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

FORM 10-Q

(Mark One)

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended March 31, 2020

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from _____ to_____.

Commission File Number: 000-50644

Cutera, Inc.

(Exact name of registrant as specified in its charter)

Delaware	**77-0492262**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

3240 Bayshore Blvd., Brisbane, California 94005
(Address of principal executive offices)

(415) 657-5500
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock ($0.001 par value)	CUTR	The NASDAQ Stock Market, LLC

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

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

Large accelerated filer ☐ Accelerated filer ☒ Non-accelerated filer ☐ Smaller reporting company ☐ Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act.): Yes ☐ No ☒

The number of shares of Registrant's common stock issued and outstanding as of April 30, 2020, was 17,463,025.

CUTERA, INC.

FORM 10-Q

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In this Quarterly Report on Form 10-Q, “Cutera,” “the Company,” “we,” “us” and “its” refer to Cutera, Inc. and its consolidated subsidiaries.

This report may contain references to its proprietary intellectual property, including among others, trademarks for its systems and ancillary products, *Cutera®,AccuTip®, CoolGlide®, CoolGlide excel®, enlighten®, excel HR®, excel V®, excel V+®, LimeLight®, MyQ®, Pearl®, PicoGenesis™,ProWave®, Solera®, Titan®, truSculpt®, truSculpt® flex*, *Vantage®*, and *xeo®* ®

These trademarks and trade names are the property of Cutera or the property of its consolidated subsidiaries and are protected under applicable intellectual property laws. Solely for convenience, its trademarks and tradenames referred to in this Quarterly Report on Form 10-Q may appear without the ® or symbols, but such references are not intended to indicate in any way that the Company will not assert, to the fullest extent under applicable law, its rights to these trademarks and tradenames.

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS (UNAUDITED)

CUTERA, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands, except share and per share data)
(unaudited)

	March 31, 2020	December 31, 2019
Assets		
Current assets:		
Cash and cash equivalents	$ 14,774	$ 26,316
Marketable investments	4,746	7,605
Accounts receivable, net of allowance for credit losses of $937 and $1,355, respectively	15,660	21,556
Inventories	36,941	33,921
Other current assets and prepaid expenses	4,831	5,648
Total current assets	76,952	95,046
Property and equipment, net	2,687	2,817
Deferred tax asset	408	423
Operating lease-right-of-use assets	7,143	7,702
Goodwill	1,339	1,339
Other long-term assets	5,901	6,411
Total assets	$ 94,430	$ 113,738
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 14,604	$ 12,685
Accrued liabilities	23,663	30,307
Operating lease liabilities	2,204	2,800
Extended warranty liability	1,765	1,999
Deferred revenue	10,180	10,831
Total current liabilities	52,416	58,622
Deferred revenue, net of current portion	2,789	3,391
Income tax liability	93	93
Operating lease liabilities, net of current portion	5,149	5,112
Other long-term liabilities	447	578
Total liabilities	60,894	67,796
Commitments and Contingencies (Notes 12 and 13)		
Stockholders’ equity:		
Common stock, $0.001 par value; authorized: 50,000,000 shares; issued and outstanding: 14,578,146 and 14,315,586 shares at March 31, 2020 and December 31, 2019, respectively	15	14
Additional paid-in capital	82,292	82,346
Accumulated deficit	(48,772)	(36,358)
Accumulated other comprehensive income (loss)	1	(60)
Total stockholders’ equity	33,536	45,942
Total liabilities and stockholders’ equity	$ 94,430	$ 113,738

The accompanying notes are an integral part of these unaudited Condensed Consolidated Financial Statements.

CUTERA, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share data)
(unaudited)

	Three Months Ended March 31, 2020	Three Months Ended March 31, 2019
Net revenue:		
Products	$ 26,391	$ 30,762
Service	5,848	5,264
Total net revenue	32,239	36,026
Cost of revenue:		
Products	14,103	15,541
Service	3,800	3,176
Total cost of revenue	17,903	18,717
Gross profit	14,336	17,309
Operating expenses:		
Sales and marketing	14,789	16,104
Research and development	3,870	3,706
General and administrative	7,806	5,525
Total operating expenses	26,465	25,335
Loss from operations	(12,129)	(8,026)
Interest and other expense, net	(207)	(79)
Loss before income taxes	(12,336)	(8,105)
Income tax expense	78	115
Net loss	$ (12,414)	$ (8,220)
Net loss per share:		
Basic and Diluted	$ (0.86)	$ (0.59)
Weighted-average number of shares used in per share calculations:		
Basic and Diluted	14,433	14,017

The accompanying notes are an integral part of these unaudited Condensed Consolidated Financial Statements.

CUTERA, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
(in thousands)
(Unaudited)

	Three Months Ended March 31,	
	2020	**2019**
Net loss	$ (12,414)	$ (8,220)
Other comprehensive loss:		
Available-for-sale investments		
Net change in unrealized gain (loss) on available-for-sale investments	-	6
Less: Reclassification adjustment for losses on investments recognized during the period	61	-
Net change in unrealized gain (loss) on available-for-sale investments	61	6
Other comprehensive gain (loss), net of tax	61	6
Comprehensive loss	$ (12,353)	$ (8,214)

The accompanying notes are an integral part of these unaudited Condensed Consolidated Financial Statements.

CUTERA, INC.
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(in thousands, except share amounts)

Three Months Ended March 31, 2020 and 2019

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income (loss)	Total Stockholders' Equity
Balance at December 31, 2019	14,315,586	$ 14	$ 82,346	$ (36,358)	$ (60)	$ 45,942
Exercise of stock options	22,291		200	-	-	200
Issuance of common stock in settlement of restricted and performance stock units, net of shares withheld for employee taxes, and stock awards	240,269	1	(2,234)	-	-	(2,233)
Stock-based compensation expense	-	-	1,980	-	-	1,980
Net loss	-	-	-	(12,414)	-	(12,414)
Net change in unrealized gain on available-for-sale investments	-	-	-	-	61	61
Balance at March 31, 2020	14,578,146	$ 15	$ 82,292	$ (48,772)	$ 1	$ 33,536

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income (loss)	Total Stockholders' Equity
Balance at December 31, 2018	13,968,852	$ 14	$ 70,451	$ (24,010)	$ (69)	$ 46,386
Exercise of stock options	15,032	-	131	-	-	131
Issuance of common stock in settlement of restricted and performance stock units, net of shares withheld for employee taxes, and stock awards	51,491	-	(490)	-	-	(490)
Stock-based compensation expense	-	-	1,307	-	-	1,307
Net loss	-	-	-	(8,220)	-	(8,220)
Net change in unrealized gain on available-for-sale investments	-	-	-	-	6	6
Balance at March 31, 2019	14,035,375	$ 14	$ 71,399	$ (32,230)	$ (63)	$ 39,120

The accompanying notes are an integral part of these unaudited Condensed Consolidated Financial Statements.

CUTERA, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)
(unaudited)

	Three Months Ended March 31,	
	2020	**2019**
Cash flows from operating activities:		
Net loss	$ (12,414)	$ (8,220)
Adjustments to reconcile net loss to net cash used in operating activities:		
Stock-based compensation	1,980	1,307
Depreciation of tangible assets	360	411
Amortization of contract acquisition costs	717	690
Change in deferred tax asset	15	6
Provision for credit losses	590	98
Other	35	103
Changes in assets and liabilities:		
Accounts receivable	5,306	403
Inventories	(3,020)	1,355
Other current assets and prepaid expenses	807	(916)
Other long-term assets	(207)	(679)
Accounts payable	1,919	(942)
Accrued liabilities	(6,567)	(1,467)
Extended warranty liabilities	(234)	(492)
Other long-term liabilities	-	(140)
Deferred revenue	(1,253)	525
Income tax liabilities	-	5
Net cash used in operating activities	(11,966)	(7,953)
Cash flows from investing activities:		
Acquisition of property, equipment and software	(230)	(65)
Proceeds from maturities of marketable investments	6,800	3,200
Purchase of marketable investments	(3,930)	(1,586)
Net cash provided by investing activities	2,640	1,549
Cash flows from financing activities:		
Proceeds from exercise of stock options and employee stock purchase plan	201	131
Taxes paid related to net share settlement of equity awards	(2,234)	(490)
Payments on finance lease obligations	(183)	(131)
Net cash used in financing activities	(2,216)	(490)
Net decrease in cash and cash equivalents	(11,542)	(6,894)
Cash and cash equivalents at beginning of period	26,316	26,052
Cash and cash equivalents at end of period	$ 14,774	$ 19,158
Supplemental disclosure of non-cash items:		
Assets acquired under capital lease	$ -	$ 192

The accompanying notes are an integral part of these unaudited Condensed Consolidated Financial Statements.

CUTERA, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies

Description of Operations and Principles of Consolidation

Cutera, Inc. ("Cutera" or the "Company") provides energy-based aesthetic systems for practitioners worldwide. The Company designs, develops, manufactures, distributes and markets energy-based product platforms for use by physicians and other qualified practitioners, enabling them to offer safe and effective aesthetic treatments to their customers. The Company currently markets the following system platforms: *excel*, *enlighten*, *Juliet*, *Secret RF*, *truSculpt* and *xeo*. Several of the Company's systems offer multiple hand pieces and applications, providing customers the flexibility to upgrade their systems. The sales of (i) systems, system upgrades, and hand pieces (collectively "Systems" revenue); (ii) replacement hand pieces, *truSculpt iD* and *truSculpt flex* cycle refills, as well as single use disposable tips applicable to *Juliet* and *Secret RF* ("Consumables" revenue); and (iii) the distribution of third party manufactured skincare products ("Skincare" revenue); are collectively classified as "Products" revenue. In addition to Products revenue, the Company generates revenue from the sale of post-warranty service contracts, parts, detachable hand piece replacements (except for *Titan*, *truSculpt 3D*, *truSculpt iD* and *truSculpt flex*) and service labor for the repair and maintenance of products that are out of warranty, all of which are collectively classified as "Service" revenue.

The Company's corporate headquarters and U.S. operations are located in Brisbane, California, where the Company conducts manufacturing, warehousing, research and development, regulatory, sales and marketing, service, and administrative activities. The Company markets, sells and services the Company's products through direct sales and service employees in North America (including Canada), Australia, Austria, Belgium, France, Germany, Hong Kong, Japan, Spain, Switzerland and the United Kingdom. Sales and Services outside of these direct markets are made through a worldwide distributor network in over 40 countries. The Condensed Consolidated Financial Statements include the accounts of the Company and its subsidiaries. All inter-company transactions and balances have been eliminated.

Risks and Uncertainties

The Company's future results of operations involve a number of risks and uncertainties. Factors that could affect the Company's future operating results and cause actual results to vary materially from expectations include, but are not limited to, rapid technological change, continued acceptance of the Company's products, stability of global financial markets, cybersecurity breaches and other disruptions that could compromise the Company's information or results, management of international activities, competition from substitute products and larger companies, ability to obtain and maintain regulatory approvals, government regulations and oversight, patent and other types of litigation, ability to protect proprietary technology from counterfeit versions of the Company's products, strategic relationships and dependence on key individuals.

On January 30, 2020, the World Health Organization, or WHO, announced a global health emergency because of the COVID-19 outbreak, and the risks to the international community as the virus spreads globally beyond its point of origin.

In March 2020, the WHO declared the COVID-19 outbreak a pandemic, based on the rapid increase in exposure globally. The COVID-19 outbreak is negatively affecting the United States and global economies. As the COVID-19 outbreak continues to spread, and governmental authorities order quarantines, shelter-in-place, and similar mandates, or Governmental Mandates, or the perception that such Governmental Mandates or other restrictions on the conduct of business operations could occur, related to the COVID-19 outbreak, it has affected and the Company expects it will continue to affect its operations and those of third parties on which the Company relies, which would cause disruptions in its supply chain and contract manufacturing operations. The extent of the COVID-19 impact on its supply chain and its future revenues is difficult for us to quantify at this time. The Company currently has inventory on hand to meet its forecasted demand for the next 120-180 days, but the Company must be able to continue to have access to its supply chain to meet demand beyond that period.

Beginning in the second half of its first quarter of 2020, and through the date of this report, the Company has experienced decreasing levels of customer demand for its products. As a result of COVID-19, some of its customers are being required to shelter-in-place and are not working.

In cases where its customers are working, they are performing fewer procedures. When they are performing procedures, customers are mostly focused on medically necessary procedures that should not be delayed. Non-urgent, non-essential procedures are getting cancelled or delayed. As a result of fewer aesthetic procedures being performed and anxiety about the economic future, the Company's customers may cancel orders for laser systems or will use less consumables. Some of its customers will feel less confident about making investments in their practices and focus on retaining their cash. As a result of cash conservation efforts by its customers, the Company may also encounter problems collecting on its receivables. A reduction in customer orders would reduce the amount of revenue that the Company expects to obtain. The Company expects this reduction to continue through the second quarter of 2020, and perhaps for the remainder of 2020, but its extent cannot be quantified at this time. The aforementioned factors and trends may also impact demand for its service contracts. Its customers' patients are also feeling the economic impact of the current pandemic. Elective aesthetic procedures are less of a priority than other items for those patients that have lost their jobs, are furloughed, have reduced work or have to allocate their cash to other priorities. The Company expects that many of the patients of its customers will return slowly as the economic environment improves and revenue from its customers will begin to improve again as a result of the economic conditions improving and more procedures being performed.

In response to the COVID-19 outbreak, the Company is taking actions to reduce expenses, including discontinuing nonessential services and programs, instituting controls on travel and entertainment, implementing further cost-cutting measures and evaluating whether improved efficiencies can be obtained in its workforce. For example, the directors on its board of directors have agreed to a 25% reduction in their fees, its Chief Executive Officer and its President and Chief Operating Officer have each agreed to a 25% reduction in their salaries and other members of management have also agreed to significant reductions in their salaries, until such time as its business operations and economic conditions improve. The Company has also instituted salary reductions for the remainder of its employees and furloughs or reductions-in-force that have affected approximately 42% of its workforce. In addition, in order to further conserve cash, management has agreed to have the bonuses owed to them from the 2019 Management Bonus Program paid mostly in equity rather than in cash.

As a result of the events and impact surrounding the COVID-19 pandemic, the Company assessed whether any impairment of its goodwill or its long-lived assets had occurred, and has determined that no charges were deemed necessary under applicable accounting standards as of March 31, 2020. The Company's assumptions about future conditions important to its assessment of potential impairment of its long-lived assets, and goodwill, including the impacts of the COVID–19 pandemic and other ongoing impacts to its business, are subject to uncertainty, and the Company will continue to monitor these conditions in future periods as new information becomes available, and will update its analyses accordingly.

Unaudited Interim Financial Information

In the opinion of the Company, the accompanying unaudited condensed consolidated financial statements included in this report reflect all adjustments (consisting of only normal recurring adjustments) necessary for a fair statement of its consolidated statements of financial position as of March 31, 2020 and 2019, its consolidated statements of results of operations, comprehensive loss, changes in equity, and cash flows for the three months ended March 31, 2020, and 2019. The December 31, 2019 condensed consolidated balance sheet was derived from audited financial statements, but does not include all disclosures required by generally accepted accounting principles in the United States of America ("GAAP"). The results for interim periods are not necessarily indicative of results for the entire year or any other interim period. Presentation of certain prior year balances have been updated to conform with current year presentation. The accompanying condensed consolidated financial statements should be read in conjunction with the Company's previously filed audited financial statements and the related notes thereto included in the Company's annual report on Form 10-K for the year ended December 31, 2019 filed with the Securities and Exchange Commission (the "SEC") on March 16, 2020.

Accounting Policies

These unaudited condensed consolidated financial statements are prepared in accordance with the rules and regulations of the SEC applicable to interim financial statements. While these statements reflect all normal recurring adjustments that are, in the opinion of management, necessary for fair presentation of the results of the interim period, they do not include all of the information and footnotes required by GAAP for complete financial statements. These condensed consolidated financial statements should be read in conjunction with the financial statement disclosures in its annual report on Form 10-K for the year ended December 31, 2019 filed with the SEC on March 16, 2020.

The Company uses the same accounting policies in preparing quarterly and annual financial statements. Unless otherwise noted, amounts presented within the Notes to condensed consolidated financial statements refer to the Company's continuing operations. Note 1 provides information about the Company's adoption of the new accounting standard for credit losses.

Use of Estimates

The preparation of condensed consolidated financial statements in conformity with GAAP requires the Company's management to make estimates and assumptions that affect the amounts reported of assets and liabilities and disclosure of contingent assets and liabilities at the date of the condensed consolidated financial statements and the accompanying notes, and the reported amounts of revenue and expenses during the reported periods. Actual results could differ materially from those estimates.

On an ongoing basis, management evaluates its estimates, including those related to warranty obligations, sales commission, allowance for credit losses, and sales allowances, valuation of inventories, fair value of goodwill, useful lives of property and equipment, impairment testing for long-lived-assets, incremental borrowing rates related to the Company's leases, assumptions regarding variables used in calculating the fair value of the Company's equity awards, expected achievement of performance based vesting criteria, management performance bonuses, fair value of investments, the standalone selling price of the Company's products and services, the period of benefit used to capitalize and amortize contract acquisition costs, variable consideration, contingent liabilities, recoverability of deferred tax assets, and effective income tax rates. Management bases estimates on historical experience and on various other assumptions that are believed to be reasonable, the results of which form the basis for making judgments about the carrying values of assets and liabilities.

Recently Adopted Accounting Pronouncements

In June 2016, the FASB issued ASU No. 2016-13, Financial Instruments-Credit Losses (Topic 326):"Measurement of Credit Losses on Financial Instruments", which replaces the incurred loss methodology with an expected credit loss methodology that is referred to as the current expected credit loss (CECL) methodology. ASU 2016-13 is effective for fiscal years beginning after December 15, 2019, with early adoption permitted. The amendments in this update are required to be applied using the modified retrospective method with an adjustment to accumulated deficit and are effective for the Company beginning with fiscal year 2020, including interim periods. The measurement of expected credit losses under the CECL methodology is applicable to financial assets measured at amortized cost, including loan receivables, available for sale securities and held-to-maturity debt securities. An entity with available for sale securities and trade receivables will be required to use historical loss information, current conditions, and reasonable and supportable forecasts to determine expected lifetime credit losses. Pooling of assets with similar risk characteristics is also required. The Company adopted ASU 2016-13 on January 1, 2020 on a modified retrospective basis. Upon adoption, the standard did not have a material impact on the Consolidated Financial Statements.

The Company identified trade receivables and available-for-sale debt securities as impacted by the new guidance. However, the Company determined that the historical losses related to these available-for-sale debt securities are not material as the Company invests in high grade short-term securities.

The Company establishes an allowance for credit losses on trade receivables based on the credit quality of clients, current economic conditions, the age of the accounts receivable balances, historical loss information, and current conditions and forecasted information, and write-off amounts against the allowance when they are deemed uncollectible. At March 31, 2020 the Company adjusted the impairment rate to reflect the extent to which current conditions differ from the conditions that existed for the period over which historical loss information was evaluated. In the three months ended March 31, 2020, inputs to the Company's CECL forecast incorporated forward-looking adjustments associated with the COVID-19 pandemic which were incorporated due to the uncertainty of the economic impact on cash flows from the Company's trade receivables.

The Company's allowance for credit losses was $937,000 and $1,355,000 as of March 31, 2020 and December 31, 2019. During the quarter ended March 31, 2020, the Company recognized a provision for credit losses of $590,000 and wrote off $1,008,000 against the allowance for credit losses.

