of Representations and Warranties; Escrow.***

Under the merger agreement, Reliant s representations and warranties will survive until 12 months after the effective time of the first merger, which we refer to as the expiration date. If Thermage delivers to Reliant written notice of a claim for indemnification prior to the expiration date, then the relevant representations and warranties will survive as to such claim until such claim has been finally resolved.

The merger agreement provides that Thermage and its officers, directors and affiliates, including the surviving company, will be indemnified by Reliant s stockholders, Reliant s warrantholders who hold in-the-money warrants, Reliant s optionholders who hold Reliant stock options with an exercise price less than the consideration payable per share of Reliant common stock and holders of Reliant restricted stock units, severally for any losses incurred by Thermage arising out of:

any failure of any representation or warranty made by Reliant or its stockholders in the merger agreement to be true and correct or in the certificate delivered by Reliant at the closing with respect to such representations and warranties to be true and correct;

any failure to by Reliant to perform or comply with any covenant applicable to them under the merger agreement, any related agreements or in the certificate delivered by Reliant at the closing with respect to such covenants;

any failure of the spreadsheet delivered by Reliant at closing to be true and correct;

any payments made to dissenting stockholders in excess of the merger consideration;

the distribution of Spinco capital stock to the Reliant stockholders;

any portion of the working capital adjustment not deducted from the merger consideration at the closing;

any portion of the net debt adjustment not deducted from the merger consideration at the closing;

any payment or consideration arising under any consents, notices, waivers, terminations or approvals as are required in connection with the integrated merger and which do not reduce the closing working capital;

certain other specified matters for which Thermage and Reliant have agreed that Thermage may only recover for 50% of the losses incurred or sustained by them.

Thermage s right to receive indemnification payments under the merger agreement is subject to a number of limitations, including the following:

Thermage may not receive any indemnification payments for breaches of representations or warranties unless the aggregate amount of damages arising out of all breaches of representations and warranties exceeds $350,000 and then Thermage is only entitled to indemnification for losses that exceed $350,000 except that this threshold will not apply to losses resulting from (i) a breach of Reliant s representations regarding (A) its organization and qualification or (B) its contributions to Spinco or (ii) fraud or any willful misrepresentation.

***Escrow Fund***

At the closing, Thermage will withhold cash from the merger consideration otherwise payable to Reliant stockholders, holders of in-the-money Reliant stock options and warrants, and holders of Reliant restricted stock

Table of Contents

units in an aggregate amount equal to 10% of the total value of the cash and Thermage common stock to be issued to Reliant stockholders at the closing and such amount will be deposited into an escrow fund. This escrowed amount will be available to compensate Thermage if it is entitled to indemnification under the merger agreement. Any portion of this escrowed amount that, twelve months following the completion of the first merger, has not been used to indemnify Thermage and that is not the subject of an unresolved claim for indemnification by Thermage will be distributed to the Reliant stockholders. The escrowed amount will be held by U.S. Bank, National Association, as the escrow agent under the terms of the merger agreement. The amount of the escrow fund contributed by each Reliant stockholder will be proportional to each such holder s pro rata portion of the total merger consideration.

***Definition of Material Adverse Effect***

*As it Pertains to Thermage:*

A material adverse effect with respect to Thermage means any fact, circumstance, change or effect that, individually or when taken together with all other such facts, circumstances, changes or effects that exist at the date of determination of the occurrence of the material adverse effect, has or is reasonably likely to have a material adverse effect on the business, operations, financial condition or results of operations of Thermage and its subsidiaries, taken as a whole; provided, however, that no facts, circumstances, changes or effects (by themselves or when aggregated with any other facts, circumstances, changes or effects) resulting from, relating to or arising out of the following shall be deemed to be or constitute a material adverse effect, and no facts, circumstances, changes or effects resulting from, relating to or arising out of the following (by themselves or when aggregated with any other facts, circumstances, changes or effects) shall be taken into account when determining whether a material adverse effect has occurred or may, would or could occur: (i) general economic, financial or political conditions in the United States or any other jurisdiction in which Thermage or any of its subsidiaries has substantial business or operations, and any changes therein (including any changes arising out of acts of terrorism, war, weather conditions or other force majeure events), to the extent that such conditions do not have a materially disproportionate impact on Thermage and its subsidiaries, taken as a whole, relative to other aesthetic laser companies of comparable size; (ii) general conditions in the aesthetic laser industry, and any changes therein (including any changes arising out of acts of terrorism, war, weather conditions or natural disasters), to the extent that such conditions do not have a materially disproportionate impact on Thermage and its subsidiaries, taken as a whole, relative to other aesthetic laser companies of comparable size; (iii) general conditions in the financial markets, and any changes therein (including any changes arising out of acts of terrorism, war, weather conditions or natural disasters), to the extent that such conditions do not have a materially disproportionate impact on Thermage and its subsidiaries, taken as a whole, relative to other aesthetic laser companies of comparable size; (iv) the announcement or pendency of the merger agreement and the transactions contemplated thereby; (v) changes in GAAP (or any interpretations of GAAP) applicable to Thermage or any of its subsidiaries; (vi) changes in Thermage s stock price or the trading volume of Thermage stock, in and of itself; or (vii) the failure to meet public estimates or forecasts of revenues, earnings of other financial metrics, in and of itself, or the failure to meet internal projections, forecasts or budgets of revenues, earnings or other financial metrics, in and of itself.

*As it Pertains to Reliant:*

A material adverse effect with respect to Reliant means a fact, circumstance, change or effect that, individually or when taken together with all other such facts, circumstances, changes or effects that exist at the date of determination of the occurrence of the material adverse effect, has or is reasonably likely to have a material adverse effect on the business, operations, financial condition or results of operations of Reliant and its subsidiaries, taken as a whole; provided, however, that no facts, circumstances, changes or effects (by themselves or when aggregated with any other facts, circumstances, changes or effects) resulting from, relating to or arising out of the following shall be deemed to be or constitute a material adverse effect, and no facts, circumstances, changes or effects resulting from, relating to or arising out of the following (by themselves or when aggregated with any other facts, circumstances, changes or effects) shall be taken into account when determining whether a material adverse effect has occurred or may, would or could occur: (i) general economic, financial or political

Table of Contents

conditions in the United States or any other jurisdiction in which Reliant or any of its subsidiaries has substantial business or operations, and any changes therein (including any changes arising out of acts of terrorism, war, weather conditions or other force majeure events), to the extent that such conditions do not have a materially disproportionate impact on Reliant and its subsidiaries, taken as a whole, relative to other aesthetic laser companies of comparable size; (ii) general conditions in the aesthetic laser industry, and any changes therein (including any changes arising out of acts of terrorism, war, weather conditions or natural disasters), to the extent that such conditions do not have a materially disproportionate impact on Reliant and its subsidiaries, taken as a whole, relative to other aesthetic laser companies of comparable size; (iii) general conditions in the financial markets, and any changes therein (including any changes arising out of acts of terrorism, war, weather conditions or natural disasters), to the extent that such conditions do not have a materially disproportionate impact on Reliant and its subsidiaries, taken as a whole, relative to other aesthetic laser companies of comparable size; (iv) the announcement or pendency of the merger agreement and the transactions contemplated thereby; (v) changes in GAAP (or any interpretations of GAAP) applicable to Reliant or any of its subsidiaries; (vi) the failure to meet internal projections, forecasts or budgets of revenues, earnings or other financial metrics, in and of itself or (vii) certain specified matters.

***Termination of the Merger Agreement***

Reliant and Thermage may mutually agree at any time to terminate the merger agreement without completing the first merger.

In addition, either of Reliant or Thermage may, without the consent of the other, terminate the merger agreement in either of the following circumstances:

- if any governmental authority of competent jurisdiction shall have: (i) enacted, promulgated or issued or deemed applicable to the first merger any legal requirements that would make completion of the merger illegal in any jurisdiction in which Thermage or Reliant have substantial business operations, or (ii) issued or granted any final non-appealable order of a federal or state court in effect that has the effect of making the first merger illegal or would otherwise prohibit, prevent or restrain the first merger in any jurisdiction in which Thermage or Reliant have substantial business operations;

- if the first merger is not completed by January 7, 2009; or

- if the Thermage stockholders do not approve the issuance of Thermage common stock to Reliant stockholders at the Thermage stockholder meeting.

In addition, Thermage may, without the consent of Reliant, terminate the merger agreement in either of the following circumstances:

- there has been a breach of any representation, warranty, covenant or agreement of Reliant contained in the merger agreement such that the closing conditions regarding such representations, warranties and covenants would not be satisfied and such breach has not been cured within 30 calendar days after written notice to Reliant, unless the breach, by its nature, cannot be cured through the exercise of commercially reasonably efforts.

In addition, Reliant may, without the consent of Thermage, terminate the merger agreement if:

- there has been a breach of any representation, warranty, covenant or agreement of Thermage contained in the merger agreement such that the closing conditions regarding such representations, warranties and covenants would not be satisfied and such breach has not been cured within 30 calendar days after written notice thereof to Thermage, unless the breach, by its nature, cannot be cured through the exercise of commercially reasonably efforts; or

- the Thermage board of directors or any committee thereof has changed its recommendation in favor of the issuance of Thermage common stock to Reliant stockholders in a manner adverse to Reliant, the Thermage board of directors approves or recommends that its stockholders recommend an alternative acquisition transaction with respect to Thermage or Thermage enters into a contract for an

alternative acquisition transaction with respect to Thermage.

Table of Contents

***Payments by Thermage following Termination***

Thermage would be required to pay Reliant a termination fee of $3.5 million if the merger agreement is terminated under certain circumstances. However, if Thermage stockholder approval has not been obtained at the stockholder meeting called with respect to the issuance of stock pursuant to the first merger, Thermage will pay the transaction expenses of Reliant up to $1.3 million.

***Costs and Expenses***

In general, all costs and expenses incurred in connection with the merger agreement will be paid by the party incurring such expenses whether or not the first merger is consummated.

**Reliant Support Agreements**

The following is a summary of certain material provisions of the Reliant support agreements. This summary is qualified in its entirety by reference to the form of support agreement, a copy of which is attached as Annex C to this proxy statement/prospectus/information statement and is incorporated into this proxy statement/prospectus/information statement by reference.

***Agreement to Vote***

Each of Hank Gauthier, Maynard Howe, Leonard DeBenedictus, Eric Stang, Steven Mendelow, Glen Nelson, Robert Quillinan, Robert Zollars, Andrew Galligan, Jeffrey Jones, Keith Sullivan, entities affiliated with Three Arch Capital, L.P., entities affiliated with Meritech Capital Partners II, L.P. and entities affiliated with Delphi Ventures VII, L.P. has entered into a support agreement with Thermage.

Each of these Reliant directors, executive officers and affiliates has agreed to vote his, her or its shares of Reliant capital stock, and any and all options, warrants and other rights to acquire shares of Reliant capital stock, (i) in favor of approval of the first merger and the adoption and approval of the merger agreement, and in favor of each of the other actions contemplated by the merger agreement and the support agreement and any action required in furtherance thereof; (ii) in favor of approval of the certificate amendment; (iii) against approval of any proposal made in opposition to, or in competition with, consummation of the first merger and the transactions contemplated by the merger agreement; (iv) against any of the following actions (other than those actions that relate to the first merger and the transactions contemplated by the merger agreement): (A) any merger, consolidation, business combination, sale of assets, reorganization or recapitalization of Reliant or any subsidiary of Reliant with any party, (B) any sale, lease or transfer of any significant part of the assets of Reliant or any subsidiary of Reliant, (C) any reorganization, recapitalization, dissolution, liquidation or winding up of Reliant or any subsidiary of Reliant, (D) any automatic conversion of Reliant preferred stock, or (E) any material change in the capitalization of Reliant or any subsidiary of Reliant, or the corporate structure of Reliant or any subsidiary of Reliant; and (v) in favor of waiving any notice that may have been or may be required relating to any reorganization of Reliant or any subsidiary of Reliant, any reclassification or recapitalization of the capital stock of Reliant, any sale of assets, change of control or acquisition of Reliant or any subsidiary of Reliant by any other person, or any consolidation or merger of Reliant or any subsidiary of Reliant with or into any other person. These persons had the right, as of July 7, 2008, to vote a total of approximately 5,579,287 shares of Reliant capital stock on an as-converted-to-common-stock basis, or approximately 54.9% of the outstanding shares of Reliant stock on an as-converted-to-common stock basis on July 7, 2008.

In connection with the support agreements, these persons have granted an irrevocable proxy appointing members of the Thermage board of directors, and each of them individually, as their sole and exclusive attorneys and proxies to vote their shares in accordance with the terms of the support agreements.

Table of Contents

In addition, shortly after the execution of the merger agreement on July 7, 2008, Reliant received completed and executed actions by written consent from stockholders holding the requisite number of shares of Reliant common stock and preferred stock necessary to adopt the merger agreement and approve the transactions contemplated thereby.

***Transfer Restrictions***

The support agreement, subject to certain exceptions, restricts or limits the ability of each stockholder that is a party to the agreement to sell, transfer, pledge, encumber, grant an option with respect to or otherwise dispose of any of his or her shares of Reliant capital stock, or to agree to do the foregoing. Several exceptions to this restriction exist, such as the right to transfer to a family member, a trust for the benefit of family members, a charitable trust or a charity if the transferee agrees in writing to be bound by the support agreement.

The irrevocable proxy and support agreement will terminate upon the earlier of the consummation of the first merger or the termination of the merger agreement.

**Thermage Voting Agreements**

The following is a summary of certain material provisions of the Thermage voting agreements. This summary is qualified in its entirety by reference to the form of voting agreement, a copy of which is attached as Annex B to this proxy statement/prospectus/information statement and is incorporated into this proxy statement/prospectus/information statement by reference.

***Agreement to Vote***

Each of the directors and executive officers of Thermage, as well as entities affiliated with Institutional Venture Partners, entities affiliated with Essex Woodland Health Ventures, entities affiliated with Draper Fisher Jurvetson ePlanet Ventures LP, entities affiliated with Morgenthaler Venture Partners and entities affiliated with Technology Partners who collectively held approximately 38% of the outstanding shares of Thermage as of the close of business on July 7, 2008, entered into voting agreements with Reliant, pursuant to which each stockholder agreed to vote its shares of Thermage common stock in favor of the issuance of Thermage common stock in connection with the first merger and against certain transactions or certain actions that would delay, prevent or nullify the integrated merger or the transactions contemplated by the merger agreement.

In connection with the voting agreements, these persons have granted an irrevocable proxy appointing members of the Reliant board of directors, and each of them individually, as their sole and exclusive attorneys and proxies to vote their shares in accordance with the terms of the voting agreements.

***Transfer Restrictions***

The voting agreement, subject to certain exceptions, restricts or limits the ability of each stockholder that is a party to the agreement to sell, transfer, pledge, encumber, grant an option with respect to or otherwise dispose of any of his or her shares of Thermage capital stock, or to agree to do the foregoing. Several exceptions to this restriction exist, such as the right to transfer to a family member, a trust for the benefit of family members, a charitable trust or a charity if the transferee agrees in writing to be bound by the voting agreement.

The voting agreements and the irrevocable proxy will terminate upon the earlier of the consummation of the first merger or the termination of the merger agreement.

Table of Contents

**Lock-up Agreements**

Concurrently with the execution and delivery of the merger agreement, the executive officers and directors (and their respective affiliates) of Thermage and the executive officers and directors (and their respective affiliates) of Reliant entered into lock-up agreements pursuant to which each of the signatories agreed not to sell or otherwise transfer any shares of Thermage common stock held at the closing of the first merger until the first business day after Thermage announces earnings for the first full quarter after the closing.

**Note and Security Agreement**

In connection with the execution of the merger agreement, Thermage extended an advance of $5.0 million to Reliant pursuant to a secured bridge financing. The advance is evidenced by a secured promissory note issued by Reliant and secured by a subordinated lien on substantially all assets of Reliant excluding intellectual property pursuant to the terms of a security agreement between Reliant and Thermage. The secured promissory note bears interest at a rate of 15% per annum and is due (subject to the subordination described below) on the earliest to occur of (a) 365 days after the effective date of the acquisition by Thermage of Reliant, (b) ten days after the effectiveness of a change of control of Reliant other than pursuant to the merger agreement between Thermage and Reliant, and (c) upon the occurrence of an event of default under the secured promissory note, which includes customary events of default, including payment defaults, covenant defaults, cross-defaults to other indebtedness, bankruptcy and certain other insolvency defaults and judgment defaults. Indebtedness under the secured promissory note is subordinated in right of payment to and the liens on Reliant s assets in favor of Thermage are subordinated to existing debt of Reliant outstanding under the loan facilities with each of Pinnacle Ventures, LLC and its affiliates and Comerica Bank and the liens of such existing senior lenders. Amounts outstanding at the closing under this $5.0 million advance will be considered as part of Reliant s net indebtedness for purposes of the purchase price adjustments pursuant to the merger agreement.

**License Agreement**

The license agreement pursuant to which Reliant will license Reliant intellectual property to Spinco is an irrevocable and exclusive license, with limited exceptions, to certain Reliant patents and non-exclusively license know-how for use outside of the field of aesthetics. The license will be royalty free and fully paid and will be effective upon the closing of the transactions contemplated by the merger agreement. As a result of the license agreement and spin-out, Thermage will possess rights to Reliant patents only within the aesthetics field. As of the date of this proxy statement/prospectus/information statement, Reliant has only immaterial sales, and has no products planned or currently under development which use the Reliant intellectual property outside of the aesthetics field.

**Reliant Certificate Amendment**

The Reliant board of directors and the requisite number of Reliant stockholders have approved an amendment to the certificate of incorporation of Reliant. The amendment provides that Reliant may make a distribution of shares of Spinco to holders of Reliant Series A preferred stock, Reliant Series B preferred stock and Reliant common stock without making an equivalent distribution to the other holders of Reliant preferred stock. In addition, the amendment provides that upon the closing of the first merger pursuant to the merger agreement, holders of Reliant preferred stock and Reliant common stock will only be entitled to receive the amounts they are entitled to receive under the merger agreement. A copy of the amendment to Reliant s certificate of incorporation, which will be filed with the Secretary of State of the State of Delaware prior to the first merger, is included as Annex E to this proxy statement/prospectus/information statement.

Table of Contents

## UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL STATEMENTS

**Introductory Note to Unaudited Pro Forma Condensed Combined Financial Statements**

On July 7, 2008, Thermage and Reliant entered into a definitive merger agreement for a transaction to be accounted for as a purchase under accounting principles generally accepted in the United States. Thermage is considered to be acquiring Reliant in this merger. A more detailed description of and summary of the accounting for the merger is provided in the accompanying Notes to Unaudited Pro Forma Condensed Combined Financial Statements.

Pro forma adjustments in the accompanying unaudited pro forma condensed combined financial statements reflect certain assumptions and estimates regarding the purchase price and the fair value of assets acquired and liabilities assumed and the amount of goodwill that will arise from the merger. The actual goodwill arising from the acquisition will be based on the difference between the value of the merger consideration, including certain acquisition and closing costs, and the fair value of the assets acquired and liabilities assumed. For purposes of the accompanying unaudited pro forma condensed combined financial statements, the purchase price has been assumed using the average closing value of Thermage s common stock on July 7, 2008 and on the two trading days prior to and after July 7, 2008.

The unaudited pro forma condensed combined financial information is based on a number of other assumptions and estimates and is subject to a number of uncertainties relating to the merger and related matters, including, among other things, estimates, assumptions and uncertainties regarding (1) the amount of accruals for direct acquisition costs and the amount of expenses and other costs relating to the merger, (2) the actual amount of goodwill that will arise from the merger, and (3) the fair values of certain assets and liabilities, which are sensitive to assumptions and market conditions. Accordingly, the unaudited pro forma condensed combined financial information does not purport to be indicative of the actual results of operations or financial condition that would have been achieved had the merger in fact occurred on the dates indicated, nor does it purport to be indicative of the results of operations or financial condition that may be achieved in the future. In addition, the consummation of the merger is subject to satisfaction of a number of conditions, and no assurance can be given the merger will be consummated on the currently anticipated terms, or at all.

The accompanying unaudited pro forma condensed combined financial statements presented below are based on the historical financial statements of Thermage and Reliant, adjusted to give effect to the acquisition of Reliant by Thermage. The unaudited pro forma condensed combined financial information has been derived from and should be read in conjunction with the historical financial statements and related notes of Thermage and Reliant included elsewhere in this proxy statement/prospectus/information statement. The pro forma adjustments are described in the accompanying Notes to Unaudited Pro Forma Condensed Combined Financial Statements.

Pro forma adjustments related to the unaudited pro forma condensed combined statements of operations give effect to events that are (i) directly attributable to the merger, (ii) factually supportable, and (iii) expected to have a continuing impact on the combined results. Pro forma adjustments related to the unaudited pro forma condensed combined balance sheet give effect to events that are directly attributable to the transaction and factually supportable regardless of whether they have a continuing impact or are nonrecurring.

The unaudited pro forma condensed combined balance sheet as of June 30, 2008 assumes the proposed merger was completed as of June 30, 2008. The unaudited pro forma condensed combined statements of operations for the year ended December 31, 2007 and for the six months ended June 30, 2008 assume the proposed merger was completed as of January 1, 2007.

Table of Contents

**Unaudited Pro Forma Condensed Combined Balance Sheet**

| | Historical Thermage | Historical Reliant | Pro Forma Adjustments (Note 3) | | Pro Forma Combined |
|---|---|---|---|---|---|
| | | As of June 30, 2008 | | | |
| | | *(in thousands)* | | | |
| **ASSETS** | | | | | |
| **Current assets:** | | | | | |
| Cash and cash equivalents | $ 15,358 | $ 5,858 | $ | | $ 21,216 |
| Marketable investments | 36,882 | | (25,000) | **a** | 11,882 |
| Accounts receivable, net | 7,079 | 4,586 | | | 11,665 |
| Inventories, net | 5,855 | 7,951 | 774 | **b** | 14,580 |
| Prepaid expenses and other current assets | 1,438 | 868 | | | 2,306 |
| Total current assets | 66,612 | 19,263 | (24,226) | | 61,649 |
| Property and equipment, net | 2,876 | 3,831 | | | 6,707 |
| Intangible assets, net | | 264 | 32,936 | **c** | 33,200 |
| Goodwill | | | 47,440 | **d** | 47,440 |
| Other assets | 142 | 294 | | | 436 |
| Total assets | $ 69,630 | $ 23,652 | $ 56,150 | | $ 149,432 |
| **LIABILITIES AND STOCKHOLDERS EQUITY** | | | | | |
| **Liabilities:** | | | | | |
| Accounts payable | $ 1,263 | $ 7,609 | $ | | $ 8,872 |
| Accrued liabilities | 5,588 | 4,538 | 5,067 | **e** | 15,193 |
| Preferred stock warrant liability | | 865 | (865) | **f** | |
| Line of credit obligation | | 3,000 | | | 3,000 |
| Current portion of notes payable | | 2,719 | | | 2,719 |
| Current portion of deferred revenue | 1,483 | 2,272 | (716) | **g** | 3,039 |
| Other current liabilities | 35 | 1 | | | 36 |
| Total current liabilities | 8,369 | 21,004 | 3,486 | | 32,859 |
| Notes payable | | 3,270 | | | 3,270 |
| Deferred rent, net of current portion | 100 | | | | 100 |
| Deferred revenue, net of current portion | 570 | 307 | (77) | **g** | 800 |
| Other liabilities | 222 | 2 | | | 224 |
| Total liabilities | 9,261 | 24,583 | 3,409 | | 37,253 |
| Redeemable convertible preferred stock | | 60,704 | (60,704) | **h** | |
| **Stockholders equity:** | | | | | |
| Common stock | 24 | 1 | 23 | **h** | 48 |
| Additional paid-in capital | 102,164 | 26,289 | 35,497 | **h** | 163,950 |
| Deferred stock-based compensation | (3) | | | | (3) |
| Accumulated other comprehensive loss | (109) | | | | (109) |
| Accumulated deficit | (41,707) | (87,925) | 77,925 | **h** | (51,707) |
| Total stockholders equity (deficit) | 60,369 | (61,635) | 113,445 | | 112,179 |
| Total liabilities and stockholders equity | $ 69,630 | $ 23,652 | $ 56,150 | | $ 149,432 |

See accompanying Notes to Unaudited Pro Forma Condensed Combined Financial Statements

100

Table of Contents

**Unaudited Pro Forma Condensed Combined Statement of Operations**

| | Year Ended December 31, 2007 | | | | |
|---|---|---|---|---|---|
| | Historical Thermage | Historical Reliant | Pro Forma Adjustments (Note 3) | | Pro Forma Combined |
| | *(in thousands, except shares and per share data)* | | | | |
| Net revenue | $ 63,101 | $ 70,476 | $ | | $ 133,577 |
| Cost of revenue | 15,976 | 32,721 | 2,588 | i | 51,285 |
| Gross margin | 47,125 | 37,755 | (2,588) | | 82,292 |
| Operating expenses | | | | | |
| Sales and marketing | 26,195 | 33,315 | 1,133 | i | 60,643 |
| Research and development | 9,099 | 13,932 | | | 23,031 |
| General and administrative | 11,300 | 14,575 | | | 25,875 |
| Total operating expenses | 46,594 | 61,822 | 1,133 | | 109,549 |
| Income (loss) from operations | 531 | (24,067) | (3,721) | | (27,257) |
| Interest and other income, net | 2,520 | 556 | (1,125) | j | 1,951 |
| Interest expense | | (902) | | | (902) |
| Gains on preferred stock warrant liability | | 6,676 | (6,676) | k | |
| Income (loss) before income taxes | 3,051 | (17,737) | (11,522) | | (26,208) |
| Provision for income taxes | (271) | (25) | | | (296) |
| Net income (loss) | $ 2,780 | $ (17,762) | $ (11,522) | | $ (26,504) |
| Net income (loss) per share basic and diluted (Note 4): | | | | | |
| Net income (loss) per share basic | $ 0.12 | | | | $ (0.57) |
| Net income (loss) per share diluted | $ 0.11 | | | | $ (0.57) |
| Weighted average shares outstanding used in calculating net income (loss) per common share (Note 4): | | | | | |
| Basic | 23,241,031 | | | | 46,841,031 |
| Diluted | 24,884,458 | | | | 46,841,458 |

See accompanying Notes to Unaudited Pro Forma Condensed Combined Financial Statements

Table of Contents

**Unaudited Pro Forma Condensed Combined Statement of Operations**

| | Six Months Ended June 30, 2008 | | | | |
|---|---|---|---|---|---|
| | Historical Thermage | Historical Reliant | Pro Forma Adjustments (Note 3) | | Pro Forma Combined |
| | *(in thousands, except share and per share data)* | | | | |
| Net revenue | $ 34,112 | $ 40,966 | $ | | $ 75,078 |
| Cost of revenue | 8,453 | 16,232 | 1,294 | i | 25,979 |
| Gross margin | 25,659 | 24,734 | (1,294) | | 49,099 |
| Operating expenses | | | | | |
| Sales and marketing | 14,415 | 17,832 | 567 | i | 32,814 |
| Research and development | 4,904 | 6,806 | | | 11,710 |
| General and administrative | 7,598 | 6,996 | | | 14,594 |
| Total operating expenses | 26,917 | 31,634 | 567 | | 59,118 |
| Loss from operations | (1,258) | (6,900) | (1,861) | | (10,019) |
| Interest and other income, net | 1,146 | 22 | (563) | j | 605 |
| Interest expense | | (473) | | | (473) |
| Gains on preferred stock warrant liability | | 651 | (651) | k | |
| Loss before income taxes | (112) | (6,700) | (3,075) | | (9,887) |
| Provision for income taxes | (86) | (3) | | | (89) |
| Net loss | $ (198) | $ (6,703) | $ (3,075) | | $ (9,976) |
| Net loss per share basic and diluted (Note 4): | $ (0.01) | | | | $ (0.21) |
| Weighted average shares outstanding used in calculating net income (loss) per common share (Note 4): | | | | | |
| Basic and diluted | 23,743,043 | | | | 47,343,043 |

See accompanying Notes to Unaudited Pro Forma Condensed Combined Financial Statements

Table of Contents

**NOTES TO UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL STATEMENTS**

**1. Summary of Accounting for Merger**

On July 7, 2008, Thermage, Inc., a Delaware corporation ( Thermage ), Relay Acquisition Company, LLC, a Delaware limited liability company and a wholly owned subsidiary of Thermage ( Merger Sub II ), and Reliant Technologies, Inc., a Delaware corporation, ( Reliant ) entered into an Agreement and Plan of Merger and Reorganization (the Merger Agreement ). Subject to satisfaction or waiver of the conditions therein, a Delaware corporation and wholly owned subsidiary of Thermage to be formed ( Merger Sub I ) will merge with and into Reliant, and then Reliant, as the surviving corporation, will merge with and into Merger Sub II, with Merger Sub II being the ultimate surviving entity and continuing as a wholly owned subsidiary of Thermage (the Merger ).

Under the terms of the Merger Agreement, Thermage will issue in the aggregate 23,600,000 shares of Thermage common stock and up to approximately 400,000 shares of Thermage common stock subject to warrants, and pay approximately $25.0 million in cash, subject to certain purchase price adjustments, to Reliant security holders in the Merger. In addition, Thermage has agreed to provide interim debt financing to Reliant in the amount of $5.0 million.

The following unaudited pro forma condensed combined financial data was prepared using the purchase method of accounting and was based on the historical financial statements of Thermage and Reliant. The unaudited pro forma condensed combined balance sheet as of June 30, 2008 combines the historical Thermage and Reliant balance sheets as if the Merger had closed on June 30, 2008. The unaudited pro forma condensed combined statements of operations for the year ended December 31, 2007 and the six months ended June 30, 2008 combine the historical Thermage and Reliant statements of operations as if the Merger had closed on January 1, 2007. This unaudited pro forma condensed combined financial data should be read in conjunction with the historical financial statements and accompanying notes of Reliant contained elsewhere in this proxy statement/prospectus/information statement, and Thermage s historical financial statements and accompanying notes appearing elsewhere in this proxy statement/prospectus/information statement.

The unaudited pro forma condensed combined financial information is presented for informational purposes only and is not intended to represent or be indicative of the results of operations that would have been achieved if the Merger had been completed on January 1, 2007, and should not be taken as representative of future consolidated results of operations or financial condition of Thermage. Preparation of the unaudited pro forma condensed combined financial information for all periods presented required management to make certain judgments and estimates to determine the pro forma adjustments, such as purchase accounting adjustments, which include, among others, amortization charges from acquired intangible assets, reduction in interest income and expense and related income tax effects. In addition, with respect to the unaudited pro forma condensed combined balance sheet at June 30, 2008, management estimated the fair value of Reliant s assets acquired and liabilities assumed as of June 30, 2008.

The pro forma information does not reflect cost savings, operating synergies or revenue enhancements expected to result from the Merger or the costs to achieve these cost savings, operating synergies and revenue enhancements.

The preliminary allocation of the purchase price to Reliant s tangible and intangible assets, in-process research & development and liabilities is based on management s estimates of fair value and will be finalized upon consummation of the Merger and the completion of a third party formal valuation. The preliminary allocation of the estimated purchase price presented in the pro forma adjustments is based on the estimated fair value of acquired net tangible and intangible assets of Reliant, as if the Merger had closed on June 30, 2008. The preliminary allocation of purchase price is subject to refinement. Final purchase price adjustments may vary materially from the pro forma adjustments presented.

