

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 June 30, 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
(State or other jurisdiction of incorporation or
organization)

77-0492262
(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
Common Stock (\$0.001 par value)

Trading Symbol(s)
CUTR

Name of each exchange on which registered
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

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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 July 31, 2020, was 17,593,798.

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.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS (UNAUDITED)

CUTERA, INC.

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

	June 30, 2020	December 31, 2019
Assets		
Current assets:		
Cash and cash equivalents	\$ 33,659	\$ 26,316
Marketable investments	12,894	7,605
Accounts receivable, net of allowance for credit losses of \$1,796 and \$1,355, respectively	13,826	21,556
Inventories	31,240	33,921
Other current assets and prepaid expenses	5,313	5,648
Total current assets	96,932	95,046

Property and equipment, net	2,417	2,817
Deferred tax asset	419	423
Operating lease right-of-use assets	7,577	7,702
Goodwill	1,339	1,339
Other long-term assets	4,733	6,411
Total assets	\$ 113,417	\$ 113,738

Liabilities and Stockholders' Equity

Current liabilities:

Accounts payable	\$ 11,681	\$ 12,685
Accrued liabilities	20,423	30,307
Operating lease liabilities	1,526	2,800
Extended warranty liability	1,660	1,999
Deferred revenue	9,345	10,831
Total current liabilities	44,635	58,622

Deferred revenue, net of current portion	2,434	3,391
Income tax liability	93	93
Long-Term Debt	7,149	-
Operating lease liabilities, net of current portion	6,262	5,112
Other long-term liabilities	345	578
Total liabilities	60,918	67,796

Commitments and Contingencies (Notes 11 and 12)

Stockholders' equity:

Common stock, \$0.001 par value; authorized: 50,000,000 shares; issued and outstanding: 17,567,688 and 14,315,586 shares at June 30, 2020 and December 31, 2019, respectively	18	14
Additional paid-in capital	112,644	82,346
Accumulated deficit	(60,166)	(36,358)
Accumulated other comprehensive income (loss)	3	(60)
Total stockholders' equity	52,499	45,942
Total liabilities and stockholders' equity	\$ 113,417	\$ 113,738

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

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CUTERA, INC.

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

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2020	2019	2020	2019
Net revenue:				
Products	\$ 21,745	\$ 41,968	\$ 48,136	\$ 72,730
Service	4,624	5,806	10,472	11,070
Total net revenue	26,369	47,774	58,608	83,800
Cost of revenue:				
Products	12,206	18,393	26,309	33,935
Service	2,539	3,550	6,339	6,725
Total cost of revenue	14,745	21,943	32,648	40,660
Gross profit	11,624	25,831	25,960	43,140
Operating expenses:				
Sales and marketing	11,035	16,992	25,823	33,096
Research and development	2,991	3,273	6,862	6,979
General and administrative	8,529	5,267	16,336	10,792
Total operating expenses	22,555	25,532	49,021	50,867
Income (loss) from operations	(10,931)	299	(23,061)	(7,727)
Interest and other income (expense), net	3	46	(204)	(33)
Income (loss) before income taxes	(10,928)	345	(23,265)	(7,760)
Income tax expense (benefit)	466	(243)	543	(128)
Net income (loss)	\$ (11,394)	\$ 588	\$ (23,808)	\$ (7,632)
Net income (loss) per share:				
Basic	\$ (0.67)	\$ 0.04	\$ (1.51)	\$ (0.54)
Diluted	\$ (0.67)	\$ 0.04	\$ (1.51)	\$ (0.54)

Weighted-average number of shares used in per share calculations				
Basic	17,055	14,086	15,744	14,051
Diluted	17,055	14,356	15,744	14,051

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

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CUTERA, INC.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Net income (loss)	\$ (11,394)	\$ 588	\$ (23,808)	\$ (7,632)
Other comprehensive income:				
Available-for-sale investments				
Net change in unrealized gain on available-for-sale investments	-	3	-	9
Less: Reclassification adjustment for losses on investments recognized during the period	2	-	63	-
Net change in unrealized gain on available-for-sale investments	2	3	63	9
Other comprehensive gain, net of tax	2	3	63	9
Comprehensive income (loss)	\$ (11,392)	\$ 591	\$ (23,745)	\$ (7,623)

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

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CUTERA, INC.

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

Three and Six Months Ended June 30, 2020

	Common Stock		Additional	Accumulated	Accumulated	Total
	Shares	Amount	Paid-in Capital	Deficit	Other Comprehensive Income (loss)	Stockholders' Equity
Balance at December 31, 2019	14,315,586	\$ 14	\$ 82,346	\$ (36,358)	\$ (60)	\$ 45,942
Issuance of common stock for employee purchase plan	39,248	-	437	-	-	437
Exercise of stock options	46,128	-	411	-	-	411
Issuance of common stock in connection with public offering, net of offering costs of \$2,303	2,742,750	3	26,493	-	-	26,496
Issuance of common stock in settlement of restricted and performance stock units, and net of shares withheld for employee taxes.	423,976	1	(3,118)	-	-	(3,117)
Stock-based compensation expense	-	-	6,075	-	-	6,075
Net loss	-	-	-	(23,808)	-	(23,808)
Net change in unrealized gain on available-for-sale investments	-	-	-	-	63	63
Balance at June 30, 2020	17,567,688	\$ 18	\$ 112,644	\$ (60,166)	\$ 3	\$ 52,499

	Common Stock		Additional	Accumulated	Accumulated	Total
	Shares	Amount	Paid-in Capital	Deficit	Other Comprehensive Income (loss)	Stockholders' Equity
Balance at April 1, 2020	14,578,146	\$ 15	\$ 82,292	\$ (48,772)	\$ 1	\$ 33,536
Issuance of common stock for employee purchase plan	39,248	-	437	-	-	437
Exercise of stock options	23,837	-	210	-	-	210

Issuance of common stock in connection with public offering, net of offering costs of \$2,303	2,742,750	3	26,493	-	-	26,496
Issuance of common stock in settlement of restricted and performance stock units, and net of shares withheld for employee taxes.	183,707	-	(883)	-	-	(883)
Stock-based compensation expense	-	-	4,095	-	-	4,095
Net loss	-	-	-	(11,394)	-	(11,394)
Net change in unrealized gain on available-for-sale investments	-	-	-	-	2	2
Balance at June 30, 2020	<u>17,567,688</u>	<u>\$ 18</u>	<u>\$ 112,644</u>	<u>\$ (60,166)</u>	<u>\$ 3</u>	<u>\$ 52,499</u>

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Three and Six Months Ended June 30, 2019

	<u>Common Stock</u>		<u>Additional Paid-in Capital</u>	<u>Accumulated Deficit</u>	<u>Accumulated Other Comprehensive Income (loss)</u>	<u>Total Stockholders' Equity</u>
	<u>Shares</u>	<u>Amount</u>				
Balance at December 31, 2018	13,968,852	\$ 14	\$ 70,451	\$ (24,010)	\$ (69)	\$ 46,386
Issuance of common stock for employee purchase plan	53,803	-	832	-	-	832
Exercise of stock options	40,454	-	331	-	-	331
Issuance of common stock in settlement of restricted and performance stock units, and net of shares withheld for employee taxes.	79,187	-	(570)	-	-	(570)
Stock-based compensation expense	-	-	3,826	-	-	3,826
Net loss	-	-	-	(7,632)	-	(7,632)
Net change in unrealized gain on available-for-sale investments	-	-	-	-	9	9
Balance at June 30, 2019	<u>14,142,296</u>	<u>\$ 14</u>	<u>\$ 74,870</u>	<u>\$ (31,642)</u>	<u>\$ (60)</u>	<u>\$ 43,182</u>

	<u>Common Stock</u>		<u>Additional Paid-in Capital</u>	<u>Accumulated Deficit</u>	<u>Accumulated Other Comprehensive Income (loss)</u>	<u>Total Stockholders' Equity</u>
	<u>Shares</u>	<u>Amount</u>				
Balance at April 1, 2019	14,035,375	\$ 14	\$ 71,399	\$ (32,230)	\$ (63)	\$ 39,120
Issuance of common stock for employee purchase plan	53,803	-	832	-	-	832
Exercise of stock options	25,422	-	200	-	-	200
Issuance of common stock in settlement of restricted and performance stock units, and net of shares withheld for employee taxes.	27,696	-	(80)	-	-	(80)
Stock-based compensation expense	-	-	2,519	-	-	2,519
Net income	-	-	-	588	-	588
Net change in unrealized gain on available-for-sale investments	-	-	-	-	3	3
Balance at June 30, 2019	<u>14,142,296</u>	<u>\$ 14</u>	<u>\$ 74,870</u>	<u>\$ (31,642)</u>	<u>\$ (60)</u>	<u>\$ 43,182</u>

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

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CUTERA, INC.

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

	<u>Six Months Ended June 30,</u>	
	<u>2020</u>	<u>2019</u>
Cash flows from operating activities:		
Net loss	\$ (23,808)	\$ (7,632)
Adjustments to reconcile net loss to net cash used in operating activities:		
Stock-based compensation	6,075	3,826
Depreciation of tangible assets	715	815
Amortization of contract acquisition costs	1,392	1,412
Impairment of capitalized cloud computing costs	805	-

Change in deferred tax asset	4	(1)
Provision for credit losses	1,696	(19)
Other	198	151
Changes in assets and liabilities:		
Accounts receivable	6,034	(5,263)
Inventories	2,681	1,125
Other current assets and prepaid expenses	316	(614)
Other long-term assets	(519)	(1,752)
Accounts payable	(1,004)	162
Accrued liabilities	(9,754)	3,779
Extended warranty liabilities	(339)	(760)
Other long-term liabilities	-	(140)
Deferred revenue	(2,443)	1,293
Income tax liabilities	-	(301)
Net cash used in operating activities	(17,951)	(3,919)
Cash flows from investing activities:		
Acquisition of property, equipment and software	(435)	(316)
Disposal of property and equipment	-	20
Proceeds from maturities of marketable investments	10,900	9,600
Purchase of marketable investments	(16,167)	(4,020)
Net cash provided by (used in) investing activities	(5,702)	5,284
Cash flows from financing activities:		
Proceeds from exercise of stock options and employee stock purchase plan	848	1,163
Proceeds from long-term debt	7,149	-
Gross proceeds from equity offering	28,799	-
Offering costs on the equity offering	(2,303)	
Taxes paid related to net share settlement of equity awards	(3,117)	(570)
Payments on finance lease obligations	(380)	(342)
Net cash provided by financing activities	30,996	251
Net increase in cash and cash equivalents	7,343	1,616
Cash and cash equivalents at beginning of period	26,316	26,052
Cash and cash equivalents at end of period	\$ 33,659	\$ 27,668
Supplemental disclosure of non-cash items:		
Assets acquired under finance lease	\$ 27	\$ 903

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

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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, governmental authorities ordered quarantines, shelter-in-place, and restrictions on the conduct of business operations related to the COVID-19 outbreak. These measures and restrictions had an impact on the Company's business, which led the Company to implement cost control measures, and results of operations during the six months ended June 30, 2020. The Company expects the COVID-19 outbreak to continue to affect its operations and those of third parties on which the Company relies, which could cause disruptions in its supply chain and contract manufacturing operations. Though the shelter-in-place orders were lifted or eased allowing certain businesses to open up, government authorities may order additional restrictions, quarantines or shelter-in-place. The Company has commenced limited manufacturing and currently has inventory on hand for the next 120-180 days to meet its forecasted demand, 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 required to shelter-in-place and are not working.

In response to the COVID-19 outbreak, the Company took 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 the Company's board of directors agreed to a 25% reduction in their fees, the Company's Chief Executive Officer and its President and Chief Operating Officer had a 25% reduction in their salaries and other members of management had significant reductions in their salaries, which will remain in place until such time as the Company's business operations and economic conditions improve. The Company 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, bonuses owed to management from the 2019 Management Bonus Program were paid mostly in equity (Note 8) 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 other than an impairment loss of \$0.8 million on capitalized cloud computing costs related to the indefinite delay of the implementation of cloud-based enterprise resource planning software as of June 30, 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 June 30, 2020 and 2019, its consolidated statements of results of operations, comprehensive loss, changes in equity, and cash flows for the three and six months ended June 30, 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 Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("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.

The Company's allowance for credit losses was \$1.8 million and \$1.4 million as of June 30, 2020 and December 31, 2019. During the three and six months ended June 30, 2020, the Company recognized a provision for credit losses of \$1.2 million and \$1.8 million and wrote off \$0.2 million and \$1.3 million against the allowance for credit losses, respectively.

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.

In March 2020, the FASB issued ASU No. 2020-04, "Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting." ASU No. 2020-04 provides optional expedients and exceptions for applying U.S. GAAP to contract modifications and hedging relationships, subject to meeting certain criteria, that reference LIBOR or another rate that is expected to be discontinued. The amendments in ASU No. 2020-04 are effective for all entities as of March 12, 2020 through December 31, 2022. The Company is currently assessing the impact of ASU No. 2020-04 and the LIBOR transition on its consolidated financial statements.

The Company reviewed all other recently issued, but not yet effective, accounting pronouncements and does not expect the future adoption of any such pronouncements will have a material impact on the Company's interim condensed consolidated financial statements.