In August 2018, the FASB issued ASU No. 2018-13, "Fair Value Measurement (Topic 820): Disclosure Framework- Changes to the Disclosure Requirements for Fair Value Measurement", to improve the fair value measurement reporting of financial instruments. The amendments in this update require, among other things, added disclosure of the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements. The amendments in this update eliminate, among other things, disclosure of the reasons for and amounts of transfers between Level 1 and Level 2 for assets and liabilities that are measured at fair value on a recurring basis and an entity's valuation processes for Level 3 fair value measurements. The amendments in this update are effective for the Company beginning with fiscal year 2020, with early adoption permitted. Retrospective application is required for all amendments in this update except the added disclosures, which should be applied prospectively. The adoption of the amendments in this update did not have a material impact on the Company's consolidated financial position and results of operations.

Recently Issued Accounting Pronouncements Not Yet Adopted by the Company

In December 2019, the FASB issued ASU No. 2019-12 “Income Taxes (Topic 740)-Simplifying the Accounting for Income Taxes”, to remove certain exceptions and improve consistency of application, including, among other things, requiring that an entity reflect the effect of an enacted change in tax laws or rates in the annual effective tax rate computation in the interim period that includes the enactment date. The amendments in this update will be effective for the Company beginning with fiscal year 2021, with early adoption permitted. Most amendments within the standard are required to be applied on a prospective basis, while certain amendments must be applied on a retrospective or modified retrospective basis. The adoption of the amendments in this update is not expected to have a material impact on the Company’s consolidated financial position and results of operations.

Note 2. Cash, Cash Equivalents and Marketable Investments

The Company invests its cash primarily in money market funds and in highly liquid debt instruments of U.S. federal and municipal governments and their agencies, commercial paper and corporate debt securities. All highly liquid investments with stated maturities of three months or less from date of purchase are classified as cash equivalents; all highly liquid investments with stated maturities of greater than three months are classified as marketable investments. The majority of the Company’s cash and investments are held in U.S. banks and the Company's foreign subsidiaries maintain a limited amount of cash in their local banks to cover their short term operating expenses.

The Company determines the appropriate classification of its investments in marketable securities at the time of purchase and re-evaluates such designation at each balance sheet date. The Company’s marketable securities have been classified and accounted for as available-for-sale securities. Investments with remaining maturities of more than one year are viewed by the Company as available to support current operations and are classified as current assets under the caption marketable investments in the accompanying condensed consolidated balance sheets. Investments in available-for-sale debt securities are measured at fair value under the guidance in ASC 320. Credit losses on impaired available-for-sale debt securities are recognized through an allowance for credit losses. Under ASC 326, credit losses recognized on an available-for-sale debt security should not reduce the net carrying amount of the available-for-sale debt security below its fair value. Any changes in fair value unrelated to credit are recognized as an unrealized gain or loss in other comprehensive income.

The following tables summarize the components, and the unrealized gains and losses position, related to the Company’s cash, cash equivalents and marketable investments (in thousands):

March 31, 2020	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Market Value**
Cash and cash equivalents	$ 14,774	$ -	$ -	$ 14,774
Marketable investments:				
U.S. government notes	804	1	-	805
Commercial paper	3,941	1	(1)	3,941
Total marketable investments	4,745	2	(1)	4,746
Total cash, cash equivalents and marketable investments	$ 19,519	$ 2	$ (1)	$ 19,520

December 31, 2019	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Market Value
Cash and cash equivalents	$ 26,316	$ -	$ -	$ 26,316
Marketable investments				
U.S. government notes	4,114	-	-	4,114
Commercial paper	3,491	-	-	3,491
Total marketable securities	7,605	-	-	7,605
Total cash, cash equivalents and marketable securities	$ 33,921	$ -	$ -	$ 33,921

As of March 31, 2020 and December 31, 2019, the net unrealized gains (losses) were $1,000 and Nil, respectively, and were related to interest rate changes on available-for-sale marketable investments. The Company has concluded that it is more-likely-than-not that the securities will be held until maturity or the recovery of their cost basis. No securities were in an unrealized loss position for more than 12 months.

The following table summarizes the contractual maturities of the Company's available-for-sale securities, classified as marketable investments as of March 31, 2020 (in thousands):

	Amount
Due in less than one year	$ 4,746
Due in 1 to 3 years	-
Total marketable investments	$ 4,746

Note 3. Fair Value of Financial Instruments

Fair value is an exit price representing the amount that would be received to sell an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The fair value hierarchy contains three levels of inputs that may be used to measure fair value, in accordance with ASC 820, as follows:

● Level 1: inputs, which include quoted prices in active markets for identical assets or liabilities;

● Level 2: inputs, which include observable inputs other than Level 1 inputs, such as quoted prices for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the asset or liability. For available-for-sale securities, the Company reviews trading activity and pricing as of the measurement date. When sufficient quoted pricing for identical securities is not available, the Company uses market pricing and other observable market inputs for similar securities obtained from various third-party data providers. These inputs either represent quoted prices for similar assets in active markets or have been derived from observable market data; and

● Level 3: inputs, which include unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the underlying asset or liability. Level 3 assets and liabilities include those whose fair value measurements are determined using pricing models, discounted cash flow methodologies, or similar valuation techniques, as well as significant management judgment or estimation.

In determining fair value, the Company utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible as well as considers counterparty credit risk in its assessment of fair value.

As of March 31, 2020, financial assets measured and recognized at fair value on a recurring basis and classified under the appropriate level of the fair value hierarchy as described above were as follows (in thousands):

March 31, 2020	Level 1	Level 2	Level 3	Total
Cash equivalents:				
Money market funds	$ 9,224	$ -	$ -	$ 9,224
Marketable investments:				
Available-for-sale securities	805	3,941	-	4,746
Total assets at fair value	**$ 10,029**	**$ 3,941**	**$ -**	**$ 13,970**

As of December 31, 2019, financial assets measured and recognized at fair value on a recurring basis and classified under the appropriate level of the fair value hierarchy as described above was as follows (in thousands):

December 31, 2019	Level 1	Level 2	Level 3	Total
Cash equivalents:				
Money market funds	$ 6,311	$ -	$ -	$ 6,311
Short term marketable investments:				
Available-for-sale securities	4,114	3,491	-	7,605
Total assets at fair value	**$ 10,425**	**$ 3,491**	**$ -**	**$ 13,916**

Money market funds and U.S. Treasury bills are highly liquid investments and are actively traded. The pricing information on these investment instruments are readily available and can be independently validated as of the measurement date. This approach results in the classification of these securities as Level 1 of the fair value hierarchy.

Corporate debt, U.S. government-backed securities, and commercial paper are measured at fair value using Level 2 inputs. The Company reviews trading activity and pricing for these investments as of each measurement date. When sufficient quoted pricing for identical securities is not available, the Company uses market pricing and other observable market inputs for similar securities obtained from various third party data providers. These inputs represent quoted prices for similar assets in active markets or these inputs have been derived from observable market data. This approach results in the classification of these securities as Level 2 of the fair value hierarchy. The average remaining maturity of the Company's Level 2 investments as of March 31, 2020 is 0.1 years and all of these investments are rated by S&P and Moody's at A or better. The Company recognizes transfers between levels of the fair value hierarchy as of the end of the reporting period. There were no transfers within the hierarchy during the quarter and year ended March 31, 2020 and December 31, 2019, respectively.

Note 4. Balance Sheet Details

Inventories

As of March 31, 2020 and December 31, 2019, inventories consist of the following (in thousands):

	March 31, 2020	December 31, 2019
Raw materials	$ 19,092	$ 17,935
Work in process	3,161	2,016
Finished goods	14,688	13,970
Total	$ 36,941	$ 33,921

Accrued Liabilities

As of March 31, 2020 and December 31, 2019, accrued liabilities consist of the following (in thousands):

	March 31, 2020	December 31, 2019
Accrued payroll and related expenses	$ 11,842	$ 14,341
Sales and marketing accruals	1,581	2,527
Warranty liability	3,398	4,401
Sales tax	1,443	3,922
Other	5,399	5,116
Total	$ 23,663	$ 30,307

Product Remediation Liability

During the fourth quarter of 2018, the Company recognized a liability for a product remediation plan related to one of its legacy systems. This was related to a voluntary action initiated by the Company to replace a component in one of the Company's legacy products. The remediation plan consists primarily of replacement of a component in the system. The accrued liability consisted of cost of materials and labor to replace the component in all units that are under the Company's standard warranty or are covered under the existing extended warranty contracts. The Company recorded a liability of approximately $5.0 million in 2018.

As of March 31, 2020 and December 31 2019, approximately $0.5 million of the total product remediation liability balance was accrued as a component of the Company's product warranty and included in accrued liabilities, and $1.8 million and $2.0 million, respectively, was separately recorded as Extended warranty liabilities. Total costs incurred related to product warranty and Extended warranty liabilities during the three months ended March 31, 2020 were Nil and $0.2 million, respectively. Total costs incurred related to product warranty and Extended warranty liabilities during the three months ended March 31, 2019 were $0.1 million and $0.5 million, respectively.

Note 5. Warranty and Extended Service Contract

The Company has a direct field service organization in North America (including Canada). Internationally, the Company provides direct service support in Australia, Belgium, France, Germany, Hong Kong, Japan, and Switzerland, as well as through third-party service providers in Spain and the United Kingdom. In several other countries, where the Company does not have a direct presence, the Company provides service through a network of distributors and third-party service providers.

After the original warranty period, maintenance and support are offered on an extended service contract basis or on a time and materials basis. The Company provides for the estimated cost to repair or replace products under standard warranty at the time of sale. Costs incurred in connection with extended service contracts are recognized at the time when costs are incurred, except the one-time extended service contracts charge of $3.2 million recorded in the year ended December 31, 2018 related to the cost to replace a component in one of the Company's legacy products.

The following table provides the changes in the product standard warranty accrual for the three months ended March 31, 2020 and 2019 (in thousands):

	Three Months Ended March 31, 2020	Three Months Ended March 31, 2019
Beginning Balance	$ 4,401	$ 4,666
Add: Accruals for warranties issued during the period	860	1,444
Less: Settlements made during the period	(1,863)	(2,048)
Ending Balance	$ 3,398	$ 4,064

The $1.8 million and $2.0 of settlements made in the three months ended March 31, 2020 and 2019 exclude costs related to extended service contract cost of $0.2 million and 0.5 million, respectively, to replace a component in one of the Company's legacy products.

Note 6. Deferred Revenue

The Company records deferred revenue when revenue is to be recognized subsequent to invoicing. For extended service contracts, the Company generally invoices customers at the beginning of the extended service contract term. The Company’s extended service contracts typically have one, two or three year terms. Deferred revenue also includes payments for installation, training and extended marketing support service. Approximately 78% of the Company’s deferred revenue balance of $12.9 million as of March 31, 2020 will be recognized over the next 12 months.

The following table provides changes in the deferred revenue balance for the three months ended March 31, 2020 and 2019 (in thousands):

	Three Months Ended March 31, 2020	Three Months Ended March 31, 2019
Beginning Balance	$ 14,222	$ 12,566
Add: Payments received	2,058	3,173
Less: Revenue	(3,312)	(2,649)
Ending Balance	$ 12,969	$ 13,090

Costs for extended service contracts were $2.2 million and $2.0 million for the three months ended March 31, 2020 and 2019, respectively.

Note 7. Revenue

Effective January 1, 2018, the Company recognizes revenue under ASC Topic 606. Revenue is recognized upon transfer of control of promised products or services to customers in an amount that reflects the consideration to which the Company expects to be entitled in exchange for promised goods or services. The Company’s performance obligations are satisfied either over time or at a point in time. Revenue from performance obligations that are transferred to customers over time accounted for approximately 18% and 15% respectively, of the Company’s total revenue for the three months ended March 31, 2020 and 2019.

The Company has certain system sale arrangements that contain multiple products and services. For these bundled sale arrangements, the Company accounts for individual products and services as separate performance obligations if they are distinct. The Company's products and services are distinct if a customer can benefit from the product or service on its own or with other resources that are readily available to the customer, and if the Company's promise to transfer the products or service to the customer is separately identifiable from other promises in the sale arrangements. The Company's system sale arrangements can include all or a combination of the following performance obligations: the system and software license (considered as one performance obligation), system accessories (hand pieces), training, other accessories, extended service contracts, marketing services, and time and materials services.

For the Company's system sale arrangements that include an extended service contract, the period of service commences at the expiration of the Company's standard warranty offered at the time of the system sale. The Company considers the extended service contracts terms in the arrangements that are legally enforceable to be performance obligations. Other than extended service contracts and marketing services, which are satisfied over time, the Company generally satisfies all performance obligations at a point in time. Systems, system accessories (hand pieces), service contracts, training, and time and materials services are also sold on a stand-alone basis, and these performance obligations are satisfied at a point in time. For contracts with multiple performance obligations, the Company allocates the transaction price of the contract to each performance obligation on a relative standalone selling price basis.

Nature of Products and Services

Systems

Systems revenue is generated from the sale of systems and from the sale of upgrades to existing systems. A system consists of a console that incorporates a universal graphic user interface, a laser or other energy based module, control system software and high voltage electronics, as well as one or more hand pieces. In certain applications, the laser or other energy-based module is contained in the hand piece, such as with the Company's *Pearl* and *Pearl Fractional* applications, rather than within the console.

The Company offers customers the ability to select the system that best fits their practice at the time of purchase and then to cost-effectively add applications to their system as their practice grows. This provides customers the flexibility to upgrade their systems whenever they choose and provides the Company with a source of additional Systems revenue.

The system or upgrade and the right to use the embedded software represent a single performance obligation as the software license is integral to the functionality of the system or upgrade.

The Company does not identify calibration and installation services for systems other than *enlighten* as performance obligations because such services are immaterial in the context of the contract. The related costs to complete calibration and installation for systems other than *enlighten* are immaterial. Calibration and installation services for *enlighten* systems are identified as separate performance obligations.

For systems sold directly to end-customers that are credit approved, revenue is recognized when the Company transfers control to the end-customer, which occurs when the product is shipped to the customer or when the customer receives the product, depending on the nature of the arrangement. When collectability is not established in advance of receipt of payment from the customer, revenue is recognized upon the later of the receipt of payment or the satisfaction of the performance obligation. For systems sold through credit approved distributors, revenue is recognized at the time of shipment to the distributor.

The Company typically receives payment for its system consoles and other accessories within 30 days of shipment. Certain international distributor arrangements allow for longer payment terms.

Skincare products

The Company sells third-party manufactured skincare products in Japan. The third-party skincare products are purchased from a third-party manufacturer and sold to licensed physicians. The Company acts as the principal in this arrangement, as it determines the price to charge customers for the skincare products, and controls the products before they are transferred to the customer. Sales of skincare products are typically the subject of contracts in which the skincare products represent the sole performance obligations. The Company recognizes revenue for skincare products at a point in time.

Consumables and other accessories

The Company classifies its customers' purchases of replacement cycles for truSculpt iD and truSculpt flex, as well as replacement Titan and truSculpt 3D hand pieces, as Consumable revenue, which provides the Company with a source of recurring revenue from existing customers. The Juliet and Secret RF products have single use disposable tips which must be replaced after every treatment. Sales of these consumable tips further enhance the Company's recurring revenue. The Company's systems offer multiple hand pieces and applications, which allow customers to upgrade their systems. The Company classifies as product revenue the sales of systems, system upgrades, hand pieces, hand piece refills (applicable to Titan® and truSculpt) and the distribution of third-party manufactured skincare products.

Extended contract services

The Company offers post-warranty services to its customers through extended service contracts that cover parts and labor for a term of one, two, or three years. Service contract revenue is recognized over time, using a time-based measure of progress, as customers benefit from the service throughout the service period. The Company also offers services on a time-and-materials basis for systems and detachable hand piece replacements. Revenue related to services performed on a time-and-materials basis is recognized when performed. These post-warranty services serve as additional sources of recurring revenue from the Company's installed product base.

Training

Sales of systems to customers include training on the use of the system to be provided within 180 days of purchase. The Company considers training a separate performance obligation as customers can immediately benefit from the training together with the customer's system. Training is also sold separately from systems. The Company recognizes revenue for training when the training is provided. Training is not required for customers to use the systems.

Customer Marketing Support

In North America, the Company offers marketing and consulting phone support to its customers across all system platforms. These customer marketing support services include a practice development model and marketing training, performed remotely with ongoing phone consultations for six months from date of purchase. The Company considers customer marketing support a separate performance obligation, and recognizes revenue over the six-month term of the contracts.

Significant Judgments

The determination of whether two or more contracts entered into at or near the same time with the same customer should be combined and accounted for as one contract may require the use of significant judgment. In making this determination, the Company considers whether the contracts are negotiated as a package with a single commercial objective, have price interdependencies, or promise goods or services that represent a single performance obligation.

While the Company's purchase agreements do not provide customers with a contractual right of return, the Company maintains a sales allowance to account for potential returns or refunds as a reduction in transaction price at the time of sale. The Company estimates sales returns and other variable consideration based on historical experience.

The Company determines standalone selling price ("SSP") for each performance obligation as follows:

- Systems: The SSPs for systems are based on directly observable sales in similar circumstances to similar customers.

- Training: SSP is based on observable price when sold on a standalone basis.

- Extended warranty/Service contracts: SSP is based on observable price when sold on a standalone basis (by customer type).

- Customer Marketing Support: SSP is estimated based on cost plus a margin.

- Set-up /Installation: SSP is based on observable price when sold on a standalone basis.

The calibration and installation service of the *enlighten* system are treated as separate performance obligations because the Company regularly sells *enlighten* systems without the calibration and installation service.

Loyalty Program

The Company launched a customer loyalty program during the third quarter of 2018 for qualified customers located in the U.S. and Canada. Under the loyalty program, customers accumulate points based on their purchasing levels which can be redeemed for such rewards as the right to attend the Company's advanced training event for truSculpt, or a ticket for the Company's annual forum. A customer's account must be in good standing to receive the benefits of the rewards program. Rewards are earned on a quarterly basis and must be used in the following quarter. Customers receive a notification regarding their rewards tier by the fifth day of the following quarter. All unused rewards are forfeited. The fair value of the reward earned by loyalty program members is included in accrued liabilities and recorded as a reduction of net revenue at the time the reward is earned. As of March 31, 2020 and December 31, 2019, the accrual for the loyalty program included in accrued liabilities was $0.3 million and $0.2 million, respectively.

Deferred Sales Commissions

Incremental costs of obtaining a contract, which consist primarily of commissions and related payroll taxes, are capitalized and amortized on a straight-line basis over the expected period of benefit, except for costs that are recognized when product is sold. The Company uses the portfolio method to recognize the amortization expense related to these capitalized costs related to initial contracts and such expense is recognized over a period associated with the revenue of the related portfolio, which is generally two to three years.

Total capitalized costs as of the three months and twelve months ended March 31, 2020 and December 31, 2019, respectively, were $4.1 million and $4.6 million and are included in Other long-term assets in the Company's consolidated balance sheet. Amortization expense for these assets was $0.7 million and $0.7 million, respectively, during the three months ended March 31, 2020 and March 31, 2019 and are included in sales and marketing expense in the Company's consolidated statement of operations.

