

COMPUTERIZED THERMAL IMAGING INC  
Form S-3/A  
March 15, 2002

As filed with the Securities and Exchange Commission on March 15, 2002  
Registration No. 333-82016

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

Amendment No 1 to

FORM S-3

REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

Computerized Thermal Imaging, Inc.  
(Exact name of registrant as specified in its charter)

Nevada  
(State or other jurisdiction of  
incorporation or organization)

87-0458721  
(I.R.S. Employer  
Identification Number)

Two Centerpointe Drive, Suite 450, Lake Oswego, OR 97035  
(503) 594-1210  
(Address, including zip code, and telephone number, including area  
code, of registrant's principal executive offices)

Bernard J. Brady, Chief Financial Officer  
Two Centerpointe Drive, Suite 450, Lake Oswego, OR 97035  
(503) 594-1210  
(Name and address, including zip code, and telephone number, including area  
code, of agent for service)

WITH A COPY TO:  
Michael McArthur-Phillips, Esq.  
Davis Wright Tremaine LLP  
23rd Floor  
1300 S.W. Fifth Avenue  
Portland, Oregon, 97201  
(503) 241-2300

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

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

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

## Edgar Filing: COMPUTERIZED THERMAL IMAGING INC - Form S-3/A

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

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

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

### CALCULATION OF REGISTRATION FEE

Title of Each Class of Registration Securities to be Registered	Amount To Be Registered	Proposed Maximum Offering Price Per Share (1) (2)	Proposed Maximum Aggregate Offering Price (1) (2)	Amount of Fee (5)
Common Stock (3):	18,444,325 (4)	\$ 1.20	\$22,133,190	\$ 5,290

- (1) Estimated solely for the purpose of calculating the registration fee pursuant to Rule 457(c).
- (2) Based upon the average of the high and low prices reported on the American Stock Exchange January 30, 2002.
- (3) Includes 45,000 shares issued previously, 4,722,223 shares issued or issuable in connection with a debenture financing, 638,750 shares issuable upon exercise of existing options, and up to 13,038,352 shares issuable in connection with an equity line financing.
- (4) Pursuant to Rule 416, the number of shares registered hereby includes an indeterminate number of additional shares which may be issued upon the occurrence of certain events in accordance with the applicable anti-dilution provisions of the relevant documents.
- (5) Paid previously

March 15, 2002.

COMPUTERIZED THERMAL IMAGING, INC.

18,444,325 SHARES OF COMMON STOCK

This Prospectus relates to the resale of our common stock by selling

Edgar Filing: COMPUTERIZED THERMAL IMAGING INC - Form S-3/A

shareholders listed on Page 17.

Our common stock trades on the American Stock Exchange ("AMEX") under the trading symbol "CIO." On February 28, 2002, the closing bid price for our common stock as reported on the AMEX was \$1.38 per share.

Our common stock is speculative and involves a high degree of risk. You should carefully read and consider our discussion of risk factors beginning on page 8 before making an investment decision.

NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THESE SECURITIES OR PASSED UPON THE ACCURACY OR ADEQUACY OF THE PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

-1-

TABLE OF CONTENTS

Cautionary Statement.....2  
 Available Information.....2  
 Information About Forward-Looking Statements.....3  
 Summary of Information in the Prospectus.....4  
 The Company.....4  
 The Offering.....8  
 Risk Factors.....8  
 Use of Proceeds.....10  
 Price Range of Our Common Stock.....10  
 Description of Securities.....11  
 Certain Provisions of the Articles of Incorporation and Bylaws.....14  
 Plan of Distribution.....15  
 Selling Shareholders.....17  
 Legal Matters.....18  
 Experts.....18  
 Material Changes.....18  
 Information Incorporated into this Prospectus.....18

-----

CAUTIONARY STATEMENT

You should rely only on the information contained in this Prospectus. We have not authorized anyone to provide information different from what is contained in this Prospectus. The selling shareholders are offering to sell, and seeking offers to buy, shares of Common Stock only in jurisdictions where offers and sales are permitted. The information contained in this Prospectus is accurate only as of the date of this Prospectus, regardless of the time of delivery of this Prospectus or of any sale of common stock.