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 marketable investments at the time of purchase and re-evaluates such designation at each balance sheet date. The Company's marketable investments 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. Credit losses on impaired available-for-sale debt securities are recognized through an allowance for credit losses. 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):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Market Value
June 30, 2020				
Cash and cash equivalents	\$ 33,659	\$ -	\$ -	\$ 33,659
Marketable investments:				
U.S. government notes	3,198	-	-	3,198
Commercial paper	9,693	3	-	9,696
Total marketable investments	12,891	3	-	12,894
Total cash, cash equivalents and marketable investments	<u>\$ 46,550</u>	<u>\$ 3</u>	<u>\$ -</u>	<u>\$ 46,553</u>

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Market Value
December 31, 2019				
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 investments	7,605	-	-	7,605
Total cash, cash equivalents and marketable investments	<u>\$ 33,921</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 33,921</u>

As of June 30, 2020 and December 31, 2019, the net unrealized gains were \$3,000 and none, 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 June 30, 2020 (in thousands):

	Amount
Due in less than one year	\$ 12,894
Due in 1 to 3 years	-
Total marketable investments	<u>\$ 12,894</u>

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 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 June 30, 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):

June 30, 2020	Level 1	Level 2	Level 3	Total
Cash equivalents:				
Money market funds	\$ 14,097	\$ -	\$ -	\$ 14,097
Marketable investments:				
Available-for-sale securities	3,198	9,696	-	12,894
Total assets at fair value	\$ 17,295	\$ 9,696	\$ -	\$ 26,991

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.

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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 June 30, 2020 is 0.2 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 June 30, 2020 and December 31, 2019, respectively.

Note 4. Balance Sheet Details

Inventories

As of June 30, 2020 and December 31, 2019, inventories consist of the following (in thousands):

	June 30, 2020	December 31, 2019
Raw materials	\$ 17,678	\$ 17,935
Work in process	2,175	2,016
Finished goods	11,387	13,970
Total	\$ 31,240	\$ 33,921

Other Long-term Assets

During the quarter ended June 30, 2020, the Company recognized in general and administrative expense an impairment loss of \$0.8 million for capitalized cloud computing costs related to a cloud-based enterprise resource planning software. The capitalized cloud computing costs were recorded in Other long-term assets on the balance sheet.

Accrued Liabilities

As of June 30, 2020 and December 31, 2019, accrued liabilities consist of the following (in thousands):

	June 30, 2020	December 31, 2019
Accrued payroll and related expenses	\$ 7,880	\$ 14,341
Sales and marketing accruals	1,289	2,527
Warranty liability (see Note 5)	3,155	4,401
Sales tax	2,619	3,922
Other	5,480	5,116
Total	<u>\$ 20,423</u>	<u>\$ 30,307</u>

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 June 30, 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 as Warranty liability within accrued liabilities, and \$1.7 million and \$2.1 million, respectively, was separately recorded as Extended warranty liabilities.

In the six months ended June 30, 2020, the Company settled \$0.4 million related to Extended warranty liability. No amounts of the product warranty were settled in the six months ended June 30, 2020. As of June 30, 2020, the product remediation warranty and extended warranty liability were \$0.5 million and \$1.7 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.

The following table provides the changes in the product standard warranty accrual for the three and six months ended June 30, 2020 and 2019 (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Beginning Balance	\$ 3,398	\$ 4,064	\$ 4,401	\$ 4,668
Add: Accruals for warranties issued during the period	1,100	2,708	1,960	4,152
Less: Settlements made during the period	(1,343)	(1,940)	(3,206)	(3,988)
Ending Balance	<u>\$ 3,155</u>	<u>\$ 4,832</u>	<u>\$ 3,155</u>	<u>\$ 4,832</u>

The settlements presented in the table exclude costs related to extended service contract cost, which was and \$0.1 million and \$0.3 million in the three and six months ended June 30, 2020, 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 80% of the Company's deferred revenue balance of \$11.8 million as of June 30, 2020 will be recognized over the next 12 months.

The following table provides changes in the deferred revenue balance for the three and six months ended June 30, 2020 and 2019 (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Beginning Balance	\$ 12,969	\$ 12,475	\$ 14,222	\$ 11,855
Add: Payments Received	2,356	5,309	5,582	9,451
Less: Revenue	(3,546)	(3,925)	(8,025)	(7,447)
Ending Balance	<u>\$ 11,779</u>	<u>\$ 13,859</u>	<u>\$ 11,779</u>	<u>\$ 13,859</u>

Costs for extended service contracts were \$2.3 million and \$3.5 million, respectively, for the three and six months ended June 30, 2020, respectively, and \$2.2 million and \$4.2 million, respectively, for the three and six months ended June 30, 2019.

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 13% respectively, of the Company's total revenue for the six months ended June 30, 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.

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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 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.
- Extended warranty/Service contracts: SSP is based on observable price when sold on a standalone to similar customers.

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 June 30, 2020 and December 31, 2019, the accrual for the loyalty program included in accrued liabilities was \$0.2 million and \$0.2 million, respectively.

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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 June 30, 2020 and December 31, 2019, respectively, were \$3.7 million and \$4.6 million and are included in Other long-term assets in the Company's condensed consolidated balance sheet. Amortization expense for these assets was \$0.7 million and \$1.4 million, respectively, during the three and six months ended June 30, 2020 and \$0.7 million and \$1.4 million respectively, during the three and six months ended June 30, 2019. The amortization expense related to these capitalized costs is included in sales and marketing expense in the Company's condensed consolidated statement of operations.

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

Issuances of Common Stock

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. The shares include the full exercise of the underwriter's option to purchase an additional 357,750 shares of common stock. The Company received net proceeds from the offering of approximately \$26.5 million, after deducting underwriting discounts, commissions, and offering expenses of \$2.1 million.

Stock-Based Compensation

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 2020, stockholders approved an amendment and restatement of the 2019 Equity Incentive Plan (the "Prior Plan") as the Amended and Restated 2019 Equity Incentive Plan (the "Restated Plan") and approved an additional 600,000 shares, available for future grants. The Restated 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 nil and 71,678 performance stock units ("PSUs") during the three and six months for the quarter ended June 30, 2020, respectively. The PSUs granted in the quarter ended June 30, 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.

On April 1, 2020, the Company issued RSUs to settle bonuses owed to management under the 2019 Management Bonus Program. In the past, the Company has paid these bonuses with cash on hand. However, due to the economic conditions resulting from COVID-19, fully vested shares were issued in lieu of cash. The Company issued 209,981 shares related to this bonus payment to management and recognized \$2.6 million in stock-based compensation expense. The Company also recorded an equivalent reduction in bonus expense as a result of the settlement of the bonus in shares.

The Company's Board of Directors also granted its executive officers, senior management and certain employees 53,819 and 421,417 RSUs, respectively, during the three and six month periods ended June 30, 2020. The annual RSUs granted vest over four years at 25% on each anniversary of the grant date.

Under the Restated Plan, as amended, the Company issued 207,544 and 470,104 shares of common stock during the three and six months ended June 30, 2020, respectively, in conjunction with stock options exercised and the vesting of RSUs and PSUs, net of shares withheld for employee taxes.

As of June 30, 2020, there was approximately \$15.5 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 2.6 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 Restated Plan is summarized as follows:

	Shares Available for Grant	Options Outstanding	
		Number of Stock Options Outstanding	Weighted-Average Exercise Price
Balance, December 31, 2019	761,705	295,699	\$ 25.52
Additional shares reserved	600,000	-	-
Stock awards granted	(707,555)	-	-
Options exercised	-	(46,128)	4.85
Options canceled	44,177	(44,177)	39.07
Stock awards canceled	364,555	-	-
Balance, June 30, 2020	<u>1,062,882</u>	<u>205,394</u>	<u>\$ 26.33</u>

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Stock-based Compensation Expense

Stock-based compensation expense by department recognized during the three and six months ended June 30, 2020 and 2019 was as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Cost of revenue	\$ 743	\$ 404	\$ 1,033	\$ 673
Sales and marketing	1,251	997	1,970	1,715
Research and development	769	370	1,090	633
General and administrative	1,332	748	1,982	805
Total stock-based compensation expense	<u>\$ 4,095</u>	<u>\$ 2,519</u>	<u>\$ 6,075</u>	<u>\$ 3,826</u>

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 June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Numerator:				
Net income (loss)	<u>\$ (11,394)</u>	<u>\$ 588</u>	<u>\$ (23,808)</u>	<u>\$ (7,632)</u>
Denominator:				
Weighted average shares of common stock outstanding used in computing net income (loss) per share, basic	17,055	14,086	15,744	14,051
Dilutive effect of incremental shares and share equivalents	-	270	-	-
Weighted average shares of common stock outstanding used in computing net loss per share, diluted	<u>17,055</u>	<u>14,356</u>	<u>15,744</u>	<u>14,051</u>
Net loss per share:				
Net income (loss) per share, basic and diluted	<u>\$ (0.67)</u>	<u>\$ 0.04</u>	<u>\$ (1.51)</u>	<u>\$ (0.54)</u>

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 June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Options to purchase common stock	231	192	253	466
Restricted stock units	803	178	736	460
Performance stock units	71	-	145	162
Employee stock purchase plan shares	58	-	58	94

[Table of Contents](#)**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 and six months ended June 30, 2020, the Company's income tax expense was \$0.5 million and \$0.5 million, respectively, compared to income tax benefits of \$0.2 million and \$0.1 million the three and six months ended June 30, 2019, respectively.

The Company's income tax expense for the three months ended June 30, 2020 is due primarily to income taxes in foreign jurisdictions. As the Company's U.S. operations are projecting to be in a taxable loss position in fiscal year 2020, and based on all available objectively verifiable evidence during the three months ended June 30, 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 U.S. federal government enacted the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act"). The CARES Act changed several of the existing U.S. corporate income tax laws by, among other things, 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 have a material impact on the Company's 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 does 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 consist of automobiles. The Company's facility 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. In June 2020, the Company amended its Japan Tokyo office lease by extending the lease by three years through 2024.

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

Leases	Classification	June 30, 2020
Assets		
Right-of-use assets	Operating lease assets	\$ 7,577
Finance lease	Property and equipment, net*	707
Total leased assets		\$ 8,284

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

Liabilities	Classification	
Operating lease liabilities		
Operating lease liabilities, current	Operating lease liabilities	1,526
Operating lease liabilities, non-current	Operating lease liabilities, net of current portion	6,262
Total Operating lease liabilities		\$ 7,788
Finance lease liabilities		
Finance lease liabilities, current	Accrued liabilities*	501
Finance lease liabilities, non-current	Other long-term liabilities	345
Total Finance lease liabilities		\$ 846

* Finance lease liabilities included in Accrued liabilities

Lease costs during the three months ended June 30, 2020:

Finance lease cost	Amortization expense	\$	277
Finance lease cost	Interest for finance lease		16
Operating lease cost	Operating lease expense		728

Lease costs during the six months ended June 30, 2020:

Finance lease cost	Amortization expense	\$	425
Finance lease cost	Interest for finance lease		35
Operating lease cost	Operating lease expense		1,456

Cash paid for amounts included in the measurement of lease liabilities during the six months ended June 30, 2020 were as follows:

Operating cash flow	Finance lease	\$	35
Financing cash flow	Finance lease		380
Operating cash flow	Operating lease		1,454

Facility leases

Maturities of facility leases liabilities were as follows as of June 30, 2020 (in thousands):

Year Ending June 30,	Amount
Remainder of 2020	\$ 1,439
2021	2,959
2022	2,988
2023	706
2024 and thereafter	106
Total lease payments	8,198
Less: imputed interest	(410)
Present value of lease liabilities	\$ 7,788

Vehicle Leases

As of June 30, 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 June 30,	Amount
Remainder of 2020	\$ 249
2021	395
2022	253
2023	11
Total lease payments	908
Less: imputed interest	(62)
Present value of lease liabilities	\$ 846

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Weighted-average remaining lease term and discount rate, as of June 30, 2020, were as follows:

Lease Term and Discount Rate	June 30, 2020
Weighted-average remaining lease term (years)	
Operating leases	2.7
Finance leases	2.5
Weighted-average discount rate	
Operating leases	2.2%
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. This matter was settled during the second quarter of 2020 with a cash payment of \$0.4 million and issuance of 15,408 shares of common stock.

As of June 30, 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

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.

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 required the Company to maintain a minimum cash, cash equivalents, and marketable investments balance of \$15 million at all Financial Institutions utilized by the Company, and maintained the removal of all other covenants (under the second amendment) so long as no money was drawn on the line of credit.

Due to the receipt of the PPP loan, the Loan and Security Agreement with Wells Fargo was amended in June 2020 as the Company violated a covenant and obtained a waiver for those covenants related to the overall indebtedness due to the receipt of the PPP loan.

As of June 30, 2020, the Company had not drawn on the Original Revolving Line of Credit and the Company was in compliance with all financial covenants of the Original Revolving Line of Credit, as amended. Refer to the subsequent events footnote for more details.

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The Paycheck Protection Program (PPP) 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 loan, which is in the form of a promissory note dated April 21, 2020, between the Company and Silicon Valley Bank as the lender, matures on April 21, 2022 and bears interest at a fixed rate of 1.00% per annum, payable monthly commencing October 2020. 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 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 loan. The PPP loan is recorded as Promissory note on the consolidated balance sheets.

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 PPP loan will be derecognized upon repayment of the loan in accordance with its terms and/or upon confirmation of forgiveness from the SBA.