Note 8. Stockholders' Equity and Stock-based Compensation Expense

The Company's equity incentive plans are broad-based, long-term programs intended to attract and retain talented employees and align stockholder and employee interests. In June 2019, stockholders approved an amendment and restatement of the Amended and Restated 2004 Equity Incentive Plan (the "Prior Plan") as the 2019 Equity Incentive Plan (the "2019 Plan") and approved an additional 700,000 shares, available for future grants (in addition to the 9,701,192 shares provided under the Prior Plan). The 2019 Plan provides for the grant of incentive stock options, non-statutory stock options, RSAs, restricted stock units ("RSUs"), stock appreciation rights, performance stock units, performance shares, and other stock or cash awards.

The Company's Board of Directors granted its executive officers, senior management and certain employees 71,678 performance stock units ("PSUs") during the quarter ended March 31, 2020. The PSUs granted in the quarter ended March 31, 2020 vest subject to the recipients continued service and to the achievement of certain operational goals for the Company's 2020 fiscal year which consist of the achievement of revenue targets for consumable products, and the achievement of specific product milestones.

The Company's Board of Directors also granted its executive officers, senior management and certain employees 363,119 RSUs during the quarter ended March 31, 2020. The annual RSUs granted vest over four years at 25% on each anniversary of the grant date.

Under the 2004 Plan, as amended, the Company issued 262,560 shares of common stock during the three months ended March 31, 2020, in conjunction with stock options exercised and the vesting of RSUs and PSUs, net of shares withheld for employee taxes.

As of March 31, 2020, there was approximately $18.3 million of unrecognized compensation expense, net of projected forfeitures, for stock options and stock awards. The expense is expected to be recognized over the remaining weighted-average period of 2.67 years. The actual expense recorded in the future may be higher or lower based on a number of factors, including, actual forfeitures experienced and the degree of achievement of the performance goals related to the PSUs granted.

Activity under the 1998 and 2004 Plans are summarized as follows:

		Options Outstanding	
	Shares Available for Grant	Number of Stock Options Outstanding	Weighted-Average Exercise Price
Balance, December 31, 2019	761,705	295,699	$ 25.52
Stock awards granted	(434,797)	-	-
Options exercised	-	(22,291)	8.98
Options canceled	19,560	(19,560)	43.91
Stock awards canceled	343,911	-	-
Balance, March 31, 2020	690,379	253,848	$ 25.55

Non-Employee Stock-Based Compensation

The Company granted 9,134 RSUs to non-employees during the quarter ended March 31, 2020. The PSUs granted to non-employee vest over a year subject to the same performance criteria as employees. The PSUs granted in the quarter ended March 31, 2020 vest subject to the recipients continued service and to the achievement of certain operational goals for the Company's 2020 fiscal year which consist of the achievement of revenue targets and the achievement of specific product milestones.

Stock-based Compensation Expense

Stock-based compensation expense by department recognized during the three months ended March 31, 2020 and 2019 were as follows (in thousands):

	Three Months Ended March 31,	
	2020	2019
Cost of revenue	$ 290	$ 269
Sales and marketing	719	718
Research and development	321	263
General and administrative	650	57
Total stock-based compensation expense	$ 1,980	$ 1,307

Note 9. Net Loss Per Share

Basic net loss per share is computed using the weighted-average number of shares outstanding during the period. In periods of net income, diluted shares outstanding include the dilutive effect of in-the-money equity awards (stock options, restricted stock units, performance stock units and employee stock purchase plan contributions), which is calculated based on the average share price for each fiscal period using the treasury stock method.

Diluted earnings per share is the same as basic earnings per share for the periods in which the Company had a net loss because the inclusion of outstanding common stock equivalents would be anti-dilutive.

The following table sets forth the computation of basic and diluted net loss and the weighted average number of shares used in computing basic and diluted net loss per share (in thousands, except per share data):

	Three Months Ended March 31, 2020	Three Months Ended March 31, 2019
Numerator:		
Net loss	$ (12,414)	$ (8,220)
Denominator:		
Weighted average shares of common stock outstanding used in computing net loss per share, basic	14,433	14,017
Dilutive effect of incremental shares and share equivalents	-	-
Weighted average shares of common stock outstanding used in computing net loss per share, diluted	14,433	14,017
Net loss per share:		
Net loss per share, basic and diluted	$ (0.86)	$ (0.59)

The following numbers of shares outstanding, prior to the application of the treasury stock method, were excluded from the computation of diluted net loss per common share for the periods presented because including them would have had an anti-dilutive effect (in thousands):

	Three Months Ended March 31,	
	2020	2019
Options to purchase common stock	276	485
Restricted stock units	669	366
Performance stock units	216	21
Employee stock purchase plan shares	71	66
Total	1,232	938

Note 10. Income Taxes

The Company calculates the provision for income taxes during interim reporting periods by applying an estimate of the annual effective tax rate for the full fiscal year to ordinary income or loss for the interim reporting period. When applicable, the year-to-date tax provision reflects adjustments from discrete tax items.

For the three months ended March 31, 2020, the Company's income tax expense was $78,000, compared to the tax expense of $115,000 for the same period in 2019.

The Company's income tax expense for the three month ended March 31, 2020 is due primarily to income taxes in foreign jurisdictions. Based on all available objectively verifiable evidence during the three months ended March 31, 2020, the Company believes it is more likely than not that the tax benefits of the U.S. losses incurred will not be realized. Accordingly, the Company will continue to maintain a full valuation allowance on the U.S. deferred tax assets.

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act") was enacted and signed into law. The CARES Act includes several provisions for corporations including increasing the amount of deductible interest, allowing companies to carryback certain Net Operating Losses ("NOLs") and increasing the amount of NOLs that corporations can use to offset income. The CARES Act did not materially affect the Company's first-quarter income tax provision, deferred tax assets and liabilities, and related taxes payable. The Company is currently assessing the future implications of these provisions within the CARES Act on the Company's Consolidated Financial Statements, but do not expect the impact to be material.

Note 11. Leases

The Company is a party to certain operating and finance leases for vehicles, office space and storages facilities. The Company's material operating leases consist of office space, as well as storage facilities, and finance leases are made up automobiles. The Company's leases generally have remaining terms of 1 to 10 years, some of which include options to renew the leases for up to 5 years. The Company leases space for operations in the United States, Japan, Belgium, France and Spain. In addition to the above facility leases, the Company also routinely leases automobiles for certain sales and field service employees under finance leases.

The Company determines if a contract contains a lease at inception. Operating lease assets and liabilities are recognized at the lease commencement date. Operating lease liabilities represent the present value of lease payments not yet paid. Operating lease assets represent the right to use an underlying asset and are based upon the operating lease liabilities adjusted for prepayments or accrued lease payments, initial direct costs, lease incentives, and impairment of operating lease assets. To determine the present value of lease payments not yet paid, the Company estimates the incremental secured borrowing rates corresponding to the maturities of the leases. The Company based the rate estimates on prevailing financial market conditions, credit analysis, and management judgment.

The Company recognizes expense for these leases on a straight-line basis over the lease term. Additionally, tenant incentives used to fund leasehold improvements are recognized when earned and reduce the Company's right-of-use asset related to the lease. These are amortized through the right-of-use asset as reductions of expense over the lease term.

Supplemental balance sheet information related to leases was as follows (in thousands):

Leases	**Classification**		**March 31, 2020**
Assets			
Right-of-use assets	Operating lease assets	$	7,143
Finance lease	Property and equipment, net*		859
Total leased assets		**$**	**8,002**

* Finance lease assets included in Property and equipment, net.

Liabilities			
Operating lease liabilities			
Operating lease liabilities, current	Operating lease liabilities		2,204
Operating lease liabilities, non-current	Operating lease liabilities, net of current portion		5,149
Total Operating lease liabilities		**$**	**7,353**
Finance lease liabilities			
Finance lease liabilities, current	Accrued liabilities*		541
Finance lease liabilities, non-current	Operating lease liabilities		447
Total Finance lease liabilities		**$**	**988**

* Finance lease liabilities included in Accrued liabilities

Lease costs as of March 31, 2020 were as follows:

Total amortization expense and interest expense for finance leases during the three months ended March 31, 2020 were $149 and $19, respectively. Total operating lease expense during the three months ended March 31, 2020 was $728.

Cash paid for amounts included in the measurement of lease liabilities during the three months ended March 31, 2020 were as follows:

Operating cash flow from finance leases for the three months was $19.
Financing cash flow from finance leases for the three months was $120.
Operating cash flow from operating leases for the three months was $727.

Facility leases

Maturities of facility leases were as follows as of March 31, 2020 (in thousands):

Year Ending March 31,		**Amount**
Remainder of 2020	$	2,179
2021		2,650
2022		2,607
2023		326
2024 and thereafter		26
Total lease payments		**7,788**
Less: imputed interest		435
Present value of lease liabilities	**$**	**7,353**

Vehicle Leases

As of March 31, 2020, the Company was committed to minimum lease payments for vehicles leased under long-term non-cancelable finance leases as follows (in thousands):

Year Ending March 31,		**Amount**
Remainder of 2020	$	408
2021		412
2022		253
2023		4
Total lease payments		**1,077**
Less: imputed interest		89
Present value of lease liabilities	**$**	**988**

Weighted-average remaining lease term and discount rate, as of March 31, 2020, were as follows:

Lease Term and Discount Rate	**March 31, 2020**
Weighted-average remaining lease term (years)	
Operating leases	2.8
Finance leases	2.5
Weighted-average discount rate	
Operating leases	4.4%
Finance leases	5.6%

Note 12. Contingencies

The Company is named from time to time as a party to other legal proceedings, product liability, commercial disputes, employee disputes, and contractual lawsuits in the normal course of business. A liability and related charge are recorded to earnings in the Company's consolidated financial statements for legal contingencies when the loss is considered probable and the amount can be reasonably estimated. The assessment is re-evaluated each accounting period and is based on all available information, including discussion with outside legal counsel. If a reasonable estimate of a known or probable loss cannot be made, but a range of probable losses can be estimated, the low-end of the range of losses is recognized if no amount within the range is a better estimate than any other. If a material loss is reasonably possible, but not probable and can be reasonably estimated, the estimated loss or range of loss is disclosed in the notes to the consolidated financial statements. The Company expenses legal fees as incurred.

In November 2019, the Company's former Executive Vice President and CFO Sandra A. Gardiner announced her resignation from the Company. On November 7, 2019, Ms. Gardiner filed an arbitration demand against the Company in connection with the terms of her employment and resignation. The Company intends to defend the matter vigorously. At this time, the Company has not determined that an award to Ms. Gardiner is probable and does not expect any settlement to be material.

As of March 31, 2020 and December 31, 2019, the Company had no accrued expense related to various pending contractual and product liability lawsuits. The Company does not believe that a material loss in excess of accrued amounts is reasonably possible.

Note 13. Debt

On May 30, 2018, the Company and Wells Fargo Bank, N.A. ("Wells Fargo") entered into a Loan and Security Agreement (the "Original Revolving Line of Credit") in the original principal amount of $25 million. The Original Revolving Line of Credit terminates on May 30, 2021.

On or about November 2, 2018, the Company entered into a First Amendment and Waiver to the Loan and Security Agreement with Wells Fargo (the "First Amended Revolving Line of Credit"). The First Amended Revolving Line of Credit provided for an original principal amount of $15 million, with the ability to request an additional $10 million, and a waiver of any existing defaults under the Original Revolving Line of Credit as long as the Company is in compliance with the terms of the First Amended Revolving Line of Credit.

On or about March 11, 2019, the Company entered into a Second Amendment and Waiver to the Loan and Security Agreement with Wells Fargo (the "Second Amended Revolving Line of Credit"). The Second Amended Revolving Line of Credit requires the Company to maintain a minimum cash balance of $15 million at Wells Fargo, but removes all other covenants so long as no money is drawn on the line of credit. The Company may draw down on the line of credit at the time it reaches and maintains trailing twelve months adjusted EBITDA of not less than $10 million, and a leverage ratio not to exceed 2.5 to 1.0.

On or about March 19, 2020, the Company entered into a Third Amendment and Waiver to the Loan and Security Agreement with Wells Fargo (the "Third Amended Revolving Line of Credit"). The Third Amended Revolving Line of Credit requires the Company to maintain a minimum cash, cash equivalents, and marketable securities balance of $15 million at all Financial Institutions utilized by the Company, and maintains the removal of all other covenants (under the second amendment) so long as no money is drawn on the line of credit.

As of March 31, 2020, the Company had not drawn on the Original Revolving Line of Credit and the Company is in compliance with all financial covenants of the Original Revolving Line of Credit, as amended.

Note 14. Segment reporting

Segment reporting is based on the "management approach," following the method that management organizes the company's reportable segments for which separate financial information is made available to, and evaluated regularly by, the chief operating decision maker in allocating resources and in assessing performance. The Company's chief operating decision maker ("CODM") is its Chief Executive Officer ("CEO"), who makes decisions on allocating resources and in assessing performance. The CEO reviews the Company's consolidated results as one operating segment. In making operating decisions, the CEO primarily considers consolidated financial information, accompanied by disaggregated information about revenues by geography and product. All of the Company's principal operations and decision-making functions are located in the U.S. The Company's CEO views its operations, manages its business, and uses one measurement of profitability for the one operating segment - which sells aesthetic medical equipment and services, and distributes skincare products, to qualified medical practitioners. Substantially all of the Company's long-lived assets are located in the U.S.

The following table presents a summary of revenue by geography for the three months March 31, 2020 and 2019 (in thousands):

	Three Months Ended March 31,	
	2020	2019
Revenue mix by geography:		
United States	$ 13,784	$ 20,400
Japan	7,162	5,294
Asia, excluding Japan	3,229	3,095
Europe	2,816	2,736
Rest of the world	5,248	4,501
Total consolidated revenue	$ 32,239	$ 36,026
Revenue mix by product category:		
Products	$ 20,958	$ 27,209
Consumables	2,533	1,945
Skincare	2,900	1,608
Total product revenue	$ 26,391	$ 30,762
Service	5,848	5,264
Total consolidated revenue	$ 32,239	$ 36,026

Note 15. Subsequent Events

The Company has determined that there are no material subsequent events exist other than the following:

On April 6, 2020 and April 27, 2020, in response to the COVID-2019 outbreak, the Company announced reductions-in-force that have affected approximately 42% of the Company's workforce, and instituted salary reductions for the remainder of its employees and furloughs. The Company's Chief Executive Officer, President and Chief Operating Officer, and other members of management agreed to a reduction in their salaries until such time as the Company's business operations and economic conditions improve. The Company's board of directors also agreed to a reduction in their fees.

In addition, in order to further conserve cash, settlement terms of the 2019 cash bonuses owed to management and other employees were amended such that 10% of the amount owed was settled in cash, with a further 100% of the amount owed settled in RSUs. 141,610 RSUs were issued in April 2020, and all vested immediately.

On April 21, 2020, the Company issued and sold an aggregate of 2,742,750 shares of the Company's common stock, par value $0.001 per share at a price to the public of $10.50 per share, in an underwritten public offering pursuant to a purchase agreement dated April 16, 2020 (the "Underwriting Agreement") by and between the Company and Piper Sandler & Co. (the "Underwriter").

The shares include the full exercise of the underwriter's option to purchase an additional 357,750 shares of common stock pursuant to the Underwriting Agreement. Piper Sandler & Co. acted as the sole book-running manager in the offering. The shares were sold pursuant to an effective registration statement on Form S-3 (File No. 333-237552) (the "Registration Statement"), which the SEC declared effective on April 14, 2020, and a prospectus dated April 14, 2020 included in the registration statement and a preliminary prospectus supplement and final prospectus supplement, each dated April 16, 2020.

The Company received net proceeds from the offering of approximately $26.7 million, after deducting underwriting discounts and commissions and estimated offering expenses payable by the Company. The Company intends to use the net proceeds of the offering to fund growth initiatives, market development activities related thereto and to provide for general corporate purposes, which may include working capital, capital expenditures, clinical trials, other corporate expenses and acquisitions of complementary products, technologies or businesses. However, the Company does not have any agreements or commitments for any specific acquisitions at this time.

On April 22, 2020, the Company received loan proceeds of $7.1 million pursuant to the Paycheck Protection Program (the"PPP") under the Coronavirus Aid, Relief, and Economic Security Act. The Company believes that the current economic uncertainty makes the loan necessary to support ongoing operations.

The application for these funds required the Company to, in good faith, certify that the current economic uncertainty made the loan request necessary to support the ongoing operations of the Company. Subsequently released guidance instructs all applicants and recipients to take into account their current business activity and the Company's ability to access other sources of liquidity sufficient to support ongoing operations in a manner that is not significantly detrimental to their business. On April 28, 2020, in press conference remarks, the Secretary of the U.S. Department of the Treasury stated that the SBA intends to perform a review of PPP loans over $2.0 million. The required certification made by the Company is subject to interpretation. If, despite the good-faith belief that given the Company's circumstances the Company satisfied all eligible requirements for the PPP Loan, it is later determined the Company was ineligible to apply for and receive the PPP Loan, the Company may be required to repay the PPP Loan in its entirety and the Company could be subject to additional penalties.

The loan, which is in the form of a promissory note, dated April 21, 2020, between the Company and Silicon Valley Bank as the lender (the "Loan"), matures on April 21, 2022 and bears interest at a fixed rate of 1.00% per annum, payable monthly commencing in six months. There is no prepayment penalty. Under the terms of the PPP, all or a portion of the principal may be forgiven if the Loan proceeds are used for qualifying expenses as described in the CARES Act, such as payroll costs, benefits, rent, and utilities. No assurance is provided that the Company will obtain forgiveness of the Loan in whole or in part. With respect to any portion of the SBA Loan that is not forgiven, the SBA Loan will be subject to customary provisions for a loan of this type, including customary events of default relating to, among other things, payment defaults and breaches of the provisions of the Loan.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This Management's Discussion and Analysis should be read in conjunction with the Company's financial condition and results of operations in conjunction with the Company's unaudited condensed consolidated financial statements and notes thereto included in Part I, Item 1 of this Quarterly Report on Form 10-Q and the Company's audited financial statements and notes thereto for the year ended December 31, 2019, included in its annual report on Form 10-K filed on March 16, 2020 with the U.S. Securities and Exchange Commission ("SEC").

Unless otherwise indicated, all results presented are prepared in a manner that complies, in all material respects, with accounting principles generally accepted in the United States of America ("GAAP"). Additionally, unless otherwise indicated, all changes identified for the current-period results represent comparisons to results for the prior corresponding fiscal period.

Special note regarding forward-looking statements

This report contains forward-looking statements that involve risks and uncertainties. The Company's actual results could differ materially from those discussed in the forward-looking statements. The statements contained in this report that are not purely historical are forward-looking statements within the meaning of Section 27A of the Securities Act and Section 21E of the Securities Exchange Act of 1934, as amended, ("the Exchange Act"). Forward-looking statements are often identified by the use of words such as, but not limited to, "anticipate," "believe," "can," "continue," "could," "estimate," "expect," "intend," "may," "plan," "project," "seek," "should," "strategy," "target," "will," "would" and similar expressions or variations intended to identify forward- looking statements. These statements are based on the beliefs and assumptions of the Company's management based on information currently available to management. Such forward-looking statements are subject to risks, uncertainties and other important factors that could cause actual results and the timing of certain events to differ materially from future results expressed or implied by such forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those identified below and those discussed in the section titled "Risk Factors" included under Part II, Item 1A below.