-----

AVAILABLE INFORMATION

We are subject to the reporting requirements of the Securities and Exchange Commission (the "Commission"). We file periodic reports, proxy statements, and other information with the Commission under the Securities Exchange Act of 1934. We will provide, without charge, to each person who

## Edgar Filing: COMPUTERIZED THERMAL IMAGING INC - Form S-3/A

receives a copy of this filing, upon written or oral request, a copy of any information that is incorporated by reference into this Prospectus (not including exhibits to the information that are incorporated by reference unless the exhibits are themselves specifically incorporated by reference). Requests should be directed to: Computerized Thermal Imaging, Inc., Attn: Investor Relations, Two Centerpointe Drive, Lake Oswego, OR 97035, voice: (503) 594-1210, fax: (503) 594-1215. Our Internet address is [www.cti-net.com](http://www.cti-net.com). The information contained on our web site, however, is not part of this document.

-2-

We have filed a Registration Statement on Form S-3 under the Securities Act of 1933, as amended, with the Commission in connection with the securities offered by this Prospectus. This Prospectus does not contain all of the information that is in the Registration Statement. For further information with respect to us, you may inspect without charge and copy our filings at the public reference room maintained by the Commission at 450 Fifth Street, N.W., Washington, D.C. 20549. Copies of this material also may be obtained from the Public Reference Section of the Commission at 450 Fifth Street, N.W., Washington, D.C. 20549, at prescribed rates. Information about the public reference room is available from the Commission by calling 1-800-SEC-0330.

The Commission maintains a web site on the Internet that contains reports, proxy statements and other information regarding issuers that file electronically with the Commission. The Internet address of the site is [www.sec.gov](http://www.sec.gov). Visitors to the site may access information by searching the EDGAR archives on this web site.

-----

### INFORMATION ABOUT FORWARD-LOOKING STATEMENTS

This Prospectus, and the documents incorporated by reference, contains forward-looking statements within the meaning of the Securities Act of 1933 and Securities Exchange Act of 1934. Forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied. When used in this Prospectus, the words "expects", "anticipates," "intends," "plans," "may," "believes," "seeks," "estimates," and similar expressions generally identify forward-looking statements. All forward-looking statements included in this document are based on information available to the Company ("we", "us", "our", "CTI" and the "Company") on the date of this Prospectus. Except as otherwise required under federal and state securities laws, we assume no obligation to update any forward-looking statements.

-3-

### SUMMARY OF INFORMATION IN THE PROSPECTUS

THIS SUMMARY HIGHLIGHTS SELECTED INFORMATION ABOUT US. TO UNDERSTAND THIS OFFERING FULLY, YOU SHOULD READ THE ENTIRE PROSPECTUS CAREFULLY, INCLUDING OUR DISCUSSION OF RISK FACTORS AND THE FINANCIAL STATEMENTS FILED AS PART OF OUR ANNUAL REPORT ON FORM 10-K FOR THE YEAR ENDED JUNE 30, 2001.

We design, manufacture and market thermal imaging devices and services used for clinical diagnosis, pain management and non-destructive testing of industrial products and materials. We believe our devices and services generate unique or difficult to obtain data that is useful to health care providers in the detection and diagnosis of certain diseases and disorders. We also believe

## Edgar Filing: COMPUTERIZED THERMAL IMAGING INC - Form S-3/A

these systems are useful to industry as a tool for testing product quality.

In January 2001, we began to shift our primary focus and resources from research and development to building and marketing proprietary products and services. We have established and developed, and continue to establish and develop, relationships with medical equipment dealers and distributors, physicians and clinical study sites. We also are increasing our internal manufacturing capabilities. We attend trade shows and sponsor clinics to introduce and demonstrate our pain management and breast imaging products. We continue to seek to enhance our products and develop new applications for existing products and to protect our intellectual property with patents and trademarks. To date, we have had limited operating revenues from the sale of our products and services.

We are publicly traded on the American Stock Exchange under the symbol CIO. On February 28, 2002, we had 82,804,187 million shares of common stock outstanding; held by approximately 29,000 shareholders. In addition to common stock, we have approximately 15.8 million shares underlying warrants and options that remain unexercised. On a fully diluted basis, we have approximately 98.6 million common shares outstanding, 28.8% of which are beneficially owned by insiders and affiliates. Other than our wholly-owned subsidiary, Bales Scientific, Inc., we have no other interest in any other entity.

-----

### THE COMPANY

#### OUR PRODUCTS AND SERVICES

Our imaging systems integrate standard third party hardware and our proprietary software and heat-sensing camera to produce, interpret, and catalogue thermal images. These systems provide medical professionals with information to assist in the evaluation of breast abnormalities and the management of chronic pain. They also permit non-destructive testing and inspection of industrial products like turbine blades.