Table of Contents

**NOTES TO UNAUDITED PRO FORMA CONDENSED COMBINED**

**FINANCIAL STATEMENTS (Continued)**

**2. Purchase Price Allocation**

Under the terms of the Merger Agreement, Thermage will pay $25.0 million in cash subject to certain purchase price adjustments, and issue 23,600,000 shares of Thermage common stock and up to approximately 400,000 shares of Thermage common stock subject to warrants. The Merger will be accounted for under the purchase method of accounting, and under this method of accounting, the total purchase price, including transaction costs of approximately $3.1 million, is approximately $89.9 million.

The following table summarizes the components of the estimated total purchase price determined for accounting purposes of these unaudited pro forma condensed combined financial statements (in thousands):

| | |
|---|---|
| Cash payment for Reliant capital stock | $ 25,000 |
| Fair value of common stock to be issued | 61,360 |
| Fair value of common stock warrants to be issued | 450 |
| Direct transaction costs (estimated) | 3,110 |
| Total estimated purchase price | $ 89,920 |

The value of the shares of Thermage common stock to be issued was determined based on the average closing price of Thermage s common stock on July 7, 2008 and on the two trading days prior to and after July 7, 2008, or $2.60 per share.

The fair value of common stock warrants to be issued was determined using the Black-Scholes option pricing model based on the issuance of approximately 400,000 shares of Thermage common stock subject to warrants calculated based on the closing price of Thermage s common stock on June 30, 2008.

The preliminary allocation of purchase consideration was based on the estimated fair value of the tangible and identifiable intangible assets acquired and liabilities assumed in the Merger. The preliminary allocation of the estimated purchase price was made to major categories of assets and liabilities in the accompanying unaudited pro forma condensed combined financial statements based on management s best estimates, assuming the Merger had closed on June 30, 2008 for the unaudited pro forma condensed combined balance sheet purposes and January 1, 2007 for the unaudited pro forma condensed combined statements of operation purposes . The excess of the estimated purchase price over the estimated fair value of tangible and identifiable intangible assets acquired and liabilities assumed was allocated to goodwill.

The preliminary allocation of the estimated purchase price in the unaudited pro forma condensed combined balance sheet as of June 30, 2008 was prepared based on management s preliminary estimate of the fair value of assets to be acquired and liabilities assumed, as presented below (in thousands):

| | |
|---|---|
| Net tangible assets acquired | $ (720) |
| Amortizable intangible assets: | |
| Developed technology | 15,200 |
| Customer relationships | 10,000 |
| Trade names | 3,000 |
| Collaboration agreement | 5,000 |
| In-process research and development | 10,000 |
| Goodwill | 47,440 |
| Total estimated purchase price | $ 89,920 |

Table of Contents

**NOTES TO UNAUDITED PRO FORMA CONDENSED COMBINED**

**FINANCIAL STATEMENTS (Continued)**

Net tangible assets were $(0.7) million and were based on estimated fair values. See further discussion of these purchase accounting adjustments in Note 3.

Identified intangible assets of $33.2 million consist primarily of developed technology, customer relationships, trade names, and a collaboration agreement. Developed technology relates to Reliant s core and product technologies which are generating revenue and expected to generate future revenue. Customer relationships relate to Reliant s ability to sell existing and future versions of its products to its existing customers. Collaboration agreement represents an estimate of the fair value associated with a collaboration agreement with a customer. Trade names represent future value to be derived associated with the use of existing trade names in product promotion. Thermage expects to amortize developed technology, customer relationships, trade names, and collaboration agreement over their expected useful life of 7 to 12 years.

The amount allocated to in-process research and development represents an estimate of the fair value of research projects that have not reached technological feasibility and have no alternative future use. The valuation was determined using a discounted cash flows technique. The estimated fair value of in-process research and development will be expensed immediately following the consummation of the Merger.

Of the total estimated purchase price, approximately $47.4 million was preliminarily allocated to goodwill. Goodwill represents the excess of the purchase price of an acquired business over the fair value of the underlying net tangible and intangible assets.

**3. Pro Forma Adjustments**

The accompanying unaudited pro forma condensed combined financial statements have been prepared as if the Merger was completed on June 30, 2008 for balance sheet purposes and on January 1, 2007 for statement of operations purposes and reflect the following pro forma adjustments:

(a) Adjustment to record decrease in Thermage s marketable investments of approximately $25.0 million to fund the merger.

(b) Adjustment to record acquired inventory at fair value.

(c) Adjustment to record the fair value of intangible assets to be acquired.

(d) Adjustment to record the goodwill resulting from the Merger.

(e) Adjustment to other accrued liabilities as follows (in thousands):

| | |
|---|---|
| Direct transaction costs (estimated) | $ 3,110 |
| Exit-related activities in connection with the merger | 857 |
| Severance related to workforce restructuring | 1,025 |
| Other accrued liabilities | 75 |
| Total | $ 5,067 |

(f) Adjustment to eliminate preferred stock warrant liability.

(g) Adjustment to record Reliant s deferred revenue at fair value, representing the legal performance obligations under Reliant s existing contracts.

105

Table of Contents

**NOTES TO UNAUDITED PRO FORMA CONDENSED COMBINED**

**FINANCIAL STATEMENTS (Continued)**

(h) Adjustment to redeemable convertible preferred stock and stockholders equity as follows (in thousands):

| | |
|---|---|
| Eliminate Reliant s historical redeemable convertible preferred stock and stockholders equity | $ 931 |
| Fair value of Thermage common stock issued in connection with the Merger | 61,360 |
| Fair value of Thermage common stock warrants issued in connection with the Merger | 450 |
| Write-off in-process research and development | (10,000) |
| Total | $ 52,741 |

(i) To record amortization of the acquired intangible assets as follows (in thousands):

| | Six months ended June 30, 2008 | Year ended December 31, 2007 |
|---|---|---|
| Amortization of merger-related intangible assets presented as part of the following captions: | | |
| Cost of revenue | $ 1,294 | $ 2,588 |
| Sales and Marketing | 567 | 1,133 |
| Total | $ 1,861 | $ 3,721 |

(j) To decrease interest income by applying the average rate of return for the respective periods to the assumed decrease in Thermage s marketable investments balance of approximately $25.0 million used to fund the Merger.

(k) To eliminate gains on re-measurement of Reliant s preferred stock warrants.

**4. Unaudited Pro Forma Combined Loss Per Share Basic and Diluted**

Shares used in the pro forma combined basic and diluted net loss per share calculation reflect the addition of 23,600,000 shares of Thermage voting common stock issued to Reliant as if those shares were outstanding from January 1, 2007. The 23,600,000 shares were determined in accordance with the Merger Agreement.

Table of Contents

## INFORMATION ABOUT THERMAGE

*In this section, Information About Thermage, references to we, us, our and ours refer to Thermage.*

**Overview**

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 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 as a non-invasive alternative to surgical procedures that cost up to tens of thousands of dollars and 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.

We received FDA clearance and commercially launched our ThermaCool system in 2002. We market the ThermaCool system, including our single-use ThermaTips, in the United States to physicians primarily through a direct sales force and internationally in 82 countries through a network of distributors. Our sales force trains physicians and other medical professionals 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, 2008, we had an installed base of approximately 2,560 ThermaCool RF generators and had sold approximately 554,000 ThermaTips, which we estimate represent an approximately equal number of Thermage procedures performed.

**The Structure of Skin and Connective Tissue**

The skin is comprised of the epidermis, dermis and the hypodermis, or subcutaneous fat layer. The top two layers of skin, the epidermis and dermis, together are known as the cutis and on most areas of the body are approximately two to three millimeters thick. The dermis contains blood vessels, hair follicles and other skin components. The deepest layer of the skin, the hypodermis, contains 50% of the body s fat cells. The hypodermis also contains collagen strands, or fibrous septae, that connect the dermis to the underlying bone and muscle. Collagen has been shown to be a very flexible and stretchable protein with high tensile strength. With advancing age and exposure to damaging environmental factors, collagen deteriorates and loses its elasticity, resulting in the formation of rhytids, or a wrinkling of the epidermis. The following diagram illustrates the basic anatomy of the skin:

Electromagnetic radiation, specifically light and heat, applied to the different layers of the skin can have an effect on the skin s appearance. Epidermis exposure to sunlight can tan the skin, while overexposure can lead to

Table of Contents

burns or blisters. Devices, such as aesthetic lasers, have been designed to generate light waves to deliver heat through the epidermis, into the dermis, for removal of hair, vein treatment and other aesthetic applications. Gels, coolants and other means are used to protect the epidermis from burning during this process. Delivery of heat below the dermis, into the subcutaneous fat layer, has been accomplished using other forms of energy, including RF energy, for aesthetic effect.

**The Market for Aesthetic Procedures to Treat the Skin**

The American Society for Aesthetic Plastic Surgery reports that in 2007, total expenditures for aesthetic procedures were approximately $13.0 billion. From 2000 to 2007 the total number of aesthetic procedures increased from approximately 5.7 million to over 11.7 million procedures, representing an 11% compounded annual growth rate. Non-invasive aesthetic procedures were primarily responsible for the overall increase, rising from approximately 4.3 million to approximately 9.6 million procedures over the same period, representing a 12% compounded annual growth rate. We believe there are several factors contributing to the rapid growth of non-invasive aesthetic procedures, including:

*Aging of the U.S. Population.* The baby boomer demographic segment, defined by the U.S. Census as those Americans born between 1946 and 1964, represented nearly 30% of the U.S. population in 2006. Baby boomers control approximately $2 trillion in spending power and 50% of all discretionary income. The size and wealth of this aging segment and its desire to retain a youthful appearance have driven the growth for aesthetic procedures.

*Emergence of Non-Traditional Practitioners.* The traditional providers of aesthetic procedures include dermatologists and plastic surgeons. In 2007, there were approximately 17,000 physicians within the specialties of dermatology and plastic surgery according to the American Board of Medical Specialties. Manufacturers of aesthetic systems have placed an increasingly important focus on sales to other physician groups including approximately 72,000 family practitioners, 40,000 obstetricians and gynecologists, and 39,000 general surgeons. Additionally, physician directed medi-spas and non-medical day spas have entered the aesthetics market.

*Broader Range of and Accessibility to Safe and Effective Treatments.* Technological developments have made non-invasive treatment alternatives increasingly safe and effective. These technological developments have also reduced the required treatment and recovery time from invasive surgical procedures, which in turn have led to greater patient demand. These factors, along with the easy-to-use and low-cost nature of these products, have attracted both traditional and non-traditional practitioners to aesthetic procedures.

*Market Shift Towards Less Invasive Procedures.* Market trends confirm that patients are moving away from invasive procedures towards minimally-invasive or non-invasive treatments. Notably, the American Society for Aesthetic Plastic Surgery reports that from 2000 to 2007 the total number of laser skin resurfacing procedures increased from approximately 117,000 to 510,000 procedures, representing a 23% compounded annual growth rate, and the total number of Botox injection procedures increased from 1.1 million to 2.8 million injections over the same period, representing a 14% compounded annual growth rate. 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 33% compounded annual rate over the next four years, according to the Millennium Research Group.

*Changing Practitioner Economics.* Managed care and government payor reimbursement restrictions in the United States, and similar payment-related constraints outside the United States, are motivating practitioners to establish or expand their elective aesthetic practices with procedures that are paid for directly by patients. We expect this trend to continue as physicians look for ways to expand their practices.

Table of Contents

*Increasing Acceptance of Aesthetic Procedures.* Mass-market television shows like *Extreme Makeover* and *The Swan* reflect the mainstream acceptance of aesthetic procedures. Additionally, features in many popular television and print media have the effect of widely advertising the aesthetic procedures undertaken by celebrities, enhancing the glamour associated with and demand for self-improving treatments.

Similar market trends also exist outside the United States, where demand for non-invasive aesthetic procedures has also experienced strong growth. Manufacturers of non-invasive aesthetic devices typically derive one-third to one-half of their revenue from international sales.

**Aesthetic Procedures for Skin and Their Limitations**

Many medical treatments are available to treat wrinkles, rejuvenate the skin and give a patient a more youthful appearance. The most popular treatments include invasive surgical procedures, minimally-invasive needle injections and non-invasive energy-based procedures.

***Surgical Procedures***

Of the various aesthetic alternatives for reducing wrinkles and rejuvenating appearance, invasive surgical procedures, such as cosmetic eyelid surgery, tummy tucks and facelifts, can create the most pronounced and long-lasting changes in appearance. They are performed by plastic surgeons with the patient under anesthesia.

*Market Data*. Approximately 241,000 eyelid procedures, 185,000 tummy tucks and 138,000 facelifts were performed in the United States in 2007, according to the American Society for Aesthetic Plastic Surgery.

*Limitations*. Compared to alternative treatments, invasive surgical procedures are expensive, costing thousands of dollars, and can involve weeks of post-surgical recovery and time away from work. They carry risk of hematoma, or accumulation of blood under the skin that may require removal, infection and adverse reactions to anesthesia.

***Injections***

Popular alternatives for temporarily improving appearance and reducing wrinkles include Botox and soft tissue fillers, such as Restylane, that are injected into the skin. These injections are typically administered by dermatologists at a cost of several hundred dollars. In most instances, they involve little or no restricted recovery time for the patients.

*Market Data*. Approximately 2.8 million Botox and 1.7 million soft tissue filler injections were administered in 2007, according to the American Society for Aesthetic Plastic Surgery.

*Limitations*. The effects of these procedures are temporary and require repeat treatment, with Botox lasting from three to four months and injectable fillers typically lasting from three to six months.

***Laser Treatments***

Lasers and other light-based devices are used to perform skin rejuvenation, to temporarily reduce wrinkles and to perform other aesthetic procedures, such as hair removal and vein treatment. Light-based skin rejuvenation, or resurfacing, procedures can be either ablative or non-ablative. Ablative treatments, also known as laser peels, intentionally burn away the epidermis to heat the dermis and to stimulate collagen growth. Non-ablative rejuvenation treatments typically use less energy and employ gels or other substances in order to insulate the epidermis from damage during the treatment. Because they are less intense than ablative lasers, non-ablative procedures typically involve little downtime or recovery.

*Market Data.* According to the American Society for Aesthetic Plastic Surgery, there were over 510,000 laser skin resurfacing procedures performed in 2007 and 85% of these treatments were non-ablative.

*Limitations*. Ablative treatments, or laser peels, like surgery, are performed under anesthesia and can involve weeks of post-surgical recovery and time away from work. Non-ablative light-based

Table of Contents

procedures are often effective in hair removal and other procedures targeting the epidermis. However, the nature of light makes it challenging to reach the depth of the subcutaneous fat layer. Penetration of light, and consequently the ability to produce heat, is physically limited by the wavelength of the light, the light s natural tendency to scatter within tissue and the absorption of this energy by specific chromophores within the body, such as water, blood and pigmentation. Non-ablative wrinkle treatments typically require multiple sessions, from four to six treatments spread two to four weeks apart per treatment.

These 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 effect from a single procedure that involves little or no downtime.

**The Thermage Solution**

We believe that our Thermage procedure provides a compelling treatment alternative to treat wrinkles that fills a need not met by currently available surgical procedures and minimally and non-invasive treatments. Our ThermaCool system consists of an RF generator with cooling capability through the delivery of a coolant to protect the outer layer of the skin from over-heating and a handpiece that, in conjunction with a single-use ThermaTip, regulates epidermis cooling and monitors treatment data. Our system also includes a variety of single-use ThermaTips 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, trained and qualified physicians, including not only plastic surgeons and dermatologists, but also physicians who do not traditionally perform cosmetic procedures, such as general and family practitioners, obstetricians and gynecologists, and general and vascular surgeons.

***Benefits of the Thermage Solution***

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

*Controlled Heating of Collagen*. Collagen is found in the dermis and in fibrous septae strands in the subcutaneous (fat) layers of the skin. As we age, our skin loses collagen and the collagen that remains stretches, creating loose, saggy skin. Because RF energy delivery depends on tissue resistance and not on optical light absorption, it can penetrate to a much greater depth than conventional lasers down to the subcutaneous fat layer of the skin. Our monopolar RF heating technology has two mechanisms of action that impact collagen, an initial response and a secondary response. The initial response is an immediate collagen contraction, a dermal contraction for tightening and a fibrous septae contraction in the subcutaneous fat layer for contouring. A secondary wound healing response results in collagen deposition and remodeling, resulting in a continual tightening improvement over time. Our own clinical experience demonstrates, and published independent, along with affiliated, scientific data corroborates, the Thermage procedure s tissue-tightening effect. This body of data provides potential physician customers with objective evidence that they can evaluate when considering a purchase of our system.

*Non-Invasive, Non-Ablative Alternative to Surgery.* The Thermage procedure is non-invasive, involving no surgery or injections, and offers an alternative to surgery at a lower price with little or no downtime from patients normal routines. It is also a non-ablative procedure that causes minimal temporary surface tissue damage. If desired, the Thermage procedure can be used in a complementary fashion in conjunction with invasive therapies such as liposuction, facelift and thread implants, as well as injectable fillers and other minimally-invasive and non-invasive aesthetic procedures.

*Single Procedure Treatment.* 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.

Table of Contents

Studies have shown clinical effect from a Thermage procedure that is both immediate and that can improve over a measurement period of six months following treatment. In addition, Thermage procedures have been used effectively on all skin types and tones and on various areas of the body where wrinkle reduction is desired.

*Compelling Physician Economics.* We believe physicians are compensated more per hour by performing Thermage treatments than other non-invasive aesthetic device treatments. The ThermaCool system currently requires lower capital costs than competing laser and RF systems, while average procedure fees for Thermage treatments generally exceed our competitors. We continue to design new ThermaTips to address new applications without requiring additional equipment purchase.

*Ease of Use*. The ThermaCool system incorporates a straightforward user interface that allows a trained physician to easily perform procedures across various parts of the body. Different treatment sites may use different tips, each of which is pre-customized by size, pulse counts, pulse durations and heating profile to the intended procedure. The system provides real-time feedback and can be adjusted during the procedure as needed. The handpiece is designed with a small profile for accurate placement during treatment, comfort and ease of use.

***Our Technology***

Our ThermaCool system uses our patented method of delivering monopolar RF energy for heating collagen.

*Monopolar Radiofrequency*. Monopolar RF delivery uses two electrodes, with one active electrode being held in the device handpiece by the physician and the second, a passive return electrode, typically attached to the patient s back. Monopolar delivery allows for precise administration of energy because the electrical current is concentrated where the active electrode touches the body and disperses quickly as it travels towards the return electrode. The monopolar RF process is distinct from bipolar RF-based technology, which is superficial, relying on current passing through tissue located between two probes placed close together on the surface of the skin. We believe that monopolar technology delivers energy effectively to a greater tissue depth than bipolar technology.

*The ThermaTip Capacitive Coupling Mechanism of Action for Collagen Heating*. The single-use ThermaTip device contains our patented technology that uses monopolar RF energy as a controlled tissue heating source through the use of a non-conducting material, known as a dielectric. Capacitive coupling is the use of the dielectric to create an electric field in the area where our ThermaTip touches the body. The electric field induces a current within the surrounding tissue, resulting in volumetric heating of the tissue due to the tissue s natural resistance to electrical current flow. The heating depth is based upon the size and geometry of the ThermaTip and can be controlled from a few hundred microns to several millimeters in depth, depending upon the particular ThermaTip selected for various treatment areas. Collagen is a more efficient conductor of electricity than fat tissue and therefore acts as a pathway for the electric current. To achieve this deep heating with simultaneous surface cooling, the surface of the ThermaTip transmits RF energy to the skin while serving as a dynamic contact cooling membrane for the cryogen spray. The contact membrane continually monitors skin surface temperature to help protect the epidermis.

*Comfort and Safety*. Since the initial launch of our ThermaCool system in 2002, we have monitored and revised our procedure guidelines to safely and effectively deliver RF energy and cryogen cooling to the treatment site with minimal discomfort to the patient. An energy-based aesthetic treatment, if not used according to the manufacturer s protocol, has the potential to cause patient discomfort, irritation or surface tissue burning. We have designed our ThermaCool system to minimize the risk of these types of occurrences through stringent built-in safety precautions in addition to extensive user training. Our system regulates a combination of inputs to precisely and uniformly distribute RF energy over the treatment site, including temperature and pressure sensors at each corner of the ThermaTip and pre-programmed power levels and times for specific treatments. In April 2004, we introduced new procedure guidelines that we believe improved patient comfort.

Table of Contents

***Our ThermaCool System***

Our ThermaCool system includes three major components: the RF generator, the reusable handpiece and a single-use ThermaTip, as well as several consumable accessories. Physicians attach a single-use ThermaTip to the handpiece, which is connected to the ThermaCool RF generator. The ThermaCool generator authenticates the ThermaTip device and programs the ThermaCool system for the desired treatment without physician intervention.

*Radiofrequency Generator.* The ThermaCool RF generator produces a six-megahertz signal and is simple and efficient to operate. Controls are within easy reach, and important user information is clearly displayed on the built-in display, including energy delivered, tissue impedance, duration and feedback on procedure technique. Cooling is achieved in conjunction with the generator to deliver a coolant that cools and helps to protect the epidermal surface during a Thermage procedure. As of June 30, 2008, we had an installed base of approximately 2,560 ThermaCool RF generators.

*Handpiece.* The reusable handpiece holds the ThermaTip in place for the treatment and processes information about skin temperature and contact, treatment force against the skin, cooling system function and other important data. A precision control valve within the handpiece meters the delivery of cryogen, which cools and protects the epidermal surface.

*ThermaTip.* The ThermaTip device is available in four sizes with several configurations of pulse counts, pulse durations and two heating profiles for efficient implementation of treatment guidelines, based on the size and nature of the treatment area. Physicians currently can order pre-sterilized ThermaTips in sizes of 0.25 $cm^2$, 1.0 $cm^2$, 1.5 $cm^2$ and 3.0 $cm^2$. Each ThermaTip contains a proprietary internal EPROM, or programmable memory chip, which stores treatment parameters and safety limits in order to optimize performance and safety in the selected treatment. To enhance procedural safety, we have also programmed the EPROM contained in ThermaTips for single-use treatments. Using the same ThermaTip to perform multiple treatments could result in injury, as a result of the eventual breakdown of the ThermaTip s electrode dielectric membrane. Therefore, the EPROM ensures that the ThermaTip is not reused following a particular procedure. Since the introduction of our ThermaCool system in 2002 and through June 30, 2008, we had sold approximately 554,000 ThermaTips, which we estimate reflect an approximately equal number of Thermage procedures performed.

Our system also includes other consumable components in addition to ThermaTips. The system houses a canister of coolant that can be used for an average of three to six procedures, depending on the total skin surface area treated and the ThermaTip device used. Each patient procedure also requires a return pad, which is typically adhered to the patient s lower back to allow a path of travel for the RF current through the body and back to the generator. We also sell proprietary coupling fluid, an electrically conductive viscous liquid that helps ensure electrical and thermal contact with the ThermaTip device.

In February 2007, we introduced and began shipment of the ThermaCool® NXT system. The ThermaCool NXT has been redesigned to save time, reduce procedure cost, simplify the treatment experience and improve clinician comfort as compared to our older generation system. Advances to the technology include a streamlined operating system which speeds treatment times; a lighter, more ergonomic handpiece with integrated controls; and a sleek new design with a smaller footprint that takes up 50 percent less floor space than its predecessor.

***Our Thermage Procedure***

In order to perform our Thermage procedure, the physician selects a single-use ThermaTip based on the procedure to be performed and the size of the area to be treated, and the depth of cooling and heating desired for the treatment. We currently offer three 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 $cm^2$ tip, designed for the treatment of large areas; Body by Thermage includes the Body Shape procedure, designed for more of

Table of Contents

a contouring effect, and the Cellulite procedure, designed for the temporary improvement in the appearance of cellulite;

*Eyes by Thermage*, which involves the use of a small, 0.25 $cm^2$ tip, designed for the treatment of eyelids;

*Face by Thermage*, which involves the use of 3.0 $cm^2$ STC or TC, or 1.5 $cm^2$ tip sizes, designed for the treatment of the face and neck;

*Hands by Thermage*, which involves the use of 1.5 $cm^2$ tip size, designed for the treatment of the hands; and

*Lips by Thermage*, which involves the use of 1.5 $cm^2$ tip size, designed for the treatment of the upper lip.

After choosing the tip and attaching it to the handpiece, the physician marks the treatment area with a temporary grid pattern tattoo, corresponding to the size of the ThermaTip, which is easily wiped away post-procedure. The return pad is then adhered to the patient to allow a path of travel for the RF current back to the generator. After the application of a conductive fluid, each square of the grid is treated.

For each grid square, the physician places the tip against the patient s skin and depresses the handpiece button. The handpiece processes information from the tip about skin temperature and contact, treatment force against the skin, cooling system function and other important data. The information from the handpiece is sent to the console in order to generate the proper RF signal. A precision control valve within the handpiece also regulates the delivery of cryogen, which cools and protects the skin s surface. The ThermaTip device transmits RF energy to the skin while serving as a contact cooling membrane for the cryogen spray. Our system monitors a combination of inputs, such as temperatures, power levels and delivery duration, to precisely and safely control the RF energy and cooling delivery to each treatment site.

Patients feel alternating sensations of cold and heat during the procedure and some physicians elect to use a topical anesthetic or an oral pain medication. Procedure times vary with the size of the treatment area; a procedure for a full face typically requires multiple passes and takes approximately 45 minutes. Patients may notice immediate improvement in the appearance of wrinkles and are typically able to resume normal activities immediately after having the procedure. Over the subsequent two to six months, patients may experience further skin tightening at the site of the treated skin as new collagen strands grow and reinforce the strands shrunk by the treatment.

As with other non-invasive energy-based devices, the duration and the extent of beneficial 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, skin laxity and skin condition 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. Burns and blisters may occur either as a result of improper use of the device or as a result of a breakdown in the dielectric material within the ThermaTip.

Prior to April 2004, we trained physicians to follow a procedure protocol, or treatment guidelines, of fewer energy pulses on the skin at higher energy levels. This initial protocol, along with instances of poor operator technique, resulted in reported patient comfort challenges. We modified our procedure protocol in April 2004, and we retrained and recertified our physician customers on the new procedure protocol. The new procedure protocol involves lower energy levels with an increased number of pulses at the treatment site. We believe these modifications have generally increased patient comfort.

Our clinical studies of the Thermage procedure have been performed primarily on the face, using a single treatment. These studies included patients that experienced a range in effect from no improvement to significant

Table of Contents

improvement. Most experienced modest improvement from a single treatment. When comparing results of a single treatment with results of multiple treatments over time, we have not found a material difference between the two. Our studies typically follow patients over six months, though we have studied patients for up to a year. Generally, results have found improvement in the effect of the treatment increasing up to six months following treatment. Our study results going out one year indicate that if a patient has improvement at six months, the patient will likely have lasting improvement at 12 months.

***Our Customers***

To date, we have focused our attention on physician customers who have a demonstrated commitment to building a high-volume, non-invasive, aesthetic skin-tightening business within their practice. We have found physicians with an active aesthetics practice tend to perform more Thermage procedures after purchasing our machine than physicians who are new to aesthetic medicine. We encourage our sales force to work closely with our target physician customers to accelerate growth in their aesthetics practices, which, in turn, generates more ThermaTip sales for our company. As a broader group of physicians are adding non-invasive aesthetic procedures to their practices, our target physician base is expanding to include not only plastic surgeons and dermatologists, but also obstetricians, gynecologists and general practitioners. Plastic surgeons and dermatologists currently represent the majority of our existing customers. Many of these physicians are seeking a less expensive, less invasive procedures that they offer in order to augment their customer base and establish a relationship with those patients that do not desire, or cannot afford, an invasive procedure.

**Business Strategy**

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

*Driving Increased ThermaTip Usage.* Unlike the capital equipment model of the traditional laser business, because of the disposable nature of our ThermaTips, we maintain an active, continuous relationship with our customer base. We work collaboratively with our customer base to increase ThermaTip usage by expanding clinical applications and augmenting and facilitating the marketing efforts of our physician customers. We believe that our customers interests are closely aligned with our own, and we monitor the market to foster continued procedure growth for our customers and ThermaTip sales for us. With innovative marketing programs, such as our PatientBuilder.com resource, our sales force works with physician customers to develop a profitable Thermage procedure practice.

*Developing New Applications and Treatment Tips.* We intend to expand our line of ThermaTips for additional applications and conditions. In October 2006 we received FDA clearance to market our ThermaCool system for the temporary improvement in the appearance of cellulite. We commercially launched a product in the first quarter of 2008. 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, and other locations on the body where skin tightening or body shaping is desired, as well as clearances for larger treatment tip sizes.

*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. We believe that our intellectual property rights protect our position as the exclusive provider of wrinkle treatment using monopolar RF technology in the United States. Because our technology is RF-based and not light-based, we believe we are less exposed to the litigation, licenses and royalties that have been common in the aesthetic laser market. In June 2005, we settled a lawsuit with Syneron, which admitted the validity of six of our patents. As of June 30, 2008, we had 32 issued U.S. patents primarily covering our ThermaCool system and methods of use, the earliest of which will not expire until 2015, 16 pending U.S. patent applications, 21 issued foreign patents and 33 pending foreign patent applications, some of which foreign applications preserve an opportunity to pursue patent rights in multiple countries.

Table of Contents

*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 increase our penetration in non-core physician specialties and physician-directed medi-spas with track records of safe and successful aesthetic treatments.

*Expanding our International Presence.* We believe the size of the international market is comparable to the U.S. market, and we are focused on increasing our market penetration overseas and building global brand-recognition. In 2007, approximately 48% of our revenue originated outside of the United States. We intend to add distributors and sales support staff to increase sales and strengthen physician relationships in international markets.

*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 products for the aesthetics market.

**Sales and Marketing**

We sell our ThermaCool system to physicians in the United States primarily through a direct sales force of trained sales consultants. As of June 30, 2008, we had a 45-person U.S. direct sales force, including a vice- president, four regional sales directors, a director of sales training and development and three clinical specialists. In the fourth quarter of 2007, we began to expand and realign our U.S. sales organization into two groups, with about two-thirds of the sales force focusing on existing customers on sales of treatment tips, upgrades and training, and the remainder focusing on securing and broaden new customer base. Outside of the United States, we sell our ThermaCool system to physicians in 82 countries through 36 independent distributors.

***United States Sales***

Our strategy to increase sales in the United States is to:

remove obstacles for purchase, including treatment discomfort, time of treatment and cost

continue to position the Thermage procedure as an attractive alternative to other aesthetic treatments for skin tightening and body shaping;

work closely with our physician customers to increase product usage and enhance the marketing of Thermage procedures in their practices;

consumer public relations; and

expand our sales efforts to reach physicians outside of the traditional specialties for aesthetic procedures.

Further, we actively engage in promotional opportunities through participation in industry tradeshows, clinical workshops and company-sponsored conferences with expert panelists, as well as through trade journals, brochures and our website. We actively seek opportunities to obtain positive media exposure, and have been highlighted on such national broadcasts as *Oprah*, *Good Morning America*, and *E! Live from the Red Carpet*, as well as numerous local news programs.

