CUTERA, INC.
2012 PROXY STATEMENT AND 2011 ANNUAL REPORT

Dear Stockholders:

You are cordially invited to attend the 2012 Annual Meeting of Stockholders of Cutera, Inc. (the "Company"). The meeting will be held at our principal executive offices located at 3240 Bayshore Blvd., Brisbane, California 94005-1021 on June 13, 2012 at 10:00 a.m. Pacific Time.

The attached Notice of 2012 Annual Meeting of Stockholders and Proxy Statement contain details of the business to be conducted at the Annual Meeting. We have also made available a copy of our 2011 Annual Report to Stockholders with this proxy statement. We encourage you to read our Annual Report. It includes our audited financial statements and provides information about our business.

We have elected to provide access to our proxy materials over the internet under the Securities and Exchange Commission's "notice and access" rules. We are constantly focused on improving the ways people connect with information, and believe that providing our proxy materials over the internet increases the ability of our stockholders to connect with the information they need, while reducing the environmental impact of our Annual Meeting. If you need additional information about Cutera, please visit the Investor Relations section of the Company's website at www.cutera.com.

Whether or not you attend the Annual Meeting, it is important that your shares be represented and voted at the meeting. Therefore, I urge you to promptly vote and submit your proxy via the internet, by phone, or by signing, dating, and returning the proxy card provided to you. If you decide to attend the Annual Meeting, you will be able to vote in person, even if you have previously submitted your proxy.

On behalf of Cutera's Board of Directors and executive team, I would like to express our appreciation for your continued interest and confidence in our business.

Sincerely,

Kevin Connors,
President and Chief Executive Officer

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

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934

Filed by the Registrant ☒

Filed by a Party other than the Registrant ☐

Check the appropriate box:

☐ Preliminary Proxy Statement

☐ Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))

☒ Definitive Proxy Statement

☐ Definitive Additional Materials

☐ Soliciting Material Pursuant to §240.14a-11(c) or §240.14a-2

CUTERA, INC.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

☐ No fee required

☐ Fee computed on table below per Exchange Act Rules 14a-6(i)(4) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (Set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

☐ Fee paid previously with preliminary materials.

☐ Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

CUTERA

NOTICE OF 2012 ANNUAL MEETING OF STOCKHOLDERS
TO BE HELD ON JUNE 13, 2012

10:00 A.M. Pacific Time

To our Stockholders:

You are cordially invited to attend the 2012 Annual Meeting of Stockholders of Cutera, Inc. (the "*Company*"). The meeting will be held at our principal executive offices located at 3240 Bayshore Blvd., Brisbane, California 94005-1021. The meeting will be held on June 13, 2012 at 10:00 a.m. Pacific Time, for the following purposes:

1. To elect two Class II directors to each serve for a three-year term that expires at the 2015 Annual Meeting of Stockholders and until their successors have been duly elected and qualified;

2. To hold a non-binding vote on the compensation of our named executive officers;

3. To ratify the selection of Ernst & Young LLP as the independent registered public accounting firm of the Company (the "Independent Registered Public Accounting Firm") for the fiscal year ending December 31, 2012;

4. To adopt our 2004 Equity Incentive Plan (As Amended); and

5. To transact such other business as may properly come before the Annual Meeting, including any motion to adjourn to a later date to permit further solicitation of proxies, if necessary, or before any adjournment thereof.

The foregoing items of business are more fully described in the proxy statement accompanying this Notice of Annual Meeting.

To help conserve resources and reduce printing and distribution costs, we will be mailing a notice to our stockholders, instead of a paper copy of this proxy statement and our 2011 Annual Report, with instructions on how to access our proxy materials over the Internet, including this proxy statement, our 2011 Annual Report and a form of proxy card or voting instruction card. The notice will also contain instructions on how each of those stockholders can receive a paper copy of our proxy materials.

The meeting will begin promptly at 10:00 a.m., local time, and check-in will begin at 9:50 a.m. local time. Only holders of record of shares of our common stock (NASDAQ: CUTR) at the close of business on April 16, 2012 will be entitled to notice of, and to vote at, the meeting and any postponements or adjournments of the meeting.

For a period of at least 10 days prior to the meeting, a complete list of stockholders entitled to vote at the meeting will be available and open to the examination of any stockholder for any purpose relating to the Annual Meeting during normal business hours at our principal executive offices located at 3240 Bayshore Blvd., Brisbane, California 94005-1021.

By order of the Board of Directors,

Kevin P. Connors
President and Chief Executive Officer

Brisbane, California
April 30, 2012

YOUR VOTE IS IMPORTANT!

REGARDLESS OF WHETHER YOU PLAN TO ATTEND THE MEETING, PLEASE PROMPTLY VOTE BY TELEPHONE, OR IF AVAILABLE, ELECTRONICALLY, OR, IF YOU RECEIVED PER YOUR REQUEST A PAPER COPY OF OUR PROXY MATERIALS, COMPLETE, SIGN, DATE, AND RETURN THE ENCLOSED PROXY CARD IN THE ACCOMPANYING POSTAGE-PAID ENVELOPE. NO ADDITIONAL POSTAGE IS NECESSARY IF THE PROXY CARD IS MAILED IN THE UNITED STATES OR CANADA. YOU MAY REVOKE YOUR PROXY AT ANY TIME BEFORE IT IS VOTED AT THE MEETING.

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PROXY STATEMENT
FOR
2012 ANNUAL MEETING OF STOCKHOLDERS
TO BE HELD ON JUNE 13, 2012

The Board of Directors of Cutera, Inc., a Delaware corporation, is soliciting the enclosed proxy from you. The proxy will be used at our 2012 Annual Meeting of Stockholders to be held on Wednesday, June 13, 2012, beginning at 10:00 a.m., Pacific Time, which is the local time, at our principal executive offices located at 3240 Bayshore Blvd., Brisbane, California 94005-1021, and at any postponements or adjournments thereof. This proxy statement contains important information regarding the meeting. Specifically, it identifies the matters upon which you are being asked to vote, provides information that you may find useful in determining how to vote and describes the voting procedures.

In this proxy statement the terms "*we*", "*our*", "*Cutera*" and the "*Company*" each refer to Cutera, Inc.; the term "*Board*" means our Board of Directors; the term "*proxy materials*" means this proxy statement, the enclosed proxy card, and our Annual Report on Form 10-K for the year ended December 31, 2011, filed with the U.S. Securities and Exchange Commission (the "SEC") on March 15, 2012, and the term "*Annual Meeting*" means our 2012 Annual Meeting of Stockholders.

We are sending the Notice of Internet Availability of Proxy Materials on or about May 4, 2012, to all stockholders of record at the close of business on April 16, 2012 (the "*Record Date*").

QUESTIONS AND ANSWERS REGARDING THIS SOLICITATION AND VOTING AT THE ANNUAL MEETING

Why am I receiving these proxy materials?

You are receiving these proxy materials from us because you were a stockholder of record at the close of business on the Record Date (which was April 16, 2012). As a stockholder of record, you are invited to attend the meeting and are entitled to and requested to vote on the items of business described in this proxy statement.

Why did I receive a notice in the mail regarding the Internet availability of the proxy materials instead of a paper copy of the proxy materials?

Pursuant to SEC rules, we have elected to provide access to our proxy materials over the Internet. Accordingly, we are sending a Notice of Internet Availability of Proxy Materials (the "Notice") to our stockholders.

All stockholders will have the ability to access the proxy materials on a website referred to in the Notice or request to receive a printed set of the proxy materials.

Instructions on how to access the proxy materials over the Internet or to request a printed copy may be found on the Notice.

In addition, stockholders may request to receive proxy materials in printed form by mail or electronically by email on an ongoing basis. Choosing to receive your future proxy materials by email will save us the cost of printing and mailing documents to you and will reduce the impact of our annual stockholders' meetings on the environment. If you chose in connection with our 2011 Annual Meeting of Stockholders to receive future proxy materials by email, you should receive an email this year with instructions containing a link to those materials and a link to the proxy voting site. In connection with our upcoming Annual Meeting, if you choose to receive future proxy materials by email, you will receive an email next year with instructions containing a link to those materials and a link to the proxy voting site. Your election to receive proxy materials by email will remain in effect until you terminate it.

What is the purpose of the Annual Meeting?

At our meeting, stockholders of record will vote upon the items of business outlined in the notice of meeting (on the cover page of this proxy statement), each of which is described more fully in this proxy statement. In addition, management will report on the performance of the Company and respond to questions from stockholders.

Who is entitled to attend the meeting?

You are entitled to attend the meeting only if you owned our common stock (or were a joint holder) as of the Record Date or if you hold a valid proxy for the meeting. You should be prepared to present photo identification for admittance.

Please also note that if you are not a stockholder of record but hold shares in street name (that is, through a broker or nominee), you will need to provide proof of beneficial ownership as of the Record Date, such as your most recent brokerage account statement, a copy of the voting instruction card provided by your broker, trustee or nominee, or other similar evidence of ownership.

The meeting will begin promptly at 10:00 a.m., local time. Check-in will begin at 9:50 a.m., local time.

Who is entitled to vote at the meeting?

Only stockholders who owned our common stock at the close of business on the Record Date are entitled to notice of and to vote at the meeting, and at any postponements or adjournments thereof.

As of the Record Date, 14,068,863 shares of our common stock were outstanding. Each outstanding share of our common stock entitles the holder to one vote on each matter considered at the meeting. Accordingly, there are a maximum of 14,068,863 votes that may be cast at the meeting.

How many shares must be present or represented to conduct business at the meeting (that is, what constitutes a quorum)?

The presence at the meeting, in person or by proxy, of the holders of a majority of the shares of our common stock entitled to vote at the meeting will constitute a quorum. A quorum is required to conduct business at the meeting. The presence of the holders of our common stock representing at least 7,034,432 votes will be required to establish a quorum at the meeting. Both abstentions and broker non-votes are counted for the purpose of determining the presence of a quorum.

What items of business will be voted on at the meeting?

The items of business scheduled to be voted on at the meeting are as follows:

1. the election of two nominees to serve as Class II directors on our Board;
2. a non-binding vote on executive compensation;
3. the ratification of Ernst & Young LLP as the Independent Registered Public Accounting Firm for the 2012 fiscal year; and
4. the adoption of our 2004 Equity Incentive Plan (as amended).

These proposals are described more fully below in this proxy statement. As of the date of this proxy statement, the only business that our Board intends to present or knows of that others will present at the meeting is as set forth in this proxy statement. If any other matter or matters are properly brought before the meeting, it is the intention of the persons who hold proxies to vote the shares they represent in accordance with their best judgment.

How does the Board recommend that I vote?

Our Board recommends that you vote your shares "FOR" each of the director nominees, "FOR" the approval of a non binding vote on executive compensation and "FOR" the ratification of Ernst & Young LLP as the Independent Registered Public Accounting Firm for the 2012 fiscal year, and "FOR" for the adoption of our 2004 Equity Incentive Plan (as amended).

What shares can I vote at the meeting?

You may vote all shares owned by you as of the Record Date, including (1) shares held directly in your name as the *stockholder of record*, and (2) shares held for you as the *beneficial owner* through a broker, trustee or other nominee such as a bank.

What is the difference between holding shares as a stockholder of record and as a beneficial owner?

Most of our stockholders hold their shares through a broker or other nominee rather than directly in their own name. As summarized below, there are some distinctions between shares held of record and those owned beneficially.

Stockholders of Record. If your shares are registered directly in your name with our transfer agent, Computershare Trust Company, Inc., you are considered, with respect to those shares, the *stockholder of record*, and these proxy materials are being sent directly to you by us. As the *stockholder of record*, you have the right to grant your voting proxy directly to Cutera or to vote in person at the meeting. We have enclosed a proxy card for your use.

Beneficial Owner. If your shares are held in a brokerage account or by another nominee, you are considered the *beneficial owner* of shares held in street name, and these proxy materials are being forwarded to you together with a voting instruction card. As the beneficial owner, you have the right to direct your broker, trustee or nominee how to vote and are also invited to attend the meeting. Please note that since a beneficial owner is not the *stockholder of record*, you may not vote these shares in person at the meeting unless you obtain a "legal proxy" from the broker, trustee or nominee that holds your shares, giving you the right to vote the shares at the meeting. Your broker, trustee or nominee has enclosed or provided voting instructions for you to use in directing the broker, trustee or nominee how to vote your shares.

How can I vote my shares without attending the meeting?

Whether you hold shares directly as the stockholder of record or beneficially in street name, you may direct how your shares are voted without attending the meeting. Stockholders of record of our common stock may submit proxies by completing, signing and dating their proxy cards and mailing them in the accompanying pre-addressed envelope. Our stockholders who hold shares beneficially in street name may vote by mail by completing, signing and dating the voting instruction cards provided by the broker, trustee or nominee and mailing them in the accompanying pre-addressed envelope.

How can I vote my shares in person at the meeting?

Shares held in your name as the stockholder of record may be voted in person at the meeting. Shares held beneficially in street name may be voted in person only if you obtain a legal proxy from the broker, trustee or nominee that holds your shares giving you the right to vote the shares. Even if you plan to attend the meeting, we recommend that you also submit your proxy card or voting instructions as described above so that your vote will be counted if you later decide not to, or are unable to, attend the meeting.

Can I change my vote?

You may change your vote at any time prior to the vote at the meeting. If you are the stockholder of record, you may change your vote by granting a new proxy bearing a later date (which automatically revokes the earlier proxy), by providing a written notice of revocation to our Secretary prior to your shares being voted, or by attending the meeting and voting in person. Attendance at the meeting will not cause your previously granted proxy to be revoked unless you specifically so request.

For shares you hold beneficially in street name, you may change your vote by submitting new voting instructions to your broker, trustee or nominee, or, if you have obtained a legal proxy from your broker, trustee or nominee giving you the right to vote your shares, by attending the meeting and voting in person.

Is my vote confidential?

Proxy instructions, ballots and voting tabulations that identify individual stockholders are handled in a manner that protects your voting privacy. Your vote will not be disclosed either within Cutera or to third parties, except: (1) as necessary to meet applicable legal requirements, (2) to allow for the tabulation of votes and certification of the vote, and (3) to facilitate a successful proxy solicitation. Occasionally, stockholders provide written comments on their proxy card, which are then forwarded to our management.

What vote is required to approve each item and how are votes counted?

The vote required to approve each item of business and the method for counting votes is set forth below:

Election of Directors. The two director nominees receiving the highest number of affirmative "FOR" votes at the meeting (a plurality of votes cast) will be elected to serve as Class II directors. You may vote either "FOR" or "WITHHOLD" your vote for the director nominees. A properly executed proxy marked "WITHHOLD" with respect to the election of one or more directors will not be voted with respect to the director or directors indicated, although it will be counted for purposes of determining whether there is a quorum.

Non-binding Vote on Executive Compensation. For the non-binding vote on executive compensation, the affirmative "FOR" vote of a majority of the shares represented in person or by proxy and entitled to vote on the item will be required for approval. You may vote "FOR," "AGAINST" or "ABSTAIN" for this item of business. If you "ABSTAIN," your abstention has the same effect as a vote "AGAINST."

Ratification of Ernst & Young LLP as our Independent Registered Public Accounting Firm. For the ratification of Ernst & Young LLP as our Independent Registered Public Accounting Firm, the affirmative "FOR" vote of a majority of the shares represented in person or by proxy and entitled to vote on the item will be required for approval. You may vote "FOR," "AGAINST" or "ABSTAIN" for this item of business. If you "ABSTAIN," your abstention has the same effect as a vote "AGAINST."

Adoption of 2004 Equity Incentive Plan (As Amended). For the adoption of our 2004 Equity Incentive Plan (as amended), the affirmative "FOR" vote of a majority of the shares represented in person or by proxy and entitled to vote on the item will be required for approval. You may vote "FOR," "AGAINST" or "ABSTAIN" for this item of business. If you "ABSTAIN," your abstention has the same effect as a vote "AGAINST."

If you provide specific instructions with regard to certain items, your shares will be voted as you instruct on such items. If you sign your proxy card or voting instruction card without giving specific instructions, your shares will be voted in accordance with the recommendations of the Board ("FOR" all of the Company's nominees to the Board, "FOR" the approval, by non-binding vote, of executive compensation, "FOR" ratification of Ernst & Young LLP as our Independent Registered Public Accounting Firm, "FOR" the adoption of the 2004 Equity Incentive Plan (As Amended), and in the discretion of the proxy holders on any other matters that may properly come before the meeting).

What is a "broker non-vote"?

A "*broker non-vote*" occurs when a broker expressly instructs on a proxy card that it is not voting on a matter, whether routine or non-routine. Under the rules that govern brokers who have record ownership of shares that are held in street name for their clients who are the beneficial owners of the shares, brokers have the discretion to vote such shares on routine matters, which includes ratifying the appointment of an independent registered public accounting firm but does not include the election of directors, and the non-binding vote on executive compensation. Therefore, if you do not otherwise instruct your broker, the broker may turn in a proxy card voting your shares "FOR" ratification of Ernst & Young LLP as the Independent Registered Public Accounting Firm. **However, if you do not instruct your broker how to vote with respect to the election of directors, the non-binding vote on executive compensation and the adoption of the 2004 Equity Incentive Plan (as amended), your broker may not vote with respect to such proposal and your shares will not be counted as voting in favor of these matters.**

How are "broker non-votes" counted?

Broker non-votes will be counted for the purpose of determining the presence or absence of a quorum for the transaction of business, but they will not be counted in tabulating the voting result for any particular proposal.

How are abstentions counted?

If you return a proxy card that indicates an abstention from voting on all matters, the shares represented will be counted for the purpose of determining both the presence of a quorum and the total number of votes cast with respect to a proposal (other than the election of directors), but they will not be voted on any matter at the meeting. In the absence of controlling precedent to the contrary, we intend to treat abstentions in this manner. Accordingly, abstentions will have the same effect as a vote "*AGAINST*" a proposal.

What happens if additional matters are presented at the meeting?

Other than the four proposals described in this proxy statement, we are not aware of any other business to be acted upon at the meeting. If you grant a proxy, the persons named as proxy holders, Kevin P. Connors (our President and Chief Executive Officer) and Ronald J. Santilli (our Chief Financial Officer), will have the discretion to vote your shares on any additional matters that may be properly presented for a vote at the meeting. If, for any unforeseen reason, any of our nominees is not available as a candidate for director, the persons named as proxy holders will vote your proxy for such other candidate or candidates as may be nominated by our Board.

Who will serve as inspector of election?

We expect a representative of Computershare Trust Company, Inc., our transfer agent, to tabulate the votes, and expect Rajesh Madan, our Vice President of Finance to act as inspector of election at the meeting.

What should I do in the event that I receive more than one set of proxy/voting materials?

You may receive more than one set of these proxy solicitation materials, including multiple copies of this proxy statement and multiple proxy cards or voting instruction cards. For example, if you hold your shares in more than one brokerage account, you may receive a separate voting instruction card for each brokerage account in which you hold shares. In addition, If you are a stockholder of record and your shares are registered in more than one name, you may receive more than one proxy card. Please complete, sign, date and return each Cutera proxy card and voting instruction card that you receive to ensure that all your shares are voted.

Who is soliciting my vote and who will bear the costs of this solicitation?

Your vote is being solicited on behalf of the Board, and the Company will bear the entire cost of solicitation of proxies, including preparation, assembly, printing and mailing of this proxy statement. In addition to these mailed proxy materials, our directors and employees may also solicit proxies in person, by telephone, by electronic mail or by other means of communication. Directors and employees will not be paid any additional compensation for soliciting proxies. We may reimburse brokerage firms, banks and other agents for the cost of forwarding proxy materials to beneficial owners. We may also engage the services of a professional proxy solicitation firm to aid in the solicitation of proxies from certain brokers, bank nominees and other institutional owners. Our costs for such services, if retained, will not be material.

Where can I find the voting results of the meeting?

We intend to announce preliminary voting results at the Annual Meeting and file a Form 8-K with the SEC within four business days after the end of our Annual Meeting to report the voting results.

What is the deadline to propose actions for consideration at next year's Annual Meeting of stockholders or to nominate individuals to serve as directors?

As a stockholder, you may be entitled to present proposals for action at a future meeting of stockholders, including director nominations.

Stockholder Proposals: For a stockholder proposal to be considered for inclusion in our proxy statement for the Annual Meeting to be held in 2013, the written proposal must be received by our corporate Secretary at our principal executive offices no later than January 3, 2013, which is the date 120 calendar days before the anniversary of the mailing date of the Notice of Internet Availability of Proxy Materials. If the date of next year's Annual Meeting is moved more than 30 days before or after the anniversary date of this year's Annual Meeting, the deadline for inclusion of proposals in our proxy statement is instead a reasonable time before we begin to print and mail its proxy materials. Such proposals also must comply with the requirements of Rule 14a-8 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and any other applicable rules established by the SEC. Stockholders interested in submitting such a proposal are advised to contact knowledgeable legal counsel with regard to the detailed requirements of applicable securities laws. Proposals should be addressed to:

Secretary
Cutera, Inc.
3240 Bayshore Blvd.
Brisbane, California 94005-1021

Nomination of Director Candidates: You may propose director candidates for consideration by our Board. Any such recommendations should include the nominee's name and qualifications for Board membership and should be directed to the "Secretary" at the address of our principal executive offices set forth above. In addition, our Bylaws permit stockholders to nominate directors for election at an Annual Meeting of stockholders. To nominate a director, the stockholder must provide the information required by our Bylaws, as well as a statement by the nominee consenting to being named as a nominee and to serve as a director if elected. In addition, the stockholder must give timely notice to our corporate Secretary in accordance with the provisions of our Bylaws, which require that the notice be received by our corporate Secretary no later than January 3, 2013.

Copy of Bylaw Provisions: You may contact our corporate Secretary at our principal executive offices for a copy of the relevant bylaw provisions regarding the requirements for making stockholder proposals and nominating director candidates.

STOCK OWNERSHIP

Security Ownership of Certain Beneficial Owners and Management

The following table provides information relating to the beneficial ownership of our common stock as of the Record Date, by:

- each stockholder known by us to own beneficially more than 5% of our common stock;
- each of our executive officers named in the Summary Compensation Table on page 41 (including our Chief Executive Officer, our Chief Financial Officer, and our Chief Technology Officer);
- each of our directors; and
- all of our directors and Named Executive Officers as a group.

The number of shares beneficially owned by each entity, person, director or executive officer is determined in accordance with the rules of the SEC, and the information is not necessarily indicative of beneficial ownership for any other purpose. Under such rules, beneficial ownership includes any shares over which the individual has the sole or shared voting power or investment power and any shares that the individual has the right to acquire within 60 days of April 16, 2012 (the Record Date) through the exercise of any stock option or other right. The number and percentage of shares beneficially owned is computed on the basis of 14,068,863 shares of our common stock outstanding as of the Record Date. The information in the following table regarding the beneficial owners of more than 5% of our common stock is based upon information supplied by principal stockholders or Schedules 13D and 13G filed with the SEC.

Shares of our common stock that a person has the right to acquire within 60 days of the Record Date are deemed outstanding for purposes of computing the percentage ownership of the person holding such rights, but are not deemed outstanding for purposes of computing the percentage ownership of any other person, except with respect to the percentage ownership of all directors and executive officers as a group. To our knowledge, except as set forth in the footnotes to this table and subject to applicable community property laws, each person or entity named in the table has sole voting and disposition power with respect to the shares set forth opposite such person's or entity's name. The address for those persons for which an address is not otherwise provided is c/o Cutera, Inc., 3240 Bayshore Blvd., Brisbane, California 94005-1021.

Name and Address of Beneficial Owner	Number of Shares Outstanding	Warrants and Options Exercisable Within 60 Days	Approximate Percent Owned
Dimensional Fund Advisors LP	1,179,754	—	8.4%
David B. Apfelberg	33,796	52,000	*
Gregory Barrett	—	—	*
Kevin P. Connors	604,349	419,967	7.1%
Leonard C. DeBenedictis	3,292	68,334	*
David A. Gollnick	203,750	35,001	1.7%
W. Mark Lortz	23,389	62,000	*
Timothy J. O'Shea	19,354	42,000	*
Ronald J. Santilli	36,517	229,287	1.9%
Jerry P. Widman	21,104	62,000	*
All directors and Named Executive Officers as a group (9 persons)	945,551	970,589	12.7%

*Less than 1%.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Exchange Act requires our directors, officers and beneficial owners of more than 10% of our common stock to file reports of ownership and reports of changes in the ownership with the SEC. Such persons are required by SEC regulations to furnish us with copies of all Section 16(a) forms they file.

Based solely on our review of the copies of such forms received by us, or written representations from reporting persons that no Forms 3, 4 or 5 were required of such persons, we believe that during our fiscal year ended December 31, 2011 all reports were timely filed.

CORPORATE GOVERNANCE AND BOARD MATTERS

Director Independence

Our Board currently consists of eight authorized directors, with one vacancy. The Company's directors are David B. Apfelberg, Gregory Barrett, Kevin P. Connors, David A. Gollnick, Timothy J. O'Shea, W. Mark Lortz, and Jerry P. Widman. Our Board has determined that each of the directors other than Kevin P. Connors, the Company's President and Chief Executive Officer, and David A. Gollnick, the Company's former Executive Vice President of Research and Development and a current consultant to our Company satisfy the current "independent director" standards established by rules of The NASDAQ Stock Market LLC ("Nasdaq").

Board Leadership Structure

Our Board does not have a chairman but David B. Apfelberg is the Board-designated lead independent director. Our Chief Executive Officer, Mr. Connors, performs many of the functions that a chairman would typically perform and works together with Dr. Apfelberg in setting the agenda for each board meeting and presiding over such meetings. At the end of each board meeting, the independent directors meet without Mr. Connors and Mr. Gollnick present. Following each meeting, Dr. Apfelberg provides feedback to Mr. Connors on his performance and the performance of other Cutera employees during the meeting and frequently recommends new agenda items for the next meeting.

As described in more detail below, the Board has three standing committees, an Audit Committee, a Compensation Committee and a Nominating and Corporate Governance Committee. The chairman and each member of these committees is an independent director. The Board delegates substantial duties and responsibilities to each committee. The committees make recommendations to the Board and report regularly to the Board on their activities and any actions they have taken. We believe that our independent board committees and their chairman are an important aspect of our board leadership structure.

Risk Oversight and Analysis

Our management is responsible for managing the risks we face in the ordinary course of operating our business. The Board oversees potential risks and our risk management activities by receiving operational and strategic presentations from management which include discussions of key risks to our business. While our Board has the ultimate responsibility for risk management and oversight, various committees of the Board also support the Board in its fulfillment of this responsibility. For example, our Audit Committee assists the Board in its risk oversight function by reviewing and discussing with management our system of disclosure controls and our internal controls over financial reporting, and risks associated with our cash investment policies. Our business is run conservatively and excessive risk taking has been discouraged. As a result, risk analysis has not been a significant factor for our Compensation Committee in establishing compensation. The Nominating and Corporate Governance Committee assists the Board in fulfilling its oversight responsibilities with respect to the management of risks associated with Board organization, membership and structure.

Committees of the Board

Our Board has three standing committees: the Audit Committee, the Compensation Committee and the Nominating and Corporate Governance Committee. From time to time, our Board may also create various ad hoc committees for special purposes. The membership during the last fiscal year and the function of each of the committees are described below.

Name of Director	Audit Committee	Compensation Committee	Nominating and Corporate Governance Committee
Non-Employee Directors:			
Jerry P. Widman	X*	X	X
Timothy J. O'Shea	X		X
W. Mark Lortz	X		X
David B. Apfelberg		X*	X
David A. Gollnick**			
Gregory Barrett***		X	X
Employee Director:			
Kevin P. Connors			
Number of Meetings Held During the Last Fiscal Year	6	1	1

X = Committee member
* = Chairman of Committee
** = Mr. Gollnick resigned from the position of Executive Vice President of Research and Development effective March 20, 2009 and continues to be a member of our Board and a consultant to our Company.
*** = Mr. Barrett replaced Mr. O'Shea as a member of the Compensation Committee on October 21, 2011.

Audit Committee. The Audit Committee oversees the Company's accounting and financial reporting processes and the audits of its financial statements. In this role, the Audit Committee monitors and oversees the integrity of the Company's financial statements and related disclosures, the qualifications, independence, and performance of the Company's Independent Registered Public Accounting Firm, and the Company's compliance with applicable legal requirements and its business conduct policies. Our Board has determined that each member of the Audit Committee meets the independence and financial literacy requirements of the Nasdaq rules and the independence requirements of the SEC. Our Board has determined that Jerry P. Widman continues to qualify as an "audit committee financial expert," as defined in SEC rules. The Audit Committee has a written charter, which was adopted by our Board in January 2004, a copy of which can be found on our website at www.cutera.com. The report of the Audit Committee appears on page 15 of this proxy statement.

Compensation Committee. The Compensation Committee, together with our Board, establishes compensation for our Chief Executive Officer and the other executive officers and administers the Company's 2004 Equity Incentive Plan (as amended in 2008) and 2004 Employee Stock Purchase Plan. The Compensation Committee has a written charter, which was adopted by our Board in January 2004, and amended on April 13, 2007 and on April 25, 2008, and can be found on our website at ir.cutera.com.

Nominating and Corporate Governance Committee. The Nominating and Corporate Governance Committee reviews and makes recommendations to the Board on matters concerning corporate governance, Board composition, identification, evaluation and nomination of director candidates, Board committees, Board compensation, and conflicts of interest. The Nominating and Corporate Governance Committee has a written charter, which was adopted by our Board in October 2011 and can be found on our website.

Meetings Attended by Directors

During 2011, the Board held ten meetings, the Audit Committee held six meetings, the Compensation Committee held one meeting, and the Nominating and Corporate Governance Committee held one meeting. No director attended fewer than 75% of the meetings of the Board or committee(s) on which he or she served during 2011.

The directors of the Company are encouraged to attend the Company's Annual Meeting of Stockholders. In 2011, directors David B. Apfelberg, Kevin P. Connors, Jerry P. Widman, and W. Mark Lortz attended the meeting in person. No other board members attended that meeting, in person or telephonically.

Director Nomination Process

Director Qualifications. While the Nominating and Corporate Governance Committee has not established specific minimum qualifications for director candidates, the candidates for Board membership should have the highest professional and personal ethics and values, and conduct themselves consistent with our Code of Ethics. While the Nominating and Corporate Governance Committee has not formalized specific minimum qualifications they believe must be met by a candidate to be recommended by the independent members, the Nominating and Corporate Governance Committee believes that candidates and nominees must reflect a Board that is comprised of directors who (i) have broad and relevant experience, (ii) are predominantly independent, (iii) are of high integrity, (iv) have qualifications that will increase overall Board effectiveness and enhance long-term stockholder value, and (v) meet other requirements as may be required by applicable rules, such as financial literacy or financial expertise with respect to Audit Committee members.

Stockholder Nominations and Recommendations. As described above in the Question and Answer section of this proxy statement under "What is the deadline to propose actions for consideration at next year's Annual Meeting of Stockholders or to nominate individuals to serve as directors?," our Bylaws set forth the procedure for the proper submission of stockholder nominations for membership on our Board. In addition, the Nominating and Corporate Governance Committee may consider properly submitted stockholder recommendations (as opposed to formal nominations) for candidates for membership on the Board. A stockholder may make such a recommendation by submitting the following information to our Secretary at 3240 Bayshore Blvd., Brisbane, California 94005-1021: the candidate's name, home and business contact information, detailed biographical data, relevant qualifications, professional and personal references, information regarding any relationships between the candidate and Cutera within the last three years and evidence of ownership of Cutera stock by the recommending stockholder.

Identifying and Evaluating Director Nominees. Typically new candidates for nomination to the Board are suggested by existing directors or by our executive officers, although candidates may initially come to our attention through professional search firms, stockholders or other persons. The Nominating and Corporate Governance Committee carefully reviews the qualifications of any candidates who have been properly brought to its attention. Such a review may, in the Nominating and Corporate Governance Committee's discretion, include a review solely of information provided to the Nominating and Corporate Governance Committee or may also include discussion with persons familiar with the candidate, an interview with the candidate or other actions that the Nominating and Corporate Governance Committee deems proper. The Nominating and Corporate Governance Committee shall consider the suitability of each candidate, including the current members of the Board, in light of the current size and composition of the Board. In evaluating the qualifications of the candidates, Nominating and Corporate Governance Committee considers many factors, including, issues of character, judgment, independence, expertise, length of service, and other commitments. In addition, the Nominating and Corporate Governance Committee takes into account diversity in professional experience, skills and background in considering and evaluating candidates. However, while diversity relating to background, skill, experience and perspective is one factor considered in the nomination process, the Company does not have a formal policy relating to diversity. The Nominating and Corporate Governance Committee evaluates such factors, among others, and does not assign any particular weighting or priority to any of these factors. Candidates properly recommended by stockholders are evaluated by the Nominating and Corporate Governance Committee using the same criteria as other candidates. Candidates are not discriminated against on the basis of race, religion, national origin, sexual orientation, disability or any other basis proscribed by law.

Director Nominees at our 2012 Annual Meeting. Our Nominating and Corporate Governance Committee recommended the director nominees for nomination to our Board.

Director Compensation

The following table sets forth a summary of the cash compensation paid and the grant date fair value of fully vested shares of Cutera common stock awarded to our non-employee directors in the fiscal year ended December 31, 2011.

2011 Director Compensation Table

Name	Fees Earned or Paid in Cash [1]	Stock Awards [2]	All Other Compensation [3]	Total
David B. Apfelberg	$ 65,000	$ 60,000[4]	$ 43,200[4]	$ 168,200
Gregory Barrett	—	—[5]	—	—
David A. Gollnick	45,000	60,000[6]	181,920[6]	286,920
W. Mark Lortz	52,500	60,000[7]	—	112,500
Timothy J. O'Shea	57,000	60,000[8]	—	117,000
Jerry P. Widman	71,000	60,000[9]	—	131,000

(1) The amounts reported in this column were earned in connection with serving on our Board and its committees, or as committee Chairman retainers, each as described below.

(2) The amounts reported in this column represent the aggregate grant date fair value of fully vested shares of Cutera common stock awarded during the fiscal year ended December 31, 2011 calculated in accordance with Financial Accounting Standards Board Accounting Standards Codification (ASC) Topic 718.

(3) The amounts reported in this column were earned for services provided for other than serving on our Board or its committees, each as described below.

(4) At December 31, 2011, Dr. Apfelberg held options to purchase 52,000 shares of Cutera common stock. Dr. Apfelberg was the Medical Director of the Cutera Clinic, and, in connection with this role, was paid $43,200 during the fiscal year ended December 31, 2011. Effective April 20, 2012, Dr. Apfelberg resigned from his position as Medical Director of the Cutera Clinic.

(5) At December 31, 2011, Mr. Barrett held options to purchase 14,000 shares of Cutera common stock.

(6) Mr. Gollnick resigned from the position of Executive Vice President of Research and Development effective March 20, 2009. He continues to be a member of our Board and is a consultant to the Company. In connection with his consulting agreement, he was paid $181,920 during the fiscal year ended December 31, 2011. At December 31, 2011, Mr. Gollnick held options to purchase 41,126 shares of Cutera common stock.

(7) At December 31, 2011, Mr. Lortz held options to purchase 62,000 shares of Cutera common stock.

(8) At December 31, 2011, Mr. O'Shea held options to purchase 42,000 shares of Cutera common stock.

(9) At December 31, 2011, Mr. Widman held options to purchase 62,000 shares of Cutera common stock.

For 2011, our non-employee directors earned an annual retainer of $45,000 for regular Board meetings; $6,000 for Compensation Committee meetings (for members other than the Chairman); and $7,500 for Audit Committee meetings (for members other than the Chairman). Our non-employee directors did not earn an annual retainer for Nominating and Corporate Governance Committee meetings. The Chairmen of the Audit Committee and the Compensation Committee each earned an annual retainer of $20,000 for their services on the respective committees. Our non-employee directors no longer receive meeting fees for Board and committee meetings regardless of the number of meetings held throughout the year.

Our 2004 Equity Incentive Plan provides for the automatic grant of options to purchase shares of Cutera common stock to our non-employee directors. Each non-employee director who is appointed to the Board will receive an initial option to purchase 14,000 shares of Cutera common stock upon such appointment. Each of these stock options will have an exercise price equal to fair market value of Cutera common stock on the date of grant and a term of seven years and will become exercisable as to one-third of the shares subject to the option on each anniversary of its date of grant, provided the non-employee director remains a director on such dates. In addition, each non-employee director who is a director on the date of each Annual Meeting of Stockholders and has been a director for at least the preceding six months, will receive an award of fully vested shares of Cutera common stock on an annual basis equivalent to the number of shares represented by the quotient of $60,000 divided by the closing market price of Cutera common stock on the date of such Annual Meeting. In June 2011, our non-employee directors received an award for $60,000 of fully vested shares of Cutera common stock.

Code of Ethics

We are committed to maintaining the highest standards of business conduct and ethics. Our Code of Ethics, as amended, (the "Code") reflects our values and the business practices and principles of behavior that support this commitment. The Code is intended to satisfy SEC rules for a "code of ethics" required by Section 406 of the Sarbanes-Oxley Act of 2002, as well as the Nasdaq listing standards requirement for a "code of conduct." The Code is an Exhibit to our Form 8-K filed with the SEC on April 29, 2004, was amended and restated on November 19, 2009, and is available on the Company's website at www.cutera.com. We will post any amendment to the Code, as well as any waivers that are required to be disclosed by the rules of the SEC or Nasdaq, on our website.

Compensation Committee Interlocks and Insider Participation

No member of our Compensation Committee, nor any of our executive officers, has a relationship that would constitute an interlocking relationship with executive officers or directors of another entity. No Compensation Committee member is an officer or employee of Cutera.

Certain Relationships and Related Transactions

In the Company's last fiscal year, and except for compensation paid to its directors and executive officers for services performed in such roles, and except as provided in the following paragraph, there has not been, nor is there currently proposed, any transaction or series of similar transactions to which the Company was or is to be a party in which the amount involved exceeds $120,000 and in which any director, executive officer, holder of more than 5% of our common stock or any member of their immediate families had or will have a direct or indirect material interest.

We have a consulting agreement with David A. Gollnick pursuant to which Mr. Gollnick is compensated for services that he provides to us, including product development and clinical support. Payments to Mr. Gollnick under this agreement in 2011 and 2010 were $181,920 and $133,520, respectively.

Review, Approval or Ratification of Related Party Transactions

As provided by our Audit Committee charter, our Audit Committee must review and approve in advance any proposed related party transaction. All of our directors and officers are required to report to our Audit Committee any such related party transaction prior to its completion. We have not adopted specific standards for approval of related party transactions, but instead our Audit Committee reviews each such transaction on a case-by-case basis. Our policy is to require that all executive compensation-related matters be recommended and approved by our Compensation Committee as provided by our Compensation Committee charter and be reported under applicable SEC rules.

Family Relationships

There are no family relationships among any of our directors or executive officers.

Indemnification Agreements

Each of our directors and officers has an indemnification agreement with our Company.

Communications with the Board by Stockholders

Stockholders wishing to communicate with the Board or with an individual Board member concerning the Company may do so by writing to the Board or to the particular Board member, and mailing the correspondence to: Attention: Board of Directors, c/o Secretary, Cutera, Inc., 3240 Bayshore Blvd., Brisbane, California 94005-1021. The envelope should indicate that it contains a stockholder communication. All such stockholder communications will be forwarded to the director or directors to whom the communications are addressed.

Stock Ownership Guidelines

To enhance our overall corporate governance practices and director compensation program, in April 2012, our Board adopted stock ownership guidelines for our non-employee directors, which the Compensation Committee intends to review annually. These guidelines are designed to align our non-employee directors' interests with our stockholders' long-term interests by promoting long-term ownership of Cutera common stock. These guidelines provide that, within five years of the later of the adoption of the guidelines or his or her first date of election to our Board, our non-employee directors must hold shares of Cutera common stock having a value not less than three times the value of their annual retainer for general Board service.