The Company has developed six significant proprietary technologies: (1) a climate-controlled examination unit to provide patient comfort and facilitate reproducible tests (the "Breast Cancer System 2100 TM"); (2) an imaging protocol that produces consistent results; (3) a statistical model that detects physiological irregularities; (4) infrared imaging and analysis hardware, including our proprietary heat-sensing camera (collectively, we refer to items 2-4 as the "Thermal Imaging Process"); (5) a system to treat pain and other symptoms of diabetes, carpal tunnel syndrome and reflex sympathetic dystrophy syndrome (the "Photonic Stimulator"); and (6) a system for non-destructive testing and examination of turbine blades and other industrial components, including composite materials and metals (the "Turbine Blade Inspection System").

-4-

Our Breast Cancer System, which uses the Thermal Imaging Process technology, provides a non-invasive, painless adjunct to mammography for the evaluation of breast lesions. The Breast Cancer System tests suspicious breast tissue by first cooling the breast and then monitoring the rate at which the breast reheats. Malignant tissue, because it is more vascular (has more blood flowing to and through it) than benign tissue, reheats more quickly than the normal tissue surrounding it. Our software provides a color coded thermal image of the breast for interpretation and clinical decision making.

## Edgar Filing: COMPUTERIZED THERMAL IMAGING INC - Form S-3/A

Mammography and other imaging methods capture a snapshot of structure at a moment in time, but do not provide information about the behavior of the structures exposed. While mammography may detect the presence of an abnormality in the breast, a biopsy is required to determine whether the abnormality is malignant. We believe our technology provides images that expose the behavior of structures and provide health professionals a tool for discriminating between cases requiring invasive biopsy and those that do not. We believe the Breast Cancer System can provide physiological data and reduce the number of biopsies, 80% of which have benign findings, while offering patients, physicians, health care institution and payers the following additional advantages:

- o For the patient - fast, painless and non-invasive diagnostic procedure
- o For the physician - earlier diagnosis of disease and chronic conditions and assistance in providing more cost-effective treatment options
- o For the health care institution - procedure duration comparable to other diagnostic modalities, taking approximately 10 minutes, involving no hazardous radiation and providing immediate digital images to assist in diagnosis
- o For the payer - significant reduction in cost

Our Thermal Imaging Process provides continuous information streams and measures changes in temperature over time. By measuring both absolute temperature and changes in temperature over time and comparing that data to empirical information, our systems generate data that indicate the presence of characteristics that indicate certain conditions, e.g., the presence of abnormal or cancerous tissue, casting defects, adhesion failures.

The Thermal Imaging Process is used by physicians to take a thermal image of the body and to evaluate temperature differences in order to locate sources of pain and test the effect of treatment. The Photonic Stimulator is used to treat pain and other symptoms of diabetes, carpal tunnel syndrome and reflex sympathetic dystrophy syndrome.

-5-

The Turbine Blade Inspection System provides customers an effective, cost-efficient quality assurance tool. Our system reduces turbine blade test time approximately 90 percent compared to other methods. Using techniques similar to our Breast Cancer System, our technology meets industrial requirements for non-destructive testing and examination of turbine blades and other industrial components, composite materials, and metals. Our automated infrared inspection system thermally stresses the component, collects a series of images, and analyzes them to determine the presence or absence of characteristics determined to correlate with certain manufacturing and usage-induced defects. The analysis identifies defects, abnormalities and flaws in the test material. This system can identify blockages in cooling holes as small as the diameter of a human hair.

### PATENTS AND TRADEMARKS

As we emerge from the product development stage, we anticipate that we will increasingly rely upon formal patent protection for our intellectual property and products. As of February 28, 2002, we have the following patents or patent applications pending before the United States Patent and Trademark

## Edgar Filing: COMPUTERIZED THERMAL IMAGING INC - Form S-3/A

Office:

- o Patent No. 5,999,842, dated December 7, 1999, acquired by assignment from TRW on a Functional Thermal Imaging Apparatus (our Breast Cancer System Patient Positioning Table).
- o Patent No. 6,157,854, dated December 5, 2000, covering techniques designed to reduce or eliminate pain by the application of infrared therapy while monitoring the process as it is being conducted. The techniques involve the use of our Photonic Stimulator to apply infrared energy to a patient while using the Thermal Image Processor to monitor the patient's response to the therapy.
- o Patent application (Serial No. 60/105,147, dated October 21, 1998) for an algorithm used to analyze imaging data collected through our Breast Cancer System.
- o Patent application (Serial No. 09/487,465, dated January 13, 2000) for photo irradiation treatment monitored by thermal imaging.
- o Patent application (Serial No. 60/339,725, dated November 1, 2001) for a turbine component inspection system, emphasizing the system's integration and ability to deliver precise thermal stimuli independent of the overall inspection cycle.
- o Patent application (Serial No. 60/339,765, dated November 1, 2001) for a heat exchanger for turbine component inspection system covering an improved convective heat exchanger design for use in the turbine component inspection system.
- o Patent application (Serial No. 60/339,724, dated November 1, 2001) for an infrared imaging arrangement for the turbine component inspection system covering the overall fixture and infrared imager arrangement.