Furthermore, such forward-looking statements speak only as of the date of this report. Except as required by law, the Company undertakes no obligation to update any forward-looking statements to reflect events or circumstances after the date of such statements.

Risks Related to the Company's Business

The Company's net sales, expenses and operating results may vary significantly from year to year and quarter to quarter for several reasons, including, without limitation:

- a pandemic of the coronavirus disease, or COVID-19, has spread from China to many other parts of the world and may adversely affect the Company's business, operations and financial condition;
- changes in its common stock price;
- the ability of the Company's sales force to effectively market and promote the Company's products, and the extent to which those products gain market acceptance;
- the existence and timing of any product approvals or changes;
- the inability to meet the Company's debt repayment obligations under the Loan and Security Agreement with Wells Fargo Bank, N.A. due to insufficient cash;
- the possibility that cybersecurity breaches, data breaches, and other disruptions could compromise its information or result in the unauthorized disclosure of confidential information;
- the existence and timing of any product approvals or changes;
- the rate and size of expenditures incurred on its clinical, manufacturing, sales, marketing and product development efforts;
- its ability to obtain and retain personnel;
- the availability of key components, materials and contract services, which depends on its ability to forecast sales, among other things;
- investigations of its business and business-related activities by regulatory or other governmental authorities;
- variations in timing and quantity of product orders;
- temporary manufacturing interruptions or disruptions;
- the timing and success of new product and new market introductions, as well as delays in obtaining domestic or foreign regulatory approvals for such introductions;
- increased competition, patent expirations or new technologies or treatments;
- impact of the FDA communication letter regarding "vaginal rejuvenation" procedures using energy-based devices on sales of the Company's products;
- product recalls or safety alerts;
- litigation, including product liability, patent, employment, securities class action, stockholder derivative, general commercial and other lawsuits;
- volatility in the global market and worldwide economic conditions;
- changes in tax laws, including changes domestically and internationally, or exposure to additional income tax liabilities;
- the impact of the new EU privacy regulations, the General Data Protection Regulation on the Company's resources;
- the financial health of its customers and their ability to purchase its products in the current economic environment; and
- other unusual or non-operating expenses, such as expenses related to mergers or acquisitions, may cause operating results to vary.

Introduction

The Management's Discussion and Analysis, or MD&A, is organized as follows:

- ***Executive Summary***. This section provides a general description and history of the Company's business, a brief discussion of the its product lines and the opportunities, trends, challenges and risks the Company focuses on in the operation of its business.
- ***Critical Accounting Policies and Estimates***. This section describes the key accounting policies that are affected by critical accounting estimates.
- ***Results of Operations***. This section provides the Company's analysis and outlook for the significant line items on its Condensed Consolidated Statements of Operations.
- ***Liquidity and Capital Resources***. This section provides an analysis of the Company's liquidity and cash flows, as well as a discussion of its Commitments that existed as of March 31, 2020.

Executive Summary

Company Description

The Company is a global provider of laser and energy-based aesthetic systems for practitioners worldwide. The Company designs, develops, manufactures, distributes and markets light and energy-based product platforms for use by physicians and other qualified practitioners (collectively, "practitioners"), enabling them to offer safe and effective aesthetic treatments to their customers. In addition, the Company distributes third-party manufactured skincare products. The Company currently offers easy-to-use products based on the following key platforms: *enlighten, excel HR, truSculpt, excel V, xeo, Juliet*, and *Secret RF*— each of which enables physicians and other qualified practitioners to perform safe and effective aesthetic procedures, including treatment for body contouring, skin resurfacing and revitalization, tattoo removal, removal of benign pigmented lesions, vascular conditions, hair removal, toenail fungus and women's health. The Company's platforms are designed to be easily upgraded to add additional applications and hand pieces, which provide flexibility for the Company's customers as they expand their practices. The Company's ongoing research and development activities primarily focus on developing new products, as well as improving and enhancing the Company's portfolio of existing products. The Company also explores ways to expand the Company's product offerings through alternative arrangements with other companies, such as distribution arrangements.

The Company introduced *Julie*t, a product for women's intimate health, in December 2017, *Secret RF*, a fractional RF microneedling device for skin revitalization, in January 2018, *enlighten SR* in April 2018, *truSculpt iD* in July 2018, *excel V+* in February 2019 and *truSculpt flex* in June 2019.

The Company's corporate headquarters and U.S. operations are located in Brisbane, California, where the Company conducts manufacturing, warehousing, research and development, regulatory, sales and marketing, service, and administrative activities. The Company markets, sells and services the Company's products through direct sales and service employees in North America (including Canada), Australia, Austria, Belgium, France, Germany, Hong Kong, Japan, Spain, Switzerland and the United Kingdom. Sales and Services outside of these direct markets are made through a worldwide distributor network in over 40 countries.

Products and Services

The Company derives revenue from the sale of Products and Services. Product revenue includes revenue from the sale of systems, hand pieces and upgrade of systems (collectively "Systems" revenue), replacement hand pieces, *truSculpt iD* cycle refills, *and truSculpt flex* cycle refills, as well as single use disposable tips applicable to *Juliet* and *Secret RF* ("Consumables" revenue), and the sale of skincare products ("Skincare" revenue). A system consists of a console that incorporates a universal graphic user interface, a laser and (or) other energy based module, control system software and high voltage electronics, as well as one or more hand pieces. However, depending on the application, the laser or other energy based module is sometimes contained in the hand piece such as with the Company's *Pearl and Pearl Fractional* applications instead of within the console.

The Company offers customers the ability to select the system that best fits their practice at the time of purchase and then to cost-effectively add applications to their system as their practice grows. This provides customers the flexibility to upgrade their systems whenever they choose and provides the Company with a source of additional Systems revenue. The Company's primary system platforms include: *excel, enlighten, Juliet, Secret RF, truSculpt* and *xeo*.

Skincare revenue relates to the distribution of ZO's skincare products in Japan.

Service revenue includes prepaid service contracts, *enlighten* installation, customer marketing support and labor on out-of-warranty products.

Significant Business Trends

The Company believes that its ability to grow revenue will be primarily dependent on the following:

- continuing to expand the Company's product offerings, both through internal development and sourcing from other vendors;
- ongoing investment in the Company's global sales and marketing infrastructure;
- use of clinical results to support new aesthetic products and applications;
- enhanced luminary development and reference selling efforts (to develop a location where Company's products can be displayed and used to assist in selling efforts);
- customer demand for the Company's products;
- consumer demand for the application of the Company's products;
- marketing to physicians in the core dermatology and plastic surgeon specialties, as well as outside those specialties; and
- generating recurring revenue from the Company's growing installed base of customers through the sale of system upgrades, services, hand piece refills, *truSculpt* cycles, skincare products and replacement tips for *Juliet* and *Secret RF* products.

The global spread of COVID-19 has created significant volatility, uncertainty and economic disruption. The extent to which the coronavirus pandemic impacts the Company's business, operations, and financial results is uncertain and will depend on numerous evolving factors that the Company may not be able to accurately predict, including:

- the duration and scope of the pandemic;
- governmental, business and individual actions taken in response to the pandemic and the impact of those actions on global economic activity;
- the actions taken in response to economic disruption;
- the impact of business disruptions;
- business failures of Companies we may utilize to source the Company's supplies from and the customers we may serve;
- the impact of staff availability during and post the pandemic; and
- the Company's ability to provide its services, including as a result of the Company's employees or the Company's customers and suppliers working remotely and/or closures of offices and facilities.

For a detailed discussion of the significant business trends impacting its business, please see the section titled “Results of Operations” below.

Factors that May Impact Future Performance

The Company’s industry is impacted by numerous competitive, regulatory and other significant factors. The Company’s industry is highly competitive and the Company’s future performance depends on the Company’s ability to compete successfully. Additionally, the Company’s future performance is dependent upon the ability to continue to expand the Company’s product offerings with innovative technologies, obtain regulatory clearances for the Company’s products, protect the proprietary technology of the products and manufacturing processes, manufacture the products cost-effectively, and successfully market and distribute the products in a profitable manner. If the Company fails to execute on the aforementioned initiatives, the Company’s business would be adversely affected.

The Company supports any action that helps ensure patient safety going forward. The Company has a robust, multi-functional process that reviews its promotional claims and materials to ensure they are truthful, not misleading, fair and balanced, and supported by sound scientific evidence.

A detailed discussion of these and other factors that could impact the Company’s future performance are provided in (1) the Company’s Annual Report on Form 10-K for the year ended December 31, 2019- Part I, Item 1A “Risk Factors,” (2) the Company’s reports and registration statements filed and furnished from time to time with the SEC, including the S-3 and Prospectus Supplement related to the Company’s recent public offering filed on April 2 and 26, 2020, respectively, and (3) other announcements the Company makes from time to time.

Impact of COVID-19 on Company’s business and operations

On January 30, 2020, the World Health Organization, or WHO, announced a global health emergency because of the COVID-19 outbreak, and the risks to the international community as the virus spreads globally beyond its point of origin.

In March 2020, the WHO declared the COVID-19 outbreak a pandemic, based on the rapid increase in exposure globally. The COVID-19 outbreak is negatively affecting the United States and global economies. As the COVID-19 outbreak continues to spread, and governmental authorities order quarantines, shelter-in-place, and similar mandates, or Governmental Mandates, or the perception that such Governmental Mandates or other restrictions on the conduct of business operations could occur, related to the COVID-19 outbreak, it has affected and the Company expects it will continue to affect its operations and those of third parties on which the Company relies, which would cause disruptions in its supply chain and contract manufacturing operations. The extent of the COVID-19 impact on its supply chain and its future revenues is difficult for us to quantify at this time. The Company currently has inventory on hand to meet its forecasted demand for the next 120-180 days, but the Company must be able to continue to have access to its supply chain to meet demand beyond that period.

Beginning in the second half of its first quarter of 2020, and through the date of this report, the Company has experienced decreasing levels of customer demand for its products. As a result of COVID-19, some of its customers are being required to shelter-in-place and are not working. In cases where its customers are working, they are performing fewer procedures. When they are performing procedures, customers are mostly focused on medically necessary procedures that should not be delayed. Non-urgent, non-essential procedures are getting cancelled or delayed. As a result of fewer aesthetic procedures being performed and anxiety about the economic future, the Company's customers may cancel orders for laser systems or will use less consumables. Some of its customers will feel less confident about making investments in their practices and focus on retaining their cash. As a result of cash conservation efforts by its customers, the Company may also encounter problems collecting on its receivables. A reduction in customer orders would reduce the amount of revenue that the Company expects to obtain. The Company expects this reduction to continue through the second quarter of 2020, and perhaps for the remainder of 2020, but its extent cannot be quantified at this time. The aforementioned factors and trends may also impact demand for its service contracts. Its customers’ patients are also feeling the economic impact of the current pandemic. Elective aesthetic procedures are less of a priority than other items for those patients that have lost their jobs, are furloughed, have reduced work or have to allocate their cash to other priorities. The Company expects that many of the patients of its customers will return slowly as the economic environment improves and revenue from its customers will begin to improve again as a result of the economic conditions improving and more procedures being performed.

The Company may also need to limit operations or implement limitations, and may experience limitations in employee resources. Governmental mandates related to COVID-19 or other infectious diseases have impacted and the Company expects them to continue to impact its personnel and personnel at third-party manufacturing facilities in the United States and other countries, or the availability or cost of materials, which would disrupt its supply chain and/or reduce its margins. For instance, on or about March 16, 2020, the Health Officers of the counties of San Francisco, Santa Clara, San Mateo, Marin, Contra Costa and Alameda, near where the Company's headquarters and manufacturing facility is located, issued a mandatory shelter-in-place order that ordered the shutdown of its facility in Brisbane, California. While the Company has continued to operate with remote employees and essential employees on site, an extended implementation of this Governmental mandate could impact its ability to operate effectively and conduct ongoing future manufacturing or research and development. In assessing its own cash conservation options the Company has reduced its employees’ work hours, furloughed employees and implemented a reduction-in-force. The Company may also solicit voluntary leaves of absence from its employees as the Company implements cash conservation strategies. Its ongoing operations may be impacted as a result of employees assuming additional roles and responsibilities within its organization and the Company would have fewer resources available to run its operations, which would reduce its expenses but could also negatively impact its business operations and revenue as a result. The Company may also encounter voluntary departures of key employees due to any of the foregoing actions that Company undertakes.

The ultimate impact of the COVID-19 outbreak is highly uncertain and subject to change. This impact could have a material, adverse impact on its liquidity, capital resources, operations and business and those of the third parties on which Company relies. The extent to which the COVID-19 outbreak impacts its results will depend on future developments, which are highly uncertain and cannot be predicted, including new information which may emerge concerning the severity of the COVID-19 outbreak and the actions to contain the COVID-19 outbreak or treat its impact, among others. The Company does not yet know the full extent of potential delays or impacts on its business, financial condition and results of operations. Additionally, while the potential economic impact brought by, and the duration of, the COVID-19 outbreak pandemic is difficult to assess or predict, the impact of the COVID-19 outbreak on the global financial markets may reduce its ability to raise additional capital through equity linked or debt financings, which could negatively impact its short-term and long-term liquidity and its ability to operate on a timely basis, or at all.

In the meantime, the Company has taken steps to provide for its employees, including providing the ability for employees to work remotely and implementing strategies to support appropriate social distancing techniques for future interactions. The Company is also assessing its business continuity plans in the context of this pandemic.

On March 27, 2020, Congress enacted the Coronavirus Aid, Relief, and Economic Security (CARES) Act to provide certain relief as a result of the COVID-19 outbreak. The primary provisions of the CARES Act applicable to us include;

- compensation, benefits, and payroll relief for employers;
- certain amendments to the limitations on the deductibility of interest contained in Section 163(j) of the Internal Revenue Code of 1986, as amended, for taxable years beginning in 2019 and 2020; and
- an allowance of net operating loss carrybacks for taxable years beginning in 2018 and before 2021.

The Company is currently evaluating how the benefits from the CARES Act would impact its financial position, results of operations and cash flows.

In response to the COVID-19 outbreak, the Company is taking actions to reduce expenses, including discontinuing nonessential services and programs, instituting controls on travel and entertainment, implementing further cost-cutting measures and evaluating whether improved efficiencies can be obtained in its workforce. For example, the directors on its board of directors have agreed to a 25% reduction in their fees, its Chief Executive Officer and its President and Chief Operating Officer have each agreed to a 25% reduction in their salaries and other members of management have also agreed to significant reductions in their salaries, until such time as its business operations and economic conditions improve. The Company has also instituted salary reductions for the remainder of its employees and furloughs or reductions-in-force that have affected approximately 42% of its workforce. In addition, in order to further conserve cash, management has agreed to have the bonuses owed to them from the 2019 Management Bonus Program paid mostly in equity rather than in cash.

On April 22, 2020, the Company received loan proceeds of $7.1 million pursuant to the Paycheck Protection Program (the “PPP”) under the CARES Act ("the Loan"). The Company believes that the current economic uncertainty makes the loan necessary to support ongoing operations.

The Loan, which is in the form of a promissory note, dated April 21, 2020, between the Company and Silicon Valley Bank as the lender (the “Note”), matures on April 21, 2022 and bears interest at a fixed rate of 1.00% per annum, payable monthly commencing in six months. There is no prepayment penalty. Under the terms of the PPP, all or a portion of the principal may be forgiven if the Loan proceeds are used for qualifying expenses as described in the CARES Act, such as payroll costs, benefits, rent, and utilities. The Company’s goal is to apply the proceeds of the loan to the list of enumerated items that allow for a significant portion of the loan to be forgiven but the Company can provide no assurance that the Company will be successful in its efforts to do so and may need to pay the principal and interest of the PPP loan back as a result. With respect to any portion of the Loan that is not forgiven, the Loan will be subject to customary provisions for a loan of this type, including customary events of default relating to, among other things, payment defaults and breaches of the provisions of the Note.

There are risks and uncertainty regarding the PPP Loan as the Company may be deemed ineligible to receive the PPP Loan, and the Company may be required to repay the PPP Loan in its entirety and could be subject to penalties. In addition, with respect to any portion of the SBA loan not forgiven, the Company may default on payment or breach provisions of the Loan.

The Company is in the preliminary stages of negotiating an asset-based credit facility with a lender in the amount of up to $50 million. There is no guarantee that the Company will be able enter into such facility on terms acceptable to us. The Company expects its ability to borrow under such facility will be also subject to a number of customary conditions. The terms of any such financing may also include restrictive covenants, such as limitations on its ability to incur additional debt and certain operating restrictions that could adversely impact its ability to conduct business.

Critical accounting policies, significant judgments and use of estimates

The preparation of the Company's consolidated financial statements and related notes requires the Company to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. The Company has based its estimates on historical experience and on various other assumptions that the Company believes to be reasonable under the circumstances. The Company periodically reviews its estimates and makes adjustments when facts and circumstances dictate. To the extent that there are material differences between these estimates and actual results, its financial condition or results of operations will be affected.

An accounting policy is considered to be critical if it requires an accounting estimate to be made based on assumptions about matters that are highly uncertain at the time the estimate is made, and if different estimates that reasonably could have been used, or changes in the accounting estimates that are reasonably likely to occur periodically, could materially impact the consolidated financial statements. The Company believes that its critical accounting policies reflect the more significant estimates and assumptions used in the preparation of its audited consolidated financial statements. The accounting policies and estimates that the Company considers to be critical, subjective, and requiring judgment in their application are summarized in "Item 7- Management's Discussion and Analysis of Financial Condition and Results of Operations" in its Annual Report on Form 10-K for the year ended December 31, 2019 filed with the SEC on March 16, 2020. There have been no new or material changes to the significant accounting policies discussed in the Company's Annual Report on Form 10-K that are of significance, or potential significance, to the Company.

As a result of the events and impact surrounding the COVID-19 pandemic, the Company assessed whether any impairment of its goodwill or its long-lived assets had occurred, and has determined that no charges were deemed necessary under applicable accounting standards as of March 31, 2020. The Company's assumptions about future conditions important to its assessment of potential impairment of its long-lived assets, and goodwill, including the impacts of the COVID–19 pandemic and other ongoing impacts to its business, are subject to uncertainty, and the Company will continue to monitor these conditions in future periods as new information becomes available, and will update its analyses accordingly.

Results of Operations

The following table sets forth selected consolidated financial data for the periods indicated, expressed as a percentage of total net revenue. Percentages in this table and throughout its discussion and analysis of financial condition and results of operations may reflect rounding adjustments.

	Three Months Ended March 31,	
	2020	**2019**
Net revenue	100%	100%
Cost of revenue	56%	52%
Gross margin	44%	48%
Operating expenses:		
Sales and marketing	46%	45%
Research and development	12%	10%
General and administrative	24%	15%
Total operating expenses	83%	70%
Loss from operations	(38)%	(22)%
Interest and other income, net	(1)%	-%
Loss before income taxes	(39)%	(22)%
Benefit for income taxes	-%	-%
Net loss	(39)%	(22)%

Revenue

The timing of the Company's revenue is significantly affected by the mix of system products, installation, training, consumables and extended contract services. The revenue generated in any given period is also impacted by whether the revenue is recognized over time or at a point in time, upon completion of delivery. For an additional description on revenue, see Note 1 in the notes to consolidated financial statements on the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2019 and Note 8 to the unaudited condensed consolidated financial statements included in Item I, Part 1 of this Quarterly Report on Form 10-Q.