REPORT OF THE AUDIT COMMITTEE

The material in this section is not deemed filed with the SEC and is not incorporated by reference in any filing of our Company under the Securities Act of 1933 or the Securities Exchange Act of 1934, whether made before or after the date of this Proxy Statement and irrespective of any general incorporation language in those filings.

The Audit Committee of the Board of Directors is comprised solely of independent directors (as defined by Nasdaq rules) who were all appointed by the Board of Directors. The Audit Committee operates pursuant to a written charter adopted by the Board of Directors, a copy of which can be found on our website. The Audit Committee reviews and assesses the adequacy of its charter on an annual basis. As more fully described in the charter, the purpose of the Audit Committee is to provide general oversight of Cutera's financial reporting, integrity of financial statements, internal controls and internal audit functions. The Audit Committee has authority to retain outside legal, accounting or other advisors as its deems necessary to carry out its duties and to require Cutera to pay for such expenditures.

The Audit Committee monitors Cutera's external audit process, including the scope, fees, auditor independence matters and the extent to which the Independent Registered Public Accounting Firm may be retained to perform non-audit services. The Audit Committee has responsibility for the appointment, compensation, retention and oversight of Cutera's Independent Registered Public Accounting Firm. The Audit Committee also reviews the results of the external audit work with regard to the adequacy and appropriateness of Cutera's financial, accounting and internal controls over financial reporting. In addition, the Audit Committee generally oversees Cutera's internal compliance programs. The Audit Committee members are not all professional accountants or auditors, and their function is not intended to duplicate or to certify the activities of management and the Independent Registered Public Accounting Firm, nor can the Audit Committee certify that the Independent Registered Public Accounting Firm is "independent" under applicable rules.

The Audit Committee provides advice, counsel and direction to management and the Independent Registered Public Accounting Firm on matters for which it is responsible based on the information it receives from management and the Independent Registered Public Accounting Firm and the experience of its members in business, financial and accounting matters.

Management is responsible for the preparation and integrity of Cutera's financial statements, accounting and financial reporting processes and internal control over financial reporting for compliance with applicable accounting standards, laws and regulations.

Cutera's Independent Registered Public Accounting Firm, PricewaterhouseCoopers LLP, is responsible for performing an independent audit of Cutera's financial statements in accordance with generally accepted auditing standards and expressing an opinion in its report on those financial statements, and for expressing an opinion on the effectiveness of Cutera's internal control over financial reporting.

In this context, the Audit Committee hereby reports as follows:

- The Audit Committee has reviewed and discussed the audited financial statements for 2011 with Cutera's management.

- The Audit Committee has discussed with the Independent Registered Public Accounting Firm the matters required to be discussed by SAS 61 (Codification of Statements on Auditing Standard, AU 380), SAS 99 (Consideration of Fraud in a Financial Statement Audit) and SEC rules discussed in Final Releases Nos. 33-8183 and 33-8183a.

The Audit Committee has received written disclosures and a letter from the Independent Registered Public Accounting Firm, PricewaterhouseCoopers LLP, pursuant to Rule 3526, *Communication with Audit Committees Concerning Independence*, of the Public Company Accounting Oversight Board ("PCAOB"), and has discussed with PricewaterhouseCoopers LLP its independence.

- The Audit Committee has discussed with the Independent Registered Public Accounting Firm the overall scope and plans for its audit.

- The Audit Committee has met with the Independent Registered Public Accounting Firm, with and without management present, to discuss the results of its examinations, its evaluations of our internal control over financial reporting, and to discuss the overall quality of our financial reporting.

- The Audit Committee has considered whether the provision by the Independent Registered Public Accounting Firm of non-audit services is compatible with maintaining its independence.

- Based on the review and discussion referred to above, the Audit Committee has approved that the audited financial statements and the report of management on internal control over financial reporting be included in Cutera's Annual Report on Form 10-K for the fiscal year ended December 31, 2011.

The foregoing report is provided by the undersigned members of the Audit Committee.

W. Mark Lortz
Timothy J. O'Shea
Jerry P. Widman

PROPOSAL ONE—ELECTION OF DIRECTORS

Classes of the Board of Directors

Our Amended and Restated Certificate of Incorporation provides that our Board shall be divided into three classes designated as Class I, Class II and Class III, respectively, with the classes of directors serving for staggered three-year terms. Our Board currently consists of seven directors, divided among the three classes as follows:

- two Class I directors, Kevin P. Connors and David A. Gollnick, whose terms expire at our Annual Meeting of Stockholders to be held in 2014;
- two Class II directors, David B. Apfelberg and Timothy J. O'Shea, whose terms expire at our Annual Meeting of Stockholders to be held in 2012; and
- three Class III directors W. Mark Lortz, Gregory Barrett and Jerry P. Widman, whose terms expire at the Annual Meeting of Stockholders to be held in 2013.

The name of each member of the Board, the class in which he or she serves, and his or her age as of the Record Date, principal occupation and length of service on the Board are as follows:

Name	Term Expires	Age	Principal Occupation	Director Since
Class I Directors				
Kevin P. Connors	2014	50	President and Chief Executive Officer	1998
David A. Gollnick	2014	48	Former Executive Vice President of Research and Development	1998
Class II Directors				
Timothy J. O'Shea(2)(3)	2012	59	Managing Director, Oxo Capital	2004
David B. Apfelberg(1)(3)	2012	70	Clinical Professor of Plastic Surgery, Stanford University Medical Center	1998
Class III Directors				
W. Mark Lortz (2)(3)	2013	60	Former Chief Executive Officer, TheraSense, Inc.	2004
Gregory Barrett(1)(3)	2013	58	Former Chairman, President and Chief Executive Officer, BÂRRX Medical	2011
Jerry P. Widman (1)(2)(3)	2013	69	Former Chief Financial Officer, Ascension Health	2004

(1) Member of the Compensation Committee.
(2) Member of the Audit Committee.
(3) Member of Nominating and Corporate Governance Committee.

Director Nominees

The Board has nominated David B. Apfelberg, MD and Timothy J. O'Shea for re-election as Class II directors.

David B. Apfelberg, MD has served as a member of our board of directors since November 1998. Since 1980, Dr. Apfelberg has held various roles at the Stanford University Medical Center, and currently serves as a Clinical Professor of Plastic Surgery. Since 1987, Dr. Apfelberg has also been a consultant for entrepreneurs and venture capital companies in the areas of medical devices and medicine. From June 1991 to May 2001, Dr. Apfelberg was Director of the Plastic Surgery Center in Atherton, California. Dr. Apfelberg is the author of five books on lasers in medicine and is a founding member and past president of the American Society for Lasers in Medicine and Surgery. Dr. Apfelberg holds both a B.M.S., Bachelor of Medical Science, and an M.D. from Northwestern University Medical School. We believe Dr. Apfelberg's qualifications to serve on our board of directors include his medical expertise, understanding of our products, and his knowledge of the aesthetics market generally.

Timothy J. O'Shea has served as a member of our board of directors since April 2004. Mr. O'Shea has been with Oxo Capital since 2008 and serves as a managing director. From 1995 to 2008, he served in a variety of management positions at Boston Scientific, including Corporate Vice President of Business Development from 2000 to 2008. Mr. O'Shea holds a B.A. in history from the University of Detroit. We believe Mr. O'Shea's qualifications to serve on our board of directors include his corporate marketing knowledge as well as his diverse experience in the medical device industry working for a large medical device company.

If elected to our board of directors, directors David B. Apfelberg, MD and Timothy J. O'Shea would each hold office as a Class II director until our Annual Meeting of Stockholders to be held in 2015 or until his earlier resignation, removal, or death.

Board of Directors' Recommendation

THE BOARD OF DIRECTORS RECOMMENDS THAT YOU VOTE "FOR" EACH OF THE TWO NOMINEES FOR CLASS II DIRECTOR LISTED ABOVE.

Directors Whose Terms Extend Beyond the 2012 Annual Meeting

Kevin P. Connors has served as our President and Chief Executive Officer and as a member of our board of directors since our inception in August 1998. From May 1996 to June 1998, Mr. Connors served as President and General Manager of Coherent Medical Group, a unit of Coherent Inc., which manufactures lasers, optics and related accessories. We believe Mr. Connors' qualifications to serve on our board of directors include, his knowledge of and leadership experience, in the aesthetic medical equipment industry prior to joining Cutera and the substantial understanding of the Company and its operations that he has gained while serving as President, Chief Executive Officer and director of the Company since inception.

David A. Gollnick has served as a member of our Board since our inception in August 1998. He served as our Vice President of Research and Development from August 1998 until April 2007, and served as our Executive Vice President of Research and Development from April 2007 until March 2009. From June 1996 to July 1998, Mr. Gollnick was Vice President of Research and Development at Coherent Medical Group, a unit of Coherent Inc. Mr. Gollnick holds a B.S. in Mechanical Engineering from Fresno State University. We believe Mr. Gollnick's qualifications to serve on our board of directors include his technical experience in researching and developing products for the aesthetic medical equipment industry and his understanding of our employees, products and operations.

W. Mark Lortz has served as a member of our board of directors since June 2004. Mr. Lortz served as the Chairman, President and Chief Executive Officer of TheraSense until June of 2004 after its acquisition by Abbott Laboratories. Prior to TheraSense, Mr. Lortz held several positions at LifeScan, including Vice President, Operations and Group Vice President, Worldwide Business Operations. Prior to LifeScan, Mr. Lortz had 18 years of experience with the General Electric Company in several divisions. Mr. Lortz currently serves as a member of the board of directors of two privately-held companies in the healthcare industry. Within the past five years, Mr. Lortz also served on the board of directors of NeuroMetrix, a publicly-traded manufacturer of neurological diagnostic and therapeutic devices, and IntraLase, a manufacturer of lasers for the medical industry and for eye surgery which was acquired by Advanced Medical Optics. Mr. Lortz holds an M.B.A. in Management from Xavier University and a B.S. in Engineering Science from Iowa State University. We believe Mr. Lortz's qualifications to serve on our board of directors include his executive leadership and management experience as a former Chief Executive Officer, as well as his experience serving on the boards of other public and private companies.

Gregory Barrett has served as a member of our board of directors since October 2011. Mr. Barrett is the President and Chief Executive Officer of BÂRRX Medical, Inc., a private medical device company that was recently acquired by Covidien, that manufactures and distributes products to treat gastrointestinal diseases. Prior to joining BÂRRX Medical in February 2004, from January 2001 through August 2003, Mr. Barrett served as President and Chief Executive Officer of ACMI Corporation, a developer of medical visualization and energy systems; Group Vice President at Boston Scientific Corporation; Vice President, Global Sales and Marketing at both Orthofix Corporation (formerly American Medical Electronics) and Baxter Healthcare. Mr. Barrett spent 13 years at C.R. Bard Corporation and finished his tenure there as vice president of marketing in the Cardiosurgery Division. Mr. Barrett holds a B.A. in Marketing from the University of Texas, Austin. We believe Mr. Barrett's qualifications to serve on our board of directors include his more than 34 years of diverse experiences in the medical device industry, including time spent serving as president and chief executive officer of several medical device companies.

Jerry P. Widman has served as a member of our board of directors since March 2004. From 1982 to 2001, Mr. Widman served as the Chief Financial Officer of Ascension Health, a not-for-profit multi-hospital system. Mr. Widman currently serves as a member of the board of directors of three other privately-held companies in the healthcare industry. Within the past five years, Mr. Widman also served on the board of directors of ArthroCare Corporation, United Surgical Partners International and the Trizetto Group. Mr. Widman holds a B.B.A. from Case Western Reserve University, an M.B.A. from the University of Denver, and a J.D. from Cleveland State University and is a Certified Public Accountant. We believe Mr. Widman's qualifications to serve on our board of directors include his financial expertise and prior experience as a Chief Financial Officer, as well as his experience serving on the boards of various public and private companies.

PROPOSAL TWO—NON-BINDING VOTE ON COMPENSATION OF NAMED EXECUTIVE OFFICERS

General

Pursuant to Section 14A of the Securities Exchange Act of 1934, we are providing our stockholders with the opportunity to vote to approve, on an advisory or non-binding basis, the compensation of our Named Executive Officers as disclosed in accordance with the SEC's rules in the "*Executive Compensation*" section of this proxy statement beginning on page 30 below. This proposal, commonly known as a "say-on-pay" proposal, gives our stockholders the opportunity to express their views on our Named Executive Officers' compensation as a whole. This vote is not intended to address any specific item of compensation or any specific Named Executive Officer, but rather the overall compensation of all of our Named Executive Officers and the philosophy, policies and practices described in this proxy statement.

This vote is advisory only, and therefore not binding on the Company, the Compensation Committee or our Board. The vote will, however, provide information to us regarding investor sentiment about our executive compensation philosophy, policies and practices, which the Compensation Committee will be able to consider when determining executive compensation for the remainder of the current fiscal year and beyond. Our Board and the Compensation Committee value the opinions of our stockholders and to the extent there is any significant vote against the compensation of the Named Executive Officers as disclosed in this proxy statement, they will consider our stockholders' concerns and the Compensation Committee will evaluate whether any actions are necessary to address those concerns.

Summary of 2011 Executive Compensation Program

Following is a summary of some of the key features of our 2011 executive compensation program:

- The primary objectives of our executive compensation programs are that they be fair, objective and consistent, that compensation be directly and substantially linked to measurable corporate and individual performance and that compensation remains competitive, so that we can attract, motivate, retain and reward the key executives whose knowledge, skills and performance are necessary for our success.

- We seek to foster a culture where individual performance is aligned with organizational objectives.

- We evaluate and reward our Named Executive Officers based on the comparable industry specific and general market compensation for their respective positions in the Company and an evaluation of their contributions to the achievement of short-and long-term organizational goals.

- Executive compensation is reviewed annually by the Compensation Committee, and adjustments are made to reflect performance-based factors and competitive conditions.

- Our Named Executive Officers are compensated with cash, equity and non-equity incentives, and other customary employee benefits.

- Our Named Executive Officers have Change of Control and Severance Agreements and, except for these arrangements, we do not have employment agreements with any of our Named Executive Officers.

In response to the results of our initial stockholder advisory vote on the compensation of our Named Executive Officers at the 2011 Annual Meeting of Stockholders, we have made changes to our corporate governance policies that include: creating a Nominating and Corporate Governance Committee, engaging an outside compensation consultant, revising our compensation peer group and making changes to our executive compensation program, including the adoption of stock ownership guidelines. In addition, our Board is presently evaluating the implementation of a compensation recovery (a so-called "clawback") policy. For more information about our executive compensation philosophy, policies and practices and other changes that we have made to our corporate governance policies, see the "*Executive Compensation*" section of this proxy statement beginning on page 30 below.

We believe that the information provided above and within the Executive Compensation section of this proxy statement demonstrates that our executive compensation program has been designed appropriately and is working to ensure our Named Executive Officers' interests are aligned with our stockholders' interests to support long-term value creation.

Accordingly, we ask our stockholders to vote "FOR" the following resolution at the Annual Meeting:

"RESOLVED, that the Company's stockholders approve, on an advisory basis, the compensation of the Named Executive Officers, as disclosed in the Company's Proxy Statement for the Annual Meeting of Stockholders pursuant to the compensation disclosure rules of the Securities and Exchange Commission, including the Compensation Discussion and Analysis, the compensation tables and the other related disclosure."

Board of Directors' Recommendation

THE BOARD OF DIRECTORS RECOMMENDS THAT YOU VOTE "FOR" THE ADVISORY (NON-BINDING) VOTE APPROVING THE COMPENSATION OF THE NAMED EXECUTIVE OFFICERS.

PROPOSAL THREE—RATIFICATION OF ERNST & YOUNG LLP AS OUR INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Audit Committee of the Board has selected Ernst & Young LLP as the Independent Registered Public Accounting Firm to perform the audit of the Company's consolidated financial statements for the fiscal year ending December 31, 2012. PricewaterhouseCoopers LLP audited the Company's consolidated financial statements for the fiscal years 2001 through 2011.

The Board is asking the stockholders to ratify the selection of Ernst & Young LLP as the Company's Independent Registered Public Accounting Firm for 2012. Although not required by law, by rules of NASDAQ, or by the Company's bylaws, the Board is submitting the selection of Ernst & Young LLP to the stockholders for ratification as a matter of good corporate practice. Even if the selection is ratified, the Audit Committee in its discretion may select a different Independent Registered Public Accounting Firm at any time during the year if it determines that such a change would be in the best interests of the Company and its stockholders.

We have requested that representatives of PricewaterhouseCoopers LLP and Ernst & Young LLP be present at the Annual Meeting. They will have an opportunity to make a statement if they desire to do so and will be available to respond to appropriate questions from the Company's stockholders.

Board of Directors' Recommendation

THE BOARD OF DIRECTORS RECOMMENDS THAT YOU VOTE FOR THE RATIFICATION OF THE SELECTION OF ERNST & YOUNG LLP AS THE COMPANY'S INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM FOR 2012.

Prior Changes in Independent Registered Public Accountant

On March 26, 2012, the Company dismissed PricewaterhouseCoopers LLP as the Company's independent registered public accountant.

The dismissal of PricewaterhouseCoopers LLP was approved by the Audit Committee of the Board of Directors and the Board. The reports of PricewaterhouseCoopers LLP on the financial statements of the Company as of and for the fiscal years ended December 31, 2010 and 2011 contained no adverse opinion or disclaimer of opinion and were not qualified or modified as to uncertainty, audit scope or accounting principle.

During the Company's fiscal years ended December 31, 2010 and 2011 and through March 26, 2012, (i) there were no disagreements with PricewaterhouseCoopers LLP on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure, which disagreements, if not resolved to PricewaterhouseCoopers LLP's satisfaction, would have caused PricewaterhouseCoopers LLP to make reference to the subject matter of such disagreements in its reports on the Company's consolidated financial statements for such years, and (ii) there were no reportable events as defined in Item 304(a)(1)(v) of Regulation S-K.

We provided PricewaterhouseCoopers LLP with a copy of the disclosures we proposed to make in a current report on Form 8-K filed on March 26, 2012, and requested from PricewaterhouseCoopers LLP a letter indicating whether or not it agrees with such disclosures. A copy of PricewaterhouseCoopers LLP's letter was filed as an exhibit to the Form 8-K reporting the change in our auditors.

Based on the Audit Committee's recommendation, the Company engaged Ernst & Young LLP on March 26, 2012, as the Company's independent registered public accountant for the fiscal year ending December 31, 2012. During the Company's two most recent fiscal years ended December 31, 2010 and 2011 and through March 26, 2012, neither the Company nor anyone on its behalf consulted Ernst & Young LLP regarding either (i) the application of accounting principles to a specified transaction, either completed or proposed, or the type of audit opinion that might be rendered on the Company's financial statements, and no written report or oral advice was provided to the Company that Ernst & Young LLP concluded was an important factor considered by the Company in reaching a decision as to the accounting, auditing or financial reporting issue; or (ii) any matter that was the subject of a disagreement or reportable event as defined in Item 304(a)(1)(iv) and Item 304(a)(1)(v), respectively, of Regulation S-K.

Audit and Non-Audit Services

The Audit Committee is directly responsible for the appointment, compensation, and oversight of the Company's Independent Registered Public Accounting Firm. In addition to retaining Ernst & Young LLP to audit the Company's consolidated financial statements for 2012, the Audit Committee retained PricewaterhouseCoopers LLP to provide other auditing and advisory services in 2011. The Audit Committee understands the need for Ernst & Young LLP and PricewaterhouseCoopers LLP to maintain objectivity and independence in their audits of the Company's financial statements. The Audit Committee has reviewed all non-audit services provided by PricewaterhouseCoopers LLP in 2011 and has concluded that the provision of such services was compatible with maintaining PricewaterhouseCoopers LLP's independence in the conduct of its auditing functions.

To help ensure the independence of the Independent Registered Public Accounting Firm, the Audit Committee has adopted a policy for the pre-approval of all audit and non-audit services to be performed for the Company by its Independent Registered Public Accounting Firm. Pursuant to this policy, all audit and non-audit services to be performed by the Independent Registered Public Accounting Firm must be approved in advance by the Audit Committee. The Audit Committee may delegate to one or more of its members the authority to grant the required approvals, provided that any exercise of such authority is presented to the full Audit Committee at its next regularly scheduled meeting.

All of the services provided by PricewaterhouseCoopers LLP described in the table below were approved by the Audit Committee.

The aggregate fees incurred by the Company for audit and non-audit services in 2011 and 2010 were as follows:

Service Category	2011	2010
Audit Fees(1)	$ 643,250	$ 507,150
Audit Related Fees(2)	—	11,200
Tax Fees(3)	147,338	102,900
All Other Fees(4)	1,800	1,500
Total	$ 792,388	$ 622,750

(1) In accordance with the SEC's definitions and rules, audit fees are comprised of billed and unbilled fees for professional services related to the audit of financial statements and internal control over financial reporting for the Company's 2011 and 2010 fiscal years as included in the annual report on Form 10-K; and the review of financial statements for interim periods included in the quarterly reports on Form 10-Q within those years.
(2) Audit-related fees are fees for services that are normally provided by the accountant in connection with statutory and regulatory filings or engagements;
(3) Tax fees are fees for tax compliance services;
(4) All other fees relates to a subscription fee for a PricewaterhouseCoopers LLP online service used for accounting research purposes.

PROPOSAL FOUR—ADOPTION OF 2004 EQUITY INCENTIVE PLAN (AS AMENDED)

We are asking our stockholders to adopt our 2004 Equity Incentive Plan, as amended (the "2004 Plan") to:

- add 1,910,000 shares of our common stock to the total number of shares reserved for issuance under the 2004 Plan;
- add a "fungible share" provision whereby each full-value award issued under the 2004 Plan results in a requirement to subtract 2.12 shares from the shares reserved under the 2004 Plan;
- limit the terms of Options and Stock Appreciation Rights to seven years; and
- clarify that no options will be granted at an exercise price less than 100% of fair market value.

Our Board has approved these provisions of the 2004 Plan, subject to stockholder adoption at the Annual Meeting. If stockholders do not adopt the 2004 Plan, no additional shares will be added for issuance under the 2004 Plan and the 2004 Plan will continue under its current terms and conditions.

Our named executive officers and Directors have an interest in this proposal as they are eligible to receive equity awards under the 2004 Plan.

The Board believes that long-term incentive compensation programs align the interests of management, employees and the stockholders to create long-term stockholder value. Our Board believes that the 2004 Plan increases our ability to achieve this objective by allowing for several different forms of long-term incentive awards, which our Board believes will help us to recruit, reward, motivate and retain talented personnel. Our Board and management believe that the ability to continue to grant equity awards will be important to the future success of Cutera.

Our Board believes that adoption of the 2004 Plan is essential to our continued success, as the additional shares will enable us to continue to use the 2004 Plan to achieve employee performance, recruiting, retention and incentive goals. In particular, our Board believes that our employees are our most valuable assets and that the awards permitted under the Incentive Plan are vital to our ability to attract and retain outstanding and highly skilled individuals in the extremely competitive labor markets in which we compete. Such awards also are crucial to our ability to motivate employees to achieve our goals.

Vote Required

Approval of the 2004 Plan requires the affirmative vote of a majority of the shares of our Common Stock that are present in person or proxy and entitled to vote at the Annual Meeting.

Board of Directors' Recommendation

THE BOARD OF DIRECTORS RECOMMENDS THAT YOU VOTE FOR THE ADOPTION OF THE 2004 PLAN.

Summary of the 2004 Plan

The following is a summary of the principal features of the 2004 Plan and its operation. It is qualified in its entirety by reference to the 2004 Plan set forth in Appendix A.

The 2004 Plan provides for the grant of the following types of incentive Awards: (i) stock options, (ii) restricted stock, (iii) restricted stock units, (iv) stock appreciation rights (v) performance units and performance shares, and (vi) and other stock or cash awards. Each of these is referred to individually as an "Award." Those eligible for Awards under the 2004 Plan include employees, directors and consultants who provide services to us or our subsidiaries. As of April 26, 2012, approximately 220 of our employees, directors and consultants were eligible to participate in this plan.

Number of Shares of Common Stock Available Under the 2004 Plan. A total of 1,750,000 shares of common stock were initially authorized for issuance under the 2004 Plan, plus any shares returned under the 1998 Stock Plan as a result of termination of options or repurchase of shares issued under such plan, and shares added pursuant to automatic annual increase under the 2004 Plan. In 2008, stockholders approved an amendment to the 2004 Plan which eliminated the "evergreen" provision which provided for an automatic annual increase in the number of shares available in the 2004 Plan. As of April 16, 2012, a total of 564,000 shares were authorized and remained available for future awards under the 2004 Plan. The shares may be authorized, but unissued, or reacquired common stock.

Any shares that are subject to Awards and are granted with an exercise price less than fair market value on the date of grant of the Award will be counted against the numerical limits described above as 2.12 shares for every 1 share. If any shares acquired pursuant to such an Award are forfeited or repurchased by the Company and would otherwise return to the 2004 Plan as described below, 2.12 times the number of shares forfeited or repurchased will return to the plan and become available for issuance

If an Award expires or becomes unexercisable without having been exercised in full, or, with respect to restricted stock, restricted stock units, performance shares or performance units, is forfeited to or repurchased by us, the unpurchased shares (or for Awards other than options and stock appreciation rights, the forfeited or repurchased shares) which were subject thereto will become available for future grant or sale under the 2004 Plan. Upon exercise of a stock appreciation rights settled in shares, the gross number of shares covered by the portion of the stock appreciation right will cease to be available under the 2004 Plan. Shares that have actually been issued under the 2004 Plan under any Award will not be returned to the 2004 Plan and will not become available for future distribution under the 2004 Plan; provided, however, that if shares of restricted stock, restricted stock units, performance shares or performance units are repurchased by us or are forfeited to us, such shares will become available for future grant under the 2004 Plan as described above. Shares used to pay the exercise price of an Award and/or used to satisfy tax withholding obligations will not become available for future grant or sale under the 2004 Plan. To the extent an Award is paid out in cash rather than stock, such cash payment will not reduce the number of shares available for issuance under the 2004 Plan.

If we declare a stock dividend or engage in a reorganization or other change in our capital structure, including a merger, the Administrator will adjust the (i) number and class of shares available for issuance under the 2004 Plan, (ii) number, class and price of shares subject to outstanding Awards, and (iii) specified per-person limits on Awards to reflect the change.

Administration of the 2004 Plan. Our Board, or its Compensation Committee, or a committee of directors or of other individuals satisfying applicable laws and appointed by our Board (referred to as the "Administrator"), administers 2004 Plan. To make grants to certain of our officers and key employees, the members of the committee must qualify as "non-employee directors" under Rule 16b-3 of the Securities Exchange Act of 1934 (the "Exchange Act"), and as "outside directors" under Section 162(m) of the Internal Revenue Code of 1986, as amended (the "Internal Revenue Code") (so that we can receive a federal tax deduction for certain compensation paid under the Incentive Plan).

Subject to the terms of the 2004 Plan, the Administrator has the sole discretion to select the employees, consultants, and directors who will receive Awards, to determine the terms and conditions of Awards, to modify or amend each Award (subject to the restrictions of the 2004 Plan), to interpret the provisions of the 2004 Plan and outstanding Awards, and to allow participants to satisfy withholding tax obligations by electing to have us withhold from the shares to be issued upon exercise that number of shares having a fair market value equal to the minimum amount required to be withheld.

The Administrator may, but only with stockholder approval, implement an exchange program under which (i) outstanding Awards may be surrendered or cancelled in exchange for Awards of the same type, Awards of a different type, or cash, (ii) participants would have the opportunity to transfer any outstanding Awards to a financial institution or other person or entity selected by the Administrator, and/or (iii) the exercise price of an outstanding Award could be reduced.

Automatic Director Grants. The 2004 Plan provides for an automatic grant to outside directors of an option to purchase 14,000 shares on the date the person first becomes an outside director and such shares will vest and become exercisable as to one-third of the shares subject to the option on each annual anniversary of its date of grant. In addition, each outside director who is a director on the date of each Annual Meeting of stockholders and has been a director for at least the preceding six months, will receive fully-vested Cutera stock on an annual basis equivalent to the number of shares represented by the quotient of $60,000 divided by the closing stock price of our common stock on the date of such Annual Meeting.

Options. The Administrator is able to grant nonstatutory stock options and incentive stock options under the 2004 Plan. The Administrator determines the number of shares subject to each option, although the 2004 Plan provides that a participant may not receive options for more than 1,000,000 shares in any fiscal year, except in connection with his or her initial employment with us, in which case he or she may be granted an option covering up to an additional 1,000,000 shares.

The Administrator determines the exercise price of options granted under the 2004 Plan, provided the exercise price must be at least equal to, and not less than, the fair market value of our common stock on the date of grant. In addition, the exercise price of an incentive stock option granted to any participant who owns more than 10% of the total voting power of all classes of our outstanding stock must be at least 110% of the fair market value of the common stock on the grant date.

The term of each option will be stated in the Award agreement. The term of an option may not exceed seven years, except that, with respect to any participant who owns more than 10% of the voting power of all classes of the Company's outstanding capital stock, the term of an incentive stock option may not exceed five years.

After a termination of service with us, a participant will be able to exercise the vested portion of his or her option for the period of time stated in the Award agreement. If no such period of time is stated in the participant's Award agreement, the participant will generally be able to exercise his or her option for (i) three months following his or her termination for reasons other than death or disability, and (ii) twelve months following his or her termination due to death or disability. In no event may an option be exercise beyond its maximum term.

Restricted Stock. Awards of restricted stock are rights to acquire or purchase shares of our common stock, which vest in accordance with the terms and conditions established by the Administrator in its sole discretion. For example, the Administrator may set restrictions based on the achievement of specific performance goals. The Administrator, in its discretion, may accelerate the time at which any restrictions will lapse or be removed. The Award agreement generally will grant us the right to repurchase or reacquire the shares upon the termination of the participant's service with us for any reason (including death or disability). The Administrator will determine the number of shares granted pursuant to an Award of restricted stock, but no participant will be granted a right to purchase or acquire more than 300,000 shares of restricted stock during any fiscal year, except that a participant may be granted up to an additional 300,000 shares of restricted stock in connection with his or her initial employment with us.

Restricted Stock Units. Awards of restricted stock units result in a payment to a participant only if the vesting criteria the Administrator establishes is satisfied. For example, the Administrator may set vesting criteria based on the achievement of specific performance goals. The restricted stock units vest at a rate determined by the Administrator; provided, however, that after the grant of restricted stock units, the Administrator, in its sole discretion, may reduce or waive any restrictions for such restricted stock units. Upon satisfying the applicable vesting criteria, the participant will be entitled to the payout specified in the Award agreement. The Administrator, in its sole discretion, may pay earned restricted stock units in cash, shares, or a combination thereof. Restricted stock units that are fully paid in cash will not reduce the number of shares available for grant under the 2004 Plan. On the date set forth in the Award agreement, all unearned restricted stock units will be forfeited to us. The Administrator determines the number of restricted stock units granted to any participant, but no participant may be granted more than 300,000 restricted stock units during any fiscal year, except that the participant may be granted up to an additional 300,000 restricted stock units in connection with his or her initial employment with us.

Stock Appreciation Rights. The Administrator will be able to grant stock appreciation rights ("SARs"), which are the rights to receive the appreciation in fair market value of common stock between the exercise date and the date of grant. We can pay the appreciation in cash, shares of common stock, or a combination thereof. The Administrator, subject to the terms of the 2004 Plan, will have complete discretion to determine the terms and conditions of SARs granted under the 2004 Plan, provided, however, that the exercise price may not be less than 100% of the fair market value of a share on the date of grant and the term of a SAR may not exceed seven years. No participant will be granted SARs covering more than 1,000,000 shares during any fiscal year, except that a participant may be granted SARs covering up to an additional 1,000,000 shares in connection with his or her initial employment with us.

The Administrator may grant "affiliated" SARs, "freestanding" SARs, "tandem" SARs, or any combination thereof. An "affiliated SAR" is a SAR that is granted in connection with a related option and which automatically will be deemed to be exercised at the same time that the related option is exercised. However, an affiliated SAR will not require a reduction in the number of shares subject to the related option. A "freestanding" SAR is one that is granted independent of any options. A "tandem" SAR is a SAR granted in connection with an option that entitles the participant to exercise the SAR by surrendering to us an equivalent portion of the unexercised related option. A tandem SAR may be exercised only with respect to the shares for which its related option is then exercisable. With respect to a tandem SAR granted in connection with an incentive stock option, the tandem SAR will expire no later than the expiration of the underlying incentive stock option, the value of the payout with respect to the tandem SAR will be for no more than 100% of the difference between the exercise price of the underlying incentive stock option and the fair market value of the shares subject to the underlying incentive stock option at the time the tandem SAR is exercised, and the tandem SAR will be exercisable only when the fair market value of the shares subject to the incentive stock option exceeds the exercise price of the incentive stock option.

After termination of service with us, a participant will be able to exercise the vested portion of his or her SAR for the period of time stated in the Award agreement. If no such period of time is stated in a participant's Award agreement, a participant will generally be able to exercise his or her vested SARs for the same period of time as applies to stock options.

Performance Units and Performance Shares. The Administrator may grant performance units and performance shares, which are Awards that will result in a payment to a participant only if the performance goals or other vesting criteria the Administrator may establish are achieved or the Awards otherwise vest. Earned performance units and performance shares will be paid, in the sole discretion of the Administrator, in the form of cash, shares, or in a combination thereof. The Administrator will establish performance or other vesting criteria in its discretion, which, depending on the extent to which they are met, will determine the number and/or the value of performance units and performance shares to be paid out to participants. The performance units and performance shares will vest at a rate determined by the Administrator; provided, however, that after the grant of a performance unit or performance share, the Administrator, in its sole discretion, may reduce or waive any performance objectives or other vesting provisions for such performance unit or performance share. During any fiscal year, no participant will receive more than 300,000 performance shares and no participant will receive performance units having an initial value greater than $2,000,000, except that a participant may be granted performance shares covering up to an additional 300,000 shares in connection with his or her initial employment with us. Performance units will have an initial value established by the Administrator on or before the date of grant. Performance shares will have an initial value equal to the fair market value of a share of our common stock on the grant date.

Performance Goals. Awards of restricted stock, restricted stock units, performance shares, performance units and other incentives under the 2004 Plan may be made subject to the attainment of performance goals relating to one or more business criteria within the meaning of Section 162(m) of the Internal Revenue Code and may provide for a targeted level or levels of achievement including: (i) cash position, (ii) earnings per Share, (iii) net income, (iv) operating cash flow, (v) operating income, (vi) operating expenses, (vii) product revenues, (viii) profit after-tax, (ix) revenue, (x) revenue growth, and (xi) total stockholder return. The performance goals may differ from participant to participant and from Award to Award, may be used alone or in combination, may be used to measure our performance as a whole or the performance of one of our business units, and may be measured relative to a peer group or index.

Transferability of Awards. Awards granted under the 2004 Plan are generally not transferable, and all rights with respect to an Award granted to a participant generally will be available during a participant's lifetime only to the participant.

Change in Control. In the event we experience a change in control, each outstanding Award will be assumed or an equivalent option or right substituted by the successor corporation or a parent or subsidiary of the successor corporation. In the event that the successor corporation refuses to assume or substitute for the Award, the participant will fully vest in and have the right to exercise all of his or her outstanding options and stock appreciation rights, including shares as to which such Awards would not otherwise be vested or exercisable, all restrictions on restricted stock will lapse, and, with respect to restricted stock units, performance shares and performance units, all performance goals or other vesting criteria will be deemed achieved at target levels and all other terms and conditions met. In addition, if an option or stock appreciation right is not assumed or substituted for in the event of a change in control, the Administrator will notify the participant in writing or electronically that the option or stock appreciation right will be fully vested and exercisable for a period of time determined by the Administrator in its sole discretion, and the option or stock appreciation right will terminate upon the expiration of such period.

With respect to Awards granted to an outside director that are assumed or substituted for, if on the date of or following such assumption or substitution the participant's status as a director or a director of the successor corporation, as applicable, is terminated other than upon a voluntary resignation by the participant not at the request of the successor, then the participant will fully vest in and have the right to exercise his or her options and/or stock appreciation rights as to all of the shares subject to the Award, including shares as to which such Awards would not otherwise be vested or exercisable, all restrictions on restricted stock shall lapse, and, with respect to restricted stock units, performance shares and performance units, all performance goals or other vesting criteria will be deemed achieved at target levels and all other terms and conditions met.

Amendment and Termination of the 2004 Plan. The Administrator has the authority to amend, alter, suspend or terminate the 2004 Plan, except that stockholder approval will be required for any amendment to the extent required by applicable laws. No amendment, alteration, suspension or termination of the 2004 Plan will impair the rights of any participant, unless mutually agreed otherwise between the participant and the Administrator and which agreement must be in writing and signed by the participant and us. The 2004 Plan will terminate in 2014, unless our Board terminates it earlier.

Number of Awards Granted to Employees, Consultants, and Directors

The number of Awards that an employee, director or consultant may receive under the 2004 Plan is in the discretion of the Administrator and therefore cannot be determined in advance. The following table sets forth (a) the aggregate number of shares of common stock subject to options granted under the 2004 Plan during the last fiscal year, and (b) the average per share exercise price of such options.

Name of Individual or Group	Number of Options Granted	Average Per Share Exercise Price
All Named Executive Officers, as a group	340,000	$ 8.73
All directors who are not Named Executive Officers, as a group	—	—
All employees who are not Named Executive Officers, as a group	866,500	8.56

Federal Tax Aspects of the 2004 Plan

The following paragraphs are a summary of the general federal income tax consequences to U.S. taxpayers and us of Awards granted under the 2004 Plan. Tax consequences for any particular individual may be different.

Nonstatutory Stock Options. No taxable income is reportable when a nonstatutory stock option with an exercise price equal to the fair market value of the underlying stock on the date of grant is granted to a participant. Upon exercise, the participant will recognize ordinary income in an amount equal to the excess of the fair market value (on the exercise date) of the shares purchased over the exercise price of the option. Any taxable income recognized in connection with an option exercise by one of our employees is subject to tax withholding by us. Any additional gain or loss recognized upon any later disposition of the shares would be capital gain or loss.

As a result of Section 409A of the Internal Revenue Code and the Treasury regulations promulgated thereunder ("Section 409A"), however, nonstatutory stock options and stock appreciation rights granted with an exercise price below the fair market value of the underlying stock or with a deferral feature may be taxable to the recipient in the year of vesting in an amount equal to the difference between the then fair market value of the underlying stock and the exercise price of such Awards and may be subject to an additional 20% federal income tax plus penalties and interest. In addition, certain states, such as California, have adopted similar tax provisions.

Incentive Stock Options. No taxable income is reportable when an incentive stock option is granted or exercised (except for purposes of the alternative minimum tax, in which case taxation is the same as for nonstatutory stock options). If the participant exercises the option and then later sells or otherwise disposes of the shares more than two years after the grant date and more than one year after the exercise date, the difference between the sale price and the exercise price will be taxed as capital gain or loss. If the participant exercises the option and then later sells or otherwise disposes of the shares before the end of the two- or one-year holding periods described above, he or she generally will have ordinary income at the time of the sale equal to the fair market value of the shares on the exercise date (or the sale price, if less) minus the exercise price of the option.

Stock Appreciation Rights. No taxable income is reportable when a stock appreciation right with an exercise price equal to the fair market value of the underlying stock on the date of grant is granted to a participant. Upon exercise, the participant will recognize ordinary income in an amount equal to the amount of cash received and the fair market value of any shares received. Any additional gain or loss recognized upon any later disposition of the shares would be capital gain or loss.