*Consultative Sales Process*. Through our consultative sales process, we form strong relationships with our customers through frequent interactions. Beyond performing initial system installation and on-site training and certification, which can occur within two weeks of a physician s purchase decision, our sales consultants provide consultation to physicians on how to integrate our system into their practices and market procedures to their patients. Our sales consultants compensation structure emphasizes treatment tip sales

and customer service over capital equipment sales, although our sales force also has incentives to generate new accounts through system sales. We require our sales consultants to invest substantial time in training and servicing our physician customers, and therefore we discourage sales to physicians who do not show the potential to drive aesthetic procedure volume.

Table of Contents

*Physician Training and Certification*. We provide comprehensive training and education to each physician before we deliver the ThermaCool system. We require this initial training to assist physicians in safely and effectively performing the Thermage procedure. The majority of physicians operating our installed base of ThermaCool systems have pursued and met the advanced training criteria that we establish. To signify their achievement, we award a Certificate of Training to these physicians and identify them within the physician locator on our website with a small certificate icon next to their names. We do not identify physicians within our physician locator unless they have met these training requirements.

*Direct-to-Consumer Marketing*. In 2005, we launched direct-to-consumer, or DTC, marketing campaigns designed to build brand awareness and recognition, demonstrate our commitment to supporting our physician customers and distributors and increase demand for Thermage procedures. In 2007, we also ran a print insert in a quarterly consumer publication, *New Beauty*, targeted to women interested in cosmetic procedures. Our consumer website at www.thermage-info.com is targeted to consumers interested in learning more about Thermage and includes information on our ThermaCool system, the underlying technology and potential treatment outcomes, as well as short films and listings of local physicians who offer Thermage procedures. We have observed our website traffic increase significantly following national television appearances and their periodic re-broadcasts and following our DTC efforts. Due to women s interest in anti-aging treatments and procedures, our current DTC efforts are focused on public relations where we utilize PR outreach (such as desk-side briefings and pitching of new product press releases) to consumer health and beauty publications. This effort generates millions of gross impressions and has generated a high awareness of Thermage among this key target demographic.

*Expansion into Non-Traditional Specialties*. The majority of our systems sales to date in the United States have been made to dermatologists and plastic surgeons. These physicians constitute the traditional specialties focused on aesthetic procedures. However, by broadening our direct, we are able to reach further out to non-traditional practitioners within the gynecology, primary care, ophthalmology and ear, nose and throat specialties whose practices may be complemented by our aesthetic procedures we hope to increase sales of our systems and consumable products. Also, we hope to generate additional revenue by increasing our penetration into the growing medi-spa market, which is comprised of physicians offering aesthetic treatments in a spa setting.

***International Sales***

As of June 30, 2008, we had an international sales team of 11 employees supporting 36 independent distributors who market our ThermaCool system in 82 countries. We require our distributors to provide customer training, to invest in equipment and marketing and to attend certain exhibitions and industry meetings. The percentage of our revenue from customers located outside the United States was approximately 48%, 48% and 44% in fiscal 2007, 2006 and 2005, respectively.

Our strategy to grow sales outside the United States is to:

increase penetration of our ThermaCool system in international markets in which our ThermaCool system is currently sold;

expand into attractive new international markets by identifying and training qualified distributors; and

expand our marketing efforts into select international markets.

**Competition**

Our industry is characterized by intense competition and rapid innovation. For example, aesthetic laser devices have advanced rapidly over the past decade, with a variety of technologies available for a wide range of

Table of Contents

applications. Most recently, other types of devices have been developed that are competitive in the area of skin tightening, such as those based upon filtered light, bipolar RF energy and ultrasound. We compete directly against laser and other energy-delivery devices offered by public companies, including Candela, Cutera, Cynosure, Lumenis, Palomar Medical Technologies and Syneron, as well as by many private companies. Our ThermaCool system also competes with other aesthetic solutions, including Botox and collagen injections, soft tissue fillers, chemical peels, microdermabrasion and liposuction, as well as cosmetic surgical procedures such as face lifts, blepharoplasty and abdominoplasty.

Competition among providers of medical devices and other treatments for the aesthetics market is characterized by extensive research efforts and rapid technological progress. While we attempt to protect our ThermaCool system through patents and other intellectual property rights, there are few barriers to entry that would prevent new entrants or existing competitors from developing products that would compete directly with ours. In addition, we have encountered and expect to continue to encounter physicians who, due to relationships with our competitors or the nature of their practice, will not purchase our ThermaCool system.

**Research and Development**

Our research and development efforts currently focus on:

- designing new treatment tips and devices optimally designed for new clinical applications, such as skin resurfacing and body contouring;
- increasing security against the use of devices designed to enable re-use of treatment tips, resulting in procedure efficacy and safety concerns;
- developing a new cooling system that integrates a substitute for hydroflurocarbon, to maintain compliance with changes in international environmental regulations; and
- developing devices and technology for skin diagnostics, treatment monitoring and patient comfort management.

As of June 30, 2008, we had a staff of 16 technical professionals and research staff focused on product development projects. Our product development efforts include conducting in-house bench and animal testing for the development and evaluation of products and providing support to scientific and clinical studies conducted by investigators and institutions studying the use of our technologies. We have used transmission electron microscopy on biopsied tissue samples to corroborate that our products induce the denaturing of collagen that leads to immediate tissue tightening. We have developed histology techniques to investigate the depth of heat in tissue and a wound healing process that we believe is responsible for long-term improvement and tightening of tissue. We have also created three-dimensional computer models to study tissue heating with our products. In addition, we have also formed strategic relationships with outside contractors for assistance on specialized projects, and we work closely with experts in the medical community to supplement our internal research and development resources. Research and development expenses for 2007, 2006 and 2005 were $9.1 million, $9.6 million and $8.9 million, respectively. In the future, we expect to pursue further research and development initiatives to improve and extend our technological capabilities and to foster an environment of innovation and quality.

**Patents and Proprietary Technology**

We rely on a combination of patent, copyright, trademark and trade secret laws and confidentiality and invention assignment agreements to protect our intellectual property rights. As of June 30, 2008, we had 32 issued U.S. patents primarily covering our ThermaCool TC system and methods of use, the earliest of which expire in 2015; 16 pending U.S. patent applications, 21 issued foreign patents and 33 pending foreign patent

Table of Contents

applications, some of which foreign applications preserve an opportunity to pursue patent rights in multiple countries. We intend to file for additional patents to strengthen our intellectual property rights.

In addition to the use of RF-based energy, our patent portfolio covers use of other non-ablative energy modalities, including, but not limited to, microwaves, ultrasound and optical wavelengths. Our patent applications may not result in issued patents, and we cannot assure you that any patents that issue will protect our intellectual property rights. Third parties may challenge any patents issued to us as invalid, may independently develop similar or competing technology or may design around any of our patents. We cannot be certain that the steps we have taken will prevent the misappropriation of our intellectual property, particularly in foreign countries where the laws may not protect our proprietary rights in these foreign countries as fully as in the United States.

As a result of a settlement of litigation reached in June 2005, Syneron and we have granted each other a non-exclusive paid-up license under the patents asserted in the lawsuit and related patents under the parties control. We excluded from this license any rights to utilize monopolar RF technologies and capacitive electrical coupling, which we believe in combination allow the Thermage procedure to create a reverse thermal gradient and deep, near uniform, volumetric heating to achieve tissue tightening effects. Syneron excluded from its license any patents related to its proprietary Electro-Optical Synergy technology. Both parties admitted the validity of all patents in the litigation, but neither admitted any wrongdoing or liability.

We advised Alma Lasers, Ltd. and Alma Lasers, Inc. (together, Alma ) as early as February 2006 that its Accent product infringed numerous Thermage patents. On April 26, 2007, Alma filed a lawsuit against us in the United States District Court for the District of Delaware requesting declaratory judgment that Alma s Accent product does not infringe Thermage s patents and that Thermage s patents are invalid. We believe that we have meritorious defenses in this action and intend to defend the action vigorously. On June 20, 2007, we filed patent infringement counterclaims against Alma in the United States District Court for the District of Delaware asserting that Alma s Accent XL and Harmony systems infringe ten Thermage U.S. patents. The counterclaims were amended on December 10, 2007 to include a claim of infringement of an eleventh Thermage patent. In addition to damages and attorney fees, we are asking the Court to enjoin Alma from further infringement. In May and June 2008, Alma filed with the United States Patent and Trademark Office requests that eight of the 11 patents asserted by Thermage be reexamined. The case is active and discovery is ongoing.

In addition, we have notified certain competitors of our belief that they may be infringing or may need a license under one or more of our issued patents. These notices may result in other patent litigation in the future. Patent litigation is very expensive and could divert management s attention from our core business. Patent litigation could also result in our patents being held invalid or narrowly construed. We have in the past and may in the future offer certain of our intellectual property rights for license to our competitors. As of June 30, 2008, 2007, we have not entered into any such licenses with our competitors other than our license with Syneron. We granted Edward Knowlton, one of our founders and inventor of our original patents, an exclusive license under those original patents and related patents for certain non-cosmetic applications.

Thermage, ThermaCool and ThermaCool TC are registered trademarks in the United States and several foreign countries. As of June 30, 2008, we have 57 pending and registered trademark filings worldwide, some of which apply to multiple countries, providing coverage in 49 countries. We intend to file for additional trademarks to strengthen our trademark rights, but we cannot be certain that our trademark applications will issue or that our trademarks will be enforceable.

All employees and technical consultants are required to execute confidentiality agreements in connection with their employment and consulting relationships with us. We also require them to agree to disclose and assign to us all inventions conceived or made in connection with the employment or consulting relationship. We cannot provide any assurance that employees and consultants will abide by the confidentiality or invention assignment

Table of Contents

terms of their agreements. Despite measures taken to protect our intellectual property, unauthorized parties may copy aspects of our products or obtain and use information that we regard as proprietary.

**Clinical Research**

Our clinical studies of the Thermage procedure have been performed primarily on the face, using a single treatment, to demonstrate safety and effectiveness. We have in the last year, however, conducted several studies on the body, including Thermage and liposuction combination procedure, cellulite, and circumferential reduction. Our study results have shown the Thermage procedure to have a low incidence of injury. The most frequent of these injuries consists of temporary burns related to overheating the skin. Generally, study results of effectiveness demonstrate that the majority of patients are satisfied with their treatment results. Our studies typically follow patients over six months, though we have studied patients for up to a year. Generally, results have found improvement in the effect of the treatment increasing up to six months following treatment. Our study results going out one year indicate that results of the procedure are not temporary. If a patient has improvement at six months, the patient will likely have lasting improvement at 12 months. Additionally, when comparing results of a single treatment with results of multiple treatments over time, we have not found a material difference between the two.

Our studies consistently include patients that experience a range in effect from no improvement to significant improvement. We believe that our study results generally demonstrate that most patients will obtain modest skin tightening from a single treatment. We typically use multiple approaches to assessing improvement in a patient. The most common approaches are subjective before and after evaluations by the treated patient and by the treating physician. We continue to experiment with more objective measurements, including calipers, histology, and other measurement devices that give us a more comprehensive evaluation of results.

As of June 30, 2008, our clinical research department had a staff of four that included clinical research associates and imaging specialists.

As part of our clinical research, we have studied and continue to study the interaction of RF energy and tissue, both to understand the mechanism of action of the Thermage procedure and to guide our efforts to develop new products and treatments. Determining the effectiveness of an aesthetic treatment is inherently a subjective evaluation. When performing our clinical research and studies, we attempt to utilize the most compelling measures we can in order to provide compelling evidence of efficacy.

As of June 30, 2008, there were over 45 published peer-reviewed scientific journal articles and 24 medical conference abstracts that discuss the tissue-tightening effect of our non-invasive monopolar RF technology, authored both by physicians affiliated with our company as clinical and scientific advisors and by unaffiliated, independent, physicians.

**Manufacturing**

Our manufacturing strategy involves the combined utilization of our internal manufacturing resources and expertise, approved suppliers and contract manufacturers. Our internal manufacturing activities include the assembly, testing and packaging of ThermaTips and handpieces, as well as the final integration, system testing and packaging of our ThermaCool NXT system. We outsource the manufacture of components, subassemblies and certain finished products that are produced to our specifications and shipped to our facility for final assembly or inspection, testing and certification. Finished product is stored at and distributed primarily from our Hayward facility. Quality control, risk management, efficiency and the ability to respond quickly to changing requirements are the primary goals of our manufacturing operations.

We have arrangements with our suppliers that allow us to adjust the delivery quantities of components, subassemblies and finished products, as well as delivery schedules, to match our changing requirements. The

Table of Contents

forecasts we use are based on historical trends, current utilization patterns and sales forecasts of future demand. Lead times for components, subassemblies and finished products may vary significantly depending on the size of the order, specific supplier requirements and current market demand for the components and subassemblies. Most of our suppliers have no contractual obligations to supply us with, and we are not contractually obligated to purchase from them, the components used in our devices.

We obtain programmable memory chips for our treatment tips and the coolant valve for our handpiece from single suppliers, for which we attempt to mitigate risks through inventory management and utilization of 12- to 18-month purchase orders. Other products and components come from single suppliers, but alternate suppliers have been qualified or, we believe, can be readily identified and qualified. In addition, the availability of cryogen for our cooling module, which we can source from multiple suppliers, may fluctuate due to changes in the global supply of this material. To date, we have not experienced material delays in obtaining any of our components, subassemblies or finished products, nor has the ready supply of finished product to our customers been adversely affected.

We are required to manufacture our products in compliance with the FDA s Quality System Regulation, or QSR. The QSR covers the methods and documentation of the design, testing, control, manufacturing, labeling, quality assurance, packaging, storage and shipping of our products. We maintain quality assurance and quality management certifications to enable us to market our products in the member states of the European Union, the European Free Trade Association and countries which have entered into Mutual Recognition Agreements with the European Union. These certifications include EN ISO 9001:2000 and CAN/CSA ISO 13485:2003 and are also required to maintain our product registration in a number of other foreign markets such as Canada.

We use small quantities of common cleaning products in our manufacturing operations, which are lawfully disposed of through a normal waste management program. We do not forecast any material costs due to compliance with environmental laws or regulations.

**Services and Support**

We strive to provide highly responsive service and support for both our ThermaCool RF generator and our single-use ThermaTip products.

Our ThermaTips are shipped from finished goods inventory typically on the day of the order. All ThermaTips are identified with lot numbers and date codes that indicate the expiration date of the product and are fully warranted until the date of expiration. We maintain a staff of customer service personnel in our Hayward, California facility that is available by phone to our customers to answer questions regarding the use of our ThermaCool system. In addition, in the United States our direct sales force provides on-site support and training to our customers in the use of our ThermaCool system.

In the United States, our ThermaCool RF generator and accessory products are shipped to a customer s site for initial installation and training by one of our direct sales consultants. Our direct sales force, our customer service personnel and our product service staff provide post-installation support and service. In the event of a failure of a ThermaCool RF generator, our customer service department arranges for the immediate shipment of loaner equipment to the customer for its use during the time that the equipment is being repaired. Our goal is to minimize the disruption caused by a service event, and our customers typically receive loaner equipment within one day after notifying us of a problem. In addition, we arrange for the customer s equipment to be returned to our Hayward facility where we confirm and diagnose the problem. Any necessary repairs are performed either at our facility or, in the case of the first generation ThermaCool system, at a contract manufacturer s facility. All ThermaCool systems and components are serialized or lot tracked, and device history records are maintained that track service history and configuration. In markets outside of the United States, our ThermaCool system is serviced and supported through our independent distributors.

Table of Contents

**Government Regulation**

Our ThermaCool system is a medical device subject to extensive and rigorous regulation by the FDA, as well as other regulatory bodies. FDA regulations govern the following activities that we perform, or that are performed on our behalf, to ensure that medical products distributed domestically or exported internationally are safe and effective for their intended uses:

- product design and development;
- product testing;
- product manufacturing;
- product safety;
- product labeling;
- product storage;
- recordkeeping;
- premarket clearance or approval;
- advertising and promotion;
- production; and
- product sales and distribution.

***FDA s Premarket Clearance and Approval Requirements***

Unless an exemption applies, each medical device we wish to commercially distribute in the United States will require either prior 510(k) clearance or premarket approval from the FDA. The FDA classifies medical devices into one of three classes. Devices deemed to pose lower risks are placed in either class I or II, which requires the manufacturer to submit to the FDA a premarket notification requesting clearance to commercially distribute the device. This process is generally known as 510(k) clearance. Some low risk devices are exempted from this requirement. Devices deemed by the FDA to pose the greatest risk, such as life-sustaining, life-supporting or implantable devices, or devices deemed not substantially equivalent to a previously cleared 510(k) device, are placed in class III, requiring premarket approval. All of our current products are class II devices.

***510(k) Clearance Pathway***

When a 510(k) clearance is required, we must submit a premarket notification to the FDA demonstrating that our proposed device is substantially equivalent to a previously cleared and legally marketed 510(k) device or a device that was in commercial distribution before May 28, 1976 for which the FDA has not yet called for the submission of premarket approval applications, or PMA. By regulation, the FDA is required to clear or deny a 510(k) premarket notification within 90 days of submission of the application. As a practical matter, clearance often takes significantly longer. The FDA may require further information, including clinical data, to make a determination regarding substantial equivalence. If the FDA determines that the device, or its intended use, is not substantially equivalent to a previously cleared device or use, the FDA will place the device, or the particular use, into class III.

Radiofrequency devices used for aesthetic procedures, such as wrinkle reduction, have generally qualified for clearance under 510(k) procedures. We received FDA clearance to market our ThermCool system, for the treatment of periorbital wrinkles and rhytids in November 2002 and for treatment of facial wrinkles and rhytids in June 2004. In December 2005, we received FDA clearance to market our ThermaCool system for full body treatment of wrinkles. In October 2006, we received FDA clearance to market the ThermaCool system, for the temporary improvement in the appearance of cellulite. In June 2007, we received clearance to market our ThermaCool system for treatment of wrinkles and rhytids for the upper and lower eyelids.

Table of Contents

***Premarket Approval Pathway***

A PMA must be submitted to the FDA if the device cannot be cleared through the 510(k) process. A PMA must be supported by extensive data, including but not limited to, technical, preclinical, clinical, manufacturing and labeling to demonstrate to the FDA s satisfaction the safety and effectiveness of the device.

No device that we have developed has required premarket approval, nor do we currently expect that any future device or indication will require premarket approval.

***Product Modifications***

We have modified aspects of our ThermaCool system and accessories since receiving regulatory clearance, and we have made additional 510(k) filings when we deem it necessary. Decisions and rationale not to file a 510(k) for device modifications are documented. After a device receives 510(k) clearance any modification that could affect its safety or effectiveness, or that would constitute a major change in its intended use, will require a new clearance or approval. The FDA requires each manufacturer to make this determination initially, but the FDA can review any decision and disagree with a manufacturer s determination not to file a new 510(k) or PMA. If the FDA disagrees with our determination the FDA may retroactively require us to seek 510(k) clearance or premarket approval. The FDA could also require us to cease marketing and distribution and/or recall the modified device until 510(k) clearance or premarket approval is obtained. Also, in these circumstances, we may be subject to significant regulatory fines or penalties.

***Clinical Trials***

Clinical trials are almost always required to support an FDA premarket application and are sometimes required for 510(k) clearance. In the United States, these trials generally require submission of an application for an Investigational Device Exemption, or IDE, to the FDA. The IDE application must be supported by appropriate data, such as animal and laboratory testing results, showing that it is safe to test the device in humans and that the testing protocol is scientifically sound. The IDE must be approved in advance by the FDA for a specific number of patients unless the product is deemed a non-significant risk device eligible for more abbreviated IDE requirements. Clinical trials for significant risk devices may not begin until the IDE application is approved by FDA and the appropriate institutional review boards, or IRBs, at the clinical trial sites. Our clinical trials must be conducted under the oversight of an IRB at the relevant clinical trial sites and in accordance with FDA regulations, including but not limited to those relating to good clinical practices. We are also required to obtain patients informed consent that complies with both FDA requirements and state and federal privacy regulations. We, the FDA or the IRB at each site at which a clinical trial is being performed may suspend a clinical trial at any time for various reasons, including a belief that the risks to study subjects outweigh the benefits. Even if a trial is completed, the results of clinical testing may not demonstrate the safety and efficacy of the device may be equivocal or may otherwise not be sufficient to obtain clearance or approval of the product. Similarly, in Europe the clinical study must be approved by the local ethics committee and in some cases, including studies with high-risk devices, by the Ministry of Health in the applicable country.

***Pervasive and Continuing Regulation***

After a device is placed on the market, numerous regulatory requirements continue to apply. These include:

- Quality System regulations, or QSRs, which require manufacturers, including third-party manufacturers, to follow stringent design, testing, control, documentation and other quality assurance procedures during all aspects of the manufacturing process;

- labeling regulations and FDA prohibitions against the promotion of products for uncleared, unapproved or off-label uses;

medical device reporting, or MDR, regulations, which require that manufacturers report to the FDA if their device may have caused or contributed to a death or serious injury or malfunctioned in a way that would likely cause or contribute to a death or serious injury if the malfunction were to recur; and

post-market surveillance regulations, which apply when necessary to protect the public health or to provide additional safety and effectiveness data for the device.

The FDA has broad post-market and regulatory enforcement powers. We and our repair subcontractor are subject to unannounced inspections by the FDA and the Food and Drug Branch of the California Department of Health Services, or CDHS, to determine compliance with the QSR and other regulations. In the past, our facility has been inspected, and observations were noted. The FDA and CDHS have accepted our responses to these observations, and we believe that we are in substantial compliance with the QSRs. The most recent FDA visit during the fourth quarter of 2007 resulted in no observations noted.

Failure to comply with applicable regulatory requirements can result in enforcement action by the FDA, which may include any of the following sanctions:

warning letters, fines, injunctions, consent decrees and civil penalties;

repair, replacement, refunds, recall or seizure of our products;

operating restrictions, partial suspension or total shutdown of production;

refusing our requests for 510(k) clearance or premarket approval of new products or new intended uses;

withdrawing 510(k) clearance or premarket approvals that are already granted; and

criminal prosecution.

If any of these events were to occur, they could have a material adverse effect on our business.

We are also subject to a wide range of federal, state and local laws and regulations, including those related to the environment, health and safety, land use and quality assurance. We believe that compliance with these laws and regulations as currently in effect will not have a material adverse effect on our capital expenditures, earnings and competitive and financial position.

***International***

International sales of medical devices are subject to foreign governmental regulations, which vary substantially from country to country. The time required to obtain clearance or approval by a foreign country may be longer or shorter than that required for FDA clearance or approval, and the requirements may be different. Some countries, such as Japan, have their own governmental approval process through which clinical trial data and other information are submitted to a regulatory authority. In other countries, a medical device may be commercialized if the product has been approved in the United States or in Europe.

The primary regulatory environment in Europe is that of the European Union. The European Union has adopted numerous directives and European Standardization Committees have promulgated voluntary standards regulating the design, manufacture, clinical trials, labeling and adverse event reporting for medical devices. Devices that comply with the requirements of a relevant directive will be entitled to bear CE conformity marking, indicating that the device conforms to the essential requirements of the applicable directives and, accordingly, can be commercially distributed throughout the European Union. The method of assessing conformity varies, depending on the type and class of the product, but normally involves a combination of self-assessment by the manufacturer and a third-party assessment by a Notified Body, an

independent and neutral institution appointed by a country to conduct an assessment of compliance with applicable directives. This third-party assessment may consist of an audit of the manufacturer s quality system, standards, and specific testing of the manufacturer s

Table of Contents

device. An assessment by a Notified Body is required in order for a manufacturer to commercially distribute a product throughout the participating countries. Our products are CE Marked and in conformance with applicable medical device directives and can be commercially sold throughout the European Union, as well as in other countries that recognize products bearing the CE Mark. Our facility has been awarded the ISO 9001:2000 and the CAN/CSA ISO 13485:2003 certifications.

**Employees**

As of June 30, 2008, we had 181 employees, with 85 employees in sales and marketing, four employees in technical services, 36 employees in manufacturing operations, 27 employees in research and development including clinical, regulatory and certain quality functions, and 29 employees in general and administrative. We believe that our future success will depend in part on our continued ability to attract, hire and retain qualified personnel. None of our employees is represented by a labor union, and we believe our employee relations are good.

**Thermage s Properties**

We occupy an 88,000 square foot facility in Hayward, California, under a lease that ends in September 2010, with an option to extend for an additional three-year term. We believe our facilities are adequate for our current and future needs for at least the next twelve months.

**Thermage s Legal Proceedings**

We advised Alma Lasers, Ltd. and Alma Lasers, Inc. (together, Alma ) as early as February 2006 that its Accent product infringed numerous Thermage patents.

On April 26, 2007, Alma filed a lawsuit against us in the United States District Court for the District of Delaware requesting declaratory judgment that Alma s Accent product does not infringe Thermage s patents and that Thermage s patents are invalid. We believe that we have meritorious defenses in this action and intend to defend the action vigorously.

On June 20, 2007, we filed patent infringement counterclaims against Alma in the United States District Court for the District of Delaware asserting that Alma s Accent XL and Harmony systems infringe ten Thermage U.S. patents. The counterclaims were amended on December 10, 2007 to include a claim of infringement of an eleventh Thermage patent. In addition to damages and attorney fees, we are asking the Court to enjoin Alma from further infringement. In May and June 2008, Alma filed with the United States Patent and Trademark Office requests that eight of the 11 patents asserted by Thermage be reexamined. The case is active and discovery is ongoing. We do not believe the final disposition of these matters will have a material adverse effect on our financial statements and future cash flows.

Table of Contents

## THERMAGE SELECTED FINANCIAL DATA

The selected statements of operations data for the years ended December 31, 2005, 2006 and 2007, and the selected balance sheet data as of December 31, 2006 and 2007, are derived from our audited financial statements that are included elsewhere in this proxy statement/prospectus/information statement. The selected statement of operations data for the years ended December 31, 2003 and 2004 and the selected balance sheet data as of December 31, 2003, 2004 and 2005 are derived from our audited financial statements not included in this proxy statement/prospectus/information statement. The selected financial data for the six-month periods ended June 30, 2007 and June 30, 2008 and the balance sheet data as of June 30, 2008 are derived from our unaudited interim financial statements included elsewhere in this proxy statement/prospectus/information statement.

Our historical results are not necessarily indicative of future operating results. Our operating results for the six months ended June 30, 2008 should not be considered indicative of operating results for the full fiscal year or any other future period. The selected financial data set forth below should be read in conjunction with our financial statements, and the related notes thereto, and Thermage Management s Discussion and Analysis of Financial Condition and Results of Operations, included elsewhere in this proxy statement/prospectus/information statement.

| | Years Ended December 31, | | | | | Six Months Ended June 30, | |
|---|---|---|---|---|---|---|---|
| | 2003 | 2004 | 2005 | 2006 | 2007 | 2007 | 2008 |
| | (in thousands, except share and per share data) | | | | | | |
| **Statement of Operations Data**: | | | | | | | |
| Net revenue | $ 24,910 | $ 50,384 | $ 40,655 | $ 54,320 | $ 63,101 | $ 32,654 | $ 34,112 |
| Cost of revenue | 12,566 | 12,452 | 12,309 | 15,259 | 15,976 | 8,970 | 8,453 |
| Gross margin | 12,344 | 37,932 | 28,346 | 39,061 | 47,125 | 23,684 | 25,659 |
| Operating expenses | | | | | | | |
| Sales and marketing | 8,945 | 15,596 | 19,997 | 24,071 | 26,195 | 13,189 | 14,415 |
| Research and development | 6,569 | 8,490 | 8,908 | 9,639 | 9,099 | 4,698 | 4,904 |
| General and administrative | 3,612 | 8,873 | 7,414 | 9,973 | 11,300 | 5,467 | 7,598 |
| Litigation settlement gain | | | (1,646) | | | | |
| Total operating expenses | 19,126 | 32,959 | 34,673 | 43,683 | 46,594 | 23,354 | 26,917 |
| Income (loss) from operations | (6,782) | 4,973 | (6,327) | (4,622) | 531 | 330 | (1,258) |
| Interest and other income | 205 | 177 | 340 | 768 | 2,520 | 1,184 | 1,146 |
| Interest, warrants and other expense | (7) | (14) | (1,549) | (55) | | | |
| Income (loss) before income taxes and cumulative effect of change in accounting principle | (6,584) | 5,136 | (7,536) | (3,909) | 3,051 | 1,514 | (112) |
| Provision for income taxes | | (103) | | | (271) | (147) | (86) |
| Net income (loss) before cumulative effect of change in accounting principle | (6,584) | 5,033 | (7,536) | (3,909) | 2,780 | 1,367 | (198) |
| Cumulative effect of change in accounting principle | | | (697) | | | | |
| Net income (loss) | $ (6,584) | $ 5,033 | $ (8,233) | $ (3,909) | $ 2,780 | $ 1,367 | $ (198) |
| Net income (loss) allocable to common stockholders | $ (6,584) | $ 313 | $ (8,233) | $ (3,909) | $ 2,780 | $ 1,367 | $ (198) |
| Net income (loss) per share basic and diluted: | | | | | | | |
| Before cumulative effect of change in accounting principle | | | $ (2.06) | | | | |
| Cumulative effect of change in accounting principle | | | (0.19) | | | | |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Net income (loss) per share basic | $ (2.85) | $ 0.10 | $ (2.25) | $ (0.60) | $ 0.12 | $ 0.06 | $ (0.01) |
| Net income (loss) per share diluted | $ (2.85) | $ 0.06 | $ (2.25) | $ (0.60) | $ 0.11 | $ 0.06 | $ (0.01) |
| Weighted average shares outstanding used in calculating net income (loss) per common share: | | | | | | | |
| Basic | 2,307,238 | 3,023,225 | 3,664,990 | 6,561,648 | 23,241,031 | 23,041,983 | 23,743,043 |
| Diluted | 2,307,238 | 5,319,754 | 3,664,990 | 6,561,648 | 24,884,458 | 24,761,794 | 23,743,043 |

**Table of Contents**

| | As of December 31, | | | | | As of June 30, |
|---|---|---|---|---|---|---|
| | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 |
| | (in thousands) | | | | | |
| **Balance Sheet Data**: | | | | | | |
| Cash and cash equivalents | $ 12,383 | $ 11,706 | $ 10,121 | $ 45,915 | $ 13,650 | $ 15,358 |
| Marketable investments | | | | | 38,707 | 36,882 |
| Working capital | 9,435 | 12,110 | 10,947 | 46,153 | 55,834 | 58,243 |
| Total assets | 17,667 | 26,202 | 24,032 | 59,875 | 68,727 | 69,630 |
| Borrowings, less current portion | 18 | 13 | 4,040 | | | |
| Preferred stock warrant liability | | | 3,937 | | | |
| Redeemable convertible preferred stock | 45,167 | 45,169 | 45,169 | | | |
| Total stockholders equity (deficit) | $ (35,189) | $ (29,440) | $ (38,733) | $ 49,121 | $ 58,118 | $ 60,369 |

Table of Contents

## THERMAGE MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION

*The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our financial statements and the related notes to those statements included elsewhere in this proxy statement/prospectus/information statement. In addition to historical financial information, the following discussion and analysis contains forward-looking statements that involve risks, uncertainties and assumptions. Our actual results and timing of events may differ materially from those anticipated in these forward-looking statements as a result of many factors, including those discussed under Risk Factors and elsewhere in this proxy statement/prospectus/information statement. In this section, references to we, us, our and ours refer to Thermage.*

### Overview

We design, develop, manufacture and market medical devices for the non-invasive treatment of wrinkles. We were incorporated in 1996 and received FDA clearance for treatment of periorbital wrinkles and commercially launched our ThermaCool system in 2002. In June 2004, we received FDA clearance for the treatment of facial wrinkles and rhytids. In December 2005, we received FDA clearance to market our ThermaCool system for the treatment of wrinkles and rhytids, without limitation to particular areas of the body. In October 2006, we received FDA clearance for the temporary improvement in the appearance of cellulite. In June 2007, we received FDA clearance for treatment of wrinkles and rhytids for the upper and lower eyelids. In January 2008, we received FDA clearance to market a multiplex treatment tip and associated handpiece. Our patented and FDA-cleared ThermaCool system uses radiofrequency, or RF, energy to heat and shrink collagen and tighten tissue while simultaneously cooling and protecting the surface of the skin. The ThermaCool system consists primarily of an RF generator with cooling capability and a reusable handpiece, a variety of consumable, single-use ThermaTips that attach to the handpiece, and several other consumable accessories. We offer a variety of ThermaTips that a physician can select based on the area of the body being treated. We currently offer four ThermaTip sizes in several configurations of pulse counts, pulse durations and heating profiles for efficient implementation of treatment guidelines. As of June 30, 2008, we had an installed base of approximately 2,560 ThermaCool RF generators and had sold approximately 554,000 ThermaTips.