Revenue is recognized upon transfer of control of promised products or services to customers in an amount that reflects the consideration to which the Company expects to be entitled in exchange for promised goods or services. The Company's performance obligations are satisfied either over time or at a point in time. Revenue from performance obligations that are transferred to customers over time accounted for approximately 18.0% and 15.0% of the Company's total revenue for the three months ended March 31, 2020 and March 31, 2019, respectively. Revenue recognized over time relates to revenue from the Company's extended service contracts and marketing services. Revenue recognized upon delivery is primarily generated by the sales of systems, consumables and skincare.

Total Net Revenue

(Dollars in thousands)	Three Months Ended March 31, 2020	% Change	2019
Revenue mix by geography:			
United States	$ 13,784	(32)%	$ 20,400
International	18,455	18%	15,626
Consolidated total revenue	$ 32,239	(11)%	$ 36,026
United States as a percentage of total revenue	43%		57%
International as a percentage of total revenue	57%		43%
Revenue mix by product category:			
Systems - North America	$ 10,382	(41)%	$ 17,580
Systems - International	10,576	10%	9,629
Total Systems	20,958	(23)%	27,209
Consumables	2,533	30%	1,945
Skincare	2,900	80%	1,608
Total Products	26,391	(14)%	30,762
Service	5,848	11%	5,264
Total Net Revenue	$ 32,239	(11)%	$ 36,026

The Company’s total net revenue decreased by 11% in the three month period ended March 31, 2020, compared to the same period in 2019 as a result of decline in the demand of the Company’s products as a direct result of COVID-19.

Revenue by Geography

The Company’s U.S. revenue decreased by $6.6 million, or 32%, in the three months ended March 31, 2020, compared to the same period in 2019. This decrease was due primarily to significant decline in sales in the North America market as a direct result of COVID-19. The global spread of COVID-19 has created significant volatility, uncertainty and economic disruption. In response to the pandemic, government authorities have imposed mandatory business closures, shelter-in place and work-from-home orders and social distancing protocols.

The Company’s international revenue increased by $2.8 million, or 18%, in the three months ended March 31, 2020, compared to the same period in 2019. The increase was mostly due to growth in the Company’s business in Japan and the Middle East.

Revenue by Product Type

Systems Revenue

Systems revenue in North America decreased by $7.2 million, or 41%, in the three months ended March 31, 2020, compared to the same period in 2019, mainly due to the significant decline in system sales in the Company’s North America market, which represents the Company’s biggest market, partially offset by a 10% increase in systems sales in the international market. The significant decline in systems revenue in the North America market was as a direct result of COVID-19.

The Rest of the World systems revenue increased by 10.0% in the three months ended March 31, 2020, primarily as a result of an increase in the Company’s direct business in Japan, and an increase in the Company’s distributor business in the Middle East.

Consumables Revenue

Consumables revenue increased 30%, for the three months ended March 31, 2020, compared to the same period in 2019. The increase in consumables revenue was primarily due to the increasing installed base of *truSculpt iD*, *Secret RF*, and *truSculpt flex*, in June 2019 each of which have a consumable element.

Skincare Revenue

The Company’s revenue from Skincare products in Japan increased 80%, for the three months ended March 31, 2020, compared to the same period in 2019. This increase was due primarily to increased marketing and promotional activities.

Service Revenue

The Company’s Service revenue increased $0.6 million, or 11%, for the three months ended March 31, 2020, compared to 2019. This increase was due primarily to increased sales of service contracts, and support and maintenance services provided on a time and materials basis to the Company's network of international distributors.

Gross Profit

	Three Months Ended March 31,				
(Dollars in thousands)	2020		% Change	2019	
Gross profit	$	14,336	(17)%	$	17,309
As a percentage of total net revenue		44%			48%

The Company's cost of revenue consists primarily of material, personnel expenses, product warranty costs, and manufacturing overhead expenses. The Company also continues to make investments in its international direct service support, as well as operational improvement activities.

Gross profit as a percentage of revenue for the three months ended March 31, 2020 decreased 4%, compared to same period in 2019. The decrease in gross profit as a percentage of revenue was primarily driven by: the decline in the average sales price of systems due to the COVID-19.

Sales and Marketing

	Three Months Ended March 31,				
(Dollars in thousands)	2020		% Change	2019	
Sales and marketing	$	14,789	(8)%	$	16,104
As a percentage of total net revenue		46%			45%

Sales and marketing expenses consist primarily of personnel expenses, expenses associated with customer-attended workshops and trade shows, post-marketing studies, advertising and training.

The $1.3 million (or 8%) decrease in sales and marketing expenses for the three months ended March 31, 2020 compared to same period in 2019 was due primarily to:

- $1.1 million decrease in personnel related expenses, including commission costs;
- $0.6 million of lower promotional expenses, primarily in North America;
- Offset partially by $0.4 million increase in consulting and other outside services.

Research and Development ("R&D")

	Three Months Ended March 31,				
(Dollars in thousands)	2020		% Change	2019	
Research and development	$	3,870	4%	$	3,706
As a percentage of total net revenue		12%			10%

R&D expenses consist primarily of personnel expenses, clinical research, regulatory and material costs. R&D expenses increased by $0.1 million, and represented 12% of total net revenue, in the three months ended March 31, 2020, compared to 10% for the same period in 2019. This increase in expense was due primarily to higher personnel expenses driven primarily by an increase in headcount.

General and Administrative ("G&A")

	Three Months Ended March 31,				
(Dollars in thousands)	2020		% Change	2019	
General and administrative	$	7,806	41%	$	5,525
As a percentage of total net revenue		24%			15%

G&A expenses consist primarily of personnel expenses, legal, accounting, audit and tax consulting fees, as well as other general and administrative expenses. G&A expenses increased by $2.3 million, or 41%, and represented 24% of total net revenue in the three months ended March 31, 2020, compared to 15% in the same period in 2019. Stock compensation costs, consulting costs, legal, and credit losses all increased in the three months ended March 31, 2020, compared to the same period in 2019.

Interest and Other Income, Net

Interest and other income (expense), net, consists of the following:

(Dollars in thousands)	Three Months Ended March 31, 2020	% Change	2019
Interest and other expense, net	$ (207)	162%	$ (79)
As a percentage of total net revenue	(1)%		-%

Interest and other expense, net, increased $128,000 or 162% in the three months ended March 31, 2020, compared to the same period in 2019. This increase was due primarily to an increase in interest expense related to significant financing components included in the Company's multi-year post-warranty service contracts for customers who make payment more than one year in advance of receiving the service under the new revenue standard effective January 1, 2018, as well as a decrease in interest income from the Company's marketable investments resulting from a decrease in the investment balance.

Provision for Income Taxes

(Dollars in thousands)	Three Months Ended March 31, 2020	$ Change	2019
Loss before income taxes	$ (12,336)	$ (4,231)	$ (8,105)
Income tax provision	$ 78	$ (37)	$ 115

For the three months ended March 31, 2020, the Company's income tax expense was $78,000, compared to the tax expense of $115,000 for the same period in 2019.

The Company's income tax expense for the three month ended March 31, 2020 is due primarily to income taxes in foreign jurisdictions. Based on all available objectively verifiable evidence during the three months ended March 31, 2020, the Company believes it is more likely than not that the tax benefits of the U.S. losses incurred will not be realized. Accordingly, the Company will continue to maintain a full valuation allowance on the U.S. deferred tax assets.

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act") was enacted and signed into law. The CARES Act includes several provisions for corporations including increasing the amount of deductible interest, allowing companies to carryback certain Net Operating Losses ("NOLs") and increasing the amount of NOLs that corporations can use to offset income. The CARES Act did not materially affect the Company's first-quarter income tax provision, deferred tax assets and liabilities, and related taxes payable. The Company is currently assessing the future implications of these provisions within the CARES Act on the Company's Consolidated Financial Statements, but do not expect the impact to be material.

Liquidity and Capital Resources

The Company's principal source of liquidity is cash generated from maturity and sales of marketable investments, cash generated from the issuance of common stock through exercise of stock options, net proceeds from a public offering and the Company's employee stock purchasing program. The Company actively manages its cash usage and investment of liquid cash to ensure the maintenance of sufficient funds to meet its daily needs. The majority of the Company's cash and investments are held in U.S. banks and its foreign subsidiaries maintain a limited amount of cash in their local banks to cover their short-term operating expenses.

As of March 31, 2020 and December 31, 2019, the Company had $24.6 million and $36.4 million of working capital, respectively. Cash and cash equivalents plus marketable investments decreased by $14.4 million to $19.5 million as of March 31, 2020 from $33.9 million as of December 31, 2019, primarily as a result of the Company's loss from operations, partly due to sales decline as a result of COVID-19 and settlement of accrued liabilities as of December 31, 2019.

Cash, Cash Equivalents and Marketable Investments

The following table summarizes its cash, cash equivalents and marketable investments:

(Dollars in thousands)	**March 31, 2020**	**December 31, 2019**	**Change**
Cash and cash equivalents	$ 14,774	$ 26,316	$ (11,542)
Marketable investments	4,746	7,605	(2,859)
Total	$ 19,520	$ 33,921,	$ (14,401)

Cash Flows

(Dollars in thousands)	**Three Months Ended March 31, 2020**	**2019**
Net cash flow provided by (used in):		
Operating activities	$ (11,966)	$ (7,953)
Investing activities	2,640	1,549
Financing activities	(2,216)	(490)
Net decrease in cash and cash equivalents	$ (11,542)	$ (6,894)

Cash Flows from Operating Activities

Net cash used in operating activities in the three months ended March 31, 2020 was approximately $12.0 million, which was due primarily to:

- $12.4 million net loss as adjusted for non-cash related items consisting primarily of stock-based compensation expense of $2.0 million and $1.1 million depreciation and amortization expenses;
- $4.6 million cash used to settle accounts payable and accrued liabilities;
- $0.6 million decrease in pre-paid expenses and other long term assets;
- $3.0 million from decrease in inventories;
- $0.2 million used to settle extended warranty liabilities;
- $1.3 million from decreased in deferred revenue; and
- $5.3 million from accounts receivables.

Cash Flows from Investing Activities

Net cash provided by investing activities was $2.6 million in the three months ended March 31, 2020, which was attributable primarily to:

- $6.8 million in net proceeds from the maturities of marketable investments; partially offset by
- $3.9 million of cash used to purchase marketable investments.

Cash Flows from Financing Activities

Net cash used in financing activities was $2.2 million in the three months ended March 31, 2020, which was primarily due to:

- $201,000 net proceeds from the issuance of common stock due to employees exercising their stock options and purchasing stock through the Employee Stock Purchase Plan ("ESPP") program; offset by
- $183,000 of cash used to pay capital lease obligations; and
- $2.2 million of cash used for taxes related to net share settlement of equity awards.

Adequacy of Cash Resources to Meet Future Needs

The Company had cash, cash equivalents, and marketable investments of $19.5 million as of March 31, 2020. For the first three months of 2020, the Company's principal source of liquidity is cash generated from maturity and sales of marketable investments and cash generated from the issuance of common stock through exercise of stock options and the Company's employee stock purchasing program.

On April 21, 2020, the Company received net proceeds from a public offering of approximately $26.7 million, after deducting underwriting discounts and commissions and estimated offering expenses payable by the Company. The Company intends to use the net proceeds of the offering to fund growth initiatives, market development activities related thereto and to provide for general corporate purposes, which may include working capital, capital expenditures, clinical trials, other corporate expenses and acquisitions of complementary products, technologies or businesses.

On April 22, 2020, the Company received loan proceeds of $7.1 million pursuant to the Paycheck Protection Program (the "PPP") under the Coronavirus Aid, Relief, and Economic Security ("CARES") Act. There are risk and uncertainty regarding the PPP Loan as the Company may be deemed ineligible to receive the PPP Loan, and the Company may be required to repay the PPP Loan in its entirety and could be subject to penalties. In addition, with respect to any portion of the SBA loan not forgiven, the Company may default on payment or breach provisions of the Loan.

The Company believes that the existing cash resources are sufficient to meet the Company's anticipated cash needs for working capital and capital expenditures for at least the next 12 months, but there can be no assurances.

Loan and Security Agreement

On May 30, 2018, the Company and Wells Fargo Bank, N.A. ("Wells Fargo") entered into a Loan and Security Agreement (the "Original Revolving Line of Credit") in the original principal amount of $25 million. The Original Revolving Line of Credit terminates on May 30, 2021.

On or about November 2, 2018, the Company entered into a First Amendment and Waiver to the Loan and Security Agreement with Wells Fargo (the "First Amended Revolving Line of Credit"). The First Amended Revolving Line of Credit provided for an original principal amount of $15 million, with the ability to request an additional $10 million, and a waiver of any existing defaults under the Original Revolving Line of Credit as long as the Company is in compliance with the terms of the First Amended Revolving Line of Credit.

On or about March 11, 2019, the Company entered into a Second Amendment and Waiver to the Loan and Security Agreement with Wells Fargo (the "Second Amended Revolving Line of Credit"). The Second Amended Revolving Line of Credit requires the Company to maintain a minimum cash balance of $15 million at Wells Fargo, but removes all other covenants so long as no money is drawn on the line of credit. The Company may draw down on the line of credit at the time it reaches and maintains trailing twelve months adjusted EBITDA of not less than $10 million, and a leverage ratio not to exceed 2.5 to 1.0.

On or about March 19, 2020, the Company entered into a Third Amendment and Waiver to the Loan and Security Agreement with Wells Fargo (the "Third Amended Revolving Line of Credit"). The Third Amended Revolving Line of Credit requires the Company to maintain a minimum cash, cash equivalents, and marketable securities balance of $15 million at all Financial Institutions utilized by the Company, and maintains the removal of all other covenants (under the second amendment) so long as no money is drawn on the line of credit.

As of March 31, 2020, the Company had not drawn on the Original Revolving Line of Credit and the Company is in compliance with all financial covenants of the Original Revolving Line of Credit, as amended.

Commitments and Contingencies

As of the date of this report, there were no material changes to the Company's contractual obligations and commitments outside the ordinary course of business since March 16, 2020, as reported in the Company's Annual Report on 2019 Form 10-K.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

A summary of the key market risks facing the Company is disclosed below. For a detailed discussion, please see the Company's Annual Report on Form 10-K for the year ended December 31, 2019, filed with the SEC on March 16, 2020, the Company's reports and registration statements filed and furnished from time to time with the SEC, including the S-3 and Prospectus supplement related to the Company's recent public offering filed on April 2 and 20, 2020, respectively, and other announcements the Company makes from time to time.

Interest Rate and Market Risk

The primary objective of the Company's investment activities is to preserve principal while at the same time maximizing the income the Company receives from investments without significantly increasing risk. To achieve this objective, the Company maintains its portfolio of cash equivalents and short- and long-term investments in a variety of high quality securities, including U.S. treasuries, U.S. government agencies, corporate debt, cash deposits, money market funds, commercial paper, non-U.S. government agency securities, and municipal bonds. The securities are classified as available-for-sale and consequently are recorded at fair value with unrealized gains or losses reported as a separate component of accumulated other comprehensive loss.

The weighted average maturity of the Company's portfolio as of March 31, 2020 was approximately 0.1 years. If interest rates rise, the market value of its investments may decline, which could result in a realized loss if the Company is forced to sell an investment before its scheduled maturity. A hypothetical increase in interest rate by one percentage point would have resulted in no impact on the Company's total investment portfolio.

On July 27, 2017, the United Kingdom's Financial Conduct Authority announced that it intends to stop persuading or compelling banks to submit LIBOR rates after 2021. These reforms may cause LIBOR to cease to exist, new methods of calculating LIBOR to be established or the establishment of an alternative reference rate(s). These consequences cannot be entirely predicted and could have an adverse impact on the market value for or value of LIBOR-linked securities, loans, and other financial obligations or extensions of credit held by the Company. Changes in market interest rates may influence returns on financial investments and could reduce its earnings and cash flows.

The uncertain financial markets could result in a tightening in the credit markets, a reduced level of liquidity in many financial markets, and extreme volatility in fixed income and credit markets. The credit ratings of the securities the Company has invested in could further deteriorate and may have an adverse impact on the carrying value of these investments.

As of March 31, 2020, the Company had not drawn on the Original Revolving Line of Credit, as amended. Overall interest rate sensitivity is primarily influenced by any amount borrowed on the line of credit and the prevailing interest rate on the line of credit facility. The effective interest rate on the line of credit facility is based on a floating per annum rate equal to the LIBOR rate. The LIBOR rate was 0.99% as of March 31, 2020, and accordingly the Company may incur additional expenses if the Company has an outstanding balance on the line of credit and the LIBOR rate increases in future periods.

Inflation

The Company does not believe that inflation has had a material effect on the Company's business, financial condition, or results of operations. If the Company's costs were to become subject to significant inflationary pressures, the Company may not be able to fully offset such higher costs through price increases. The Company's inability or failure to do so could harm the Company's business, financial condition, and results of operations.

Foreign Exchange Fluctuations

The Company generates revenue in Japanese Yen, Euros, Australian Dollars, Canadian Dollars, British Pounds and Swiss Francs. Additionally, a portion of the Company's operating expenses and assets and liabilities are denominated in each of these currencies. Therefore, fluctuations in these currencies against the U.S. dollar could materially and adversely affect the Company's results of operations upon translation of the Company's revenue denominated in these currencies, as well as the re-measurement of the Company's international subsidiaries' financial statements into U.S. dollars. The Company has historically not engaged in hedging activities relating to the Company's foreign currency denominated transactions.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

An evaluation as of March 31, 2020 was carried out under the supervision and with the participation of the Company’s management, including the Company’s Chief Executive Officer ("CEO") and Interim Chief Financial Officer ("CFO"), of the effectiveness of the Company’s “disclosure controls and procedures.” Rule 13a-15(e) under the Exchange Act defines “disclosure controls and procedures” as controls and other procedures of a company that are designed to ensure that the information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC’s rules and forms, and that such information is accumulated and communicated to the company’s management, including its CEO and Interim CFO, as appropriate, to allow timely decisions regarding required disclosure. Based upon that evaluation, the Company’s CEO and Interim CFO concluded that the Company’s disclosure controls and procedures were effective at March 31, 2020.

Attached as exhibits to this Quarterly Report are certifications of the Company’s CEO and Interim CFO, which are required in accordance with Rule 13a-14 of the Exchange Act. This Controls and Procedures section includes the information concerning the controls evaluation referred to in the certifications, and it should be read in conjunction with the certifications for a more complete understanding of the topics presented.

Changes in Internal Control over Financial Reporting

The Company implemented certain controls related to the adoption of FASB ASC 326 Financial Instruments – Credit Losses, effective January 1, 2020. These controls were designed and implemented to ensure the completeness and accuracy over financial reporting. With the exception of the controls implemented for FASB ASC 326 Financial Instruments – Credit Losses, there were no changes in the Company’s internal control over financial reporting during the three months ended March 31, 2020 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Limitations on the Effectiveness of Controls

A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Because of inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues, if any, within a company have been detected. Accordingly, the Company’s disclosure controls and procedures are designed to provide reasonable, not absolute, assurance that the objectives of the Company’s disclosure control system are met. As set forth above, the Company’s Chief Executive Officer and Interim Chief Financial Officer have concluded, based on their evaluation as of the end of the period covered by this report, that the Company’s disclosure controls and procedures were effective to provide reasonable assurance that the objectives of the Company’s disclosure control system were met.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

From time to time, the Company may be involved in legal and administrative proceedings and claims of various types. For a description of the Company’s material pending legal and regulatory proceedings and settlements refer to Note 11 to the Company’s consolidated financial statements entitled “Commitments and Contingencies,” in the Annual Report on Form 10-K for the year ended December 31, 2019, filed with the SEC on March 16, 2020.