Restricted Stock, Restricted Stock Units, Performance Units and Performance Shares. A participant generally will not have taxable income at the time an Award of restricted stock, restricted stock units, performance shares or performance units are granted. Instead, he or she will recognize ordinary income in the first taxable year in which his or her interest in the shares underlying the Award becomes either (i) freely transferable, or (ii) no longer subject to substantial risk of forfeiture. However, the recipient of a restricted stock Award may elect to recognize income at the time he or she receives the Award in an amount equal to the fair market value of the shares underlying the Award (less any cash paid for the shares) on the date the Award is granted.

Section 409A. Section 409A addresses non-qualified deferred compensation arrangements. Awards granted under our 2004 Plan with a deferral feature will be subject to the requirements of Section 409A, including discount stock options and stock appreciation rights discussed above. If an Award is subject to and fails to satisfy the requirements of Section 409A, the recipient of that Award may recognize ordinary income on the amounts deferred under the Award, to the extent vested, which may be prior to when the compensation is actually or constructively received. Also, if an Award that is subject to Section 409A fails to comply with Section 409A's provisions, Section 409A imposes an additional 20% federal income tax on compensation recognized as ordinary income, as well as interest on such deferred compensation. Some states may also apply a penalty tax (for instance, California imposes a 20% penalty tax in addition to the 20% federal penalty tax). The Internal Revenue Service has not issued complete and final guidance under Section 409A and, accordingly, the requirements of Section 409A (and the application of those requirements to Awards issued under the 2004 Plan) are not entirely clear. **We strongly encourage recipients of such Awards to consult their tax, financial, or other advisor regarding the tax treatment of such Awards.**

Tax Effect for us; Section 162(m) of the Internal Revenue Code. We generally will be entitled to a tax deduction in connection with an Award under the 2004 Plan in an amount equal to the ordinary income realized by a participant and at the time the participant recognizes such income (for example, the exercise of a nonstatutory stock option). Special rules limit the deductibility of compensation paid to our Chief Executive Officer (i.e., its principal executive officer) and to each of our three most highly compensated executive officers for the taxable year (other than the principal financial officer). Under Section 162(m) of the Internal Revenue Code, the annual compensation paid to any of these specified executives will be deductible only to the extent that it does not exceed $1,000,000. However, we can preserve the deductibility of certain compensation in excess of $1,000,000 if the conditions of Section 162(m) are met. These conditions include stockholder adoption of the 2004 Plan, setting limits on the number of Awards that any individual may receive and for Awards other than certain stock options and stock appreciation rights, establishing performance criteria that must be met before the Award actually will vest or be paid. The 2004 Plan has been designed to permit the Administrator to grant Awards that qualify as performance-based for purposes of satisfying the conditions of Section 162(m), thereby permitting us to continue to receive a federal income tax deduction in connection with such Awards.

THE FOREGOING IS ONLY A SUMMARY OF THE EFFECT OF FEDERAL INCOME TAXATION UPON PARTICIPANTS AND US WITH RESPECT TO THE GRANT AND EXERCISE OF AWARDS UNDER THE INCENTIVE PLAN. IT DOES NOT PURPORT TO BE COMPLETE, AND DOES NOT DISCUSS THE TAX CONSEQUENCES OF A PARTICIPANT'S DEATH OR THE PROVISIONS OF THE INCOME TAX LAWS OF ANY MUNICIPALITY, STATE OR FOREIGN COUNTRY IN WHICH THE PARTICIPANT MAY RESIDE.

NAMED EXECUTIVE OFFICERS AND EXECUTIVE COMPENSATION

Set forth below is certain information as of the Record Date concerning our Named Executive Officers who were with the Company as of December 31, 2011.

Name	Age	Position(s)
Kevin P. Connors	50	President, Chief Executive Officer and Director
Ronald J. Santilli	52	Executive Vice President and Chief Financial Officer
Leonard C. DeBenedictis	71	Chief Technology Officer

Further information regarding Kevin P. Connors is provided above under "Directors Whose Terms Extend Beyond the 2012 Annual Meeting."

Ronald J. Santilli has served as our Chief Financial Officer since September 2001 and as our Executive Vice President since April 2007. From September 2001 to April 2007, Mr. Santilli served as our Vice President of Finance and Administration. From April 2001 to August 2001, Mr. Santilli served as Senior Director of Financial Planning and Accounting at Lumenis, a manufacturer of medical lasers. From May 1993 to March 2001, Mr. Santilli held several positions at Coherent Inc., including Sales Operations Manager, Controller of the Medical Group and, most recently, Director of Finance and Administration. Mr. Santilli holds a B.S. in Business Administration from San Jose State University and an M.B.A. in Finance from Golden Gate University.

Leonard C. DeBenedictis has served as our Chief Technology Officer since January 5, 2011. From December 2008 to October 2010, Mr. DeBenedictis served as Chief Technology Officer and director of Solta Medical, a public company specializing in aesthetic products, procedures and services. From January 2005 to December 2008, Mr. DeBenedictis served as Chief Technology Officer and Executive Vice President of Reliant Technologies and also served as President and Chief Executive Officer of Reliant Technologies from November 2005 to October 2006. From January 2003 to January 2005, Mr. DeBenedictis served as President and Chief Technology Officer of Reliant Technologies. From February 2002 to January 2003, Mr. DeBenedictis served as Vice President, New Product Development of Reliant Technologies. Mr. DeBenedictis holds a B.S. in Physics from the University of California at Santa Barbara and an M.S. in Physics from California State University at San Diego.

Compensation Discussion and Analysis

Mr. Connors, Mr. Santilli, and Mr. DeBenedictis are our only Named Executive Officers.

Overview

The primary objectives of our compensation programs are:

- that they be fair, objective and consistent across the employee population;
- that compensation be directly and substantially linked to measurable corporate and individual performance; and
- that compensation remains competitive, so that we can attract, motivate, retain and reward the key employees whose knowledge, skills and performance are necessary for our success.

We seek to foster a culture where individual performance is aligned with organizational objectives. We evaluate and reward our Named Executive Officers based on the comparable industry specific and general market compensation for their respective positions in the Company and an evaluation of their contributions to the achievement of short-term and long-term organizational goals. Executive compensation is reviewed annually by the Compensation Committee, and adjustments are made to reflect performance-based factors and competitive conditions.

Financial Highlights

Fiscal 2011 was a year of improvement and achievement amidst a slowly improving market. We reported 13% revenue growth which included an increase in U.S. revenue of 21% in 2011, compared to 2010, and an increase of 9% in international revenue, compared to 2010. More specifically, revenue grew from $53.2 million in 2010 to $60.3 million in 2011. We continued to conservatively manage our cash and we also continued to maintain a disciplined approach in controlling operating costs.

Across our product lines, we expanded our product offerings through the launch of Excel V, our new premium vascular laser, and myQ, a Q-switched laser for the treatment of a wide range of popular aesthetic applications, including superficial and deep pigmented lesions (ie melasma), skin rejuvenation, laser skin toning, and tattoo removal. We also received approval from the United States Food and Drug Administration for GenPlus, a laser for the treatment of toenail fungus. In addition, we increased our technical and sales capacity by growing our research and development and sales teams.

Executive Compensation Actions

We conducted our initial stockholder advisory vote on the compensation of our Named Executive Officers at the 2011 Annual Meeting of Stockholders. A majority of the votes cast on this advisory proposal were either voted against or abstained on voting on the compensation of our Named Executive Officers.

In response to this outcome, our Compensation Committee conducted a review of our executive compensation policies and practices. As part of this review, our executives directly contacted several of our major stockholders to solicit their input on our executive compensation policies and practices. In addition, the Compensation Committee, with the assistance of its compensation consultant, performed a thorough analysis of our executive compensation program, including design, pay mix, and pay levels, to identify any policies or practices that were inconsistent with "best practice."

At the completion of these activities, the Compensation Committee recommended, and our Board approved the following changes to our executive compensation program and outstanding compensation arrangements:

- Maintained an annual bonus program to base bonus determinations solely on the Company's actual financial performance as measured against multiple objective performance criteria;
- Postponed any bonus payments under the annual bonus program until after the end of year (rather than providing quarterly payments);
- Engaged an outside compensation consultant and revised our process for developing our compensation Peer Group (as defined on page 34);
- Adopted stock ownership guidelines for our executive officers and non-employee directors.

We believe that these changes respond to the concerns expressed by our stockholders and strengthen the alignment of the interests of our Named Executive Officers with those of our stockholders. Our Board and the Compensation Committee will continue to explore ways in which our executive compensation program may be improved.

In addition, for 2011 the Compensation Committee approved the following actions with respect to the compensation of our Named Executive Officers:

- maintained their base salaries at their 2010 levels;
- after maintaining target bonus opportunities at their 2010 levels, awarded bonus payments for the second, third, and fourth quarters of 2011 based on the Company's quarterly revenue growth of 22%, 26%, and 22%, respectively;
- approved equity awards at levels that the Compensation Committee believed met competitive market concerns, satisfied our retention objectives and rewarded corporate and individual performance in 2011.

The Compensation Committee concluded that these equity awards should be sufficient to maintain competitiveness with the executives in comparable positions at the companies in our Peer Group. Further, the Compensation Committee also took into consideration the fact that, consistent with our compensation objectives, these awards increased our Named Executive Officers' stake in the Company, thereby reinforcing their incentive to manage our business as owners and subjecting a significant portion of their total compensation to fluctuations in the market price of Cutera common stock in alignment with stockholder interests.

Consistent with the preference of our stockholders as reflected in the advisory vote on the frequency of future say on pay votes conducted at our 2011 Annual Meeting of Stockholders, the Board has adopted a policy providing for annual advisory votes on the compensation of the Named Executive Officers. Accordingly, following the Annual Meeting of Stockholders to which this proxy statement relates, the next advisory vote on the compensation of the Named Executive Officers will take place in 2013.

Corporate Governance Highlights

We endeavor to maintain good corporate governance standards consistent with our executive compensation policies and practices. The following policies and practices were in effect during 2011:

- The Compensation Committee is comprised solely of independent directors who have established effective means for communicating with stockholders regarding executive compensation issues and concerns. In addition, in October 2011, we formally established our Nominating and Corporate Governance Committee to review and make recommendations to the Board on matters concerning corporate governance, director composition, identification, evaluation and nomination of director candidates, Board committees, director compensation and conflicts of interest.
- In December 2011, the Compensation Committee engaged its own compensation consultant, Compensia, to assist with its 2012 compensation reviews.
- The Compensation Committee conducts an annual review and approval of our compensation strategy, including a review of our Peer Group.
- Our compensation philosophy and related corporate governance features are complemented by several elements that are designed to align our executive compensation with long-term stockholder interests, including the following:
    - We do not currently offer, nor do we have plans to provide, pension arrangements, retirement plans or nonqualified deferred compensation plans or arrangements to our executive officers, including our Named Executive Officers;

- We provide limited perquisites to our executive officers, including our Named Executive Officers. Our executive officers participate in broad-based Company-sponsored health and welfare benefits programs on the same basis as our other full-time, salaried employees;

- Executive officers are not entitled to any tax reimbursement payments (including "gross-ups") on any severance or change-in-control payments or benefits;

- All change-in-control payments and benefits are based on a "double-trigger" arrangement (i.e., requiring both a change-in-control of the Company plus a qualifying termination of employment before payments and benefits are paid);

- We use performance-based short-term and long-term incentives.

Role of Our Compensation Committee

Compensation Committee Charter

The Compensation Committee establishes the compensation for our Named Executive Officers – our Chief Executive Officer, Chief Financial Officer and Chief Technology Officer – and administers our equity incentive plans, which are currently the 2004 Equity Incentive Plan and the 2004 Employee Stock Purchase Plan. The Compensation Committee has a written charter, which was adopted by our Board in January 2004, and was amended in April 2007 and in April 2008. A copy of this charter, as amended, can be found on our website, which is ir.cutera.com.

Duties of the Compensation Committee

The responsibilities of the Compensation Committee include:

(i) Establishing the following for our Named Executive Officers and such other executive officers as appropriate: (a) annual base salary, (b) annual incentive bonus, which may include the setting of specific goals and target amounts, (c) equity compensation, (d) agreements for employment, severance and change-of-control payments and benefits and (e) any other benefits, compensation or arrangements, other than benefits generally available to our employees.

(ii) Reviewing and making recommendations to our Board, at such intervals as may be decided by the Compensation Committee from time to time, regarding (a) general compensation goals and guidelines for our employees and the criteria by which bonuses and stock compensation awards to our employees are determined; and, (b) other policies and plans for the provision of compensation to our employees, directors and consultants.

(iii) Acting as Administrator of our 2004 Equity Incentive Plan, 2004 Employee Stock Purchase Plan and any other equity compensation plans adopted by our Board.

(iv) Reviewing and making recommendations to our Board with respect to policies relating to the issuance of equity incentives to employees, directors and consultants.

(v) Evaluating the compensation of the independent members of our Board.

(vi) Preparing the report that follows this Compensation Discussion and Analysis.

Compensation Committee Members

The members of the Compensation Committee are appointed by our Board. The members of the Compensation Committee as of the Record Date were Dr. David B. Apfelberg (chairman), Mr. Jerry P. Widman and Mr. Gregory Barrett. Each member of the Compensation Committee is an "outside director" for purposes of Section 162(m) of the Internal Revenue Code, a "non-employee director" for purposes of Exchange Act Rule 16b-3 and satisfies the independence requirements imposed by Nasdaq.

Role of the Compensation Committee and its Consultant in Setting Executive Compensation

The Compensation Committee establishes the compensation for our Named Executive Officers to ensure consistency with market compensation rates for similar positions, our compensation philosophy and corporate governance guidelines. With the SEC's recent reforms relating to executive compensation disclosure, the Compensation Committee has assumed an active role in reviewing market data and working with a compensation consultant on executive compensation matters. Because certain components of executive compensation—such as bonus targets—are driven by operational priorities, as to which management has greater insight than our Board or the Compensation Committee, the Compensation Committee has directed management to interface with the Committee and the compensation consultant to help establish appropriate target levels. For 2011, the annual base salary and total target cash compensation opportunities of our Named Executive Officers remained the same as it was in 2009 and 2010, except for Mr. DeBenedictis who joined us in January 2011 when his annual base salary and total target cash compensation opportunity was established.

In December 2011, the Compensation Committee engaged Compensia to assist it in establishing executive compensation for 2012. Due to the significant cost associated with services provided by a compensation consultant, we may decide not to engage a compensation consultant each year, but rather once every few years. This decision will be evaluated regularly and will be based on the Compensation Committee's evaluation of whether the prior report obtained, along with the publicly-available information about the executive compensation practices of other public companies from our Peer Group, is sufficient to allow it to make informed and reasonable decisions with regard to executive-compensation matters.

Role of our Executives in Setting Compensation

On occasion, the Compensation Committee meets with members of our management team, including our Chief Executive Officer and Chief Financial Officer, to obtain recommendations with respect to Company compensation programs, practices and packages for our executive officers, other employees and directors. Management may make recommendations to the Compensation Committee on all components of compensation. The Compensation Committee considers, but is not bound to and does not always accept, management's recommendations with respect to these matters. The Compensation Committee has the ultimate authority to make decisions with respect to the compensation of our Named Executive Officers and does not delegate any of its compensation functions to others.

Competitive Positioning

In developing, reviewing, and approving the annual compensation for our Named Executive Officers, the Compensation Committee develops and maintains a peer group of public companies from which to gather competitive market data. In December 2011, the Compensation Committee, with the assistance of Compensia, refined its approach to reviewing market compensation data for our Named Executive Officers and approved a set of selection criteria for determining the companies to comprise the compensation peer group. Going forward, companies should meet the following criteria to be included in our compensation peer group (the "Peer Group"):

- U.S.-based companies with a primary focus on health care equipment and supplies;
- revenue of between 0.5x to 2.0x Cutera (approximately $30 million and $120 million); and

- market capitalization of between 0.5x to 2.5x Cutera (approximately $50 million and $250 million).

This set of selection criteria led us to revise the then-existing Peer Group to, for 2012, consist of the following companies:

Atrion Corporation	Exactech	Soltera Medical
AtriCure	Kensey Nash	Spectranetics
Biolast Technology	Lemaitre Vascular	Synergetics USA
Cardiovascular Systems	Palomar Medical Technologies	Theragenis
Cryolife	Photomedex	Young Innovations
Cynosure	RTI Biologics	Zeltiq Aesthetics

Compensation Components

Our Named Executive Officers are compensated with cash, equity and non-equity incentives, and other customary employee benefits.

Cash Compensation

Cash compensation consists of base salary, participation in a bonus program and participation in a profit-sharing plan. Our cash compensation goals for our Named Executive Officers are based upon the following principles:

- Base salary should generally be set at or above the 50th percentile of the Peer Group;
- Base salary should be positioned to reflect each individual's experience, performance and potential;
- A significant portion of cash compensation should be "at risk"; and
- The amount of bonuses payable for any quarter should be based on revenue growth, compared with the same quarter in the prior year, and the operating profit before stock-based compensation and non-operational expenses, or "adjusted operating profit", as a percentage of revenue.

Base Salary and Total Target Cash Compensation

Total target cash compensation for each Named Executive Officer includes his annual base salary, annual target bonus opportunity (described below) and annual profit-sharing payments.

Bonus Program

In addition to base salary, we provided cash bonus opportunities for our Named Executive Officers in 2011 pursuant to which cash bonuses were determined quarterly based on the Company's performance for the then-preceding quarter.

Target Bonus Opportunities

For 2011, the target cash bonuses were designed to reward our Named Executive Officers based on the Company's overall financial performance. As in prior years, the Compensation Committee determined that the target cash bonus for each Named Executive Officer should be determined as a percentage of such executive officer's base salary. The target cash bonus opportunities for the Named Executive Officers were as follows:

Named Executive Officer	Target Bonus Opportunity (expressed as a percentage of base salary)
Mr. Connors	60%
Mr. Santilli	45%
Mr. DeBenedictis	50%

With respect to each Named Executive Officer, the amount of his target cash bonus opportunity was determined by the Compensation Committee, based on the recommendation of our Chief Executive Officer (except with respect to his own target annual cash bonus opportunity) and was based on several factors, including the scope of the Named Executive Officer's performance, contributions, responsibilities, experience, prior years' target cash bonus and market conditions. The target cash bonus opportunities for our Named Executive Officers were the same as their target opportunities for 2009 and 2010, except for Mr. DeBenedictis, who joined the Company in 2011.

Corporate Performance Measures

For 2011, the Compensation Committee selected revenue growth and adjusted operating profits as the corporate performance measures that best supported our annual operating plan and enhanced long-term value creation for purposes of paying annual cash bonuses. For these purposes, "adjusted operating profits" was defined as operating profit less deferred stock based compensation expense and non-operational expenses. The Compensation Committee decided that these expenses should be excluded from the operating profit amount as they were deemed unrelated to quarterly "operating" performance.

Using these measures, each fiscal quarter the Compensation Committee compared our performance against the same fiscal quarter in the prior year, 2010, and applied a multiplier of 5.0 to the percentage increase for that quarter to determine our quarterly performance for that measure. If the percentage growth for a fiscal quarter in 2011 was negative (when compared to the same fiscal quarter for the prior year), the multiplier for that measure was zero. For example, at 10% revenue growth and 10% adjusted operating profit, an individual would be eligible to receive 100% of his or her target bonus opportunity for that quarter. At 15% revenue growth and 15% adjusted operating profit, an individual would be eligible to receive 150% of his or her target bonus opportunity.

Bonus Decisions and Analysis

In January 2012, the Compensation Committee evaluated the Company's financial performance each fiscal quarter of 2011 and the level of achievement of each of the corporate performance measures for those quarters. Based on this evaluation, the Compensation Committee determined that we had achieved the following revenue growth and adjusted operating profit targets:

Fiscal Period	Revenue Growth (expressed as a percentage)	Factor	Revenue Growth Multiplier	Adjusted Operating Profit (expressed as a percentage)	Factor	Adjusted Operating Profit Multiplier	Total Payout Multiplier
First quarter	-15.48%	5	—	-26.86%	5	—	—
Second quarter...	21.92%	5	109.61%	-11.33%	5	—	109.61%
Third quarter.....	25.97%	5	129.84%	-11.38%	5	—	129.84%
Fourth quarter ...	21.86%	5	109.32%	1.81%	5	9.03%	118.36%

In addition, in determining bonus payments to our Named Executive Officers, the Compensation Committee considered the following factors: the Company's 2011 revenue increased over 2010; the Company introduced several new products that the Named Executive Officers were responsible for; individual performance of the bonus recipients; and the threat of losing these key individuals to competitors or other companies.

Based on these determinations, the Compensation Committee approved annual cash bonuses for our Named Executive Officers as follows:

Named Executive Officer	Annual Cash Bonus Opportunity	Annual Cash Bonus Payment
Mr. Connors	$252,000	$225,417
Mr. Santilli	$130,500	$116,734
Mr. DeBenedictis	$156,000	$139,544

Our Board also granted a one-time special bonus of $50,550 to Mr. DeBenedictis, payable four months after he commenced employment with the Company.

Profit-Sharing Program

We also have a profit sharing program for our Named Executive Officers and other employees pursuant to which cash payments may be made quarterly. Target profit-sharing payments are calculated based upon half of the quarterly pre-tax adjusted operating profit percentage (pre-tax adjusted operating profit divided by revenue) multiplied by the Named Executive Officer's gross salary earned during that quarter.

In 2011, we made profit-sharing payments of $948 to our Chief Executive Officer, of $655 to our Chief Financial Officer and of $705 to our Chief Technology Officer based on the Company's increased revenue in 2011 over 2010 and on the individual performance of the profit-sharing participants.

Long-Term Incentive Program

We believe that equity-based compensation promotes and encourages long-term successful performance by our Named Executive Officers that is aligned with the organization's goals and the generation of stockholder value. Our equity compensation goals for our Named Executive Officers are based upon the following principles:

- Stockholder and executive officer interests should be aligned;

- Key and high-performing employees, who have a demonstrable impact on our performance and/or stockholder value, should be provided this benefit;
- The program should be structured to provide meaningful retention incentives to participants;
- The equity awards should reflect each individual's experience, performance, potential and be comparable to what the Peer Group awards for the respective position; and
- Actual awards should be tailored to reflect individual performance and attraction/retention goals.

Equity Incentive Compensation

Under our 2004 Equity Incentive Plan, we are permitted to grant stock options, stock appreciation rights, restricted shares, restricted stock unit ("RSU") awards, performance shares and other stock-based awards. Under this Plan, we grant options to our executive officers, directors and employees to purchase shares of Cutera common stock at an exercise price equal to the fair market value of such stock on the date of grant. The grant date for stock options to our Named Executive Officers is typically the date of a regularly scheduled Board meeting, or, for annual merit grants, on or around June 1 of each year. Our non-employee directors are granted stock awards annually on the date of our Annual Meeting of Stockholders. We have no program, plan or practice to select option grant dates (or set board meeting and annual stockholder meeting dates) to correspond with the release of material non-public information.

In May 2011, our Board, with the approval of our non-employee directors, granted stock options to our Chief Executive Officer, Chief Financial Officer and Chief Technology Officer to purchase 120,000, 80,000 and 40,000 shares of Cutera common stock under our 2004 Equity Incentive Plan, respectively. Each of these stock options has a vesting commencement date of June 1, 2011, a term of seven years and vests as follows: one-third of the total number of shares subject to the stock option vest one full calendar year following the vesting commencement date of June 1, 2011 and 1/36th of the total number of shares subject to the stock option vest on the last day of each full calendar month thereafter, until all such shares have vested, subject to the Named Executive Officer continuing to provide services to the Company through each such date. In granting these stock option awards, our Board considered the individual performance and contribution of each Named Executive Officer, the Company's performance, its own subjective assessment of market conditions, its ability to retain the individual Named Executive Officer, and the goal of increasing the value of the Company, in arriving at the amounts awarded to each individual recipient.

In addition, in May 2011, our Board, with the approval of our non-employee directors, granted RSU awards to our Chief Executive Officer, Chief Financial Officer and Chief Technology Officer to acquire 11,000, 7,500 and 3,750 shares of Cutera common stock under our 2004 Equity Incentive Plan, respectively. These RSU awards vest as to one-third of the shares on each of June 1, 2011, 2012 and 2013. In granting these RSU awards, our Board considered the individual performance and contribution of each Named Executive Officer, the Company's performance, its own subjective assessment of market conditions, its ability to retain the individual Named Executive Officer, and the goal of increasing the value of the Company, in arriving at the amounts awarded to each individual recipient.

Benefits

We provide the following benefits to our Named Executive Officers generally on the same basis as the benefits provided to all employees:

- Health, dental and vision insurance;
- Life insurance;
- Short-term and long-term disability insurance;

- A Section 401(k) plan (although, in 2009 we discontinued our discretionary employer match on employee contributions to the plan); and

- Flexible Spending Accounts.

These benefits are consistent with those offered by other companies and specifically with those companies with which we compete for employees.

We also maintain a 2004 Employee Stock Purchase Plan that provides eligible employees with the opportunity to purchase shares of Cutera common stock at a 15% discounted price to the lower of the fair market value at either the beginning or the end of the applicable offering period.

Post-Employment Compensation

Except for Change of Control and Severance Agreements, we do not have employment agreements with any of our Named Executive Officers. We have Change of Control and Severance Agreements with each of our Named Executive Officers. The purpose of these agreements is to provide incentives to our Named Executive Officers to continue their employment with the Company and not be distracted by the possibility of loss of employment as a result of an acquisition of the Company or for other reasons. For a summary of the material terms and conditions of these Change of Control and Severance agreements, see Potential Payments upon Termination or Change in Control below.

Internal Revenue Code Section 162(m) and Limitations on Executive Compensation

Section 162(m) of the Internal Revenue Code may limit our ability to deduct for federal income tax purposes compensation paid to either our Chief Executive Officer or to our three other most highly paid executive officers (other than our Chief Financial Officer) in any fiscal year that is, for each such person, in excess of $1,000,000. None of our executive officers received any such compensation in excess of this limit during 2011, or any prior year.

Stock options granted under the 2004 Equity Incentive Plan are not subject to the deduction limitation; however, to preserve our ability to deduct the compensation income associated with stock options granted to such executive officers pursuant to Section 162(m) of the Internal Revenue Code, our 2004 Equity Incentive Plan provides that no optionee may be granted option(s) to purchase more than 500,000 shares of Cutera common stock in any one fiscal year. However, in the fiscal year in which the optionee is hired, an optionee may be granted an option to purchase up to 1,000,000 shares of Cutera common stock. In the future, the Compensation Committee may, in its judgment, authorize compensation payments that do not comply with an exemption from the deductibility limit when it believes that such payments are appropriate to attract and retain executive talent.

Accounting for Stock-Based Compensation

We follow Financial Accounting Standard Board Accounting Standards Codification Topic 718, or ASC 718, for our stock-based compensation awards. ASC 718 requires companies to measure the compensation expense for all share-based payment awards made to employees and directors, including stock options, based on the grant date "fair value" of these awards. This calculation is performed for accounting purposes and reported in the compensation tables below, even though our executive officers may never realize any value from their awards. ASC Topic 718 also requires companies to recognize the compensation cost of their stock-based awards in their income statements over the period that an employee is required to render service in exchange for the award.

Securities Authorized for Issuance Under Equity Compensation Plans

Our stockholders approved each of our equity compensation plans, including a 2008 amendment to our 2004 Equity Incentive Plan. The following table provides information regarding the shares of Cutera common stock that may be issued upon the exercise of stock options and RSU awards granted under our 2004 Equity Incentive Plan as of December 31, 2011.

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders	3,549,022	$ 9.92	474,537
Equity compensation plan not approved by security holders	—	—	—
Total	3,549,022	$ 9.92	474,537

Other Compensation Practices and Policies

Stock Ownership Guidelines

To enhance our overall corporate governance practices and executive compensation program, on April 27, 2012, our Board adopted stock ownership guidelines for our executive officers, which the Compensation Committee intends to review annually. These guidelines are designed to align our executive officers' interests with our stockholders' long-term interests by promoting long-term ownership of Cutera common stock, which reduces the incentive for excessive short-term risk taking. These guidelines provide that, within five years of the later of the adoption of the guidelines or his or her first date of employment, our executive officers must hold shares of Cutera common stock having a value not less than the amount specified below:

Executive Officer	Stock Ownership Guideline (as a multiple of base salary)
Chief Executive Officer	Three times
Other Executive Officers	One time

Compensation Recovery Policy

Our Board is evaluating whether to adopt a compensation recovery ("clawback") policy for our executive officers pursuant to which the Compensation Committee may, to the extent permitted by governing law and as appropriate under the circumstances, recover for the benefit of the Company all or a portion of any incentive-based cash compensation erroneously awarded to such executive officer in excess of the amount that such executive officer would have received (as re-calculated following the accounting restatement) to the extent that such compensation was paid after the date the policy was adopted.

Insider Trading Compliance Program

According to our Insider Trading Compliance Program, no employee of the Company, including, but not limited to, our executive officers and directors, may invest in derivatives of the Company's securities. This prohibition includes, but is not limited to, trading in put or call options related to securities of the Company.

2011 Summary Compensation Table

The following table sets forth summary compensation information for the fiscal years ended December 31, 2011, 2010 and 2009 for our Chief Executive Officer, our Chief Financial Officer, and our Chief Technology Officer. We refer to these persons as our Named Executive Officers elsewhere in this proxy statement.

Name and Principal Position	Salary	Bonus[1]	Option Awards[2]	Stock Awards[2]	Non-Equity Incentive Plan Compensation	All Other Compensation	Total
Kevin P. Connors President and Chief Executive Officer							
2011	$ 420,000	$ —	$ 359,508	$ 95,920	$ 226,365[3]	$ —	$ 1,101,793
2010	420,000	—	391,852	337,920	—	—	1,149,772
2009	420,000	—	481,284	—	18,454	—	919,738
Ronald J. Santilli Executive Vice President and Chief Financial Officer							
2011	$ 290,000	$ —	$ 239,672	$ 65,400	$ 117,389[3]	$	$ 712,461
2010	290,000	—	171,266	225,280	—	—	686,546
2009	290,000	—	220,589	—	10,012	—	520,601
Leonard C. DeBenedictis Chief Technology Officer							
2011	$ 312,000	$ 50,550[4]	$ 460,686	$ 32,700	$ 140,249[3]	$ —	$ 996,185
2010	—	—	—	—	—	—	—
2009	—	—	—	—	—	—	—

(1) The amounts reported in this column represent discretionary bonuses earned for each of the years covered in the table.

(2) The amounts reported in this column represent the aggregate grant date fair value of stock awards granted during each of the fiscal years in 2011, 2010 and 2009 calculated in accordance with ASC Topic 718. See Note 5 of the Consolidated Notes to Financial Statements included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2011 filed with the SEC on March 15, 2012 for a discussion of the valuation assumptions for stock-based compensation.

(3) Amounts shown include an annual bonus and profit sharing earned in 2011 and paid in 2012.

(4) Our Board granted a one-time bonus of $50,550 to Mr. DeBenedictis, payable four months after he commenced employment with the Company.

2011 Grants of Plan-Based Awards Table

The following table lists grants of plan-based stock options and RSU awards made to our Named Executive Officers during the fiscal year ended December 31, 2011.

Name	Grant Date	Estimated Future Payouts Under Non-Equity Incentive Plan Awards			All Other Stock Awards: Number of Shares of Stock or Units	All Other Option Awards: Number of Securities Underlying Options	Exercise or Base Price of Option Awards [1]	Grant Date Fair Value of Stock and Option Awards [2]
		Threshold	Target	Maximum				
Mr. Connors								
	05/27/2011	—	—	—	11,000	120,000	$ 8.72	$ 455,428
Mr. Santilli								
	05/27/2011	—	—	—	7,500	80,000	$ 8.72	$ 305,072
Mr. DeBenedictis...								
	1/5/2011	—	—	—		100,000	$ 8.75	$ 340,850
	5/27/2011				3,750	40,000	8.72	152,536

(1) The per-share exercise prices of the option awards were based on the closing market price of a share of Cutera common stock on the respective dates of grant.

(2) The amounts reported in this column reflect the grant date fair value of equity awards calculated in accordance with ASC Topic 718. See Note 5 of the Notes to Consolidated Financial Statements included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2011 filed with the SEC on March 15, 2012 for a discussion of the valuation assumptions for our stock-based compensation.

2011 Outstanding Equity Awards at Fiscal Year-End Table

The following table lists the outstanding equity incentive awards held by our Named Executive Officers as of December 31, 2011.

	Option Awards				Stock AwardsMarket		
Name	Number of Securities Underlying Unexercised Earned Options	Number of Securities Underlying Unexercised Unearned Options	Option Exercise Price	Option Expiration Date	Number of Shares or Units of Stock that Have Not Vested	Value of Shares or Units of Stock that Have Not Vested	Date Awards Will be Fully Vested
Mr. Connors	3,333	—	$ 4.25	8/13/2013			
	30,000	—	20.25	7/28/2015			
	29,138	4,162[1]	10.43	5/28/2015			
	100,000	—	10.43	5/28/2015			
	100,000	20,000[2]	8.66	6/08/2016			
	60,000	60,000[2]	10.24	5/14/2017			
	—	120,000[2]	8.72	5/27/2018			
					11,000[3]	$ 81,950[3]	6/01/2012[3]
					7,334[4]	54,638[4]	6/01/2013[4]
Mr. Santilli	3,372	—	$ 4.25	8/07/2012			
	14,753	—	4.25	8/13/2013			
	10,000	—	13.30	7/20/2014			
	15,000	—	20.25	7/28/2015			
	11,988	1,712[1]	10.43	5/28/2015			
	50,000	—	10.43	5/28/2015			
	45,834	9,166[2]	8.66	6/08/2016			
	27,501	27,499[2]	10.24	5/14/2017			
		80,000[2]	8.72	5/27/2018			
					7,333[3]	$ 54,631[3]	6/01/2012[3]
					5,000[4]	37,250[4]	6/01/2013[4]
	—	100,000[2]	$ 8.75	1/05/2018			
Mr. DeBenedictis	—	40,000[2]	$ 8.72	5/27/2018			
					2,500[4]	18,625[4]	6/01/2013[4]

(1) One-quarter of the shares underlying each of these stock options vest on the first anniversary of the vesting commencement date and 1/48th of the underlying shares vest each month thereafter.

(2) One-third of the shares underlying each of these stock options vest on the first anniversary of the vesting commencement date and 1/36th of the underlying shares vest each month thereafter.

(3) One-half of the shares underlying each of these awards will vest on June 1, 2011 and 2012.

(4) One-half of the shares underlying each of these awards will vest on June 1, 2012 and 2013.

2011 Options Exercised and Stock Vested Table

The following table lists the stock options exercised by, and stock awards vested to, our Named Executive Officers in the fiscal year ended December 31, 2011.

	Option Awards		Stock Awards	
Name	Number of Shares Acquired on Exercise	Value Realized on Exercise [1]	Number of Shares Acquired on Vesting	Value Realized Upon Vesting [2]
Mr. Connors	40,000	$ 232,400	14,666	$ 128,474
Mr. Santilli	20,000	$ 33,568	9,833	$ 86,137
Mr. DeBenedictis	—	—	1,250	$ 10,950

(1) The amounts reported in this column represents the excess of fair market value of the shares of Cutera common stock purchased on the exercise date over the aggregate exercise price of such options.

(2) The amounts reported in this column represent the fair market value of the shares of Cutera common stock on the vesting date of each Named Executive Officer's outstanding RSU awards.

Pension Benefits

We did not sponsor any defined benefit pension or other actuarial plan for our executive officers, including our Named Executive Officers, during 2011.

Nonqualified Deferred Compensation

We did not maintain any nonqualified defined contribution or other deferred compensation plans or arrangements for our executive officers, including our Named Executive Officers, during 2011.

Employment Agreements

We do not have employment agreements with any of our Named Executive Officers.

Potential Payments Upon Termination or Change in Control

We have entered into Change of Control and Severance Agreements with each of our Named Executive Officers. These agreements provide that if a Named Executive Officer's employment with the Company is terminated by the Company without "cause" (as defined in the agreement) or by the Named Executive Officer for "good reason" (as defined in the agreement) either prior to three months before or after 12 months following a Change of Control (as defined in the agreement) of the Company but not in connection with a Change of Control, the Named Executive Officer will receive, subject to signing a release of claims in favor of the Company:

- a lump sum severance payment equal to 200% of the annual base salary as in effect immediately prior to such termination for our Chief Executive Officer and 100% of the annual base salary as in effect immediately prior to such termination for our Chief Financial Officer and Chief Technology Officer; and

- up to 24 months for our Chief Executive Officer and up to 12 months for our Chief Financial Officer and Chief Technology Officer of reimbursement for premiums paid for COBRA coverage.

These agreements also provide that if a Named Executive Officer's employment with the Company is terminated by the Company without "cause" or by the Named Executive Officer for "good reason" and such termination occurs within the period beginning three months before, and ending 12 months following, a Change of Control of the Company and in connection with a Change of Control, the Named Executive Officer will receive, subject to signing a release of claims in favor of the Company

- a lump sum severance payment equal to 200% of the annual base salary as in effect immediately prior to such termination or, if greater, at the level in effect immediately prior to the Change of Control for our Chief Executive Officer and 100% of the annual base salary as in effect immediately prior to such termination or, if greater, at the level in effect immediately prior to the Change of Control for our Chief Financial Officer and Chief Technology Officer;

- a lump sum severance payment equal to 100% of the Named Executive Officer's annual target bonus for the fiscal year in which the termination occurs or, if greater, his annual target bonus in effect immediately prior to the Change of Control;

- automatic vesting in full of all outstanding and unvested equity awards held by the Named Executive Officer as of the date of the Change of Control; and

- up to 24 months for our Chief Executive Officer and up to 12 months for our Chief Financial Officer and Chief Technology Officer of reimbursement for premiums paid for COBRA coverage.

Each agreement has an initial term of three years, and will extend for an additional year unless the Company or the applicable Named Executive Officer provides written notice at least 60 days prior to the third anniversary of the agreement.

For purposes of these agreements, "cause" means a Named Executive Officer's termination of employment only upon (i) his willful failure to substantially perform his duties (subject to notice and a reasonable period to cure), other than a failure resulting from his complete or partial incapacity due to physical or mental illness or impairment; (ii) his willful act which constitutes gross misconduct and which is injurious to the Company; (iii) his willful breach of a material provision of the agreement (subject to notice and reasonable period to cure); or (iv) his knowing, material and willful violation of a federal or state law or regulation applicable to the business of the Company.

For purposes of these agreements, "good reason" means a Named Executive Officer's termination of employment within 90 days following the expiration of any cure period following the occurrence of one or more of the following, without his consent: (i) a material reduction in his authority, duties, or responsibilities relative to duties, position or responsibilities in effect immediately prior to such reduction; (ii) a material reduction in his base salary as in effect immediately prior to such reduction; or (iii) a material change in the geographic location at which he must perform services (in other words, the relocation of the Named Executive Officer to a facility that is more than 50 miles from his then-current location).

The following table lists our Named Executive Officers and the estimated payments and benefits that each of them would have received had their employment with the Company been terminated without "cause" or had they resigned for "good reason" on December 31, 2011.

Name	Estimated Total Value of Cash Payment	Estimated Total Value of Health Coverage Continuation
Mr. Connors	$ 840,000	$ 16,979
Mr. Santilli	$ 290,000	$ 24,681
Mr. DeBenedictis	$ 312,000	$ 8,464

The following table lists our Named Executive Officers and the estimated payments and benefits that each of them would have received had their employment with the Company been terminated without "cause" or had they resigned for "good reason" in connection with a Change in Control of the Company on December 31, 2011.

Name	Estimated Total Value of Cash Payment	Estimated Total Value of Health Coverage Continuation	Value of Accelerated Equity [1]
Mr. Connors	$ 1,092,000	$ 16,979	$ 136,588
Mr. Santilli	$ 420,500	$ 24,681	$ 91,881
Mr. DeBenedictis	$ 468,000	$ 8,464	$ 18,625

(1) We estimate the value of acceleration of the outstanding and unvested stock options and RSU awards held by each of our Named Executive Officers based on a market price of $7.45 per share for Cutera common stock as of December 31, 2011.