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 and six months ended June 30, 2020 and 2019 (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Revenue mix by geography:				

United States	\$	10,915	28,147	24,699	48,547
Japan		8,517	5,337	15,679	10,631
Asia, excluding Japan		1,846	4,547	5,075	7,642
Europe		1,325	2,504	4,141	5,240
Rest of the world		3,766	7,239	9,014	11,740
Total consolidated revenue	\$	26,369	47,774	58,608	83,800
Revenue mix by product category:					
Products		15,541	37,539	36,500	64,748
Consumables		1,426	2,654	3,959	4,599
Skincare		4,778	1,775	7,677	3,383
Total product revenue	\$	21,745	41,968	48,136	72,730
Service		4,624	5,806	10,472	11,070
Total consolidated revenue	\$	26,369	47,774	58,608	83,800

Note 15. Subsequent Events

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

Loan and Security Agreement

On July 9, 2020, the Company and Silicon Valley Bank entered into a Loan and Security Agreement. The agreement provides for a four-year secured revolving loan facility in an aggregate principal amount of up to \$30.0 million. In order to draw on the full amount, the Company must satisfy certain liquidity ratios. If the Company is unable to meet these liquidity ratios, then availability under the revolving line is calculated as 80% of the Company's qualifying accounts receivable. The Company must also meet certain quarterly revenue targets on a trailing twelve-month basis as part of the financial covenants. This clause is subject to renegotiation at the beginning of each fiscal year. The proceeds of the revolving loans may be used for general corporate purposes. The Company's obligations under the Loan Agreement are secured by substantially all of the assets of the Company. On the same day, the Company terminated its undrawn revolving line of credit with Wells Fargo Bank, N.A. (as referenced in Note 13).

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Headquarters Office Lease Amendment

On July 9, 2020, the Company amended its lease agreement for its headquarters building located at 3420 Bayshore Boulevard, Brisbane, California. The amendment provides for the following:

- the extension of the lease term, with the extended term to begin on February 1, 2023 and continue until January 31, 2028;
- the abatement of the monthly base rent for the four month period beginning September 1, 2020 and ending December 31, 2020;
- the amendment of monthly base rent for the current term and the extension term to approximately \$0.2 million for January 2021 with annual increases of 3.5% thereafter; and
- the waiver by the Company of its early termination right in the lease.

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 worldwide and has adversely affected the Company's business, operations and financial condition;
- 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 Company could no longer have access to cash due to the Company's inability to meet its debt repayment and covenant obligations under the Loan and Security Agreement with Silicon Valley Bank;
- a determination that the Company must repay all, or substantially all, of the loan proceeds received under the Payroll Protection Program;
- 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 hire and retain personnel;

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- 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 June 30, 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*, 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, and toenail fungus. Many of 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'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.

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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 *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*, *Secret RF*, *truSculpt* and *xeo*.

During the second quarter, the Company wrote-off \$0.8 million of inventory on hand related to its Juliet platform due to declining sales. Sales related to Juliet has been declining due to the COVID-19 pandemic and the FDA letter issued on July 30, 2018 expressing concerns regarding “vaginal rejuvenation” procedures using energy-based devices.

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 disposable single use components for *Secret RF* products.

The global spread of COVID-19 has created significant volatility, uncertainty and economic disruption. The Company’s first six months results were impacted by a decline in patient volumes associated with COVID-related shutdowns. However, the extent to which the coronavirus pandemic impacts the Company’s business, operations, and financial results is still 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, as well as the Company’s ability to avail itself of programs intended to assist businesses during the pandemic;
- 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.

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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, as amended on April 14, 2020 - 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, governmental authorities ordered quarantines, shelter-in-place, and restrictions on the conduct of business operations related to the COVID-19 outbreak. These measures and restrictions had an impact on the Company's business, which led the Company to implement cost control measures, and results of operations during the six months ended June 30, 2020. The Company expects the COVID-19 outbreak to continue to affect its operations and those of third parties on which the Company relies, which could cause disruptions in its supply chain and contract manufacturing operations. Though the shelter-in-place orders were lifted or eased allowing certain businesses to open up, government authorities may order additional restrictions, quarantines or shelter-in-place. As a result, the extent of the COVID-19 impact on the Company's supply chain and its future revenues is difficult for the Company to quantify at this time. The Company has commenced limited manufacturing and currently has inventory on hand for the next 120-180 days to meet its forecasted demand, 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 required to shelter-in-place and are not working.

The Company's customers not subject to shelter-in-place requirements are performing fewer procedures and their customers are mostly focused on medically necessary procedures that should not be delayed. Non-urgent, non-essential procedures such as those attendant to our products are often 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 use fewer 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 its customers, the Company may also encounter problems collecting on its receivables. The COVID-19 pandemic 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 further 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 business in the manner and on the timelines presently planned could be materially and negatively impacted, which could have a material adverse effect on the Company's business and the Company's revenues, operating results, cash flows and financial condition. The factors and trends related to the sale of the Company's products and consumables may also impact demand for service contracts. A reduction in customer orders would reduce the amount of revenue that the Company expects to generate. The Company expects this reduction to continue at least through the third quarter of 2020, and perhaps for the remainder of 2020 and beyond, but its extent cannot be quantified at this time. The aforementioned factors and trends may also impact demand for its service contracts. The Company's customers' patients are also impacted by the economic outlook due to 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. Additionally, the continued spread of the COVID-19 pandemic could adversely impact our clinical trial operations, including our ability to recruit and retain patients and principal investigators and site staff who, as healthcare providers, may have heightened exposure to the COVID-19 pandemic if an outbreak occurs in their geography.

In response to the COVID-19 outbreak, the Company took 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 the Company's board of directors agreed to a 25% reduction in their fees, the Company's Chief Executive Officer and its President and Chief Operating Officer had a 25% reduction in their salaries and other members of management had significant reductions in their salaries, which will remain in place until such time as the Company's business operations and economic conditions improve. The Company 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, bonuses owed to management from the 2019 Management Bonus Program were paid mostly in equity (Note 8) rather than in cash.

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.

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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.

On March 27, 2020, Congress enacted the Coronavirus Aid, Relief, and Economic Security Act ("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 continuously evaluates how the benefits from the CARES Act and other pandemic-driven governmental legislation and programs would impact its financial position, results of operations and cash flows.

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 Company believes that the current economic uncertainty makes the loan necessary to support ongoing operations.

The PPP loan, which is in the form of a promissory note, dated April 21, 2020, between the Company and Silicon Valley Bank as the lender, 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 loan.

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 PPP loan not forgiven, the Company may default on payment or breach provisions of the loan. The PPP loan will be derecognized upon repayment of the loan in accordance with its terms and/or upon confirmation of forgiveness from the SBA.

On July 9, 2020, the Company and Silicon Valley Bank entered into a Loan and Security Agreement. The agreement provides for a four-year secured revolving loan facility in an aggregate principal amount of up to \$30.0 million. In order to draw on the full amount, the Company must satisfy certain liquidity ratios. If the Company is unable to meet these liquidity ratios, then availability under the revolving line is calculated as 80% of the Company’s qualifying accounts receivable. The Company must also meet certain quarterly revenue targets on a trailing twelve-month basis as part of the financial covenants. This clause is subject to renegotiation at the beginning of each year. The proceeds of the revolving loans may be used for general corporate purposes. The Company’s obligations under the Loan Agreement are secured by substantially all of the assets of the Company. On the same day, the Company terminated its undrawn revolving line of credit with Wells Fargo Bank, N.A.. The terms of the Silicon Valley Bank Loan and Security Agreement include restrictive covenants, such as limitations on our 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.

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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, as amended on April 14, 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. The Company recognized an impairment loss of \$0.8 million on capitalized cloud computing costs related to implementation of cloud-based enterprise resource planning software during the quarter ended June 30, 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 June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Net Revenue	100%	100%	100%	100%
Cost of revenue	56%	46%	56%	49%
Gross Margin	44%	54%	44%	51%
Operating Expenses:				
Sales and marketing	42%	36%	44%	39%
Research and development	11%	7%	12%	8%
General and administrative	32%	11%	28%	13%
Total operating expenses	85%	54%	84%	60%
Income (loss) from operations	(41)%	1%	(39)%	(9)%
Interest and other income, net	-%	-%	-%	-%
Income (loss) before income taxes	(41)%	1%	(39)%	(9)%

Provision (benefit) for income taxes	2%	(1)%	1%	-%
Net income (loss)	(43)%	-%	(40)%	(9)%

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 7 to the unaudited condensed consolidated financial statements included in Item I, Part 1 of this Quarterly Report on Form 10-Q.

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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 13% of the Company's total revenue for the six months ended June 30, 2020 and June 30, 2019, respectively. Revenue recognized over time relates to revenue from the Company's extended service contracts and marketing services. Revenue recognized at a point in time is primarily generated by the sales of systems, consumables and skincare.

Total Net Revenue

(Dollars in thousands)	Three Months Ended June 30,			Six Months Ended June 30,		
	2020	2019	% Change	2020	2019	% Change
Revenue mix by geography:						
United States	\$ 10,916	\$ 28,147	(61)%	\$ 24,700	\$ 48,547	(49)%
International	15,453	19,627	(21)%	33,908	35,253	(4)%
Consolidated total revenue	\$ 26,369	\$ 47,774	(45)%	\$ 58,608	\$ 83,800	(30)%
United States as a percentage of total revenue	41%	59%		42%	58%	
International as a percentage of total revenue	59%	41%		58%	42%	

Revenue mix by product category:

Systems - North America	\$ 8,214	\$ 26,491	(69)%	\$ 18,596	\$ 44,071	(58)%
Systems - International	7,328	11,048	(34)%	17,904	20,677	(13)%
Total Systems	15,542	37,539	(59)%	36,500	64,748	(44)%
Consumables	1,425	2,654	(46)%	3,958	4,599	(14)%
Skincare	4,778	1,775	169%	7,678	3,383	127%
Total Products	21,745	41,968	(48)%	48,136	72,730	(34)%
Service	4,624	5,806	(20)%	10,472	11,070	(5)%
Total Net Revenue	\$ 26,369	\$ 47,774	(45)%	\$ 58,608	\$ 83,800	(30)%

The Company's total net revenue decreased by 45% and 30% in the three and six month period ended June 30, 2020, respectively, 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 the COVID-19 pandemic.

Revenue by Geography

The Company's U.S. revenue decreased by \$17.2 million, or 61%, in the three months ended June 30, 2020, and decreased by \$23.8 million, or 49%, in the six months ended June 30, 2020, compared to the same periods in 2019. This decrease was due primarily to significant decline in sales in the North America market as a direct result of the COVID-19 pandemic. The global spread of COVID-19 has created significant volatility, uncertainty and economic disruption. In response to the pandemic, government authorities imposed mandatory business closures, shelter-in place and work-from-home orders and social distancing protocols. Government authorities began lifting these restrictions during the second quarter and patients of the Company's customers' have started returning slowly. However the economic situation is still uncertain as the COVID-19 virus continues to spread in certain parts of the world.

The Company's international revenue decreased by \$4.2 million, or 21%, and \$1.3 million, or 4%, in the three and six months ended June 30, 2020, respectively, compared to the same periods in 2019. The decrease was mostly due to decreased sales as a direct result of the COVID-19 pandemic.

Revenue by Product Type

Systems Revenue

Systems revenue in North America decreased by \$18.3 million, or 69%, and decreased by \$25.5 million, or 58%, in the three and six months and ended June 30, 2020, respectively, compared to the same periods 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. The significant decline in systems revenue in the North America market was as a direct result of the COVID-19 pandemic.

The Rest of the World systems revenue decreased by \$3.7 million, or 34% and decreased by \$2.8 million, or 13% in the three and six months ended June 30, 2020, respectively, primarily as a result of the COVID-19 pandemic.

Consumables Revenue

Consumables revenue decreased by \$1.2 million and \$0.6 million, or 46% and 14%, for the three and six months ended June 30, 2020, respectively, compared to the same periods in 2019. The decrease in consumables revenue was primarily due to the decreasing sales in installed base of *truSculpt iD*, *Secret RF*, and *truSculpt flex*, each of which have a consumable element as well as the decline in usage of the consumables due to the COVID-19 pandemic.

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Skincare Revenue

The Company's revenue from Skincare products in Japan increased by \$3 million and \$4.3 million, or 169% and 127%, for the three and six months ended June 30, 2020, respectively, compared to the same periods in 2019. This increase was due primarily to increased marketing and promotional activities, as well as changes in customers behavior due to the COVID-19 pandemic as some consumers opted to purchase skincare products rather than going to a doctor's office for treatment.

Service Revenue

The Company's Service revenue decreased \$1.2 million, or 20%, and decreased by \$0.6 million, or 5%, for the three and six months ended and June 30, 2020, respectively, compared to the same periods in 2019. This decrease was due primarily to decreased sales of service contracts, and support and maintenance services provided on a time and materials basis to the Company's network of international distributors, due to the COVID-19 pandemic.

Gross Profit

(Dollars in thousands)	Three Months Ended June 30,			Six Months Ended June 30,		
	2020	2019	% Change	2020	2019	% Change
Gross Profit	\$ 11,624	\$ 25,831	(55)%	\$ 25,960	\$ 43,140	(40)%
As a percentage of total net revenue	44%	54%		44%	51%	

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 decreased 10% and 7% for the three and six months ended June 30, 2020, respectively, compared to the same periods in 2019. The decrease in gross profit as a percentage of revenue was primarily driven by lower overhead absorption on lower revenue, and the decline in the average sales price of systems due to the COVID-19 pandemic, and reduction-in-force and furloughed costs implemented by the Company during the quarter, partially offset by costs savings from the reduction-in-force and furlough.