-6-

- o Patent application (Serial No. 10/006,441, dated November 21, 2001) for software providing operator assistance during the use of an automated infrared inspection system for the inspection of turbine components.
- o Patent application (Serial No. 10/006,436, dated November 21, 2001) for software performing automated analysis of the thermal response of a turbine component to application of thermal stimuli by an infrared inspection system.

We expect that other technologies or components of our products will warrant patent protection in the future.

### REGULATORY (FDA) PROCESS - BREAST CANCER SYSTEM

Our Breast Cancer System, Thermal Imaging Process and Photonic Stimulator qualify as medical devices under federal law because they are intended for use in the diagnosis, cure, mitigation, treatment or prevention of disease but do not interact chemically with the body. Typically, low risk devices substantially similar to approved products already on the market, generally described as Class I or Class II devices, obtain U.S. Food and Drug Administration ("FDA") clearance by the agency's pre-market notification, known

Edgar Filing: COMPUTERIZED THERMAL IMAGING INC - Form S-3/A

as a 510(k) filing. Instruments that entail significant risk, generally described as Class III devices, require manufacturers to submit a Pre-Market Application ("PMA") to the FDA. A PMA typically contains significant clinical testing, manufacturing and other data, all of which are scrutinized by the FDA to demonstrate the product's safety, reliability and effectiveness.

It is not clear whether our products require a PMA or whether they would qualify as a Class I or II device. We have chosen to pursue FDA approval for our Breast Cancer System through the PMA process, however, because such approval will allow us to reference medical efficacy claims in connection with marketing our Breast Cancer System. We also believe that FDA approval will improve physician acceptance of our systems and help us obtain designation of insurance reimbursement codes.

We submitted our PMA in five modules. We submitted the fifth module, an evaluation of our clinical studies, on June 15, 2001. The FDA is performing the in-depth scientific, regulatory and manufacturing reviews and inquiries required by its procedures. After the FDA staff completes its work, the PMA will be subjected to an advisory panel for review and recommendation. After the FDA receives the advisory panel recommendation, it will issue a decision.

CONTACTING US

Our web site is www.cti-net.com. However, the information contained on our web site is not part of this Prospectus. Our principal executive offices are located at: Computerized Thermal Imaging, Inc., Two Centerpointe Drive, Suite 450, Lake Oswego, OR 97035, voice: (503) 594-1210, fax: (503) 594-1215.

-7-

THE OFFERING

Common stock outstanding.....	82,804,187 shares (1)
Common stock to be offered by our selling stockholders.....	18,444,325 shares (2)

-----

- (1) Includes shares of common stock outstanding as of February 28, 2002, but does not include approximately 15.8 million shares underlying any fully vested and outstanding options and warrants.
- (2) Includes: (i) 45,000 shares issued and outstanding; (ii) 4,722,223 shares issuable under a convertible debenture financing we entered into on December 31, 2001; (iii) 638,750 shares issuable upon exercise of outstanding options; and (iv) up to 13,038,352 shares to be subsequently issued under a Private Equity Credit Line we entered into on December 31, 2001 (the "Equity Line").

THE MARKET FOR OUR COMMON STOCK

Our common stock trades on the American Stock Exchange under the symbol CIO.

RISK FACTORS



## Edgar Filing: COMPUTERIZED THERMAL IMAGING INC - Form S-3/A

WE ARE SUBJECT TO GOVERNMENT REGULATION.

Our Breast Cancer System is presently under review with the FDA. There is no assurance that we will receive FDA approval. Failure to secure FDA approval would materially reduce or eliminate the market for our Breast Cancer System and, thereby, materially reduce the chances that we would be profitable.

WE HAVE LIMITED REVENUES FROM OPERATIONS AND MAY NEVER HAVE SUBSTANTIAL REVENUE FROM OPERATIONS.

Since inception, we have engaged in research and development activities. With limited exceptions, our products have not been used in commercial applications and there is no assurance that the market will accept our products. Without such acceptance, it is unlikely we will ever be profitable.