On July 7, 2008, we entered into an agreement and plan of merger and reorganization with Reliant Technologies, Inc. ( Reliant ) pursuant to which we intend to acquire Reliant for approximately $25.0 million in cash and 23,600,000 shares of our common stock, subject to post closing adjustments. In addition, we have provided a bridge financing to Reliant in the amount of $5.0 million.

### Significant Business Trends

We derive revenue primarily from the sale of ThermaTips and other consumables and sales of our ThermaCool RF generator. For the years ended December 31, 2006 and 2007 and the first six months ended June 30, 2007 and 2008, we derived 73%, 71%, 68% and 72% respectively, of our revenue from ThermaTip and other consumable sales, and 24%, 26%, 29% and 26% respectively, of our revenue from ThermaCool RF generator sales. The balance of our revenue is derived from product service and shipping. In February 2007, we introduced and began shipment of the ThermaCool NXT, our next generation system. The ThermaCool NXT is designed to save time, reduce procedure cost, simplify the treatment experience and improve patient comfort compared to our prior generator. Since the introduction of the ThermaCool NXT generator, customer demand for upgrade from the older generation product was higher than expected. During the first six months of 2007, we sold 371 generators, which included sales of 214 systems to new customers and sales of 157 systems as upgrades to existing customers. During the first six months of 2008, we sold 328 generators, which included sales of 162 systems to new customers and sales of 166 systems as upgrades to existing customers. The 162 systems sold in 2008 to new customers is in line with our expectation to sell approximately 350 ThermaCool NXT systems to

Table of Contents

new customers worldwide in 2008. During 2007, we launched four new procedures and associated treatment tips, including *Hands by Thermage, Lips by Thermage*, the premium ThermaTip STC for skin tightening and contouring, and ThermaTip DC for deep contouring and body shaping. In March 2008, we introduced the *Cellulite Procedure by Thermage* and its associated treatment tip, ThermaTip CL. As a result of the introduction of new treatment tips in 2007 and 2008, we have seen a gradual increase in the average selling price of our treatment tips. During the second quarter of 2008 we continued to see more U.S. customers sign up for the Partner Plan, a six-month plan that provides a set number of monthly treatment tips and consumable products at a fixed monthly price. Treatment tips and consumables derived from sales under the Partner Plan in the first six months of 2008 totaled more than 50% of the U.S. ThermaTips and other consumables revenue.

We market the ThermaCool system, including our single-use ThermaTips in the United States to physicians, primarily dermatologists and plastic surgeons, through a direct sales force, and internationally in 82 countries through a network of 36 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 disposable ThermaTip products. In the years ended December 31, 2006 and 2007 and the first six months ended June 30, 2007 and 2008, we derived 52%, 52%, 52% and 50%, respectively, of our revenue from sales of our products and services within the United States, and 48%, 48%, 48% and 50%, respectively, of our total sales outside of the United States. We believe that a significant portion of our business will continue to come from international sales through increased penetration in countries we currently sell our ThermaCool system, combined with expansion into new international markets.

The percentages of our revenue by region are presented in the table below:

| | Years Ended December 31, | | | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|---|---|---|
| | 2005 | 2006 | 2007 | 2007 | 2008 | 2007 | 2008 |
| United States | 56% | 52% | 52% | 53% | 50% | 52% | 50% |
| Asia Pacific | 23% | 24% | 21% | 21% | 26% | 21% | 24% |
| Europe/Middle East | 11% | 13% | 17% | 17% | 12% | 17% | 16% |
| Rest of the world | 10% | 11% | 10% | 9% | 12% | 10% | 10% |
| Total net revenue | 100% | 100% | 100% | 100% | 100% | 100% | 100% |

During the last quarter of 2007, we began to execute our plans to expand our U.S. sales force to better address customer needs. Our plan included expansion of our U.S. sales force by about 50% in headcount and its segmentation into two groups, with about two-thirds of the sales force focusing on existing customers on sales of treatment tips, upgrades and training, and the remainder focusing on securing new accounts. Consequently, we expect a proportionately larger increase in sales and marketing expenses to promote revenue growth and geographic expansion. We continue to expect our operating expenses to increase in the future for research and development of new products and technologies, and increased general and administrative expenses to support our overall business and for regulatory compliance requirements.

Future operating results are difficult to predict accurately. We anticipate that our quarterly results of operations may fluctuate for the foreseeable future due to several factors, including the timing of introduction and the degree of acceptance of future product offerings, unanticipated interruptions and expenses related to our manufacturing operations, and the performance of our direct sales force and international distributors.

**Significant Industry Factors**

The growth of our business relies on current economic conditions and their impact on the growth of the industry, our ability to continue to develop new products and applications based on innovative technologies,

Table of Contents

obtain and maintain regulatory clearances for our products, protect our proprietary technology, and successfully market and distribute our products. Our industry is characterized by seasonally lower demand during the third calendar quarter of the year, when both physicians and prospective patients take summer vacations. Additionally, our industry is highly competitive and our success depends on our ability to compete successfully. Our business is sensitive to a number of factors that influence the levels of consumer spending, including political and economic conditions such as recessionary environments, the level of disposable consumer income, consumer debt, interest rates and consumer confidence. Declines in consumer spending on aesthetic procedures could have an adverse effect on our operating results. We have in the past noticed brief fluctuations both in demand for our products and in demand for our Thermage procedure, as well as in traffic to our website, following media coverage and promotional campaigns. We experience frequent positive, negative and neutral media coverage throughout a fiscal quarter. Our sales are also impacted by other factors outside of our control, such as prior patient and practicing physician recommendations. Consequently, while we believe that media exposure and other factors outside of our direct control play a role in our long-term success, to date we have not been able to quantify the impact of particular media exposure or media exposure in general, and have not observed any material effect, positive or negative, on our quarterly financial results of operations. A detailed discussion of these and other factors that impact our business is provided in the Risk Factors section in this proxy statement/prospectus/information statement.

**Results of Operations**

***Three and Six Months Ended June 30, 2007 and June 30, 2008***

*Net Revenue*. Revenue is derived from the sale of single-use ThermaTips and other consumables, ThermaCool RF generator sales, and service and other revenue. Net revenue increased $0.4 million, or 2%, from $17.5 million to $17.9 million for the three months ended June 30, 2007 and 2008, respectively. The increase in sales was primarily due to an increase in sales of ThermaTips and other consumables, which was partially offset by a decrease in sales of ThermaCool RF generators compared to the year-ago quarter. Sales of ThermaTips and other consumable products increased $1.7 million, or 15% from $11.5 million to $13.2 million for the three months ended June 30, 2007 and 2008, respectively. The increase in revenue was primarily due to an increase in units sold and an increase in average selling price of ThermaTips, driven by the recently launched premium ThermaTip STC for skin tightening and contouring, the ThermaTip DC for deep contouring and body shaping and the newly launched ThermaTip CL for Cellulite. Revenue from these recently launched premium tips represented approximately 60% of total sales of ThermaTips and consumables. Sales of ThermaCool RF generators decreased $1.2 million, or 22% from $5.5 million to $4.3 million for the three months ended June 30, 2007 and 2008, respectively. The decrease in sales was primarily due to the decrease in units sold, which was partially offset by an increase in average selling price. Total units of systems sold during the quarter ended June 30, 2008 was 165, which was the second highest quarterly shipment of systems since the launch of the ThermaCool NXT in February 2007. Total units of systems sold during the quarter ended June 30, 2007 was 224, with that quarter being the first full quarter of shipment since the ThermaCool NXT launch.

Net revenue increased $1.4 million, or 4%, from $32.7 million to $34.1 million for the six months ended June 30, 2007 and 2008, respectively. Sales of ThermaTips and other consumable products increased $2.2 million, or 10% from $22.4 million to $24.6 million for the six months ended June 30, 2007 and 2008, respectively. Sales of ThermaCool RF generators decreased $0.7 million, or 8%, from $9.4 million to $8.7 million for the six months ended June 30, 2007 and 2008, respectively. The increase in revenue was driven by the same factors as those for the three months ended June 30, 2007 and 2008.

*Cost of Revenue*. Our cost of revenue consists primarily of material, labor and manufacturing overhead expenses. Gross margin was 77.1% of revenue in the second quarter of 2008, compared with 72.5% of revenue in the second quarter of 2007. The increase in gross margin as a percent of revenue in 2008 was primarily due to higher average selling price of both systems and tips, and sales of more higher-margin ThermaTips during the quarter ended June 30, 2008.

Gross margin was 75.2% of revenue in the first half of 2008, compared with 72.5% of revenue in the first half of 2007. The increase in gross margin as a percent of revenue in 2008 was due to the same factors as those in the second quarter of 2007 and 2008.

*Sales and Marketing*. Sales and marketing expenses consist primarily of personnel costs and costs related to customer-attended workshops and user meetings, trade shows and advertising, as well as marketing and customer service expenses. Sales and marketing expenses increased $0.2 million, or 3%, from $6.8 million to $7.0 million for the three months ended June 30, 2007 and 2008, respectively. The increase in 2008 was primarily attributable to increased headcount and related personnel and travel and entertainment expenses as a result of our expansion of the U.S. sales force, which was partially offset by lower discretionary marketing expenses, lower spending in market research and lower stock-based compensation expenses.

Sales and marketing expenses increased $1.2 million, or 9%, from $13.2 million to $14.4 million in the first half of 2007 and 2008, respectively. The increase in the first half of 2008 was primarily attributable to increased headcount and related personnel and travel and entertainment expenses of $ 1.8 million as a result of our expansion of the U.S. sales force, which was partially offset by lower discretionary marketing expenses of $0.5 million and lower stock-based compensation expenses of $0.1 million.

*Research and Development*. Research and development expenses consist primarily of personnel costs, clinical and regulatory costs, material costs and regulatory and quality assurance costs not directly related to the manufacturing of our products. Research and development expenses for both quarters ended June 30 was $2.2 million. Increased spending on clinical studies in the quarter ended June 30, 2008 was offset by lower stock-based compensation expenses. Research and development expenses increased $0.2 million, or 4%, from $4.7 million to $4.9 million in the first half of 2007 and 2008, respectively. Compared to the first half of 2007, higher spending on clinical studies and supplies in the first half of 2008 was partially offset by lower stock-based compensation expenses.

*General and Administrative*. General and administrative expenses consist primarily of personnel costs, legal and accounting fees, information technology costs, human resources costs and other general operating expenses. General and administrative expenses increased by $0.2 million, or 9%, from $2.8 million to $3.0 million for the three months ended June 30, 2007 and 2008, respectively. Increased spending in legal fees incurred related to patents and professional fees associated with compliance was partially offset by lower stock-based compensation expenses.

General and administrative expenses in the first half of 2008 was $7.6 million, an increase of $2.1 million, or 39%, compared with $5.5 million in the first half of 2007. During the first quarter of 2008, we reached an advanced stage of negotiations with a potential acquisition target and had performed significant due diligence on the project before negotiations were terminated. We incurred approximately $1.0 million in outside advisory fees pursuing this acquisition. The remaining increase from the prior year period was due to an increase of $0.4 million in professional fees associated with compliance, and an increase of $0.4 million in legal fees incurred related to defense costs and new patent filings.

*Interest and Other Income*. Interest and other income consist primarily of interest income generated from our cash and cash equivalent balances. Interest and other income were $0.6 million in the quarter ended June 30, 2007 and $0.5 million in the quarter ended June 30, 2008. These amounts were $1.2 million and $1.1 million in the first half of 2007 and 2008, respectively.

*Provision for Income Taxes*. The provision for income taxes for all periods presented represented AMT taxes and additions to FIN 48 reserves. For the six months ended June 30, 2008, we did not recognize any tax benefits in relation to the loss before income taxes as we maintained a full valuation allowance for deferred taxes.

Table of Contents

***Years Ended December 31, 2006 and December 31, 2007***

*Net Revenue*. Revenue is derived from the sale of single-use ThermaTips and other consumables, systems sales, and service and other revenue. Net revenue increased $8.8 million, or 16%, from $54.3 million to $63.1 million for the years ended December 31, 2006 and 2007, respectively. Sales of ThermaTips and other consumables increased $5.7 million, or 14%, from $39.4 million to $45.1 million for the years ended December 31, 2006 and 2007, respectively. Sales of systems increased $3.0 million, or 23%, from $13.3 million to $16.3 million for the years ended December 31, 2006 and 2007, respectively. Product unit volume of ThermaTips was 130,690 units and 136,000 units for the years ended December 31, 2006 and 2007, respectively. Product unit volume of our ThermaCool RF generator was 437 units and 633 units for the years ended December 31, 2006 and 2007, respectively. International sales to distributors accounted for 48% of revenue for each of the years ended December 31, 2006 and 2007. The increase in revenue in ThermaTips and other consumables was driven by continued demand of our 3.0$cm^2$ ThermaTip and the newly-introduced STC and DC ThermaTips, which command higher average selling prices. The increase in sales of systems was primarily driven by higher than expected demand to upgrade from our existing installed base.

*Cost of Revenue*. Our cost of revenue consists primarily of material, labor and manufacturing overhead expenses. Gross margin was 74.7% in the year ended December 31, 2007, compared with 71.9% in the same period in 2006. The increase in gross margin as a percent of revenue in 2007 was primarily due to higher average selling price of ThermaTips, increase in sales volume and direct cost reductions in ThermaTips and systems, partially offset by a higher sales mix towards the lower margin system product.

*Sales and Marketing*. Sales and marketing expenses consist primarily of personnel costs and costs related to customer-attended workshops and trade shows and advertising, as well as marketing and customer service expenses. Sales and marketing expenses increased $2.1 million, or 9%, from $24.1 million to $26.2 million for the years ended December 31, 2006 and 2007, respectively. The increase was primarily attributable to an increase of $1.2 million in personnel and commission costs and related travel expenses associated with the expansion of our sales force and marketing staff, as well as an increase of $0.4 million in support of the launch of new products, new procedures and associated ThermaTips and an increase of $0.5 million in stock-based compensation charges.

*Research and Development*. Research and development expenses consist primarily of personnel costs, clinical and regulatory costs, material costs and regulatory and quality assurance costs not directly related to the manufacturing of our products. Research and development expenses decreased $0.5 million, or 6%, from $9.6 million to $9.1 million for the years ended December 31, 2006 and 2007, respectively. The decrease was primarily related to cost reductions in clinical studies of about $0.5 million and savings in travel expenses of $0.2 million, which were partially offset by an increase of $0.2 million in stock-based compensation charges.

*General and Administrative*. General and administrative expenses consist primarily of personnel costs, legal and accounting fees, information technology costs, human resources costs and other general operating expenses. General and administrative expenses increased $1.3 million, or 13%, from $10.0 million to $11.3 million for the years ended December 31, 2006 and 2007, respectively. The increase was primarily attributable to $0.5 million in professional fees and insurance and other expenses in connection with being a public company, an increase of $0.3 million in legal fees incurred related to patents, as well as an increase of $0.3 million in stock-based compensation charges.

*Interest and Other Income*. Interest and other income consists primarily of interest income generated from our cash, cash equivalent and marketable investments. Interest and other income increased $1.7 million, or 228%, from $0.8 million to $2.5 million for the years ended December 31, 2006 and 2007, respectively due to higher average cash balances resulting from the proceeds of our initial public offering in November 2006.

*Interest, Warrants and Other Expense*. Interest, warrants and other expense in 2006 consists primarily of $0.8 million interest expense on our borrowings partially offset by $0.8 million gain recorded from changes in

the fair value of our convertible preferred stock warrants under FSP 150-5. Subsequent to our initial public offering, we repaid our borrowings. The majority of our convertible preferred stock warrants were exercised upon our initial public offering, with additional preferred stock warrants for 27,778 shares of preferred stock converted into warrants for common stock. As a result, we incurred no interest expense nor charges related to change in the fair value of our convertible preferred stock warrants during 2007.

*Provision for Income Taxes.* Provision for income taxes for the year ended December 31, 2007 was $271,000, compared with zero provision for income taxes in 2006. Our effective tax rate of 9%, comprised primarily of alternative minimum tax and increase in unrecognized tax benefits and differs from the federal statutory rate of 34% due primarily to the utilization of net operating loss carryforwards. In the year ended December 31, 2006, no provision for income taxes was recorded as a result of our losses.

***Years Ended December 31, 2005 and December 31, 2006***

*Net Revenue*. Revenue is derived from the sale of single-use ThermaTips and other consumables, ThermaCool RF generator sales, and service and other revenue. Net revenue increased $13.6 million, or 34%, from $40.7 million to $54.3 million for the years ended December 31, 2005 and 2006, respectively. Sales of ThermaTips and other consumables increased $12.4 million, or 46%, from $27.0 million to $39.4 million for the years ended December 31, 2005 and 2006, respectively. Sales of ThermaCool RF generator increased $0.7 million, or 6%, from $12.6 million to $13.3 million for the years ended December 31, 2005 and 2006, respectively. Product unit volume of ThermaTips was 83,660 units and 130,690 units for the years ended December 31, 2005 and 2006, respectively. Product unit volume of our ThermaCool RF generator was 408 units and 437 units for the years ended December 31, 2005 and 2006, respectively. International sales to distributors accounted for 44% and 48% of revenue for the years ended December 31, 2005 and 2006, respectively. The increase in revenue was driven by increased adoption of our 3.0$cm^2$ ThermaTip, the introduction of our new 0.25 $cm^2$ ThermaTip and expansion into new international markets, partially offset by lower average selling prices beginning in April 2005.

*Cost of Revenue*. Our cost of revenue consists primarily of material, labor and manufacturing overhead expenses. Cost of revenue increased $3.0 million, or 24%, from $12.3 million to $15.3 million for the years ended December 31, 2005 and 2006, respectively. The increase was primarily due to the increased volume of ThermaTips and other consumables sold. Gross margin was 70% and 72% for the years ended December 31, 2005 and 2006, respectively.

*Sales and Marketing*. Sales and marketing expenses consist primarily of personnel costs and costs related to customer-attended workshops and trade shows, marketing, customer service and business development. Sales and marketing expenses increased $4.1 million, or 20%, from $20.0 million to $24.1 million for the years ended December 31, 2005 and 2006, respectively. The increase was primarily attributable to an increase of $2.8 million in personnel and commission costs and related travel expenses associated with the expansion of our international sales force and marketing staff, as well as an increase of $0.2 million in promotional costs primarily due to an increased number of customer workshops, trade shows and promotional efforts and an increase in stock-based compensation charges of $1.1 million.

*Research and Development*. Research and development expenses consist primarily of personnel costs, clinical and regulatory costs, material costs and regulatory and quality assurance costs not directly related to the manufacturing of our products. Research and development expenses increased $0.7 million, or 8%, from $8.9 million to $9.6 million for the years ended December 31, 2005 and 2006, respectively. The increase was primarily related to increased stock-based compensation charges of $0.5 million, higher personnel costs of $0.4 million, partially offset by lower clinical studies costs and other research and development discretionary spending of $0.2 million.

Table of Contents

*General and Administrative*. General and administrative expenses consist primarily of personnel costs, legal and accounting fees, information technology costs, human resources costs and other general operating expenses. General and administrative expenses increased $2.6 million, or 35%, from $7.4 million to $10.0 million for the years ended December 31, 2005 and 2006, respectively. The increase was primarily attributable to expenses incurred in connection with the November 2006 initial public offering of $0.9 million, an increase in stock-based compensation charges of $1.4 million and higher employee related and other expenses of $0.3 million.

*Litigation Settlement*. In June 2005, we reached an agreement with Syneron that settled patent-related claims of the parties against each other. Under this agreement, the parties granted each other non-exclusive paid-up licenses under the patents in the suit and related patents. We received a one-time payment of $1.8 million, recorded net of certain legal expenses as $1.6 million. The license granted to Syneron excludes the right to utilize our monopolar RF and capacitive electrical coupling and the license granted to us excludes the right to utilize Syneron s Electro-Optical Synergy technology.

*Interest and Other Income*. Interest and other income consists primarily of interest income generated from our cash and cash equivalent balances. Interest and other income increased $0.5 million, or 126%, from $0.3 million to $0.8 million for the years ended December 31, 2005 and 2006, respectively due to higher average cash balances resulting from the proceeds of our initial public offering and GE Capital borrowings.

*Interest, Warrants and Other Expense*. Interest, warrants and other expense consists primarily of interest expense on our borrowings and changes in the fair value of our convertible preferred stock warrants under FSP 150-5. Interest and other expense decreased $1.4 million from $1.5 million to $55,000 for the years ended December 31, 2005 and 2006, respectively. The decrease was primarily attributable to $2.3 million decrease in the fair value of the convertible preferred stock warrants, partially offset by increase in interest expense of $0.8 million.

*Change in Accounting Principles*. Freestanding warrants related to our redeemable convertible preferred stock are accounted for in accordance with FSP 150-5 which requires that the warrants be classified as liabilities and recorded at fair value at the end of each reporting period. FSP 150-5 was adopted during the year ended December 31, 2005. A charge of $0.7 million was recorded in 2005 in connection with the change in accounting principle upon the adoption of FSP 150-5.

**Stock-Based Compensation**

For the years ended December 31, 2005 and 2006 and 2007 and the three and six months ended June 30, 2007 and 2008, employee and non-employee stock-based compensation expense has been allocated as follows (in thousands):

| | Years Ended December 31, | | | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|---|---|---|
| | 2005 | 2006 | 2007 | 2007 | 2008 | 2007 | 2008 |
| Cost of revenue | $ 4 | $ 73 | $ 288 | $ 40 | $ 53 | $ 140 | $ 96 |
| Sales and marketing | 216 | 1,306 | 1,796 | 434 | 354 | 916 | 772 |
| Research and development | 124 | 666 | 903 | 242 | 82 | 553 | 216 |
| General and administrative | 112 | 1,472 | 1,811 | 506 | 434 | 874 | 818 |
| Total stock-based compensation expense | $ 456 | $ 3,517 | $ 4,798 | $ 1,222 | $ 923 | $ 2,483 | $ 1,902 |

Table of Contents

**Liquidity and Capital Resources**

On June 30, 2008, we had working capital of $58.2 million, which consists primarily of $15.4 million in cash and cash equivalents and $36.9 million in marketable investments.

***Six Months Ended June 30, 2007 and June 30, 2008***

*Net Cash Provided by (Used in) Operating Activities*. We did not use cash in operating activities in the six months ended June 30, 2008, compared with net cash provided of $2.7 million in the same period a year ago. During 2008, $2.4 million net cash was provided from net loss after adjusting for non-cash items. Such amount was entirely used to fund changes in assets and liabilities. During the first half of 2008, cash was used to fund an increase of $2.2 million in accounts receivable, as well as to fund a decrease of $1.2 million in accrued and other liabilities. The increase in accounts receivable was due to a higher percentage of sales volume that occurred towards in the latter part of the quarter, as well as the impact of providing 30-day payment terms to certain U.S. customers under our Infinity Program in the first half of 2008. The decrease in accrued and other liabilities was primarily due to payment of annual bonus and professional fees. During 2007, $4.5 million of net cash was provided from net income after adjusting for non-cash items, which was partially offset by $1.8 million of net cash used in changes in assets and liabilities. Cash used in changes in assets and liabilities was primarily from $2.5 million of increased accounts receivable, the result of increased revenue; offset by $0.7 million increase in deferred revenue, a result of deferral of revenue on sales of our predecessor generators with rights to upgrade to the ThermaCool NXT generator.

*Net Cash Provided by (Used in) Investing Activities*. Net cash provided by investing activities in 2008 of $1.1 million was due to $1.5 million net sales of marketable investments, partially offset by acquisition of property and equipment. Net cash used in investing activities in 2007 was due to acquisition of property and equipment. The Company began to purchase marketable investments during the third quarter of 2007. We have begun to plan to liquidate a significant portion of our marketable investments under our proposed acquisition of Reliant Technologies, Inc., which is expected to close during the fourth quarter of 2008.

*Net Cash Provided by Financing Activities*. Net cash provided by financing activities was $0.7 million in the six months ended June 30, 2008 compared with $0.4 million in the six months ended June 30, 2007. During the first half of 2008, cash was provided by proceeds from exercise of stock options and employee stock purchase plan. In addition to cash received from exercise of stock options and employee stock purchase plan, during the first half of 2007, cash was used for payment of capitalized IPO costs of $0.4 million.

On July 7, 2008, we and Reliant Technologies, Inc. ( Reliant ) jointly announced that we had entered into a definitive merger agreement under which we will acquire Reliant for approximately $25 million in cash and 23.6 million shares of Thermage common stock, subject to post closing adjustments. In addition, we have agreed to provide bridge financing to Reliant in the amount of $5 million. The proposed transaction will require stockholder approval and is expected to close during the fourth quarter of 2008.

***Years Ended December 31, 2006 and December 31, 2007***

*Net Cash Provided by Operating Activities.* Net cash provided by operating activities was $1.2 million and $5.9 million for the years ended December 31, 2006 and 2007, respectively. During 2006, $0.5 million net cash was provided by operating loss after adjusting for non-cash items. An additional $0.7 million net cash was provided by changes in assets and liabilities. Cash provided by changes in assets and liabilities was primarily from $2.1 million of increased accrued and other liabilities balance due to increased levels of bonus and payroll related expenses. Such increase in cash was partially offset by $0.4 million of cash used to support a higher accounts receivable balance, payment of $0.4 million of prepaid expenses and payment of $0.6 million accounts payable. During 2007, $9.0 million net cash was provided from net income after adjusting for non-cash items, which was offset by $3.1 million net cash used in assets and liabilities. Cash was used in increase of accounts receivable and purchase of inventories in support of actual and anticipated increases in revenue. This was partially offset by cash provided from higher deferred revenue as a result of deferral of revenue on sales of our predecessor generators with rights to upgrade to the new ThermaCool NXT generator.

Table of Contents

*Net Cash Used in Investing Activities.* Net cash used in investing activities was $0.8 million and $39.5 million for the years ended December 31, 2006 and 2007, respectively. Our investing activities in 2006 consisted principally of property and equipment purchases. In addition to purchases of property and equipment, in the third quarter of 2007 we began to purchase and sell marketable investments.

*Net Cash Provided by Financing Activities.* Net cash provided by financing activities was $35.3 million and $1.3 million for the years ended December 31, 2006 and 2007, respectively. In 2006, the increase in cash provided by financing was primarily from proceeds from our initial public offering, proceeds from exercise of stock options and preferred stock warrants, collection of a note receivable from a stockholder, partially offset by repayment of $5.0 million of the working capital line with GE Capital. In 2007, cash provided from financing activities was primarily from proceeds from exercise of stock options and employee stock purchase plans and collection of a note receivable from a stockholder, partially offset by payment of initial public offering costs.

***Years Ended December 31, 2005 and December 31, 2006***

*Net Cash Provided by (Used in) Operating Activities.* Net cash used in operating activities was $4.3 million for the year ended December 31, 2005 and net cash provided by operating activities was $1.2 million for the year ended December 31, 2006. During 2005, $3.4 million net cash was used by operating activities primarily from net loss after adjusting for non-cash items. An additional $0.9 million net cash used by changes in assets and liabilities, driven by an increase in accounts receivables of $1.7 million, an increase in prepaid expenses of $0.4 million, a decrease in payables and accrued liabilities of $0.2 million, and a decline in inventories of $1.6 million. The increase in accounts receivable was the result of changing our distributor standard payment terms from upfront payment to payment within 30 days of shipment. The decrease in payables and accrued liabilities was due to decreased levels of accrued state sales tax and inventory as a result of lower revenue. The decline in inventories was a result of aligning inventory levels with changes in forecasted customer demand. During 2006, $0.5 million net cash was provided by operating loss after adjusting for non-cash items. An additional $0.7 million net cash was provided by changes in assets and liabilities. Cash provided by changes in assets and liabilities was primarily from $2.1 million of increased in accrued and other liabilities balance due to increased levels of bonus and payroll related expenses. Such increase in cash from increased amounts in accrued liabilities was partially offset by $0.4 million of cash used to support higher accounts receivable balance, payment of $0.4 million of prepaid expenses and payment of $0.6 million accounts payable.

*Net Cash Used in Investing Activities.* Net cash used in investing activities was $2.3 million and $0.8 million for the years ended December 31, 2005 and 2006, respectively. Our investing activities in the 2005 and 2006 periods consisted principally of property and equipment purchases of $2.2 million in 2005 and $0.9 million in 2006. Expenditures were higher in 2005 as a result of outfitting our new corporate and manufacturing facility that we moved into at the end of 2004.

*Net Cash Provided by Financing Activities.* Net cash provided by financing activities was $5.0 million and $35.3 million for the years ended December 31, 2005 and 2006, respectively. In 2005, the increase in cash provided by financing was primarily attributable to $5.0 million drawn on a working capital line with GE Capital. In 2006, the increase in cash provided by financing was primarily from proceeds from our initial public offering, proceeds from exercise of stock options and preferred stock warrants, collection of a note receivable from a stockholder, partially offset by repayment of $5.0 million of the working capital line with GE Capital.

We believe that our current cash, cash equivalents, and investments, along with the cash we expect to generate from operations, will be sufficient to meet our anticipated cash needs for the proposed merger with Reliant and for working capital and capital expenditures for at least the next 12 months.

**Off-Balance Sheet Arrangements**

We do not have any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, which would have been established for the

Table of Contents

purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. In addition, we do not have any undisclosed borrowings or debt, and we have not entered into any synthetic leases. We are, therefore, not materially exposed to any financing, liquidity, market or credit risk that could arise if we engaged in such relationships.

**Recent Accounting Pronouncements**

In December 2007, the FASB issued Statement No. 141 (revised), *Business Combinations* ( SFAS No. 141(R) ). The statement changes the accounting for business combinations including the measurement of acquirer shares issued in consideration for a business combination, the recognition of contingent consideration, the accounting for preacquisition gain and loss contingencies, the recognition of capitalized in-process research and development, the accounting for acquisition-related restructuring cost accruals, the treatment of acquisition related transaction costs and the recognition of changes in the acquirer s income tax valuation allowance. SFAS 141(R) is effective for fiscal years beginning after December 15, 2008, with early adoption prohibited. We are evaluating the impact that the statement will have, if any, on our financial statements.