Sales and Marketing

(Dollars in thousands)	Three Months Ended June 30,			Six Months Ended June 30,		
	2020	2019	% Change	2020	2019	% Change
Sales and Marketing	\$ 11,035	\$ 16,992	(35)%	\$ 25,823	\$ 33,096	(22)%
As a percentage of total net revenue	42%	36%		44%	39%	

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 \$5.9 million, or 35%, decrease in sales and marketing expenses for the three months ended June 30, 2020 compared to same period in 2019 was due primarily to:

- \$3.1 million decrease in personnel related expenses, including commission costs;
- \$1.4 million decrease in travel due to COVID-19 restrictions;
- \$1.4 million of lower promotional expenses and outside services, primarily due to a reduction in the cost of workshops and tradeshow due to their reduced frequency as a result of the COVID-19 pandemic; offset by a 0.2 million increase due to website related costs.

The \$7.3 million, or 22%, decrease in sales and marketing expenses for the six months ended June 30, 2020 compared to the same period in 2019 was due primarily to:

- \$4.2 million decrease in personnel related expenses, including commission costs;
- \$3.0 million of lower promotional expenses, related to tradeshow and workshops as a result of their decrease in frequency due to the COVID-19 pandemic.

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Research and Development ("R&D")

(Dollars in thousands)	Three Months Ended June 30,			Six Months Ended June 30,		
	2020	2019	% Change	2020	2019	% Change
Research and development	\$ 2,991	\$ 3,273	(9)%	\$ 6,862	\$ 6,979	(2)%
As a percentage of total net revenue	11%	7%		12%	8%	

R&D expenses consist primarily of personnel expenses, clinical research, regulatory and material costs. R&D expenses decreased by \$0.3 million, and represented 11% of total net revenue, in the three months ended June 30, 2020, compared to 7% for the same period in 2019. The decrease in expense was due primarily to \$0.7 million increase in stock based compensation due mainly to the settlement of the Company's accrued bonus liability in shares, partially offset by a reduction in bonus expense of \$0.4 million as a result of the settlement of the bonus in shares.

R&D expenses decreased by \$0.1 million, and represented 12% of total net revenue, in the six months ended June 30, 2020, compared to 8% for the same period in 2019. This decrease in R&D expenses was due primarily to \$0.4 million decrease in consulting costs due to COVID-19, partially offset by a \$0.3 million increase in personnel expenses.

General and Administrative (“G&A”)

(Dollars in thousands)	Three Months Ended June 30,			Six Months Ended June 30,		
	2020	2019	% Change	2020	2019	% Change
General and Administrative	\$ 8,529	\$ 5,267	62%	\$ 16,336	\$ 10,792	51%
As a percentage of total net revenue	32%	11%		28%	13%	

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 \$3.3 million, or 62%, and \$5.5 million, or 51%, and represented 32% and 28% of total net revenue in the three and six months ended June 30, 2020, respectively, compared to 11% and 13% of total net revenue in the three and six months ended June 30, 2019, respectively. The \$3.3 million increase for the three months ended June 30, 2020 was due primarily to \$1.3 million of credit losses and \$1.0 million for legal fees, write-off of capitalized cloud computing costs of \$0.8 million, \$0.5 million of severance payments related to the reduction-in-force and \$0.6 million increase in stock based compensation due mainly to the settlement of the Company's accrued bonus liability in shares, partially offset by a reduction in bonus expense of \$0.9 million as a result of the settlement of the bonus in shares.

Interest and Other Income, Net

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

(Dollars in thousands)	Three Months Ended June 30,			Six Months Ended June 30,		
	2020	2019	% Change	2020	2019	% Change
Interest and other income (expense), net	\$ 3	\$ 46	(93)%	\$ (204)	\$ (33)	518%
As a percentage of total net revenue	-%	-%		-%	-%	

Interest and other income (expense), net, decreased \$43,000 or 93% in the three months ended June 30, 2020, compared to the same period in 2019. The decrease was due primarily to interest income from the Company's marketable investments offset by foreign exchange gains and losses, and interest expense related to the PPP loan, lease financing costs and 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.

Interest and other income (expense), net, increased \$0.2 million or 518% in the six months ended June 30, 2020, compared to the same period in 2019. This increase was due primarily to foreign exchange losses, interest expense related to the PPP loan, lease financing costs and the 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, partially offset by interest income from the Company's marketable investments.

Provision for Income Taxes

(Dollars in thousands)	Three Months Ended June 30,			Six Months Ended June 30,		
	2020	2019	\$ Change	2020	2019	\$ Change
Income (loss) before income taxes	\$ (10,928)	\$ 345	\$ (11,273)	\$ (23,265)	\$ (7,760)	\$ 15,505
Provision (benefit) for income tax	466	(243)	709	543	(128)	671

For the three and six months ended June 30, 2020, the Company's income tax expense was \$0.5 million and \$0.5 million, respectively, compared to income tax benefits of \$0.2 and \$0.1 million in the same periods in 2019.

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The Company's income tax expense for the three and six months ended June 30, 2020 is due primarily to increase in Japan skincare revenue which increased the income taxes in foreign jurisdictions.

As the Company's U.S. operations are projecting to be in a taxable loss position in fiscal year 2020, and based on all available objectively verifiable evidence during the three months ended June 30, 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 U.S. federal government enacted the Coronavirus Aid, Relief, and Economic Security Act (“CARES Act”). The CARES Act changed several of the existing U.S. corporate income tax laws by, among other things, 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 have a material impact on our 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 its Consolidated Financial Statements, but does 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. On July 9, 2020, the Company and Silicon Valley Bank entered into a Loan and Security Agreement. The agreement provides for a four-year secured revolving loan facility in an aggregate principal amount of up to \$30.0 million. In order to draw on the full amount, the Company must satisfy certain liquidity ratios. If the Company is unable to meet these liquidity ratios, then availability under the revolving line is calculated as 80% of the Company's qualifying accounts receivable. The Company must also meet certain quarterly revenue targets on a trailing twelve-month basis as part of the financial covenants. This clause is subject to renegotiation at the beginning of each year. The proceeds of the revolving loans may be used for general corporate purposes.

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, which is in the form of a promissory note dated April 21, 2020, between the Company and Silicon Valley Bank as the lender, matures on April 21, 2022 and bears interest at a fixed rate of 1.00% per annum, payable monthly commencing October 2020. 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 PPP loan will be derecognized upon repayment of the loan in accordance with its terms and/or upon confirmation of forgiveness from the SBA.

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 June 30, 2020 and December 31, 2019, the Company had \$52.3 million and \$36.4 million of working capital, respectively. Cash and cash equivalents, plus marketable investments increased by \$12.7 million to \$46.6 million as of June 30, 2020, from \$33.9 million as of December 31, 2019, primarily due to an increase in cash from financing activities offset by the Company's loss from operations due to the 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 the Company's cash, cash equivalents and marketable investments:

(Dollars in thousands)	June 30, 2020	December 31, 2019	Change
Cash and cash equivalents	\$ 33,659	\$ 26,316	\$ 7,343
Marketable investments	12,894	7,605	5,289
Total	\$ 46,553	\$ 33,921	\$ 12,632

Cash Flows

(Dollars in thousands)	Six Months Ended June 30,	
	2020	2019
Net cash flow provided by (used in):		
Operating activities	\$ (17,951)	\$ (3,919)
Investing activities	(5,702)	5,284
Financing activities	30,996	251
Net increase (decrease) in cash and cash equivalents	\$ 7,343	\$ (1,616)

Cash Flows from Operating Activities

Net cash used in operating activities in the six months ended June 30, 2020 was approximately \$18.0 million, which was primarily due to:

- \$23.8 million net loss as adjusted for non-cash related items consisting primarily of stock-based compensation expense of \$6.1 million, \$2.1 million of depreciation and amortization expenses, 1.7 million of provision for credit losses and \$0.8 million related to impairment of software development costs;
- \$10.8 million cash used to settle accounts payable and accrued liabilities;
- \$6.0 million from decrease in accounts receivables;
- \$2.7 million from decrease in inventories;
- \$2.4 million from decreased in deferred revenue;
- \$0.5 million from decrease in other long term assets; and
- \$0.3 million used to settle extended warranty liabilities.

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Net cash used in operating activities in the six months ended June 30, 2019 was approximately \$4.0 million, which was primarily due to:

- \$7.6 million net loss as adjusted for by non-cash related items consisting primarily of stock-based compensation expense of \$3.8 million, and \$2.2 million of depreciation and amortization expenses;
- \$5.3 million increase in accounts receivables;
- \$3.8 million increase in accrued liabilities due primarily to due to the timing of vendor payments in the ordinary course of business;
- \$2.3 million decrease in pre-paid expenses and other long term assets;
- \$1.3 million generated from an increase in deferred revenue;
- \$1.1 million used to increase inventories;
- \$0.8 million used to settle extended warranty liabilities;
- \$0.4 million decrease in other long-term liabilities, including tax liability of \$0.3 million; and

- \$0.1 million generated from an increase in accounts payable due primarily to increased material purchases.

Cash Flows from Investing Activities

Net cash used in investing activities was \$5.7 million in the six months ended June 30, 2020, which was primarily due to:

- \$16.2 million of cash used to purchase marketable investments;
- \$0.4 million of cash used in the acquisition of property, equipment, and software; partially offset by
- \$10.9 million in net proceeds from the maturities of marketable investments

Net cash provided by investing activities was \$5.3 million in the six months ended June 30, 2019, which was primarily due to:

- \$9.6 million in net proceeds from the maturities of marketable investments; partially offset by
- \$4.0 million of cash used to purchase marketable investments.

Cash Flows from Financing Activities

Net cash provided by financing activities was \$31.0 million in the six months ended June 30, 2020, which was primarily due to:

- \$26.5 net proceeds from the issuance of common stock in April 2020;
- \$7.1 million from the PPP loan;
- \$0.8 million 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
- \$3.1 million of cash used for taxes related to net share settlement of equity awards; and
- \$0.4 million of cash used to pay finance lease obligations.

Net cash used in financing activities was \$0.3 million in the six months ended June 30, 2019, which was primarily due to:

- \$1.2 million 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
- \$0.6 million of cash used for taxes related to net share settlement of equity awards; and
- \$0.3 million of cash used to pay finance lease obligations.

Adequacy of Cash Resources to Meet Future Needs

The Company had cash, cash equivalents, and marketable investments of \$46.6 million as of June 30, 2020. For the first six months of 2020, the Company’s principal source of liquidity is cash generated from proceeds received from its April 2020 offering, the PPP loan, 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 of approximately \$26.5 million from a public offering of its common stock, 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.

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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 risks and uncertainties 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 PPP loan not forgiven, the Company may default on payment or breach provisions of the loan. The PPP loan will be derecognized upon repayment of the loan in accordance with its terms and/or upon confirmation of forgiveness from the SBA.

On July 8, 2020, the Company and Silicon Valley Bank entered into a Loan and Security Agreement. The agreement provides for a four-year secured revolving loan facility in an aggregate principal amount of up to \$30.0 million. In order to draw on the full amount, the Company must satisfy certain liquidity ratios. If the Company is unable to meet these liquidity ratios, then availability under the revolving line is calculated as 80% of the Company’s qualifying accounts receivable. The Company must also meet certain quarterly revenue targets on a trailing twelve-month basis as part of the financial covenants. This clause is subject to renegotiation at the beginning of each year. The proceeds of the revolving loans may be used for general corporate purposes. The Company’s obligations under the Loan Agreement are secured by substantially all of the assets of the Company.

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.

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 investments 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 the Company received a PPP loan, the Loan and Security Agreement with Wells Fargo was amended in June 2020. This amendment waived certain requirements from Wells Fargo as the overall indebtedness and increased with receipt of the PPP loan.

As of June 30, 2020, the Company entered into a Fourth Amendment and Waiver to the Loan and Security Agreement with Wells Fargo because the Company had violated a financial covenant related to indebtedness and obtained a waiver from Wells Fargo. The Company is in compliance with all financial covenants of the Original Revolving Line of Credit, as amended, and has not drawn down on the lone of credit.

The Company terminated the Third Amended Revolving Line of Credit subsequent to the issuance of the June 30, 2020 financial statements. Refer to the subsequent events footnote for more details.

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, as amended in Form 10-K/A filed on April 14, 2020.

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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, , as amended on April 14, 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 June 30, 2020 was approximately 0.2 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 June 30, 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 0.16% as of June 30, 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

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ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

An evaluation as of June 30, 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 June 30, 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 six months ended June 30, 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, as amended on April 14, 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 PPP loan not forgiven, the Company may default on payment or breach provisions of the PPP 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 Act ("CARES Act"). The Company believes that the current economic uncertainty makes the loan necessary to support ongoing operations.

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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 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 Loan. The PPP loan will be derecognized upon repayment of the loan in accordance with its terms and/or upon confirmation of forgiveness from the SBA.

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, Europe, Asia and South America, 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 pandemic, 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 pandemic, 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 the amount of revenue to increase slightly in the third quarter of 2020, and perhaps for the remainder of 2020, compared to the second quarter 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.

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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 \$9.19 per share as of the closing of March 20, 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.

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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).
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.
99.1	Employment Offer Letter dated July 29, 2020 by and between Cutera, Inc. and Rohan Seth.
99.2	Change of Control and Severance Agreement dated July 29, 2020 by and between Cutera, Inc. and Rohan Seth.
101.ins	Inline XBRL Instance Document (the Instance Document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document)
101.sch	Inline XBRL Taxonomy Extension Schema Document
101.cal	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.def	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.lab	In line XBRL Taxonomy Extension Label Linkbase Document
101.pre	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

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 7th day of August, 2020.

CUTERA, INC.