COMPENSATION COMMITTEE REPORT (1)

The Compensation Committee has reviewed and discussed the Compensation Discussion and Analysis required by Item 402(b) of SEC Regulation S-K with management. Based on such review and discussion, the Compensation Committee has recommended to the Board of Directors that the Compensation Discussion and Analysis be included in Cutera's proxy statement.

The foregoing report is provided by the undersigned members of the Compensation Committee.

David B. Apfelberg
Gregory Barrett
Jerry P. Widman

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(1) The material in this report is not deemed soliciting material or filed with the SEC and is not to be incorporated by reference in any filing of the Company under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, whether made before or after the date of this Proxy Statement and irrespective of any general incorporation language in those filings.

OTHER MATTERS

We are not aware of any other business to be presented at the meeting. As of the date of this proxy statement, no stockholder had advised us of the intent to present any business at the meeting. Accordingly, the only business that our Board of Directors intends to present at the meeting is as set forth in this proxy statement.

If any other matter or matters are properly brought before the meeting, the proxies will use their discretion to vote on such matters in accordance with their best judgment.

By order of the Board of Directors,

Kevin P. Connors
President and Chief Executive Officer

Brisbane, California
April 30, 2012

CUTERA, INC.

2004 EQUITY INCENTIVE PLAN

(as amended on April 27, 2012, subject to stockholder approval on June 13, 2012)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(m) "Determination Date" means the latest possible date that will not jeopardize the qualification of an Award granted under the Plan as "performance-based compensation" under Section 162(m) of the Code.

(n) "Director" means a member of the Board.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(ii) "Plan" means this 2004 Equity Incentive Plan.

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

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

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

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

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

(oo) "Share" means a share of the Common Stock, as adjusted in accordance with Section 13 of the Plan.

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

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

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

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

3. Stock Subject to the Plan.

(a) Stock Subject to the Plan. Subject to the provisions of Section 14 of the Plan, as of April 16, 2012, the maximum aggregate number of shares of common stock that may be awarded and sold under the amended 2004 Plan was 4,647,992, of which 564,329 shares remained available for future awards.

(b) Full Value Awards. Any Shares subject to Awards granted with an exercise price less than Fair Market Value on the date of grant of such Awards will be counted against the numerical limits of this Section 3 as 2.12 Shares for every one Share subject thereto. Further, if Shares acquired pursuant to any such Award are forfeited or repurchased by the Company and would otherwise return to the Plan pursuant to Section 3(c), 2.12 times the number of Shares so forfeited or repurchased will return to the Plan and will again become available for issuance

(c) Lapsed Awards. If an Award expires or becomes unexercisable without having been exercised in full, or, with respect to Restricted Stock, Restricted Stock Units, Performance Shares or Performance Units, is forfeited to or repurchased by the Company, the unpurchased Shares (or for Awards other than Options and Stock Appreciation Rights, the forfeited or repurchased Shares) which were subject thereto will become available for future grant or sale under the Plan (unless the Plan has terminated). Upon exercise of a Stock Appreciation Right settled in Shares, the gross number of Shares covered by the portion of the Award so exercised will cease to be available under the Plan. If the exercise price of an Option is paid by tender to the Company, or attestation to the ownership, of Shares owned by the Participant, the number of Shares available for issuance under the Plan will be reduced by the gross number of Shares for which the Option is exercised. Shares that have actually been issued under the Plan under any Award will not be returned to the Plan and will not become available for future distribution under the Plan; provided, however, that if unvested Shares of Restricted Stock, Restricted Stock Units, Performance Shares or Performance Units are repurchased by the Company or are forfeited to the Company, such Shares will become available for future grant under the Plan. Shares used to pay the tax and/or exercise price of an Award will not become available for future grant or sale under the Plan. To the extent an Award under the Plan is paid out in cash rather than Shares, such cash payment will not result in reducing the number of Shares available for issuance under the Plan. Notwithstanding the foregoing provisions of this Section 3(c), subject to adjustment provided in Section 14, the maximum number of Shares that may be issued upon the exercise of Incentive Stock Options will equal the aggregate Share number stated in Section 3(a), plus, to the extent allowable under Section 422 of the Code, any Shares that become available for issuance under the Plan under this Section 3(c).

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

4. Administration of the Plan.

(a) Procedure.

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

(ii) Section 162(m). To the extent that the Administrator determines it to be desirable to qualify Awards granted hereunder as "performance-based compensation" within the meaning of Section 162(m) of the Code, the Plan will be administered by a Committee of two (2) or more "outside directors" within the meaning of Section 162(m) of the Code.

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

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

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

(i) to determine the Fair Market Value;

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

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

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

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

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

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

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

(ix) to modify or amend each Award (subject to Section 18(c) of the Plan), including the discretionary authority to extend the post-termination exercisability period of Awards longer than is otherwise provided for in the Plan;

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

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

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

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

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

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

6. Stock Options.

(a) Limitations.

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

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

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

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

(3) The foregoing limitations will be adjusted proportionately in connection with any change in the Company's capitalization as described in Section 14.

(4) If an Option is cancelled in the same Fiscal Year in which it was granted (other than in connection with a transaction described in Section 14), the cancelled Option will be counted against the limits set forth in subsections (1) and (2) above.

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

(c) Option Exercise Price and Consideration.

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

(1) In the case of an Incentive Stock Option

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

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

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

(2) In the case of a Nonstatutory Stock Option, the per Share exercise price will be determined by the Administrator, but the per Share exercise price will be no less than 100% of Fair Market Value per Share on the date of grant. In the case of a Nonstatutory Stock Option intended to qualify as "performance-based compensation" within the meaning of Section 162(m) of the Code, the per Share exercise price will be no less than 100% of the Fair Market Value per Share on the date of grant. Notwithstanding the foregoing, Nonstatutory Stock Options may be grated with a per Share exercise price of less than 100% of the Fair Market Value per Share on the date of grant pursuant to a transaction described in, and in a manner consistent with, Section 424(a) of the Code.

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

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

(d) Exercise of Option.

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

An Option will be deemed exercised when the Company receives: (i) written or electronic notice of exercise (in accordance with the Award Agreement) from the person entitled to exercise the Option, and (ii) full payment for the Shares with respect to which the Option is exercised. Full payment may consist of any consideration and method of payment authorized by the Administrator and permitted by the Award Agreement and the Plan. Shares issued upon exercise of an Option will be issued in the name of the Participant or, if requested by the Participant, in the name of the Participant and his or her spouse. Until the Shares are issued (as evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company), no right to vote or receive dividends or any other rights as a stockholder will exist with respect to the Shares, notwithstanding the exercise of the Option. The Company will issue (or cause to be issued) such Shares promptly after the Option is exercised. No adjustment will be made for a dividend or other right for which the record date is prior to the date the Shares are issued, except as provided in Section 14 of the Plan.

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

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

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

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

7. Restricted Stock.

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

(b) Restricted Stock Agreement. Each Award of Restricted Stock will be evidenced by an Award Agreement that will specify the Period of Restriction, the number of Shares granted, and such other terms and conditions as the Administrator, in its sole discretion, will determine. Notwithstanding the foregoing sentence, for Restricted Stock intended to qualify as "performance-based compensation" within the meaning of Section 162(m) of the Code, during any Fiscal Year no Participant will receive more than an aggregate of 300,000 Shares of Restricted Stock. Notwithstanding the foregoing limitation, in connection with his or her initial service as an Employee, for Restricted Stock intended to qualify as "performance-based compensation" within the meaning of Section 162(m) of the Code, an Employee may be granted an aggregate of up to an additional 300,000 Shares of Restricted Stock. Unless the Administrator determines otherwise, Shares of Restricted Stock will be held by the Company as escrow agent until the restrictions on such Shares have lapsed.

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

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

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

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

(g) Dividends and Other Distributions. During the Period of Restriction, Service Providers holding Shares of Restricted Stock will be entitled to receive all dividends and other distributions paid with respect to such Shares unless otherwise provided in the Award Agreement. If any such dividends or distributions are paid in Shares, the Shares will be subject to the same restrictions on transferability and forfeitability as the Shares of Restricted Stock with respect to which they were paid.

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

(i) Section 162(m) Performance Restrictions. For purposes of qualifying grants of Restricted Stock as "performance-based compensation" under Section 162(m) of the Code, the Administrator, in its discretion, may set restrictions based upon the achievement of Performance Goals. The Performance Goals will be set by the Administrator on or before the Determination Date. In granting Restricted Stock which is intended to qualify under Section 162(m) of the Code, the Administrator will follow any procedures determined by it from time to time to be necessary or appropriate to ensure qualification of the Award under Section 162(m) of the Code (e.g., in determining the Performance Goals).

8. Restricted Stock Units.

(a) Grant. Restricted Stock Units may be granted at any time and from time to time as determined by the Administrator. Each Restricted Stock Unit grant will be evidenced by an Award Agreement that will specify such other terms and conditions as the Administrator, in its sole discretion, will determine, including all terms, conditions, and restrictions related to the grant, the number of Restricted Stock Units and the form of payout, which, subject to Section 8(d), may be left to the discretion of the Administrator. Notwithstanding anything to the contrary in this subsection (a), for Restricted Stock Units intended to qualify as "performance-based compensation" within the meaning of Section 162(m) of the Code, during any Fiscal Year of the Company, no Participant will receive more than an aggregate of 300,000 Restricted Stock Units. Notwithstanding the limitation in the previous sentence, for Restricted Stock Units intended to qualify as "performance-based compensation" within the meaning of Section 162(m) of the Code, in connection with his or her initial service as an Employee, an Employee may be granted an aggregate of up to an additional 300,000 Restricted Stock Units.

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

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

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

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

(f) Section 162(m) Performance Restrictions. For purposes of qualifying grants of Restricted Stock Units as "performance-based compensation" under Section 162(m) of the Code, the Administrator, in its discretion, may set restrictions based upon the achievement of Performance Goals. The Performance Goals will be set by the Administrator on or before the Determination Date. In granting Restricted Stock Units which are intended to qualify under Section 162(m) of the Code, the Administrator will follow any procedures determined by it from time to time to be necessary or appropriate to ensure qualification of the Award under Section 162(m) of the Code (e.g., in determining the Performance Goals).

9. Stock Appreciation Rights.

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

(b) Number of Shares. The Administrator will have complete discretion to determine the number of SARs granted to any Service Provider; provided, however, no Service Provider will be granted, in any Fiscal Year, SARs covering more than 1,000,000 Shares. Notwithstanding the limitation in the previous sentence, in connection with his or her initial service a Service Provider may be granted SARs covering up to an additional 1,000,000 Shares. The foregoing limitations will be adjusted proportionately in connection with any change in the Company's capitalization as described in Section 14. In addition, if a SAR is cancelled in the same Fiscal Year in which it was granted (other than in connection with a transaction described in Section 14), the cancelled SAR will be counted against the numerical share limits set forth above.

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

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

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

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

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

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

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

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

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

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

10. Performance Units and Performance Shares.

(a) Grant of Performance Units/Shares. Performance Units and Performance Shares may be granted to Service Providers at any time and from time to time, as will be determined by the Administrator, in its sole discretion. The Administrator will have complete discretion in determining the number of Performance Units and Performance Shares granted to each Participant provided that during any Fiscal Year, for Performance Units or Performance Shares intended to qualify as "performance-based compensation" within the meaning of Section 162(m) of the Code, (i) no Participant will receive Performance Units having an initial value greater than $2,000,000, and (ii) no Participant will receive more than 300,000 Performance Shares. Notwithstanding the foregoing limitation, for Performance Shares intended to qualify as "performance-based compensation" within the meaning of Section 162(m) of the Code, in connection with his or her initial service, a Service Provider may be granted up to an additional 300,000 Performance Shares.

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

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

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

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

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

(g) Section 162(m) Performance Restrictions. For purposes of qualifying grants of Performance Units/Shares as "performance-based compensation" under Section 162(m) of the Code, the Administrator, in its discretion, may set restrictions based upon the achievement of Performance Goals. The Performance Goals will be set by the Administrator on or before the Determination Date. In granting Performance Units/Shares which are intended to qualify under Section 162(m) of the Code, the Administrator will follow any procedures determined by it from time to time to be necessary or appropriate to ensure qualification of the Award under Section 162(m) of the Code (e.g., in determining the Performance Goals).

11. Formula Option Grants to Outside Directors.

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

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

(b) No Discretion. No person will have any discretion to select which Outside Directors will be granted Options under this Section or to determine the number of Shares to be covered by such Options (except as provided in Sections 10(f) and 13).

(c) First Option. Each person who first becomes an Outside Director following the Registration Date will be automatically granted an Option to purchase 10,000 Shares (the "First Option") on or about the date on which such person first becomes an Outside Director, whether through election by the stockholders of the Company or appointment by the Board to fill a vacancy; provided, however, that an Inside Director who ceases to be an Inside Director, but who remains a Director, will not receive a First Option.

(d) Subsequent Option. Each Outside Director will be automatically granted an Option to purchase 5,000 Shares (a "Subsequent Option") on each date of the annual meeting of the stockholders of the Company, if as of such date, he or she will have served on the Board for at least the preceding six (6) months.

(e) Terms. The terms of each Option granted pursuant to this Section will be as follows:

(i) The term of the Option will be seven (7) years.

(ii) The exercise price per Share will be 100% of the Fair Market Value per Share on the date of grant of the Option.

(iii) Subject to Section 14, the First Option will vest and become exercisable as to 1/3rd of the Shares subject to such First Option on each anniversary of its date of grant, provided that the Participant continues to serve as a Director through each such date.

(iv) Subject to Section 14, the Subsequent Option will vest and become exercisable as to 100% of the Shares subject to such Option on the third anniversary of its date of grant, provided that the Participant continues to serve as a Director through such date.

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

12. Performance-Based Compensation Under Code Section 162(m).

(a) General. If the Administrator, in its discretion, decides to grant an Award intended to qualify as "performance-based compensation" under Section 162(m) of the Code, the provisions of this Section 12 will control over any contrary provision in the Plan; provided, however, that the Administrator may in its discretion grant Awards that are not intended to qualify as "performance-based compensation" under Section 162(m) of the Code to such Participants that are based on Performance Goals or other specific criteria or goals but that do not satisfy the requirements of this Section 12.

(b) Performance Goals. The granting and/or vesting of Awards of Restricted Stock, Restricted Stock Units, Performance Shares and Performance Units and other incentives under the Plan may be made subject to the attainment of performance goals relating to one or more business criteria within the meaning of Section 162(m) of the Code and may provide for a targeted level or levels of achievement ("Performance Goals") including: (i) cash position, (ii) earnings per Share, (iii) net income, (iv) operating cash flow, (v) operating income, (vi) operating expenses, (vii) product revenues, (viii) profit after-tax, (ix) revenue, (x) revenue growth, and (xii) total stockholder return. Prior to the Determination Date, the Administrator will determine whether any significant element(s) will be included in or excluded from the calculation of any Performance Goal with respect to any Participant. Any Performance Goals may be used to measure the performance of the Company as a whole or a business unit of the Company and may be measured relative to a peer group or index. With respect to any Award, Performance Goals may be used alone or in combination. The Performance Goals may differ from Participant to Participant and from Award to Award. Prior to the Determination Date, the Administrator will determine whether any significant element(s) will be included in or excluded from the calculation of any Performance Goal with respect to any Participant.

(c) Procedures. To the extent necessary to comply with the performance-based compensation provisions of Section 162(m) of the Code, with respect to any Award granted subject to Performance Goals, within the first twenty-five percent (25%) of the Performance Period, but in no event more than ninety (90) days following the commencement of any Performance Period (or such other time as may be required or permitted by Code Section 162(m)), the Administrator will, in writing, (i) designate one or more Participants to whom an Award will be made, (ii) select the Performance Goals applicable to the Performance Period, (iii) establish the Performance Goals, and amounts of such Awards, as applicable, which may be earned for such Performance Period, and (iv) specify the relationship between Performance Goals and the amounts of such Awards, as applicable, to be earned by each Participant for such Performance Period. Following the completion of each Performance Period, the Administrator will certify in writing whether the applicable Performance Goals have been achieved for such Performance Period. In determining the amounts earned by a Participant, the Administrator will have the right to reduce or eliminate (but not to increase) the amount payable at a given level of performance to take into account additional factors that the Administrator may deem relevant to the assessment of individual or corporate performance for the Performance Period. A Participant will be eligible to receive payment pursuant to an Award for a Performance Period only if the Performance Goals for such period are achieved.

(d) Additional Limitations. Notwithstanding any other provision of the Plan, any Award which is granted to a Participant and is intended to constitute qualified performance based compensation under Code Section 162(m) will be subject to any additional limitations set forth in the Code (including any amendment to Section 162(m)) or any regulations and ruling issued thereunder that are requirements for qualification as qualified performance-based compensation as described in Section 162(m) of the Code, and the Plan will be deemed amended to the extent necessary to conform to such requirements.

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

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

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

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

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

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

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

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

Notwithstanding anything in this Section 15(c) to the contrary, an Award that vests, is earned or paid-out upon the satisfaction of one or more Performance Goals will not be considered assumed if the Company or its successor modifies any of such Performance Goals without the Participant's consent; provided, however, a modification to such Performance Goals only to reflect the successor corporation's post-Change in Control corporate structure will not be deemed to invalidate an otherwise valid Award assumption.

16. Tax Withholding

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

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

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

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

19. Term of Plan. Subject to Section 23 of the Plan, the Plan will become effective upon its adoption by the Board. It will continue in effect for a term of ten (10) years unless terminated earlier under Section 20 of the Plan.

20. Amendment and Termination of the Plan.

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

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

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

21. Conditions Upon Issuance of Shares.

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

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

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

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

THIS PROXY IS SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS OF CUTERA, INC.

2012 ANNUAL MEETING OF STOCKHOLDERS

The undersigned stockholder of Cutera, Inc., a Delaware corporation, hereby acknowledges receipt of the Notice of Annual Meeting of Stockholders and Proxy Statement each dated April 30, 2012 and hereby appoints Kevin P. Connors (our President and Chief Executive Officer) and Ronald J. Santilli (our Chief Financial Officer), each as proxy and attorney-in-fact, with full power of substitution, on behalf and in the name of the undersigned to represent the undersigned at the 2012 Annual Meeting of Stockholders of Cutera, Inc. to be held on June 13, 2012 at 10:00 a.m., local time, at Cutera's offices located at 3240 Bayshore Blvd., Brisbane, California 94005-1021, and at any postponement or adjournment thereof, and to vote all shares of common stock which the undersigned would be entitled to vote if then and there personally present, on the matters set forth below:

SEE REVERSE SIDE

FOLD AND DETACH HERE

Please mark your votes as indicated ☒

1.Election of Directors	FOR	WITHHOLD
	☐	☐

CLASS II NOMINEES:

Timothy J. O'Shea

David B. Apfelberg

THE STOCKHOLDER MAY WITHHOLD AUTHORITY TO VOTE FOR ANY NOMINEE BY STRIKING OUT THE INDIVIDUAL'S NAME ABOVE

	FOR	AGAINST	ABSTAIN
2. A non-binding advisory vote on the approval of executive compensation.	☐	☐	☐
3. Ratify the appointment of Ernst & Young LLP as the Independent Registered Public Accounting Firm of the Company for the fiscal year ending December 31, 2012.	☐	☐	☐
4. Adoption of our 2004 Equity Incentive Plan (as amended).	☐	☐	☐

THIS PROXY WILL BE VOTED AS DIRECTED OR, IF NO CONTRARY DIRECTION IS INDICATED, WILL BE VOTED AS FOLLOWS: (1) FOR THE ELECTION OF THE NOMINATED CLASS II DIRECTORS; (2) FOR THE APPROVAL, BY NON-BINDING VOTE, OF EXECUTIVE COMPENSATION; (3) FOR THE ADOPTION OF OUR 2004 EQUITY INCENTIVE PLAN (AS AMENDED); (4) FOR THE RATIFICATION OF THE APPOINTMENT OF ERNST & YOUNG LLP AS OUR INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM; AND (5) AS THE PROXY HOLDERS DEEM ADVISABLE ON SUCH OTHER MATTERS AS MAY COME BEFORE THE MEETING.

PLEASE SIGN EXACTLY AS YOUR NAME APPEARS HEREON. IF THE STOCK IS REGISTERED IN THE NAME OF TWO OR MORE PERSONS, EACH SHOULD SIGN. EXECUTORS, ADMINISTRATORS, TRUSTEES, GUARDIANS AND ATTORNEYS-IN-FACT SHOULD ADD THEIR TITLES. IF SIGNER IS A CORPORATION, PLEASE GIVE FULL CORPORATE NAME AND HAVE A DULY AUTHORIZED OFFICER SIGN, STATING TITLE. IF SIGNER IS A PARTNERSHIP, PLEASE SIGN IN PARTNERSHIP NAME BY AUTHORIZED PERSON.

PLEASE SIGN, DATE AND PROMPTLY RETURN THIS PROXY IN THE ENCLOSED RETURN ENVELOPE, WHICH IS POSTAGE PREPAID IF MAILED IN THE UNITED STATES.

SIGNATURE(S) _____ SIGNATURE(S) _____ DATE: _____

NOTE: This Proxy should be marked, signed by the stockholder(s) exactly as his or her name appears hereon, and returned promptly in the enclosed envelope. Persons signing in fiduciary capacity should so indicate. If shares are held by joint tenants or as community property, both should sign.

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

FORM 10-K

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

For fiscal year ended December 31, 2011

Commission file number: 000-50644

Cutera, Inc.
(Exact name of registrant as specified in its charter)

Delaware	**77-0492262**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification Number)**

3240 Bayshore Blvd.
Brisbane, California 94005
(415) 657-5500
(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

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

Title of Each Class	**Name of Each Exchange on Which Registered**
Common Stock, $0.001 par value per share	**The NASDAQ Stock Market, LLC**

Securities Registered Pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

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 than the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post such files). Yes ☐ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

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

Large accelerated filer ☐	Accelerated filer ☒	Non-accelerated filer (Do not check if a smaller reporting company) ☐	Smaller reporting company ☐

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

The aggregate market value of the registrant's common stock, held by non-affiliates of the registrant as of June 30, 2011 (which is the last business day of registrant's most recently completed second fiscal quarter) based upon the closing price of such stock on the NASDAQ Global Select Market on that date, was approximately $92 million. For purposes of this disclosure, shares of common stock held by entities and individuals who own 5% or more of the outstanding common stock and shares of common stock held by each officer and director have been excluded in that such persons may be deemed to be "affiliates" as that term is defined under the Rules and Regulations of the Securities Exchange Act of 1934. This determination of affiliate status is not necessarily conclusive.

The number of shares of Registrant's common stock issued and outstanding as of February 29, 2012 was 13,954,178.

DOCUMENTS INCORPORATED BY REFERENCE

Part III incorporates by reference certain information from the registrant's definitive proxy statement for the 2012 Annual Meeting of Stockholders.

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PART I

ITEM 1. BUSINESS

We are a global medical device company headquartered in Brisbane, California specializing in the design, development, manufacture, marketing and servicing of laser and light-based aesthetics systems for practitioners worldwide. We offer easy-to-use products based on six platforms—CoolGlide®, Xeo®, Solera®, GenesisPlus™, Excel V™, and myQ™ — each of which enable physicians and other qualified practitioners to perform safe and effective aesthetic procedures for their customers.

- ***CoolGlide-*** In March 2003, our first product platform, CoolGlide, was launched. This platform offers laser applications for hair removal, treatment of a range of vascular lesions, including leg and facial veins, and Laser Genesis—a skin rejuvenation procedure that reduces fine lines, reduces pore size and improves skin texture.
- **X*eo-*** In 2003, we introduced the Xeo platform, which can combine pulsed light and laser applications in a single system. The Xeo is a fully upgradeable platform on which a customer can use the following applications that we offer: remove unwanted hair, treat vascular lesions and rejuvenate the skin by treating discoloration, improving texture, reducing pore size and treating fine lines and laxity. This product platform represents the largest contributor to our Product revenue.
- ***Solera-*** In 2004, we introduced the Solera platform, a compact tabletop system designed to support a single technology platform. Solera systems use either infrared (Solera Titan) or pulsed light (Solera Opus) and can be used to remove unwanted hair, treat vascular lesions and rejuvenate the skin. The Solera Opus can support one or more pulsed light applications in a single system.
- ***GenesisPlus-*** In 2010, we introduced the GenesisPlus platform, which is a dedicated laser based system for performing skin rejuvenation procedures and for onychomycosis, or toenail fungus. This system has a hand piece that includes real time temperature monitoring of the treatment area, as well as a non-contact distance gauge using two aiming beams, for improving the clinical result of treatment. In addition, this system can be used to treat patients with skin concerns such as fine wrinkles, diffuse redness, rosacea, skin texture and pore size.
- ***Excel V-*** In February 2011, we introduced our Excel V platform, a high-performance, vascular platform designed specifically for the core-market of Dermatologists and Plastic Surgeons. This platform provides a combination of the 532 nm green laser with Cutera's award winning 1064 nm Nd:YAG technology, to provide a single, compact and efficient system that treats the entire range of cosmetic vascular conditions, without the need for costly consumables.
- ***myQ-*** In October 2011, we announced a distribution agreement with Quanta System SpA ─ an Italian Original Equipment Manufacturer (OEM) of laser technologies ─ to market and sell the myQ series of Q-switched lasers in Japan. Q-switched lasers are designed to be used in a wide range of popular aesthetic applications, including superficial and deep pigmented lesions (i.e., melasma), skin rejuvenation, laser skin toning and tattoo removal.

Each of our laser and light-based platforms consists of one or more hand pieces and a console that incorporates a universal graphic user interface, a laser or light-based module, control system software and high voltage electronics. However, depending on the application, the laser or light-based module is sometimes instead contained in the hand piece. A description of each of our hand pieces, and the aesthetic conditions they are designed to treat, are contained in the section entitled "Products," below.

We offer our customers the ability to select the systems and applications that best fit their practice and to subsequently upgrade their systems to add new applications. This upgrade path allows our customers to cost-effectively build their aesthetic practices and provides us with a source of recurring revenue.

In addition to systems and upgrades, we generate revenue from the sale of post warranty services, Titan hand piece refills, and Dermal filler and cosmeceuticals.

The Structure of Skin and Conditions that Affect Appearance

The skin is the body's largest organ and is comprised of layers called the epidermis and dermis. The epidermis is the outer layer, and serves as a protective barrier for the body. It contains cells that determine pigmentation, or skin color. The underlying layer of skin, the dermis, contains hair follicles and large and small blood vessels that are found at various depths below the epidermis. Collagen, also found within the dermis, provides strength and flexibility to the skin.

Many factors, such as age, smoking and sun damage, can result in aesthetically unpleasant changes in the appearance of the skin. These changes can include:

- Undesirable hair growth;
- Enlargement or swelling of blood vessels due to circulatory changes that become visible at the skin's surface in the form of unsightly veins;
- Deterioration of collagen, which weakens the skin, leading to uneven texture, increased pore size, wrinkles and laxity; and
- Uneven pigmentation or sun spots due to long-term sun exposure.

People with unwanted hair or any of the above-mentioned skin conditions often seek aesthetic treatments to improve their appearance.

The Market for Non-Surgical Aesthetic Procedures

The market for non-surgical aesthetic procedures has grown significantly over the past several years. The American Society of Plastic Surgeons estimates that in 2011 there were over 12.2 million minimally-invasive aesthetic procedures performed, a 6% increase over 2010 and a 123% increase over 2000. We believe there are several factors contributing to the growth of these aesthetic procedures, including:

- ***Aging of the U.S. Population-*** The "baby boomer" demographic segment ─ ages 47 to 65 in 2011 ─ represented approximately 80 million people, or 26%, of the U.S. population in 2011. The size of this aging segment, and its desire to retain a youthful appearance, has contributed to the growth for aesthetic procedures.
- ***Broader Range of Safe and Effective Treatments-*** Technical developments have led to safe, effective, easy-to-use and low-cost treatments with fewer side effects, resulting in broader adoption of aesthetic procedures by practitioners. In addition, technical developments have enabled practitioners to offer a broader range of treatments. These technical developments have reduced the required treatment and recovery times, which in turn have led to greater patient demand.
- ***Broader Base of Customers-*** Managed care and government payer reimbursement restrictions in the United States, and similar payment related constraints outside the United States, may help motivate qualified practitioners from differing specialties to establish or expand their elective aesthetic practices with procedures that are paid for directly by patients. As a result, in addition to the core users such as dermatologists and plastic surgeons, many other non-core practitioners, such as gynecologists, family practitioners, primary care physicians, physicians offering aesthetic treatments in non-medical offices, and other qualified practitioners are offering aesthetic procedures.

Non-Surgical Aesthetic Procedures for Improving the Skin's Appearance and Their Limitations

Many alternative therapies are available for improving a person's appearance by treating specific structures within the skin. These procedures utilize injections or abrasive agents to reach different depths of the dermis and the epidermis. In addition, non-invasive and minimally-invasive treatments have been developed that employ laser and light-based technologies to achieve similar therapeutic results. Some of these more common therapies and their limitations are described below.

Hair Removal- Techniques for hair removal include waxing, depilatories, tweezing, shaving, electrolysis and laser and light-based hair removal. The only techniques that provide a long-lasting solution are electrolysis and light-based hair removal. Electrolysis is usually painful, time-consuming and expensive for large areas, but is the most common method for removing light-colored hair. During electrolysis, an electrologist inserts a needle directly into a hair follicle and activates an electric current in the needle. Since electrolysis only treats one hair follicle at a time, the treatment of an area as small as an upper lip may require numerous visits and many hours of treatment. In addition, electrolysis can cause blemishes and infection related to needle use.

Leg and Facial Veins- The current aesthetic treatment methods for leg and facial veins include sclerotherapy and laser and light-based treatments. With these treatments, patients seek to eliminate visible veins and improve overall skin appearance. Sclerotherapy requires a skilled practitioner to inject a saline or detergent-based solution into the target vein, which breaks down the vessel causing it to collapse and be absorbed into the body. The need to correctly position the needle on the inside of the vein makes it difficult to treat smaller veins, which limits the treatment of facial vessels and small leg veins. The American Society of Plastic Surgeons estimates that approximately 355,000 sclerotherapy procedures were performed in 2011.

Skin Rejuvenation- Skin rejuvenation treatments include a broad range of popular alternatives, including Botox and collagen injections, chemical peels, microdermabrasions, radiofrequency treatments and lasers and light-based treatments. With these treatments, patients hope to improve overall skin tone and texture, reduce pore size, tighten skin and remove other signs of aging, including mottled pigmentation, diffuse redness and wrinkles. All of these procedures are temporary solutions and must be repeated within several weeks or months to sustain their effect, thereby increasing the cost and inconvenience to patients. For example, the body absorbs Botox and collagen and patients require supplemental injections every three to six months to maintain the benefits of these treatments.

Some skin rejuvenation treatments, such as chemical peels and microdermabrasions, can have undesirable side effects. Chemical peels use acidic or caustic solutions to peel away the epidermis, and microdermabrasion generally utilizes sand crystals to resurface the skin. These techniques can lead to stinging, redness, irritation and scabbing. In addition, more serious complications, such as changes in skin color, can result from deeper chemical peels. Patients that undergo these deep chemical peels are also advised to avoid exposure to the sun for several months following the procedure. The American Society of Plastic Surgeons estimates that in 2011, approximately 5.7 million injections of Botox and 1.9 million injections of collagen and other soft-tissue fillers were administered; and 1.1 million chemical peels and 900,000 microdermabrasion procedures were performed.

In radiofrequency tissue tightening, energy is applied to heat the dermis of the skin with the goal of shrinking and tightening the collagen fibers. This approach may result in a more subtle and incremental change to the skin than a surgical facelift. Drawbacks to this approach may include surface irregularities that may however resolve over time, and the risk of burning the treatment area.

Laser and light-based non-surgical treatments for hair removal, veins and skin rejuvenation are discussed in the following section and in the section entitled “Our Applications and Procedures,” below.

Laser and Light-Based Aesthetic Treatments

Laser and light-based aesthetic treatments can achieve therapeutic results by affecting structures within the skin. The development of safe and effective aesthetic treatments has created a well-established market for these procedures.

Ablative skin resurfacing is a method of improving the appearance of the skin by removing the outer layers of the skin. Ablative skin resurfacing procedures are considered invasive or minimally invasive, depending on how much of the epidermis is removed during a treatment. Non-ablative skin resurfacing is a method of improving the appearance of the skin by treating the underlying structure of the skin without damaging the outer layers of the skin. Practitioners can use laser and light-based technologies to selectively target hair follicles, veins or collagen in the dermis, as well as cells responsible for pigmentation in the epidermis, without damaging surrounding tissue. They can also use these technologies to safely remove portions of the epidermis and deliver heat to the dermis as a means of generating new collagen growth.

Safe and effective laser and light-based treatments require an appropriate combination of the following four parameters:

- ***Energy Level-*** the amount of light emitted to heat a target;
- ***Pulse Duration-*** the time interval over which the energy is delivered;
- ***Spot Size-*** the diameter of the energy beam, which affects treatment depth and area; and
- ***Wavelength-*** the color of light, which impacts the effective depth and absorption of the energy delivered.

For example, in the case of hair removal, by utilizing the correct combination of these parameters, a practitioner can use a laser or other light source to selectively target melanin within the hair follicle to absorb the laser energy and destroy the follicle, without damaging other delicate structures in the surrounding tissue. Wavelength and spot size permit the practitioner to target melanin in the base of the hair follicle, which is found in the dermis. The combination of pulse duration and energy level may vary, depending upon the thickness of the targeted hair follicle. A shorter pulse length with a high energy level is optimal to destroy fine hair, whereas coarse hair is best treated with a longer pulse length with lower energy levels. If treatment parameters are improperly set, non-targeted structures within the skin may absorb the energy thereby eliminating or reducing the therapeutic effect. In addition, improper setting of the treatment parameters or failure to protect the surface of the skin may cause burns, which can result in blistering, scabbing and skin discoloration.

Technology and Design of Our Systems

Our unique CoolGlide, Xeo, Solera, GenesisPlus, Excel V and myQ platforms provide the long-lasting benefits of laser and light-based aesthetic treatments. Our technology allows for a combination of a wide variety of applications available in a single system. Key features of our solutions include:

- ***Multiple Applications Available in a Single System-*** Our systems comprise of multi-applications that enable practitioners to perform multiple aesthetic procedures using a single device. These procedures include hair removal, vascular treatments and skin rejuvenation ─ including the treatment of discoloration, laxity, fine lines, pore size and uneven texture. Because practitioners can use our systems for multiple indications, the cost of a unit may be spread across a potentially greater number of patients and procedures and therefore may be more rapidly recovered.
- ***Technology and Design Leadership-*** We offer innovative laser and light-based solutions for the aesthetic market. Our laser technology combines long wavelength, adjustable energy levels, variable spot sizes and a wide range of pulse durations, allowing practitioners to customize treatments for each patient and condition. Our proprietary pulsed light hand pieces for the treatment of discoloration, hair removal and vascular treatments optimize the wavelength used for treatments and incorporate a monitoring system to increase safety. Our Titan hand pieces utilize a novel light source that had not been previously used for aesthetic treatments. Our Pearl and Pearl Fractional hand pieces, with proprietary YSGG technology, represent the first application of the 2790 nm wavelength for minimally-invasive cosmetic dermatology. Further, our GenesisPlus platform for performing skin rejuvenation procedures and toenail fungus has a hand piece that includes real time temperature monitoring of the treatment area, as well as a non-contact distance gauge using two aiming beams, for improving the clinical result of the treatment. Excel V is a stand-alone, laser based product that combines a new high power green laser with Cutera's award winning Nd:YAG technology, to provide a system that treats the entire range of cosmetic vascular conditions, without the need for costly consumables.
- ***Upgradeable Platform-*** We have designed some of our products to allow our customers to cost-effectively upgrade to our multi-application systems (Solera and Xeo), which provide our customers with the option to add additional applications to their existing systems and provides us with a source of recurring revenue. We believe that product upgradeability allows our customers to take advantage of our latest product offerings and provide additional treatment options to their patients, thereby expanding the opportunities for their aesthetic practices.

- ***Treatments for Broad Range of Skin Types and Conditions-*** Our products remove hair safely and effectively on patients of all skin types, including harder-to-treat patients with dark or tanned skin. In addition, the wide parameter range of our systems allows practitioners to effectively treat patients with both fine and coarse hair. Practitioners may use our products to treat spider and reticular veins (unsightly small veins in the leg) and small facial veins; perform skin rejuvenation procedures for discoloration, texture, pore size, fine lines, and laxity on any type of skin; and treat toenail fungus. The ability to customize treatment parameters enables practitioners to offer safe and effective therapies to a broad base of their patients.
- ***Ease of Use-*** We design our products to be easy to use. Our proprietary hand pieces are lightweight and ergonomic, minimizing user fatigue, and allow for clear views of the treatment area, reducing the possibility of unintended damage and increasing the speed of application. Our control console contains a universal graphic user interface with three simple, independently adjustable controls from which to select a wide range of treatment parameters to suit each patient's profile. The clinical navigation user interface on the Xeo platform provides recommended clinical treatment parameter ranges based on patient criteria entered. And our Pearl and Pearl Fractional hand pieces include a scanner with multiple scan patterns to allow simple and fast treatments of the face. Risks involved in the use of our products include risks common to other laser and light-based aesthetic procedures, including the risk of burns, blistering and skin discoloration.

Strategy

Our goal is to maintain and expand our position as a leading, worldwide, provider of energy-based aesthetic devices and complementary aesthetic products by executing the following strategies:

- ***Continue to Expand our Product Offering-*** Though we believe that our current portfolio of products is comprehensive, our research and development group has a pipeline of potential products under development that we expect to commercialize in the future. In 2010 we launched GenesisPlus and in 2011, we launched Excel V. In addition to products in the laser and light-based aesthetic market, we are expanding our product offering into other complementary aesthetic applications, such as dermal fillers and cosmeceuticals. Such products will allow us to leverage our existing customer call points, and provide us with new customer call points, to generate additional revenue, which will enhance the productivity of our distribution channels.
- ***Increasing Revenue and Improving Productivity-*** We believe that the market for aesthetic systems will continue to offer growth opportunities in the future. We continue to build brand-recognition, add additional products to our international distribution channel and remain focused on enhancing our global distribution network, all of which we expect will increase our revenue. In addition, we plan to grow our U.S. revenue by leveraging our relationship with PSS World Medical Shared Services, Inc., or PSS─ a wholly-owned subsidiary of PSS World Medical ─ that operates medical supply distribution service centers with over 700 sales consultants serving physician offices throughout the United States.
- ***Increasing Focus on Practitioners with Established Medical Offices-*** We believe there is growth opportunity in targeting our products to a broad customer base. However, in response to the 2009 to 2010 global recession, we shifted our focus to the core practitioners and physicians with established medical offices. We believe that our customer success is largely dependent upon having an existing medical practice, in which our systems provide incremental revenue sources to augment their practice revenue. As such, in 2011 we increased our focus on marketing our GenesisPlus product to podiatrists and our Excel V to dermatologists and plastic surgeons.

- ***Leveraging our Installed Base with Sales of Upgrades-*** In February 2011, we introduced the Excel V and in 2010, we introduced GenesisPlus ─ both stand alone platforms. However in the past, we have introduced new products that allowed existing customers to upgrade their previously purchased systems to offer additional capabilities. We believe that providing upgrades to our existing installed base of customers continues to represent a potentially significant opportunity for recurring revenue. We also believe that our upgrade program aligns our interest in generating revenue with our customers' interest in improving the return on their investment by expanding the range of applications that can be performed with their existing systems.
- ***Generating Revenue from Services and Refillable Hand Pieces-*** Our Titan hand pieces and pulsed-light hand pieces are refillable products, which provide us with a source of recurring revenue from our existing customers. We offer post-warranty services to our customers either through extended service contracts to cover preventive maintenance or through direct billing for parts and labor. These post-warranty services serve as additional sources of recurring revenue.