In December 2007, the FASB issued Statement No. 160, *Non-controlling Interests in Consolidated Financial Statements, an amendment of ARB No. 51* ( SFAS 160 ). The standard changes the accounting for non-controlling (minority) interests in consolidated financial statements including the requirements to classify non-controlling interests as a component of consolidated stockholders equity, and the elimination of minority interest accounting in results of operations with earnings attributable to non-controlling interests reported as part of consolidated earnings. Additionally, SFAS 160 revises the accounting for both increases and decreases in a parent s controlling ownership interest. SFAS 160 is effective for fiscal years beginning after December 15, 2008, with early adoption prohibited. We are evaluating the impact that the statement will have, if any, on our financial statements.

In February 2008, the FASB issued FASB Staff Position FAS 157-2, which deferred the effective date of SFAS No. 157 for one year, effective for fiscal years beginning after November 15, 2008, as it relates to non-financial assets and liabilities. We have not determined the effect, if any, the adoption of this statement will have on our results of operations or financial position.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133* ( SFAS No. 161 ). SFAS No. 161 establishes, among other things, the disclosure requirements for derivative instruments and for hedging activities. This statement amends and expands the disclosure requirements of SFAS No. 133 with the intent to provide users of financial statements with an enhanced understanding of: a. How and why an entity uses derivative instruments, b. How derivative instruments and related hedged items are accounted for under SFAS No. 133 and its related interpretations, and c. How derivative instruments and related hedged items affect an entity s financial position, financial performance and cash flows. SFAS No. 161 is effective for fiscal years beginning after November 15, 2008, with early adoption encouraged. We have not determined, the effect, if any, the adoption of this statement will have on our results of operations or financial position.

**Quantitative and Qualitative Disclosures about Market Risk**

Our exposure to credit and interest rate risk relates primarily to our investment portfolio. Our investment portfolio primarily includes fixed rate debt instruments of corporate issuers, fixed rate Euro bonds and certificates of deposit. A change in prevailing interest rates may cause the fair value of our investments to fluctuate. For example, if we hold a security that was issued with a fixed interest rate at the then-prevailing rate and the prevailing rate rises, the fair value of the principal amount of our investment will probably decline. Assuming a hypothetical increase in interest rates of one percentage point, the fair value of our total investment portfolio as of June 30, 2008 would have potentially declined by $300,000. To minimize the exposure due to

Table of Contents

adverse shifts in interest rates, we maintain investments at a weighted average maturity of generally one year or less. Due to the short-term nature of these investments, we believe we have no material exposure to interest rate risk arising from our investments.

Although currently all of our sales and purchases are denominated in U.S. dollars, future fluctuations in the value of the U.S. dollar may affect the price competitiveness of our products. We do not believe, however, that we currently have significant direct foreign currency exchange rate risk and have not hedged exposures denominated in foreign currencies.

Table of Contents

## INFORMATION ABOUT RELIANT

### Overview

Reliant is a medical device company that designs, develops and markets non-surgical therapies for the treatment of various skin conditions under the Fraxel brand.

Reliant currently markets three Fraxel laser systems, the Fraxel re:store system, which was first commercialized in 2006, and the Fraxel re:fine system and the Fraxel re:pair system, which were commercialized in 2007. Both the Fraxel re:store and Fraxel re:fine systems offer treatments for milder skin conditions such as fine lines and pigmentation. In addition the Fraxel re:store system is targeted to provide treatments for acne and surgical scars, deeper lines and wrinkles, and actinic keratoses. The Fraxel re:pair system has received FDA clearance for dermatological procedures requiring ablation, coagulation and resurfacing of soft tissue as well as for rhytides, pigmentation and vascular dyschromia.

Reliant primarily markets its laser systems to dermatologists and plastic surgeons. Reliant intends to expand its customer base to include general practitioners, gynecologists, ophthalmologists and others. In the United States, Reliant sells the Fraxel laser systems through 32 sales representatives and 10 clinical educators. Internationally, Reliant sells into over 60 countries primarily through independent distributors.

Differentiating benefits of Reliant s Fraxel laser systems include:

*Effective Treatments.* The Fraxel laser systems generate and deliver precise wavelengths of energy that create deep microscopic lesions to target specific skin conditions. Reliant s technology also incorporates precise dosage control, which automatically adjusts the amount, pattern, depth and location of energy delivered into the skin to optimize treatment results and enable consistent results from patient to patient.

*Ease of Use.* The motion control technology within Reliant s Fraxel laser systems enables practitioners to deliver Fraxel laser treatments by performing a simple painting motion on the patient s skin. The motion control technology automatically delivers a consistent level and pattern of energy by compensating for how rapidly the practitioner moves the handpiece, enabling the practitioner to provide a more uniform post-treatment appearance and a reduced treatment time.

*Broad Applications.* Reliant offers Fraxel laser systems that can treat multiple skin conditions on all skin colors, and can be used on all skin surfaces, while other laser technologies are often confined to facial applications. The Fraxel laser systems have gained FDA 510(k) clearance for the treatment of multiple skin conditions and Reliant is continually evaluating additional opportunities.

*Enhanced Safety.* Technologies contained in the Fraxel laser systems improve the safety profiles of the systems. One example is the Integrated Optical Tracking System which reduces the risk of operator error, including deactivating the laser if it is not in motion on the skin. The fact that Reliant s consumable treatment tips can be removed and disinfected further enhances the safety of the Fraxel re:store and Fraxel re:fine laser systems.

*System Reliability.* The Fraxel re:store and Fraxel re:fine laser systems incorporate advanced fiber laser technology that eliminates the need for optical alignment or adjustments within the laser source. These Fraxel laser systems require minimal regular maintenance and have a reduced total cost of ownership.

### Reliant s Products and Products Under Development

Reliant has developed three skin rejuvenation systems based on its proprietary Fraxel laser technology. Reliant offers the Fraxel re:store system, the Fraxel re:fine system, and the Fraxel re:pair system. Each of Reliant s systems uses a consumable treatment tip.

138

Table of Contents

The following table provides information regarding Reliant s Fraxel laser systems.

| | Fraxel re:store | Fraxel re:fine | Fraxel re:pair |
|---|---|---|---|
| Commercial launch date: | September 2006[1] | June 2007 | November 2007 |
| Modality: | Non-ablative | Non-ablative | Ablative |
| Laser energy source: | Erbium Glass Fiber Laser | Raman-shifted Fiber Laser | $CO_2$ Laser |
| Wavelength: | 1550 nm | 1410 nm | 10600 nm |
| 510(k) Status: | | | |
| Melasma | Cleared | Cleared | |
| Periorbital Wrinkles | Cleared | Cleared | |
| Resurfacing | Cleared | Cleared | Cleared |
| Pigmentation | Cleared | Cleared | Cleared |
| Surgical/Acne Scars | Cleared | Cleared | |
| Actinic Keratoses | Cleared | | |
| Soft Tissue Coagulation | Cleared | Cleared | Cleared |
| Rhytides | | | Cleared |
| Vascular Dyschromia | | | Cleared |
| Typical patient treatments: | 3-4 | 5-6 | 1-2 |
| Consumable treatment tip: | Yes | Yes | Yes |
| Approximate tip life: | 3-5 full face treatments | 5-6 full face treatments | 1 full face treatment |

(1) System updated from previous system launched in September 2004.

***Fraxel re:store Laser System***

Reliant s Fraxel re:store system was launched in September 2006 as an improved next generation product to its first system launched in September 2004 and offers a fractional non-ablative treatment utilizing a fiber laser. As compared to Reliant s first system, the Fraxel re:store system offers improved ergonomics, including decreased handpiece weight, an adjustable spot size feature which allows for higher treatment energies and increased depth of penetration, improved tracking system and tip design which eliminated the need for the application of a blue dye and reduced preparation time prior to treatment, and a dosage feedback system that enables the physician to accurately monitor the total energy delivered to the treatment area. Reliant believes the Fraxel re:store system provides an effective solution for skin conditions such as wrinkles, acne scars, skin texture and tone, and pigmentation, including melasma. This system can be operated at a wide range of treatment levels offering the clinician the versatility to treat both superficial and deep conditions based on the patient s needs and preferences. Reliant s targeted customer base for the Fraxel re:store system is physicians who have experience with aesthetic lasers or otherwise have practices performing various aesthetic treatments.

***Fraxel re:fine Laser System***

Reliant s Fraxel re:fine system, which was launched in June 2007, offers a fractional non-ablative treatment utilizing a fiber laser. The Fraxel re:fine system provides an effective, low discomfort treatment solution in a compact design. The Fraxel re:fine system is for physician practices that want to provide treatment for skin tone and texture, pigmentation and fine lines rather than the broader range of conditions treated by the Fraxel re:store system. Reliant s target customer for the Fraxel re:fine system is a physician practice that is expanding into aesthetics or has a younger patient base primarily interested in preventative or lighter treatments.

139

Table of Contents

***Fraxel re:pair Laser System***

Reliant s Fraxel re:pair system, which was launched in November 2007, offers a fractional ablative treatment utilizing a $CO_2$ laser. Reliant believes the Fraxel re:pair system provides similar effectiveness to traditional bulk ablative treatments, with less downtime and risks. The system goes deeper into the skin than bulk ablative treatments, which may provide additional skin tightening. The Fraxel re:pair system delivers a new type of treatment Reliant calls fractional deep dermal ablation, or FDDA treatment. The Fraxel re:pair system has received FDA 510(k) clearance for dermatological procedures requiring ablation, coagulation and resurfacing of soft tissue, rhytides, pigmentation and vascular dyschromia. Reliant also sought clearance for skin laxity. The FDA has indicated that they have not identified the appropriate criteria to evaluate efficacy for treatment of skin laxity and therefore has not cleared such indication. Reliant also may seek FDA 510(k) clearance for indications such as acne scars, surgical scars and striae. Reliant s targeted customer base for the Fraxel re:pair system will be physicians who have significant experience in working with aesthetic lasers and are seeking effective but safer ablative procedures with less downtime than those currently offered in the market.

***Fraxel Consumable Treatment Tips***

Reliant s Fraxel laser systems use proprietary consumable treatment tips. To perform a treatment, the physician attaches to the handpiece a treatment tip, which is designed to ensure the treatment is delivered consistently, safely and effectively. After approximately three to five treatments for the Fraxel re:store laser system and approximately five to six treatments for the Fraxel re:fine laser system the consumable tip is depleted of its useful life and must be replaced. The consumable tip to be used in Reliant s Fraxel re:pair laser system must be replaced following each treatment. Reliant s tips have a list price of $400.

***Home-use Device***

Reliant entered into an agreement with Philips Consumer Lifestyle B.V. in March 2008 to develop and commercialize a home-use, laser-based device for skin rejuvenation. Reliant believes this represents a significant opportunity to bring laser-based devices directly to consumers. Under the agreement, Philips is currently making quarterly payments to Reliant for research and development related to the device. Philips may terminate the agreement at any time if it chooses not to proceed with commercialization of the device. Upon commercialization of the device, Philips will pay Reliant a percentage of net sales of the device and related products. As long as certain technology transfer payments are paid to Reliant, the agreement is exclusive with respect to the right of Philips to manufacture, distribute, sell and commercialize the device and the related products. After termination of the agreement and/or termination of the exclusivity period as described above, Reliant is prohibited from directly or indirectly manufacturing, selling, distributing and commercializing any laser-based devices for home use by consumers that are similar to the device developed under this agreement.

**Components of Reliant s Fraxel Laser Systems**

Reliant s Fraxel laser systems are comprised of a laser system and a delivery system, including the control console and handpiece. These components generate the laser energy, create individual fractional laser beams and deliver the treatment to the patient according to Reliant s optimized treatment parameters.

***Fraxel re:store and Fraxel re:fine lasers.*** Reliant s Fraxel re:store and Fraxel re:fine system consoles each contain a fiber laser which generates laser pulses at 1550 nm and 1410 nm wavelengths, respectively. These wavelengths were specifically chosen to target water in the skin and to optimize the treatment results of each system. The fiber laser technology is specifically designed to produce a high quality beam of energy that maintains its wavelength accuracy to within a few nanometers. The fiber laser is also highly efficient, with low power requirements that can be provided by a standard wall outlet, and without the need for water cooling. Furthermore, the fiber laser is durable and robust with a long life span, and it is easy to set up and maintain, with no service requirement or need for optical alignments or adjustments.

Table of Contents

***Fraxel re:pair lasers.*** Reliant s Fraxel re:pair laser system utilizes an air-cooled $CO_2$ laser at 10600 nm. The specific water absorption characteristics of this wavelength in the skin enables the laser to ablate the tissue immediately, creating a needle-like crater and thin zone of coagulation into the dermis. The treatment is made up of deep microscopic ablated zones surrounded by undamaged tissue, rather than a thin, general ablation of the entire surface as typically achieved with traditional $CO_2$ lasers. By utilizing Reliant s fractional deep dermal ablation treatment, Reliant believes it can optimize treatments with the $CO_2$ laser for safer procedures and lower patient downtime.

***Control Console and Graphical User Interface.*** Reliant s Fraxel laser systems feature a touch screen graphical user interface that allows the practitioner to select the energy level, treatment level and number of passes. In addition, each system has a dosage feedback system that enables the physician to accurately monitor the total energy delivered to the treatment area by utilizing measurement information obtained from Reliant s intelligent optical tracking system. The console also features a simulation mode for training and patient demonstration.

***Handpiece.*** The laser energy is delivered to Reliant s Fraxel laser handpieces, which incorporate Reliant s high speed scanner and its Intelligent Optical Tracking System. An additional feature in the Fraxel re:store and Fraxel re:fine handpieces is an automated spot size control system. This system delivers optimum lesion penetration at each energy setting and minimizes bulk heating and discomfort.

***Consumable Treatment Tips.*** Reliant s Fraxel laser systems use consumable treatment tips that attach to the handpiece. Due to the amount of laser energy absorbed by these tips over the course of treatments, they degrade and require replacement. Reliant offers large and small tip solutions enabling the physician to treat all areas of the body effectively. Both the Fraxel re:fine and Fraxel re:store tips are designed to accommodate high level disinfection, and the necessary disinfection trays and instructions are provided during installation and training. The Fraxel re:pair tips are designed to support evacuation of tissue debris from the treatment field and are intended to eliminate any risk of biohazard, due to the ablative nature of the treatment.

**Research and Development**

Reliant s research and development group develops new technologies and products to address underserved or unmet market needs. The major focus of this group is to leverage Reliant s technology platform for new aesthetic applications and develop new technology platforms for aesthetic applications. Reliant works closely with thought leaders and physician customers to understand unmet needs and emerging applications in aesthetic medicine. Reliant believes a distinguishing characteristic of its research and development is its biomedical research in skin science. Reliant collaborates with IPG Photonics, the supplier of its lasers, to develop Reliant s next generation laser delivery technologies for additional applications including manufacturing and industrial uses. Reliant is also collaborating with Massachusetts General Hospital and others to research new applications. Reliant is paying approximately $1.0 million over a three year period for sponsored research on laser-based therapies for a variety of skin conditions being conducted by researchers at Massachusetts General Hospital.

As of June 30, 2008, Reliant s research and development activities were conducted by a staff of 43 employees with a broad base of experience in the areas of advanced development, product engineering, biomedical engineering and clinical testing. The advanced development team includes physicists and biomedical systems engineers who create the prototype devices that enable the biomedical engineering team to explore the skin science. The biomedical engineering team is led by laser tissue interaction specialists who model the laser tissue interactions, and create the databases that are utilized for the design of Reliant s Fraxel laser systems. The product engineering team consists of experienced optical engineers, opto-mechanical engineers, electrical engineers and embedded machine control software engineers.

In addition to the broad range of applications for which Reliant has received FDA clearance, Reliant is conducting further studies to evaluate the potential of its Fraxel laser technology to treat striae, or stretch marks,

Table of Contents

atrophic scars, and eyelid and under-eye skin tightening. In addition to these indications, Reliant believes that its Fraxel laser technology can potentially be applied to treat other aesthetic skin conditions and Reliant is exploring additional applications for Reliant s technology.

***On-Site Fraxel Clinic.*** Reliant is co-located with an independent dermatology clinic managed by an independent dermatologist medical director. The staff of the clinic performs Fraxel laser procedures, participates in clinical studies and assists in research into new therapies using Reliant s Fraxel laser systems. These studies provide Reliant with immediate feedback on treatment parameters and treatment protocols which enable Reliant to improve the safety and efficacy of its Fraxel laser systems. The clinic also conducts on-site clinical studies in support of obtaining additional regulatory clearances, applications, applications development and photographic documentation. The clinic also offers Reliant a hands-on observation and training center for potential physician and nurse customers or for those interested in advanced training in treatment protocols and system parameters to achieve optimal outcomes.

**Manufacturing**

Reliant manufactures its products with components and subassemblies supplied by its vendors. Reliant assembles and tests its products in its Mountain View, California facility, which meets necessary FDA, ISO and other quality standards. Reliant purchases components and subassemblies for its laser systems from a limited number of suppliers. Reliant has entered into long-term supply agreements with several suppliers in order to gain cost reductions associated with higher volume purchase commitments.

Reliant relies exclusively on IPG Photonics for the supply of fiber lasers used in its Fraxel laser systems. Reliant has agreed to purchase from IPG all of its fiber lasers with specific characteristics that are used for specified treatment applications. Reliant has also granted IPG a right of first offer on all laser sources it is considering for any new products under development. Reliant s current agreement expires on December 31, 2009.

**Intellectual Property Rights**

Reliant relies on a combination of patent, copyright, trademark and other intellectual property laws, confidentiality agreements and invention assignment agreements to protect its intellectual property rights. As of June 30, 2008, Reliant had 30 issued U.S. patents and 64 pending U.S. and 67 pending foreign patent applications. These issued United States patents have expiration dates between 2010 and 2025. Expiration may occur earlier under certain circumstances, such as if Reliant does not continue to pay maintenance fees to the United States Patent and Trademark Office. Not all of Reliant s patents and patent applications are related to Reliant s current or future product lines, and some of Reliant s patents have been licensed to third parties. The pending foreign applications relate to similar underlying technological claims to the United States patents and/or patent applications. Reliant intends to file applications for additional patents to strengthen its intellectual property rights.

Reliant s patent applications may not result in issued patents, and Reliant cannot assure you that any patents that issue will provide a competitive advantage. Moreover, any patents issued to us may be challenged by third parties as invalid or parties may independently develop similar or competing technology or design around any of Reliant s patents. Reliant cannot be certain that the steps it has taken will prevent the misappropriation of its intellectual property, particularly in foreign countries where the laws may not protect its proprietary rights as fully as in the United States. Moreover, although Reliant has pending patent applications in the United States that, if issued in their present form, would in Reliant s belief cover some of its competitors products, Reliant s issued patents in their present form do not preclude new or existing competitors from developing competing technologies based on fractional resurfacing generally.

Reliant has entered into an exclusive, royalty bearing, worldwide license, with the right to sub-license, with Massachusetts General Hospital to a patent application relating to some of the technology used in Reliant s

Table of Contents

Fraxel laser systems. Under the agreement, Reliant has made a payment to Massachusetts General Hospital upon achievement of a described milestone, and Reliant pays royalties on sales of its current Fraxel laser systems and consumable tips. Massachusetts General Hospital has the right to control the prosecution of the patent application subject to this license and the enforcement of any patent that may issue, subject to Reliant s right to enforce it should Massachusetts General Hospital elect not to do so. Reliant s license agreement with Massachusetts General Hospital will remain in effect until the later of (a) the date on which all issued patents and filed patent applications within the patent application subject to the agreement have expired or been abandoned, and (b) one year after the last commercial sale for which a royalty is due under the agreement, unless the agreement is terminated earlier in accordance with its terms.

Reliant has several registered trademarks and service marks. Four of Reliant s primary marks (FRAXEL, RELIANT, the Reliant logo and the Fraxel logo) have received registrations in the United States and a large number of foreign jurisdictions around the world (*e.g.*, Australia, Canada, European Community, Japan and South Korea). Trademark and service mark applications for product specific marks (FRAXEL RE:FINE, FRAXEL RE:STORE and FRAXEL RE:PAIR) have been filed in the United States and a large number of foreign jurisdictions. Reliant owns several other trademarks and service marks that have been registered or are pending registration in several jurisdictions. Reliant has an active trademark enforcement program to limit misuse and unauthorized use of its marks.

Reliant requires its employees, consultants and advisors to execute confidentiality agreements in connection with their employment, consulting or advisory relationships with it. Reliant also requires them to agree to disclose and assign to Reliant all inventions conceived in connection with the relationship. Reliant cannot provide any assurance that employees, consultants and advisors will abide by the confidentiality or assignment terms of their agreements. Despite measures taken to protect Reliant s intellectual property, unauthorized parties may copy aspects of its products or obtain and use information that it regards as proprietary.

**Competition**

Reliant s industry is subject to intense competition. Reliant competes directly against laser and light based skin rejuvenation products and procedures offered by companies such as Alma Lasers, Cutera, Cynosure, Lumenis, Lutronic, Palomar Medical Technologies, Sciton, Syneron Medical and Thermage. In addition, Reliant competes against existing and emerging treatment alternatives such as cosmetic surgery, chemical peels, dermabrasions, microdermabrasions, Botox, dermal fillers and collagen injections. Some of these alternative procedures require a lower initial capital investment by the practitioner, and some of these procedures may be less invasive than Reliant s procedure. Some of Reliant s competitors are publicly-traded companies and others have significantly greater operating histories than Reliant does, and many of them may enjoy several competitive advantages, including:

- greater name recognition;
- more extensive intellectual property protection;
- established relationships with practitioners and other health care professionals;
- established domestic and international distribution networks;
- additional lines of products or existing treatment systems, and the ability to offer rebates or bundle products to offer higher discounts or incentives;
- greater experience in conducting research and development, manufacturing, clinical trials, obtaining regulatory approval for products and marketing approved products; and
- greater financial resources for product development, sales and marketing and patent litigation.

Competition among providers of laser and other light based devices for the aesthetic market is characterized by intensive sales and marketing activity. There are few barriers to entry that would prevent new entrants or

Table of Contents

existing competitors from developing products that could compete with Reliant s. There are many companies, both public and private, that are developing devices that use both light-based and alternative technologies. Additional competitors may enter the market, and Reliant is likely to compete with new companies in the future. To compete effectively, Reliant has to spend significantly on sales and marketing activities and differentiate its products on the basis of performance, brand name, reputation and price. Reliant has encountered and expects to continue to encounter potential customers who, due to existing relationships with Reliant s competitors, are committed to or prefer the products offered by these competitors. Reliant expects that competitive pressures may result in price reductions and reduced margins over time for its products.

**Government Regulation**

***United States***

*Medical Device Regulation*

Reliant s Fraxel laser systems are medical devices subject to extensive and rigorous regulation by the U.S. Food and Drug Administration, or the FDA, under the Federal Food, Drug, and Cosmetic Act, or FDCA, as well as other federal and state regulatory bodies in the United States, and laws and regulations of foreign authorities in other countries. FDA requirements specific to medical devices are wide ranging and govern, among other things:

- design, development and manufacturing;
- testing, labeling and storage;
- clinical trials in humans;
- product safety;
- marketing, sales and distribution;
- premarket clearance or approval;
- record keeping procedures;
- advertising and promotion;
- post-market surveillance, including reporting of deaths or serious injuries and malfunctions that, if they were to recur, could lead to serious injury or death; and
- product export.

Unless an exemption applies, each medical device to be commercially distributed in the United States must receive prior to marketing either 510(k) clearance or premarket application, or PMA approval, from the FDA pursuant to the FDCA. Medical devices are classified into one of three classes Class I, Class II, or Class III depending on the degree or risk associated with each medical device and the extent of control needed to ensure safety and effectiveness. Medical devices deemed to pose relatively less risk are placed in either Class I or II, which generally requires

the manufacturer to submit a premarket notification under Section 510(k) of the FDCA requesting permission for commercial distribution; this is known as 510(k) clearance. Some low risk devices are exempted from this requirement. Devices deemed by the FDA to pose the greatest risk, such as life-sustaining, life-supporting or implantable devices, or devices deemed not substantially equivalent to a previously 510(k) cleared device, or to a preamendment device i.e., a device that was in commercial distribution before May 28, 1976 for which the FDA has not yet called for submission of PMA applications are placed in Class III requiring PMA approval. Reliant s Fraxel laser systems are currently classified as Class II.

*510(k) Clearance Pathway.* To obtain 510(k) clearance, a manufacturer must submit a premarket notification demonstrating that the proposed device is substantially equivalent in intended use and in safety and effectiveness to a predicate device, i.e., a previously 510(k) cleared device or a preamendment device. The FDA makes this determination based upon a comparison of intended use and technological characteristics. The

Table of Contents

FDA s 510(k) clearance pathway usually takes from four to 12 months, but it can last longer and clearance is never guaranteed. In reviewing a premarket notification, the FDA may request additional information, including clinical data, which can cause substantial delay. If the FDA determines that the device, or its intended use, is not substantially equivalent to a previously cleared device or use, the FDA will place the device, or the particular use, into Class III.

After a device receives 510(k) clearance, any modification that could significantly affect its safety or effectiveness, or that would constitute a major change in its intended use, requires a new 510(k) clearance or could require a PMA approval. The FDA requires each manufacturer to make this determination in the first instance, but the FDA can review any such decision. If the FDA disagrees with a manufacturer s decision not to seek a new 510(k) clearance, the agency may retroactively require the manufacturer to seek 510(k) clearance or PMA approval. The FDA also can require the manufacturer to cease marketing and/or recall the modified device until 510(k) clearance or PMA approval is obtained.

*PMA Approval Pathway*. A product not eligible for 510(k) clearance must follow the PMA approval pathway, which requires proof of the safety and effectiveness of the device to the FDA s satisfaction. The PMA approval pathway is much more costly, lengthy and uncertain. It generally takes from one to three years or even longer.

A PMA application must provide extensive preclinical and clinical trial data and also information about the device and its components regarding, among other things, device design, manufacturing and labeling. As part of the PMA review, the FDA will typically inspect the manufacturer s facilities for compliance with Quality System Regulation, or QSR, requirements, which impose elaborate testing, control, documentation and other quality assurance procedures.

Upon submission, the FDA determines if the PMA application is sufficiently complete to permit a substantive review, and, if so, the application is accepted for filing. The FDA then commences an in-depth review of the PMA application, which typically takes one to three years, but may last longer. An advisory panel of experts from outside the FDA is typically convened to review and evaluate the PMA applications and provide recommendations to the FDA as to the approval of the device. Even after approval of a PMA, a new PMA or PMA supplement is required in the event of a modification to the device, its labeling or its manufacturing process.

*Clinical Studies.* A clinical trial is almost always required to support a PMA approval and a clinical study or trial is sometimes required to support 510(k) clearance. All clinical studies of investigational devices must be conducted in compliance with FDA s requirements. If an investigational device could pose a significant risk to patients (as defined in the regulations), the FDA must approve an Investigational Device Exemption, or IDE, application prior to initiation of investigational use. An IDE application must be supported by appropriate data, such as animal and laboratory test results, showing that it is safe to test the device in humans and that the testing protocol is scientifically sound. FDA typically grants IDE approval for a specified number of patients to be treated at specified study centers. A nonsignificant risk device does not require FDA approval of an IDE. Both significant risk and nonsignificant risk investigational devices require approval from institutional review boards, or IRBs, at the study centers where the device will be used. There can be no assurance that submission of an IDE will result in the ability to commence clinical trials.

During the study, the sponsor must comply with the FDA s IDE requirements for investigator selection, trial monitoring, reporting and record keeping. The investigators must obtain patient informed consent, rigorously follow the investigational plan and study protocol, control the disposition of investigational devices, and comply with all reporting and record keeping requirements. The IDE requirements apply to all investigational devices, whether considered significant or nonsignificant risk. The sponsor, the FDA or the IRB at each site at which a clinical trial is being performed may suspend a clinical trial at any time for various reasons, including a belief that the risks to study subjects outweigh the benefits. Even if a trial is completed, the results of clinical testing

Table of Contents

may not demonstrate the safety and efficacy of the device, or may otherwise not be sufficient to obtain clearance or approval of the product.

*Postmarket.* After a device is placed on the market, whether via the 510(k) or PMA pathway, numerous regulatory requirements apply. These include: the QSR, labeling regulations, the FDA s general prohibition against promoting products for unapproved or off-label uses, the Medical Device Reporting regulation (which requires that manufacturers report to the FDA if their device may have caused or contributed to a death or serious injury or malfunctioned in a way that would likely cause or contribute to a death or serious injury if it were to recur), and the Reports of Corrections and Removals regulation (which requires manufacturers to report recalls and field actions to the FDA if initiated to reduce a risk to health posed by the device or to remedy a violation of the FDCA).

The FDA enforces these requirements by inspection and market surveillance. If the FDA finds a violation, it can institute a wide variety of enforcement actions, ranging from a public warning letter to more severe sanctions such as:

- fines, injunctions, consent decrees and civil penalties;
- repairs, replacements, refunds, recalls, detentions or seizures of Reliant s products;
- operating restrictions or partial suspension or total shutdown of production;
- refusing Reliant s requests for 510(k) clearance or premarket approval of new products, new intended uses, or modifications to existing products;
- withdrawing 510(k) clearance or premarket approvals that have already been granted; and
- criminal prosecution.

The Federal Trade Commission also regulates the advertising of many types of medical devices, including all those with 510(k) clearance.

Our Fraxel laser systems, including the Fraxel SR750, Fraxel re:store, Fraxel re:fine and Fraxel re:pair laser systems are regulated as Class II medical devices. Reliant has obtained eleven 510(k) clearances to market each device for multiple indications.

Reliant does not presently have any 510(k) submissions pending clearance by the FDA. Reliant does not have any device currently in development that it believes will require PMA approval.

Reliant has sponsored 47 IRB-approved clinical studies, for the purposes of evaluating its significant risk investigational devices prior to FDA clearance or conducting post-market evaluation of its cleared devices for various indications. Each of Reliant s 510(k) submissions was supported by one or more clinical studies. Reliant has conducted 16 IDE studies in total. Reliant expects that its 510(k) submissions for new devices or new indications for its cleared devices will continue to require supporting clinical studies.

As of June 30, 2008, pursuant to the MDR regulations, Reliant has reported to the FDA 16 incidents related to scarring or necessary medical intervention to preclude the formation of scarring following treatments with the Fraxel SR750 laser or the Fraxel re:store laser. Two of these incidents also involved infections.

Reliant has registered with the FDA as a medical device manufacturer and has obtained a manufacturing license from the California Department of Health Services, or CDHS. The FDA inspected Reliant s facility on February 22-23, 2005, and one 483 inspectional observation was noted. The observation noted the omission of a test procedure to verify the control system of the Fraxel SR750 laser system for the key switch removal process. In response to the observation, a manufacturing test procedure was successfully implemented in March 2005. A second inspection by the FDA of Reliant s facility and quality systems was performed on July 23-29, 2008, and

146

Table of Contents

the FDA noted minor observations, all of which will be corrected by October 1, 2008. The Food and Drug Branch, or FDB, of the CDHS first inspected Reliant s facility and quality systems on April 7-9, 2004, with minor observations noted, all of which were corrected immediately thereafter. A second CA FDB inspection was conducted on August 16, 2006, with no observations noted.