/s/ FUAD AHMAD

Fuad Ahmad

Interim Chief Financial Officer

(Principal Financial and Accounting Officer)

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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: August 7, 2020

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

**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: August 7, 2020

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

**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 June 30, 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: August 7, 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 June 30, 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: August 7, 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.



SAN FRANCISCO HEADQUARTERS
3240 Bayside Boulevard, Brisbane, CA 94005
Phone: 415-657-5500 | Fax: 415-330-2444 | www.cutera.com

Confidential

July 29, 2020

Mr. Rohan Seth
6009 Sherston Glen
Colleyville, Texas 76034
Via Email: rseth@yahoo.com

Dear Mr. Seth:

It is with great pleasure that I and the Board of Directors of Cutera, Inc. (the "Board") would like to extend you an offer to join Cutera, Inc. (the "Company" or "Cutera"). It is our belief that your industry knowledge, deep financial experience, and proven leadership skills will favorably contribute to the future of Cutera.

We are offering you the position of **Chief Financial Officer** reporting directly to me as the Chief Executive Officer. You are expected to devote your full business efforts and time to your duties to the Company, including working Monday through Friday from the Company's corporate offices located in Brisbane, California. We would like to make your official start date August 4, 2020.

Your compensation package will include the following:

- 1) **Annual salary of \$350,000**, payable to you semi-monthly at \$14,583.33 per pay period, in accordance with the Company's standard payroll practices, and less applicable payroll and tax deductions. You should note that the Company may modify job titles, salaries and benefits from time to time as it deems necessary.
- 2) **Participation in Company Bonus Plans:**
 - o **Discretionary Management Bonus Plan** at 50% of your annual salary (or \$175,000), target level. This plan is discretionary and for calendar year 2020 will be based on the 2020 Bonus Plan as approved by the Board and prorated for the portion of the calendar year 2020 during which you are employed with the Company.

The existence and amount paid, if any, under these discretionary plans will at all times remain subject to Cutera's sole discretion and any payment ever made under these discretionary plans do not guarantee any further payment.

3) Equity Compensation: Subject to approval of the Board or the Compensation Committee, the Company will grant you the following equity awards:

a) New Employee PSU Grant:

Performance-based Restricted Stock Units (“PSUs”) covering a number of shares of the Company’s common stock at target performance equal to \$300,000 divided by the Applicable Stock Price. The actual number of shares subject to these PSUs is expected to be determined by dividing such value by the volume weighted average stock price of the Company’s common stock over the fifty (50), consecutive, trading days immediately preceding (and exclusive of) the first day of your employment with the Company (your “Start Date” and such average price, the “Applicable Stock Price”);

These PSUs will be scheduled to vest generally over a 2.5-year period, commencing from your Start Date, based on your continued service with the Company through the applicable vesting dates as determined by the Board, and vesting of these PSUs further will be subject to achievement of specified performance metrics, generally contemplated to be as follows:

- (i) 40% of PSUs are subject to vesting upon completion of the FY 2020 form-10K filing and subject to Board approval of your achievement of key objectives associated with your initial focus as Chief Financial Officer, as follows:
 - a. 15% of the PSUs will become eligible to vest in connection with the successful on-time completion and filing of the Company’s Form 10-K within 5% of budgeted audit partner fee structures;
 - b. 10% of the PSUs will become eligible to vest by sustaining Finance Department capacity – retaining mission critical talent and avoiding departures without prearranged backup plans as measured by staffing rate of greater than 95% positions filled / occupied within the finance department positions from your start date through March 15, 2021;
 - c. 10% of the PSUs will become eligible to vest in connection with the successful submission of FY 2021 operating budget to the Board by no later than December 1, 2020;
 - d. 5% of the PSUs will become eligible to vest in connection with the replacement of current contracted Controls & Audit function with capable in-house staff by March 15, 2021; and

- e. The extent of vesting against these performance objectives will be determined by the Board in light of your timing and quality of deliverables. Further, you must remain a Service Provider (as defined in the Company's 2019 Equity Incentive Plan (the "Plan") through the date that the Board or the Compensation Committee certifies the applicable performance achievement to earn any portion of these PSUs, which will occur no later than March 31, 2021.
- (ii) 30% of PSU's will become eligible to vest if the Company achieves the annual Operating Budget for Non-GAAP Operating Margins, as determined by the Board for FY2021;
- (iii) 30% of PSU's will become eligible to vest if the Company achieves the annual Operating Budget for Non-GAAP Operating Margins, as determined by the Board for FY2022;
- (iv) Achievement of the applicable PSU performance metrics set forth in (ii) and (iii) above for the performance period will result in a percentage of the target number of these PSUs allocated to that performance period vesting, subject to you continuing to be a Service Provider through the date that the Board or the Compensation Committee certifies the applicable performance achievement, as follows:

Achievement of Performance Metric at:	Percentage of Target Number of New Employee Grant PSUs allocated to Performance Period that Become Eligible to Vest
Less than 90%	0%
Equal to or greater than 90% but less than 100%	85%
Equal to or greater than 100% but less than 106%	100%
Equal to or greater than 106% but less than 126%	125%
Equal to or greater than 126%	150%

In the event that a Change of Control (as defined in your Severance Agreement, as discussed further below) occurs while these PSUs remain outstanding and are still subject to achievement of the applicable performance metrics, then as of immediately prior to the Change of Control, the portion of these PSUs allocated to the performance period in which the Change of Control occurs will be deemed to have met the applicable performance metrics at the target level and such portion will be scheduled to vest on the last day of such performance period, subject to you continuing to be a Service Provider through that date. In such event, for purposes of your Change of Control and Severance Agreement, such portion of the PSU award will be considered to be subject to time/service-based vesting, and not a performance award. Any other remaining portion of these PSUs for which the performance period has not yet commenced prior to the Change of Control will terminate automatically as of immediately prior to the Change of Control.

- b) New Employee Option Grant: Upon acceptance of this offer, it will be recommended at the first meeting of the Board or Compensation Committee following the Start Date that the Company grant you an option to purchase 60,000 shares of the Company's common stock at a price per share equal to the fair market value per share of the common stock on the date of grant, as determined by the Board or Compensation Committee, as applicable. Twenty percent (20%) of the shares subject to the option will vest 12 months after the date your vesting begins, no shares will vest before such date, and no rights to any vesting will be earned or accrued prior to such date. The remaining shares subject to the option will vest over the next 48 months in equal monthly amounts, subject to your continuing to be a Service Provider through each vesting date.
- c) Annual Equity Grants: You will be eligible to receive an annual grant in the range of \$400,000 to \$500,000, beginning in March 2021, and annually thereafter at the same time as equity is granted to senior executives of the Company and subject to your continued employment with the Company through such grant date. Actual grants are subject to business conditions, individual contribution levels, evaluation of market data and subject to the final approval of the Board or Compensation Committee (any such award approved in or around March 2021, the "Approved Award").
- i) *RSUs*: RSUs covering a number of shares of the Company's common stock equivalent to 50% of the total Approved Award. The actual number of shares subject to these RSUs is expected to be determined by dividing 50% of the Approved Award by the volume weighted average stock price of the Company's common stock over the fifty (50), consecutive, trading days immediately preceding (and exclusive of) the grant date of the RSUs. These RSUs will be scheduled to vest generally over a 3-year period, commencing on the RSUs' date of grant, based on you continuing to be a Service Provider through the applicable vesting dates as determined by the Board.

- ii) *PSUs*: PSUs covering a target number of shares of the Company's common stock (equivalent to 50% of the total Approved Award). The actual target number of shares subject to these PSUs is expected to be determined by dividing 50% of the Approved Award by the volume weighted average stock price of the Company's common stock over the fifty (50), consecutive, trading days immediately preceding (and exclusive of) the grant date of the PSUs. Vesting of these PSUs will be contingent on the achievement of certain annual company-wide performance goals to be reviewed and approved by the Board or Compensation Committee and continuing to be a Service Provider through applicable dates determined by the Board or Compensation Committee. In the event that a Change of Control (as defined in your Severance Agreement, as discussed further below) occurs while these PSUs still remain outstanding and subject to achievement of the applicable performance metrics, then as of immediately prior to the Change of Control, the portion of these PSUs allocated to the performance period in which the Change of Control occurs will be deemed to have met the applicable performance metrics at the target level and such portion will be scheduled to vest on the last day of such performance period, subject to your continued employment through that date. In such event, for purposes of your Change of Control and Severance Agreement, such portion of the award will be considered to be time/service-based vesting, and not performance.

Any equity awards described above that are granted to you will be subject to the terms and conditions of the Plan and applicable standard form of award agreement thereunder, including vesting requirements. No right to any equity is earned or accrued until such time that vesting occurs, nor does the grant of any equity award confer any right to you to continued vesting and/or being a Service Provider.

4) Change of Control and Severance Agreement (the "Severance Agreement"):

Along with this offer letter we have included a Severance Agreement that sets forth the detailed benefits that you may become entitled to receive in the event of a termination of your employment under certain circumstances, which will become effective on your Start Date.

- 5) **Relocation Allowance:** We are also offering you reimbursement of relocation expenses for your move from Colleyville, Texas to Brisbane, California or within the San Francisco Bay Area, up to a maximum reimbursement of \$100,000, if you relocate within twelve (12) months of your Start Date (the "**Relocation Allowance**"). We will only reimburse you for these expenditures once you submit valid receipts to the Company and only if you are an employee of the Company on the date of reimbursement or payment by the Company. Relocation expenses that are taxable must be substantiated in writing (by valid receipts or any other reasonable method of invoicing, showing proof of payment for an eligible relocation cost) within thirty (30) days any such relocation expense is incurred. Any such relocation expense will be reimbursed to you via check or electronic funds transfer by the thirtieth (30th) day following the date of receipt by the Company of your written substantiation.

- 6) **Sign-on Bonus:** We are also offering you a one-time sign-on bonus of \$50,000, which will be paid to you within thirty (30) days of your Start Date to offset the costs of establishing a temporary living arrangement during your transition (the “**Sign-On Bonus**”).
- 7) If: 1) you have not relocated to Brisbane, California or within the San Francisco Bay Area within twelve (12) months of your Start Date, or 2) you terminate your employment with the Company for any reason within twelve (12) months following the payment of your Sign-on Bonus or Relocation Allowance, then you will be required to repay to the Company the gross amount of the Sign-On Bonus and the Relocation Allowance no later than thirty (30) days following the 12-month anniversary of your Start Date, or the date of termination of your employment with the Company, as applicable.

Employment Eligibility Verification: For purposes of federal immigration law, you will be required to provide to the Company documentary evidence of your identity and eligibility for employment in the United States. Such documentation must be provided to us within three (3) business days of your date of hire, or our employment relationship with you may be terminated.

Benefits: The Company provides competitive benefits including medical, dental, vision, EAP, flexible spending, 401(k) retirement savings, discounted Employee Stock Purchase Plan, and life insurance.

Paid Time Off (PTO): You will be entitled to four (4) weeks of PTO per year (PTO hours are accrued per pay period) capped at six (6) weeks, in accordance with the Company’s PTO policy.

At Will Employment: You understand and acknowledge that your employment with the Company is for an unspecified duration and constitutes "at-will" employment. This means that the Company or you may terminate your employment relationship with the Company at any time, with or without cause and with or without notice. The at-will nature of this employment relationship cannot be modified except expressly in a signed writing by the Company’s president.

Proprietary Information Agreement: As a condition of your employment, you must sign the Company’s standard Employee Proprietary Information Agreement. This offer letter, the Employee Proprietary Information Agreement and the Severance Agreement, constitute the entire agreement between the Company and you relating to your employment with the Company, and supersede all prior and contemporaneous discussions and understandings.

Conflicting Obligations: We also ask that, if you have not already done so, you disclose to the Company any and all agreements relating to your prior employment that may affect your eligibility to be employed by the Company or limit the manner in which you may be employed. It is the Company's understanding that any such agreements will not prevent you from performing the duties of your position and you represent that such is the case. Moreover, you agree that, during the term of your employment with the Company, you will not engage in any other employment, occupation, consulting or other business activity directly related to the business in which the Company is now involved or becomes involved during the term of your employment, nor will you engage in any other activities that conflict with your obligations to the Company. Similarly, you agree not to bring any third party confidential information to the Company, including that of your former employer, and that in performing your duties for the Company you will not in any way utilize any such information.

Background Check: The Company reserves the right to conduct background investigations and/or reference checks on all of its potential employees. Your job offer, therefore, is contingent upon a clearance of such a background investigation and/or reference check, if any.

This offer will remain open until **5:00 p.m. PST on July 31, 2020**, with final approval made through Board resolution on or about August 1, 2020. We believe that your enthusiasm and past experience will be an asset to our Company and that you will have a positive impact on the organization. Please acknowledge your acceptance of this offer by signing below and emailing it to me at dmowry@cutera.com by the stated deadline.

We are looking forward to your joining the Cutera team!

Sincerely,

/s/ Dave Mowry

7/29/2020

Dave Mowry
CEO
Cutera, Inc.

Offer Accepted By:

Rohan Seth

Date

CUTERA, INC.

CHANGE OF CONTROL AND SEVERANCE AGREEMENT

This Change of Control and Severance Agreement (the "Agreement") is made and entered into by and between Mr. Rohan Seth ("Employee") and Cutera, Inc., a Delaware corporation (the "Company"), effective as of date that Employee commences employment with the Company (the "Effective Date").