WE EXPECT TO CONTINUE TO INCUR LOSSES, DEFICITS, AND DEFICIENCIES IN LIQUIDITY THAT COULD IMPAIR OUR ABILITY TO GROW.

We must develop clinical applications, obtain regulatory approvals and market our products in order to become profitable. There is no assurance that we will be able to accomplish this. We have incurred substantial losses in the past and expect to continue to incur losses, deficits and deficiencies in liquidity due to the significant costs associated with the continuing development and commercialization of our products.

-8-

WE MAY HAVE TO RAISE ADDITIONAL CAPITAL IN ORDER TO FUND OPERATIONS IN THE FORESEEABLE FUTURE.

Until our operating results improve, we will have to rely on outside financing to fund our business. We expect that we will use a combination of equity and debt securities and instruments in order to secure additional funding. The sale of equity securities could dilute our existing shareholders and borrowings from third parties could result in assets being pledged as collateral and loan terms that could restrict our operations. There is no assurance that capital will be available from any source or, if available, upon acceptable terms and conditions.

THE MARKET PRICE OF OUR SHARES IS VOLATILE.

The market price of our stock may continue to experience wide fluctuations, as it has in the recent past, which could be unrelated to our financial and operating results. Such volatility could result in a material loss in the value of your investment in our shares.

WE COULD ISSUE PREFERRED STOCK AND THIS COULD HARM YOUR INTERESTS.

We have authorized 3.0 million shares of preferred stock, par value \$5.00 per share, none of which are outstanding. The preferred stock, if issued, could have preferential voting, dividend and liquidation rights which adversely affect the rights of our common shareholders. Our authority to issue preferred stock without shareholder approval could discourage potential takeover attempts and could delay or prevent a change in control through merger, tender offer, proxy contest or otherwise by making such attempts more difficult and costly. The inability for a third party to enter into such a transaction may reduce the value of our shares.

WE RELY ON THIRD PARTIES TO HELP DEVELOP AND MANUFACTURE OUR PRODUCTS. IF THEY FAIL TO PERFORM, FDA APPROVALS, PRODUCT DEVELOPMENT, AND/OR PRODUCTION COULD BE

## Edgar Filing: COMPUTERIZED THERMAL IMAGING INC - Form S-3/A

SUBSTANTIALLY DELAYED.

We depend upon third parties to assist in with clinical studies, product development and the manufacture of our products. Our products are highly specialized and have component parts developed and manufactured according to unique specifications. Although there may be more than one developer or manufacturer for these components, failure to develop or manufacture in a timely manner could result in a loss of business and further result in substantial delays in FDA approvals and/or commercialization of our products.

-9-

IF WE WERE UNSUCCESSFUL IN PREVENTING OTHERS FROM USING OUR INTELLECTUAL PROPERTY, WE WOULD LOSE A COMPETITIVE ADVANTAGE.

Our success will depend, in part, on our ability to use and prevent others from using our trademarks and other intellectual property. We currently hold two patents and have submitted seven patent applications. There can be no assurance that the steps we have taken to protect our property will protect our rights. Defense of our intellectual property could be expensive and time consuming, and parties that misappropriate our intellectual property could have significantly more financial resources than the Company, making it financially impossible to protect our rights.

WE DO NOT HAVE PRODUCT LIABILITY INSURANCE.

The manufacture and sale of medical imaging systems may entail significant risk of product liability claims. There can be no assurance that we can obtain insurance coverage with limits adequate to protect us from any liability that might arise in connection with the sale of our products. Without such insurance, we may have to pay claims with Company funds, thereby making it impossible to maintain operations.

### USE OF PROCEEDS

We will not receive any proceeds upon the sale by shareholders of common stock covered by this Prospectus. If all of the warrants and options are exercised and all of the shares of common stock covered by the Equity Line are sold following the effective date of this Prospectus, the net proceeds to us will be approximately \$21 million after deducting offering expenses. We will use such proceeds: (a) for general corporate purposes, including the payment of ongoing operating expenses; (b) for product development and additional clinical studies of our Breast Cancer System and pain management products; (c) for marketing and technology acquisition expenses; and (d) to retire up to \$2.5 million in junior convertible subordinated debt and interest thereon. We will pay for the cost of registering the shares of common stock in this offering.

### PRICE RANGE OF OUR COMMON STOCK

Our common stock trades on the American Stock Exchange under the trading symbol CIO. The table summarizes quarterly low and high bid prices per share for our common stock.