***European Union***

Reliant s products are regulated in the European Union as medical devices per the European Union Directive No. 93/42/EEC, also known as the Medical Device Directive. An authorized party, referred to as a notified body, must approve Reliant s products for CE marking, so as to allow their marketing throughout the European Economic Area. Reliant s Fraxel SR750 laser was approved for CE marking on December 10, 2006, the Fraxel re:store laser was approved for CE marking on September 28, 2004, the Fraxel re:fine laser was approved for CE marking on September 19, 2007 and the Fraxel re:pair laser was approved for CE marking on March 28, 2008. The CE marking is contingent upon Reliant s continued compliance to the applicable regulations and the quality system requirements of ISO 13485 certification standard. The European Community also has regulations similar to that of the FDA for the advertising and promotion of medical devices and products, clinical investigations, and adverse events. Reliant believes that it is in sufficient compliance with such regulations at this time.

***Rest of the World***

Most of the major medical device markets throughout the world have regulatory requirements which are applicable to the Fraxel laser systems, although the extent and nature of each country s regulatory requirements is distinct. The regulatory requirements, and the review time, vary significantly from country to country. Reliant s Fraxel SR750 laser and Fraxel re:store lasers are currently approved for sale in Argentina, Australia, Brazil, Canada, Colombia, Hong Kong, Korea, Mexico, Philippines, Russia, Singapore and Taiwan and are authorized for export in additional unregulated markets , or countries that do not regulate medical devices. Modifications to either of these approved products will require a new regulatory submission in each of the regulated markets.

**Employees**

As of June 30, 2008, Reliant had 186 full-time employees, consisting of 43 in research and development and regulatory affairs, 32 in manufacturing and quality control, 83 in sales and marketing and 28 in general and administrative functions. None of Reliant s employees is covered by a collective bargaining agreement.

**Facilities**

Reliant is headquartered and currently manufactures its products in Mountain View, California, where it leases approximately 64,000 square feet under a lease expiring in November 2009. Reliant also leases an approximately 6,000 square foot warehouse in Mountain View, California.

**Legal Proceedings**

On August 6, 2007, Reliant was served with a complaint filed in San Mateo County Superior Court styled Court House Plaza Company v. Reliant Technologies, Inc., et al. The complaint alleges that plaintiff, a former landlord of Reliant, is entitled to certain warrants to purchase Reliant s common stock in partial consideration for Reliant s lease of the plaintiff s property between 2002 and 2005. After the termination of the lease agreement, Reliant entered into a written agreement in April 2006 with plaintiff whereby Reliant granted plaintiff a warrant to purchase 68,029 shares of its preferred stock in settlement of all obligations owed by Reliant under the lease agreement. The plaintiff now alleges that it is entitled to 138,343 fully-paid shares, rather than the warrant, and has asserted claims for declaratory relief, contract damages of $887,600 plus interest and reformation of the

Table of Contents

warrant agreement entered into in April 2006. On September 14, 2007, Reliant filed an answer generally denying all asserted claims and separately, a cross-complaint for declaratory relief. On April 30, 2008, Reliant filed a motion for summary judgment. Reliant intends to vigorously defend the matter and is unable to predict the outcome of this matter.

Table of Contents

**RELIANT SELECTED CONSOLIDATED FINANCIAL DATA**

The selected consolidated statements of operations data for the years ended December 31, 2005, 2006 and 2007, and the selected consolidated balance sheet data as of December 31, 2006 and 2007, are derived from our audited consolidated financial statements that are included elsewhere in this proxy statement/prospectus/information statement. The selected consolidated statements of operations data for the years ended December 31, 2003 and 2004 and the selected consolidated balance sheet data as of December 31, 2003, 2004 and 2005 are derived from our audited consolidated financial statements not included in this proxy statement/prospectus/information statement. The selected consolidated financial data for the six-month periods ended June 30, 2007 and June 30, 2008 and the consolidated balance sheet data as of June 30, 2008 are derived from our unaudited interim consolidated financial statements included elsewhere in this proxy statement/prospectus/information statement.

Our historical results are not necessarily indicative of future operating results. Our operating results for the six months ended June 30, 2008 should not be considered indicative of operating results for the full fiscal year or any other future period. The selected consolidated financial data set forth below should be read in conjunction with our consolidated financial statements, and the related notes thereto, and Reliant Management s Discussion and Analysis of Financial Condition and Results of Operations, included elsewhere in this proxy statement/prospectus/information statement.

| | Year ended December 31, | | | | | Six Months ended June 30, | |
|---|---|---|---|---|---|---|---|
| | 2003 | 2004 | 2005 | 2006 | 2007 | 2007 | 2008 |
| | | | | (in thousands) | | | |
| **Consolidated Statements of Operation Data**: | | | | | | | |
| Net revenues: | | | | | | | |
| Products | $ | $ 4,474 | $ 33,699 | $ 56,412 | $ 68,664 | $ 34,478 | $ 38,892 |
| Services and other | 49 | 75 | 101 | 1,078 | 1,812 | 803 | 2,074 |
| Total net revenues | 49 | 4,549 | 33,800 | 57,490 | 70,476 | 35,281 | 40,966 |
| Cost of revenues: | | | | | | | |
| Products | | 2,783 | 16,988 | 26,527 | 31,692 | 15,650 | 14,698 |
| Services and other | | | | 120 | 1,029 | 362 | 1,534 |
| Total cost of net revenues | | 2,783 | 16,988 | 26,647 | 32,721 | 16,012 | 16,232 |
| Gross profit | 49 | 1,766 | 16,812 | 30,843 | 37,755 | 19,269 | 24,734 |
| Operating expenses: | | | | | | | |
| Research and development | 3,321 | 7,180 | 7,854 | 10,458 | 13,932 | 6,135 | 6,806 |
| Sales and marketing | 187 | 2,089 | 9,748 | 23,343 | 33,315 | 16,471 | 17,832 |
| General and administrative | 2,231 | 5,483 | 10,962 | 17,506 | 14,575 | 6,540 | 6,996 |
| Total operating expenses | 5,739 | 14,752 | 28,564 | 51,307 | 61,822 | 29,146 | 31,634 |
| Loss from operations | (5,690) | (12,986) | (11,752) | (20,464) | (24,067) | (9,877) | (6,900) |
| Interest income | 21 | 137 | 57 | 544 | 355 | 239 | 25 |
| Interest expense | (101) | (336) | (762) | (1,533) | (902) | (421) | (473) |
| Gains (losses) on preferred stock warrant liability | | | (207) | 528 | 6,676 | (734) | 651 |
| Other income (expense), net | (251) | (134) | (46) | 30 | 201 | (92) | (3) |
| Loss before income taxes and cumulative effect of change in accounting principle | (6,021) | (13,319) | (12,710) | (20,895) | (17,737) | (10,885) | (6,700) |
| Provision for income taxes | | (9) | (10) | (10) | (25) | (10) | (3) |
| Net loss before cumulative effect of change in accounting principle | (6,021) | (13,328) | (12,720) | (20,905) | (17,762) | (10,895) | (6,703) |
| Cumulative effect of change in accounting principle | | | (5,493) | | | | |
| Net loss | $ (6,021) | $ (13,328) | $ (18,213) | $ (20,905) | $ (17,762) | $ (10,895) | $ (6,703) |

| | As of December 31, | | | | | As of June 30, |
|---|---|---|---|---|---|---|
| | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 |
| | (in thousands) | | | | | |
| **Consolidated Balance Sheet Data:** | | | | | | |
| Cash, cash equivalents and short-term investments | $ 3,354 | $ 6,952 | $ 4,689 | $ 9,474 | $ 5,714 | $ 5,858 |
| Working capital (deficiency) | 1,540 | 4,834 | (7,953) | (4,039) | (23) | (1,741) |
| Total assets | 4,277 | 12,130 | 15,268 | 31,326 | 26,136 | 23,652 |
| Preferred stock warrant liability | | | 7,789 | 7,967 | 1,505 | 865 |
| Current and long-term debt | 1,834 | 2,810 | 7,172 | 6,204 | 6,503 | 8,989 |
| Redeemable convertible preferred stock | 11,289 | 25,184 | 23,425 | 45,486 | 60,660 | 60,704 |
| Common stock and additional paid in capital | 202 | 4,540 | 13,326 | 14,829 | 22,209 | 26,290 |
| Total stockholder s deficit | $ (10,812) | $ (21,391) | $ (32,552) | $ (48,632) | $ (59,013) | $ (61,635) |

Table of Contents

**RELIANT MANAGEMENT S DISCUSSION AND ANALYSIS OF**

**FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

*The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our consolidated financial statements and the related notes to those statements included elsewhere in this proxy statement/prospectus/information statement. In addition to historical financial information, the following discussion and analysis contains forward-looking statements that involve risks, uncertainties and assumptions. Our actual results and timing of events may differ materially from those anticipated in these forward-looking statements as a result of many factors, including those discussed under Risk Factors and elsewhere in this proxy statement/prospectus/information statement. In this section, references to we, us, our and ours refer to Reliant and its consolidated subsidiaries.*

**Overview**

We are a medical device company that designs, develops and markets non-surgical therapies for the treatment of various skin conditions. We are the successor to Reliant Laser Corporation, which was originally incorporated in California in 1990 and reincorporated in Delaware in 1993 as Reliant Technologies, Inc. In 2001, we were purchased by RTI Holdings, Inc., a Nevada corporation that merged with us in 2002. In 2004, we were merged into our own wholly-owned subsidiary in connection with a recapitalization in connection with an equity financing to form the present corporation. From 2001 to 2004, we were developing our Fraxel SR750 laser system.

Our first laser system, the Fraxel SR750 laser system (originally released as the Fraxel SR laser system), was introduced in September 2004 and is still being offered. In August 2006, we introduced the successor to the Fraxel SR750 laser system, the Fraxel re:store laser system (originally released as the Fraxel SR1500 laser system). The Fraxel re:store system treats a broad range of skin conditions such as wrinkles, acne scars, skin texture and tone, and pigmentation, including melasma. In June 2007, we introduced the Fraxel re:fine laser system. While the fundamental technology is similar to the Fraxel re:store system, the Fraxel re:fine system is for physicians who wish to provide treatment primarily for skin tone and texture, pigmentation and fine lines rather than the broader range of conditions treated by the Fraxel re:store system. In November 2007, we started shipping the Fraxel re:pair laser system. The Fraxel re:pair laser system is designed to treat more severe indications than the Fraxel re:store laser system or Fraxel re:fine laser system and will involve post-treatment wound care. As of June 30, 2008, we have sold over 1,700 Fraxel laser systems.

Sales of the our Fraxel SR750 laser system peaked at $29.3 million in 2005 before decreasing to $26.0 million in 2006 when it was replaced by the Fraxel re:store laser as our flagship product, and $2.4 million in 2007. The Fraxel re:store laser system contributed $17.2 million to revenue in 2006 and $38.5 million in 2007. The Fraxel re:fine laser system and Fraxel re:pair laser system, which were introduced in June 2007 and November 2007, respectively, have generated revenue of $1.3 million and $1.7 million, respectively, in 2007. For the six months ended June 30, 2008, Fraxel re:pair, re:store, re:fine and SR750 laser systems contributed revenue of $12.8 million, $11.6 million, $2.8 million and $0.5 million, respectively.

We expect that competitive pressures may result in price reductions and reduced margins over time for our products. We do not anticipate the Fraxel SR750 laser system to contribute significantly to revenues and gross margin going forward. Gross margin percentages to date on the Fraxel re:fine laser system have been comparable to those for the Fraxel re:store laser, and gross margin percentages on the Fraxel re:pair laser system are slightly lower than Fraxel re:store and Fraxel re:fine laser systems.

All Fraxel laser systems use consumable treatment tips that are designed to make the Fraxel laser treatments both efficacious and safe. The tips *wear out* or are consumed as a function of the amount of use the tip incurs.

We sell our laser systems through a direct sales organization in the United States that as of June 30, 2008 consisted of 32 sales representatives and 10 clinical educators. We sell our laser systems in international markets

Table of Contents

primarily through distributors in over 60 countries. For each of the year ended December 31, 2006 and December 31, 2007, the United States represented approximately 62% of total net revenues. For the six months ended June 30, 2008, the United States represented approximately 65% of total net revenues.

At our Mountain View, California headquarters, we manufacture, assemble and test our products with components and subassemblies supplied by our vendors.

Our net revenues have increased in each year since the introduction of our first Fraxel laser system in 2004. Our net revenues were $4.5 million for the year ended December 31, 2004, $33.8 million for the year ended December 31, 2005, $57.5 million for the year ended December 31, 2006, $70.5 million for the year ended December 31, 2007 and $41.0 million for the six months ended June 30, 2008. For the year ended December 31, 2005, one customer, an international distributor, accounted for 18% of our net revenues. No customer accounted for more than 10% of our net revenues for the years ended December 31, 2006 and December 31, 2007 and the six months ended June 30, 2008. We have not been profitable in any period since inception, and we expect to continue to incur net losses through 2008. We have incurred cumulative net losses of approximately $87.9 million from our inception to June 30, 2008.

**Net Revenues**

Our net revenues are primarily derived from the sale of Fraxel laser systems, consumable treatment tips and services and other.

We have experienced seasonal increases in sales of our Fraxel laser systems during the fourth quarter resulting from tax incentives available to our physician customers for capital equipment purchased prior to year end. Approximately 32% of our net revenues for the year ended December 31, 2005 were generated during the fourth quarter, 39% of our net revenues for the year ended December 31, 2006 were generated during the fourth quarter, and 27% of our net revenues for the year ended December 31, 2007 were generated during the fourth quarter. Additionally, we have historically generated the majority of our Fraxel laser systems sales in the final month of each quarter, with significant sales occurring in the last week of each quarter. We expect the seasonality in our net revenues and intra-quarterly concentration of our net revenues to continue into the future.

***Products***

*Laser Systems*

Our Fraxel laser systems consist of our proprietary laser consoles and handpieces. Also included in the category of *laser systems* is a variety of pre- and post- treatment auxiliary equipment. In addition, the category of laser systems also includes freight charged to customers for shipping, carts for the laser systems and miscellaneous supplies, none of which have been significant to our overall net revenues or gross profit to date.

Auxiliary equipment includes devices that can be used in association with laser treatments. For example, at various times we have offered systems that cool the skin and cameras to take *before and after* pictures of patients. We generally sell these devices at or near our cost and therefore these devices generally do not affect our gross profit but can lower our gross margin percentage. Revenue from sales of auxiliary equipment to date have not been a significant percentage of our revenues for all periods presented. We may offer any of these devices or other auxiliary equipment from time to time in the future.

In conjunction with the introduction of the Fraxel re:store laser system, we offer physicians who own a Fraxel SR750 laser system an opportunity to upgrade to a Fraxel re:store laser system for a fee. The net revenues related to these upgrades comprised 2% of our net revenues in 2006, 11% of our net revenues in 2007, and 2% of our net revenues in the six months ended June 30, 2008. We may offer other upgrades from time to time in the future.

Table of Contents

*Consumables*

Our Fraxel laser systems require the use of consumable treatment tips that generate a recurring revenue stream for us. We introduced the single-use Fraxel re:pair laser consumable treatment tip in the fourth quarter of 2007.

***Services and Other***

A physician purchasing a Fraxel laser system may purchase an extended service agreement that covers the laser system after the standard warranty period expires. We offer a variety of extended service agreements with different prices based on the warranty features purchased. We expect revenues generated from service contracts to increase in the future as the installed base of our Fraxel laser systems increases.

**Cost of Net Revenues**

Our cost of net revenues consists of materials, direct labor including stock-based compensation, and manufacturing overhead primarily associated with the manufacture of our Fraxel laser systems and consumable treatment tips. Our cost of net revenues also includes royalty payments for the licensing of intellectual property rights. Currently, direct material costs including fiber lasers and other critical components of our Fraxel laser systems, make up the majority of cost of net revenues.

We believe our gross margin percentage will be positively impacted by the increasing proportion of our net revenues generated from consumables.

**Operating Expenses**

*Research and Development Expenses*. Research and development expenses consist primarily of personnel compensation, including stock-based compensation, materials and expenses associated with product development, clinical and regulatory costs associated with enhancing our Fraxel laser systems and technology platforms. We expense research and development expenses as incurred. We expect these expenses will decrease as a percentage of net revenues if our sales increase.

*Sales and Marketing Expenses*. Sales and marketing expenses consist primarily of personnel compensation, including stock-based compensation, sales force incentive compensation, trade shows, customer-attended workshops, advertising, travel, promotional materials, patient education materials and other expenses incurred to provide reimbursement services and clinical training. In order to increase sales through greater brand recognition and product awareness, we added sales and marketing employees and increased marketing related expenditures significantly during 2006 and 2007. We expect these sales and marketing expenses will increase in absolute terms in future periods, and increase as a percentage of net revenues in 2008 to facilitate expected continued revenue growth. Sales and marketing expenses as a percentage of net revenues are expected to decrease after 2008. If the increase in our sales and marketing expenses is not offset by increased revenue, our financial results could be negatively affected.

*General and Administrative Expenses*. General and administrative expenses consist primarily of personnel compensation, including stock-based compensation, accounting, human resources, corporate and administration, legal, audit and accounting, and insurance expenses. In the future, we expect general and administrative expenses will increase, but we expect that overall, general and administrative expenses will decrease as a percentage of net revenues if our sales increase.

Table of Contents

**Results of Operations**

***Six Months Ended June 30, 2008 and June 30, 2007***

*Net Revenues*. Net revenues increased $5.7 million, or 16%, to $41.0 million for the six months ended June 30, 2008 from $35.3 million for the six months ended June 30, 2007. For the six months ended June 30, 2008, laser systems (which includes the sale of pre- and post-treatment auxiliary equipment and fees related to upgrades from our Fraxel SR750 laser systems to our Fraxel re:store laser system) represented 72% of net revenues, consumables represented 23% of net revenues, and services and other represented the remaining 5% of net revenues. Other revenue includes $0.5 million of contract research and development revenue. For the six months ended June 30, 2007, laser systems (which includes the sale of pre- and post-treatment auxiliary equipment and fees related to upgrades from our Fraxel SR750 laser systems to our Fraxel re:store laser system) represented 79% of net revenues, consumables represented 19% of net revenues, and services and other represented the remaining 2% of net revenues. The United States represented 65% of net revenues for the six months ended June 30, 2008 and 61% of net revenue for the six months ended June 30, 2007.

The increase in net revenues for the six months ended June 30, 2008 as compared to the six months ended June 30, 2007 was primarily attributable to higher consumable sales to the installed base of system owners and increased unit sales of our Fraxel laser systems. These sales were primarily driven by the expansion of the sales force and introduction of Fraxel re:pair systems. We believe that our net revenues will increase as we continue to expand our sales force and marketing efforts to increase penetration in the worldwide aesthetic procedure and equipment markets.

*Cost of Net Revenues*. Cost of net revenues increased $0.2 million, or 1%, to $16.2 million for the six months ended June 30, 2008, from $16.0 million for the six months ended June 30, 2007. This increase was primarily attributable to increased unit sales of our Fraxel re:pair laser systems which were not marketed until the fourth quarter of 2007.

Gross profit increased $5.5 million, or 28%, to $24.7 million, for the six months ended June 30, 2008, from $19.3 million for the six months ended June 30, 2007. This increase was primarily attributable to increased unit sales of higher margin consumables and our Fraxel laser systems.

Overall gross margins improved to 60% for the six months ended June 30, 2008 from 55% for the six months ended June 30, 2007. The improvement in gross margin in the six months ended June 30, 2008 versus the six months ended June 30, 2007 was mainly attributable to higher prices per unit on laser systems in the six months ended June 30, 2008. Also contributing to the improvement were the greater share of product net revenue represented by higher margin consumables and less unit sales of SR750 upgrades which in general have lower gross margins.

*Research and Development Expenses*. Research and development expenses increased $0.7 million, or 11%, to $6.8 million for the six months ended June 30, 2008, from $6.1 million for the six months ended June 30, 2007. The increase was primarily attributable to an increase of $1.0 million in personnel costs, an increase of $0.2 million in stock-based compensation and an increase of $0.1 million in equipment and maintenance expenses partially offset by a decrease of $0.7 million in project materials and clinical related spending.

*Sales and Marketing Expenses*. Sales and marketing expenses increased $1.3 million, or 8%, to $17.8 million for the six months ended June 30, 2008, from $16.5 million for the six months ended June 30, 2007. The increase was primarily attributable to an increase of $1.3 million in personnel costs, an increase of $0.8 million in commission costs due to increased sales of products, an increase of $0.4 million in travel and related expenses attributable to selling and marketing activities, an increase of $0.2 million in stock-based compensation, and partially offset by a decrease of $1.6 million in marketing and promotional activities primarily relating to brand recognition initiatives.

Table of Contents

*General and Administrative Expenses*. General and administrative expenses increased $0.5 million, or 7%, to $7.0 million for the six months ended June 30, 2008, from $6.5 million for the six months ended June 30, 2007. The increase was primarily attributable to an increase of $0.7 million in legal expenses, $0.5 million in stock-based compensation and partially offset by a decrease of $0.6 million in bad debt reserve.

*Other Income (Expense), Net*. Other income net increased $1.2 million, or 120%, to $0.2 million for the six months ended June 30, 2008, from $1.0 million other expense net for the six months ended June 30, 2007. This increase in other income net was primarily attributable to the changes in the fair value of our preferred stock warrants.

***Years Ended December 31, 2007 and December 31, 2006***

*Net Revenues*. Net revenues increased $13.0 million, or 23%, to $70.5 million for the year ended December 31, 2007, from $57.5 million for the year ended December 31, 2006. For 2007, laser systems (which includes the sale of pre- and post-treatment auxiliary equipment and fees related to upgrades from our Fraxel SR750 laser systems to our Fraxel re:store laser system) represented 78% of net revenues, consumables represented 20% of net revenues, and services and other represented the remaining 2% of net revenues. For 2006, laser systems represented 80% of net revenues, consumables represented 18% of net revenues, and services and other represented the remaining 2% of net revenues. The United States represented 62% of net revenues for 2007 and 2006.

The increase in net revenues for the year end December 31, 2007 as compared to the year ended December 31, 2006 was primarily attributable to increased fees related to upgrades from our Fraxel SR750 laser systems to our Fraxel re:store laser system, higher consumable sales to the installed base of system owners and higher unit sales of our Fraxel laser systems. These sales were primarily driven by the expansion of the sales force and additional marketing programs.

*Cost of Net Revenues*. Cost of net revenues increased $6.1 million, or 23%, to $32.7 million for the year ended December 31, 2007, from $26.6 million for the year ended December 31, 2006. This increase was primarily attributable to increased unit sales of SR750 upgrades and consumables.

Gross profit increased $7.0 million, or 22%, to $37.8 million, for the year ended December 31, 2007, from $30.8 million for the year ended December 31, 2006. This increase was primarily attributable to increased unit sales of SR750 upgrades and consumables.

Overall gross margins were 54% for the year ended December 31, 2007 and the year ended December 31, 2006.

*Research and Development Expenses*. Research and development expenses increased $3.4 million, or 33%, to $13.9 million for the year ended December 31, 2007, from $10.5 million for the year ended December 31, 2006. The increase was primarily attributable to an increase of $1.7 million in project materials and clinical related spending, an increase of $1.1 million in personnel costs, an increase of $0.1 million in stock based compensation, an increase of $0.1 million in equipment and maintenance expenses, and $0.1 million travel and related expenses attributable to research and developing activities.

*Sales and Marketing Expenses*. Sales and marketing expenses increased $10.0 million, or 43%, to $33.3 million for the year ended December 31, 2007, from $23.3 million for the year ended December 31, 2006. The increase was primarily attributable to an increase of $3.7 million in personnel costs, an increase of $2.1 million in marketing and promotional activities primarily relating to brand recognition initiatives and an increase of $1.6 million in travel and related expenses attributable to selling and marketing activities, an increase of $1.4 million in commission costs due to increased sales of products, an increase of $0.4 million in equipment and maintenance expenses, and an increase of $0.2 million in stock-based compensation.

Table of Contents

*General and Administrative Expenses*. General and administrative expenses decreased $2.9 million, or 17%, to $14.6 million for the year ended December 31, 2007, from $17.5 million for the year ended December 31, 2006. The decrease was primarily attributable to a decrease of $5.8 million in legal, consulting and other professional service expenses. The decrease was partially offset by an increase of $1.8 million in personnel costs, an increase of $0.8 million in stock-based compensation and an increase of $0.4 million in bad debt reserve.

*Other Income (Expense), Net*. Other income net increased $6.8 million, or 1568%, to $6.3 million for the year ended December 31, 2007, from $0.4 million other expense net for the year ended December 31, 2006. This increase in other income net was primarily attributable to the changes in the fair value of our preferred stock warrants.

***Years Ended December 31, 2006 and December 31, 2005***

*Net Revenues*. Net revenues increased $23.7 million, or 70%, to $57.5 million for the year ended December 31, 2006, from $33.8 million for the year ended December 31, 2005. The increase in 2006 was primarily attributable to an increase in the number of laser systems and consumables sold. In 2006, sales of our laser systems (which includes the sale of pre- and post- treatment auxiliary equipment and fees related to upgrades from our Fraxel SR750 laser systems to our Fraxel re:store laser system) represented 80% of net revenues, consumables represented 18% of net revenues and service and other represented 2% of net revenues. For 2005, sales of our laser systems represented 88% of net revenues, consumables represented 12% of net revenues and service and other represented less than 1% of net revenues. The United States represented 62% of net revenues in 2006 and 61% of net revenues in 2005.

*Cost of Net Revenues*. Cost of net revenues increased $9.6 million, or 57%, to $26.6 million for the year ended December 31, 2006, from $17.0 million for the year ended December 31, 2005. The increase in 2006 was primarily attributable to higher material and labor costs due to the shipment of more laser systems in 2006 than 2005. Our relocation to a building with higher lease payments in 2006 and the addition of more employees to the manufacturing staff also contributed to the higher cost of net revenues.

Gross profit increased $14.0 million, or 83%, to $30.8 million for the year ended December 31, 2006 from $16.8 million for the year ended December 31, 2005. The increase in gross profit in 2006 was primarily attributable to an increase in the number of laser systems and consumables sold. Gross profit from our upgrade program within our laser system category did not contribute significantly to our gross profit in 2006 or 2005.

Overall gross margins improved to 54% in 2006 from 50% in 2005. The improvement in our overall gross margins in 2006 versus 2005 was primarily attributable to lower cost per unit on laser systems in 2006 as compared to 2005. Also contributing to the improvement was the greater share of product net revenues represented by higher margin consumables and service and other.

*Research and Development Expenses*. Research and development expenses increased $2.6 million, or 33%, to $10.5 million for the year ended December 31, 2006, from $7.9 million for the year ended December 31, 2005. The increase in 2006 was primarily attributable to an increase of $1.0 million in personnel costs associated with an increase in the number of research and development personnel, an increase of $0.9 million in project materials and clinical related spending and an increase of $0.4 million in consulting and other professional services used for the development of new products, as we devoted more resources to new and ongoing projects. These increases were partially offset by a decrease of $0.5 million in stock-based compensation.

*Sales and Marketing Expenses*. Sales and marketing expenses increased $13.6 million, or 139%, to $23.3 million for the year ended December 31, 2006, from $9.7 million for the year ended December 31, 2005. The increase in 2006 was primarily attributable to an increase of $4.3 million in personnel costs associated with a significant increase in our sales and marketing personnel, an increase of $1.2 million in travel expenses, an

Table of Contents

increase of $2.4 million in commission costs, an increase of $4.2 million in promotional costs primarily attributable to an increase in advertising, customer workshops, trade shows and promotional efforts and an increase of $0.6 million in stock-based compensation.

*General and Administrative Expenses*. General and administrative expenses increased $6.5 million, or 60%, to $17.5 million for the year ended December 31, 2006 from $11.0 million for the year ended December 31, 2005. This increase in 2006 was primarily attributable to an increase of $6.8 million in legal related expenses, which included a settlement payment in connection with a lawsuit by a former officer and director, and an increase of $1.3 million in personnel costs associated with an increase in the number of administrative personnel. These increases were partially offset by a decrease of $1.4 million of stock-based compensation.

*Other Income (Expense), Net*. Other expense, net decreased $0.6 million, or 55%, to $0.4 million for the year ended December 31, 2006, from $1.0 million for the year ended December 31, 2005. This decrease in 2006 was primarily attributable to an increase in interest income earned on cash balances generated from our Series D financing completed in March 2006.

**Stock-based Compensation**

As of June 30, 2008, the Company had one share-based compensation plan. The company allocated stock-based compensation expense as following (in thousands):

| | Year ended December 31, | | | Six months ended June 30, | |
|---|---|---|---|---|---|
| | 2005 | 2006 | 2007 | 2007 | 2008 |
| | | | | (unaudited) | |
| Cost of revenue | $ | $ 212 | $ 235 | $ 134 | $ 132 |
| Research and development | 1,480 | 1,015 | 1,146 | 613 | 794 |
| Sales and marketing | 754 | 1,346 | 1,589 | 833 | 1,033 |
| General and administrative | 3,857 | 2,465 | 3,302 | 1,625 | 2,099 |
| Total non-cash stock-based compensation | $ 6,091 | $ 5,038 | $ 6,272 | $ 3,205 | $ 4,058 |

Table of Contents

**Quarterly results of operations**

The following table sets forth selected unaudited quarterly information for our last six fiscal quarters. This information has been prepared on the same basis as the audited consolidated financial statements appearing elsewhere in this proxy statement/prospectus/information statement, and we believe all necessary adjustments (consisting only of normal recurring adjustments) have been included in the amounts stated below. We also believe this information presents fairly the results of such period when read in conjunction with the audited consolidated financial statements and notes.

| | Three months ended | | | | | |
|---|---|---|---|---|---|---|
| | March 31, 2007 | June 30, 2007 | September 30, 2007 | December 31, 2007 | March 31, 2008 | June 30, 2008 |
| | (in thousands, unaudited) | | | | | |
| **Consolidated Statements of Operation Data** | | | | | | |
| Net revenues: | | | | | | |
| Products | $ 15,945 | $ 18,533 | $ 15,783 | $ 18,403 | $ 17,718 | $ 21,173 |
| Services and other | 373 | 430 | 475 | 535 | 636 | 1,438 |
| Total net revenues | 16,318 | 18,962 | 16,258 | 18,938 | 18,354 | 22,612 |
| Cost of revenues: | | | | | | |
| Products | 6,848 | 8,802 | 7,597 | 8,446 | 6,833 | 7,865 |
| Services and other | 127 | 235 | 316 | 352 | 596 | 938 |
| Total cost of net revenues | 6,975 | 9,036 | 7,913 | 8,798 | 7,429 | 8,803 |
| Gross profit | 9,343 | 9,926 | 8,345 | 10,140 | 10,925 | 13,809 |
| Operating expenses: | | | | | | |
| Research and development | 2,958 | 3,178 | 3,711 | 4,086 | 3,288 | 3,519 |
| Sales and marketing | 8,213 | 8,258 | 7,882 | 8,962 | 8,791 | 9,041 |
| General and administrative | 3,193 | 3,347 | 2,764 | 5,271 | 3,883 | 3,113 |
| Total operating expenses | 14,364 | 14,783 | 14,356 | 18,319 | 15,961 | 15,672 |
| Loss from operations | (5,021) | (4,857) | (6,011) | (8,179) | (5,036) | (1,864) |
| Other income (expense), net | (490) | (518) | 639 | 6,699 | 854 | (656) |
| Loss before income taxes | (5,511) | (5,375) | (5,372) | (1,480) | (4,183) | (2,519) |
| Provision for income taxes | (4) | (6) | (1) | (14) | (1) | (1) |
| Net loss | $ (5,514) | $ (5,381) | $ (5,373) | $ (1,494) | $ (4,184) | $ (2,520) |

Our operating results have varied significantly from quarter to quarter in the past and may continue to vary significantly from quarter to quarter in the future due to a variety of factors. We establish our expenditure levels based on expectations as to future revenue, and if revenue levels are below expectations, expenses can be disproportionably high. As a result, a drop in near term demand for our products could significantly affect both revenues and profits in any quarter. In the future, our operating results may fluctuate for this reason or as a result of a number of other factors, including increased expenses, timing of product releases, increased competition, variations in the mix of sales, announcements of new products by us or our competitors and capital spending patterns of our customers. As a result of these factors, there can be no assurance we will be bale to maintain profitability on a quarterly basis.