ITEM 1A. RISK FACTORS

Other than as set forth below, there are no material changes from the Risk Factors previously disclosed in the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2019, filed with the SEC on March 16, 2020.

The Company may be deemed ineligible to receive the PPP Loan, and the Company may be required to repay the PPP Loan in its entirety and could be subject to penalties. In addition, with respect to any portion of the SBA loan not forgiven, the Company may default on payment or breach provisions of the Loan.

On April 22, 2020, the Company received loan proceeds of $7.1 million pursuant to the Paycheck Protection Program (the“PPP”) under the Coronavirus Aid, Relief, and Economic Security (“CARES”) Act. The Company believes that the current economic uncertainty makes the loan necessary to support ongoing operations.

The application for these funds required the Company to, in good faith, certify that the current economic uncertainty made the loan request necessary to support the ongoing operations of the Company. Subsequently released guidance instructs all applicants and recipients to take into account their current business activity and the Company's ability to access other sources of liquidity sufficient to support ongoing operations in a manner that is not significantly detrimental to their business. On April 28, 2020, in press conference remarks, the Secretary of the U.S. Department of the Treasury stated that the SBA intends to perform a review of PPP loans over $2.0 million. The required certification made by the Company is subject to interpretation. If, despite the good-faith belief that given the Company’s circumstances the Company satisfied all eligible requirements for the PPP Loan, it is later determined the Company was ineligible to apply for and receive the PPP Loan, the Company may be required to repay the PPP Loan in its entirety and the Company could be subject to additional penalties.

The loan, which is in the form of a promissory note, dated April 21, 2020, between the Company and Silicon Valley Bank as the lender (the “Loan”), matures on April 21, 2022 and bears interest at a fixed rate of 1.00% per annum, payable monthly commencing in six months. There is no prepayment penalty. Under the terms of the PPP, all or a portion of the principal may be forgiven if the Loan proceeds are used for qualifying expenses as described in the CARES Act, such as payroll costs, benefits, rent, and utilities. No assurance is provided that the Company will obtain forgiveness of the Loan in whole or in part. With respect to any portion of the SBA Loan that is not forgiven, the SBA Loan will be subject to customary provisions for a loan of this type, including customary events of default relating to, among other things, payment defaults and breaches of the provisions of the Loan.

A pandemic, epidemic or outbreak of an infectious disease, such as COVID-19, or coronavirus, may materially and adversely affect the Company's business and financial results.

The recent outbreak of COVID-19 originated in Wuhan, China, in December 2019 and has since spread globally, including to the United States and several European, Asian and South American countries where the Company currently sells its products. On March 11, 2020, the World Health Organization declared COVID-19 a pandemic. Such events have resulted and the Company expects, will continue to result, in a period of business disruption. As a result of the COVID-19 outbreak, some of the Company's customers are being required to shelter-in-place and are not working. In cases where the Company's customers are working, they are performing fewer procedures. When they are performing procedures, customers are mostly focused on medically necessary procedures that should not be delayed. Non-urgent, non-essential procedures are getting cancelled or delayed. As a result of fewer aesthetic procedures being performed and anxiety about the economic future, the Company's customers may cancel orders for laser systems or will use less consumables. Some of the Company's customers will feel less confident about making investments in their practices and focus on retaining their cash. As a result of cash conservation efforts by the Company's customers, the Company may also encounter problems collecting on its receivables, which will impact the Company's cash position and could result in negative cash flows.

In response to the COVID-19 outbreak, the Company has recently taken action to reduce the expense associated with its workforce which could negatively affect the Company's operations and the morale of its employees.

In response to the COVID-2019 outbreak, the Company's Chief Executive Officer and President and Chief Operating Officer have each agreed to a 25% reduction in their salaries and other members of management have also agreed to significant reductions in their salaries, until such time as the Company's business operations and economic conditions improve. The Company has also instituted salary reductions for the remainder of its employees and furloughs or reductions-in-force that have affected approximately 42% of the Company's workforce. The actions the Company has taken may negatively impact the morale of its workforce, leading to a decrease in the quality of work or the voluntary departure of additional employees. Workers placed on furlough may find other jobs and decide not to work at the Company in future. Although the Company expects the roles of its furloughed and former employees will be performed by others for the time being, their skills sets may not allow them to perform the work as proficiently or efficiently as others. As a result of the actions the Company has taken to preserve cash, its workforce may become strained, morale may decline and the quality of work may suffer, all of which could negatively affect the Company's business operations and adversely impact its revenue as a result.

A reduction in customer orders would reduce the amount of revenue that the Company expect to obtain. The Company expects this reduction to continue through the second quarter of 2020, and perhaps for the remainder of 2020, but its extent cannot be quantified at this time.

The aforementioned factors and trends may also impact demand for the Company's service contracts. The Company's customers' patients are also feeling the economic impact of the current epidemic. Elective aesthetic procedures are less of a priority than other items for those patients that have lost their jobs, are furloughed, have reduced work hours or have to allocate their cash to other priorities. As result, the patients of the Company's customer may delay or cancel entirely their aesthetic procedures. Additionally, the continued spread of COVID-19 could adversely impact the Company's clinical trial operations, including the Company's ability to recruit and retain patients and principal investigators and site staff who, as healthcare providers, may have heightened exposure to COVID-19 if an outbreak occurs in their geography. The spread of COVID-19, or another infectious disease, could also result in delays or disruptions in the Company's supply chain or adversely affect its manufacturing facilities and personnel. The Company currently has inventory on hand to meet its forecasted demand for the next 120-180 days, but the Company must be able to continue to have access to the Company's supply chain to meet demand beyond that period. The COVID-19 outbreak continues to be fluid and uncertain, making it difficult to forecast the final impact it could have on the Company's future operations. The Company cannot presently predict the scope and severity of any potential business shutdowns or disruptions, but if the Company or any of the third parties with whom the Company engages were to experience shutdowns or other business disruptions, the Company's ability to conduct its business in the manner and on the timelines presently planned could be materially and negatively impacted, which could have a material adverse effect on its business, revenues, operating results, cash flows and financial condition.

Macroeconomic political and market conditions, disease outbreaks and catastrophic events may adversely affect the Company's business, results of operations, financial condition and stock price.

The Company's business is influenced by a range of factors that are beyond the Company's control, including pandemics, like the COVID-19 outbreak.

The price of the Company's common stock may fluctuate substantially due to several factors, some of which are discussed below. Further, the Company has a relatively limited number of shares of common stock outstanding, a large portion of which is held by a small number of investors, which could result in the increase in volatility of its stock price.

There has been volatility in the price of the Company's common stock since December 1, 2019, decreasing from $37 per share to $13.63 per share as of April 15, 2020. The Company believes this is due in part to significant turnover of the Company's North America sales team, the COVID-19 pandemic, and other factors. As a result of the Company's relatively limited public float, its common stock may be less liquid than the stock of companies with broader public ownership. Among other things, trading of a relatively small volume of the Company's common stock may have a greater impact on the trading price for the Company's shares than would be the case if the Company's public float were larger. The public market price of the Company's common stock has in the past fluctuated substantially and, due to the current concentration of stockholders, may continue to do so in the future. The market price for the Company's common stock could also be affected by a number of other factors, including the general market conditions unrelated to the Company's operating performance, including market volatility as a result of the COVID-19 outbreak.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

None.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

Exhibit No.	Description
3.2	Amended and Restated Certificate of Incorporation of the Registrant (filed as Exhibit 3.5 to its Quarterly Report on Form 10-Q filed on November 7, 2017 and incorporated herein by reference).
3.4	Bylaws of the Registrant (filed as Exhibit 3.4 to its Current Report on Form 8-K filed on January 8, 2015 and incorporated herein by reference).
4.1	Specimen Common Stock certificate of the Registrant (filed as Exhibit 4.1 to its Annual Report on Form 10-K filed on March 25, 2005 and incorporated herein by reference).
10.14	Cutera, Inc. 2004 Amended and Restated Equity Incentive Plan.
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.ins	Instance Document
101.sch	XBRL Taxonomy Extension Schema Document
101.cal	XBRL Taxonomy Extension Calculation Linkbase Document
101.def	XBRL Taxonomy Extension Definition Linkbase Document
101.lab	XBRL Taxonomy Extension Label Linkbase Document
101.pre	XBRL Taxonomy Extension Presentation Linkbase Document

SIGNATURE

Pursuant to the requirements of Section 13 or 15(d) of The Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, in the city of Brisbane, State of California, on the 11th day of May, 2020.

CUTERA, INC.

/S/ FUAD AHMAD
Fuad Ahmad
Interim Chief Financial Officer
(Principal Financial and Accounting Officer)

Exhibit 10.14

CUTERA, INC.

2019 EQUITY INCENTIVE PLAN

The Cutera, Inc. 2004 Equity Incentive Plan, as amended and restated on April 13, 2017, is hereby amended and restated as the Cutera, Inc. 2019 Equity Incentive Plan, effective as of June 14, 2019, subject to stockholder approval on June 14 2019.

1. Purposes of the Plan. The purposes of this Plan are:

- to attract and retain the best available personnel for positions of substantial responsibility,
- to provide additional incentive to Employees, Directors and Consultants, and
- to promote the success of the Company's business.

The Plan permits the grant of Incentive Stock Options, Nonstatutory Stock Options, Restricted Stock, Restricted Stock Units, Stock Appreciation Rights, Performance Units, Performance Shares and other stock or cash awards as the Administrator may determine.

2. Definitions. As used herein, the following definitions will apply:

(a) "Administrator" means the Board or any of its Committees as will be administering the Plan, in accordance with Section 4 of the Plan.

(b) "Affiliated SAR" means an SAR that is granted in connection with a related Option, and which automatically will be deemed to be exercised at the same time that the related Option is exercised.

(c) "Applicable Laws" means the requirements relating to the administration of equity-based awards under U.S. state corporate laws, U.S. federal and state securities laws, the Code, any stock exchange or quotation system on which the Common Stock is listed or quoted and the applicable laws of any foreign country or jurisdiction where Awards are, or will be, granted under the Plan.

(d) "Award" means, individually or collectively, a grant under the Plan of Options, SARs, Restricted Stock, Restricted Stock Units, Performance Units, Performance Shares and other stock or cash awards as the Administrator may determine.

(e) "Award Agreement" means the written or electronic agreement setting forth the terms and provisions applicable to each Award granted under the Plan. The Award Agreement is subject to the terms and conditions of the Plan.

(f) "Board" means the Board of Directors of the Company.

(g) "Change in Control" means the occurrence of any of the following events:

(i) Any "person" (as such term is used in Sections 13(d) and 14(d) of the Exchange Act) becomes the "beneficial owner" (as defined in Rule 13d-3 of the Exchange Act), directly or indirectly, of securities of the Company representing fifty percent (50%) or more of the total voting power represented by the Company's then outstanding voting securities; or

(ii) The consummation of the sale or disposition by the Company of all or substantially all of the Company's assets;

(iii) A change in the composition of the Board occurring within a two-year period, as a result of which less than a majority of the directors are Incumbent Directors. “Incumbent Directors” means directors who either (A) are Directors as of the effective date of the Plan, or (B) are elected, or nominated for election, to the Board with the affirmative votes of at least a majority of the Incumbent Directors at the time of such election or nomination (but will not include an individual whose election or nomination is in connection with an actual or threatened proxy contest relating to the election of directors to the Company); or

(iv) The consummation of a merger or consolidation of the Company with any other corporation, other than a merger or consolidation which would result in the voting securities of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity or its parent) at least fifty percent (50%) of the total voting power represented by the voting securities of the Company or such surviving entity or its parent outstanding immediately after such merger or consolidation.

(h) “Code” means the Internal Revenue Code of 1986, as amended. Any reference to a section of the Code herein will be a reference to any successor or amended section of the Code.

(i) “Committee” means a committee of Directors or of other individuals satisfying Applicable Laws appointed by the Board in accordance with Section 4 hereof.

(j) “Common Stock” means the common stock of the Company.

(k) “Company” means Cutera, Inc., a Delaware corporation, or any successor thereto.

(l) “Consultant” means any person, including an advisor, engaged by the Company or a Parent or Subsidiary to render services to such entity.

(m) “Determination Date” means the latest possible date established by the Administrator, in its discretion, for the calculation of a Performance Goal.

(n) “Director” means a member of the Board.

(o) “Disability” means total and permanent disability as defined in Section 22(e)(3) of the Code, provided that in the case of Awards other than Incentive Stock Options, the Administrator in its discretion may determine whether a permanent and total disability exists in accordance with uniform and non-discriminatory standards adopted by the Administrator from time to time.

(p) “Employee” means any person, including Officers and Directors, employed by the Company or any Parent or Subsidiary of the Company. Neither service as a Director nor payment of a director's fee by the Company will be sufficient to constitute “employment” by the Company.

(q) “Exchange Act” means the Securities Exchange Act of 1934, as amended.

(r) “Exchange Program” means a program under which (i) outstanding Awards are surrendered or cancelled in exchange for Awards of the same type (which may have lower exercise prices and different terms), Awards of a different type, and/or cash, (ii) Participants would have the opportunity to transfer any outstanding Awards to a financial institution or other person or entity selected by the Administrator, and/or (iii) the exercise price of an outstanding Award is reduced. The Administrator will determine the terms and conditions of any Exchange Program in its sole discretion.

(s) “Fair Market Value” means, as of any date, the value of Common Stock determined as follows:

(i) If the Common Stock is listed on any established stock exchange or a national market system, including without limitation the Nasdaq Global Market, the Nasdaq Global Select Market or the Nasdaq Capital Market, its Fair Market Value will be the closing sales price for such stock (or the closing bid, if no sales were reported) as quoted on such exchange or system on the day of determination, as reported in *The Wall Street Journal* or such other source as the Administrator deems reliable;

(ii) If the Common Stock is regularly quoted by a recognized securities dealer but selling prices are not reported, the Fair Market Value of a Share of Common Stock will be the mean between the high bid and low asked prices for the Common Stock on the day of determination, as reported in *The Wall Street Journal* or such other source as the Administrator deems reliable;

(iii) In the absence of an established market for the Common Stock, the Fair Market Value will be determined in good faith by the Administrator.

(t) "Fiscal Year" means the fiscal year of the Company.

(u) "Freestanding SAR" means a SAR that is granted independently of any Option.

(v) "Incentive Stock Option" means an Option intended to qualify as an incentive stock option within the meaning of Section 422 of the Code and the regulations promulgated thereunder.

(w) "Inside Director" means a Director who is an Employee.

(x) "Nonstatutory Stock Option" means an Option that by its terms does not qualify or is not intended to qualify as an Incentive Stock Option.

(y) "Officer" means a person who is an officer of the Company within the meaning of Section 16 of the Exchange Act and the rules and regulations promulgated thereunder.

(z) "Option" means a stock option granted pursuant to the Plan.

(aa) "Outside Director" means a Director who is not an Employee.

(bb) "Parent" means a "parent corporation," whether now or hereafter existing, as defined in Section 424(e) of the Code.

(cc) "Participant" means the holder of an outstanding Award.

(dd) "Performance Goals" will have the meaning set forth in Section 12 of the Plan.

(ee) "Performance Period" means any Fiscal Year or such other period as determined by the Administrator in its sole discretion.

(ff) "Performance Share" means an Award denominated in Shares which may be earned in whole or in part upon attainment of Performance Goals or other vesting criteria as the Administrator may determine pursuant to Section 10.

(gg) "Performance Unit" means an Award which may be earned in whole or in part upon attainment of Performance Goals or other vesting criteria as the Administrator may determine and which may be settled for cash, Shares or other securities or a combination of the foregoing pursuant to Section 10.

(hh) "Period of Restriction" means the period during which the transfer of Shares of Restricted Stock are subject to restrictions and therefore, the Shares are subject to a substantial risk of forfeiture. Such restrictions may be based on the passage of time, the achievement of target levels of performance, or the occurrence of other events as determined by the Administrator.

(ii) "Plan" means this 2019 Equity Incentive Plan.

(jj) "Restricted Stock" means Shares issued pursuant to an Award of Restricted Stock under Section 7 of the Plan, or issued pursuant to the early exercise of an Option.

(kk) "Restricted Stock Unit" means a bookkeeping entry representing an amount equal to the Fair Market Value of one Share, granted pursuant to Section 8. Each Restricted Stock Unit represents an unfunded and unsecured obligation of the Company.

(ll) "Rule 16b-3" means Rule 16b-3 of the Exchange Act or any successor to Rule 16b-3, as in effect when discretion is being exercised with respect to the Plan.

(mm) "Section 16(b) " means Section 16(b) of the Exchange Act.

(nn) "Service Provider" means an Employee, Director or Consultant.

(oo) "Share" means a share of the Common Stock, as adjusted in accordance with Section 17 of the Plan.

(pp) "Stock Appreciation Right" or "SAR" means an Award, granted alone or in connection with an Option, that pursuant to Section 9 is designated as a SAR.

(qq) "Subsidiary" means a "subsidiary corporation", whether now or hereafter existing, as defined in Section 424(f) of the Code.

(rr) "Tandem SAR" means a SAR that is granted in connection with a related Option, the exercise of which will require forfeiture of the right to purchase an equal number of Shares under the related Option (and when a Share is purchased under the Option, the SAR will be canceled to the same extent).

(ss) "Unvested Awards" will mean Options or Restricted Stock that (i) were granted to an individual in connection with such individual's position as an Employee and (ii) are still subject to vesting or lapsing of Company repurchase rights or similar restrictions.

3. Stock Subject to the Plan.

(a) Stock Subject to the Plan. Subject to the provisions of Section 17 of the Plan, as of June 14 2019, the maximum aggregate number of shares of common stock that may be awarded and sold under the Plan was 11,101,192, of which 996,603 shares remained available for future awards.

(b) Full Value Awards. Any Shares subject to Awards granted prior to June 14, 2019 with an exercise price less than Fair Market Value on the date of grant of such Awards will be counted against the numerical limits of this Section 3 as 2.12 Shares for every one Share subject thereto. Further, if Shares acquired pursuant to any such Award are forfeited or repurchased by the Company and would otherwise return to the Plan pursuant to Section 3(c), 2.12 times the number of Shares so forfeited or repurchased will return to the Plan and will again become available for issuance. This Section 3(b) shall not apply to Awards granted on or after June 14, 2019.

(c) Lapsed Awards. If an Award expires or becomes unexercisable without having been exercised in full, or, with respect to Restricted Stock, Restricted Stock Units, Performance Shares or Performance Units, is forfeited to or repurchased by the Company, the unpurchased Shares (or for Awards other than Options and Stock Appreciation Rights, the forfeited or repurchased Shares) which were subject thereto will become available for future grant or sale under the Plan (unless the Plan has terminated). Upon exercise of a Stock Appreciation Right settled in Shares, the gross number of Shares covered by the portion of the Award so exercised will cease to be available under the Plan. If the exercise price of an Option is paid by tender to the Company, or attestation to the ownership, of Shares owned by the Participant, the number of Shares available for issuance under the Plan will be reduced by the gross number of Shares for which the Option is exercised. Shares that have actually been issued under the Plan under any Award will not be returned to the Plan and will not become available for future distribution under the Plan; provided, however, that if unvested Shares of Restricted Stock, Restricted Stock Units, Performance Shares or Performance Units are repurchased by the Company or are forfeited to the Company, such Shares will become available for future grant under the Plan. Shares used to pay the tax and/or exercise price of an Award will not become available for future grant or sale under the Plan. To the extent an Award under the Plan is paid out in cash rather than Shares, such cash payment will not result in reducing the number of Shares available for issuance under the Plan. Notwithstanding the foregoing provisions of this Section 3(c), subject to adjustment provided in Section 17, the maximum number of Shares that may be issued upon the exercise of Incentive Stock Options will equal the aggregate Share number stated in Section 3(a), plus, to the extent allowable under Section 422 of the Code, any Shares that become available for issuance under the Plan under this Section 3(c).