RECITALS

1. The Company may from time to time consider the possibility of an acquisition by another company or other change of control, or may terminate Employee's employment without cause or may cause Employee to resign his or her employment as a result of actions taken by the Company that materially and negatively change Employee's employment relationship with the Company. The Compensation Committee of the Board of Directors of the Company (the "Committee") recognizes that the risk of such events occurring can be a distraction to Employee and can cause Employee to consider alternative employment opportunities. The Committee has determined that it is in the best interests of the Company and its stockholders to assure that the Company will have the continued dedication and objectivity of Employee, notwithstanding the possibility that such events may occur.

2. The Committee believes that it is in the best interests of the Company and its stockholders to provide Employee with an incentive to continue his or her employment.

3. The Committee believes that it is imperative to provide Employee with certain severance benefits in certain instances upon Employee's termination of employment. These benefits will provide Employee with enhanced financial security and incentive and encouragement to remain with the Company notwithstanding the possibility that certain events may occur that lead to the termination of Employee's employment.

4. Certain capitalized terms used in the Agreement are defined in Section 6 below.

5. This Agreement supersedes and replaces, in its entirety, any prior agreement between the Company and Employee relating to the subject matter that is contained in this Agreement.

AGREEMENT

NOW, THEREFORE, in consideration of the mutual covenants contained herein, the parties hereto agree as follows:

1. Term of Agreement. This Agreement will have an initial term of four (4) years commencing on the Effective Date (the "Initial Term"). On the fourth anniversary of the Effective Date, this Agreement will renew automatically for additional one (1) year terms (each, an "Additional Term") unless either party provides the other party with written notice of non-renewal at least sixty (60) days prior to the date of automatic renewal. Notwithstanding the foregoing sentence, if a Change of Control occurs at any time during either the Initial Term or an Additional Term, the term of this Agreement will extend automatically through the date that is twelve (12) months following the effective date of the Change of Control. If Employee becomes entitled to benefits under Section 4 during the term of this Agreement, the Agreement will not terminate until all of the obligations of the parties hereto with respect to this Agreement have been satisfied.

2. At-Will Employment. The Company and Employee acknowledge that Employee's employment is and will continue to be at-will, as defined under applicable law. If Employee's employment terminates for any reason, including (without limitation) any termination prior to or following a Change of Control as provided herein, Employee will not be entitled to any payments, benefits, damages, awards or compensation other than as provided by this Agreement or as provided in any employment agreement (including any offer letter) entered into between the Company and Employee, and the payment of accrued but unpaid wages, as required by law, and any unreimbursed reimbursable expenses.

3. Change of Control. In the event of a Change of Control, with respect to any equity awards granted to Employee by the Company during the twelve (12) month period occurring immediately prior to the date of the Change of Control that, as of the Change of Control, are outstanding and, but for this Section 3, would be subject to achievement of performance-based vesting conditions (other than continued service), but excluding any performance-based restricted stock unit granted to Employee as a "New Employee PSU Grant" as referenced in the offer letter between Employee and the Company dated July 29, 2020 (such performance-based awards other than the "New Employee PSU Grant," the "Performance Awards"), (a) any portion of such Performance Awards for which the performance period is ongoing as of the date of the Change of Control (the "Eligible Portion") will be shortened to a date determined by the Board or Committee, in its sole discretion, that occurs shortly before the date of the Change of Control (up to ten (10) days prior to the date of the Change of Control), (b) the Board or Committee, in its sole discretion, will determine the extent to which the applicable performance criteria for such shortened performance period, prorated or otherwise appropriately adjusted to reflect the shortened performance period, have been achieved, (c) the Eligible Portion will vest as of immediately prior to the Change of Control to the extent that such applicable performance criteria have been met, and (d) any remaining portion of the Performance Awards that has not vested prior to the Change of Control will terminate and be cancelled.

4. Severance Benefits.

(a) Termination without Cause Not in Connection with a Change of Control. If the Company terminates Employee's employment with the Company without Cause (and other than due to his death or Disability) other than during the period beginning three (3) months before, and ending twelve (12) months following, a Change of Control (such period, the "Change of Control Period"), and Employee signs and does not revoke a release of claims with the Company (in substantially the same form as set forth in Exhibit A) (the "Release") and provided that such Release becomes effective and irrevocable no later than sixty (60) days following Employee's termination date (such deadline, the "Release Deadline"), then subject to this Section 4, Employee will receive the following:

(i) Severance Payment. Employee will receive a payment equal to six (6) months of Employee's annual base salary as in effect immediately prior to Employee's termination date, less applicable withholdings.

(ii) COBRA. Provided that Employee and/or his eligible dependents timely elects to continue their healthcare coverage under the Company's group health plan pursuant to the Consolidated Omnibus Reconciliation Act ("COBRA"), the Company agrees to reimburse Employee for the costs incurred to obtain such continued coverage for himself and his eligible dependents for a period of six (6) months, or until Employee has secured health insurance coverage through another employer, whichever occurs first. COBRA reimbursements shall be made by the Company to Employee consistent with the Company's normal expense reimbursement policy, provided that Employee submits documentation to the Company substantiating Employee's payments for COBRA coverage. Notwithstanding the preceding, if the Company determines in its sole discretion that it cannot provide COBRA reimbursement benefits without potentially violating applicable law (including, without limitation, Section 2716 of the Public Health Service Act), the Company will instead provide the Employee a taxable payment in an amount equal to the monthly COBRA premium that the Employee would be required to pay to continue the Employee's group health coverage in effect on the date of termination of employment (which amount will be based on the premium for the first month of COBRA coverage), which payments will be made regardless of whether the Employee elects COBRA continuation coverage and will commence in the month following the month of the termination date and continue for the period of months indicated in this Section.

(iii) Accrued Compensation. The Company will pay Employee all accrued but unpaid vacation, expense reimbursements, wages, and other benefits due to Employee under any Company-provided plans, policies, and arrangements.

(b) Termination without Cause or Resignation for Good Reason in Connection with a Change of Control. If the Company terminates Employee's employment with the Company without Cause (and other than due to his death or Disability) or if Employee resigns from such employment for Good Reason, and such termination occurs during the Change of Control Period, and Employee signs and does not revoke the Release and provided that such release of claims becomes effective and irrevocable no later than the Release Deadline, then subject to this Section 4, Employee will receive the following:

(i) Severance Payment. Employee will receive a payment equal to the sum of (A) six (6) months of Employee's annual base salary as in effect immediately prior to Employee's termination date, less applicable withholdings, and (B) fifty percent (50%) of Employee's target bonus for the fiscal year of the Company in which the termination date occurs, less applicable withholdings.

(ii) COBRA. Provided that Employee and/or his eligible dependents timely elects to continue their healthcare coverage under the Company's group health plan pursuant to the Consolidated Omnibus Reconciliation Act ("COBRA"), the Company agrees to reimburse Employee for the costs incurred to obtain such continued coverage for himself and his eligible dependents for a period of six (6) months, or until Employee has secured health insurance coverage through another employer, whichever occurs first. COBRA reimbursements shall be made by the Company to Employee consistent with the Company's normal expense reimbursement policy, provided that Employee submits documentation to the Company substantiating Employee's payments for COBRA coverage. Notwithstanding the preceding, if the Company determines in its sole discretion that it cannot provide COBRA reimbursement benefits without potentially violating applicable law (including, without limitation, Section 2716 of the Public Health Service Act), the Company will instead provide the Employee a taxable payment in an amount equal to the monthly COBRA premium that the Employee would be required to pay to continue the Employee's group health coverage in effect on the date of termination of employment (which amount will be based on the premium for the first month of COBRA coverage), which payments will be made regardless of whether the Employee elects COBRA continuation coverage and will commence in the month following the month of the termination date and continue for the period of months indicated in this section.

(iii) Vesting Acceleration of Equity Awards. Vesting acceleration of one hundred percent (100%) of any Equity Awards that are outstanding and unvested as of the date of the termination. Except as may be set forth in an award agreement or other agreement between the Company and Employee, any equity awards that are to vest, and/or for which the amount of the awards to vest is to be determined, based on the achievement of performance criteria (e.g., PSU) as of the date of termination of Employee's employment with the Company shall not be eligible for the vesting acceleration described in this Section 4(b)(iii) (but, for avoidance of doubt, an award based on achievement of performance criteria (e.g., the New Employee PSU Grant) can be converted to an award that is to vest based on continued service and would be eligible for the vesting acceleration set forth in this Section 4(b)(iii)). If Employee is terminated for Cause or due to death or Disability, resigns with or without Good Reason outside of the Change of Control Period, or resigns without Good Reason during the Change of Control Period, then the unvested equity awards that are outstanding as of the date of employment termination shall terminate immediately pursuant to their terms. If Employee's employment has been terminated by the Company without Cause (and other than due to his death or Disability) or by Employee for Good Reason prior to a Change of Control, then Employee's unvested, time-based equity awards will remain outstanding and unvested for an additional three (3) months following termination (but in no event beyond each such equity award's original maximum term to expiration, if applicable) solely for purposes of determining whether a Change of Control occurs during such period. For the avoidance of doubt, the immediately preceding sentence will not apply to any Performance Awards. If a Change of Control does not occur during the three (3) month period following Employee's termination then the unvested, time-based equity awards shall terminate at the end of such period. If Employee's employment has been terminated by the Company without Cause (and other than due to his death or Disability) or by Employee for Good Reason and a Change of Control occurs during such three (3) month period following termination, such unvested, time-based equity awards that are outstanding as of the date of termination of Employee's employment with the Company (and are still within their maximum term to expiration) shall accelerate vesting in accordance with the terms of this Section 4.

(iv) Accrued Compensation. The Company will pay Employee all accrued but unpaid vacation, expense reimbursements, wages, and other benefits due to Employee under any Company-provided plans, policies, and arrangements.

(c) Timing of Payments.

(i) If the release of claims does not become effective and irrevocable by the Release Deadline, Employee will forfeit any rights to severance or benefits under this Agreement other than the accrued compensation set forth in Section 4(a)(iii) and Section 4(b)(iv). In no event will severance payments or benefits be paid or provided until the release of claims becomes effective and irrevocable.

(ii) Unless otherwise required by Section 3(g), the Company will pay any severance payments set forth in Section 4(a)(i) and Section 4(b)(i) periodically in accordance with the Company's normal payroll practices, from the first payroll period following the effective date of the Release; provided, however, that no severance or other benefits, other than the accrued compensation set forth in Section 4(a)(iii) and Section 4(b)(iv), will be paid or provided until the Release discussed in Section 4(a) and Section 4(b) becomes effective and irrevocable. If Employee should die before all of the severance amounts have been paid, such unpaid amounts will be paid to Employee's designated beneficiary, if living, or otherwise to the personal representative of Employee's estate, periodically in accordance with the Company's normal payroll practices.

(d) Voluntary Resignation; Termination for Cause. If Employee's employment with the Company terminates (i) voluntarily by Employee (with or without Good Reason) outside of the Change of Control Period or by Employee other than for Good Reason during the Change of Control Period, or (ii) for Cause by the Company, then Employee will not be entitled to receive severance or other benefits except for those (if any) as may then be established under the Company's then existing severance and benefits plans and practices or pursuant to other written agreements with the Company.

(e) Disability; Death. If the Company terminates Employee's employment as a result of Employee's Disability, or Employee's employment terminates due to his or her death, then Employee will not be entitled to receive any other severance or other benefits except for those (if any) as may then be established under the Company's then existing written severance and benefits plans and practices or pursuant to other written agreements with the Company.

(f) Exclusive Remedy. In the event of a termination of Employee's employment as set forth in Section 4(a) and Section 4(b) of this Agreement, the provisions of this Section 4 are intended to be and are exclusive and in lieu of any other rights or remedies to which Employee or the Company otherwise may be entitled, whether at law, tort or contract, in equity, or under this Agreement (other than the payment of accrued but unpaid wages, as required by law, and any unreimbursed reimbursable expenses). Employee will be entitled to no benefits, compensation or other payments or rights upon a termination of employment prior to or following a Change of Control other than those benefits expressly set forth in Section 4 of this Agreement. For purposes of clarity, in the event a termination of Employee's employment as set forth in Section 4(a) or Section 4(b) of this Agreement occurs during the period within three (3) months prior to a Change of Control, any severance payments and benefits to be provided to Employee under Section 4(b) will be reduced by any amounts that already were provided to Employee under Section 4(a).

(g) Section 409A.

(i) Notwithstanding anything to the contrary in this Agreement, no severance pay or benefits to be paid or provided to Employee, if any, pursuant to this Agreement that, when considered together with any other severance payments or separation benefits are considered deferred compensation under Section 409A of the Internal Revenue Code of 1986, as amended (the "Code"), and the final regulations and any guidance promulgated thereunder ("Section 409A") (together, the "Deferred Compensation Separation Benefits") will be paid or otherwise provided until Employee has a "separation from service" within the meaning of Section 409A. Similarly, no severance payable to Employee, if any, pursuant to this Agreement that otherwise would be exempt from Section 409A pursuant to Treasury Regulation Section 1.409A-1(b)(9) will be payable until Employee has a "separation from service" within the meaning of Section 409A.

(ii) Any severance payments or benefits under this Agreement that would be considered Deferred Compensation Severance Benefits will be paid on, or, in the case of installments, will not commence until, the sixtieth (60th) day following Employee's separation from service, or, if later, such time as required by Section 4(g)(iii). Except as required by Section 3(g)(iii), any installment payments that would have been made to Employee during the sixty (60) day period immediately following Employee's separation from service but for the preceding sentence will be paid to Employee on the sixtieth (60th) day following Employee's separation from service and the remaining payments shall be made as provided in this Agreement.