Table of Contents

**Liquidity and Capital Resources**

We have incurred cumulative net losses from inception through June 30, 2008 of $87.9 million. Since inception, we have financed our operations primarily through private sales of $63.8 million, net, of convertible preferred stock and common stock, net of issuance costs, as well as borrowings of $18.0 million from two lending institutions. As of June 30, 2008, we had a working capital deficit of $1.7 million, including $5.9 million in cash and cash equivalents and short-term investments. We currently invest our cash, cash equivalents and short-term investments in a variety of debt instruments of the U.S. government, its agencies and high-quality corporate issuers through money market accounts.

***Net Cash Used in Operating Activities***

For the six months ended June 30, 2008, net cash used in operating activities was $2.0 million. The net cash used in operating activities was attributable primarily to net losses of $6.7 million and a decrease in accounts payable and accrued liabilities of $1.9 million. The decrease in accounts payable and accrued liabilities was primarily attributable to payments of public offering related expenses and faster payment of accounts payable during the period. This usage was partially offset by a decrease of $1.4 million in inventories, $0.8 million in accounts receivable, non-cash charges for depreciation and amortization of $0.7 million and stock-based compensation expenses of $4.1 million.

For the year ended December 31, 2007, net cash used in operating activities was $18.4 million. The net cash used in operating activities was attributable primarily to net losses of $17.8 million, a decrease in accounts payable and accrued liabilities of $3.8 million, an increase in inventories of $2.1 million, and a gain on preferred stock warrant liability of $6.7 million. The decrease in accounts payable and accrued liabilities was primarily attributable to payments of legal related expenses, including a settlement payment in connection with a lawsuit by a former officer and director, and faster payment of accounts payable during the period. The increase in inventory was attributable to the buildup of inventory to support forecasted sales of the Fraxel re:pair laser system launched in the fourth quarter of 2007. The gain on preferred stock warrant liability was attributable to lower expense related to the fair value accounting of our preferred stock warrants. This usage was partially offset by a decrease of $3.3 million in accounts receivable, non-cash charges for depreciation and amortization of $2.3 million and stock-based compensation expenses of $6.4 million.

For the year ended December 31, 2006, net cash used in operating activities was $14.9 million. The net cash used in operating activities was attributable primarily to net losses of $20.9 million, an increase in inventories of $6.2 million and an increase in accounts receivable, net of $6.3 million. The increase in accounts receivable, net was primarily attributable to the large portion of the 2006 fourth quarter sales late in the quarter compared to the fourth quarter of 2005. The increase in inventory was attributable to the higher levels of inventory we were carrying to support the introduction of our new Fraxel re:store laser system. This usage was partially offset by an increase in accounts payable and accrued liabilities balances of $12.0 million, non-cash stock-based compensation expenses of $5.8 million and non-cash charges for depreciation and amortization of $1.9 million. The large increase in accounts payable and liabilities was attributable primarily to higher expenses and inventory purchases, significant sales growth in the fourth quarter of 2006 and significant accruals for legal related expenses.

For the year ended December 31, 2005, net cash used in operating activities was $6.0 million. Net cash used in operating activities was attributable primarily to net losses of $18.2 million, an increase of $3.3 million of our inventories and an increase of $0.8 million in accounts receivable, net. The increase in inventory was attributable to additional inventory required to support our growing sales. This usage was partially offset by non-cash stock-based compensation expenses of $6.3 million, a one-time cumulative effect of change in accounting principle associated with the implementation of SP 150-5 of $5.5 million, non-cash charges for depreciation and amortization of $1.0 million and an increase in our accounts payable and accrued liabilities balances of $1.9 million.

Table of Contents

***Net Cash Provided by/(Used in) Investing Activities***

Net cash used in investing activities was $0.4 million for the six months ended June 30, 2008, compared to net cash used in investing activities of $0.2 million for the year ended December 31, 2007, $2.5 million for the year ended December 31, 2006 and $1.4 million for the year ended December 31, 2005. Cash provided by/(used in) investing activities reflects purchases of property and equipment, primarily for research and development, information technology, manufacturing operations, capital improvements to our facilities, use of cash to purchase investments, and the sales and maturities of these investments.

Our future capital equipment requirements depend on a number of factors, including the rate of market acceptance of our current and future products, the resources we devote to developing and supporting our products and our investments to address new markets.

***Net Cash Provided by Financing Activities***

For the six months ended June 30, 2008, net cash provided by financing activities was $2.5 million, which was primarily attributable to proceeds from loans and lines of credit of $3.5 million. These sources of net cash were partially offset by payments on loans and lines of credit of $1.0 million.

For the year ended December 31, 2007, net cash provided by financing activities was $16.4 million, which was primarily attributable to net proceeds received from the issuance of our Series E convertible preferred stock of $14.9 million, proceeds from loans and lines of credit of $5.5 million and proceeds from the exercise of stock options and warrants of $1.4 million. These sources of net cash were partially offset by payments on loans and lines of credit of $5.3 million.

For the year ended December 31, 2006, net cash provided by financing activities was $20.7 million, which was primarily attributable to net proceeds received from the issuance of our Series D convertible preferred stock of $21.6 million, proceeds from the exercise of stock options and warrants of $0.6 million and proceeds from loans and lines of credit of $1.0 million. These sources of net cash were partially offset by payments on loans and lines of credit of $2.6 million.

For the year ended December 31, 2005, net cash provided by financing activities was $5.1 million, which was primarily attributable to proceeds from the exercise of stock options and warrants of $0.3 million and proceeds from loans and lines of credit of $6.3 million. These sources of net cash were partially offset by payments on loans and lines of credit of $1.5 million.

***Operating and Capital Expenditures***

Our future cash requirements depend on numerous forward-looking factors. These factors include and are not limited to the following: the revenue generated by sales of our laser systems, consumable treatment tips and other new products; the costs associated with expanding our sales, marketing, distribution and manufacturing efforts; the costs of obtaining and maintaining FDA and other regulatory clearance of our products and products in development; the effects of competing technological and market developments; the costs associated with the expansion of our operations; and the number and timing of acquisitions and other strategic transactions.

We believe that our current loans and credit facilities, our current cash, cash equivalents and short-term investments and interest earned on cash, will be sufficient to meet our anticipated cash needs for working capital and capital expenditures for at least the next 12 months. However, to date we have incurred net losses, negative cash flows from operations, and prior to giving effect to the net proceeds of this offering, have a net capital deficiency. We may need to raise additional funds, and we cannot be certain that such funds will be available to us on acceptable terms, if at all. Furthermore, if we issue equity or debt securities to raise additional funds, our existing stockholders may experience dilution and the new equity or debt securities may have rights, preferences and privileges senior to those of our existing stockholders. In addition, if we raise additional funds through

Table of Contents

collaboration, licensing or other similar arrangements, it may be necessary to relinquish potentially valuable rights to our future products or proprietary technologies, or grant licenses on terms that are not favorable to us. If we cannot raise funds on acceptable terms, we may not be able to expand our operations, develop new products, take advantage of future opportunities or respond to competitive pressures or unanticipated customer requirements.

***Loans and Available Borrowings***

*Pinnacle Credit Facility*

In April 2004, we entered into a Loan and Security Agreement, or the April 2004 Loan and Security Agreement, with Pinnacle Ventures, LLC, or Pinnacle, an investor in Reliant, which provided for a working capital line of credit in the amount of $6.0 million with an interest rate of 9.5% per annum. In April 2004, we drew $3.0 million on this line of credit. Of the remaining $3.0 million available on this line of credit, $1.5 million expired in 2004 and $1.5 million expired in 2005. In November 2005, we entered into an amendment to the April 2004 Loan and Security Agreement which provided for a new working capital line of credit in the amount of $6.0 million. We drew $3.0 million and $1.0 million on this additional line of credit in November 2005 and February 2006, respectively. The notes bear interest at 9.25% and 9.5% per annum, respectively. The remaining $2.0 million available on this line of credit expired on June 30, 2006. In August 2007, we entered into an amendment to the April 2004 Loan and Security Agreement which provided for an additional working capital line of credit in the amount of $5.0 million at an interest rate of prime plus 2.25% per annum, determined as of the drawing date. We drew $2.5 million in November 2007 and the remaining $2.5 million in February 2008. All notes are repayable in full within 36 months of each advance. Pinnacle has a lien second to Comerica Bank, as described below, on all of our assets excluding intellectual property. The April 2004 Loan and Security Agreement with Pinnacle contains affirmative and negative covenants, including prohibitions (except as permitted under the agreement) on creating or permitting to exist any lien with respect to our property or the property of our subsidiaries; creating, incurring or assuming any indebtedness; disposing of any part of our business or property or the business or property of our subsidiaries; acquiring or owning or making any investment in or to any person, partnership, corporation, joint stock company, limited liability company, association joint venture or other entity; paying any dividends or making any distributions of our equity securities; purchasing, redeeming, retiring, defeasing or otherwise acquiring for value any of our equity securities (other than pursuant to employee stock purchase plans and employee restricted stock agreements in an amount not to exceed $150,000); returning any capital to any holder of our equity securities; making any distribution of assets, equity securities, obligations or securities to any holder of our equity securities; setting apart any sum for any such purposes; provided however, we may declare dividends payable solely in common stock or may convert any of our convertible securities; entering into or permit to exist any material transaction with any affiliate, except for transactions that are in the ordinary course of business, upon fair and reasonable terms that are no less favorable to us or such subsidiary than would be obtained in an arms length transaction; and prepaying, redeeming, purchasing, defeasing or otherwise satisfying in any matter prior to the scheduled repayment thereof any indebtedness for borrowed money or any lease obligations. There are no financial covenants. In addition, the April 2004 Loan and Security Agreement contains customary events of default including the following: nonpayment of principal, interest or other amounts; violation of covenants; incorrectness of representations and warranties in any material respect; cross default; bankruptcy; material judgments; invalidity of security documents; and maintenance of insurance.

In connection with the April 2004 transaction, we issued Pinnacle a warrant with a 10-year term to purchase 86,666 shares of Series B preferred stock with an exercise price of $4.50 per share. In connection with the November 2005 transaction, we issued Pinnacle another warrant with a 10-year term to purchase 66,666 shares of common stock with an exercise price of $9.00 per share. In connection with the August 2007 amendment, we issued Pinnacle warrants with 10-year terms to purchase up to 3,332 shares of common stock with an exercise price of $15.00 per share and up to 33,332 shares of Series E preferred stock with an exercise price of $15.00 per share. We are amortizing the $1.2 million fair value of the warrants to interest expense over the term of the associated debt using the effective interest method.

Table of Contents

*Comerica Bank Credit Facility*

In August 2004, we entered into a Loan and Security Agreement, or the August 2004 Loan and Security Agreement, with Comerica Bank, or Comerica, which provided for a working capital line of credit in the amount of $2.0 million with interest at prime plus 1% per annum (8.75% as of September 30, 2007). In February 2005, we drew $2.0 million on this line of credit. In November 2005, we entered into an amendment to this August 2004 Loan and Security Agreement, or the November 2005 Amendment, which increased the working capital line of credit to $4.0 million and provided for a term loan in the amount of $1.0 million which bears interest at a rate of 2% above prime per annum (9.75% as of September 30, 2007) repayable in 36 monthly installments. We drew the $1.0 million on this term loan in November 2005. The August 2004 Loan and Security Agreement with Comerica contains affirmative, financial covenants and negative covenants, including prohibitions (except as permitted under the agreement) on creating or permitting to exist any lien with respect to our property or the property of our subsidiaries; creating, incurring or assuming any indebtedness; conveying, selling, leasing, transferring or otherwise disposing of any part of our business or property or the business or property of our subsidiaries; paying any dividends or making any other distribution or payment on account of or in redemption, retirement or purchase of any capital stock, or permitting any of our subsidiaries to do so; merging or consolidating, or permitting any of our subsidiaries to merge or consolidate, with or into any other business organization, or acquiring, all of the capital stock or property of another person, partnership, corporation, joint stock company, limited liability company, association joint venture or other entity; acquiring or owing or making any investment in or to any person, partnership, corporation, joint stock company, limited liability company, association joint venture or other entity; entering into or permitting to exist any material transaction with any affiliate, except for transactions that are in the ordinary course of business, upon fair and reasonable terms that are no less favorable to us than would be obtained in an arms length transaction; and making payment in respect of any subordinated debt or permitting any of our subsidiaries to make any such payment except in compliance with the terms of such subordinated debt.

According to our financial covenants with Comerica, we must maintain at least $2.0 million in unrestricted cash with Comerica at all times and we must maintain an adjusted tangible net worth of at least $6.0 million plus 50% of the net proceeds of the sale of our equity securities after August 9, 2007. In addition, the August 2004 Loan and Security Agreement contains customary events of default including the following: nonpayment of principal, interest or other amounts; violation of covenants; material adverse effect; attachment; incorrectness of representations and warranties in any material respect; cross default; bankruptcy; and material judgments.

In October 2006, we entered into an additional amendment to the August 2004 Loan and Security Agreement which extended the working capital line of credit maturity date to October 24, 2007 and modified certain borrowing criteria financial covenants. The borrowing base under the revolving line of credit consists of 80% of eligible accounts receivable plus up to $1.5 million for inventory (inventory advances will be based on a formula of 40% of eligible inventory).

In August 2007, we entered into an additional amendment to the August 2004 Loan and Security Agreement which increased the working capital line of credit to $8.0 million, which bears interest at a rate of 1% above prime per annum (8.75% as of September 30, 2007), extended the credit maturity date to October 24, 2008, modified certain borrowing criteria and modified certain financial covenants. The borrowing base under the revolving line of credit consists of 80% of eligible accounts receivable plus up to 40% of eligible inventory. Interest is due monthly with principal due upon maturity. Comerica has a first priority blanket lien on all of our assets excluding intellectual property.

In June 2008, we entered into an additional amendment to the August 2004 Loan and Security Agreement which increased the interest rate by 1%, at a rate of 2% above prime per annum (7.00% as of June 30, 2008) and modified certain financial covenants. According to our modified financial covenants with Comerica, we are no longer required to keep the adjusted tangible net worth of $6.0 million plus 50% of the net proceeds of the sale of our equity securities after August 9, 2007. However, we must maintain unrestricted cash with Comerica at all times at least $2.0 million or all amount outstanding with respect to the term loan and all outstanding advances made with respect to the inventory portion of the borrowing base, whichever the biggest.

Table of Contents

In connection with the August 2004 transaction, we issued Comerica a warrant with a 10-year term to purchase 7,500 shares of Series B preferred stock with an exercise price of $6.00 per share. In connection with the November 2005 transaction, we issued to Comerica an additional warrant with a 10-year term to purchase 4,444 shares of common stock with an exercise price of $9.00 per share. We are expensing the fair value of the warrants issued of $101,000 to interest expense over the term of the associated debt using the effective interest method.

**Off-Balance Sheet Arrangements**

We did not have any off-balance sheet arrangements during the periods presented.

**Critical Accounting Policies and Significant Judgments and Estimates**

Our management s discussion and analysis of our financial condition and results of operation are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these consolidated financial statements requires management to make estimates and judgments that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities, at the date of the financial statements, as well as the reported revenues and expenses during the reporting periods. On a periodic basis, we re-evaluate our estimates. We use authoritative pronouncements, historical experience and other assumptions as the basis for making estimates. Actual results could differ from these estimates.

Our significant accounting policies are more fully described in the notes to our consolidated financial statements included elsewhere in this proxy statement/prospectus/information statement.

We believe the following critical accounting policies are affected by our more significant judgments and estimates used in the preparation of financial statements and are critical to a full understanding and evaluation of our reported financial results.

***Revenue Recognition***

The Company s principal sources of revenue are from the sale of its laser systems, consumable tips and extended service agreements. The Company s revenue recognition policies are in accordance with the SEC s Staff Accounting Bulletin ( SAB ) No. 104, *Revenue Recognition in Financial Statements*, and Emerging Issues Task Force ( EITF ) 00-21, *Accounting for Revenue Arrangements with Multiple Deliverables*. The Company recognizes revenue when all of the four criteria have been met: (i) persuasive evidence of an arrangement exists such as a purchase order or a binding agreement; (ii) delivery of the product and/or services has occurred and risk of loss and title has transferred; (iii) the sale price and payment terms are fixed or determinable; and (iv) collectibility is reasonably assured.

Revenue from laser system sales sold to end users is recognized upon shipment when all other applicable revenue recognition criteria are met. Pricing of the systems is negotiated with individual customers based on guidelines provided by the Company and approved by appropriate levels of management. Customers do not have any rights of return related to the laser systems.

International distributor laser system revenue is recognized upon shipment to the Company s international distributors and when all other applicable revenue recognition criteria are met. The Company has granted distribution rights to specific geographic territories to distributors. The pricing of laser systems to the distributors is guided by the terms and conditions of the Company s distribution agreements and is generally set as a percentage discount off prices used in the United States. However, actual pricing is determined on a purchase order by purchase order basis for each sale. The distributors do not have any rights of return related to the Company s laser systems. On occasion, the Company has shipped laser systems to distributors in countries in which regulatory clearance had not been received for the systems. The Company s policy is to delay revenue recognition on such shipments until regulatory clearance is received.

Table of Contents

Revenue from system upgrades performed by the Company is recognized upon shipment of the upgraded systems and when all other applicable revenue recognition criteria are met. Revenue from system upgrades performed by the Company s international distributors is recognized upon shipment of the upgrade kits to the distributors and when all other revenue recognition criteria are met. There are no rights of return on system upgrades.

Revenue from the consumable disposable tips is recognized upon shipment. In the event of consumable tip failure, the Company provides a credit to customers for returned tips, to be used against future tip purchases. There are no other rights of return on the consumable tips. The Company records an allowance for estimated failures, and such allowances are adjusted periodically to reflect actual and anticipated experience.

Revenue from extended service agreements is recognized ratably over the extended warranty term. The costs associated with services are recognized as incurred. The unrecognized revenue portion of the extended warranty agreements billed is recorded as deferred revenue.

Certain agreements also include multiple deliverables or elements for products and/or services. Where sufficient evidence of fair value exists for all undelivered elements but does not exist for one or more delivered elements, the Company recognizes revenue from these agreements based on the residual method and when revenue recognition criteria are met. If sufficient evidence of fair value exists for all elements, revenue is recognized based on the relative fair value of the products and services and when revenue recognition criteria are met. Through June 30, 2008, there were no agreements for which the Company used the relative fair value method to allocate revenue. The determination of the fair value of the undelivered elements is based on a number of factors, including the amount charged to other customers for products or services, price lists, or other relevant information. If an undelivered element is essential to the functionality of the delivered element or required under the terms of the agreement to be delivered concurrently, the Company defers the revenue on the delivered element until that undelivered element is delivered. In the absence of fair value for an undelivered element, the arrangement is accounted for as a single unit of accounting, resulting in a deferral of revenue recognition for the delivered elements until the undelivered elements are fulfilled. We show any deferred revenue and deferred cost of revenues net on its balance sheet as deferred margin. Deferred margin was $62,000 as of June 30, 2008, $351,000 as of December 31, 2007, $247,000 as of December 31, 2006, and $909,000 as of December 31, 2005. The primary cause of the deferred margin has been a delay in the training required for domestic laser sales.

Where multiple agreements are executed with a single customer within a short period of time, the Company evaluates the agreements to determine if they should be combined and accounted for as one arrangement or as separate arrangements. Factors considered in this evaluation include the proximity of the arrangements and payment terms and interdependency of elements in the arrangements.

***Stock-Based Compensation***

Prior to January 1, 2006, we accounted for stock-based employee compensation arrangements using the intrinsic value method in accordance with the recognition and measurement provisions of Accounting Principles Board Opinion, or APB, No. 25, Accounting for Stock Issued to Employees, and related interpretations, including the Financial Accounting Standards Board Interpretation, or FIN, No. 44, *Accounting for Certain Transactions Involving Stock Compensation, an Interpretation of APB Opinion No. 25* as permitted by SFAS No. 123, Accounting for Stock-Based Compensation. We also complied with the disclosure provisions of Statement of Financial Accounting Standards, or SFAS, No. 123*, Accounting for Stock-Based Compensation*, as amended by SFAS No. 148, *Accounting for Stock-Based Compensation, Transition and Disclosure*. In accordance with APB No. 25, stock-based compensation was calculated using the intrinsic value method and represents the difference, if any on the date of grant, between the per share market price of our stock and the per share exercise price. We recognized stock-based compensation related to difference between the deemed per share fair value and per share exercise price of $3.1 million in 2005 and $1.3 million in 2004.

**Table of Contents**

Effective January 1, 2006, we adopted the provisions of SFAS No. 123R, *Share-Based Payment*. Under SFAS No. 123R, stock-based awards, including stock options, are recorded at *fair value* as defined by SFAS No. 123 and SFAS No. 123R (see discussion below) as of the grant date and recognized to expense over the employee s requisite *service period* as defined. We have elected to amortize the expense on a straight-line basis during the service period. Total employee stock based compensation of $2.9 million, $5.7 million, $2.9 million and $4.0 million was recorded during the years ended December 31, 2006 and 2007, and six months ended June 30, 2007 and 2008, respectively.

Amongst the allowed methodologies in SFAS No. 123 and SFAS No. 123(R) we chose to value the fair value for our employee stock options at the date of grant using the Black-Scholes valuation model. This model requires us to make assumptions regarding the following items:

- risk free interest rates at the time of grant;
- dividend yield of the stock;
- weighted average expected life of the option;
- volatility of the underlying stock price; and
- price of a share of common stock at the time of grant.

Details of the computation are more fully described in the notes to our consolidated financial statements included elsewhere in this proxy statement/prospectus/information statement.

Estimates of stock-based compensation expenses are significant to our consolidated financial statements. Each of these assumptions are highly subjective. They represent our best estimates and involve inherent uncertainties and the application of management s judgment. We discuss each of these assumptions below.

*Risk Free Interest Rate*. The risk-free interest rate for periods within the contractual life of the option is based on the U.S. Treasury Constant Maturity rate in effect at the time of grant.

*Dividend Yield*. We have never paid a dividend and do not anticipate paying dividends in the future. We therefore assumed the dividend yield of the underlying common stock to be zero.

*Weighted Average Expected Life of the Option*. We estimated the expected life of our options giving consideration to historical exercises, post vesting cancellations and forfeitures and the option s contractual term. SFAS No. 123R requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates.

*Volatility of Underlying Stock*. Since our shares have not traded on a stock exchange we had no verifiable, objective evidence of stock price volatility and we therefore had to make estimates. Per SFAS No. 123R, our computation of expected volatility of the underlying common shares is based on an average of the historical volatility of a peer-group of similar publicly traded companies.

*Fair Value of Common Stock at Time of Option Grant*. Because our shares have not traded on a stock exchange we had no verifiable, objective evidence of the value of our common stock. In order to determine the value of a share of common stock at the time of option grants, we have historically used two methodologies.

Prior to March 2006, the value of our common stock was determined by our board of directors in good faith after due consideration of all relevant factors, including the issuance price of our series of preferred shares to third parties; recent third-party transactions with respect to our common stock; our revenue backlog and financial performance; trends in the market for public companies involved in similar lines of business; and the board s understanding of the value of the liquidation preference and other rights of the preferred shares, and the fact that the options were granted to purchase an illiquid security of a private company.

164

Table of Contents

From March 2006 until today, the board of directors has determined the value of our common stock using the same factors as above, but has also considered in its determination additional valuation studies based on various generally accepted valuation methods as outlined in the AICPA s Practice Aid *Valuation of Privately-Held Company Equity Securities Issued as Compensation*. We applied the market and income approaches to valuation as set forth in the practice aid and analyzed the value of our securities based on three potential scenarios: a public offering, a sale or merger, and remaining a private company.

In 2004, Section 409A was added to the Internal Revenue Code pursuant to the American Jobs Creation Act of 2004, which affected a wide variety of deferred compensation programs including certain stock options. In 2005, proposed regulations were issued, describing the effect of Section 409A on stock options. As noted above, prior to March 2006, our board of directors determined the fair value of our common stock in good faith. In light of the subsequent Section 409A regulations, we retrospectively analyzed the valuations done by our board of directors prior to March 2006.

For purposes of complying with Section 409A and SFAS No. 123R, we retrospectively analyzed the historical valuations from February 2004 forward at each date upon which there were either significant changes in the business and/or significant numbers of options granted. We released the original Fraxel machine from research and development to manufacturing in February 2004 and therefore we selected this date for the first retrospective valuation.

As a result of these valuations, we determined that the options issued from March 2004 through February 2006 had exercise prices lower than a valuation determined by IRS-approved valuation methodology retrospectively conducted by us. As a result, such options could have unfortunate tax consequences under Section 409A to the optionees. Accordingly, we offered our employees (and non-employees) who were granted options and warrants from March 31, 2004 to February 3, 2006, the ability to amend the terms of their options and warrants to make them exempt from Section 409A or make them comply with the requirements of Section 409A. Pursuant to the applicable Section 409A guidance, our employees were offered the choice of either leaving their options alone, increasing the exercise prices of the options to values retrospectively determined by the IRS-approved methodology, or amending the exercise period. Based on the employee s (or non-employee s) election, 848,857 options and 468,027 warrants to purchase our common stock were amended from original exercise prices ranging from $1.50 to $9.00 per share to exercise prices ranging between $4.20 and $13.71 per share. Some employees and non-employees elected to have their exercise periods reduced by six years on average so that such options and warrants are generally exercisable only in the calendar year following the year in which a portion vests. No other terms of the option grants or warrants were modified. The transactions were deemed to be modifications under SFAS No. 123R, but because the final exercise prices were higher than originally offered, or the final exercise periods were shorter than under the original grants, there were no incremental stock-based compensation expenses as a result of these amendments.

We have some stock options whose vesting is dependent upon the achievement of certain performance milestones. Under SFAS No. 123R, we are required to recognize stock-based compensation expenses relating to stock options with acceleration of vesting dependent upon the achievement of milestones, based on our evaluation of the probability of achievement of each respective milestone and the related estimated date of achievement.

The guidance in SFAS No. 123R is relatively new, and best practices are not well-established. The application of these principles may be subject to further interpretation and refinement over time. There are significant differences among option valuation models, and this may result in a lack of comparability with other companies that use different models, methods and assumptions. If factors change and we employ different assumptions in the application of SFAS No. 123R in future periods, or if we decide to use a different valuation model, the compensation expense that we record in the future under SFAS No. 123R may differ significantly from what we have recorded in the current period and could materially affect our operating loss, net loss and net loss per share.

Table of Contents

In February 2008, the Company reassessed the fair value of its common stock and the exercise prices of stock options granted to employees and certain non-employees, and approved the modification of the exercise prices of all outstanding stock options held by these employees and non-employees to the then-current common stock fair value. No other terms of the option grants were modified. These amendments, which affected 1,370,164 stock options, were deemed to be modifications under SFAS No. 123R and $0.6 million of incremental stock based compensation expense was recognized on the modification date for vested stock options affected. An estimated $1.2 million of additional incremental stock-based compensation expense would be recognized through 2011 as the remaining stock options vest.

In June 2008, the Company again reassessed the fair value of its common stock and the exercise prices of stock options granted to employees and certain non-employees, and approved the modification of the exercise prices of all outstanding stock options held by these employees and non-employees to the then-current common stock fair value. No other terms of the option grants were modified. These amendments, which affected 1,448,710 stock options, were deemed to be modifications under SFAS No. 123R and $0.4 million of incremental stock based compensation expense was recognized on the modification date for vested stock options affected. An estimated $0.4 million of additional incremental stock-based compensation expense would be recognized through 2012 as the remaining stock options vest.

***Common Stock Options and Warrants Granted to Non-Employees***

We account for equity instruments issued to non-employees in accordance with the provisions of EITF No. 96-18, *Accounting for Equity Instruments That are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services*, using a fair-value approach. We believe that the fair value of the stock options is more readily measurable than the services rendered. The equity instruments, consisting of stock options and warrants granted to consultants, are valued using the Black-Scholes valuation model using the same methodology as used in employee stock options described above. The measurement of stock-based compensation is subject to periodic adjustments as the underlying equity instruments vest and is recognized as an expense over the term of the related financing or the period over which services are received.

***Preferred Stock Warrant Liability***

Effective July 1, 2005, we adopted the provisions of Financial Accounting Standards Board Staff Position, or FSP, No. 150-5*, Issuer s Accounting under Statement No. 150 for Freestanding Warrants and Other Similar Instruments on Shares that are Redeemable*, an interpretation of SFAS No. 150, *Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equit*y. Pursuant to FSP No. 150-5, freestanding warrants for shares that are either puttable or warrants for shares that are redeemable are classified as liabilities on the balance sheet at fair value. Therefore, under SFAS No. 150, the freestanding warrants that are related to the purchase of our redeemable convertible preferred stock are liabilities that should be recorded at fair value. At the end of each reporting period, changes in fair value during the period are recorded as a component of other income (expense), net. Prior to July 1, 2005, we accounted for warrants for the purchase of preferred stock under EITF Issue No. 96-18, *Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services*.

Upon adoption of FSP No. 150-5, we reclassified the fair value of warrants to purchase shares of our redeemable convertible preferred stock from equity to a liability and recorded a cumulative effect charge of approximately $5.5 million for the change in accounting principle. We recorded approximately ($207,000), $528,000 and $6.7 million, ($734,000) and $651,000 of other income (expense) for the change in fair value in the second half of 2005, years ended December 31, 2006, and 2007, and six months ended June 30, 2007 and 2008, respectively.

The fair value of the warrants was determined using the Black-Scholes methodology as described in employee stock options section above.

Table of Contents

We will continue to adjust the liability for changes in fair value until the earlier of the exercise of the warrants to purchase shares of redeemable convertible preferred stock or the completion of a liquidation event, including the completion of an initial public offering, at which time the liabilities will be reclassified to stockholders equity (deficit).

The pro forma effect of the adoption of FSP No. 150-5 on our results of operations for 2004 and 2005, if applied retroactively, assuming FSP No. 150-5 had been adopted in these years, is an increase in net loss of $3.7 million and $1.9 million, respectively.