Fiscal year ended June 30, 2000	Low Bid	High Bid
-----	-----	-----
First Quarter	\$ 0.63	\$ 1.45
Second Quarter	\$ 1.40	\$ 5.03
Third Quarter	\$ 3.00	\$ 19.97
Fourth Quarter	\$ 5.38	\$ 13.75

Fiscal year ended June 30, 2001

Edgar Filing: COMPUTERIZED THERMAL IMAGING INC - Form S-3/A

First Quarter	\$ 3.00	\$ 9.44
Second Quarter	\$ 1.13	\$ 5.03
Third Quarter	\$ 1.63	\$ 3.94
Fourth Quarter	\$ 1.95	\$ 5.74

Fiscal year ended June 30, 2002

First Quarter	\$ 1.85	\$ 4.05
Second Quarter	\$ 1.28	\$ 2.40
January 1 - February 28	\$ 0.82	\$ 1.62

-10-

On February 28, 2002, the closing price of our common stock as reported on the AMEX was \$1.38 per share. On February 28, 2002, we had approximately 29,000 beneficial shareholders of our common stock and 82,804,187 shares of our common stock outstanding.

#### DESCRIPTION OF SECURITIES

Under our Articles of Incorporation ("Articles"), we are authorized to issue a total of 203,000,000 shares, of which 200,000,000 shares are common stock, par value \$0.001 per share (the "Common Stock") and 3,000,000 shares are preferred stock (the "Preferred Stock"). As of February 28, 2002, there were 82,804,187 shares of Common Stock issued and outstanding. No shares of Preferred Stock are issued or outstanding.

The following description of certain matters relating to the Common Stock, the Preferred Stock, and Options is a summary and is qualified in its entirety by the provisions of our Articles of Incorporation and Bylaws.

#### COMMON STOCK

Common shareholders are entitled to one vote per share on all matters submitted to a shareholder vote. In addition, shareholder are entitled to receive ratably dividends, if any, as may be declared from time to time by the Board of Directors out of funds legally available therefore, subject to the payment of preferential dividends with respect to any shares of the preferred stock that may be outstanding. In the event of dissolution, liquidation or winding up, common shareholders are entitled to share ratably in all assets remaining after payment of all our liabilities, subject to the primary distribution rights of the holders of any shares of preferred stock that may be outstanding at that time.

#### PREEMPTIVE RIGHTS

Pursuant to Title 7, Chapter 79 of the Nevada Revised Statutes, shareholders of corporations organized before October 1, 1991, with certain limited exceptions set out in the statute, have preemptive rights to acquire unissued shares, treasury shares or securities convertible into such shares, being offered for sale, except to the extent limited or denied by the corporation's Articles of Incorporation. Prior to October 1, 1991, among other circumstances, preemptive rights did not exist with respect to (i) shares issued to our directors, officers or employees pursuant to a vote of the shareholders,

## Edgar Filing: COMPUTERIZED THERMAL IMAGING INC - Form S-3/A

or pursuant to a plan authorized by the shareholders, (ii) shares sold for a consideration other than cash, and (iii) shares issued at the same time that the shareholder who claims a preemptive right acquired his shares. We were incorporated on June 10, 1987, and prior to March 16, 1998, our Articles did not provide for any limitation with respect to preemptive rights. In the various offerings of our securities, we did not offer to our existing shareholders

-11-

preemptive rights to acquire any of the securities so offered other than to persons in exchange for services rendered. The applicable remedy, if any, for our failure to offer to our shareholders the preemptive rights is not certain after the passage of time and Common Stock price fluctuations. Under Nevada law, the preemptive right is only an opportunity to acquire shares upon such terms as the Board of Directors fixes for the purpose of providing a fair and reasonable opportunity for the exercise of such right. If a shareholder were to timely demand preemptive rights for a particular non-expected prior sale, we might be required to sell additional shares of Common Stock to the complaining shareholder at previously offered prices to enable a shareholder exercising such rights to maintain his ownership percentage for prior sales that would affect preemptive rights. To the extent that any shareholders were entitled to the right to purchase shares of Common Stock upon the exercise of any such preemptive rights, we plan to allow any such requesting shareholder the right to purchase his pro rata amount of such shares at the same price per share to which he would have been entitled if such preemptive rights had been offered in conformity with Nevada law. Any such offering of preemptive rights will be in conformity with the Securities Act and the various states where any such shareholders may be located. If any shareholders were to exercise their preemptive rights within the applicable statute of limitations for any sale of securities which carried a preemptive right prior to March 16, 1998, the percentage interests of investors may be diluted by any such sales of additional securities and the contributions to us from such sales, if required to be offered at the price of previous issuances and if such price is below the current market value, could result in contributions to us at a per share contribution less than the current market value. We cannot speculate whether any shareholders would elect such preemptive rights, if the statute of limitations has not barred such rights, or how much additional capital would be raised or how many shares would be issued or whether other remedies would be available. As of the date of this Prospectus, we are not aware of any shareholder who intends to make any claim with respect to our failure to offer any such preemptive rights. On February 4, 1998, a majority of our shareholders voted to amend the Articles to deny preemptive rights with respect to each new issuance of shares of Common Stock. However, the amendment to the Articles will have no effect with respect to preemptive rights that may have existed for certain sales of Common Stock prior to such amendment.