(iii) Notwithstanding anything to the contrary in this Agreement, if Employee is a "specified employee" within the meaning of Section 409A at the time of Employee's termination (other than due to death), then the Deferred Compensation Separation Benefits that are payable within the first six (6) months following Employee's separation from service, will become payable on the first payroll date that occurs on or after the date six (6) months and one (1) day following the date of Employee's separation from service. All subsequent Deferred Compensation Separation Benefits, if any, will be payable in accordance with the payment schedule applicable to each payment or benefit. Notwithstanding anything herein to the contrary, if Employee dies following Employee's separation from service, but prior to the six (6) month anniversary of the separation from service, then any payments delayed in accordance with this paragraph will be payable in a lump sum as soon as administratively practicable after the date of Employee's death and all other Deferred Compensation Separation Benefits will be payable in accordance with the payment schedule applicable to each payment or benefit. Each payment, installment and benefit payable under this Agreement is intended to constitute a separate payment for purposes of Section 1.409A-2(b)(2) of the Treasury Regulations. To the extent necessary to comply with Section 409A, references to the termination of Employee's employment with the Company or similar terms shall mean a "separation from service" within the meaning of Section 409A.

(iv) Any amount paid under this Agreement that satisfies the requirements of the “short-term deferral” rule set forth in Section 1.409A-1(b)(4) of the Treasury Regulations will not constitute Deferred Compensation Separation Benefits for purposes of clause (i) above. It is the intent of this Agreement that all cash severance payments under Sections 4(a)(i) and 4(b)(i) will satisfy the requirements of the “short-term deferral” rule.

(v) Any amount paid under this Agreement that qualifies as a payment made as a result of an involuntary separation from service pursuant to Section 1.409A-1(b)(9)(iii) of the Treasury Regulations that does not exceed the Section 409A Limit (as defined below) will not constitute Deferred Compensation Separation Benefits for purposes of clause (i) above.

(vi) The foregoing provisions are intended to be exempt from or comply with the requirements of Section 409A so that none of the severance payments and benefits to be provided hereunder will be subject to the additional tax imposed under Section 409A, and any ambiguities or ambiguous terms herein will be interpreted to be exempt or so comply. The Company and Employee agree to work together in good faith to consider amendments to this Agreement and to take such reasonable actions which are necessary, appropriate or desirable to avoid imposition of any additional tax or income recognition prior to actual payment to Employee under Section 409A. In no event will the Company or any of its parent, subsidiaries or affiliates have any liability or obligation to reimburse, indemnify, or hold harmless Employee for any taxes, penalties, or interest imposed, or other costs incurred, as a result of Section 409A.

(h) Other Requirements. Employee’s receipt of any payments or benefits under this Section 4 will be subject to Employee continuing to comply with the terms of any confidential information agreement executed by Employee in favor of the Company and the provisions of this Agreement.

5. Limitation on Payments. In the event that the severance and other benefits provided for in this Agreement or otherwise payable to Employee (i) constitute “parachute payments” within the meaning of Section 280G of the Code, and (ii) but for this Section 5, would be subject to the excise tax imposed by Section 4999 of the Code, then Employee’s benefits under Section 4 will be either:

(a) delivered in full, or

(b) delivered as to such lesser extent which would result in no portion of such benefits being subject to the excise tax under Section 4999 of the Code,

whichever of the foregoing amounts, taking into account the applicable federal, state and local income taxes and the excise tax imposed by Section 4999, results in the receipt by Employee on an after-tax basis, of the greatest amount of benefits, notwithstanding that all or some portion of such benefits may be taxable under Section 4999 of the Code. If a reduction in severance and other benefits constituting "parachute payments" is necessary so that benefits are delivered to a lesser extent, reduction will occur in the following order: (i) reduction of cash payments in reverse chronological order (that is, the cash payment owed on the latest date following the occurrence of the event triggering the Excise Tax will be the first cash payment to be reduced); (ii) cancellation of equity awards that were granted "contingent on a change in ownership or control" within the meaning of Section 280G of the Code in the reverse order of date of grant of the awards (that is, the most recently granted equity awards will be cancelled first); (iii) reduction of the accelerated vesting of equity awards in the reverse order of date of grant of the awards (that is, the vesting of the most recently granted equity awards will be cancelled first); and (iv) reduction of employee benefits in reverse chronological order (that is, the benefit owed on the latest date following the occurrence of the event triggering the Excise Tax will be the first benefit to be reduced). In no event shall Employee have any discretion with respect to the ordering of payment reductions. Employee will be solely responsible for the payment of all personal tax liability that is incurred as a result of the payments and benefits received under this Agreement, and Employee will not be reimbursed, indemnified, or held harmless by the Company for any of those payments of personal tax liability.

Unless the Company and Employee otherwise agree in writing, any determination required under this Section 5 will be made in writing by nationally recognized accounting or valuation firm selected by the Company or such other person or entity to which the parties mutually agree (the "Accountants"), whose determination will be conclusive and binding upon Employee and the Company for all purposes. For purposes of making the calculations required by this Section 5, the Accountants may make reasonable assumptions and approximations concerning applicable taxes and may rely on reasonable, good faith interpretations concerning the application of Sections 280G and 4999 of the Code. The Company and Employee will furnish to the Accountants such information and documents as the Accountants may reasonably request in order to make a determination under this Section. The Company will bear the costs and make all payments for the Accountants' services in connection with any calculations contemplated by this Section. The Company will have no liability to Employee for the determinations of the Accountants.

6. Definition of Terms. The following terms referred to in this Agreement will have the following meanings:

(a) Cause. "Cause" will mean Employee's termination only upon:

(i) Employee's willful failure to substantially perform Employee's duties (subject to notice and a reasonable period to cure), other than a failure resulting from Employee's complete or partial incapacity due to physical or mental illness or impairment.

(ii) Employee's willful act which constitutes gross misconduct and which is injurious to the Company;

(iii) Employee's willful breach of a material provision of this Agreement (subject to notice and reasonable period to cure); or

(iv) Employee's knowing, material and willful violation of a federal or state law or regulation applicable to the business of the Company.

(b) Change of Control. "Change of Control" will mean the occurrence of any of the following events:

(i) Change in Ownership of the Company. A change in the ownership of the Company which occurs on the date that any one person, or more than one person acting as a group ("Person"), acquires ownership of the stock of the Company that, together with the stock held by such Person, constitutes more than 50% of the total voting power of the stock of the Company, except that any change in the ownership of the stock of the Company as a result of a private financing of the Company that is approved by the Company's Board of Directors (the "Board") will not be considered a Change of Control; or

(ii) Change in Effective Control of the Company. A change in the effective control of the Company which occurs on the date that a majority of members of the Board is replaced during any twelve (12) month period by directors whose appointment or election is not endorsed by a majority of the members of the Board prior to the date of the appointment or election. For purposes of this clause (ii), if any Person is considered to be in effective control of the Company, the acquisition of additional control of the Company by the same Person will not be considered a Change of Control; or

(iii) Change in Ownership of a Substantial Portion of the Company's Assets. A change in the ownership of a substantial portion of the Company's assets which occurs on the date that any Person acquires (or has acquired during the twelve (12) month period ending on the date of the most recent acquisition by such person or persons) assets from the Company that have a total gross fair market value equal to or more than 50% of the total gross fair market value of all of the assets of the Company immediately prior to such acquisition or acquisitions. For purposes of this subsection (iii), gross fair market value means the value of the assets of the Company, or the value of the assets being disposed of, determined without regard to any liabilities associated with such assets.

For these purposes, persons will be considered to be acting as a group if they are owners of a corporation that enters into a merger, consolidation, purchase or acquisition of stock, or similar business transaction with the Company.

Notwithstanding the foregoing provisions of this definition, a transaction will not be deemed a Change of Control unless the transaction qualifies as a change in control event within the meaning of Section 409A.

(c) Disability. "Disability" will mean that Employee is unable to engage in any substantial gainful activity, and specifically, the essential functions of Employee's position, with or without reasonable accommodation, by reason of any medically determinable physical or mental impairment that can be expected to result in death or can be expected to last for a continuous period of not less than twelve (12) months. Termination resulting from Disability may only be affected after at least thirty (30) days' written notice by the Company of its intention to terminate Employee's employment. In the event that Employee resumes the performance of substantially all of his or her duties hereunder before the termination of his or her employment becomes effective, the notice of intent to terminate will automatically be deemed to have been revoked.

(d) “Equity Awards” means stock options and other equity awards covering shares of Company common stock granted to Employee that, as of the date of termination of employment that would trigger the right to receive severance under Section 4(a), or in the case of a termination that would trigger the right to receive severance under Section 4(b), the later of the date of the termination or immediately prior to the Change in Control, are held by Employee.

(e) Good Reason. “Good Reason” will mean Employee’s termination of employment within ninety (90) days following the expiration of any cure period (discussed below) following the occurrence of one or more of the following, without Employee’s consent:

(i) A material reduction in Employee’s authority, duties, or responsibilities relative to duties, position or responsibilities in effect immediately prior to such reduction;

(ii) A material reduction in Employee’s cash compensation as in effect immediately prior to such reduction; or

(iii) A material change in the geographic location at which Employee must perform services (in other words, the relocation of Employee to a facility that is more than fifty (50) miles from Employee’s then-current location).

Employee will not resign for Good Reason without first providing the Company with written notice within ninety (90) days of the event that Employee believes constitutes “Good Reason” specifically identifying the acts or omissions constituting the grounds for Good Reason and a reasonable cure period of not less than thirty (30) days following the date of such notice and such grounds for “Good Reason” have not been cured during such cure period.

(f) Section 409A Limit. “Section 409A Limit” will mean the lesser of two (2) times: (i) Employee’s annualized compensation based upon the annual rate of pay paid to Employee during the Employee’s taxable year preceding the Employee’s taxable year of Employee’s separation from service as determined under, and with such adjustments as are set forth in, Treasury Regulation 1.409A-1(b)(9)(iii)(A)(1) and any Internal Revenue Service guidance issued with respect thereto; or (ii) the maximum amount that may be taken into account under a qualified plan pursuant to Section 401(a)(17) of the Code for the year in which Employee’s separation from service occurred.

7. Successors.

(a) The Company’s Successors. Any successor to the Company (whether direct or indirect and whether by purchase, merger, consolidation, liquidation or otherwise) to all or substantially all of the Company’s business and/or assets will assume the obligations under this Agreement and agree expressly to perform the obligations under this Agreement in the same manner and to the same extent as the Company would be required to perform such obligations in the absence of a succession. For all purposes under this Agreement, the term “Company” will include any successor to the Company’s business and/or assets which executes and delivers the assumption agreement described in this Section 7(a) or which becomes bound by the terms of this Agreement by operation of law.

(b) Employee's Successors. The terms of this Agreement and all rights of Employee hereunder will inure to the benefit of, and be enforceable by, Employee's personal or legal representatives, executors, administrators, successors, heirs, distributees, devisees and legatees.

8. Arbitration.

(a) General. The Company and Employee each agree that any and all disputes arising out of the terms of this Agreement, Employee's employment by the Company, Employee's service as an officer or director of the Company, or Employee's compensation and benefits, their interpretation and any of the matters herein released, will be subject to binding arbitration under the arbitration rules set forth in California Code of Civil Procedure Sections 1280 through 1294.2, including Section 1281.8 (the "Act"), and pursuant to California law. Disputes that the Company and Employee agree to arbitrate, and thereby agree to waive any right to a trial by jury, include any statutory claims under local, state, or federal law, including, but not limited to, claims under Title VII of the Civil Rights Act of 1964, the Americans with Disabilities Act of 1990, the Age Discrimination in Employment Act of 1967, the Older Workers Benefit Protection Act, the Sarbanes-Oxley Act, the Worker Adjustment and Retraining Notification Act, the California Fair Employment and Housing Act, the Family and Medical Leave Act, the California Family Rights Act, the California Labor Code, claims of harassment, discrimination, and wrongful termination, and any statutory or common law claims. The Company and Employee further understand that this agreement to arbitrate also applies to any disputes that the Company may have with Employee. The Company and Employee further agree that, to the fullest extent permitted by law, Employee may bring any arbitration proceeding only in Employee's individual capacity, and not as a plaintiff, representative, or class member in any purported class, collective, or representative lawsuit or proceeding. Nothing in this agreement prevents Employee from bringing a representative lawsuit or proceeding as permitted by the California Labor Code's Private Attorneys General Act of 2004.

(b) Procedure. The Company and Employee agree that any arbitration will be administered by Judicial Arbitration & Mediation Services, Inc. ("JAMS"), pursuant to its Employment Arbitration Rules & Procedures (the "JAMS Rules"). The Arbitrator will have the power to decide any motions brought by any party to the arbitration, including motions for summary judgment and/or adjudication, motions to dismiss and demurrers, and motions for class certification, prior to any arbitration hearing. The Arbitrator will have the power to award any remedies available under applicable law, and the Arbitrator will award attorneys' fees and costs to the prevailing party, except as prohibited by law. The Company will pay for any administrative or hearing fees charged by the Arbitrator or JAMS except that Employee will pay any filing fees associated with any arbitration that Employee initiates, but only so much of the filing fees as Employee would have instead paid had he or she filed a complaint in a court of law. The Arbitrator will administer and conduct any arbitration in accordance with California law, including the California Code of Civil Procedure, and the Arbitrator will apply substantive and procedural California law to any dispute or claim, without reference to rules of conflict of law. To the extent that the JAMS Rules conflict with California law, California law will take precedence. The decision of the Arbitrator will be in writing. Any arbitration under this Agreement will be conducted in San Mateo County, California.