***Product Warranty Reserve***

The Company typically provides a one-year warranty on its systems. The Company maintains a product warranty reserve based on product sales to cover anticipated warranty costs related to products sold based upon historical costs and its sales agreements. Such reserve is included in Accrued Liabilities in the accompanying balance sheets. The Company regularly compares its reserves as determined by management to actual costs incurred, and adjusts its reserves if necessary. The Company has recorded the following activity in its warranty reserve (in thousands):

| | Year ended December 31, | | Six months ended June 30, |
|---|---|---|---|
| | 2006 | 2007 | 2008 |
| Balance at the beginning of the period | $ 168 | $ 278 | $ 369 |
| Provision for warranty liability for sales made during the period, charged to cost of revenues | 1,121 | 1,832 | 481 |
| Utilized during the period | (1,011) | (1,741) | (548) |
| Balance at the end of the period | $ 278 | $ 369 | $ 302 |

***Inventories***

Inventories are valued at the lower of cost or market, determined by the FIFO method. We regularly review our inventory quantities on hand and record a provision for excess or obsolete inventory primarily based on our historical demand and assumptions about future needs for our products, repair needs and market conditions. The write-off is measured as the difference between carrying value of the inventory and net realizable value and is charged to cost of revenues.

***Income Taxes***

We utilize the liability method of accounting for income taxes as required by SFAS No. 109, *Accounting for Income Taxes*. Under this method, deferred tax assets and liabilities are determined based on differences between financial reporting and tax reporting bases of assets and liabilities and are measured using enacted tax rates and laws that are expected to be in effect when the differences are expected to reverse.

At December 31, 2007, the Company had net operating loss carryforwards for federal income tax purposes of approximately $59 million which expire beginning in 2022 if not utilized. The Company also has state net operating loss carryforwards of approximately $54 million which will expire beginning in 2011.

The Company also has federal research and development tax credits of $1.4 million which begin to expire in 2008. It also has state research and development tax credits of $1.5 million which have no expiration date.

Utilization of certain net operating losses and research and development credit carryforwards are subject to an annual limitation due to ownership changes that have occurred previously under Section 382 and 383 of the Internal Revenue Code of 1986, as well as similar state provisions. These ownership changes limit the amount of net operating losses and research and development credit carryforwards that can be utilized annually to offset future taxable income and tax, respectively.

Table of Contents

Realization of deferred tax assets is dependent upon future earnings, if any, the timing and amount of which are uncertain. Accordingly, as of December 31, 2007, the net deferred tax assets have been fully offset by a valuation allowance.

**Recent Accounting Pronouncements**

In September 2006, the FASB issued SFAS No. 157*, Fair Value Measurements*. SFAS No. 157 provides guidance for using fair value to measure assets and liabilities. It also responds to investors requests for expanded information about the extent to which companies measure assets and liabilities at fair value, the information used to measure fair value, and the effect of fair value measurements on earnings. SFAS No. 157 applies whenever other standards require (or permit) assets or liabilities to be measured at fair value, and does not expand the use of fair value in any new circumstances. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007 and is required to be adopted by us effective January 1, 2008. We do not expect the adoption of SFAS No. 157 to have any impact on its results of operations, financial position, or cash flows.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB Statement No. 115*. The fair value option established by SFAS 159 permits all entities to choose to measure eligible items at fair value at specified election dates. A business entity will report unrealized gains and losses on items for which the fair value option has been elected in earnings (or another performance indicator if the business entity does not report earnings) at each subsequent reporting date. The fair value option: (a) may be applied instrument by instrument, with a few exceptions, such as investments otherwise accounted for by the equity method; (b) is irrevocable (unless a new election date occurs); and (c) is applied only to entire instruments and not to portions of instruments. SFAS No. 159 is effective as of the beginning of fiscal years beginning after November 15, 2007. We do not expect the adoption of SFAS No. 159 to have any impact on its results of operations, financial position, or cash flows.

**Quantitative and Qualitative Disclosures about Market Risk**

***Foreign currency exchange rate risk***. To date, all of our sales have been in U.S. dollars. Accordingly, we believe that there is currently no material exposure to risk from changes in foreign currency exchange rates.

***Interest rate risk***. Our exposure to interest rate risk at June 30, 2008 is related to our investment of our excess cash and cash equivalents in debt instruments of the U.S. government and its agencies, in high-quality corporate issuers, via a large money market fund. This fund maintains an average investment maturity of 90 days or less. Due to the short-term nature of these investments, we believe that there is currently no material exposure to interest rate risk arising from our investments.

***Inflation risk***. We do not believe that inflation has had a material effect on our business, financial condition or results of operations during the periods presented, and we do not anticipate that it will have a material adverse effect in the future.

Table of Contents

## MANAGEMENT

Once the transaction closes, the combined Thermage, Inc. will be lead by Stephen J. Fanning who will serve as Chairman, President and Chief Executive Officer (CEO). Jack Glenn, currently Chief Financial Officer (CFO) of Thermage, will serve as the CFO of the combined company. Leonard DeBenedictis, Ph.D., currently EVP and Chief Technology Officer (CTO) of Reliant, will serve as CTO of the combined company. Clint Carnell, currently Chief Operating Officer (COO) of Thermage will serve as COO of the combined company.

The board of directors of the combined company will be comprised of the six current Thermage directors plus three directors selected by Reliant s current board of directors.

**Current Board of Directors and Executive Officers of Thermage**

***Board of Directors and Committee Composition***

Our authorized number of directors is nine. Our board of directors is divided into three classes, each with staggered three-year terms expiring at the annual meeting of stockholders for the year specified below. Our board has three standing committees: (1) Nominating and Governance, (2) Compensation, and (3) Audit.

| Name | Age | Current Term Expires | Nominating and Governance Committee | Compensation Committee | Audit Committee |
|---|---|---|---|---|---|
| *Employee Director:* | | | | | |
| Stephen J. Fanning | 56 | 2010 | | | |
| *Non-Employee Directors:* | | | | | |
| Mark M. Sieczkarek | 53 | 2009 | | Chair | Member |
| Harold L. Covert | 61 | 2010 | Member | | Chair |
| Cathy L. McCarthy | 60 | 2009 | | Member | Member |
| Marti Morfitt | 50 | 2010 | Chair | Member | |
| Edward W. Knowlton, M.D. | 60 | 2011 | | | |
| *Number of Meetings in Fiscal 2007* | | | 2 | 4 | 8 |

***Stephen J. Fanning.*** Mr. Fanning has been our President and Chief Executive Officer since January 2005 and Chairman of the board of directors since July 2006. From August 2001 to January 2005, Mr. Fanning served as the President and Chief Executive Officer of Ocular Sciences, a manufacturer and distributor of disposable contact lenses. Previously, Mr. Fanning served in various senior executive positions at Johnson & Johnson for over 25 years. Mr. Fanning currently serves as a director of a privately held company that develops medical devices outside of the aesthetics market. Mr. Fanning received his B.S. degree from Philadelphia University.

***Harold L. Covert.*** Mr. Covert has been a director since July 2007. From October 2007 to present, Mr. Covert has served as Chief Financial Officer of Silicon Image, Inc., a leader in the secure distribution, presentation and storage of high-definition content. From October 2005 to October 2007, Mr. Covert served as Chief Financial Officer of Openwave Systems, a provider of software solutions for the communications and media industries. From December 2003 to September 2005, Mr. Covert served as Chief Financial Officer of Fortinet, a network security company. From July 2001 to October 2003, Mr. Covert served as Chief Financial Officer of Extreme Networks, a network infrastructure equipment provider. Mr. Covert currently serves as a director of JDS Uniphase, a networking equipment manufacturer, and Harmonic, a leading provider of video delivery solutions to cable, satellite, telco, terrestrial and wireless operators around the world. Mr. Covert received his B.S. degree from Lake Erie College and his M.B.A. from Cleveland State University. Mr. Covert is a Certified Public Accountant.

Table of Contents

***Cathy L. McCarthy*.** Ms. McCarthy has been a director since July 2007. Ms. McCarthy is President & Chief Executive Officer of SM&A, a provider of business capture and post-award risk mitigation services. Since 2000, Ms. McCarthy has served in various senior executive positions at SM&A, including Executive Vice President, Chief Financial Officer, Corporate Secretary and from 2005 to mid- 2007, Ms. McCarthy served as its President and Chief Operating Officer. Ms. McCarthy currently serves as a director of Operation Homefront, a charitable organization and the Orange County Advisory Board of City National Bank. Ms. McCarthy attended Robert Morris College and the University of Wisconsin at Madison.

***Marti Morfitt*.** Ms. Morfitt has been a director since July 2007. From March 1998 to March 2007, Ms. Morfitt was the President and a director of CNS, a manufacturer and marketer of consumer healthcare products. From 1998 until June 2001 she served as CNS s President and Chief Operating Officer, and from June 2001 until March 2007 as its President and Chief Executive Officer. Prior to CNS, Ms. Morfitt spent 16 years with The Pillsbury Company, a consumer food products company. Ms. Morfitt currently serves as a director of Graco, a manufacturer of fluid handling systems. Ms. Morfitt received her H.B.A. from the University of Western Ontario and her M.B.A. from York University in Toronto.

***Mark M. Sieczkarek*.** Mr. Sieczkarek has been a director since July 2006. From April 2003 to the present, Mr. Sieczkarek has served as the President and Chief Executive Officer and director of Conceptus, a medical device company. From 1995 to January 2003, Mr. Sieczkarek served in various senior executive positions at Bausch & Lomb, an eye care company, including as President of the Americas, President of Europe, Middle East and Africa, Vice President of Finance and Information Management and Technology of Bausch & Lomb Surgical, Vice President of Corporate Development of Bausch & Lomb Surgical, and Vice President and Controller of North American Vision Care. Previously, he served as the Vice President and Chief Financial Officer of KOS Pharmaceuticals. Mr. Sieczkarek currently serves as a director of the Medical Device Manufacturers Association, a national trade association that represents independent manufacturers of medical devices, diagnostic products and healthcare information systems. Mr. Sieczkarek received his B.S. degree from the State University of New York at Buffalo and his M.B.A. from Canisius College.

***Edward W. Knowlton, M.D.*.** Dr. Knowlton is our founder and has been a director since January 1996. From August 2004 to the present, Dr. Knowlton has been retired from the practice of medicine, and has focused on developing medical technologies and consulting for us. From November 1978 to August 2004, Dr. Knowlton served as the President of Edward W. Knowlton, M.D. Inc., a private practice in plastic surgery. He founded the Danville Ambulatory Surgery Center, an outpatient center for plastic surgery, in 1983. Dr. Knowlton received his M.D. from Washington University.

***Director Compensation***

Effective after our initial public offering in November 2006, each of our non-employee directors received, for his or her service on the board, $1,500 per meeting attended. Each of our non-employee director who serves on our audit committee or compensation committee also receives, for his or her service on such committee, $500 per meeting attended. In January 2008, our board adjusted the amounts payable to non-employee directors for service and attendance at board meetings. Specifically, each non-employee director was due to receive a $20,000 annual retainer, to be paid quarterly for general service as a director and $1,500 per meeting for attendance in person or $500 for participation via telephone.

In addition, in 2007, the chairpersons of our audit committee, compensation committee, and nominating and governance committee received $10,000, $5,000, and $5,000 respectively, in consideration for their services in these respective roles during the year. In February 2007, our board adjusted the amounts payable to the chairpersons of our audit committee and compensation committee to $20,000 and $15,000 respectively.

Beginning in 2008, the chairpersons of our audit committee, compensation committee, and nominating and governance committee were due to receive an annual retainer of $15,000, $9,000 and $3,000, respectively, with

Table of Contents

each amount to be paid on a quarterly basis, in consideration for their services in these roles. In addition, each chairperson was due to receive $500 for attendance at each committee meeting. Further, non-employee director members of our audit committee, compensation committee, and nominating and governance committee were due to receive an annual retainer of $5,000, $4,000 and $2,000, respectively, with each amount to be paid on a quarterly basis. In addition, each non-employee director committee member was due to receive $500 for attendance at each committee meeting.

Directors may be reimbursed for expenses incurred in connection with their attendance at board of directors and committee meetings.

In the past, we granted directors options to purchase our common stock pursuant to the terms of our 1997 Stock Option Plan. We now provide for the automatic grant of non-statutory options to our non-employee directors under our 2006 Equity Incentive Plan. Each non-employee director first appointed to the board of directors subsequent to our November 2006 initial public offering received an initial option to purchase 20,000 shares upon such appointment. We adjusted the initial option grant amount to 25,000 shares upon appointment to the board effective April 2008. These options will vest ratably as to 1/36th of the shares subject to the option each month, subject to the director s continued service on each relevant vesting date. In addition, in 2007, non-employee directors who had been directors for at least six months received an option to purchase 10,000 shares immediately following the annual meeting of our stockholders. We adjusted the annual option grant amount to 12,500 shares effective April 2008 to be issued immediately following each annual meeting of our stockholders. These options will vest ratably as to 1/12th of the shares subject to the option each month, subject to the director s continued service on each relevant vesting date. All options granted under the automatic grant provisions have a term of ten years and an exercise price equal to the fair market value on the date of grant.

The following table sets forth a summary of the compensation we paid to our non-employee directors in 2007.

| Name | Fees Earned or Paid in Cash | Option Awards(1) | All Other Compensation | Total |
|---|---|---|---|---|
| Harold L. Covert | $ 17,500 | $ 12,595 | | $ 30,095 |
| Edward W. Knowlton, M.D. | 9,500 | 52,916 | $ 75,000(2) | 137,416 |
| Cathy L. McCarthy | 7,500 | 12,595 | | 20,095 |
| Marti Morfitt | 8,500 | 12,595 | | 20,095 |
| Mark M. Sieczkarek | 23,000 | 62,499 | | 85,499 |
| *Former Directors* | | | | |
| Robert F. Byrnes | 5,000 | 14,884 | | 19,884 |
| Samuel D. Colella | 14,500 | 17,530 | | 32,030 |
| Joseph M. DeVivo | 8,000 | 22,028 | | 30,028 |
| Kenneth Ludlum | 17,500 | 17,530 | | 35,030 |

(1) Amounts represent the dollar amount of compensation expense recorded in our income statement for the 2007 fiscal year in accordance with FAS 123R. Amounts include compensation expense recognized with respect to awards granted in previous fiscal years, as well as those granted, if any, in the 2007 fiscal year. Page 78 of our Form 10-K filed March 14, 2008 describes the assumptions made in the valuation of our options under FAS 123R.

(2) Amount represents consulting fees earned under a consulting agreement with Dr. Knowlton.

Table of Contents

During fiscal 2007, our non-employee directors were issued options to purchase shares of our common stock as set forth in the following table.

| Name | Grant Date | Number of Securities Underlying Options | Exercise or Base Price of Option Awards | Grant Date Fair Value of Option Awards(1) |
|---|---|---|---|---|
| Harold L. Covert | 7/11/2007 | 20,000 | $ 8.90 | $ 81,246 |
| Edward W. Knowlton, M.D. | 7/11/2007 | 10,000 | 8.90 | 40,623 |
| Cathy L. McCarthy | 7/11/2007 | 20,000 | 8.90 | 81,246 |
| Marti Morfitt | 7/11/2007 | 20,000 | 8.90 | 81,246 |
| Mark M. Sieczkarek | 7/11/2007 | 10,000 | 8.90 | 40,623 |

(1) Amounts represent the dollar amount of compensation cost recognized over the requisite service period, in accordance with FAS 123R, which include both the amounts recorded as compensation expense in our income statement for the 2007 fiscal year as well as amounts to be recognized in future requisite service periods.

Aggregate number of option awards outstanding (both exercisable and unexercisable) for each of our directors at fiscal year-end are set forth in the following table.

| Name | Number of Option Awards Outstanding |
|---|---|
| Harold L. Covert | 20,000 |
| Edward W. Knowlton, M.D. | 60,000 |
| Cathy L. McCarthy | 20,000 |
| Marti Morfitt | 20,000 |
| Mark M. Sieczkarek | 32,798 |

***Director Independence***

Our board of directors has determined that directors Harold L. Covert, Cathy L. McCarthy, Marti Morfitt, Mark M. Sieczkarek, and Edward W. Knowlton, M.D. are each independent within the meaning of applicable NASDAQ rules. Mr. Fanning is not considered to be independent.

Our compensation committee is currently chaired by Mr. Sieczkarek and also includes Mc. McCarthy and Ms. Morfitt, each of whom is independent within the meaning of applicable SEC and NASDAQ rules.

Our nominating and governance committee is currently chaired by Ms. Morfitt and also includes Mr. Covert. Ms. Morfitt and Mr. Covert are independent within the meaning of applicable SEC and NASDAQ rules.

In determining the independence of Edward W. Knowlton, M.D., our board of directors took into consideration our consulting agreement with Edward W. Knowlton, M.D. to obtain consulting services related to the development of our ThermaCool system. Pursuant to the consulting agreement, Dr. Knowlton provides approximately six days of consulting services per month at a rate of $6,250 per month for an indefinite term. The consulting agreement is terminable by either party upon a one-year written notice.

Table of Contents

***Executive Officers***

Our executive officers are appointed by, and serve at the discretion of, our board of directors. There are no family relationships among our directors and officers. The following table sets forth certain information concerning our executive officers and directors, as of June 30, 2008:

| Name | Age | Position |
|---|---|---|
| Stephen J. Fanning | 56 | President, Chief Executive Officer and Chairman of the board of directors |
| John F. Glenn | 46 | Chief Financial Officer |
| Clint Carnell | 38 | Chief Operating Officer |
| William Brodie | 44 | Vice President, U.S. Sales |
| H. Daniel Ferrari | 49 | Vice President, Business and Financial Planning |
| Douglas W. Heigel | 47 | Vice President, Operations |
| Cherry Hu | 50 | Vice President, Principal Accounting Officer and Corporate Controller |
| Sherree L. Lucas | 51 | Vice President, Marketing |
| Dragan D. Nebrigic | 45 | Vice President, Research & Development |
| Sharon Thompson | 50 | Vice President, Quality and Regulatory Affairs |
| Gary L. Wilson | 54 | Vice President, International Sales |

Further information with respect to Stephen J. Fanning is provided above under Board of Directors and Committee Composition.

***John F. Glenn.*** Mr. Glenn has been our Chief Financial Officer since January 2008. From October 2004 to September 2007, Mr. Glenn served as Chief Financial Officer, Vice President of Finance, Treasurer and Secretary of Cholestech, a provider of diagnostic tools and information for the risk assessment and therapeutic monitoring of heart disease and inflammatory disorders. From 1990 to January 2004, Mr. Glenn served as the Chief Financial Officer and Vice President of Finance for Invivo, a medical device company. Mr. Glenn received his B.S. in Business Administration from the University of Nevada and M.B.A. from Santa Clara University.

***Clint Carnell.*** Mr. Carnell has been our Chief Operating Officer since January 2008. From September 2005 to January 2008, Mr. Carnell served as our Vice President, U.S. Sales. Prior to joining Thermage, Mr. Carnell served in various sales and management positions with Bausch & Lomb including Vice President of US Surgical Sales from 2002 to 2005. Previously, Mr. Carnell was the founder, Co-Managing Partner and Board Member of Charleston Renal Care, a provider of dialysis services. He also held positions in other medical device companies including Johnson & Johnson, Chiron and Gambro Healthcare. Mr. Carnell received his B.A. degree from Duke University.

***William Brodie.*** Mr. Brodie has been our Vice President, Domestic Sales since January 2008. From February 2006 to January 2008, Mr. Brodie served as our Director of Sales, Eastern U.S. From September 1998 to February 2006, Mr. Brodie served as served as Vice President of Sales and Field Operations and held various sales management positions with Benco Dental, a company specializing in dental office equipment sales, office design and supply management. Mr. Brodie received his B.S. degree from Rollins College and M.S. in Management from Georgia Institute of Technology.

***H. Daniel Ferrari.*** Mr. Ferrari has been our Vice President, Business & Financial Planning since January 2008. From November 2004 to January 2008, Mr. Ferrari served as our Senior Director of Finance. From April 2004 to November 2004, Mr. Ferrari was a consultant for the Company. From September 2001 to March 2004, Mr. Ferrari served as Vice President, Corporate Controller of Critical Path, Inc., a publicly held enterprise software and hosted messaging company. Mr. Ferrari received his B.S. degree in Commerce and M.B.A. from Santa Clara University.

Table of Contents

***Douglas W. Heigel.*** Mr. Heigel has been our Vice President, Operations since July 2003. From May 2002 to July 2003, he served as our Senior Director, Operations. From October 1995 to February 2002, Mr. Heigel worked for Argonaut Technologies, a biotech company, first as their Director of Manufacturing and then as Vice President, Manufacturing. In 1995 Mr. Heigel was Director of Manufacturing for Biomolecular Technologies, an early state biotech company. From 1988 to 1995, Mr. Heigel held engineering and operations management positions with Microsensor Technology, a measurement instrumentation company. Mr. Heigel received his B.S. degree from Oregon State University.

***Cherry Hu.*** Ms. Hu has been our Vice President, Principal Accounting Officer and Corporate Controller since January 2008. From July 2006 to January 2008, Ms. Hu served as our Corporate Controller. From October 2003 to January 2006, she was Corporate Controller at Fortinet, a privately held network security company. Prior to Fortinet, Ms. Hu spent 16 years with 3Com, a global high tech company, in a variety of financial management positions, most recently as Controller of the Connectivity Business Unit. Ms. Hu began her career at Deloitte Haskins and Sells. She received her Bachelor of Music degree from College of Notre Dame and M.B.A. from California State University, Hayward. Ms. Hu is a Certified Public Accountant in the state of California.

***Sherree L. Lucas.*** Ms. Lucas has been our Vice President, Marketing since February 2005. From September 2002 to February 2005, Ms. Lucas served as Marketing Director at Ocular Sciences. From January 2000 to August 2002, she served as Marketing Consultant at Lucas Consulting. Previously, she served various marketing roles for seven years at Gillette. Ms. Lucas received her B.A. degree from Marshall University and her M.B.A. from New York University.

***Dragan D. Nebrigic, Ph.D.*** Dr. Nebrigic has been our Vice President, Research & Development since June 2008. From August 2007 to June 2008, Dr. Nebrigic served as our Senior Director, Advanced Technologies. Prior to joining Thermage, Dr. Nebrigic served as Senior Director, Global Advanced Technologies and Intellectual Property with Maxwell Technologies, a leading developer and manufacturer of innovative, cost-effective energy storage and power delivery solutions, from July 2005 to December 2006. From June 2004 to July 2005, Dr. Nebrigic served as Executive Director, Engineering and Advanced Technologies with the American Technology, a company specializing in the design, development and commercialization of sound technologies and acoustic products. Dr. Nebrigic received his B.S. degree from the University of Belgrade, Serbia, and Ph.D. from the University of Cincinnati. He also holds an adjunct Professor position of Electrical Engineering with the University of Cincinnati.

***Sharon Thompson.*** Ms. Thompson has been our Vice President, Quality and Regulatory Affairs since January 2008. From June 2004 to August 2007, Ms. Thompson was the World Wide Executive Director of Regulatory Affairs at LifeScan, a diabetes management company. From November 2001 to June 2004, she was the Executive Director of Quality and Regulatory Compliance for Biosense Webster, a developer and manufacturer of electrophysiology diagnostic and therapeutic devices. Both LifeScan and Biosense Webster are Johnson & Johnson operating companies. Ms. Thompson received her B.S. degree in Biology at the State University of New York at Albany and continued her graduate studies at St. Andrews University in Scotland.

***Gary L. Wilson.*** Mr. Wilson has been our Vice President, International Sales since November 2003. From May 2001 to July 2003, he served as Vice President, Worldwide Sales and Marketing of Cardima, a medical device company. From February 1996 to October 2000, Mr. Wilson served as Vice President, Worldwide Sales and Marketing of Endosonics, a medical device company. Prior to that, he was Director, Asia Pacific Sales of Advance Technology laboratories. Mr. Wilson began his medical industry career with General Electric Medical Systems. Mr. Wilson received his B.S. degree in Electrical Engineering from the University of California, Santa Barbara and his M.B.A. in International Business from National University.

Table of Contents

**Executive Compensation Relating to Thermage**

***Compensation Discussion and Analysis***

**Overview**

The primary objectives of our compensation programs are to:

- attract and retain the top echelon of performers;
- establish a direct link between sustained performance and individual rewards;
- create long-term value; and
- provide ownership opportunity to all employees.

We seek to foster a performance-oriented culture, where individual performance is aligned with organizational objectives. Company performance is the primary measure of success upon which we structure our compensation. We evaluate and reward our executive officers based on their contribution to the achievement of short and longer term goals. Individual and departmental performance is factored into salary increase decisions and stock option (long term incentive) awards.

Executive compensation is reviewed annually, and adjustments are made to reflect performance-based factors, as well as competitive conditions.

**Role of Our Compensation Committee**

The Compensation Committee, together with our board, establishes compensation for our Chief Executive Officer and our other executive officers and administers the 2006 Equity Incentive Plan, the 2006 Employee Stock Purchase Plan, and the 1997 Stock Plan. The Compensation Committee has a written charter, which was adopted by our board in August 2006. A copy of this charter is available on our website at *http://www.thermage.com.*

Our Compensation Committee is appointed by our board, and is comprised of Cathy L. McCarthy, Marti Morfitt, and Mark Sieczkarek. The purpose of our Compensation Committee is to:

- discharge the board s responsibilities relating to compensation of our executive officers;
- administer our stock option plans, stock purchase plans, restricted stock plans and any other equity incentive plans we adopt; and
- provide disinterested administration of any employee benefit plans in which our executive officers are eligible to participate.

Our Compensation Committee assumes primary responsibility for the annual compensation review process. In 2007 and for 2008, our Compensation Committee engaged, Compensia, a third-party compensation consulting group to assist us in defining our compensation guiding principles and assess the competitiveness of our pay programs. Our Compensation Committee has actively worked with the consultant to produce a report for the Committee s consideration. In the future, we may decide not to hire a compensation consultant each year, if we believe that the prior report we obtained, along with publicly-available data from our industry peer group, is sufficient to allow us to make informed decisions with regard to executive compensation matters. Our compensation consultant performs a peer group analysis, reviewing executive compensation arrangements primarily of other publicly-traded medical device companies.

In developing its recommendations for annual compensation packages for executive employees, our Compensation Committee worked with Compensia to gather market data and identify an appropriate peer group of public companies. The members of the peer group include Biolase Technology, Candela, Cepheid, Conceptus,

Table of Contents

Cutera, Cyberonics, Cynosure, Iridex, Micrus Endovascular, Palomar Medical Technologies, STAAR Surgical, VNUS Medical Technologies and Volcano. Our Compensation Committee used this data along with published survey data in developing its recommendations for annual compensation for our executive officers.

Because bonus targets are driven by financial goals, as to which management has greater insight than the board or the Compensation Committee, the Compensation Committee has directed management to recommend appropriate targets.

**Compensation Components**

Compensation for our executive officers is broken out into the following components:

*Cash Compensation*. Cash compensation consists of base salary and annual bonus potential. Our compensation consultant assists us in analyzing peer companies to guide our determination of appropriate cash compensation. Our cash compensation goals for our executive officers are based upon the following principles:

Ensuring that our short-term incentive program is consistent with our compensation philosophy;

Payouts should be based primarily on company financial performance, rather than individual performance;

With improved company performance, pay will move toward targeted positioning; and

Ensuring that individual target incentive opportunities align target total cash compensation levels with desired positioning (e.g., at the market 50th to 60th percentile).

*Base Salary and Total Target Cash Compensation*. In 2007, our goal was to set base salary at the 50th to 60th percentile of our peer group and total target cash compensation at or above the 60th percentile of our peer group. We found that our base salaries, on average, were 110% of the median of the total peer group, but varied on an individual basis. As a result, we determined that there was no need for across-the-board market-based adjustments, but that individual adjustments would be based on performance and contribution. For 2008, our Compensation Committee accepted management s recommended salary merit increases for executive employees other than the CEO, averaging 5%. The Committee determined to also increase the CEO s salary by 6%.

*Discretionary Bonus Program*. In addition to base salary compensation, we have a bonus plan covering all full-time regular employees, including the executive officers (except for certain of our employees in manufacturing who are under a monthly bonus plan and our sales representatives who are under a sales compensation plan) pursuant to which cash bonus payments and equity awards may be made. Bonuses are calculated based upon actual achievement of pre-established goals.

For 2007, our board of directors determined that the calculation would be based exclusively on achievement of corporate operating performance, rather than on a mix of both corporate and individual achievement. In our 2007 compensation survey, we found that our target bonus opportunities approximate the market 50th percentile for most executives, resulting in target total cash compensation at the market 60th percentile. To ensure that individual target incentive opportunities aligned target total cash compensation levels with desired positioning, we set our executive officer target incentives as follows: CEO: 75% of salary; all other executives: 40% of salary. Based upon actual achievement of targets, our Compensation Committee determined that 85% of the target payout would be paid in cash to each executive for 2007. In determining the payout level, our Compensation Committee considered three principal factors of corporate operating performance including revenue, gross margin and operating margin. Our Compensation Committee has discretion as to the relative weight of each of the factors. The committee determined that we had met or exceeded our targets for gross margin and operating margin, but did not meet our revenue target. Per its discretion, our Compensation Committee accorded increased weight to the achievement of the gross margin and operating margin targets in determining the 2007 bonus payout.

Table of Contents

For 2008, our Compensation Committee approved a bonus plan covering all full-time regular employees, including the executive officers (except for certain of our employees in manufacturing who are under a monthly bonus plan and our sales representatives who are under a sales compensation plan). Our Compensation Committee may modify, amend, revoke or suspend the 2008 bonus plan at any time in its sole discretion. The target bonus for our CEO is 80% of his base salary, and for each other executive officer, 40% of his or her respective base salary. The actual bonuses payable for fiscal year 2008, if any, will vary depending on the extent to which our actual financial performance meets, exceeds, or falls short of the financial goals approved by the Compensation Committee. If our actual performance exceeds the goals approved by the Committee, the actual bonus payable may be up to 150% of the target bonus.

*Long-Term Incentive Program*. We believe that long-term performance is achieved through an ownership culture that encourages long-term performance by our executive officers through the use of stock-based awards. All employees are eligible to participate in some form of equity program. Our equity compensation goals for our executive officers are based upon the following principals:

Stockholder and executive interests should be aligned;

The program should be structured to provide meaningful retention incentives to participants; and

Actual awards should be tailored to reflect individual performance and attraction/retention goals.

Under our 2006 Equity Incentive Plan, we are permitted to grant stock options, stock appreciation rights, restricted shares, restricted stock units, performance shares, and other stock-based awards. Under our 2006 Equity Incentive Plan, we issue options to our officers, directors and employees to purchase shares of our common stock at an exercise price equal to the fair market value of such stock on the date of grant. The date of grant for our executives is typically the date of a regularly scheduled board meeting, of which we have four per year. We have no program, plan or practice to select option grant dates (or set board meeting dates) to correspond with the release of material non-public information. We also have a 2006 Employee Stock Purchase Plan that provides employees with the opportunity to purchase shares of our common stock.

Our practice was to make annual equity grants to our executives. Our target goal was to set our long term incentive compensation at or above the median of our peer group. In determining 2007 equity grants for executives, we considered market competitive data, retention power of unvested equity, total potential ownership levels and individual performance. In 2008, the Compensation Committee generally awarded grants to our executive officers that approximated the 50th percentile of our peer group. We also took into consideration the use of equity awards as a means of rewarding achievement and as a means of retention, especially for our officers who were mostly vested in their prior awards.

*Benefits*. We provide the following benefits to our senior executives generally on the same basis as