### CUMULATIVE VOTING RIGHTS

Common shareholders do not have cumulative voting rights. Accordingly, holders of more than 50 percent of the issued and outstanding shares of common stock voting for the election of directors can elect all of the directors if they choose to do so, and in such event, the holders of the remaining shares of common stock voting for the election of the directors will be unable to elect any person or persons to the Board of Directors.

### PREFERRED STOCK

We are authorized to issue up to 3,000,000 shares of Preferred Stock in one or more series, to establish the number of shares to be included in each series and to fix the designations, powers, preferences and rights of the shares of each such series and the qualifications, limitations or restrictions thereof.

## Edgar Filing: COMPUTERIZED THERMAL IMAGING INC - Form S-3/A

This includes, among other things, voting rights, conversion privileges, dividend rates, redemption rights, sinking fund provisions and liquidation

-12-

rights which may be superior to the Common Stock. The issuance of Preferred Stock could decrease the amount of earnings and assets available for distribution to holders of Common Stock, and adversely affect the rights and powers, including voting rights, of such holders and may have the effect of delaying, deferring or preventing a change in control. The Board of Directors does not currently intend to seek shareholder approval prior to any issuance of authorized, but unissued stock, unless required by law. As of the date of this Prospectus, there are no shares of the Preferred Stock issued and outstanding.

### OPTIONS

**EMPLOYEE OPTIONS.** Messrs. John Ott, David Alles, and Brian Dalio are employees of the Company and were granted options during May 2000 to purchase 563,750 shares of Common Stock in the aggregate at prices between \$1.50 to \$3.50. As of December 31, 2001, 302,500 of these options were vested and exercisable.

**CONTRACTOR OPTIONS.** Messrs. Harry Register MD., Lawrence Lemak, M.D., John Shearer, M.D., and Dean Clark, D.C., are contractors or consultants to the Company and have been granted options since June 30, 2001, to purchase 75,000 shares of Common Stock in the aggregate at prices between \$1.55 and \$1.95. As of December 31, 2001, 50,000 of these options were vested and exercisable.

The resale of 563,750 shares of Common Stock underlying the Employee Options, and 75,000 shares of Common Stock underlying the Contractor / Consultant Options (collectively, the "Resale Options") are being registered hereby pursuant to registration rights granted to the holders thereof.

### WARRANTS AND CONVERTIBLE DEBENTURES

**BEACH BOULEVARD WARRANTS.** On December 31, 2001, we concluded a financing with Beach Boulevard, LLC, in which we issued a convertible debenture in the amount of \$2.5 million (the "Debenture Offering"). In connection with the Debenture Offering, we will issue up to 4,201,390 shares of common stock upon conversion of the debenture and otherwise under the debenture acquisition agreements. We also issued a warrant to purchase 260,417 shares of Common Stock. These warrants are exercisable at \$2.03 a share and expire December 31, 2004. Pursuant to a registration rights agreement entered into in connection with the Debenture Offering, we are required to register 200% of the shares of Common Stock which may be acquired upon exercise of the warrant, or 520,833 shares.

In connection with the Equity Line, we issued a warrant to purchase 641,026 shares of Common Stock. These warrants are exercisable at \$1.95 a share, are callable if certain conditions are met, and are exercisable, unless called, between April 1, 2002 and April 1, 2007. Pursuant to a Registration Rights Agreement entered into in connection with the Equity Line, we are required to register 112% of the shares of Common Stock that may be acquired upon exercise of the warrant, or 717,949 shares.

-13-

**ROTH WARRANTS.** We retained Roth Capital Partners, LLC to provide financial advice in connection with the Debenture Offering and Equity Line. As partial compensation for these services, we issued to Roth a warrant to purchase 100,000 shares of Common Stock at an exercise price of \$1.87. These were issued

## Edgar Filing: COMPUTERIZED THERMAL IMAGING INC - Form S-3/A

January 2, 2002 and will expire January 2, 2007.