(c) Remedy. Except as provided by the Act and this Agreement, arbitration will be the sole, exclusive, and final remedy for any dispute between Employee and the Company. Accordingly, except as provided for by the Act and this Agreement, neither Employee nor the Company will be permitted to pursue court action regarding claims that are subject to arbitration.

(d) Administrative Relief. Employee understands that this Agreement does not prohibit him or her from pursuing any administrative claim with a local, state, or federal administrative body or government agency that is authorized to enforce or administer laws related to employment, including, but not limited to, the Department of Fair Employment and Housing, the Equal Employment Opportunity Commission, the National Labor Relations Board, or the Workers' Compensation Board. This Agreement does, however, preclude Employee from pursuing court action regarding any such claim, except as permitted by law.

(e) Voluntary Nature of Agreement. Each of the Company and Employee acknowledges and agrees that such party is executing this Agreement voluntarily and without any duress or undue influence by anyone. Employee further acknowledges and agrees that he or she has carefully read this Agreement and has asked any questions needed for him or her to understand the terms, consequences, and binding effect of this Agreement and fully understand it, including that Employee is waiving his or her right to a jury trial. Finally, Employee agrees that he or she has been provided an opportunity to seek the advice of an attorney of his or her choice before signing this Agreement.

9. Notice.

(a) General. Notices and all other communications contemplated by this Agreement will be in writing and will be deemed to have been duly given when personally delivered when mailed by U.S. registered or certified mail, return receipt requested and postage prepaid or when delivered by a private courier service such as UPS, DHL or Federal Express that has tracking capability. In the case of Employee, mailed notices will be addressed to him or her at the home address which he or she most recently communicated to the Company in writing. In the case of the Company, mailed notices will be addressed to its corporate headquarters, and all notices will be directed to the attention of its President.

(b) Notice of Termination. Any termination by the Company for Cause or by Employee for Good Reason will be communicated by a notice of termination to the other party hereto given in accordance with Section 9(a) of this Agreement. Such notice will indicate the specific termination provision in this Agreement relied upon, will set forth in reasonable detail the facts and circumstances claimed to provide a basis for termination under the provision so indicated, and will specify the termination date (which will be not more than ninety (90) days after the giving of such notice). The failure by Employee to include in the notice any fact or circumstance which contributes to a showing of Good Reason will not waive any right of Employee hereunder or preclude Employee from asserting such fact or circumstance in enforcing his or her rights hereunder.

10. Miscellaneous Provisions.

(a) No Duty to Mitigate. Employee will not be required to mitigate the amount of any payment contemplated by this Agreement, nor will any such payment be reduced by any earnings that Employee may receive from any other source.

(b) Waiver. No provision of this Agreement will be modified, waived or discharged unless the modification, waiver or discharge is agreed to in writing and signed by Employee and by an authorized officer of the Company (other than Employee). No waiver by either party of any breach of, or of compliance with, any condition or provision of this Agreement by the other party will be considered a waiver of any other condition or provision or of the same condition or provision at another time.

(c) Headings. All captions and section headings used in this Agreement are for convenient reference only and do not form a part of this Agreement.

(d) Entire Agreement. This Agreement constitutes the entire agreement of the parties hereto and supersedes in their entirety all prior representations, understandings, undertakings or agreements (whether oral or written and whether expressed or implied) of the parties with respect to the subject matter hereof. No waiver, alteration, or modification of any of the provisions of this Agreement will be binding unless in writing and signed by duly authorized representatives of the parties hereto and which specifically mention this Agreement.

(e) Choice of Law. The validity, interpretation, construction and performance of this Agreement will be governed by the laws of the State of California (with the exception of its conflict of laws provisions). Any claims or legal actions by one party against the other arising out of the relationship between the parties contemplated herein (whether or not arising under this Agreement) will be commenced or maintained in any state or federal court located in the jurisdiction where Employee resides, and Employee and the Company hereby submit to the jurisdiction and venue of any such court.

(f) Severability. The invalidity or unenforceability of any provision or provisions of this Agreement will not affect the validity or enforceability of any other provision hereof, which will remain in full force and effect.

(g) Withholding. All payments made pursuant to this Agreement will be subject to withholding of applicable income, employment and other taxes.

(h) Counterparts. This Agreement may be executed in counterparts, each of which will be deemed an original, but all of which together will constitute one and the same instrument.

(i) Protected Activity. Nothing in this Agreement is intended to limit Employee's rights to discuss the terms, wages, and working conditions of his employment, nor to deny him the right to disclose information pertaining to sexual harassment or any unlawful or potentially unlawful conduct, as protected by applicable law. Nothing in this Agreement limits or prohibits Employee from filing and/or pursuing a charge or complaint with, or otherwise communicating or cooperating with or participating in any investigation or proceeding that may be conducted by, any federal, state or local government agency or commission, including the Securities and Exchange Commission, the Equal Employment Opportunity Commission, the Occupational Safety and Health Administration, and the National Labor Relations Board ("**Government Agencies**"), including disclosing documents or other information as permitted by law, without giving notice to, or receiving authorization from, the Company. Notwithstanding, in making any such disclosures or communications, Employee to take all reasonable precautions to prevent any unauthorized use or disclosure of any information that may constitute the Company's confidential information to any parties other than the Government Agencies. Employee further understands that Employee is not permitted to disclose the Company's attorney-client privileged communications or attorney work product.

IN WITNESS WHEREOF, each of the parties has executed this Agreement, in the case of the Company by its duly authorized officer, as of the day and year set forth below.

COMPANY:

EMPLOYEE:

Cutera, Inc.

By: _____
Name: David Mowry
Title: Chief Executive Officer

Name: Rohan Seth

EXHIBIT A

RELEASE

1. Release of All Claims. In consideration for the benefits to which Employee is entitled pursuant to that certain CHANGE OF CONTROL AND SEVERANCE AGREEMENT dated _____, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Employee, for Employee and Employee's heirs, assigns, and all persons and entities claiming by, through, or under Employee, hereby irrevocably, unconditionally, and completely releases, discharges, and agrees to hold harmless the Company and its Affiliates (hereinafter referred to, both individually and collectively, as "Releasees") of and from any and all claims, liabilities, charges, demands, grievances, lawsuits, and causes of action of any kind or nature whatsoever, including without limitation claims for contribution, subrogation, or indemnification, whether direct or indirect, liquidated or unliquidated, known or unknown, which Employee has, had, or may claim to have against Releasees (hereinafter collectively referred to as "Claim(s)").

2. The release, discharge, and agreement to hold harmless set forth in this Section 2 includes, without limitation, any Claim(s) that Employee had, has, or may claim to have against Releasees:

a. for wrongful or constructive discharge or termination, negligent or intentional infliction of emotional distress, breach of express or implied contract, breach of the covenant of good faith and fair dealing, violation of public policy, defamation, promissory estoppel, detrimental reliance, retaliation, tortious interference with contract or prospective economic advantage, invasion of privacy, whistleblower protection, hostile work environment, personal injury (whether physical or mental), or any other Claim(s), whether arising in tort or in contract;

b. for discrimination, hostile work environment / harassment, retaliation, or otherwise arising under federal, state, or local law, including without limitation Title VII of the Civil Rights Act of 1964, the Civil Rights Act of 1991, the Equal Pay Act, all claims under Titles 29 and 42 of the United States Code, the Americans with Disabilities Act of 1990, the Rehabilitation Act of 1973, or any other federal, state, or local law prohibiting discrimination, harassment, or retaliation on the basis of race, color, national origin, religion, age, sex, sexual orientation, gender identity, disability, veteran status, or any other protected group status;

c. for discrimination, hostile work environment / harassment, retaliation, or otherwise arising under the Age Discrimination in Employment Act, as amended by the Older Workers Benefit Protection Act arising on or before the date of this Agreement; and/or

d. arising under the Employee Retirement Income Security Act ("ERISA");

e. arising under the Family and Medical Leave Act ("FMLA");

f. arising under any state or local employment and antidiscrimination law;

g. arising under the Dodd-Frank Wall-Street Reform and Consumer Protection Act or other whistleblower protection to the full extent allowed by law;

h. for unpaid wages, bonuses, commissions, or other compensation of any type or kind to the full extent allowed by law;

i. for attorney's fees and/or costs;

j. for any other Claim(s) in any way related to or arising out of Employee's employment with the Company or the termination of that employment;

k. Arising under the California Fair Employment and Housing Act; and/or

l. Arising under the federal Worker Adjustment and Retraining Notification Act (29 U.S. Code Chapter 23)("WARN Act") and California Labor Code §§ 1400 et seq. ("Cal-WARN Act"), which may entitle employee to 60 days advance notice prior to termination.

3. Employee hereby waives the provisions of section 1542 of the California Civil Code, which states: "A general release does not extend to claims which the creditor does not know or suspect to exist in his or her favor at the time of executing the release, which if known by him or her must have materially affected his or her settlement with the debtor."

4. Nothing in this Agreement waives Employee's rights, if any, to (i) continue Employee's participation in the Company's employee health benefit plan, as allowed by COBRA and the terms, conditions, and limitations of the plan, (ii) any vested rights that Employee may have under any employee pension or welfare benefit plan in which Employee participated as an employee of the Company, and/or (iii) any claims Employee has or may claim to have for worker's compensation or unemployment benefits, and/or (iv) any claims that are non-waivable by law.

5. Exclusion for Certain Claims. Notwithstanding the foregoing, the Company and Employee agree that the releases set forth in Sections 1 and 2 above do not apply to any claims arising after the Employee's termination date, nor does anything herein prevent Employee or the Company from instituting any action to enforce the terms of this Agreement. The Parties agree and acknowledge that the release and waiver set forth in Sections 1 and 2 above do not prevent Employee from filing a charge of discrimination with or from participating or otherwise cooperating in any investigation or proceeding conducted by the Equal Employment Opportunity Commission, the California Department of Fair Employment and Housing, or any other comparable federal, state, or local agency relating to any claim or allegation of unlawful discrimination, harassment or retaliation. Notwithstanding the foregoing, Employee agrees that, to the full extent allowed by law, Employee is not entitled to and hereby waives any right to recover compensation, damages, or any other form of relief of any type or kind and/or reinstatement to employment that may be awarded or ordered by any court or administrative agency to or for Employee's benefit arising from or relating to any Claim(s) released by Employee under this Agreement. Employee further specifically acknowledges and agrees that Employee is waiving, on behalf of Employee and Employee's attorneys, all claims for fees and expenses and court costs.

6. Full and Complete Release. Employee understands and agrees that Employee is releasing and waiving any Claim(s) that Employee does not know exists or may exist in Employee's favor at the time Employee signs this Agreement which, if known by Employee, would materially affect Employee's decision to sign this Agreement. Nonetheless, for the purpose of implementing a full and complete release of all Claim(s), Employee expressly acknowledges that the release set forth in Sections 1 and 2 is intended to include, without limitation, all Claim(s) that Employee does not know or suspect to exist in Employee's favor and that the release set forth in Sections 1 and 2 includes the release and extinguishment of any such Claim(s). In addition, Employee agrees that Employee will not seek re-employment with the Company at any time in the future and that the provisions of this Section 6 are adequate and legal grounds to (a) reject Employee's application for re-employment or (b) terminate Employee's employment should Employee be rehired by the Company in violation of this Section 6.

7. Employee agrees and covenants not to sue or prosecute any claim that might now or ever be asserted arising out of, or pertaining to, his or her employment with the Company and any of its predecessors or affiliates.

8. Should any provision of this Agreement be held to be invalid or wholly or partially unenforceable by a final, non-appealable judgment in a court of competent jurisdiction, such holding shall not invalidate or void the remainder of this Agreement, and those portions held to be invalid or unenforceable shall be revised and reduced in scope so as to be valid and enforceable or, if such is not possible, then such portions shall be deemed to have been wholly excluded with the same force and effect as if it had never been included herein.

9. Employee and his or her representatives, attorneys, and agents will not make any public or private statement with respect to the Company (including, as to Employee, any statement with respect to the directors, officers, employees, representatives, attorneys, and agents of the Company) that is derogatory, disparaging or may tend to injure the Company or such person in its or their business, public or private affairs. The foregoing obligations do not apply to information required to be disclosed or requested by any governmental agency, court or stock exchange, or any law, rule or regulation. Any public disclosure related to this Agreement as required by any law, rule or regulation will be negotiated by the Parties in advance, except that the Company has the final, sole discretion as to the content of any such announcement.

10. This Agreement is governed by and construed and enforced, in all respects, in accordance with the laws of the State of California without regard to conflict of law principles unless preempted by federal law, in which case federal law governs.

11. Review and Revocation. Employee acknowledges and agrees that he or she has 45 days from the date he or she receives this Agreement to consider the terms of and to sign this Agreement. Employee may, at Employee's sole and absolute discretion, sign this Agreement prior to the expiration of the above review period. In addition, information is available to Employee as required by the Older Workers Benefit Protection Act.

12. Employee may revoke this Agreement for a period of up to 7 days after Employee signs it (not counting the day it was signed) and the Agreement shall not become effective or enforceable until the 7-day revocation period has expired. To revoke this Agreement, Employee must give written notice stating that Employee wishes to revoke the Agreement to the Company's Vice President, Global HR. Any notice stating that Employee wishes to revoke this Agreement must be emailed (with a reply confirmation from the Company's Vice President, Global HR), hand-delivered, or mailed (with confirmation of delivery) to the Company, as set forth in this paragraph, in sufficient time to be received by the Company on or before the expiration of the 7-day revocation period.

AGREED AND ACCEPTED, on this ____ day of _____, 20__.

Printed

Name: _____