Products

Our CoolGlide, Xeo, Solera, GenesisPlus, Excel V and myQ platforms allow for the delivery of multiple laser and light-based aesthetic applications from a single system. With our Xeo and Solera platforms, practitioners can purchase customized systems with a variety of our multi-technology applications.

The following table lists our products and each checked box represents the applications that were included in the product in the years noted.

Applications:				**Hair Removal:**		**Vascular Lesions:**	**Skin Rejuvenation**		
System Platforms:	**Products:**	**Year:**	**Energy Source:**			**Dyschromia:**	**Texture, Lines and Wrinkles:**	**Skin Laxity:**	**Melasma & Tattoo Removal:**
CoolGlide	CV	2000	a	x					
	Excel	2001	a	x	x				
	Vantage	2002	a	x	x		x		
Xeo:	Nd:YAG	2003	a	x	x		x		
	OPS600	2003	b			x			
	LP560	2004	b			x			
	Titan S	2004	c					**x**	
	ProWave 770	2005	b	x					
	AcuTip 500	2005	b		x				
	Titan V/XL	2006	c					**x**	
	LimeLight	2006	b			x			
	Pearl	2007	d			x	x		
	Pearl Fractional	2008	d				x		
Solera	Titan S	2004	c					**x**	
	ProWave 770	2005	b	x					
	OPS 600	2005	b			x			
	LP560	2005	b			x			
	AcuTip 500	2005	b		x				
	Titan V/XL	2006	c					**x**	
	LimeLight	2006	b			x			
GenesisPlus		2010	a				x		
Excel V		2011	e		x	x	x		
myQ		2011	e						x

Energy Source: a. 1064nm Nd:YAG laser; b. flashlamp; c. Infrared laser; d. 2790 nm YSGG laser; e. combined frequency 532 nm and 1064 nm Nd:YAG laser

Each of our products consists of a control console and one or more hand pieces, depending on the model.

Control Console

Our control console includes a universal graphic user interface, control system software and high voltage electronics. All CoolGlide systems, GenesisPlus, Excel V and some models of the Xeo platform, include our laser module which consists of electronics, a visible aiming beam, a focusing lens, and an Nd:YAG and/or flashlamp laser that functions at wavelengths that permit penetration over a wide range of depths and is effective across all skin types. The interface allows the practitioner to set the appropriate laser or flashlamp parameters for each procedure through a user-friendly format. The control system software ensures that the operator's instructions are properly communicated from the graphic user interface to the other components within the system. Our high voltage electronics produce over 10,000 watts of peak laser energy, which permits therapeutic effects at short pulse durations. Our Solera console platform comes in two configurations—Opus and Titan—both of which include a universal graphic user interface, control system software and high voltage electronics. The Solera Opus console is designed specifically to drive our flashlamp hand pieces while the Solera Titan console is designed specifically to drive the Titan hand pieces. The control system software is designed to ensure that the operator's instructions are properly communicated from the graphical user interface to the other components within the system and includes real-time calibration to control the output energy as the pulse is delivered during the treatment.

Hand Pieces

1064 nm Nd:YAG Hand Piece- Our 1064nm Nd:YAG hand piece delivers laser energy to the treatment area for hair removal, leg and facial vein treatment, and skin rejuvenation procedures to treat skin texture and fine lines, and reduce pore size. The 1064nm Nd:YAG hand piece consists of an energy-delivery component, consisting of an optical fiber and lens, and a copper cooling plate with imbedded temperature monitoring. The hand piece weighs approximately 14 ounces, which is light enough to be held with one hand. The lightweight nature and ergonomic design of the hand piece allows the operation of the device without user fatigue. Its design allows the practitioner an unobstructed view of the treatment area, which reduces the possibility of unintended damage to the skin and can increase the speed of treatment. The 1064nm Nd:YAG hand piece also incorporates our cooling system, providing integrated pre- and post cooling of the treatment area through a temperature-controlled copper plate to protect the outer layer of the skin. The hand piece is available in either a fixed 10 millimeter spot size for our CoolGlide CV system, or a user-controlled variable 3, 5, 7 or 10 millimeter spot size for our CoolGlide Excel and CoolGlide Vantage systems.

Excel V Hand Piece- The Excel V system introduced in February 2011 delivers 1064 nm and 532 nm laser energy to the treatment area for vascular treatments. The Excel V system includes two hand pieces, both consisting of an energy-delivery component, consisting of an optical fiber and lens. One hand piece includes a sapphire window cooling plate with temperature monitoring. The second hand piece does not have a cooling plate and includes a non-contact temperature sensor to monitor the treatment area temperature. In addition, this second hand piece includes two aiming beams that facilitate consistent treatments by maintaining the correct distance of the hand piece to the skin. Both hand pieces offer a spot size range from 1.5 to 12 mm in 0.1 mm increments. Each hand piece is capable of delivering either the 1064 nm or 532 nm laser energy.

GenesisPlus Hand Piece- Our GenesisPlus system launched in 2010 delivers 1064 nm laser energy to the treatment area for toenail fungus and for skin rejuvenation procedures to treat skin texture and fine lines, and reduce pore size. This 1064nm Nd:YAG hand piece consists of an energy-delivery component, consisting of an optical fiber and lens but is lighter since it does not include a copper cooling plate. The hand piece does include a non-contact temperature sensor to monitor the treatment area temperature. In addition, the hand piece includes two aiming beams that facilitate consistent treatments by maintaining the correct distance of the hand piece to the skin. This hand piece offers a single 5 mm spot size.

Pulsed Light Hand Piece- The LP560, ProWave 770, AcuTip 500 and LimeLight hand pieces are designed to produce a pulse of light over a wavelength spectrum to treat discoloration, including pigmented lesions, such as age and sun spots, hair removal and superficial facial vessels. The hand pieces each consist of a custom flashlamp, proprietary wavelength filter, closed-loop power control and embedded temperature monitor, and weigh approximately 13 ounces. The filter in the AcuTip 500 eliminates long and short wavelengths, transmitting only the therapeutic range required for safe and effective treatment. The filter in the LP560, ProWave 770 and LimeLight eliminates short wavelengths, allowing longer wavelengths to be transmitted to the treatment area. In addition, the wavelength spectrum of the ProWave 770 and the LimeLight can be shifted based on the setting of the control console. Our power control includes a monitoring system to ensure that the desired energy level is delivered. The hand pieces protect the epidermis by regulating the temperature of the hand piece window through the embedded temperature monitor. These hand pieces are available on the Xeo and Solera platforms.

Titan Hand Piece- The Titan hand pieces are designed to produce a sustained pulse of light over a wavelength spectrum tailored to provide heating in the dermis to treat skin laxity (although it is cleared in the United States by the U.S. Food and Drug Administration, or FDA, only for deep dermal heating). The hand piece consists of a custom light source, proprietary wavelength filter, closed-loop power control, sapphire cooling window and embedded temperature monitor, and weighs approximately three pounds. The temperature of the epidermis is controlled by using a sapphire window to provide cooling before, during and after the delivery of energy to the treatment site. We offer two different Titan hand pieces—Titan V and Titan XL.

- Titan V- Titan V has a treatment tip that extends beyond the hand piece housing to provide enhanced visibility of the skin's surface to effectively treat delicate areas such as the skin around the eyes and nose.
- Titan XL- Titan XL, like the Titan V, has a treatment tip that extends beyond the housing for improved visibility. It also has a larger treatment spot size to treat larger body areas faster, such as the arms, abdomen and legs.

The Titan hand pieces can be used on the Xeo and Solera platforms. The Titan hand piece requires a periodic "refilling" process, which includes the replacement of the optical source, after a set number of pulses have been used. This provides us with a source of recurring revenue.

Pearl Hand Piece- The Pearl hand piece, introduced in 2007, is designed to treat fine lines, uneven texture and dyschromia through the application of proprietary YSGG laser technology. This hand piece can safely remove a small portion of the epidermis, while coagulating the remaining epidermis, leading to new collagen growth. The Pearl hand piece consists of a custom monolithic laser source, scanner and power monitoring electronics. The scanner includes multiple scan patterns to allow simple and fast treatments of the face. The hand piece includes an attachment for a smoke evacuator, allowing the practitioner to use one hand during treatment.

Pearl Fractional Hand Piece- The Pearl Fractional hand piece, introduced in 2008, also uses proprietary YSGG technology and is designed to treat wrinkles and deep dermal imperfections (although it is cleared in the United States by the FDA only for skin resurfacing and coagulation). This hand piece penetrates the deep dermis producing a series of microcolumns across the skin, which can result in the removal of damaged tissue and the production of new collagen. The Pearl Fractional hand piece consists of a custom monolithic laser source, scanner and power monitoring electronics. The scanner includes multiple scan patterns to allow simple and fast treatments of the face. The hand piece includes an attachment for a smoke evacuator, allowing the practitioner to use one hand during treatment.

Upgrades

Our Solera and Xeo platforms are multi-application products that are designed to allow our customers to cost-effectively upgrade to our newest technologies, which provides our customers the option to add applications to their system and provides us with a source of recurring revenue. When we introduce a new product, we notify our customers of the upgrade opportunity through a sales call or mailing. In most cases, a field service representative can install the upgrade at the customer site in a matter of hours, which results in very little downtime for practitioners. In some cases, where substantial upgrades are necessary, customers will receive fully-refurbished systems before sending their prior systems back to our headquarters. When customers wish to upgrade from the CoolGlide platform to either a Xeo or a Solera, we provide them with a trade-in value for their CoolGlide and upgrade them to the multi-application platform with the desired applications.

Service

We offer post-warranty services to our customers either through extended service contracts ─ that cover preventive maintenance and/or replacement parts and labor ─ as well as direct billing for detachable hand piece replacements, parts and labor. These post-warranty services serve as additional sources of recurring revenue from our installed base.

Titan Hand Piece Refills

Each Titan hand piece is a refillable product, which provides us with a source of recurring revenue from our existing customers.

Fillers and Cosmeceuticals

We distribute Merz's Radiesse® dermal filler product and Obagi Medical Product, Inc.'s (or Obagi) prescription-based, topical skin health systems (or Cosmeceuticals) to physicians in the Japanese market.

Our Applications and Procedures

Our products are designed to allow the practitioner to select an appropriate combination of energy level, spot size and pulse duration for each treatment. The ability to manipulate the combinations of these parameters allows our customers to treat the broadest range of conditions available with a single energy-based system.

Hair Removal- Our laser technology allows our customers to treat all skin types and hair thicknesses. Our 1064 nm Nd:YAG laser permits energy to safely penetrate through the epidermis of any skin type and into the dermis where the hair follicle is located. Using the universal graphic user interface on our control console, the practitioner sets parameters to deliver therapeutic energy with a large spot size and variable pulse durations, allowing the practitioner to treat fine or coarse hair. Our 1064nm Nd:YAG hand piece allows our customers to treat all skin types, while our ProWave 770 hand piece, with its pulsed light technology, treats the majority of skin types quickly and effectively.

To remove hair using a 1064nm Nd:YAG hand piece, the treatment site on the skin is first cleaned and shaved. The practitioner then applies a thin layer of gel to glide across the skin, and next applies the hand piece directly to the skin to cool the area to be treated and then delivers a laser pulse to the pre-cooled area. To remove hair using the ProWave 770 hand piece, mineral oil is used instead of gel, and cooling is provided by a sapphire window placed directly on the skin, allowing the pulse of light to be applied while the treatment area is being cooled. In the case of both hand pieces, delivery of the energy destroys the hair follicles and prevents hair re-growth. This procedure is then repeated at the next treatment site on the body, and can be done in a gliding motion to increase treatment speed. Patients receive on average three to six treatments. Each treatment can take between five minutes and one hour depending on the size of the area and the condition being treated. On average, there are six to eight weeks between treatments.

Vascular Lesions- Our laser technology allows our customers to treat the widest range of aesthetic vein conditions, including spider and reticular veins and small facial veins. Our CoolGlide and Xeo 1064nm Nd:YAG hand piece's adjustable spot size of 3, 5, 7 or 10 millimeters, or the Excel V 1064 nm and 532 nm hand piece with adjustable spot sizes from 1.5 to 12 mm, allows the practitioner to control treatment depth to target different sized veins. Selection of the appropriate energy level and pulse duration ensures effective treatment of the intended target. Our AcuTip 500 hand piece, with its 6 millimeter spot size, uses pulsed-light technology and is designed for the treatment of facial vessels.

The vein treatment procedure when using the 1064nm Nd:YAG hand piece is performed in a substantially similar manner to the laser hair removal procedure. The laser hand piece is used to cool the treatment area both before and after the laser pulse has been applied. With the Excel V hand piece the cooling can be performed pre, during and post delivery of the laser pulse. With the AcuTip 500 hand piece, the pulse of light is delivered while the treatment area is being cooled with the sapphire tip. The delivered energy damages the vein and, over time, it is absorbed by the body. Patients receive on average between one and six treatments, with six weeks or longer between treatments.

Skin Rejuvenation- Our Nd:YAG laser and light-based technologies allow our customers to perform non-invasive and minimally-invasive treatments that reduce redness, pore size, fine lines and laxity, improve skin texture, and treat other aesthetic conditions. Our myQ Q-switched laser can be used for the treatment of superficial and deep pigmented lesions (i.e., melasma), skin rejuvenations, laser skin toning and tattoo removal.

Texture; Lines and Wrinkles- When using a 1064nm Nd: YAG laser to improve skin texture, reduce pore size and treat fine lines, cooling is not applied and the hand piece is held directly above the skin. A large number of pulses are directed at the treatment site, repeatedly covering an area, such as the cheek. By delivering many pulses of laser light to a treatment area, a gentle heating of the dermis occurs and collagen growth is stimulated to rejuvenate the skin and reduce wrinkles. Patients typically receive four to six treatments for this procedure. The treatment typically takes less than a half hour and there are typically two to four weeks between treatments.

When treating texture and fine lines with a Pearl hand piece, the hand piece is held at a controlled distance from the skin and the scanner delivers a preset pattern of spots to the treatment area. Cooling is not applied to the epidermis during the treatment. The energy delivered by the hand piece ablates a portion of the epidermis while leaving a coagulated portion that will gently peel off over the course of a few days. Heat is also delivered into the dermis which can result in the production of new collagen. Treatment of the full face can usually be performed in 15 to 30 minutes. Patients receive on average between one and three treatments at monthly intervals.

When treating wrinkles and deep dermal imperfections with a Pearl Fractional hand piece, the hand piece is held at a controlled distance from the skin and the scanner delivers a preset pattern of spots to the treatment area. Cooling is not applied to the epidermis during the treatment. The energy delivered by the hand piece penetrates the deep dermis producing a series of microcolumns across the skin, which can result in the removal of damaged tissue and the production of new collagen. Treatment of the full face can usually be performed in less than an hour. Patients receive on average between one and three treatments at monthly intervals.

Our CE Mark allows us to market Pearl Fractional in the European Union, Australia and certain other countries outside the United States for the treatment of wrinkles and deep dermal imperfections. However, in the United States we have a 510(k) clearance for only skin resurfacing and coagulation.

Toenail Fungus- In addition to performing skin rejuvenation, we have FDA, Health Canada and CE Mark approvals for GenesisPlus that allows us to market it for onychomycosis (or toenail fungus). Tiny pulses of light from an Nd: YAG laser pass through the toenail to the fungus underneath, which is irradiated without any damage to the surrounding nail or skin. The GenesisPlus has two aiming beams that facilitate consistent treatments by maintaining the correct distance of the hand piece to the skin. In addition, during the treatment an integrated sensor is used to actively monitor the temperature of the treatment area.

Dyschromia- Our pulsed-light technologies allow our customers to safely and effectively treat red and brown dyschromia, which is skin discoloration, pigmented lesions and rosacea. The practitioner delivers a narrow spectrum of light to the surface of the skin through our LP560 or LimeLight hand pieces. These hand pieces include one of our proprietary wavelength filters, which reduce the energy level required for therapeutic effect and minimize the risk of skin injury.

In treating pigmented lesions with a pulsed-light technology, the hand piece is placed directly on the skin and then the light pulse is triggered. The cells forming the pigmented lesion absorb the light energy, darken and then flake off over the course of two to three weeks. Several treatments may be required to completely remove the lesion. The treatment takes a few minutes per area treated and there are typically three to four weeks between treatments.

The 532 nm wavelength green laser option on the Excel V can also be used to treat pigmented lesions in substantially the same way as described above with the pulsed light devices.

Practitioners can also treat dyschromia and other skin conditions with our Pearl hand piece. During these treatments, the heat delivered by the Pearl hand piece will remove the outer layer of the epidermis while coagulating a portion of the epidermis. That coagulated portion will gently peel off over the course of a few days, revealing a new layer of skin underneath. Treatment of the full face can usually be performed in 15 to 30 minutes. Patients receive on average between one and three treatments at monthly intervals.

Skin Laxity- Our Titan technology allows our customers to use deep dermal heating to tighten lax skin. The practitioner delivers a spectrum of light to the skin through our Titan hand piece. This hand piece includes our proprietary light source and wavelength filter which tailors the delivered spectrum of light to provide heating at the desired depth in the skin.

In treating skin laxity, the hand piece is placed directly on the skin and then the light pulse is triggered. A sustained pulse causes significant heating in the dermis. This heating can cause immediate collagen contraction while also stimulating long-term collagen re-growth. Several treatments may be required to obtain the desired degree of tightening of the skin. The treatment of a full face can take over an hour and there are typically four weeks between treatments.

Our CE Mark allows us to market the Titan in the European Union, Australia and certain other countries outside the United States for the treatment of wrinkles through skin tightening. However, in the United States we have a 510(k) clearance for only deep dermal heating.

Sales and Marketing

In the United States we market and sell our products primarily through a direct sales organization. Generally, each direct sales employee is assigned a specific territory. As of December 31, 2011, we had a U.S. direct sales force of 22 employees. We internally manage our U.S. and Canadian sales organization as one North American sales region with 32 territories as of December 31, 2011. In addition to direct sales employees, we have a distribution relationship with PSS World Medical that operates medical supply distribution service centers with over 700 sales representatives serving physician offices throughout the United States. Revenue from PSS was $1.6 million in 2011, $2.6 million in 2010, and $3.8 million in 2009.

International sales are generally made through a direct international sales force of 26 employees, as well as a worldwide distributor network in over 35 countries as of December 31, 2011. As of December 31, 2011, we had direct sales offices in Australia, Canada, France, Japan, Spain and the United Kingdom. Our international revenue as a percentage of total revenue represented 61% in 2011, 64% in 2010 and 61% in 2009.

We also sell certain items like Titan hand piece refills and marketing brochures via the internet.

Although specific customer requirements can vary depending on applications, customers generally demand quality, performance, ease of use, and high productivity in relation to the cost of ownership. We have responded to these customer demands by introducing new products focused on these requirements in the markets we serve. Specifically, we believe that we introduce new products and applications that are innovative, address the specific aesthetic procedures in demand, and are upgradeable on our customers' existing systems. In addition, we provide attractive upgrade pricing to new product families and are responsive to our customers' financing preferences. To increase market penetration, in addition to marketing to the core specialties of plastic surgeons and dermatologists, we also market to the non-core aesthetic practices consisting of gynecologists, primary care physicians, family practitioners, physicians offering aesthetic treatments in non-medical offices, podiatrists and other qualified practitioners.

We seek to establish strong ongoing relationships with our customers through the upgradeability of our products, sales of extended service contracts, the refilling of Titan hand pieces, ongoing training and support, and distributing (in Japan only) cosmeceutical and dermal filler products. We primarily target our marketing efforts to practitioners through office visits, workshops, trade shows, webinars and trade journals. We also market to potential patients through brochures, workshops and our website. In addition, we offer clinical forums with recognized expert panelists to promote advanced treatment techniques using our products to further enhance customer loyalty and uncover new sales opportunities.

Competition

Our industry is subject to intense competition. Our products compete against conventional non-energy-based treatments, such as electrolysis, Botox and collagen injections, chemical peels, microdermabrasion and sclerotherapy. Our products also compete against laser and light-based products offered by public companies, such as Cynosure, Elen (in Italy), Iridex (we acquired their aesthetic laser business in February 2012), Palomar, Solta and Syneron, as well as private companies, including, Alma, Lumenis, Sciton and several other companies.

Competition among providers of laser and other energy-based devices for the aesthetic market is characterized by extensive research efforts and innovative technology. While we attempt to protect our products through patents and other intellectual property rights, there are few barriers to entry that would prevent new entrants or existing competitors from developing products that would compete directly with ours. There are many companies, both public and private, that are developing innovative devices that use both energy-based and alternative technologies. Some of these competitors have greater resources than we do or product applications for certain sub-markets in which we do not participate. Additional competitors may enter the market, and we are likely to compete with new companies in the future. To compete effectively, we have to demonstrate that our products are attractive alternatives to other devices and treatments by differentiating our products on the basis of performance, brand name, service and price. We have encountered, and expect to continue to encounter, potential customers who, due to existing relationships with our competitors, are committed to, or prefer the products offered by these competitors. Competitive pressures may result in price reductions and reduced margins for our products.

Research and Development

Our research and development group develops new products and applications and builds clinical support to address unmet or underserved market needs. As of December 31, 2011, our research and development activities were conducted by a staff of 28 employees with a broad base of experience in lasers, optoelectronics, software and other fields. We have developed relationships with outside contract engineering and design consultants, giving our team additional technical and creative breadth. We work closely with thought leaders and customers, to understand unmet needs and emerging applications in aesthetic medicine. Research and development expenses were approximately $9.1 million in 2011, $7.0 million in 2010 and $6.8 million in 2009.

Service and Support

Our products are engineered to enable quick and efficient service and support. There are several separate components of our products, each of which can easily be removed and replaced. We believe that quick and effective delivery of service is important to our customers. As of December 31, 2011, we had a 30-person global service department. Internationally, we provide direct service support through our Australia, Canada, France, Japan and Spain offices, and also through the network of distributors in over 35 countries and third-party service providers. We historically have provided a standard one-year or two-year warranty coverage on our systems. We have a standard one-year warranty on all systems. We provide initial warranties on our products to cover parts and service and offer extended service plans that vary by the type of product and the level of service desired. Our standard warranty on system consoles covers parts and service for a standard period of one year. From time to time, we also have promotions whereby we include a post-warranty service contract with the sale of our products. Customers are notified before their initial warranty expires and are able to choose from two different extended service plans covering preventative maintenance or replacement parts and labor. In the event a customer does not purchase an extended service plan, we will offer to service the customer's system and charge the customer for time and materials. Our Titan hand pieces generally include a warranty for a set number of shots instead of for a period of time. We have invested substantial financial and management resources to develop a worldwide infrastructure to meet the service needs of our customers worldwide.

Manufacturing

We manufacture our products with components and subassemblies supplied by vendors. We assemble and test each of our products at our Brisbane, California facility. Quality control, cost reduction and inventory management are top priorities of our manufacturing operations.

We purchase certain components and subassemblies from a limited number of suppliers. We have flexibility with our suppliers to adjust the number of components and subassemblies as well as the delivery schedules. The forecasts we use are based on historical demands and sales projections. Lead times for components and subassemblies may vary significantly depending on the size of the order, time required to fabricate and test the components or subassemblies, specific supplier requirements and current market demand for the components and subassemblies. We reduce the potential for disruption of supply by maintaining sufficient inventories and identifying additional suppliers. The time required to qualify new suppliers for some components, or to redesign them, could cause delays in our manufacturing. To date, we have not experienced significant delays in obtaining any of our components or subassemblies.

We use small quantities of common cleaning products in our manufacturing operations, which are lawfully disposed of through a normal waste management program. We do not forecast any material costs due to compliance with environmental laws or regulations.

We are required to manufacture our products in compliance with the FDA's Quality System Regulation, or QSR. The QSR covers the methods and documentation of the design, testing, control, manufacturing, labeling, quality assurance, packaging, storage and shipping of our products. The FDA enforces the QSR through periodic unannounced inspections. We had an FDA audit of compliance with laser performance standards in 2010 and a full quality system audit plus laser performance standard audit in August 2011. There were no significant findings as a result of these audits and our responses have been accepted by the FDA. Our failure to maintain compliance with the QSR requirements could result in the shut down of our manufacturing operations and the recall of our products, which would have a material adverse effect on business. In the event that one of our suppliers fails to maintain compliance with our quality requirements, we may have to qualify a new supplier and could experience manufacturing delays as a result. We have opted to maintain quality assurance and quality management certifications to enable us to market our products in the United States, the member states of the European Union, the European Free Trade Association and countries which have entered into Mutual Recognition Agreements with the European Union. Our manufacturing facility is ISO 13485 certified.

Patents and Proprietary Technology

We rely on a combination of patent, copyright, trademark and trade secret laws, and non-disclosure, confidentiality and invention assignment agreements to protect our intellectual property rights. As of December 31, 2011, we had 19 issued U.S. patents and 22 pending U.S. patent applications. Acutip 500, Cutera, CoolGlide, CoolGlide Excel, Limelight, Pearl, Pearl Fractional, ProWave 770, Solera, Solera Titan, Titan and Xeo are only some of the trademarks and/or service marks of Cutera in the U.S. and other countries. We have trademark rights to these names and others in the United States and certain other countries. We intend to file for additional patents and trademarks to continue to strengthen our intellectual property rights.

We license certain patents from Palomar and pay ongoing royalties based on sales of applicable hair-removal products. The royalty rate on these products ranges from 3.75% to 7.50% of revenue. The patents are set to expire in February 2013 and February 2015. Our revenue from systems that do not include hair-removal capabilities (such as our Solera Titan, Xeo SA, GenesisPlus and Excel V); and other revenue from service contracts, Titan refills, Fillers and cosmeceuticals, are not subject to these royalties. In addition, in 2006 we capitalized $1.2 million as an intangible asset representing the ongoing license for these patents, which is being amortized on a straight-line basis over their expected useful life of 9-10 years. We also have a technology sublicense purchased in 2002, which is being amortized on a straight-line basis over its expected useful life of 10 years.

Our employees and technical consultants are required to execute confidentiality agreements in connection with their employment and consulting relationships with us. We also require them to agree to disclose and assign to us all inventions conceived in connection with the relationship. We cannot provide any assurance that employees and consultants will abide by the confidentiality or assignability terms of their agreements. Despite measures taken to protect our intellectual property, unauthorized parties may copy aspects of our products or obtain and use information that we regard as proprietary.

Government Regulation

Our products are medical devices subject to extensive and rigorous regulation by the U.S. Food and Drug Administration, as well as other regulatory bodies. FDA regulations govern the following activities that we perform and will continue to perform to ensure that medical products distributed domestically or exported internationally are safe and effective for their intended uses:

- Product design and development;
- Product testing;
- Product manufacturing;
- Product safety;
- Product labeling;
- Product storage;

- Recordkeeping;
- Pre-market clearance or approval;
- Advertising and promotion;
- Production; and
- Product sales and distribution.
- Complaint Handling

FDA's Pre-market Clearance and Approval Requirements

Unless an exemption applies, each medical device we wish to commercially distribute in the United States will require either prior 510(k) clearance or pre-market approval from the FDA. The FDA classifies medical devices into one of three classes. Devices deemed to pose lower risks are placed in either class I or II, which requires the manufacturer to submit to the FDA a pre-market notification requesting permission to commercially distribute the device. This process is generally known as 510(k) clearance. Some low risk devices are exempted from this requirement. Devices deemed by the FDA to pose the greatest risk, such as life-sustaining, life-supporting or implantable devices, or devices deemed not substantially equivalent to a previously cleared 510(k) device, are placed in class III, requiring pre-market approval. All of our current products are class II devices.

510(k) Clearance Pathway

When a 510(k) clearance is required, we must submit a pre-market notification demonstrating that our proposed device is substantially equivalent to a previously cleared 510(k) device or a device that was in commercial distribution before May 28, 1976 for which the FDA has not yet called for the submission of Pre-Market Approval, or PMA, applications. By regulation, the FDA is required to clear or deny a 510(k), pre-market notification within 90 days of submission of the application. As a practical matter, clearance often takes significantly longer. The FDA may require further information, including clinical data, to make a determination regarding substantial equivalence. Laser devices used for aesthetic procedures, such as hair removal, have generally qualified for clearance under 510(k) procedures.

The following table details the indications for which we received a 510(k) clearance for our products and when these clearances were received.

FDA Marketing Clearances:	Date Received:
Laser-based products:	
- treatment of vascular lesions	June 1999
- hair removal	March 2000
- permanent hair reduction	January 2001
- treatment of benign pigmented lesions and pseudofolliculitis barbae, commonly referred to as razor bumps, and for the reduction of red pigmentation in scars	June 2002
- treatment of wrinkles	October 2002
- treatment of Onychomycosis for the clearance of nails	April 2011
Pulsed-light technologies:	
- treatment of pigmented lesions	March 2003
- hair removal and vascular treatments	March 2005
Infrared Titan technology for deep dermal heating for the temporary relief of minor muscle and joint pain and for the temporary increase in local circulation where applied	February 2004
Solera tabletop console:	
- for use with the Titan hand piece	October 2004
- for use with our pulsed-light hand pieces	January 2005
Pearl product for the treatment of wrinkles	March 2007
Pearl Fractional product for skin resurfacing and coagulation	August 2008

Pre-Market Approval (PMA) Pathway

A PMA must be submitted to the FDA if the device cannot be cleared through the 510(k) process. A PMA must be supported by extensive data, including but not limited to, technical, preclinical, clinical trials, manufacturing and labeling to demonstrate to the FDA's satisfaction the safety and effectiveness of the device. No device that we have developed to date has required pre-market approval, although development of future devices or indications may require pre-market approval.

Product Modifications

We have modified aspects of our products since receiving regulatory clearance, but we believe that new 510(k) clearances are not required for these modifications. After a device receives 510(k) clearance or a PMA, any modification that could significantly affect its safety or effectiveness, or that would constitute a major change in its intended use, will require a new clearance or approval. The FDA requires each manufacturer to make this determination initially, but the FDA can review any such decision and can disagree with a manufacturer's determination. If the FDA disagrees with our determination not to seek a new 510(k) clearance or PMA, the FDA may retroactively require us to seek 510(k) clearance or pre-market approval. The FDA could also require us to cease marketing and distribution and/or recall the modified device until 510(k) clearance or pre-market approval is obtained. Also, in these circumstances, we may be subject to significant regulatory fines or penalties.

Clinical Trials

When FDA approval of a class I, class II or class III device requires human clinical trials, and if the device presents a "significant risk," as defined by the FDA, to human health, the device sponsor is required to file an Investigational Device Exemption, or IDE, application with the FDA and obtain IDE approval prior to commencing the human clinical trial. If the device is considered a "non-significant" risk, IDE submission to the FDA is not required. Instead, only approval from the Institutional Review Board, or IRB, overseeing the clinical trial is required. Human clinical studies are generally required in connection with approval of class III devices and may be required for class I and II devices. The IDE application must be supported by appropriate data, such as animal and laboratory testing results, showing that it is safe to test the device in humans and that the testing protocol is scientifically sound. The IDE must be approved in advance by the FDA for a specified number of patients. Clinical trials for a significant risk device may begin once the application is reviewed and cleared by the FDA and the appropriate institutional review boards at the clinical trial sites. Future clinical trials of our products may require that we submit and obtain clearance of an IDE from the FDA prior to commencing clinical trials. The FDA, and the IRB at each institution at which a clinical trial is being performed, may suspend a clinical trial at any time for various reasons, including a belief that the subjects are being exposed to an unacceptable health risk.

Pervasive and Continuing Regulation

After a device is placed on the market, numerous regulatory requirements apply. These include:

- Quality system egulations, which require manufacturers, including third-party manufacturers, to follow stringent design, testing, control, documentation and other quality assurance procedures during all aspects of the manufacturing process;
- Labeling regulations and FDA prohibitions against the promotion of products for un-cleared, unapproved or "off-label" uses;
- Medical device reporting regulations, which require that manufacturers report to the FDA if their device may have caused or contributed to a death or serious injury or malfunctioned in a way that would likely cause or contribute to a death or serious injury if the malfunction were to recur; and
- Post-market surveillance regulations, which apply when necessary to protect the public health or to provide additional safety and effectiveness data for the device.

The FDA has broad post-market and regulatory enforcement powers. We are subject to unannounced inspections by the FDA and the Food and Drug Branch of the California Department of Health Services, or CDHS, to determine our compliance with the QSR and other regulations, and these inspections may include the manufacturing facilities of our subcontractors. In the past, our prior facility has been inspected, and observations were noted. There were no findings that involved a material violation of regulatory requirements. Our responses to these observations have been accepted by the FDA and CDHS, and we believe that we are in substantial compliance with the QSR. Our current manufacturing facility has been inspected by the FDA and the CDHS. The FDA and the CDHS noted observations, but there were no findings that involved a material violation of regulatory requirements. Our responses to those observations have been accepted by the FDA and CDHS.

We are also regulated under the Radiation Control for Health and Safety Act, which requires laser products to comply with performance standards, including design and operation requirements, and manufacturers to certify in product labeling and in reports to the FDA that their products comply with all such standards. The law also requires laser manufacturers to file new product and annual reports, maintain manufacturing, testing and sales records, and report product defects. Various warning labels must be affixed and certain protective devices installed, depending on the class of the product.

Failure to comply with applicable regulatory requirements can result in enforcement action by the FDA, which may include any of the following sanctions:

- Warning letters, fines, injunctions, consent decrees and civil penalties;
- Repair, replacement, recall or seizure of our products;
- Operating restrictions or partial suspension or total shutdown of production;
- Refusing our requests for 510(k) clearance or pre-market approval of new products, new intended uses, or modifications to existing products;
- Withdrawing 510(k) clearance or pre-market approvals that have already been granted; and
- Criminal prosecution.

The FDA also has the authority to require us to repair, replace or refund the cost of any medical device that we have manufactured or distributed. If any of these events were to occur, they could have a material adverse effect on our business.

We are also subject to a wide range of federal, state and local laws and regulations, including those related to the environment, health and safety, land use and quality assurance. We believe that compliance with these laws and regulations as currently in effect will not have a material adverse effect on our capital expenditures, earnings and competitive and financial position.

International

International sales of medical devices are subject to foreign governmental regulations, which vary substantially from country to country. The time required to obtain clearance or approval by a foreign country may be longer or shorter than that required for FDA clearance or approval, and the requirements may be different.

The primary regulatory environment in Europe is that of the European Union, which consists of a number of countries encompassing most of the major countries in Europe. The member states of the European Free Trade Association have voluntarily adopted laws and regulations that mirror those of the European Union with respect to medical devices. Other countries, such as Switzerland, have entered into Mutual Recognition Agreements and allow the marketing of medical devices that meet European Union requirements. The European Union has adopted numerous directives and European Standardization Committees have promulgated voluntary standards regulating the design, manufacture, clinical trials, labeling and adverse event reporting for medical devices. Devices that comply with the requirements of a relevant directive will be entitled to bear CE conformity marking, indicating that the device conforms with the essential requirements of the applicable directives and, accordingly, can be commercially distributed throughout the member states of the European Union, the member states of the European Free Trade Association and countries which have entered into a Mutual Recognition Agreement. The method of assessing conformity varies depending on the type and class of the product, but normally involves a combination of self-assessment by the manufacturer and a third-party assessment by a Notified Body, an independent and neutral institution appointed by a country to conduct the conformity assessment. This third-party assessment may consist of an audit of the manufacturer's quality system and specific testing of the manufacturer's device. An assessment by a Notified Body in one member state of the European Union, the European Free Trade Association or one country which has entered into a Mutual Recognition Agreement is required in order for a manufacturer to commercially distribute the product throughout these countries. ISO 9001 and ISO 13845 certification are voluntary harmonized standards. Compliance establishes the presumption of conformity with the essential requirements for a CE Marking. In February 2000, our facility was awarded the ISO 9001 and EN 46001 certification. In March 2003, we received our ISO 9001 updated certification (ISO 9001:2000) as well as our certification for ISO 13485:1996 which replaced our EN 46001 certification. In March 2004, we received our ISO 13485:2003 certification, which is the most current ISO certification for medical device companies, and in March 2006, March 2010, February 2011 and January 2012 we passed our ISO 13485 recertification audits.

Employees

As of December 31, 2011, we had 200 employees, compared to 187 employees as of December 31, 2010. Of the 200 employees at December 31, 2011, 78 were in sales and marketing, 43 in manufacturing operations, 30 in technical service, 28 in research and development and 21 in general and administrative. We believe that our future success will depend in part on our continued ability to attract, hire and retain qualified personnel. None of our employees are represented by a labor union, and we believe our employee relations are good.

Available Information

We are subject to the reporting requirements under the Securities Exchange Act of 1934. Consequently, we are required to file reports and information with the Securities and Exchange Commission, or SEC, including reports on the following forms: annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934. These reports and other information concerning the company may be accessed through the SEC's website at www.sec.gov. Such filings, as well as our charters for our Audit and Compensation Committees and our Code of Ethics are available on our website at www.cutera.com. In the event that we grant a waiver under our Code of Ethics to any of our officers and directors, we will publish it on our website.

ITEM 1A. RISK FACTORS

We operate in a rapidly changing economic and technological environment that presents numerous risks, many of which are driven by factors that we cannot control or predict. The following discussion, as well as our discussion in Management's Discussion and Analysis of Financial Condition and Results of Operations (Item 7), highlights some of these risks. The risks described below are not exhaustive and you should carefully consider these risks and uncertainties before investing in our securities.

In 2011, our U.S. revenue increased by approximately 21%, compared to the same period in 2010. However, in fiscal year 2010 our U.S. revenue decreased by approximately 8% compared to the same period in 2009. Even though our U.S. revenue has increased in 2011, it continues to be significantly below the pre-2009 levels. If our U.S. revenue does not continue to improve, it could have a material adverse effect on our total revenue, profitability, employee retention and stock price.

In 2011, our U.S. revenue increased by approximately 21%, compared to the same period in 2010. Even though our U.S. revenue has increased in 2011, it continues to be significantly below the pre-2009 levels due to several factors, some of which are:

- Our Product and Upgrade ASPs were lower than the pre-2009 levels as a result of customers purchasing fewer applications for systems, lower pricing resulting from competitive discounting pressures and the impact of a shift in our product mix towards lower priced systems.

- Historically, we have introduced a new product every year since 2000, which typically resulted in increased revenue. However, in 2009 and until August 2010, we did not have a new product. In August 2010, we launched GenesisPlus and in February 2011, we launched Excel V. Even though we have introduced these new products and experienced sales increases as a result, there can be no assurance that they will translate into increased revenue in the long term in the U.S.

- Although our U.S. Titan hand piece refill revenue increased by 19% for the year ended December 31, 2011, compared to the same period in 2010, our U.S. Titan hand piece refill revenue was still lower than the levels prior to the second quarter of 2010. That was due to a voluntary recall of certain Titan XL hand pieces in the second quarter of 2010, whereby all customers that had a Titan XL hand piece subject to the recall were provided with a fully refilled Titan XL hand piece. This delayed their purchase of a refill and resulted in a decline of our Titan refill revenue.

If our U.S. revenue does not continue to improve, it could have a material adverse effect on our total revenue, profitability, employee retention and stock price.

We rely heavily on our sales professionals to market and sell our products worldwide. If we are unable to hire, effectively train, manage, improve the productivity of, and retain the sales professionals, our business will be harmed, which would impair our future revenue and profitability.

Our success largely depends on our ability to hire, train, manage and improve the productivity levels of our sales professionals worldwide. Because of our focus on the non-core market in the past, several of our sales professionals do not have established relationships with core market physicians (Dermatologists and Plastic Surgeons) or where those relationships exist, they are not very strong. In addition, we have lost some of our sales professionals in response to the decline in their earnings resulting from the decreases in their commissions.