(d) Share Reserve. The Company, during the term of this Plan, will at all times reserve and keep available such number of Shares as will be sufficient to satisfy the requirements of the Plan.

4. Administration of the Plan.

(a) Procedure.

(i) Multiple Administrative Bodies. Different Committees with respect to different groups of Service Providers may administer the Plan.

(ii) Rule 16b-3. To the extent desirable to qualify transactions hereunder as exempt under Rule 16b-3, the transactions contemplated hereunder will be structured to satisfy the requirements for exemption under Rule 16b-3.

(iii) Other Administration. Other than as provided above, the Plan will be administered by (A) the Board or (B) a Committee, which committee will be constituted to satisfy Applicable Laws.

(b) Powers of the Administrator. Subject to the provisions of the Plan, and in the case of a Committee, subject to the specific duties delegated by the Board to such Committee, the Administrator will have the authority, in its discretion:

(i) to determine the Fair Market Value;

(ii) to select the Service Providers to whom Awards may be granted hereunder;

(iii) to determine the number of Shares to be covered by each Award granted hereunder;

(iv) to approve forms of agreement for use under the Plan;

(v) with the approval of the Company's stockholders, to institute an Exchange Program;

(vi) to determine the terms and conditions, not inconsistent with the terms of the Plan, of any Award granted hereunder. Such terms and conditions include, but are not limited to, the exercise price, the time or times when Awards may be exercised (which may be based on performance criteria), any vesting acceleration or waiver of forfeiture restrictions, and any restriction or limitation regarding any Award or the Shares relating thereto, based in each case on such factors as the Administrator will determine;

(vii) to construe and interpret the terms of the Plan and Awards granted pursuant to the Plan;

(viii) to prescribe, amend and rescind rules and regulations relating to the Plan, including rules and regulations relating to sub-plans established for the purpose of satisfying applicable foreign laws;

(ix) to modify or amend each Award (subject to Section 22(c) of the Plan), including the discretionary authority to extend the post-termination exercisability period of Awards longer than is otherwise provided for in the Plan;

(x) to allow Participants to satisfy withholding tax obligations by electing to have the Company withhold from the Shares to be issued upon exercise of an Award that number of Shares having a Fair Market Value equal to the minimum amount required to be withheld (the Fair Market Value of the Shares to be withheld will be determined on the date that the amount of tax to be withheld is to be determined and all elections by a Participant to have Shares withheld for this purpose will be made in such form and under such conditions as the Administrator may deem necessary or advisable);

(xi) to authorize any person to execute on behalf of the Company any instrument required to effect the grant of an Award previously granted by the Administrator;

(xii) to allow a Participant to defer the receipt of the payment of cash or the delivery of Shares that would otherwise be due to such Participant under an Award pursuant to such procedures as the Administrator may determine; and

(xiii) to make all other determinations deemed necessary or advisable for administering the Plan.

(c) Effect of Administrator's Decision. The Administrator's decisions, determinations and interpretations will be final and binding on all Participants and any other holders of Awards.

5. Eligibility and Minimum Vesting.

(a) Eligibility. Nonstatutory Stock Options, Restricted Stock, Restricted Stock Units, Stock Appreciation Rights, Performance Units, Performance Shares, and such other cash or stock awards as the Administrator determines may be granted to Service Providers. Incentive Stock Options may be granted only to Employees.

(b) Minimum Vesting. Except as provided below, all Awards granted on or after June 14, 2019 that are designated to be settled in Shares shall be subject to the following minimum vesting requirements. All such time-based Awards shall vest over a period of at least one year from the date the Award was granted. All such performance-based Awards shall vest over a Performance Period of not less than one year, which may include the Fiscal Year during which the Award is granted. The foregoing minimum vesting requirements shall not apply: (i) with respect to 5% of the Shares which remain available for future awards as set forth in Section 3(a) (such 5% being the “Carve-Out Exception”), and (ii) to the vesting of an Award that is accelerated as a result of a Participant’s death or Disability, a Change in Control under terms consistent with this Plan or the Administrator’s exercise of discretion in accordance with the terms of this Plan. To the extent Section 3(a) is amended to increase the number of Shares reserved therein, then 5% of the Shares subject to such increase shall be added to, and increase, the number of Shares subject to the Carve-Out Exception.

6. Stock Options.

(a) Limitations.

(i) Each Option will be designated in the Award Agreement as either an Incentive Stock Option or a Nonstatutory Stock Option. However, notwithstanding such designation, to the extent that the aggregate Fair Market Value of the Shares with respect to which Incentive Stock Options are exercisable for the first time by the Participant during any calendar year (under all plans of the Company and any Parent or Subsidiary) exceeds $100,000 (U.S.), such Options will be treated as Nonstatutory Stock Options. For purposes of this Section 6(a), Incentive Stock Options will be taken into account in the order in which they were granted. The Fair Market Value of the Shares will be determined as of the time the Option with respect to such Shares is granted.

(ii) The following limitations will apply to grants of Options:

(1) No Service Provider will be granted, in any Fiscal Year, Options to purchase more than 1,000,000 Shares.

(2) In connection with his or her initial service, a Service Provider may be granted Options to purchase up to an additional 1,000,000 Shares, which will not count against the limit set forth in Section 6(a)(ii)(1) above.

(3) The foregoing limitations will be adjusted proportionately in connection with any change in the Company's capitalization as described in Section 17.

(4) If an Option is cancelled in the same Fiscal Year in which it was granted (other than in connection with a transaction described in Section 17), the cancelled Option will be counted against the limits set forth in subsections (1) and (2) above.

(b) Term of Option. The term of each Option will be stated in the Award Agreement, but in no event will the term be greater than seven (7) years from the date of grant. In the case of an Incentive Stock Option, the term will be seven (7) years from the date of grant or such shorter term as may be provided in the Award Agreement. Moreover, in the case of an Incentive Stock Option granted to a Participant who, at the time the Incentive Stock Option is granted, owns stock representing more than ten percent (10%) of the total combined voting power of all classes of stock of the Company or any Parent or Subsidiary, the term of the Incentive Stock Option will be five (5) years from the date of grant or such shorter term as may be provided in the Award Agreement.

(c) Option Exercise Price and Consideration.

(i) Exercise Price. The per share exercise price for the Shares to be issued pursuant to exercise of an Option will be determined by the Administrator, subject to the following:

(1) In the case of an Incentive Stock Option

a) granted to an Employee who, at the time the Incentive Stock Option is granted, owns stock representing more than ten percent (10%) of the voting power of all classes of stock of the Company or any Parent or Subsidiary, the per Share exercise price will be no less than 110% of the Fair Market Value per Share on the date of grant.

b) granted to any Employee other than an Employee described in paragraph (A) immediately above, the per Share exercise price will be no less than 100% of the Fair Market Value per Share on the date of grant.

c) Notwithstanding the foregoing, Incentive Stock Options may be granted with a per Share exercise price of less than 100% of the Fair Market Value per Share on the date of grant pursuant to a transaction described in, and in a manner consistent with, Section 424(a) of the Code.

(2) In the case of a Nonstatutory Stock Option, the per Share exercise price will be determined by the Administrator, but the per Share exercise price will be no less than 100% of Fair Market Value per Share on the date of grant. Notwithstanding the foregoing, Nonstatutory Stock Options may be grated with a per Share exercise price of less than 100% of the Fair Market Value per Share on the date of grant pursuant to a transaction described in, and in a manner consistent with, Section 424(a) of the Code.

(3) Waiting Period and Exercise Dates. At the time an Option is granted, the Administrator will fix the period within which the Option may be exercised and will determine any conditions that must be satisfied before the Option may be exercised.

(4) Form of Consideration. The Administrator will determine the acceptable form(s) of consideration for exercising an Option, including the method of payment. In the case of an Incentive Stock Option, the Administrator will determine the acceptable form of consideration at the time of grant. Such consideration may consist entirely of: (1) cash; (2) check; (3) promissory note; (4) other Shares, provided that such Shares have a Fair Market Value on the date of surrender equal to the aggregate exercise price of the Shares as to which said Option will be exercised and provided that accepting such Shares, in the sole discretion of the Administrator, shall not result in any adverse accounting consequences to the Company; (5) consideration received by the Company under a cashless exercise program implemented by the Company in connection with the Plan; (6) a reduction in the amount of any Company liability to the Participant, including any liability attributable to the Participant's participation in any Company-sponsored deferred compensation program or arrangement; (7) such other consideration and method of payment for the issuance of Shares to the extent permitted by Applicable Laws; or (8) any combination of the foregoing methods of payment.

(d) Exercise of Option.

(i) Procedure for Exercise; Rights as a Stockholder. Any Option granted hereunder will be exercisable according to the terms of the Plan and at such times and under such conditions as determined by the Administrator and set forth in the Award Agreement. An Option may not be exercised for a fraction of a Share.

An Option will be deemed exercised when the Company receives: (i) written or electronic notice of exercise (in accordance with the Award Agreement) from the person entitled to exercise the Option, and (ii) full payment for the Shares with respect to which the Option is exercised. Full payment may consist of any consideration and method of payment authorized by the Administrator and permitted by the Award Agreement and the Plan. Shares issued upon exercise of an Option will be issued in the name of the Participant or, if requested by the Participant, in the name of the Participant and his or her spouse. Until the Shares are issued (as evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company), no right to vote or receive dividends or any other rights as a stockholder will exist with respect to the Shares, notwithstanding the exercise of the Option. The Company will issue (or cause to be issued) such Shares promptly after the Option is exercised. No adjustment will be made for a dividend or other right for which the record date is prior to the date the Shares are issued, except as provided in Section 17 of the Plan.

Exercising an Option in any manner will decrease the number of Shares thereafter available, both for purposes of the Plan and for sale under the Option, by the number of Shares as to which the Option is exercised.

(ii) Termination of Relationship as a Service Provider. If a Participant ceases to be a Service Provider, other than upon the Participant’s termination as the result of the Participant’s death or Disability, the Participant may exercise his or her Option within such period of time as is specified in the Award Agreement to the extent that the Option is vested on the date of termination (but in no event later than the expiration of the term of such Option as set forth in the Award Agreement). In the absence of a specified time in the Award Agreement, the Option will remain exercisable for three (3) months following the Participant's termination. Unless otherwise provided by the Administrator, if on the date of termination the Participant is not vested as to his or her entire Option, the Shares covered by the unvested portion of the Option will revert to the Plan. If after termination the Participant does not exercise his or her Option within the time specified by the Administrator, the Option will terminate, and the Shares covered by such Option will revert to the Plan.

(iii) Disability of Participant. If a Participant ceases to be a Service Provider as a result of the Participant's Disability, the Participant may exercise his or her Option within such period of time as is specified in the Award Agreement to the extent the Option is vested on the date of termination (but in no event later than the expiration of the term of such Option as set forth in the Award Agreement). In the absence of a specified time in the Award Agreement, the Option will remain exercisable for twelve (12) months following the Participant's termination. Unless otherwise provided by the Administrator, if on the date of termination the Participant is not vested as to his or her entire Option, the Shares covered by the unvested portion of the Option will revert to the Plan. If after termination the Participant does not exercise his or her Option within the time specified herein, the Option will terminate, and the Shares covered by such Option will revert to the Plan.

(iv) Death of Participant. If a Participant dies while a Service Provider, the Option may be exercised following the Participant's death within such period of time as is specified in the Award Agreement to the extent that the Option is vested on the date of death (but in no event may the option be exercised later than the expiration of the term of such Option as set forth in the Award Agreement), by the Participant's designated beneficiary, provided such beneficiary has been designated prior to Participant's death in a form acceptable to the Administrator. If no such beneficiary has been designated by the Participant, then such Option may be exercised by the personal representative of the Participant's estate or by the person(s) to whom the Option is transferred pursuant to the Participant's will or in accordance with the laws of descent and distribution. In the absence of a specified time in the Award Agreement, the Option will remain exercisable for twelve (12) months following Participant's death. Unless otherwise provided by the Administrator, if at the time of death Participant is not vested as to his or her entire Option, the Shares covered by the unvested portion of the Option will immediately revert to the Plan. If the Option is not so exercised within the time specified herein, the Option will terminate, and the Shares covered by such Option will revert to the Plan.

7. Restricted Stock.

(a) Grant of Restricted Stock. Subject to the terms and provisions of the Plan, the Administrator, at any time and from time to time, may grant Shares of Restricted Stock to Service Providers in such amounts as the Administrator, in its sole discretion, will determine.

(b) Restricted Stock Agreement. Each Award of Restricted Stock will be evidenced by an Award Agreement that will specify the Period of Restriction, the number of Shares granted, and such other terms and conditions as the Administrator, in its sole discretion, will determine. Notwithstanding the foregoing sentence, during any Fiscal Year no Participant will receive more than an aggregate of 300,000 Shares of Restricted Stock. Notwithstanding the foregoing limitation, in connection with his or her initial service as an Employee, an Employee may be granted an aggregate of up to an additional 300,000 Shares of Restricted Stock. Unless the Administrator determines otherwise, Shares of Restricted Stock will be held by the Company as escrow agent until the restrictions on such Shares have lapsed.

(c) Transferability. Except as provided in this Section 7, Shares of Restricted Stock may not be sold, transferred, pledged, assigned, or otherwise alienated or hypothecated until the end of the applicable Period of Restriction.

(d) Other Restrictions. The Administrator, in its sole discretion, may impose such other restrictions on Shares of Restricted Stock as it may deem advisable or appropriate.

(e) Removal of Restrictions. Except as otherwise provided in this Section 7, Shares of Restricted Stock covered by each Restricted Stock grant made under the Plan will be released from escrow as soon as practicable after the last day of the Period of Restriction. The Administrator, in its discretion, may accelerate the time at which any restrictions will lapse or be removed.

(f) Voting Rights. During the Period of Restriction, Service Providers holding Shares of Restricted Stock granted hereunder may exercise full voting rights with respect to those Shares, unless the Administrator determines otherwise.

(g) Dividends and Other Distributions. During the Period of Restriction, Service Providers holding Shares of Restricted Stock will not be entitled to receive dividends or other distributions paid with respect to such Shares. Following the lapse of the Period of Restriction, Service Providers will be entitled to receive all dividends or other distributions paid with respect to such Shares that accrue after the lapse of the Period of Restrictions. If any such dividends or distributions are paid in Shares, the Shares will be subject to the same restrictions on transferability as the Shares with respect to which they were paid.

(h) Return of Restricted Stock to Company. On the date set forth in the Award Agreement, the Restricted Stock for which restrictions have not lapsed will revert to the Company and again will become available for grant under the Plan.

(i) Performance Restrictions. The Administrator, in its discretion, may set restrictions based upon the achievement of Performance Goals. The Performance Goals will be set by the Administrator.

8. Restricted Stock Units.

(a) Grant. Restricted Stock Units may be granted at any time and from time to time as determined by the Administrator. Each Restricted Stock Unit grant will be evidenced by an Award Agreement that will specify such other terms and conditions as the Administrator, in its sole discretion, will determine, including all terms, conditions, and restrictions related to the grant, the number of Restricted Stock Units and the form of payout, which, subject to Section 8(d), may be left to the discretion of the Administrator. Notwithstanding anything to the contrary in this subsection (a), during any Fiscal Year of the Company, no Participant will receive more than an aggregate of 300,000 Restricted Stock Units. Notwithstanding the limitation in the previous sentence, in connection with his or her initial service as an Employee, an Employee may be granted an aggregate of up to an additional 300,000 Restricted Stock Units.

(b) Vesting Criteria and Other Terms. The Administrator will set vesting criteria in its discretion, which, depending on the extent to which the criteria are met, will determine the number of Restricted Stock Units that will be paid out to the Participant. After the grant of Restricted Stock Units, the Administrator, in its sole discretion, may reduce or waive any restrictions for such Restricted Stock Units. Each Award of Restricted Stock Units will be evidenced by an Award Agreement that will specify the vesting criteria, and such other terms and conditions as the Administrator, in its sole discretion will determine. The Administrator, in its discretion, may accelerate the time at which any restrictions will lapse or be removed.

(c) Earning Restricted Stock Units. Upon meeting the applicable vesting criteria, the Participant will be entitled to receive a payout as specified in the Award Agreement.

(d) Form and Timing of Payment. Payment of earned Restricted Stock Units will be made as soon as practicable after the date(s) set forth in the Award Agreement. The Administrator, in its sole discretion, may pay earned Restricted Stock Units in cash, Shares, or a combination thereof. Shares represented by Restricted Stock Units that are fully paid in cash again will be available for grant under the Plan.

(e) Cancellation. On the date set forth in the Award Agreement, all unearned Restricted Stock Units will be forfeited to the Company.

(f) Performance Restrictions. The Administrator, in its discretion, may set restrictions based upon the achievement of Performance Goals. The Performance Goals will be set by the Administrator.

9. Stock Appreciation Rights.

(a) Grant of SARs. Subject to the terms and conditions of the Plan, a SAR may be granted to Service Providers at any time and from time to time as will be determined by the Administrator, in its sole discretion. The Administrator may grant Affiliated SARs, Freestanding SARs, Tandem SARs, or any combination thereof.

(b) Number of Shares. The Administrator will have complete discretion to determine the number of SARs granted to any Service Provider; provided, however, no Service Provider will be granted, in any Fiscal Year, SARs covering more than 1,000,000 Shares. Notwithstanding the limitation in the previous sentence, in connection with his or her initial service a Service Provider may be granted SARs covering up to an additional 1,000,000 Shares. The foregoing limitations will be adjusted proportionately in connection with any change in the Company's capitalization as described in Section 17. In addition, if a SAR is cancelled in the same Fiscal Year in which it was granted (other than in connection with a transaction described in Section 17), the cancelled SAR will be counted against the numerical share limits set forth above.

(c) Exercise Price and Other Terms. The Administrator, subject to the provisions of the Plan, will have complete discretion to determine the terms and conditions of SARs granted under the Plan; provided, however, that the per Share exercise price of a SAR will be no less than 100% of the Fair Market Value per Share on the date of grant. However, the exercise price of Tandem or Affiliated SARs will equal the exercise price of the related Option.

(d) Exercise of Tandem SARs. Tandem SARs may be exercised for all or part of the Shares subject to the related Option upon the surrender of the right to exercise the equivalent portion of the related Option. A Tandem SAR may be exercised only with respect to the Shares for which its related Option is then exercisable. With respect to a Tandem SAR granted in connection with an Incentive Stock Option: (a) the Tandem SAR will expire no later than the expiration of the underlying Incentive Stock Option; (b) the value of the payout with respect to the Tandem SAR will be for no more than one hundred percent (100%) of the difference between the exercise price of the underlying Incentive Stock Option and the Fair Market Value of the Shares subject to the underlying Incentive Stock Option at the time the Tandem SAR is exercised; and (c) the Tandem SAR will be exercisable only when the Fair Market Value of the Shares subject to the Incentive Stock Option exceeds the Exercise Price of the Incentive Stock Option.