### CERTAIN PROVISIONS OF THE ARTICLES OF INCORPORATION AND BYLAWS

#### GENERAL

A number of provisions of our Articles of Incorporation ("Articles") and Bylaws ("Bylaws") concern matters of corporate governance and the rights of shareholders. Certain of these provisions, as well as the ability of the Board of Directors to issue shares Preferred Stock and to set the voting rights, preferences and other terms thereof, may be deemed to have an anti-takeover effect and may discourage takeover attempts not first approved by the Board of Directors (including takeovers which certain shareholders may deem to be in their best interests). To the extent takeover attempts are discouraged, temporary fluctuations in the market price of the Common Stock, which may result from actual or rumored takeover attempts, may be inhibited. These provisions, together with the ability of the Board of Directors to issue the Preferred Stock without further shareholder action, also could delay or frustrate the removal of incumbent directors or the assumption of control by the shareholders, even if such removal or assumption would be beneficial to our shareholders. These provisions also could discourage or make more difficult a merger, tender offer or proxy contest, even if they could be favorable to the interests of the shareholders, and could potentially depress the market price of the Common Stock. The Board of Directors believes that these provisions are appropriate to protect our interests and those of our shareholders.

#### MEETINGS OF SHAREHOLDERS

Our Bylaws provide that a special meeting of the shareholders may be called by the Chairman of the Board, the President, the Board of Directors, or the holders of not less than 10 percent of the outstanding shares of our capital stock entitled to vote at such a meeting unless otherwise required by law. Our Bylaws provide that only those matters set forth in the notice of the special meeting may be considered or acted upon at the special meeting.

#### AMENDMENT OF BYLAWS

The Bylaws provide that the Bylaws may be altered, amended or repealed by the Board of Directors or our shareholders. Such action by the Board of Directors requires the affirmative vote of a majority of the directors present at such meeting.

#### CERTAIN EFFECTS OF AUTHORIZED BUT UNISSUED STOCK

One effect of having authorized but unissued capital stock may be to enable the Board of Directors to render more difficult, or to discourage, an attempt to obtain control of us by means of a tender offer, proxy contest or otherwise, and thereby protect the continuity of the our management. If, in the due exercise of its fiduciary obligations, for example, the Board of Directors determines that a takeover proposal is not in the best interests of the Company or its shareholders, such shares could be issued by the Board of Directors

-14-

without shareholder approval in one or more private or public offerings or other transactions that might prevent or render more difficult or costly the completion of the proposed takeover transaction by diluting the voting or other rights of the proposed acquirer or insurgent shareholder or shareholder group, by creating a substantial voting block of institutional or other investors that might undertake to support the position of the incumbent Board of Directors, by effecting an acquisition that might complicate or preclude the takeover, or

## Edgar Filing: COMPUTERIZED THERMAL IMAGING INC - Form S-3/A

otherwise. In this regard, our Articles grant the Board of Directors broad power to establish the rights and preferences of the authorized, but unissued Preferred Stock, one or more series of which would be issued entitling holders to vote separately as a class on any proposed merger or consolidation, to convert Preferred Stock into a larger number of shares of Common Stock or other securities, to demand redemption at a specified price under prescribed circumstances related to a change in control, or to exercise other rights designed to impede a takeover.

### PLAN OF DISTRIBUTION

This Prospectus relates to the aggregate resale of 18,444,325 shares of Common Stock that may be sold by the selling shareholders. The shares of Common Stock to be resold include: (i) 45,000 shares issued and outstanding; (ii) 4,722,223 shares issued or issuable in connection with the Debenture Offering; (iii) 638,750 shares issuable upon exercise of existing options; and (iv) up to 13,038,352 shares to be issued under the Equity Line and subsequently resold by the shareholders under this Prospectus.

The selling shareholders and any of their pledgees, assignees, and successors-in-interest may, from time to time, sell any or all of their shares of Common Stock on any stock exchange, market, or trading facility on which the shares are traded or in private transactions. These sales may be at fixed or negotiated prices. There is no assurance that the selling shareholders will sell any or all of the Common Stock in this offering. The selling shareholders may use any one or more of the following methods when selling shares:

- o Ordinary brokerage transactions and transactions in which the broker-dealer solicits purchasers.
- o Block trades in which the broker-dealer will attempt to sell the shares as an agent but may position and resell a portion of the block as principal to facilitate the transaction.
- o Purchases by a broker-dealer as principal and resale by the broker-dealer for its own account.
- o An exchange distribution following the rules of the applicable exchange
- o Privately negotiated transactions.
- o Short sales or sales of shares not previously owned by t