We have selectively hired new sales professionals and managers in key territories to fill vacant positions. For example, in December 2010, Michael Poole joined us as Vice President of North American Sales, which allowed our previous Vice President of North American Sales to return to Japan in an expanded role to lead our Pacific Rim operations. Although Mr. Poole has over 17 years of broad sales experience and was employed by us from 2004 to 2008, Mr. Poole has limited prior experience in managing a large sales force. We have been training our existing and recently recruited sales professionals to better understand our product technology and how it can be positioned against our competitors' products. These initiatives are intended to improve the productivity of our sales professionals, our revenue and profitability.

In the third quarter of 2011, our European-sourced direct and distributor revenue declined significantly, compared to the same period in 2010. We have restructured our European sales team as well as our direct hub operation in Switzerland and in December 2011, we engaged a distributor that was set up by some of our former sales employees. In addition, we continue to hire additional sales personnel to manage our European business. These initiatives are intended to improve our European-sourced revenue.

Measures we implement in an effort to retain, train and manage our sales professionals, strengthen their relationships with core market physicians, and improve their productivity may not be successful and may instead contribute to instability in our operations, additional departures from our sales organization, or further reduce our revenue and harm our business.

If our revenue does not continue to improve from the 2011 level, or if our cost of revenue and/ or operating expenses increase by a greater percentage than our revenue, our gross margins and operating margins may be adversely impacted, our loss from operations will increase, and our cash used in operating activities will increase, which could reduce our assets and have a material adverse effect on our stock price.

Our gross margin in 2011 was 57%, compared to 57% in 2010 and 59% in 2009. Our gross margin is impacted by the revenue that we generate and the costs incurred to generate the revenue. Our future revenue may be adversely affected by a number of factors including, the competitive market environment in which we operate, which may result in a decrease in the number of units sold, a decrease in the number of applications per system purchased by customers, a decrease in the average selling prices achieved for our product sales, or a shift in our product mix towards products with lower average selling prices. Our cost of revenue may also be adversely impacted by various factors such as obsolescence of our inventory, increased expenses associated with repairing defective products covered by our warranty program, utilization of our relatively fixed manufacturing costs, and a shift in our product mix towards products that have a higher cost of manufacturing. We have also been investing significant resources in our research and development activities and using cash in the process. We plan to continue making such investments in order to bring new products to market.

If our revenue does not continue to improve from the 2011 level, or if our cost of revenue increases by a greater percentage than our revenue, or if we are not able to reduce expenses in the event of a decline in revenue, we may continue to generate losses from operations and use cash, which could reduce our assets and have a material adverse effect on our operations and stock price.

Macroeconomic political and market conditions, and catastrophic events may adversely affect our business, results of operations, financial condition and stock price.

Our business is influenced by a range of factors that are beyond our control, including:

- General economic and business conditions;
- The overall demand for our products by the core market specialties of dermatologists and plastic surgeons;
- Governmental budgetary constraints or shifts in government spending priorities;
- General political developments;
- Natural disasters, such as the March 2011 earthquake and tsunami in Japan; and
- Currency exchange rate fluctuations.

Macroeconomic developments like the 2009 - 2010 global recession and the debt crisis in the U.S. and certain countries in the European Union, could negatively affect our business, operating results or financial condition which, in turn, could adversely affect our stock price. A general weakening of, and related declining corporate confidence in, the global economy or the curtailment in government or corporate spending could cause current or potential customers to reduce their budgets or be unable to fund product or upgrade application purchases, which could cause customers to delay, decrease or cancel purchases of our products and services or cause customers not to pay us or to delay paying us for previously purchased products and services.

In addition, political unrest in regions like the Middle East, terrorist attacks around the globe and the potential for other hostilities in various parts of the world, potential public health crises and natural disasters continue to contribute to a climate of economic and political uncertainty that could adversely affect our results of operations and financial condition, including our revenue growth and profitability. For example, the March 2011 earthquake and tsunami, and other collateral events in Japan adversely affected the demand for our products and services in the Japanese market.

Macroeconomic declines, negative political developments, adverse market conditions and catastrophic events may cause a decline in our revenue, negatively affect our operating results, adversely affect our cash flow and could result in a decline in our stock price

Healthcare reform legislation could adversely affect our future profitability and financial condition.

In December 2009, the President and members of Congress passed legislation relating to healthcare reform. Our products are not reimbursed by insurance companies or federal or state governments and some of this legislation will, therefore, not affect us. This legislation, however, does include several aspects that will apply to us, including a tax on our U.S. revenue which is applicable to us beginning in 2013. While we are presently evaluating the full scope of how this legislation will impact our operations, including how to administer this tax, we believe this will adversely affect our future profitability and financial condition.

Demand for our products in any of our markets could be weakened by several factors, including:

- Our ability to develop and market our products to the core market specialties of dermatologists and plastic surgeons;
- Poor financial performance of market segments that try introducing aesthetic procedures to their businesses;
- The inability to differentiate our products from those of our competitors;
- Reduced patient demand for elective aesthetic procedures;
- Failure to build and maintain relationships with opinion leaders within the various market segments;
- An increase in malpractice lawsuits that result in higher insurance costs; and
- The lack of credit financing for some of our potential customers.

If we do not achieve anticipated demand for our products, it could have a material adverse effect on our total revenue, profitability, employee retention and stock price.

The aesthetic equipment market is characterized by rapid innovation. To compete effectively, we must develop and/or acquire new products, market them successfully, and identify new markets for our technology.

We have created products to apply our technology to hair removal, treatment of veins and skin rejuvenation, including the treating of diffuse redness, skin laxity, fine lines, wrinkles, skin texture, pore size and pigmented lesions. In 2011, we launched our vascular laser product – Excel V – and began distribution of a Q-switched laser in Japan that Cutera is sourcing from a third party OEM for superficial and deep pigmented lesions (i.e., melasma), skin rejuvenation, laser skin toning and tattoo removal. Currently, these applications represent the majority of offered laser and light-based aesthetic procedures. Since the first quarter of 2010, we have been distributing cosmeceutical products and dermal fillers in the Japanese market. To grow in the future, we must continue to develop and acquire new and innovative aesthetic products and applications, identify new markets, and successfully launch the newly acquired or developed product offerings.

To successfully expand our product offerings, we must, among other things:

- Develop and acquire new products that either add to or significantly improve our current product offerings;
- Convince our existing and prospective customers that our product offerings would be an attractive revenue-generating addition to their practice;
- Sell our product offerings to a broad customer base;
- Identify new markets and alternative applications for our technology;
- Protect our existing and future products with defensible intellectual property; and
- Satisfy and maintain all regulatory requirements for commercialization.

Historically, product introductions have been a significant component of our financial performance. To be successful in the aesthetics industry, we need to continue to innovate. Our business strategy has therefore been based, in part, on our expectation that we will continue to increase our product offerings. We need to continue to devote substantial research and development resources to make new product introductions, which can be costly and time consuming to our organization.

We also believe that, to increase revenue from sales of new products, we need to continue to develop our clinical support, further expand and nurture relationships with industry thought leaders and increase market awareness of the benefits of our new products. However, even with a significant investment in research and development, we may be unable to continue to develop, acquire or effectively launch and market new products and technologies regularly, or at all. If we fail to successfully commercialize new products, our business may be harmed.

While we attempt to protect our products through patents and other intellectual property, there are few barriers to entry that would prevent new entrants or existing competitors from developing products that compete directly with ours. We expect that any competitive advantage we may enjoy from current and future innovations may diminish over time as companies successfully respond to our, or create their own, innovations. Consequently, we believe that we will have to continuously innovate and improve our products and technology to compete successfully. If we are unable to innovate successfully, our products could become obsolete and our revenue could decline as our customers and prospects purchase our competitors' products.

Our ability to effectively compete and generate additional revenue from new and existing products depend upon our ability to distinguish our company and our products from our competitors and their products, and to develop and effectively market new and existing products. Our success is dependent on many factors, including the following:

- Speed of new and innovative product development;
- Effective strategy and execution of new product launches;
- Identify and develop clinical support for new indications of our existing products;
- Product performance;
- Product pricing;
- Quality of customer support;
- Development of successful distribution channels, both domestically and internationally; and
- Intellectual property protection.

To compete effectively, we have to demonstrate that our new and existing products are attractive alternatives to other devices and treatments, by differentiating our products on the basis of such factors as innovation, performance, brand name, service, and price. This is difficult to do, especially in a crowded aesthetic market. Some of our competitors have newer or different products and more established customer relationships than we do, which could inhibit our market penetration efforts. For example, we have encountered, and expect to continue to encounter, situations where, due to pre-existing relationships, potential customers decided to purchase additional products from our competitors. Potential customers also may need to recoup the cost of products that they have already purchased from our competitors and may decide not to purchase our products, or to delay such purchases.

If we are unable to increase our market penetration or compete effectively, our revenue and profitability will be adversely impacted.

We compete against companies that offer alternative solutions to our products, or have greater resources, a larger installed base of customers and broader product offerings than ours. If we are not able to effectively compete with these companies, it may harm our business.

Our industry is subject to intense competition. Our products compete against similar products offered by public companies, such as Cynosure, Elen (in Italy), Palomar, Solta, and Syneron and as well as private companies such as Alma, Lumenis, Sciton and several other companies. Recently, there has been consolidation in the aesthetic industry leading to companies combining their resources. For example, we acquired the aesthetic business unit of Iridex in February 2012, Solta (previously Thermage) acquired Aesthera in February 2010 and Reliant in December 2008; Syneron acquired Ultrashape in March 2012 and Candela in September 2009; and Cynosure acquired the aesthetic laser business of HOYA ConBio in June 2011. We are likely to compete with new companies in the future. Competition with these companies could result in reduced selling prices, reduced profit margins and loss of market share, any of which would harm our business, financial condition and results of operations.

The energy-based aesthetic market faces competition from non energy-based medical products, such as Botox, an injectable compound used to reduce wrinkles, and collagen injections. Other alternatives to the use of our products include electrolysis, a procedure involving the application of electric current to eliminate hair follicles, and chemical peels. We may also face competition from manufacturers of pharmaceutical and other products that have not yet been developed.

We may face problems with the integration of our acquisition of IRIDEX Corporation's global aesthetic business.

On February 2, 2012, we completed our acquisition of certain assets of IRIDEX Corporation's (IRIDEX) global aesthetic business.

We cannot be certain that this integration will be successful or that we will realize the anticipated benefits of the acquisition. In particular, we may not be able to realize the strategic and operational benefits and objectives we had anticipated, including, greater revenue and marketing opportunities. In addition, the demand for our combined product offerings may fluctuate and we will face competition from new competitors in the market for our products. Our ability to realize the strategic and operational benefits and objectives of this acquisition may be impacted by several factors including:

- The potential disruption of the company's ongoing business and diversion of management resources;
- The difficulty of incorporating acquired products, technology and rights into the company's products and services;
- Unanticipated expenses related to integration of operations;
- Potential periodic impairment of goodwill and intangible assets acquired, if any; and
- Potential inability to retain, integrate and motivate key personnel.

Any of the above mentioned factors, as well as the inability to realize the long-term anticipated synergies of the acquisition of these assets, may have a material adverse effect on our business, operating results and financial condition.

If there is not sufficient consumer demand for the procedures performed with our products, practitioner demand for our products could be inhibited, resulting in unfavorable operating results and reduced growth potential.

Continued expansion of the global market for laser and light-based aesthetic procedures is a material assumption of our business strategy. Most procedures performed using our products are elective procedures not reimbursable through government or private health insurance, with the costs borne by the patient. The decision to utilize our products may therefore be influenced by a number of factors, including:

- Consumer disposable income and access to consumer credit, which as a result of the unstable economy, may have been significantly impacted;

- The cost of procedures performed using our products;
- The cost, safety and effectiveness of alternative treatments, including treatments which are not based upon laser or light-based technologies and treatments which use pharmaceutical products;
- The success of our sales and marketing efforts; and
- The education of our customers and patients on the benefits and uses of our products, compared to competitors' products and technologies.

If, as a result of these factors, there is not sufficient demand for the procedures performed with our products, practitioner demand for our products could be reduced, which could have a material adverse effect on our business, financial condition, revenue and result of operations.

Any defects in the design, material or workmanship of our products may not be discovered prior to shipment to customers, which could materially increase our expenses, adversely impact profitability and harm our business.

The design of our products is complex. To manufacture them successfully, we must procure quality components and employ individuals with a significant degree of technical expertise. If our designs are defective, or the material components used in our products are subject to wearing out, or if suppliers fail to deliver components to specification, or if our employees fail to properly assemble, test and package our products, the reliability and performance of our products will be adversely impacted. As an example, in 2010, we incurred significant expenses for the voluntary recall of our Titan XL hand pieces.

If our products contain defects that cannot be repaired easily, inexpensively, or on a timely basis, we may experience:

- Damage to our brand reputation;
- Loss of customer orders and delay in order fulfillment;
- Increased costs due to product repair or replacement;
- Inability to attract new customers;
- Diversion of resources from our manufacturing and research and development departments into our service department; and
- Legal action.

The occurrence of any one or more of the foregoing could materially increase expenses, adversely impact profitability and harm our business.

To successfully market and sell our products internationally, we must address many issues that are unique to our international business.

International revenue represented 61% of our total revenue for the year ended December 31, 2011 compared to 64% for 2010. International revenue is a material component of our business strategy. We depend on third-party distributors and a direct sales force to sell our products internationally, and if they underperform, we may be unable to increase or maintain our level of international revenue. For example, in 2011 our European revenue declined 38%, compared to 2010, due in part to employee turnover. Further, in the fourth quarter of 2011, some of our direct sales personnel in Switzerland set up an independent distributor company.

To grow our business, we will need to improve productivity in current sales territories and expand into new territories. However, direct sales productivity may not improve and distributors may not accept our business or commit the necessary resources to market and sell our products to the level of our expectations. If we are not able to increase or maintain international revenue growth, our total revenue, profitability and stock price may be adversely impacted.

We believe, as we continue to manage our international operations and develop opportunities in additional international territories, our international revenue will be subject to a number of risks, including:

- Difficulties in staffing and managing our foreign operations;
- Export restrictions, trade regulations and foreign tax laws;
- Fluctuating foreign currency exchange rates;
- Foreign certification and regulatory requirements;
- Lengthy payment cycles and difficulty in collecting accounts receivable;
- Customs clearance and shipping delays;
- Political and economic instability;
- Lack of awareness of our brand in international markets;
- Preference for locally-produced products; and
- Reduced protection for intellectual property rights in some countries.

If one or more of these risks were realized, it could require us to dedicate significant resources to remedy the situation; and if we were unsuccessful at finding a solution, we may not be able to sell our products in a particular market and, as a result, our revenue may decline.

Federal regulatory reforms and changes occurring at the U.S. Food and Drug Administration, or FDA, could adversely affect our ability to sell our products profitably and financial condition.

From time to time, legislation is drafted and introduced in Congress that could significantly change the statutory provisions governing the clearance or approval, manufacture and marketing of a device. It is impossible to predict whether legislative changes will be enacted or FDA regulations, guidance or interpretations changed, and what the impact of such changes, if any, may be.

In addition, FDA regulations and guidance are often revised or reinterpreted by the agency in ways that may significantly affect our business and our products. Changes in FDA regulations may lengthen the regulatory approval process for medical devices and require additional clinical data to support regulatory clearance for the sale and marketing of our new products. In addition, it may require additional safety monitoring, labeling changes, restrictions on product distribution or use, or other measures after the introduction of our products to market. Either of these changes lengthen the duration to market, increase our costs of doing business, adversely affect the future permitted uses of approved products, or otherwise adversely affect the market for our products.

If we fail to obtain or maintain necessary FDA clearances for our products and indications, if clearances for future products and indications are delayed or not issued, if there are federal or state level regulatory changes or if we are found to have violated applicable FDA marketing rules, our commercial operations would be harmed.

Our products are medical devices that are subject to extensive regulation in the United States by the FDA for manufacturing, labeling, sale, promotion, distribution and shipping. Before a new medical device, or a new use of or labeling claim for an existing product, can be marketed in the United States, it must first receive either 510(k) clearance or pre-marketing approval from the FDA, unless an exemption applies. Either process can be expensive and lengthy. In the event that we do not obtain FDA clearances or approvals for our products, our ability to market and sell them in the United States and revenue derived from there may be adversely affected. Medical devices may be marketed in the United States only for the indications for which they are approved or cleared by the FDA. For example, up until April 2011 our recently introduced GenesisPlus product had a number of general indications for use in the U.S. that allowed us to market the product in the U.S., however we could only market it internationally for the treatment of toenail fungus as it has a CE Mark approval. In April 2011, we received FDA clearance to market GenesisPlus in the U.S. for the treatment of toenail fungus. Another example is our Pearl Fractional product which is cleared only for skin resurfacing in the U.S. and our Titan product only for deep heating for the temporary relief of muscle aches and pains in the U.S. Therefore, we are prevented from promoting or advertising Titan and Pearl Fractional in the United States for any other indications. If we fail to comply with these regulations, it could result in enforcement action by the FDA which could lead to such consequences as warning letters, adverse publicity, criminal enforcement action and/or third-party civil litigation, each of which could adversely affect us.

We have obtained 510(k) clearance for the indications for which we market our products. However, our clearances can be revoked if safety or effectiveness problems develop. We also are subject to Medical Device Reporting regulations, which require us to report to the FDA if our products cause or contribute to a death or serious injury, or malfunction in a way that would likely cause or contribute to a death or serious injury. Our products are also subject to state regulations, which are, in many instances frequently changing. Changes in state regulations may impede sales. For example, federal regulations allow our products to be sold to, or on the order of, "licensed practitioners," as determined on a state-by-state basis. As a result, in some states, non-physicians may legally purchase our products. However, a state could change its regulations at any time, thereby disallowing sales to particular types of end users. We cannot predict the impact or effect of future legislation or regulations at the federal or state levels.

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

- Warning letters, fines, injunctions, consent decrees and civil penalties;
- Repair, replacement, recall or seizure of our products;
- Operating restrictions or partial suspension or total shutdown of production;
- Refusing our requests for 510(k) clearance or pre-market approval of new products, new intended uses, or modifications to existing products;
- Withdrawing 510(k) clearance or pre-market approvals that have already been granted; and
- Criminal prosecution.

If any of these events were to occur, it could harm our business.

If we fail to comply with the FDA's Quality System Regulation and laser performance standards, our manufacturing operations could be halted, and our business would suffer.

We are currently required to demonstrate and maintain compliance with the FDA's Quality System Regulation, or QSR. The QSR is a complex regulatory scheme that covers the methods and documentation of the design, testing, control, manufacturing, labeling, quality assurance, packaging, storage and shipping of our products. Because our products involve the use of lasers, our products also are covered by a performance standard for lasers set forth in FDA regulations. The laser performance standard imposes specific record-keeping, reporting, product testing and product labeling requirements. These requirements include affixing warning labels to laser products, as well as incorporating certain safety features in the design of laser products. The FDA enforces the QSR and laser performance standards through periodic unannounced inspections. We had a full quality system audit in 2008 and an FDA audit of compliance with laser performance standards in 2010 and a full quality system audit plus laser performance standard audit in August 2011. There were no significant findings as a result of these audits and our responses have been accepted by the FDA. Our failure to take satisfactory corrective action in response to an adverse QSR inspection or our failure to comply with applicable laser performance standards could result in enforcement actions, including a public warning letter, a shutdown of our manufacturing operations, a recall of our products, civil or criminal penalties, or other sanctions, such as those described in the preceding paragraph, which would cause our sales and business to suffer.

If we modify one of our FDA-approved devices, we may need to seek re-approval, which, if not granted, would prevent us from selling our modified products or cause us to redesign our products.

Any modifications to an FDA-cleared device that would significantly affect its safety or effectiveness or that would constitute a major change in its intended use would require a new 510(k) clearance or possibly a pre-market approval. We may not be able to obtain additional 510(k) clearance or pre-market approvals for new products or for modifications to, or additional indications for, our existing products in a timely fashion, or at all. Delays in obtaining future clearance would adversely affect our ability to introduce new or enhanced products in a timely manner, which in turn would harm our revenue and future profitability.

We have made modifications to our devices in the past and may make additional modifications in the future that we believe do not or will not require additional clearance or approvals. If the FDA disagrees, and requires new clearances or approvals for the modifications, we may be required to recall and to stop marketing the modified devices, which could harm our operating results and require us to redesign our products.

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

Sales of our products outside the United States are subject to foreign regulatory requirements that vary widely from country to country. In addition, exports of medical devices from the United States are regulated by the FDA. Complying with international regulatory requirements can be an expensive and time-consuming process and approval is not certain. The time required for obtaining clearance or approvals, if required by other countries, may be longer than that required for FDA clearance or approvals, and requirements for such clearances or approvals may significantly differ from FDA requirements. We may be unable to obtain or maintain regulatory qualifications, clearances or approvals in other countries. We may also incur significant costs in attempting to obtain and in maintaining foreign regulatory approvals or qualifications. If we experience delays in receiving necessary qualifications, clearances or approvals to market our products outside the United States, or if we fail to receive those qualifications, clearances or approvals, we may be unable to market our products or enhancements in international markets effectively, or at all, which could have a material adverse effect on our business and growth strategy.

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

If our products are defectively designed, manufactured or labeled, contain defective components or are misused, we may become subject to substantial and costly litigation by our customers or their patients. Misusing our products or failing to adhere to operating guidelines could cause significant eye and skin damage, and underlying tissue damage. In addition, if our operating guidelines are found to be inadequate, we may be subject to liability. We have been involved, and may in the future be involved, in litigation related to the use of our products. Product liability claims could divert management's attention from our core business, be expensive to defend and result in sizable damage awards against us. We may not have sufficient insurance coverage for all future claims. We may not be able to obtain insurance in amounts or scope sufficient to provide us with adequate coverage against all potential liabilities. Any product liability claims brought against us, with or without merit, could increase our product liability insurance rates or prevent us from securing continuing coverage, could harm our reputation in the industry and could reduce product sales. In addition, we historically experienced steep increases in our product liability insurance premiums as a percentage of revenue. If our premiums continue to rise, we may no longer be able to afford adequate insurance coverage.

If customers are not trained and / or our products are used by non-physicians, it could result in product misuse and adverse treatment outcomes, which could harm our reputation, result in product liability litigation, distract management, result in additional costs, all of which could harm our business.

Because we do not require training for users of our products, and sell our products at times to non-physicians, there exists an increased potential for misuse of our products, which could harm our reputation and our business. U.S. federal regulations allow us to sell our products to or on the order of "licensed practitioners." The definition of "licensed practitioners" varies from state to state. As a result, our products may be purchased or operated by physicians with varying levels of training, and in many states, by non-physicians, including nurse practitioners, chiropractors and technicians. Outside the United States, many jurisdictions do not require specific qualifications or training for purchasers or operators of our products. We do not supervise the procedures performed with our products, nor do we require that direct medical supervision occur. We and our distributors generally offer but do not require product training to the purchasers or operators of our products. In addition, we sometimes sell our systems to companies that rent our systems to third parties and that provide a technician to perform the procedures. The lack of training and the purchase and use of our products by non-physicians may result in product misuse and adverse treatment outcomes, which could harm our reputation and our business, and, in the event these result in product liability litigation, distract management and subject us to liability, including legal expenses.

In 2010 and 2011 we entered into strategic alliances to distribute third party products internationally. To successfully market and sell these products, we must address many issues that are unique to these businesses and could reduce our available cash reserves and negatively impact our profitability.

In 2010 and 2011, we entered into distribution arrangements pursuant to which we utilize our sales force and distributors to sell products manufactured by other companies. Commencing in the fourth quarter of 2011, we began to distribute in Japan a Q-switched laser product manufactured by a third party OEM. In the first quarter of 2010, we entered into an agreement with Obagi to distribute certain of their proprietary cosmeceuticals, or skin care products, in Japan. This agreement requires us to purchase an annual minimum dollar amount of their product. The minimum purchase requirement for 2012 is $2.0 million. If we do not make these minimum purchases, we could lose exclusivity for distributing Obagi products to physicians in Japan. Finally, we also have an agreement with Merz Aesthetics to distribute their Radiesse® dermal filler product in Japan.

Each of these distribution agreements presents its own unique risks and challenges. For example, to sell products in partnership with Obagi we need to invest in creating a sales structure that is experienced in the sale of cosmeceuticals and not in capital equipment. We need to commit resources to training this sales force, obtaining regulatory licenses in Japan and developing new marketing materials to promote the sale of Obagi products. For each of these distribution arrangements, until we can develop our own experienced sales force, we may need to pay third party distributors to sell the products which will result in higher fees and lower margins than if we sell direct to customers. In addition, the minimum commitments and other costs of distributing products manufactured by these companies may exceed the incremental revenue that we derive from the sale of their products thereby reducing our available cash reserves and negatively impacting our profitability.

If PSS World Medical fails to perform to our expectations, we may fail to achieve anticipated operating results.

We have a distribution agreement with PSS World Medical. PSS sales professionals work in coordination with our sales force to locate new customers for our products throughout the United States. Revenue from PSS has significantly declined since 2008. Our revenue from PSS, as a percentage of worldwide revenue, was 3% for the year ended December 31, 2011, 5% in 2010 and 7% in 2009. Although we continue to work closely with, and focus our attention on, our PSS relationship, there is no assurance that this will translate into increased revenue for us. Further, if revenue from PSS does not improve, or if they terminate our relationship, it may have an adverse effect on our revenue results of operations and our stock price.

Adverse conditions in the global banking industry and credit markets may adversely impact the value of our marketable investments or impair our liquidity.

We invest our excess cash primarily in money market funds and in highly liquid debt instruments of the U.S. government and its agencies and U.S. municipalities, in commercial paper and high grade corporate debt. As of December 31, 2011, our balance in marketable investments was $74.7 million. The longer the duration of a security, the more susceptible it is to changes in market interest rates and bond yields. As yields increase, those securities with a lower yield-at-cost show a mark-to-market unrealized loss. For example, assuming a hypothetical increase in interest rates of one percentage point, the fair value of our total investment portfolio as of December 31, 2011 would have potentially decreased by approximately $608,000, resulting in an unrealized loss that would subsequently adversely impact our earnings. As a result, changes in the market interest rates will affect our future net income (loss).

We may be required to record impairment charges in future quarters as a result of the decline in value of our long-term investments in auction rate securities (ARS).

Included under the caption of "Long-term investments" in the Consolidated Balance Sheet as of December 31, 2011 are $3.9 million (par value) of ARS. These ARS were designed to provide liquidity through an auction process that resets the applicable interest rate at predetermined calendar intervals, generally every 35 days. Though approximately $9.5 million (par value) of our original holdings of $13.4 million (par value) of ARS have been redeemed at full par value since 2008, auctions for the remaining ARS in our portfolio at December 31, 2011 continue to fail and they remain as illiquid. Upon an auction failure, the interest rates do not reset at a market rate but instead reset based on a formula contained in the prospectus of the individual security, which rate is generally higher than the prevailing market rate. The failure of the auctions impacts our ability to readily liquidate our ARS into cash until a future auction of these investments is successful, a buyer is found outside of the auction process, or the ARS is refinanced by the issuer into another type of debt instrument. If there is a decline in fair value in our ARS that is considered other-than-temporary then we would have to record an impairment charge in our Consolidated Statement of Operations for the loss in value associated with the worsening of the credit worthiness (credit losses) of the issuer, which would reduce future earnings, harm our business and may cause our stock price to decline.

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

Our success largely depends on the skills, experience and efforts of our officers and other key employees. Except for Change of Control and Severance Agreements for our executive officers, we do not have employment contracts with any of our officers or other key employees. Any of our officers and other key employees may terminate their employment at any time. We do not have a succession plan in place for each of our officers and key employees. In addition, we do not maintain "key person" life insurance policies covering any of our employees. The loss of any of our senior management team members could weaken our management expertise and harm our business.

Our ability to retain our skilled labor force and our success in attracting and hiring new skilled employees are critical factors in determining whether we will be successful in the future. We may not be able to meet our future hiring needs or retain existing personnel. We may face particularly significant challenges and risks in hiring, training, managing and retaining engineering and sales and marketing employees. Failure to attract, train and retain personnel, particularly technical and sales and marketing personnel, would materially harm our ability to compete effectively and grow our business.

The price of our common stock may fluctuate substantially due to several factors, some of which are discussed below. Further, we have a 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 our stock price.

As of December 31, 2011, approximately 45% of our outstanding shares of common stock were held by 10 institutional investors. As a result of our relatively small public float, our 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 our common stock may have a greater impact on the trading price for our shares than would be the case if our public float were larger.

The public market price of our common stock has in the past fluctuated substantially and, due to the current concentration of stockholders, it may continue to do so in the future. The market price for our common stock could also be affected by a number of other factors, including:

- Litigation surrounding executive compensation has increased with the passage of the Dodd-Frank Wall Street Reform and Consumer Protection Act. If we are involved in a lawsuit related to compensation matters or any other matters not covered by our D&O insurance, there could be material expenses involved, fines, or remedial actions which could negatively affect our stock price;

- The general market conditions unrelated to our operating performance;

- Sales of large blocks of our common stock, including sales by our executive officers, directors and our large institutional investors;

- Quarterly variations in our, or our competitors', results of operations;

- Changes in analysts' estimates, investors' perceptions, recommendations by securities analysts or our failure to achieve analysts' estimates;

- The announcement of new products or service enhancements by us or our competitors;

- The announcement of the departure of a key employee or executive officer by us or our competitor;

- Regulatory developments or delays concerning our, or our competitors' products; and

- The initiation of litigation by us or against us.

Actual or perceived instability in our stock price could reduce demand from potential buyers of our stock, thereby causing our stock price to either remain depressed or to decline further.

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

Our competitors or other patent holders may assert that our present or future products and the methods we employ are covered by their patents. In addition, we do not know whether our competitors own or will obtain patents that they may claim prevent, limit or interfere with our ability to make, use, sell or import our products. Although we may seek to resolve any potential future claims or actions, we may not be able to do so on reasonable terms, or at all. If, following a successful third-party action for infringement, we cannot obtain a license or redesign our products, we may have to stop manufacturing and selling the applicable products and our business would suffer as a result. In addition, a court could require us to pay substantial damages, and prohibit us from using technologies essential to our products, any of which would have a material adverse effect on our business, results of operations and financial condition.

We may become involved in litigation not only as a result of alleged infringement of a third party's intellectual property rights but also to protect our own intellectual property. For example, we have been, and may hereafter become, involved in litigation to protect the trademark rights associated with our company name or the names of our products. Infringement and other intellectual property claims, with or without merit, can be expensive and time-consuming to litigate, and could divert management's attention from our core business.

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

From time to time we evaluate potential strategic acquisitions of complementary businesses, products or technologies. We may also consider joint ventures and other collaborative projects. We may not be able to identify appropriate acquisition candidates or strategic partners, or successfully negotiate, finance or integrate any businesses, products or technologies that we acquire. Furthermore, the integration of any acquisition and management of any collaborative project may divert management's time and resources from our core business and disrupt our operations and we may incur significant legal, accounting and banking fees in connection with such a transaction. In addition, if we purchase a company that is not profitable, our cash balances may be reduced or depleted. We do not have any experience as a team with acquiring companies or products. If we decide to expand our product offerings beyond laser and light-based products, we may spend time and money on projects that do not increase our revenue. Any cash acquisition we pursue would diminish our available cash balances to us for other uses, and any stock acquisition could be dilutive to our stockholders.

While we from time to time evaluate potential acquisitions of businesses, products and technologies, and anticipate continuing to make these evaluations, we have no present understandings, commitments or agreements with respect to any material acquisitions or collaborative projects.

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

Many of the components and materials that comprise our products are currently manufactured by a limited number of suppliers. A supply interruption or an increase in demand beyond our current suppliers' capabilities could harm our ability to manufacture our products until a new source of supply is identified and qualified. Our reliance on these suppliers subjects us to a number of risks that could harm our business, including:

- Interruption of supply resulting from modifications to or discontinuation of a supplier's operations;
- Delays in product shipments resulting from uncorrected defects, reliability issues or a supplier's variation in a component;
- A lack of long-term supply arrangements for key components with our suppliers;
- Inability to obtain adequate supply in a timely manner, or on reasonable terms;
- Inability to redesign one or more components in our systems in the event that a supplier discontinues manufacturing such components and we are unable to source it from other suppliers on reasonable terms;
- Difficulty locating and qualifying alternative suppliers for our components in a timely manner;
- Production delays related to the evaluation and testing of products from alternative suppliers and corresponding regulatory qualifications; and
- Delay in supplier deliveries.

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

Intellectual property rights may not provide adequate protection for some or all of our products, which may permit third parties to compete against us more effectively.

We rely on patent, copyright, trade secret and trademark laws and confidentiality agreements to protect our technology and products. At December 31, 2011, we had 19 issued U.S. patents. Some of our components, such as our laser module, electronic control system and high-voltage electronics, are not, and in the future may not be, protected by patents. Additionally, our patent applications may not issue as patents or, if issued, may not issue in a form that will be advantageous to us. Any patents we obtain may be challenged, invalidated or legally circumvented by third parties. Consequently, competitors could market products and use manufacturing processes that are substantially similar to, or superior to, ours. We may not be able to prevent the unauthorized disclosure or use of our technical knowledge or other trade secrets by consultants, vendors, former employees or current employees, despite the existence generally of confidentiality agreements and other contractual restrictions. Monitoring unauthorized uses and disclosures of our intellectual property is difficult, and we do not know whether the steps we have taken to protect our intellectual property will be effective. Moreover, the laws of many foreign countries will not protect our intellectual property rights to the same extent as the laws of the United States.

The absence of complete intellectual property protection exposes us to a greater risk of direct competition. Competitors could purchase one of our products and attempt to replicate some or all of the competitive advantages we derive from our development efforts, design around our protected technology, or develop their own competitive technologies that fall outside of our intellectual property rights. If our intellectual property is not adequately protected against competitors' products and methods, our competitive position and our business could be adversely affected.

We offer credit terms to some qualified customers and also to leasing companies to finance the purchase of our products. In the event that any of these customers default on the amounts payable to us, our earnings may be adversely affected.

While we qualify customers to whom we offer credit terms (generally net 30 to 90 days), we cannot provide any assurance that the financial position of these customers will not change adversely before we receive payment. Our general and administrative expenses and earnings are negatively impacted by customer defaults and cause an increase in the allowance for doubtful accounts. In the event that there is a default by any customers to whom we have provided credit terms in the future, we may recognize a bad debt charge in our general and administrative expenses and this could negatively affect our earnings and results of operations.

We are subject to fluctuations in the exchange rate of the U.S. dollar and foreign currencies.

As a result of recent fluctuations in currency markets and the strong dollar relative to many other major currencies, our products priced in U.S. dollars may be cheaper or more expensive relative to products of our foreign competitors, which could result in volatility in our revenue. We do not actively hedge our exposure to currency rate fluctuations. While we transact business primarily in U.S. Dollars, and a significant proportion of our revenue is denominated in U.S. Dollars, a portion of our costs and revenue is denominated in other currencies, such as the Euro, Japanese Yen, Australian Dollar, Canadian Dollar and British Pound Sterling. As a result, changes in the exchange rates of these currencies to the U.S. Dollar will affect our results from operations.

The expense and potential unavailability of insurance coverage for our customers could adversely affect our ability to sell our products, and therefore our financial condition.

Some of our customers and prospective customers have had difficulty in procuring or maintaining liability insurance to cover their operation and use of our products. Medical malpractice carriers are withdrawing coverage in certain states or substantially increasing premiums. If this trend continues or worsens, our customers may discontinue using our products and potential customers may opt against purchasing laser and light based products due to the cost or inability to procure insurance coverage. The unavailability of insurance coverage for our customers and prospects could adversely affect our ability to sell our products, and that could harm our financial condition.

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

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

- A classified board of directors;
- Advance notice requirements to stockholders for matters to be brought at stockholder meetings;
- Limitations on stockholder actions by written consent; and
- The right to issue preferred stock without stockholder approval, which could be used to dilute the stock ownership of a potential hostile acquirer.

These provisions, as well as Change of Control and Severance Agreements entered into with each of our executive officers, might discourage, delay or prevent a change in control of our company or a change in our management. The existence of these provisions could adversely affect the voting power of holders of common stock and limit the price that investors might be willing to pay in the future for shares of our common stock.

ITEM 1B. UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 2. PROPERTIES

Our corporate headquarters and U.S. operations are located in an approximately 66,000 square foot facility in Brisbane, California. We lease these premises under a non-cancelable operating lease which expires on December 31, 2017. In addition, we have leased office facilities in certain international countries as follows:

Country	Square Footage	Lease termination or Expiration
Japan	Approximately 5,878	Two leases, one of which expires in December 2013 and one which expires in March 2015.
Switzerland	Approximately 3,174	One lease which expires in March 2013.
France	Approximately 450	One lease which expires in November 2014.
Spain	Approximately 269	Lease automatically renews at the end of each six-month period.

We believe that these facilities are adequate for our current and future needs for at least the next twelve months.

ITEM 3. LEGAL PROCEEDINGS

We are not a party to any pending litigation that we believe will have a material impact to our results of operations.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Stock Exchange Listing

Our common stock trades on The NASDAQ Global Select Market under the symbol "CUTR." As of February 29, 2012, the closing sale price of our common stock was $9.35 per share.

Common Stockholders

We had 10 stockholders of record as of February 29, 2012. Since many stockholders choose to hold their shares under the name of their brokerage firm, we believe, the actual number of stockholders was in approximately 2,000.

Stock Prices

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

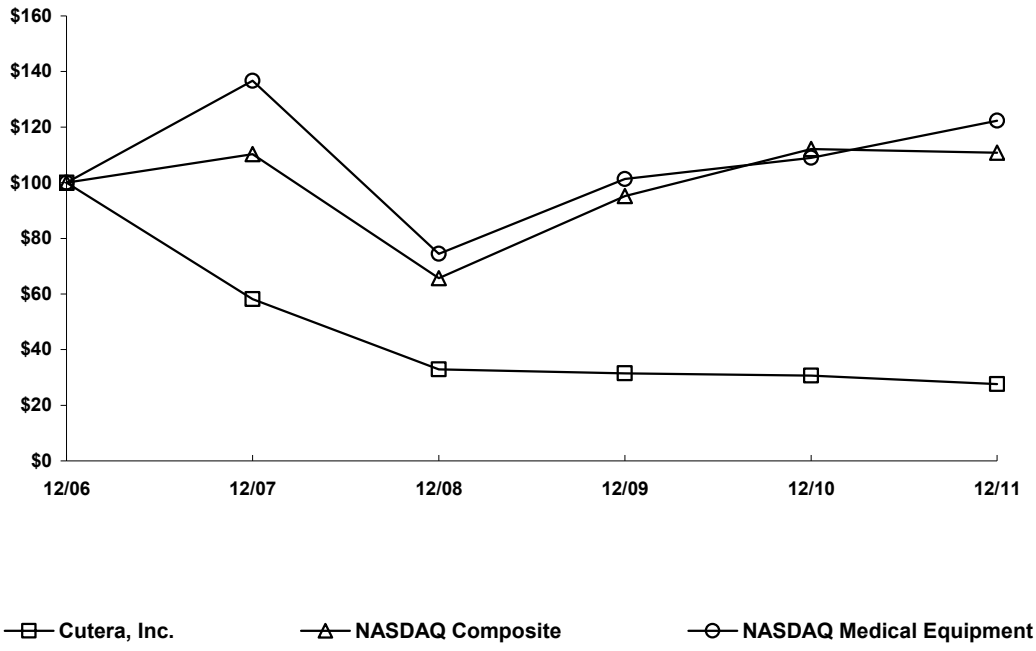
	Common Stock			
	2011		2010	
	High	Low	High	Low
4th Quarter	$ 7.93	$ 6.96	$ 8.39	$ 7.01
3rd Quarter	8.74	7.03	9.00	6.99
2nd Quarter	9.46	7.59	12.04	8.62
1st Quarter	9.94	8.08	11.03	8.25

Performance Graph

Below is a graph showing the cumulative total return to our stockholders during the period from December 31, 2006 through December 31, 2011 in comparison to the cumulative return on the NASDAQ Composite Index (U.S.) and the NASDAQ Medical Equipment Index during that same period.

COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN*

Among Cutera, Inc., the NASDAQ Composite Index, and the NASDAQ Medical Equipment Index



*$100 invested on 12/31/06 in stock or index, including reinvestment of dividends.
Fiscal year ending December 31.

The information under "Performance Graph" is not deemed filed with the Securities and Exchange Commission and is not to be incorporated by reference in any filing of Cutera under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, whether made before or after the date of this 10-K and irrespective of any general incorporation language in those filings.

Dividend Policy

We have never paid a cash dividend and have no present intention to pay cash dividends in the foreseeable future. We intend to retain any future earnings for use in our business.

We did not sell any unregistered securities during the period covered by this Annual Report on Form 10-K.

The information required by this Item regarding equity compensation plans is incorporated by reference to the information set forth in Part III Item 12 of this Annual Report on Form 10-K.

Securities Authorized for Issuance under Equity Compensation Plans

See Part III, Item 12 for information regarding securities authorized for issuance under equity compensation plans.

ITEM 6. SELECTED FINANCIAL DATA

The table set forth below contains certain consolidated financial data for each of our last five fiscal years. This data should be read in conjunction with the detailed information, financial statements and related notes, as well as Management's Discussion and Analysis of Financial Condition and Results of Operations included elsewhere herein.

	Year Ended December 31,				
Consolidated Statements of Operations Data (in thousands, except per share data):	**2011**	**2010**	**2009**	**2008**	**2007**
Net revenue	$ 60,290	$ 53,274	$ 53,682	$ 83,379	$ 101,726
Cost of revenue	25,978	23,058	21,759	32,358	35,002
Gross profit	34,312	30,216	31,923	51,021	66,724
Operating expenses:					
Sales and marketing	25,499	24,735	24,286	35,354	38,277
Research and development	9,141	7,004	6,810	7,550	7,169
General and administrative	10,104	9,576	10,320	11,270	11,721
Litigation settlement	—	—	850	—	—
Total operating expenses	44,744	41,315	42,266	54,174	57,167
Income (loss) from operations	(10,432)	(11,099)	(10,343)	(3,153)	9,557
Interest and other income, net	614	583	1,572	3,046	4,207
Other-than-temporary impairments of long-term investments	—	—	—	(3,554)	—
Income (loss) before income taxes	(9,818)	(10,516)	(8,771)	(3,661)	13,764
Provision (benefit) for income taxes	243	2	8,908	(792)	3,260
Net income (loss)	$ (10,061)	$ (10,518)	$ (17,679)	$ (2,869)	$ 10,504
Net income (loss) available to common stockholders used in basic net income per share	$ (10,061)	$ (10,518)	$ (17,679)	$ (2,869)	$ 10,504
Net income (loss) per share:					
Basic	$ (0.73)	$ (0.78)	$ (1.33)	$ (0.22)	$ 0.80
Diluted	$ (0.73)	$ (0.78)	$ (1.33)	$ (0.22)	$ 0.74
Weighted-average number of shares used in per share calculations:					
Basic	13,807	13,540	13,279	12,770	13,153
Diluted	13,807	13,540	13,279	12,770	14,228

	As of December 31,				
Consolidated Balance Sheet Data (in thousands):	**2011**	**2010**	**2009**	**2008**	**2007**
Cash and cash equivalents	$ 14,020	$ 12,519	$ 22,829	$ 36,540	$ 11,054
Marketable investments	74,666	77,484	76,780	60,653	88,510
Long-term investments	3,027	6,784	7,275	9,627	7,429
Working capital (current assets less current liabilities)	89,075	90,339	96,015	101,644	106,894
Total assets	111,353	111,805	121,352	137,476	138,653
Retained earnings (accumulated deficit)	(3,325)	6,736	17,254	31,410	34,279
Total stockholders' equity	91,567	95,417	100,853	112,108	109,353

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with our audited financial statements and notes thereto for the fiscal year ended December 31, 2011. This Annual Report on Form 10-K, including the following sections, contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Throughout this Report, and particularly in this Item 7, the forward-looking statements are based upon our current expectations, estimates and projections and that reflect our beliefs and assumptions based upon information available to us at the date of this Report. In some cases, you can identify these statements by words such as "may," "might," "will," "should," "expects," "plans," "anticipates," "believes," "estimates," "predicts," "potential" or "continue," and other similar terms. These forward-looking statements are not guarantees of future performance and are subject to risks, uncertainties, and assumptions that are difficult to predict. Our actual results, performance or achievements could differ materially from those expressed or implied by the forward-looking statements. The forward-looking statements include, but are not limited to, statements relating to our future financial performance, the ability to grow our business, increase our revenue, manage expenses, generate additional cash, achieve and maintain profitability, develop and commercialize existing and new products and applications, improve the performance of our worldwide sales and distribution network, and to the outlook regarding long term prospects. We caution you not to place undue reliance on these forward-looking statements, which reflect management's analysis only as of the date of this Annual Report on Form 10-K. We undertake no obligation to update forward-looking statements to reflect events or circumstances occurring after the date of this Form 10-K.

Some of the important factors that could cause our results to differ materially from those in our forward-looking statements, and a discussion of other risks and uncertainties, are discussed in Item 1A—Risk Factors commencing on page 17. We encourage you to read that section carefully as well as other risks detailed from time to time in our filings with the SEC.

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 our business, a brief discussion of our product lines and the opportunities, trends, challenges and risks we focus on in the operation of our business.
- *Critical Accounting Policies and Estimates.* This section describes the key accounting policies that are affected by critical accounting estimates.
- *Recent Accounting Guidance.* This section describes the issuance and effect of new accounting pronouncements that are and may be applicable to us.
- *Results of Operations.* This section provides our analysis and outlook for the significant line items on our Consolidated Statements of Operations.
- *Liquidity and Capital Resources.* This section provides an analysis of our liquidity and cash flows, as well as a discussion of our commitments that existed as of December 31, 2011.

Executive Summary

Company Description. We are a global medical device company specializing in the design, development, manufacture, marketing and servicing of laser and light-based aesthetics systems for practitioners worldwide. We offer easy-to-use products based on six platforms — CoolGlide®, Xeo®, Solera®, GenesisPlus™, Excel V™, and myQ™ — each of which enables physicians and other qualified practitioners to perform safe and effective aesthetic procedures for their customers. Commencing in the fourth quarter of 2011, we launched a new Q-switched laser product called myQ in Japan, that Cutera sources from a third party original equipment manufacturer (OEM). The Xeo and Solera platforms offer multiple hand pieces and applications, which allow customers to upgrade their systems, which we treat as Upgrade revenue. In addition to systems and upgrade revenue, we generate revenue from the sale of post warranty service contracts, providing services for products that are out of warranty, Titan hand piece refills, and dermal fillers and cosmeceuticals.

Our corporate headquarters and U.S. operations are located in Brisbane, California, from where we conduct our manufacturing, warehousing, research and development, regulatory, sales and marketing, service, and administrative activities. In the United States, we market, sell and service our products through direct sales and service employees, and a distribution relationship with PSS World Medical Shared Services, Inc. ("PSS"), a wholly owned subsidiary of PSS World Medical which has over 700 sales representatives serving physician offices throughout the United States. We also sell certain items such as our Titan hand piece refills and marketing brochures online.

International sales are generally made through direct sales employees and a worldwide distributor network in over 35 countries. Outside of the United States, we have a direct sales presence in Australia, Canada, France, Japan, Spain, Switzerland (however, beginning October 1, 2011 we engaged a distributor in Switzerland instead of selling directly) and the United Kingdom.

Products. Our revenue is derived from the sale of Products, Upgrades, Service, Titan hand piece refills, and Dermal fillers and cosmeceutical products. Product revenue represents the sale of a system. A system consists of a console that incorporates a universal graphic user interface, a laser and/or light-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 light-based module is sometimes contained in the hand piece such as with our Pearl and Pearl Fractional applications instead of within the console. In the fourth quarter of 2011, we launched a new Q-switched laser system called myQ.

We offer our 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 want and provides us with a source of recurring revenue which we classify as Upgrade revenue. Service revenue relates to amortization of prepaid service contracts, direct billings for detachable hand piece replacements and revenue for parts and labor on out-of-warranty products. Titan hand piece refill revenue is associated with our Titan hand piece which requires replacement of the optical source after a set number of pulses have been used. In Japan, we distribute Merz Pharma GmbH's (Merz) Radiesse® dermal filler product; and Obagi Medical Products, Inc.'s (Obagi) cosmeceutical products.

Significant Business Trends. We believe that our ability to grow revenue will be primarily dependent on the following:

- Continuing to expand our product offerings ─ both through internal development and sourcing from other vendors.
- Ongoing investment in our 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 our products can be displayed and used to assist in selling efforts).
- Customer demand for our products.
- Consumer demand for the application of our products.
- Marketing to physicians in the core dermatology and plastic surgeon specialties, as well as outside those specialties.
- Generating ongoing revenue from our growing installed base of customers through the sale of Service, Upgrade, Titan hand piece refills, and Dermal fillers and cosmeceutical products.

Our U.S. revenue increased by 21% and our international revenue increased by 9% in 2011, compared to 2010. We believe the increase in U.S. revenues was attributable to several factors, including:

- FDA clearance of our GenesisPlus system for onychomycosis, or toenail fungus, in April 2011.
- Commencement of Excel V shipments in the second quarter of 2011
- Effective U.S. sales management changes implemented in early 2011.

Our total international revenue increased by 9% in 2011, compared to 2010, and represented 61% of our total revenue. The international revenue growth was sourced primarily from Australia, Canada, Japan, and several of our international distributor countries, partially offset by declines in Europe. In Australia and Canada, our revenue increased by 123% and 34% respectively in 2011, compared to 2010, primarily as a result of increased product sales. With respect to Japan, our revenue increased by 10%, primarily as a result of continued growth from our Dermal fillers and cosmecuticals business.

Our gross margin remained flat at 57% in 2011, compared to 2010, which was attributable to several factors, including:

- An improvement of our 2011 margins for Titan refill revenue, given 2011 did not have costs associated with the recall of certain Titan XL hand pieces in 2010;
- An increase of $823,000 of Titan refill revenue, for which we traditionally earn a higher gross margin than our blended total gross margin percentage;
- Improved gross margin on our Dermal fillers and cosmeceutical products sold in Japan, due to higher average selling prices resulting from favorable foreign exchange rates; which was offset by
- Lower gross margins for our Product revenue, resulting from an unfavorable product mix towards lower margin products.

Our gross margin in 2010 was 57%, compared with 59% in 2009. This decline was due to several factors, including:

- The 2010 voluntary recall of certain Titan XL hand pieces whereby eligible customers were provided with fully refilled hand pieces;
- A $1.7 million, or 31%, temporary decrease in our Titan refill revenue in 2010, compared to 2009, for which we traditionally earn a higher gross margin than our blended total gross margin percentage;
- Our ASPs declined in 2010 due primarily to customers purchasing fewer applications on their platforms and due to competitive discounting pressures; and
- A higher proportion of distributor revenue, that carries a lower gross margin; partially offset by
- Lower manufacturing expenses resulting from headcount reductions; and
- Reduced warranty and service expenses as a result of improved product reliability (for products other than Titan XL hand pieces).

Our sales and marketing expenses increased to $25.5 million in 2011, compared with $24.7 million in 2010. This increase was associated with higher personnel expenses and an increase in travel and entertainment expenses associated with the increase in revenue, which was partially offset by reduced promotional and marketing related spending. As a percentage of net revenue, our 2011 sales and marketing expenses declined to 42%, compared to 47% in 2010, due to the higher revenue in 2011.

Our research and development, or R&D, expenses increased to $9.1 million in 2011, compared with $7.0 million in 2010. This increase was associated with higher personnel expenses resulting primarily from higher headcount and consulting services in engineering relating to new product development programs. As a percentage of net revenue, R&D expenses increased to 15% in 2011, compared to 13% in 2010.

Our general and administrative, or G&A, expenses increased to $10.1 million in 2011, compared with $9.6 million in 2010. This increase was due primarily to increased facility costs — associated with the relocation of our Japan offices and the closure of our Switzerland office — higher legal fees due in part to business development activities, and a reduced benefit associated with doubtful debt recoveries in 2010 that did not recur in 2011. As a percentage of net revenue, G&A expenses decreased slightly to 17% in 2011, compared to 18% in 2010, due to the higher revenue in 2011.

Factors that May Impact Future Performance

Our industry is impacted by numerous competitive, regulatory and other significant factors. Our industry is highly competitive and our future performance depends on our ability to compete successfully. Additionally, our future performance is dependent upon our ability to continue to expand our product offerings with innovative technologies, obtain regulatory clearances for our products, protect the proprietary technology of our products and our manufacturing processes, manufacture our products cost-effectively, and successfully market and distribute our products in a profitable manner. If we fail to execute on the aforementioned initiatives, our business would be adversely affected. A detailed discussion of these and other factors that could impact our future performance are provided in Part I, Item 1A "Risk Factors."

Critical Accounting Policies and Estimates

The preparation of our Consolidated Financial Statements and related disclosures in conformity with generally accepted accounting principles in the United States (GAAP) requires us to make estimates, judgments and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses. These estimates, judgments and assumptions are based on historical experience and on various other factors that we believe are reasonable under the circumstances. We periodically review our estimates and make adjustments when facts and circumstances dictate. To the extent that there are material differences between these estimates and actual results, our financial condition or results of operations will be affected.

Critical accounting estimates, as defined by the Securities and Exchange Commission (SEC), are those that are most important to the portrayal of our financial condition and results of operations and require our management's most difficult and subjective judgments and estimates of matters that are inherently uncertain. Our critical accounting estimates are as follows:

Revenue Recognition

We recognize revenue from the sale of Products, Upgrades, Titan hand piece refills, and Dermal fillers and cosmeceuticals when title and risk of ownership has been transferred, provided that:

- Persuasive evidence of an arrangement exists;
- Delivery has occurred or services have been rendered;
- The fee is fixed or determinable; and
- Collectability is reasonably assured.

Determination of whether persuasive evidence of an arrangement exists and whether delivery has occurred or services have been rendered, are based on management's judgments regarding the fixed nature of the fee charged for services rendered and products delivered, and the collectability of those fees. In instances where final acceptance of the product is specified by the customer or collectability has not been reasonably assured, revenue is deferred until all acceptance criteria have been met. Revenue under service contracts is recognized on a straight-line basis over the period of the applicable service contract. Service revenue, not under a service contract, is recognized as the services are provided. Should changes in conditions cause management to determine these criteria are not met for certain future transactions, revenue recognized for any reporting period could be adversely affected.

Fair Value Measurement of our Long Term Auction Rate Securities Investments

We hold a variety of interest bearing auction rate securities (ARS) that represent investments in pools of student loan assets. At the time of acquisition, these ARS investments were intended to provide liquidity through an auction process that resets the applicable interest rate at predetermined calendar intervals, allowing investors to either roll over their holdings or gain immediate liquidity by selling such interests at par. Since February 2008, uncertainties in the credit markets affected our ARS investments and auctions for some of our ARS have continued to fail to settle on their respective settlement dates while some have been redeemed in full at their respective par values. The current portfolio of investments shown as "Long term investments" in our Consolidated Financial Statements represents those investments that are not currently liquid and we will not be able to access these funds until a future auction of these investments is successful, a buyer is found outside of the auction process or the issuer refinances their debt. Maturity dates for these ARS investments range from to 2032 to 2041.

At December 31, 2011, total financial assets measured and recognized at fair value were $89.6 million and of these assets, $3.0 million, or 3%, were ARS that were measured and recognized using significant unobservable inputs (Level 3). During 2011, $4.4 million of ARS were redeemed at their full par value, as a result we transferred from Level 3 assets $3.7 million to cash and this resulted in a gain of $668,000 being recorded to accumulated other comprehensive loss in 2011.

As of December 31, 2011, we had $3.9 million par value ($3.0 million fair value) of long-term ARS investments. The aggregate loss in value is included as an unrealized loss in accumulated other comprehensive income (loss). Given observable market information was not available to determine the fair values of our ARS portfolio, we valued these investments based on a discounted cash flow model. While our ARS valuation model was based on both Level 2 (credit quality and interest rates) and Level 3 inputs (pricing models), we determined that the Level 3 inputs were the most significant to the overall fair value measurement, particularly the estimates of risk adjusted discount rates. The expected future cash flows of the ARS were discounted using a risk adjusted discount rate that compensated for the illiquidity. Projected future cash flows over the economic life of the ARS (of approximately 10.0 – 12.5 years) were modeled based on the contractual penalty rates for the security added to a tax adjusted LIBOR interest rate curve. The discount rates that were applied to the cash flows were based on a premium over the projected yield curve and included an adjustment for credit, illiquidity, and other risk factors. See Note 1 “Summary of Significant Accounting Policies - Fair Value Measurements” in Notes to Consolidated Financial Statement in Part II, Item 8 of this Form 10-K for more information.

The valuation of our investment portfolio is subject to uncertainties that are difficult to predict. Factors that may impact the valuation include duration of time that the ARS remain illiquid, changes to credit ratings of the securities, rates of default of the underlying assets, changes in the underlying collateral value, market discount rates for similar illiquid investments, and ongoing strength and quality of credit markets. If the auctions for our ARS investments continue to fail, and there is a further decline in their valuation, then we would have to: (i) record additional reductions to the fair value of our ARS investments; and (ii) record unrealized losses in our accumulated other comprehensive income (loss) for the losses in value that are associated with market risk. If the decline in fair value is considered other-than-temporary then we would have to record an impairment charge in our Consolidated Statement of Operations for the loss in value associated with the worsening of the credit worthiness (credit losses) of the issuer, which would reduce future earnings and harm our business.

Recognition and Presentation of Other-Than-Temporary-Impairments

We review for impairments on a quarterly basis in order to determine the classification of such as “temporary” or “other-than-temporary.” Factors that we consider to make such determination include the duration and severity of the impairment; the reason for the decline in value and the potential recovery period; and our intent to sell, or whether it is more likely than not that we will be required to sell, the investment before recovery. Beginning April 1, 2009, if an entity intends to sell, or if it is more likely than not that we will be required to sell, an impaired debt security prior to recovery of its cost basis, the security is other-than-temporarily impaired and the full amount of the impairment is required to be recognized as a loss through earnings. Otherwise, losses on securities which are other-than-temporarily impaired are separated into:

(i) the portion of loss which represents the credit loss; or
(ii) the portion which is due to other factors.

The credit loss portion is recognized as a loss through earnings while the loss due to other factors is recognized in other comprehensive income (loss), net of taxes and related amortization. At December 31, 2011, we had $3.9 million of par value ARS investments. We intend to, and have the ability to, hold these investments until the anticipated date of maturity. As such, we treat the decline in value as temporary and have recognized approximately $873,000 in unrealized losses. Given we believed that such losses were not credit related, we have included them in accumulated other comprehensive loss.

Prior to April 1, 2009, all declines in fair value deemed to be other-than-temporary were reflected in earnings as realized losses. With respect to the ARS that we held as of April 1, 2009, we determined that the cumulative effect adjustment required to reclassify the non-credit portion of previously recognized other-than-temporarily impaired adjustments was $3.5 million. Therefore, we increased our accumulated earnings and decreased our accumulated other comprehensive income (loss) by the $3.5 million cumulative effect adjustment.

Stock-based Compensation Expense

Employee stock-based compensation is estimated at the date of grant based on the employee stock award's fair value using the Black-Scholes option-pricing model and is recognized as expense ratably over the requisite service period in a manner similar to other forms of compensation paid to employees. The Black-Scholes option-pricing model requires the use of certain subjective assumptions. The most significant of these assumptions are our estimates of the expected volatility of the market price of our stock and the expected term of the award. The expected volatility is a 50%/50% blend of implied and historical volatility. We have determined that this is a more reflective measure of market conditions and a better indicator of expected volatility, than its limited historical volatility since the initial public offering of our common stock. When establishing an estimate of the expected term of an award, we consider historical experience of similar awards, giving consideration to the contractual terms of the awards, vesting requirements, and expectation of future employee behavior, including post-vesting terminations. As required under GAAP, we review our valuation assumptions at each grant date, and, as a result, our valuation assumptions used to value employee stock-based awards granted in future periods may change.

As of December 31, 2011, the unrecognized compensation cost, net of expected forfeitures, was $4.6 million for stock options and stock awards and $31,000 for the employee stock purchase plan which will be recognized using the straight-line attribution method over an estimated weighted-average remaining amortization period of 2.49 years and 0.33 years, respectively. See Note 5 "Stockholders' Equity, Stock Plans and Stock-Based Compensation Expense," in the Notes to Consolidated Financial Statement in Part II, Item 8 of this Form 10-K for more information.

Valuation of Inventories

We state our inventories at the lower of cost or market, computed on a standard cost basis, which approximates actual cost on a first-in, first-out basis and market being determined as the lower of replacement cost or net realizable value. Standard costs are monitored and updated quarterly or as necessary, to reflect changes in raw material costs, labor to manufacture the product and overhead rates. We provide for excess and obsolete inventories when conditions indicate that the selling price could be less than cost due to physical deterioration, usage, obsolescence, reductions in estimated future demand and reductions in selling prices. Inventory provisions are measured as the difference between the cost of inventory and estimated market value and charged to cost of revenue to establish a lower cost basis for the inventories. We balance the need to maintain strategic inventory levels with the risk of obsolescence due to changing technology and customer demand levels. Unfavorable changes in market conditions may result in a need for additional inventory provisions that could adversely impact our gross margins. Conversely, favorable changes in demand could result in higher gross margins when product that had previously been written off is sold.

Warranty Obligations

We provide a one-year standard warranty on all systems. Warranty coverage provided is for labor and parts necessary to repair the systems during the warranty period. We provide for the estimated future costs of warranty obligations in cost of revenue when the related revenue is recognized. The accrued warranty costs represent our best estimate at the time of sale, and as reviewed and updated quarterly, of the total costs that we expect to incur in repairing or replacing product parts that fail while still under warranty. Accrued warranty costs include costs of material, technical support labor and associated overhead. The amount of accrued estimated warranty costs obligation for established products is primarily based on historical experience as to product failures adjusted for current information on repair costs. Actual warranty costs could differ from the estimated amounts. On a quarterly basis, we review the accrued balances of our warranty obligations and update based on historical warranty cost trends. If we were required to accrue additional warranty cost in the future due to actual product failure rates, material usage, service delivery costs or overhead costs differing from our estimates, revisions to the estimated warranty liability would be required, which would negatively impact our operating results.

Provision for Income Taxes

We are subject to taxes on earnings in both the United States and various foreign jurisdictions. As a global taxpayer, significant judgments and estimates are required in evaluating our uncertain tax positions and determining our provision for income taxes on earnings. We perform a two-step approach to recognizing and measuring uncertain tax positions. The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates that it is more likely than not that the position will be sustained on audit, including resolution of related appeals or litigation processes, if any. The second step is to measure the tax benefit as the largest amount that is more than 50% likely of being realized upon settlement. Although we believe we have adequately reserved for our uncertain tax positions, no assurance can be given that the final tax outcome of these matters will not be different. We adjust these reserves in light of changing facts and circumstances, such as the closing of a tax audit or the refinement of an estimate. To the extent that the final tax outcome of these matters is different than the amounts recorded, such differences will impact the provision for income taxes in the period in which such determination is made. The provision for income taxes includes the impact of reserve provisions and changes to reserves that are considered appropriate, as well as the related net interest.

Our effective tax rates have differed from the statutory rate primarily due to the tax impact of tax-exempt interest income, foreign operations, research and development tax credits, state taxes, certain benefits realized related to stock option activity, and changes in valuation allowance. Our current effective tax rate does not assume U.S. taxes on undistributed profits of foreign subsidiaries. These earnings could become subject to incremental foreign withholding or U.S. federal and state taxes, should they either be deemed or actually remitted to the United States. The effective tax rate was approximately (2)% in 2011, 0% in 2010, and (102)% in 2009. Our future effective tax rates could be affected by earnings being lower than anticipated in countries where we have lower statutory rates and being higher than anticipated in countries where we have higher statutory rates, or by changes in tax laws, accounting principles, interpretations thereof, net operating loss carryback, research and development tax credits, and due to changes in the valuation allowance of our U.S. deferred tax assets. In addition, we are subject to the examination of our income tax returns by the Internal Revenue Service and other tax authorities. We regularly assess the likelihood of adverse outcomes resulting from these examinations to determine the adequacy of our provision for income taxes.

At December 31, 2011, we had an aggregate of approximately $2.7 million of unremitted earnings of foreign subsidiaries that have been, or are intended to be, indefinitely reinvested for continued use in foreign operations. If the total undistributed earnings of foreign subsidiaries were remitted, a significant amount of the additional tax would be offset by the allowable foreign tax credits. It is not practical for us to determine the additional tax of remitting these earnings.

Our deferred tax assets are recognized for the expected future tax consequences of temporary differences between the financial reporting and tax bases of assets and liabilities, and for operating losses and tax credit carryforwards. A valuation allowance reduces deferred tax assets to estimated realizable value, which assumes that it is more likely than not that we will be able to generate sufficient future taxable income in certain tax jurisdictions to realize the net carrying value. The four sources of taxable income to be considered in determining whether a valuation allowance is required include:

- Future reversals of existing taxable temporary differences (i.e., offset gross deferred tax assets against gross deferred tax liabilities);
- Future taxable income exclusive of reversing temporary differences and carryforwards;
- Taxable income in prior carryback years; and
- Tax planning strategies.

Determining whether a valuation allowance for deferred tax assets is necessary requires an analysis of both positive and negative evidence regarding realization of the deferred tax assets. In general, positive evidence may include:

- A strong earnings history exclusive of the loss that created the deductible temporary differences, coupled with evidence indicating that the loss is the result of an aberration rather than a continuing condition; and
- An excess of appreciated asset value over the tax basis of our net assets in an amount sufficient to realize the deferred tax asset.

In general, negative evidence may include:

- A history of operating loss or tax credit carryforwards expiring unused;
- An expectation of being in a cumulative loss position in a future reporting period;
- The existence of cumulative losses in recent years; and
- A carryback or carryforward period that is so brief that it would limit the realization of tax benefits.

The weight given to the potential effect of negative and positive evidence should be commensurate with the extent to which it can be objectively verified and judgment must be used in considering the relative impact of positive and negative evidence.

In evaluating the ability to recover deferred tax assets, we considered available positive and negative evidence, giving greater weight to our recent cumulative losses and our ability to carry-back losses against prior taxable income and lesser weight to its projected financial results due to the challenges of forecasting future periods. We also considered, commensurate with its objective verifiability, the forecast of future taxable income including the reversal of temporary differences. At the end of the quarter ended September 30, 2009, changes in previously anticipated expectations and continued operating losses resulted in a valuation allowance against our tax benefits since we no longer considered them "more-likely-than-not" realizable. We also performed this evaluation as of the year ended December 31, 2011 and determined the full valuation allowance was still required.

Long-Lived Asset Impairment

Long-lived assets, such as property and equipment and intangible assets, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not ultimately be recoverable. Determination of recoverability is based on an estimate of undiscounted future cash flows resulting from the use of the asset and its ultimate disposition. If the sum of the expected future cash flows is less than the carrying amount of those assets, we recognize an impairment loss based on the excess of the carrying amount over the fair value of the assets. Through December 31, 2011, there have been no such impairments.

Litigation

We have been, and may in the future become, subject to legal proceedings related to securities litigation, intellectual property and other matters. Based on all available information at the balance sheet dates, we assess the likelihood of any adverse judgments or outcomes for these matters, as well as potential ranges of probable loss. If losses are probable and reasonably estimable, we record an estimated liability.

Recent Accounting Guidance

For a full description of recent accounting pronouncements, including the respective expected dates of adoption and effects on results of operations and financial condition see Note 1 "Summary of Significant Accounting Policies — New Accounting Standards" in the Notes to Consolidated Financial Statements in Part II, Item 8 of this Form 10-K.

Results of Operations

The following table sets forth selected consolidated financial data expressed as a percentage of net revenue.

	Year Ended December 31,		
	2011	2010	2009
Net revenue	100%	100%	100%
Cost of revenue	43%	43%	41%
Gross profit	57%	57%	59%
Operating expenses:			
Sales and marketing	42%	47%	45%
Research and development	15%	13%	13%
General and administrative	17%	18%	19%
Litigation settlement	—%	—%	1%
Total operating expenses	74%	78%	78%
Loss from operations	(17)%	(21)%	(19)%
Interest and other income, net	1%	1%	3%
Loss before income taxes	(16)%	(20)%	(16)%
Provision for income taxes	1%	—%	17%
Net loss	(17)%	(20)%	(33)%

Net Revenue

The following table sets forth selected consolidated revenue by major geographic area and product category with changes thereof.

	Year Ended December 31,				
(Dollars in thousands)	2011	% Change	2010	% Change	2009[1]
Revenue mix by geography:					
United States	$ 23,313	21%	$ 19,337	(8)%	$ 21,019
Percent of total	*39%*		*36%*		*39%*
Japan	$ 15,019	10%	$ 13,625	41%	$ 9,636
Asia, excluding Japan	4,984	(3)%	5,131	9%	4,727
Europe	3,571	(38)%	5,801	(18)%	7,087
Rest of the world	13,403	43%	9,380	(16)%	11,213
Total international revenue	36,977	9%	33,937	4%	32,663
Percent of total	*61%*		*64%*		*61%*
Total consolidated revenue	$ 60,290	13%	$ 53,274	(1)%	$ 53,682
Revenue mix by product category:					
Products	$ 33,703	21%	$ 27,808	4%	$ 26,842
Upgrades	3,505	(27)%	4,824	(24)%	6,343
Service	13,411	1%	13,231	—%	13,186
Titan hand piece refills	4,686	21%	3,863	(31)%	5,599
Dermal fillers and cosmeceuticals[1]	4,985	41%	3,548	107%	1,712
Total consolidated revenue	$ 60,290	13%	$ 53,274	(1)%	$ 53,682

[1]Beginning in 2010, we classified revenue from dermal fillers and cosmeceuticals product in the revenue category 'Dermal fillers and cosmeceuticals.' Previously, we classified this revenue under the category of 'Products.' As such, we reclassified the 2009 revenue from 'Products' to 'Dermal fillers and cosmeceuticals.'

Revenue by Geography:

In 2011 our net revenue increased by 13%, compared to 2010, and in 2010 it declined by 1%, compared to 2009.

Our U.S. revenue increased by 21% in 2011, compared to 2010. We believe the increase in U.S. revenues in 2011, compared to 2010, was attributable to several factors, including:

- FDA clearance of our GenesisPlus system for onychomycosis, or toenail fungus, in April 2011.
- Commencement of Excel V shipments in the second quarter of 2011.
- Effective U.S. sales management changes implemented in early 2011.

Our U.S. revenue decreased by 8% in 2010, compared to 2009. We believe the decline in U.S. revenues was attributable to several factors, including:

- Our Products and Upgrades ASPs declined in 2010 and 2009, compared to their respective prior years. This was attributable primarily to customers purchasing fewer applications for systems and lower pricing resulting from competitive discounting pressures.
- Our unit sales of Products and Upgrades increased in 2010, compared with 2009.
- We experienced a temporary decline in our Titan refill revenue in 2010, compared to 2009, due to a voluntary recall of certain Titan XL hand pieces. All customers that had Titan XL hand pieces subject to the recall, were provided with fully "refilled" hand pieces, which delayed their purchase of a refill.

International revenues increased by 9% in 2011, compared to 2010, and increased by 4% in 2010, compared to 2009. The growth in our international revenue in 2011 was derived from higher product revenue in Canada, Australia, several of our international distributor countries and by higher Dermal fillers and cosmecuticals sales in Japan, offset by a decline in product revenue in Europe. Our total international revenue increased by 9%, with growth being sourced primarily from Australia, Canada and Japan, partially offset by declines in Europe. In Australia and Canada, our revenue increased by 123% and 34% respectively in 2011, compared to 2010, primarily as a result of increased product sales. With respect to Japan, our revenue increased by 10%, primarily as a result of continued growth from the Dermal fillers and cosmeceuticals business.

Revenue by Product Category:

Our product revenue increased by 21% in 2011 and by 4% in 2010, compared to the respective prior year periods. The 2011 increase in product revenue was primarily attributable to the U.S. FDA clearance of the GenesisPlus system for toenail fungus in April 2011 and the commencement of Excel V shipments in the second quarter of 2011. The 2010 increase in product revenue was primarily attributable to revenue from the GenesisPlus product that was launched in the third quarter of 2010. We believe that in 2010 and in 2009 some of our U.S. current and prospective customers that did not have established medical offices, were reluctant to purchase capital equipment due to the general economic uncertainty and tight credit conditions, which contributed to the decline in our revenue in these years.

Upgrade revenue decreased by 27% in 2011 and by 24% in 2010, compared to the respective prior year periods. Prior to 2009, we introduced new products that allowed existing customers to upgrade their previously purchased systems to obtain benefits from the additional capabilities, which drove our upgrade revenue. However, since 2008 we have not introduced any new products that our customers could purchase as an upgrade to their previously purchased system. Instead, we have launched new stand alone products (GenesisPlus in 2010 and Excel V in 2011), which has resulted in a decline of our upgrade revenue since 2008.

Our service revenue increased by 1% in 2011 compared to 2010, and remained relatively flat in 2010, compared to 2009. Service contract amortization is the primary component of our service revenue. The increase in 2011 was the result of higher international service revenue being partially offset by a decline in U.S. service revenue. The increase in international service revenue is due to an increased installed base and a higher number of customer purchased service contracts. The decline in our U.S. service revenue was primarily attributable to lower contract amortizations as a result of fewer customers purchasing extended service contracts, a decline in our service contract pricing, partially offset by higher revenue from the sale of detachable hand pieces (other than Titan refills). In 2010 service revenue remained flat compared to 2009 as a result of the decline in unit sales in 2009 that included an element of deferred revenue for service contracts beyond our standard one-year warranty term.

Our Titan hand piece refill revenue increased 21% in 2011, compared to 2010, and decreased 31% in 2010, compared to 2009. The increase in 2011 was due primarily to the partial recovery of our Titan refill revenue following the voluntary recall of our Titan XL hand piece commencing in the second quarter of 2010, in which we provided our eligible customers with a fully "refilled" Titan XL hand piece, which delayed their purchase of a refill. The decline in our Titan refill revenue in 2010, compared to 2009, was also primarily attributable to the Titan XL recall.

Our Dermal filler and cosmeceutical business increased by 41% in 2011, compared to 2010, and by 107% in 2010 compared to 2009. This increase was due primarily to the higher number of customers purchasing Obagi products, which we began distributing in Japan in the first quarter of 2010, and due to the expansion of cosmeceutical product lines being distributed.

Gross Profit

	Year Ended December 31,				
(Dollars in thousands)	**2011**	**% Change**	**2010**	**% Change**	**2009**
Gross Profit	$ 34,312	14%	$ 30,216	(5)%	$ 31,923
As a percentage of total revenue	*57%*		*57%*		*59%*

Our cost of revenue consists primarily of materials, personnel expenses, royalty expense, warranty and manufacturing overhead expenses. Gross margin as a percentage of net revenue remained flat at 57% in 2011, compared to 2010, which was primarily attributable to the following:

- An improvement of our 2011 margins for Titan refill revenue, given 2011 did not have costs associated with the recall of certain Titan XL hand pieces in 2010;
- An increase of $823,000 of Titan refill revenue, for which we traditionally earn a higher gross margin than our blended total gross margin percentage;
- Improved gross margin on our Dermal fillers and cosmeceutical products sold in Japan, due to higher average selling prices resulting from favorable foreign exchange rates; which was offset by
- Lower gross margins for our Product revenue, resulting from an unfavorable product mix towards lower margin products.

Our gross margin in 2010 was 57%, compared with 59% in 2009. This decline was due to several factors, including:

- The 2010 voluntary recall of certain Titan XL hand pieces whereby eligible customers were provided with fully refilled hand pieces;
- A $1.7 million, or 31%, temporary decrease in our Titan refill revenue in 2010, compared to 2009, for which we traditionally earn a higher gross margin than our blended total gross margin percentage;
- Our ASPs declined in 2010 due primarily to customers purchasing fewer applications on their platforms and due to competitive discounting pressures; and
- A higher proportion of distributor revenue, that carries a lower gross margin; partially offset by
- Lower manufacturing expenses resulting from headcount reductions; and
- Reduced warranty and service expenses as a result of improved product reliability (for products other than Titan XL hand pieces).

Sales and Marketing

	Year Ended December 31,				
(Dollars in thousands)	**2011**	**% Change**	**2010**	**% Change**	**2009**
Sales and marketing	$ 25,499	3%	$ 24,735	2%	$ 24,286
As a percentage of total revenue	*42%*		*47%*		*45%*

Sales and marketing expenses consist primarily of personnel expenses, expenses associated with customer-attended workshops and trade shows, post-marketing studies and advertising. Sales and marketing expenses increased $764,000 in 2011, compared to 2010, which was primarily attributable to the following:

- $988,000 increase in personnel expenses attributable primarily to higher commission expenses as a result of the higher revenue;

- $541,000 increase in travel, entertainment and sales meeting expenses due to increased sales activity; offset by
- Reduced promotional and marketing related spending of approximately $781,000 attributable to fewer workshops, lower spending on public relation and other marketing activities.

In 2010 sales and marketing expenses increased by $449,000 compared to 2009. This increase was primarily attributable to:

- $855,000 increase in personnel expenses in marketing due primarily to an increase in headcount resulting from the creation of three new departments: post marketing studies (clinical development), business development and telesales;
- $242,000 increase in international spending on workshops, advertising and other promotional activities; offset by
- A decline in U.S. sales personnel expenses by $617,000 due to lower headcount; and due to decreased sales commissions resulting from lower U.S revenue.

Sales and marketing expenses as a percentage of net revenue, decreased to 42% in 2011, compared to 47% in 2010 and 45% in 2009. The decrease in 2011 was due primarily to an increase in our total revenue in 2011.

Research and Development (R&D)

	Year Ended December 31,				
(Dollars in thousands)	**2011**	**% Change**	**2010**	**% Change**	**2009**
Research and development	$ 9,141	31%	$ 7,004	3%	$ 6,810
As a percentage of total revenue	*15%*		*13%*		*13%*

Research and development (R&D) expenses consist primarily of personnel expenses, clinical, regulatory and material costs. R&D expenses increased $2.1 million in 2011, compared to 2010, which was primarily attributable to:

- $1.8 million increase in personnel expenses due to higher headcount and higher consulting fees of $367,000, both, to ramp up the research, development and clinical support of our new products; offset by
- A decrease in material spending of $165,000.

In 2010 R&D expenses increased by $194,000, compared to 2009, which was due primarily to higher personnel expenses resulting from higher headcount in engineering relating to new product development programs.

General and Administrative (G&A)

	Year Ended December 31,				
(Dollars in thousands)	**2011**	**% Change**	**2010**	**% Change**	**2009**
General and administrative	$ 10,104	6%	$ 9,576	(7)%	$ 10,320
As a percentage of total revenue	17%		18%		*19%*

General and administrative expenses consist primarily of: personnel expenses, legal fees, accounting, audit and tax consulting fees, and other general and administrative expenses. G&A expenses increased by $528,000 in 2011, compared to 2010, which was primarily attributable to:

- $162,000 increase in facility costs due to the relocation of our offices in Tokyo, Japan and the closure of our office in Switzerland;
- $143,000 increase in legal fees, primarily associated with business development activities, including the acquisition of assets from Iridex; and.
- $137,000 increase in bad debt expense attributable to a reduced benefit associated with doubtful debt recoveries in 2010, that did not recur in 2011

In 2010 G&A expenses decreased by $744,000, compared to 2009. This decrease was primarily attributable to:

- a $626,000 reduction in bad debts expense due to a large non recurring expense in 2009; and

- a $201,000 reduction in legal fees and legal settlement expenses.