(e) Exercise of Affiliated SARs. An Affiliated SAR will be deemed to be exercised upon the exercise of the related Option. The deemed exercise of an Affiliated SAR will not necessitate a reduction in the number of Shares subject to the related Option.

(f) Exercise of Freestanding SARs. Freestanding SARs will be exercisable on such terms and conditions as the Administrator, in its sole discretion, will determine.

(g) SAR Agreement. Each SAR grant will be evidenced by an Award Agreement that will specify the exercise price, the term of the SAR, the conditions of exercise, and such other terms and conditions as the Administrator, in its sole discretion, will determine.

(h) Maximum Term/Expiration of SARs. An SAR granted under the Plan will expire upon the date determined by the Administrator, in its sole discretion, and set forth in the Award Agreement. Notwithstanding the foregoing provisions of this Section 9, the rules of Section 6(b) relating to the maximum term, (i.e., that an SAR may not have a term longer than seven (7) years from the date of grant) and Section 6(d) relating to post-termination exercise also will apply to SARs.

(i) Payment of SAR Amount. Upon exercise of an SAR, a Participant will be entitled to receive payment from the Company in an amount determined by multiplying:

(i) The difference between the Fair Market Value of a Share on the date of exercise over the exercise price; times

(ii) The number of Shares with respect to which the SAR is exercised.

At the discretion of the Administrator, the payment upon SAR exercise may be in cash, in Shares of equivalent value, or in some combination thereof.

10. Performance Units and Performance Shares.

(a) Grant of Performance Units/Shares. Performance Units and Performance Shares may be granted to Service Providers at any time and from time to time, as will be determined by the Administrator, in its sole discretion. The Administrator will have complete discretion in determining the number of Performance Units and Performance Shares granted to each Participant provided that during any Fiscal Year, (i) no Participant will receive Performance Units having an initial value greater than $2,000,000, and (ii) no Participant will receive more than 300,000 Performance Shares. Notwithstanding the foregoing limitation, in connection with his or her initial service, a Service Provider may be granted up to an additional 300,000 Performance Shares.

(b) Value of Performance Units/Shares. Each Performance Unit will have an initial value that is established by the Administrator on or before the date of grant. Each Performance Share will have an initial value equal to the Fair Market Value of a Share on the date of grant.

(c) Performance Objectives and Other Terms. The Administrator will set performance objectives or other vesting provisions in its discretion which, depending on the extent to which they are met, will determine the number or value of Performance Units/Shares that will be paid out to the Service Providers. Each Award of Performance Units/Shares will be evidenced by an Award Agreement that will specify the Performance Period, and such other terms and conditions as the Administrator, in its sole discretion, will determine. The Administrator may set vesting criteria based upon the achievement of Company-wide, business unit, or individual goals (including, but not limited to, continued employment), or any other basis determined by the Administrator in its discretion.

(d) Earning of Performance Units/Shares. After the applicable Performance Period has ended, the holder of Performance Units/Shares will be entitled to receive a payout of the number of Performance Units/Shares earned by the Participant over the Performance Period, to be determined as a function of the extent to which the corresponding performance objectives or other vesting provisions have been achieved. After the grant of a Performance Unit/Share, the Administrator, in its sole discretion, may reduce or waive any performance objectives or other vesting provisions for such Performance Unit/Share.

(e) Form and Timing of Payment of Performance Units/Shares. Payment of earned Performance Units/Shares will be made as soon as practicable after the expiration of the applicable Performance Period. The Administrator, in its sole discretion, may pay earned Performance Units/Shares in the form of cash, in Shares (which have an aggregate Fair Market Value equal to the value of the earned Performance Units/Shares at the close of the applicable Performance Period) or in a combination thereof.

(f) Cancellation of Performance Units/Shares. On the date set forth in the Award Agreement, all unearned or unvested Performance Units/Shares will be forfeited to the Company, and again will be available for grant under the Plan.

(g) Performance Restrictions. The Administrator, in its discretion, may set restrictions based upon the achievement of Performance Goals. The Performance Goals will be set by the Administrator.

11. Formula Award Grants to Outside Directors.

All grants of Awards to Outside Directors pursuant to this Section will be automatic and nondiscretionary and will be made in accordance with the following provisions:

(a) Type of Award. All Awards granted pursuant to this Section will be Restricted Stock and, except as otherwise provided herein, will be subject to the other terms and conditions of the Plan.

(b) No Discretion. No person will have any discretion to select which Outside Directors will be granted Awards under this Section or to determine the number of Shares to be covered by such Restricted Stock (except as provided in Sections 11(f), 13 and 17).

(c) Initial Award. Each person who first becomes an Outside Director following the Registration Date will be automatically granted a number of Shares of Restricted Stock determined by dividing $150,000 by the closing market price of the Common Stock on the date such person first becomes an Outside Director and rounding down to the nearest full share (the “Initial Award”) on or about the date on which such person first becomes an Outside Director, whether through election by the stockholders of the Company or appointment by the Board to fill a vacancy; provided, however, that an Inside Director who ceases to be an Inside Director, but who remains a Director, will not receive a First Option.

(d) Subsequent Award. Each Outside Director will be automatically granted a number of Shares of Restricted Stock determined by dividing $100,000 by the closing market price of the Common Stock on the date of the annual meeting of the stockholders of the Company and rounding down to the nearest full share (a “Subsequent Award”), if as of such date, he or she will have served on the Board for at least the preceding six (6) months.

(e) Terms. The terms of each Initial Award and the Subsequent Award granted pursuant to this Section will be as follows:

(i) Subject to Section 17, the Initial Award will vest as to 1/3rd of the Shares subject to such Initial Award on each anniversary of its date of grant, provided that the Participant continues to serve as a Director through each such date.

(ii) Subject to Section 17, the Subsequent Award will vest as to 100% of the Shares subject to such Award on the first anniversary of its date of grant, provided that the Participant continues to serve as a Director through such date.

(f) Amendment. The Administrator in its discretion may change and otherwise revise the terms of Awards granted under this Section 11, including, without limitation, the number of Shares and exercise prices thereof or the type of Award to be granted, with respect to Awards granted on or after the date the Administrator determines to make any such change or revision.

12. Performance Goals. The granting and/or vesting of Awards of Restricted Stock, Restricted Stock Units, Performance Shares and Performance Units and other incentives under the Plan may be made subject to the attainment of performance goals relating to one or more business criteria and may provide for a targeted level or levels of achievement ("Performance Goals") including: (i) cash position, (ii) earnings per Share, (iii) net income, (iv) operating cash flow, (v) operating income, (vi) operating expenses, (vii) product revenues, (viii) profit after-tax, (ix) revenue, (x) revenue growth, and (xii) total stockholder return. Prior to the Determination Date, the Administrator will determine whether any significant element(s) will be included in or excluded from the calculation of any Performance Goal with respect to any Participant. Any Performance Goals may be used to measure the performance of the Company as a whole or a business unit of the Company and may be measured relative to a peer group or index. With respect to any Award, Performance Goals may be used alone or in combination. The Performance Goals may differ from Participant to Participant and from Award to Award. Prior to the Determination Date, the Administrator will determine whether any significant element(s) will be included in or excluded from the calculation of any Performance Goal with respect to any Participant.

13. Outside Director Limitations. No Outside Director may be granted, in any Fiscal Year, Awards with a grant date fair value (determined in accordance with U.S. generally accepted accounting principles) of greater than $300,000. Any Awards granted to an individual while he or she was an Employee, or while he or she was a Consultant but not an Outside Director, will not count for purposes of the limitations under this Section 13.

14. Leaves of Absence. Unless the Administrator provides otherwise, vesting of Awards granted hereunder will be suspended during any unpaid leave of absence. A Service Provider will not cease to be an Employee in the case of (i) any leave of absence approved by the Company, or (ii) transfers between locations of the Company or between the Company, its Parent, or any Subsidiary. For purposes of Incentive Stock Options, no such leave may exceed three (3) months, unless reemployment upon expiration of such leave is guaranteed by statute or contract. If reemployment upon expiration of a leave of absence approved by the Company is not so guaranteed, then six (6) months and one day following the commencement of such leave any Incentive Stock Option held by the Participant will cease to be treated as an Incentive Stock Option and will be treated for tax purposes as a Nonstatutory Stock Option.

15. Transferability of Awards. Unless determined otherwise by the Administrator, an Award may not be sold, pledged, assigned, hypothecated, transferred, or disposed of in any manner other than by will or by the laws of descent or distribution and may be exercised, during the lifetime of the Participant, only by the Participant. If the Administrator makes an Award transferable, such Award will contain such additional terms and conditions as the Administrator deems appropriate.

16. Dividends. To the extent an Award permits the payment of dividends or other distributions on the Shares underlying the Award, Participants will not be entitled to receive such dividends or other distributions until such Award vests. For the avoidance of doubt, Participants will never be entitled to receive dividends or other distributions paid with respect to Shares underlying an Award that accrue prior to the vesting of such Award.

17. Adjustments; Dissolution or Liquidation; Merger or Change in Control.

(a) Adjustments. In the event that any dividend or other distribution (whether in the form of cash, Shares, other securities, or other property), recapitalization, stock split, reverse stock split, reorganization, merger, consolidation, split-up, spin-off, combination, repurchase, or exchange of Shares or other securities of the Company, or other change in the corporate structure of the Company affecting the Shares occurs, the Administrator, in order to prevent diminution or enlargement of the benefits or potential benefits intended to be made available under the Plan, shall appropriately adjust the number and class of Shares that may be delivered under the Plan and/or the number, class, and price of Shares covered by each outstanding Award, and the numerical Share limits set forth in Sections 3, 6, 7, 8, 9, 10 and 13.

(b) Dissolution or Liquidation. In the event of the proposed dissolution or liquidation of the Company, the Administrator will notify each Participant as soon as practicable prior to the effective date of such proposed transaction. To the extent it has not been previously exercised, an Award will terminate immediately prior to the consummation of such proposed action.

(c) Change in Control. In the event of a Change in Control, each outstanding Award will be assumed or an equivalent option or right substituted by the successor corporation or a Parent or Subsidiary of the successor corporation. In the event that the successor corporation refuses to assume or substitute for the Award, the Participant will fully vest in and have the right to exercise all of his or her outstanding Options and Stock Appreciation Rights, including Shares as to which such Awards would not otherwise be vested or exercisable, all restrictions on Restricted Stock shall lapse, and, with respect to Restricted Stock Units, Performance Shares and Performance Units, all performance goals or other vesting criteria will be deemed achieved at target levels and all other terms and conditions met. In addition, if an Option or Stock Appreciation Right is not assumed or substituted for in the event of a Change in Control, the Administrator will notify the Participant in writing or electronically that the Option or Stock Appreciation Right will be fully vested and exercisable for a period of time determined by the Administrator in its sole discretion, and the Option or Stock Appreciation Right will terminate upon the expiration of such period.

With respect to Awards granted to an Outside Director that are assumed or substituted for, if on the date of or following such assumption or substitution the Participant's status as a Director or a director of the successor corporation, as applicable, is terminated other than upon a voluntary resignation by the Participant not at the request of the successor, then the Participant will fully vest in and have the right to exercise Options and/or Stock Appreciation Rights as to all of the Shares subject to the Award, including Shares as to which such Awards would not otherwise be vested or exercisable, all restrictions on Restricted Stock shall lapse, and, with respect to Restricted Stock Units, Performance Shares and Performance Units, all performance goals or other vesting criteria will be deemed achieved at target levels and all other terms and conditions met.

For the purposes of this subsection (c), an Award will be considered assumed if, following the Change in Control, the Award confers the right to purchase or receive, for each Share subject to the Award immediately prior to the Change in Control, the consideration (whether stock, cash, or other securities or property) or, in the case of a Stock Appreciation Right upon the exercise of which the Administrator determines to pay cash or a Restricted Stock Unit, Performance Share or Performance Unit which the Administrator can determine to pay in cash, the fair market value of the consideration received in the merger or Change in Control by holders of Common Stock for each Share held on the effective date of the transaction (and if holders were offered a choice of consideration, the type of consideration chosen by the holders of a majority of the outstanding Shares); provided, however, that if such consideration received in the Change in Control is not solely common stock of the successor corporation or its Parent, the Administrator may, with the consent of the successor corporation, provide for the consideration to be received upon the exercise of an Option or Stock Appreciation Right or upon the payout of a Restricted Stock Unit, Performance Share or Performance Unit, for each Share subject to such Award (or in the case of Performance Units, the number of implied shares determined by dividing the value of the Performance Units by the per share consideration received by holders of Common Stock in the Change in Control), to be solely common stock of the successor corporation or its Parent equal in fair market value to the per share consideration received by holders of Common Stock in the Change in Control.

Notwithstanding anything in this Section 17(c) to the contrary, an Award that vests, is earned or paid-out upon the satisfaction of one or more Performance Goals will not be considered assumed if the Company or its successor modifies any of such Performance Goals without the Participant's consent; provided, however, a modification to such Performance Goals only to reflect the successor corporation's post-Change in Control corporate structure will not be deemed to invalidate an otherwise valid Award assumption.

18. Tax Withholding

(a) Withholding Requirements. Prior to the delivery of any Shares or cash pursuant to an Award (or exercise thereof), the Company will have the power and the right to deduct or withhold, or require a Participant to remit to the Company, an amount sufficient to satisfy federal, state, local, foreign or other taxes (including the Participant's FICA obligation) required to be withheld with respect to such Award (or exercise thereof).

(b) Withholding Arrangements. The Administrator, in its sole discretion and pursuant to such procedures as it may specify from time to time, may permit a Participant to satisfy such tax withholding obligation, in whole or in part by (without limitation) (i) paying cash, (ii) electing to have the Company withhold otherwise deliverable cash or Shares having a Fair Market Value equal to the minimum amount required to be withheld, (iii) delivering to the Company already-owned Shares having a Fair Market Value equal to the amount required to be withheld, or (iv) selling a sufficient number of Shares otherwise deliverable to the Participant through such means as the Administrator may determine in its sole discretion (whether through a broker or otherwise) equal to the amount required to be withheld. The amount of the withholding requirement will be deemed to include any amount which the Administrator agrees may be withheld at the time the election is made, not to exceed the amount determined by using the maximum federal, state or local marginal income tax rates applicable to the Participant with respect to the Award on the date that the amount of tax to be withheld is to be determined. The Fair Market Value of the Shares to be withheld or delivered will be determined as of the date that the taxes are required to be withheld.

19. No Effect on Employment or Service. Neither the Plan nor any Award will confer upon a Participant any right with respect to continuing the Participant's relationship as a Service Provider with the Company, nor will they interfere in any way with the Participant's right or the Company's right to terminate such relationship at any time, with or without cause, to the extent permitted by Applicable Laws.

20. Date of Grant. The date of grant of an Award will be, for all purposes, the date on which the Administrator makes the determination granting such Award, or such later date as is determined by the Administrator. Notice of the determination will be provided to each Participant within a reasonable time after the date of such grant.

21. Term of Plan. Subject to Section 25 of the Plan, the Plan will become effective upon its adoption by the Board. It will continue in effect until the date of the annual meeting of the stockholders of the Company in 2029, unless terminated earlier under Section 22 of the Plan.

22. Amendment and Termination of the Plan.

(a) Amendment and Termination. The Administrator may at any time amend, alter, suspend or terminate the Plan.

(b) Stockholder Approval. The Company will obtain stockholder approval of any Plan amendment to the extent necessary and desirable to comply with Applicable Laws.

(c) Effect of Amendment or Termination. No amendment, alteration, suspension or termination of the Plan will impair the rights of any Participant, unless mutually agreed otherwise between the Participant and the Administrator, which agreement must be in writing and signed by the Participant and the Company. Termination of the Plan will not affect the Administrator's ability to exercise the powers granted to it hereunder with respect to Awards granted under the Plan prior to the date of such termination.

23. Conditions Upon Issuance of Shares.

(a) Legal Compliance. Shares will not be issued pursuant to the exercise of an Award unless the exercise of such Award and the issuance and delivery of such Shares will comply with Applicable Laws and will be further subject to the approval of counsel for the Company with respect to such compliance.

(b) Investment Representations. As a condition to the exercise of an Award, the Company may require the person exercising such Award to represent and warrant at the time of any such exercise that the Shares are being purchased only for investment and without any present intention to sell or distribute such Shares if, in the opinion of counsel for the Company, such a representation is required.

(c) Company Policy. Any Shares received by a Participant pursuant to an Award granted on or after June 14, 2019, shall, to the extent applicable, be subject to the terms of the Company’s Stock Ownership Guidelines, as amended. Further, any amounts, whether in cash or Shares, received by a Participant pursuant to an Award granted on or after June 14, 2019 shall, to the extent applicable, be subject to a right of recoupment by the Company under the terms of the Company’s Clawback Policy adopted by the Board and as further amended from time to time hereafter.

24. Inability to Obtain Authority. The inability of the Company to obtain authority from any regulatory body having jurisdiction, which authority is deemed by the Company's counsel to be necessary to the lawful issuance and sale of any Shares hereunder, will relieve the Company of any liability in respect of the failure to issue or sell such Shares as to which such requisite authority will not have been obtained.

25. Stockholder Approval. The Plan will be subject to approval by the stockholders of the Company within twelve (12) months after the date the Plan is adopted. Such stockholder approval will be obtained in the manner and to the degree required under Applicable Laws.

EXHIBIT 31.1

Certification of Chief Executive Officer
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, David H. Mowry, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Cutera, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under its supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
    b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under its supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
    c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report its conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
    d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's first fiscal quarter in the case of an annual report) that has materially affected or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on its most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
    b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 11, 2020

/S/ DAVID H MOWRY
David H. Mowry
Chief Executive Officer
(Principal Executive Officer)

EXHIBIT 31.2

Certification of Chief Financial Officer
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Fuad Ahmad, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Cutera, Inc.:

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under its supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under its supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report its conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's first fiscal quarter in the case of an annual report) that has materially affected or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

6. The registrant's other certifying officer and I have disclosed, based on its most recent evaluation of internal control over financial reporting, to the registrant's auditor and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (e) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   (f) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 11, 2020

/S/ FUAD AHMAD
Fuad Ahmad
Interim Chief Financial Officer
(Principal Financial and Accounting Officer)

Exhibit 32.1

CERTIFICATIONS OF CHIEF EXECUTIVE OFFICER
AND CHIEF FINANCIAL OFFICER
PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

I, David H. Mowry, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that

i. the accompanying Quarterly Report on Form 10-Q of the Company for the quarterly period ended March 31, 2020 (the "Report") fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and
ii. the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 11, 2020

/S/ DAVID H. MOWRY
David H. Mowry
Chief Executive Officer
(Principal Executive Officer)

I, Fuad Ahmad, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that

i. the accompanying Quarterly Report on Form 10-Q of the Company for the quarterly period ended March 31, 2020 (the "Report") fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and
ii. the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 11, 2020

/S/ FUAD AHMAD
Fuad Ahmad
Interim Chief Financial Officer
(Principal Financial and Accounting Officer)

This certification accompanies this Report pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not be deemed filed by the Company for purposes of Section 18 of the Securities and Exchange Act of 1934, as amended.