Litigation Settlement

In 2009, we settled our TCPA class action lawsuit and in that regard recorded a charge of $850,000 for the cost of the settlement, net of administrative expenses and amounts that were recovered from our insurance carrier.

Interest and Other Income, Net

The components of "Interest and Other Income, Net" are as follows:

	Year Ended December 31,				
(Dollars in thousands)	**2011**	**% Change**	**2010**	**% Change**	**2009**
Interest income	$ 594	10%	$ 539	(61)%	$ 1,383
Other income (expense), net	20	(55)%	44	(77)%	189
Total Interest and other income, net	$ 614	5%	$ 583	(63)%	$ 1,572

Interest income increased 10% in 2011, compared to 2010, and decreased 61% in 2010, compared to 2009. The increase in interest income in 2011 was primarily attributable to improved yields on our investments as a result of shifting some investments to higher yielding corporate debt instruments, versus municipal bonds. The decrease in 2010 was due primarily to reduced tax-exempt interest yields, as a result of lower interest rates, and a reduced investment balance. Our cash, cash equivalents, marketable investments and long-term investments measured and recognized at fair value were $91.7 million at December 31, 2011, $96.8 million at December 31, 2010 and $106.9 million December 31, 2009.

Provision for Income Taxes

	Year Ended December 31,				
(Dollars in thousands)	**2011**	**$ Change**	**2010**	**$ Change**	**2009**
Loss before income taxes	$ (9,818)	$ 698	$ (10,516)	$ (1,745)	$ (8,771)
Provision for income taxes	243	241	2	(8,906)	8,908
Effective tax rate	(2)%		0%		*(102)%*

Despite a loss before income taxes, we recognized a $243,000 income tax provision in 2011 and a $2,000 provision in 2010. This was a result of foreign tax expenses, as a full valuation allowance was applied against all U.S. federal and state deferred tax assets arising during the years. In 2009 we recognized a tax provision of $8.9 million due to the recording of a full valuation allowance on our U.S. federal and state net deferred tax assets.

ASC 740 requires the consideration of a valuation allowance to reflect the likelihood of realization of deferred tax assets. Significant management judgment is required in determining any valuation allowance recorded against deferred tax assets. In evaluating the ability to recover deferred tax assets, we considered available positive and negative evidence, giving greater weight to our recent cumulative losses and our ability to carry-back losses against prior taxable income and lesser weight to our projected financial results due to the challenges of forecasting future periods. We also considered, commensurate with its objective verifiability, the forecast of future taxable income including the reversal of temporary differences. We performed this evaluation as of each of the years ended December 31, 2011, 2010 and 2009. Under current tax laws, this valuation allowance will not limit our ability to utilize federal and state deferred tax assets provided we can generate sufficient future taxable income in the U.S.

Net Loss and Net Loss per Diluted Share

(Dollars in thousands, except per share data)	Year Ended December 31, 2011	% Change	2010	% Change	2009
Net loss	$ (10,061)	(4)%	$ (10,518)	(41)%	$ (17,679)
Net loss per diluted share	$ (0.73)	(6)%	$ (0.78)	(41)%	$ (1.33)

The $457,000 decrease in net loss, and $0.05 decrease in net loss per diluted share in 2011, compared to 2010, was primarily attributable to:

- an increase in our gross profit by $4.1 million; offset by
- higher operating expenses of $3.4 million, due primarily to the $2.1 million increase in R&D expense in 2011; and
- an increase in our tax provision by $241,000.

The $7.2 million decrease in net loss, and $0.55 decrease in net loss per diluted share in 2010, compared to 2009, was primarily attributable to a reduction in the tax provision by $8.9 million, lower operating expenses of $951,000, offset by a decline in our gross profit by $1.7 million and other income by $989,000.

Liquidity and Capital Resources

Liquidity is the measurement of our ability to meet potential cash requirements, fund the planned expansion of our operations and acquire businesses. Our sources of cash include operations, stock option exercises, and employee stock purchases. We actively manage our cash usage and investment of liquid cash to ensure the maintenance of sufficient funds to meet our daily needs. The majority of our cash and investments are held in U.S. banks and our foreign subsidiaries maintain a limited amount of cash in their local banks to cover their short-term operating expenses. The following table summarizes our cash and cash equivalents, marketable investments and long-term investments (in thousands):

(Dollars in thousands)	As of December 31, 2011	2010	Change
Cash, cash equivalents and marketable securities:			
Cash and cash equivalents	$ 14,020	$ 12,519	$ 1,501
Marketable investments	74,666	77,484	(2,818)
Long-term investments	3,027	6,784	(3,757)
Total	$ 91,713	$ 96,787	$ (5,074)

Cash Flows

In summary, our cash flows were as follows:

(Dollars in thousands)	Year ended December 31, 2011	2010	2009
Cash flows provided by (used in):			
Operating activities	$ (5,168)	$ (8,059)	$ 41
Investing activities	5,287	(2,777)	(14,360)
Financing activities	1,382	526	608
Net increase (decrease) in cash and cash equivalents	$ 1,501	$ (10,310)	$ (13,711)

Cash Flows from Operating Activities

We used net cash of $5.2 million in operating activities during 2011, which was primarily attributable to:

- $5.4 million used from net loss of $10.1 million after adjusting for non-cash related items of $4.7 million, consisting primarily of stock based compensation expense of $3.9 million and depreciation and amortization expense of $637,000;
- $4.3 million used to increase inventory relating primarily to raw materials and finished goods associated with the ramp up of our recently introduced products — GenesisPlus and Excel V;
- $1.0 million used as a result of an increase in accounts receivable that resulted from increased product sales in the three-month period ended December 31, 2011, compared to the same period in 2010; partially offset by
- $3.0 million generated from an increase in accrued liabilities relating primarily to an increase in accrued but unpaid personnel costs of $1.1 million, increased customer deposits of $923,000 and an increase in accrued warranty expenses of $325,000 due to the increase in revenue in 2011;
- $2.6 million generated from the reduction of other current assets, primarily from the receipt of a U.S. income tax refund of $1.2 million and $1.3 million amortization of discounts and purchased interest relating to our marketable investments; and
- $1.3 million increase in accounts payable.

We used net cash of $8.1 million in operating activities during 2010, which was primarily attributable to:

- $5.2 million used from net loss of $10.5 million after adjusting for non-cash related items of $5.3 million, consisting primarily of stock based compensation expense of $4.7 million and depreciation and amortization expense of $717,000;
- $2.6 million used as a result of a decrease in accrued liabilities due primarily to a reduction in the liability for warranty costs of $253,000 resulting primarily from a reduction in the total units remaining under warranty, a decrease in accrued expenses of $1.4 million for payroll, professional services, sales & marketing, and other miscellaneous expenses resulting from continued cost containment initiatives, and a reduction of approximately $950,000 for the pay out of our prior year accrual for the TCPA class action lawsuit; and
- $1.2 million used as a result of a decrease in deferred revenue due primarily to a reduction in deferred service contracts resulting from a decline in our sales unit volume in 2009 and a reduction in the pricing charged for service contracts; partially offset by
- $2.3 million generated from a reduction in other current assets and prepaid expenses, resulting primarily from a reduction in accrued interest and unamortized discounts related to our marketable and long-term investments.

Cash Flows from Investing Activities

We generated net cash of $5.3 million from investing activities in 2011, which was primarily attributable to:

- $69.1 million in net proceeds from the sales and maturities of marketable investments; partially offset by
- $63.1 million of cash used to purchase marketable investments; and
- $751,000 of cash used to purchase property and equipment.

We used net cash of $2.8 million in investing activities in 2010, which was primarily attributable to:

- $85.3 million in net proceeds from the sales and maturities of $650,000 of our ARS investments and due to us diversifying out of municipal securities into other secure financial instruments; partially offset by
- $87.8 million of cash used to purchase marketable investments; and
- $275,000 of cash used to purchase property and equipment.

Cash Flows from Financing Activities

Net cash provided by financing activities in 2011 was $1.4 million, which resulted from $1.36 million of cash generated by the issuance of stock through our stock option and employee stock purchase plans and $22,000 of excess tax benefits related to stock-based compensation expenses reclassified from operating activities to financing activities.

Net cash provided by financing activities in 2010 was $526,000, which resulted from $518,000 of cash generated by the issuance of stock through our stock option and employee stock purchase plans and $8,000 of excess tax benefits related to stock-based compensation expenses reclassified from operating activities to financing activities.

Adequacy of cash resources to meet future needs

We had cash, cash equivalents, marketable and long-term investments of $91.7 million as of December 31, 2011. Of this amount, we had $3.0 million invested in long-term ARS investments (see *'Critical Accounting Policies and Estimates'* section above, for a full description of our long-term investments in ARS). We believe that our existing cash resources are sufficient to meet our anticipated cash needs for working capital and capital expenditures for at least the next 12 months.

Off-Balance Sheet Arrangements

We do not participate in transactions that generate relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance, variable interest or special purpose entities, which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes.

We have certain contractual arrangements that create potential risk for us and are not recognized in our Consolidated Balance Sheets. Discussed below are off-balance sheet arrangements that have or are reasonably likely to have a material current or future effect on our financial condition, changes in financial condition, revenue or expenses, results of operations, liquidity, capital expenditures, or capital resources.

We lease various real properties under operating leases that generally require us to pay taxes, insurance, maintenance, and minimum lease payments. Some of our leases have options to renew.

Contractual Obligations

The following are our obligations for future minimum lease commitments related to facility leases as of December 31, 2011:

	Payments Due by Period ($'000's)				
Contractual Obligations	**Total**	**Less Than 1 Year**	**1-3 Years**	**3-5 Years**	**More Than 5 Years**
Operating leases	$ 9,162	$ 1,680	$ 3,456	$ 2,680	$ 1,346

Purchase Commitments

We maintain certain open inventory purchase commitments with our suppliers to ensure a smooth and continuous supply for key components. Our liability in these purchase commitments is generally restricted to a forecasted time-horizon as agreed between the parties. These forecasted time-horizons can vary among different suppliers. Our open inventory purchase commitments were not material at December 31, 2011. As a result, this amount is not included in the contractual obligations table above.

Income Tax Liability

We have included in our Consolidated Balance Sheet $478,000 in long-term income tax liability with respect to unrecognized tax benefits and accrued interest as of December 31, 2011. At this time, we are unable to make a reasonably reliable estimate of the timing of payments in individual years beyond 12 months due to uncertainties in the timing of tax audit outcomes. As a result, this amount is not included in the contractual obligations table above.

Other

In the normal course of business, we enter into agreements that contain a variety of representations, warranties, and indemnification obligations. For example, we have entered into indemnification agreements with each of our directors and executive officers. Our exposure under the various indemnification obligations is unknown and not reasonably estimable as they involve future claims that may be made against us. As such, we have not accrued any amounts for such obligations.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate Sensitivity

Our exposure to interest rate risk relates primarily to our investment portfolio. Fixed rate securities may have their fair market value adversely impacted due to fluctuations in interest rates, while floating rate securities may produce less income than expected if interest rates fall. Due in part to these factors, our future investment income may fall short of expectation due to changes in interest rates or we may suffer losses in principal if forced to sell securities which have declined in market value due to changes in interest rates. The primary objective of our investment activities is to preserve principal while at the same time maximizing yields without significantly increasing risk. To achieve this objective, we invest in debt instruments of the U.S. Government and its agencies and municipal bonds, and, by policy, restrict our exposure to any single type of investment or issuer by imposing concentration limits. To minimize the exposure due to adverse shifts in interest rates, we maintain investments at a weighted average maturity (interest reset date for ARS) of generally less than eighteen months. Based on duration modeling with respect to our total investmnet portfolio as of December 31, 2011, assuming a hypothetical increase in interest rates of one percentage point, the fair value would have potentially declined by approximately $608,000.

We hold interest bearing ARS that represent investments in pools of student loans issued by the Federal Family Education Loan Program. At the time of acquisition, these ARS investments were intended to provide liquidity via an auction process that resets the applicable interest rate at predetermined calendar intervals, allowing investors to either roll over their holdings or gain immediate liquidity by selling such interests at par. Since February 2008, uncertainties in the credit markets affected our holdings in ARS investments and auctions for all of our investments in these securities failed until December 31, 2008. In 2011, 2010 and 2009, approximately $4.4 million, $650,000 and $4.4 million, respectively of our original $13.4 million par value portfolio has been redeemed in full and as of December 31, 2011 we had $3.9 million par value (fair value of $3.0 million) of long-term ARS, whose auctions continue to fail. These investments are not currently liquid and we will not be able to access these funds until a future auction of these investments is successful, a buyer is found outside of the auction process or the ARS is refinanced by the issuer into another type of debt instrument. Maturity dates for these ARS investments range from 2032 to 2041. We currently classify all of these investments as long-term investments in our Consolidated Balance Sheet because of our continuing inability to determine when these investments will settle. We have also modified our current investment strategy and increased our investments in more liquid money market investments, United States Treasury securities, municipal bonds, and eliminated investments in corporate debt. The valuation of our ARS investment portfolio is subject to uncertainties that are difficult to predict. Factors that may impact its valuation include, duration of time that the ARS remain illiquid, changes to credit ratings of the securities, rates of default of the underlying assets, changes in the underlying collateral value, market discount rates for similar illiquid investments, ongoing strength and quality of credit markets. If the auctions for our ARS investments continue to fail, and there is a further decline in the valuation, then we would have to: (i) record additional reductions to the fair value of our ARS investments; and (ii) record unrealized losses in our accumulated other comprehensive income (loss) for the losses in value that are associated with market risk. If the decline in fair value is considered other-than-temporary then we would have to record an impairment charge in our Consolidated Statement of Operations for the loss in value associated with the worsening of the credit worthiness (credit losses) of the issuer, which would reduce future earnings and harm our business.

Foreign Currency Exchange Risk

We have international subsidiaries and operations and are, therefore, subject to foreign currency rate exposure. Although the majority of our revenue and purchases are denominated in U.S. dollars, we have revenue to certain international customers and expenses denominated in the Japanese Yen, Euro, Pounds Sterling, Australian Dollars, Swiss Francs and Canadian Dollars. The net gains and losses from the revaluation of foreign denominated assets and liabilities was a gain of approximately $28,000 in 2011, which is included in Interest and Other Income, net in our Consolidated Statements of Operations. Movements in currency exchange rates could cause variability in our revenues, expenses or interest and other income (expense). Though to date our exposure to exchange rate volatility has not been significant, we cannot assure that there will not be a material impact in the future. Future fluctuations in the value of the U.S. dollar may affect the price competitiveness of our products. We do not believe, however, that we currently have significant direct foreign currency exchange rate risk and have not hedged exposures denominated in foreign currencies.

We do not utilize derivative financial instruments, derivative commodity instruments or other market risk sensitive instruments.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

CUTERA, INC. AND SUBSIDIARY COMPANIES

ANNUAL REPORT ON FORM 10-K

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

The following Consolidated Financial Statements of the Registrant and its subsidiaries are required to be included in Item 8:

The following Consolidated Financial Statement Schedule of the Registrant and its subsidiaries for the years ended December 31, 2011, 2010 and 2009 is filed as a part of this Report as required to be included in Item 15(a) and should be read in conjunction with the Consolidated Financial Statements of the Registrant and its subsidiaries:

All other required schedules are omitted because of the absence of conditions under which they are required or because the required information is given in the Consolidated Financial Statements or the Notes thereto.

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of Cutera, Inc.:

In our opinion, the consolidated financial statements listed in the accompanying index present fairly, in all material respects, the financial position of Cutera, Inc. and its subsidiaries at December 31, 2011 and December 31, 2010, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2011 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the accompanying index presents fairly, in all material respects, the information set forth therin when read in conjunction with the related consolidated financial statements. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2011, based on criteria established in *Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO)*. The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Report on Internal Control over Financial Reporting under Item 9A. Our responsibility is to express opinions on these financial statements, on the financial statement schedule, and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP

San Jose, California

March 15, 2012

CUTERA, INC.
CONSOLIDATED BALANCE SHEETS
(in thousands, except share and per share data)

	December 31, 2011	December 31, 2010
Assets		
Current assets:		
Cash and cash equivalents	$ 14,020	$ 12,519
Marketable investments	74,666	77,484
Accounts receivable, net of allowance for doubtful accounts of $8 and $20, respectively	5,193	4,208
Inventories	10,729	6,448
Deferred tax asset	55	63
Other current assets and prepaid expenses	1,432	2,740
Total current assets	106,095	103,462
Property and equipment, net	853	597
Long-term investments	3,027	6,784
Intangibles, net	446	637
Deferred tax asset, net of current portion	446	325
Other long-term asset	486	—
Total assets	$ 111,353	$ 111,805
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 2,573	$ 1,296
Accrued liabilities	9,262	6,194
Deferred revenue	5,185	5,633
Total current liabilities	17,020	13,123
Deferred rent	1,448	1,501
Deferred revenue, net of current portion	840	1,287
Income tax liability	478	477
Total liabilities	19,786	16,388
Commitments and contingencies (Note 11)		
Stockholders' equity:		
Convertible preferred stock, $0.001 par value Authorized: 5,000,000 shares; none issued and outstanding	—	—
Common stock, $0.001 par value:		
Authorized: 50,000,000 shares; Issued and outstanding: 13,948,395 and 13,629,713 shares at December 31, 2011 and 2010, respectively	14	14
Additional paid-in capital	95,719	90,423
Retained earnings (accumulated deficit)	(3,325)	6,736
Accumulated other comprehensive loss	(841)	(1,756)
Total stockholders' equity	91,567	95,417
Total liabilities and stockholders' equity	$ 111,353	$ 111,805

The accompanying notes are an integral part of these consolidated financial statements.

CUTERA, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share data)

	Year Ended December 31,		
	2011	2010	2009
Net revenue:			
Products	$ 46,879	$ 40,043	$ 40,496
Service	13,411	13,231	13,186
Total net revenue	60,290	53,274	53,682
Cost of revenue:			
Products	17,545	15,805	14,083
Service	8,433	7,253	7,676
Total cost of revenue	25,978	23,058	21,759
Gross profit	34,312	30,216	31,923
Operating expenses:			
Sales and marketing	25,499	24,735	24,286
Research and development	9,141	7,004	6,810
General and administrative	10,104	9,576	10,320
Litigation settlement	—	—	850
Total operating expenses	44,744	41,315	42,266
Loss from operations	(10,432)	(11,099)	(10,343)
Interest and other income, net	614	583	1,572
Loss before income taxes	(9,818)	(10,516)	(8,771)
Provision for income taxes	243	2	8,908
Net loss	$ (10,061)	$ (10,518)	$ (17,679)
Net loss per share:			
Basic and diluted	$ (0.73)	$ (0.78)	$ (1.33)
Weighted-average number of shares used in per share calculations:			
Basic and diluted	13,807	13,540	13,279

The accompanying notes are an integral part of these consolidated financial statements.

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

	Common Stock		Additional Paid-in Capital	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income (loss)	Total Stockholders' Equity
	Shares	Amount				
Balance at December 31, 2008	12,806,035	$ 13	$ 80,318	$ 31,410	$ 367	$ 112,108
Issuance of common stock for employee purchase plan	59,365	—	326	—	—	326
Exercise of stock options	527,721	—	291	—	—	291
Issuance of common stock in settlement of restricted stock units, net of shares withheld for employee taxes, and stock awards	43,042	—	(32)	—	—	(32)
Stock-based compensation expense	—	—	4,236	—	—	4,236
Tax benefit from exercises of stock-based payment awards	—	—	109	—	—	109
Change in accounting principle (see Note 1)	—	—	—	3,523	(3,523)	—
Components of other comprehensive loss:						
Net loss	—	—	—	(17,679)	—	(17,679)
Other comprehensive income, net of full valuation allowance on tax effect	—	—	—	—	1,494	1,494
Comprehensive loss	—	—	—	—	—	(16,185)
Balance at December 31, 2009	13,436,163	13	85,248	17,254	(1,662)	100,853
Issuance of common stock for employee purchase plan	43,859	—	306	—	—	306
Exercise of stock options	90,362	1	337	—	—	338
Issuance of common stock in settlement of restricted stock units, net of shares withheld for employee taxes, and stock awards	59,329	—	(126)	—	—	(126)
Stock-based compensation expense	—	—	4,650	—	—	4,650
Tax benefit from exercises of stock-based payment awards	—	—	8	—	—	8
Components of other comprehensive loss:						
Net loss	—	—	—	(10,518)	—	(10,518)
Other comprehensive loss, net of full valuation allowance on tax effect	—	—	—	—	(94)	(94)
Comprehensive loss	—	—	—	—	—	(10,612)
Balance at December 31, 2010	13,629,713	14	90,423	6,736	(1,756)	95,417
Issuance of common stock for employee purchase plan	45,161	—	276	—	—	276
Exercise of stock options	207,624	—	1,230	—	—	1,230
Issuance of common stock in settlement of restricted stock units, net of shares withheld for employee taxes, and stock awards	65,897	—	(146)	—	—	(146)
Stock-based compensation expense	—	—	3,907	—	—	3,907
Tax benefit from exercises of stock-based payment awards	—	—	29	—	—	29
Components of other comprehensive loss:						
Net loss	—	—	—	(10,061)	—	(10,061)
Other comprehensive income, net of tax effect ($197,000 of tax benefit)	—	—	—	—	915	915
Comprehensive loss	—	—	—	—	—	(9,146)
Balance at December 31, 2011	13,948,395	$ 14	$ 95,719	$ (3,325)	$ (841)	$ 91,567

The accompanying notes are an integral part of these consolidated financial statements.

CUTERA, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	Year Ended December 31,		
	2011	2010	2009
Cash flows from operating activities:			
Net loss	$ (10,061)	$ (10,518)	$ (17,679)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:			
Stock-based compensation	3,907	4,650	4,236
Tax benefit (deficit) from stock-based compensation	29	8	109
Excess tax benefit related to stock-based compensation	(22)	(8)	(23)
Depreciation and amortization	637	717	860
Provision for excess and obsolete inventories	—	235	611
Provision for doubtful accounts receivable	15	(122)	525
Change in deferred tax asset net of valuation allowance	(113)	(116)	10,512
Gain on sale of marketable and long term investments, net	(5)	(74)	(103)
Tax on unrealized gains on marketable and long term investments	197	—	—
Other	13	—	—
Changes in assets and liabilities:			
Accounts receivable	(1,000)	(759)	1,940
Inventories	(4,281)	(275)	2,908
Other current assets and prepaid expenses	2,604	2,314	1,014
Other long-term assets	(486)	—	—
Accounts payable	1,277	215	(609)
Accrued liabilities	2,970	(2,646)	42
Deferred rent	45	(200)	(62)
Deferred revenue	(895)	(1,208)	(3,537)
Income tax liability	1	(272)	(703)
Net cash provided by (used in) operating activities	(5,168)	(8,059)	41
Cash flows from investing activities:			
Acquisition of property and equipment	(751)	(275)	(154)
Disposal of property and equipment	36	—	—
Proceeds from sales of marketable and long-term investments	21,198	42,830	27,914
Proceeds from maturities of marketable investments	47,935	42,505	11,535
Purchase of marketable investments	(63,131)	(87,837)	(53,655)
Net cash provided by (used in) investing activities	5,287	(2,777)	(14,360)
Cash flows from financing activities:			
Proceeds from exercise of stock options and employee stock purchase plan	1,360	518	585
Excess tax benefit related to stock-based compensation	22	8	23
Net cash provided by financing activities	1,382	526	608
Net increase (decrease) in cash and cash equivalents	1,501	(10,310)	(13,711)
Cash and cash equivalents at beginning of year	12,519	22,829	36,540
Cash and cash equivalents at end of year	$ 14,020	$ 12,519	$ 22,829
Supplemental and non-cash disclosure of cash flow information:			
Cash paid (received) for income taxes	$ (1,345)	$ 272	$ 578

The accompanying notes are an integral part of these consolidated financial statements.

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Operations and Principles of Consolidation

Cutera, Inc. (Cutera or the Company) is a global provider of laser and light-based aesthetic systems for practitioners worldwide. The Company designs, develops, manufactures, and markets the CoolGlide, Xeo, Solera, GenesisPlus and Excel V (introduced in 2011) product platforms for use by physicians and other qualified practitioners to allow its customers to offer safe and effective aesthetic treatments to their customers. Commencing in the fourth quarter ended December 31, 2011, the Company started distributing a Q-switched laser product called myQ in Japan, which is sourced from an original equipment manufacturer. The Xeo and Solera platforms offer multiple hand pieces and applications, which allow customers to upgrade their systems (Upgrade revenue). In addition to systems and upgrade revenue, the Company generates revenue from the sale of post warranty service contracts, providing services for products that are out of warranty, Titan hand piece refills, and distributing third party manufactured dermal fillers and cosmeceuticals.

Headquartered in Brisbane, California, the Company has wholly-owned subsidiaries in Australia, Canada, France, Japan, Spain, Switzerland and United Kingdom that market, sell and service its products outside of the United States. The Consolidated Financial Statements include the accounts of the Company and its subsidiaries. All inter-company transactions and balances have been eliminated.

Use of Estimates

The preparation of Consolidated Financial Statements in conformity with generally accepted accounting principles in the United States of America (GAAP) requires the Company's management to make estimates and assumptions that affect the amounts reported and disclosed in the financial statements and the accompanying notes. Actual results could differ materially from those estimates. On an ongoing basis, the Company evaluates their estimates, including those related to warranty obligation, sales commission, accounts receivable and sales allowances, fair values of long-term investments, fair values of acquired intangible assets, useful lives of intangible assets and property and equipment, fair values of options to purchase the Company's common stock, recoverability of deferred tax assets, and effective income tax rates, among others. Management bases their 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.

Cash, Cash Equivalents, Marketable Investments, and Long-Term 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 its foreign subsidiaries maintain a limited amount of cash in their local banks to cover their short term operating expenses.

The Company determines the appropriate classification of its investments in marketable securities at the time of purchase and re-evaluates such designation at each balance sheet date. The Company's marketable securities have been classified and accounted for as available-for-sale. The Company may, or may not, hold securities with stated maturities greater than 12 months until maturity. In response to changes in the availability of and the yield on alternative investments as well as liquidity requirements, it occasionally sells these securities prior to their stated maturities. As these securities are viewed by the Company as available to support current operations, based on the provisions of the Financial Accounting Standards Board Accounting Standards Codification (ASC) topic 210, subtopic 10, securities with maturities beyond 12 months (such as variable rate demand notes) are classified as current assets under the caption marketable investments in the accompanying Consolidated Balance Sheets. These securities are carried at fair value, with the unrealized gains and losses reported as a component of stockholders' equity. Any realized gains or losses on the sale of marketable securities are determined on a specific identification method, and such gains and losses are reflected as a component of interest and other income, net.

The Company holds a variety of interest bearing auction rate securities (ARS) that represent investments in pools of student loan assets issued by the Federal Family Education Loan Program (FELP). At the time of acquisition, the majority of ARS investments were intended to provide liquidity via an auction process that resets the applicable interest rate at predetermined calendar intervals, allowing investors to either roll over their holdings or gain immediate liquidity by selling such interests at par. Since February 2008, uncertainties in the credit markets affected the majority of ARS investments and auctions for the Company's investments in these securities have failed to settle on their respective settlement dates. However, since 2009 $9.5 million of ARS were redeemed at full par value. Maturity dates for the ARS investments in the Company's portfolio range from 2032 to 2041.

As of December 31, 2011, the Company had $3.0 million of ARS classified as long-term investments. The Company has classified its ARS investment balance as long-term investments in the accompanying Consolidated Balance Sheet because of the Company's belief that it could take more than one year before they are readily marketable. The Company's ARS have been classified and accounted for as available-for-sale. These securities are carried at fair value with the unrealized gains and losses reported as a component of stockholders' equity. The estimated fair value of the Company's ARS investments was $3.0 million at December 31, 2011 and $6.8 million at December 31, 2010.

Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date 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. Carrying amounts of the Company's financial instruments, including cash equivalents, marketable investments, accounts receivable, accounts payable and accrued liabilities, approximate their fair values as of the balance sheet dates because of their generally short maturities.

The fair value hierarchy distinguishes between (1) market participant assumptions developed based on market data obtained from independent sources (observable inputs) and (2) an entity's own assumptions about market participant assumptions developed based on the best information available in the circumstances (unobservable inputs). The fair value hierarchy consists of three broad levels, which gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy are described below:

- Level 1: Quoted prices (unadjusted) in active markets that are accessible at the measurement date for assets or liabilities.
- Level 2: Directly or indirectly observable inputs as of the reporting date through correlation with market data, including quoted prices for similar assets and liabilities in active markets and quoted prices in markets that are not active. Level 2 also includes assets and liabilities that are valued using models or other pricing methodologies that do not require significant judgment since the input assumptions used in the models, such as interest rates and volatility factors, are corroborated by readily observable data from actively quoted markets for substantially the full term of the financial instrument.
- Level 3: Unobservable inputs that are supported by little or no market activity and reflect the use of significant management judgment. These values are generally determined using pricing models for which the assumptions utilize management's estimates of market participant assumptions.

Impairment of Marketable Investments and ARS Securities

The Company reviews its marketable and long term investments for impairment on a quarterly basis. If it concludes that any of these investments are impaired, it determines whether such impairment is other-than-temporary. Factors that the Company considers to make such determination include the duration and severity of the impairment, the reason for the decline in value and the potential recovery period, and its intent to sell, or whether it is more likely than not that it will be required to sell, the investment before recovery.

Beginning April 1, 2009, if an entity intends to sell, or if it is more likely than not that we will be required to sell, an impaired debt security prior to recovery of its cost basis, the security is other-than-temporarily impaired and the full amount of the impairment is required to be recognized as a loss through earnings. Otherwise, losses on securities which are other-than-temporarily impaired are separated into:

(iii) the portion of loss which represents the credit loss; or
(iv) the portion which is due to other factors.

The credit loss portion is recognized as a loss through earnings while the loss due to other factors is recognized in other comprehensive income (loss), net of taxes and related amortization. At December 31, 2011, the Company had approximately $3.9 million of par value ARS investments. The Company intends to, and has the ability to, hold these investments until the anticipated date of maturity. As such, the company treats the decline in value as temporary and has recognized approximately $873,000 in unrealized losses. Given the Company believed that such losses were not credit related, it has included them in accumulated other comprehensive loss.

Concentration of Credit Risk and Other Risks and Uncertainties

Financial instruments that potentially subject the Company to concentrations of risk consist principally of cash, cash equivalents, marketable investments and accounts receivable. The Company's cash and cash equivalents are primarily invested in deposits and money market accounts with two major banks in the United States. In addition, the Company has operating cash balances in banks in each of the international locations in which it operates. Deposits in these banks may exceed the amount of insurance provided on such deposits, if any. Management believes that these financial institutions are financially sound and, accordingly, believes that minimal credit risk exists. The Company has not experienced any losses on its deposits of cash and cash equivalents. Accounts receivable are typically unsecured and are derived from revenue earned from worldwide customers. The Company performs credit evaluations of its customers and maintains reserves for potential credit losses. Concentrations of accounts receivable balances are presented in Note 3 and segment, geographic and major customer information is presented in Note 10.

The Company invests in debt instruments—including bonds and ARS—of the U.S. Government, its agencies and municipalities. In addition, starting from 2010, the Company has invested in other high grade investments such as commercial paper and corporate bonds. By policy, the Company restricts its exposure to any single issuer by imposing concentration limits. To minimize the exposure due to adverse shifts in interest rates, the Company maintains investments at an average maturity (interest reset date for auction-rate securities and variable rate demand notes) of generally less than eighteen months.

The Company is subject to risks common to companies in the medical device industry, including, but not limited to, new technology innovations, dependence on key personnel, dependence on key suppliers, protection of proprietary technology, product liability and compliance with government regulations. The Company must continue to successfully design, develop, acquire, manufacture and market its products. There can be no assurance that current or recently acquired products will continue to be accepted in the marketplace. Nor can there be any assurance that any future products can be developed or manufactured at an acceptable cost and with appropriate performance characteristics, or that such products will be successfully marketed, if at all. These factors could have a material adverse effect on the Company's future financial results and cash flows.

Future products developed or acquired by the Company may require additional approvals from the Food and Drug Administration or international regulatory agencies prior to commercial sales. There can be no assurance that the Company's products will continue to meet the necessary regulatory requirements. If the Company was denied such approvals or such approvals were delayed, it may have a materially adverse impact on the Company.

Inventories

Inventories are stated at the lower of cost or market, cost being determined on a standard cost basis (which approximates actual cost on a first-in, first-out basis) and market being determined as the lower of replacement cost or net realizable value.

The Company includes demonstration units within inventories. Demonstration units are carried at cost and amortized over their estimated economic life of two years. Amortization expense related to demonstration units is recorded in cost of revenue or in the respective operating expense line based on which function and purpose it is being used for. Proceeds from the sale of demonstration units are recorded as revenue and all costs incurred to refurbish the systems prior to sale are charged to cost of revenue.

Property and Equipment

Property and equipment are stated at cost and depreciated on a straight-line basis over the estimated useful lives of the related assets, which is generally three years. Amortization of leasehold improvements is computed using the straight-line method over the shorter of the remaining lease term or the estimated useful life of the related assets. Upon sale or retirement of assets, the costs and related accumulated depreciation and amortization are removed from the balance sheet and the resulting gain or loss is reflected in operating expenses. Maintenance and repairs are charged to operations as incurred.

Intangible Assets

Purchased technology sublicenses are presented at cost, net of accumulated amortization. The technology licenses are being amortized on a straight-line basis over their expected useful life of 9-10 years.

Impairment of Long-lived Assets

The Company reviews long-lived assets, including property and equipment, and intangible assets, for impairment whenever events or changes in business circumstances indicate that the carrying amount of the assets may not be fully recoverable. The Company would recognize an impairment loss when estimated undiscounted future cash flows expected to result from the use of the asset and its eventual disposition is less than its carrying amount. Impairment, if any, is measured as the amount by which the carrying amount of a long-lived asset exceeds its fair value. Through December 31, 2011, there have been no such impairments.

Warranty Obligations

The Company provides a one-year standard warranty on all systems. Warranty coverage provided is for labor and parts necessary to repair the systems during the warranty period. The Company accounts for the estimated warranty cost of the standard warranty coverage as a charge to costs of revenue when revenue is recognized. The estimated warranty cost is based on historical product performance. To determine the estimated warranty reserve, the Company utilizes actual service records to calculate the average service expense per system and applies this to the equivalent number of units exposed under warranty. The Company updates these estimated charges every quarter.

Revenue Recognition

Product, Upgrade, Titan hand piece refill, and Dermal filler and cosmeceutical revenue is recognized when title and risk of ownership has been transferred, provided that:

- Persuasive evidence of an arrangement exists;
- The price is fixed or determinable;
- Delivery has occurred or services have been rendered; and
- Collectability is reasonably assured.

Transfer of title and risk of ownership occurs when the product is shipped to the customer or when the customer receives the product, depending on the nature of the arrangement. Revenue is recorded net of customer and distributor discounts. For sales transactions when collectability is not reasonably assured, the Company recognizes revenue upon receipt of cash payment. Sales to customers and distributors do not include any return or exchange rights. In addition, the Company's distributor agreements obligate the distributor to pay the Company for the sale regardless of whether the distributor is able to resell the product. Shipping and handling charges are invoiced to customers based on the amount of products sold. Shipping and handling fees are recorded as revenue and the related expense as a component of cost of revenue.

The FASB amended the accounting standards for multiple deliverable revenue arrangements to:

- provide updated guidance on whether multiple deliverables exist, how the deliverables in an arrangement should be separated, and how the consideration should be allocated;
- require an entity to allocate revenue in an arrangement using estimated selling price (ESP) of deliverables if a vendor does not first have vendor-specific objective evidence (VSOE) of selling price or secondly does not have third-party evidence (TPE) of selling price; and
- eliminate the use of the residual method and require an entity to allocate revenue using the relative selling price method.

Multiple-element arrangements - A multiple-element arrangement includes the sale of one or more tangible product offerings with one or more associated services offerings, each of which are individually considered separate units of accounting. The determination of the Company's units of accounting did not change with the adoption of the new revenue recognition guidance and as such the Company allocates revenue to each element in a multiple-element arrangement based upon the relative selling price of each deliverable. When applying the relative selling price method, the Company determines the selling price for each deliverable using VSOE of selling price, if it exists, or TPE of selling price. If neither VSOE nor TPE of selling price exist for a deliverable, the Company uses its best estimate of selling price for that deliverable. Revenue allocated to each element is then recognized when the other revenue recognition criteria are met for each element.

The above mentioned update was effective for the Company from January 1, 2011 and the Company elected to apply it prospectively to new or materially modified revenue arrangements after its effective date. This did not have a material impact on the Company's financial position or results of operations for the year ended December 31, 2011, and does not change the units of accounting for its revenue transactions. The new accounting standard, if applied to the year ended December 31, 2010, would not have had a material impact on our revenue for that year.

The Company also offers customers extended service contracts. Revenue under service contracts is recognized on a straight-line basis over the period of the applicable service contract. Service revenue, from customers whose systems are not under a service contact, is recognized as the services are provided. Service revenue for the years ended December 31, 2011, 2010, and 2009 was $13.4 million, $13.2 million, and $13.2 million, respectively.

Cost of Revenue

Cost of revenue consists primarily of material, finished and semi-finished products purchased from third-party manufacturers, labor, stock-based compensation expenses, overhead involved in our internal manufacturing processes, technology license amortization and royalties, and costs associated with product warranties.

Shipping and Handling Costs

Amounts charged to customers and costs incurred by the Company related to shipping and handling are included in net sales and cost of goods sold, respectively.

Research and Development Expenditures

Costs related to research, design, development and testing of products are charged to research and development expense as incurred. Expenses incurred primarily relate to employees, facilities, material, third party contractors and clinical and regulatory fees.

Advertising Costs

Advertising costs are included as part of sales and marketing expense and are expensed as incurred. Advertising expenses were $1.3 million in 2011, $947,000 in 2010, and $891,000 in 2009.

Stock-based Compensation

The Company elected to use the Black-Scholes-Merton (BSM) pricing model to determine the fair value of stock options on the dates of grant. Restricted stock units (RSUs) and stock awards are measured based on the fair market values of the underlying stock on the dates of grant. Shares are issued on the vesting dates, net of the statutory withholding requirements to be paid by the Company on behalf of its employees. As a result, the actual number of shares issued will be fewer than the actual number of RSUs outstanding. Furthermore, the Company records the liability for withholding amounts to be paid by us as a reduction to additional paid-in capital when the shares are issued. Also, the Company recognizes stock-based compensation using the straight-line method.

The Company includes as part of cash flows from financing activities the benefits of tax deductions in excess of the tax-effected compensation of the related stock-based awards for options exercised and RSUs vested during the period. The amount of cash received from the exercise of stock options and employee stock purchases, net of taxes withheld and paid was $1.4 million in 2011, $518,000 in 2010, and $585,000 in 2009, and the total direct tax benefit (deficit) realized, including the excess tax benefit (deficit), from stock-based award activity was $29,000 in 2011, $8,000 in 2010, and $109,000 in 2009. The Company elected to account for the indirect effects of stock-based awards—primarily the research and development tax credit—through the Statement of Operations.

Income Taxes

The Company recognizes income taxes under the liability method. The Company recognizes deferred income taxes for differences between the financial reporting and tax bases of assets and liabilities at enacted statutory tax rates in effect for the years in which differences are expected to reverse. The Company recognizes the effect on deferred taxes of a change in tax rates in income in the period that includes the enactment date. The Company has determined that its future taxable income will be sufficient to recover all of the deferred tax assets. However, should there be a change in their ability to recover the deferred tax assets, the Company could be required to record a valuation allowance against its deferred tax assets. This would result in an increase to the Company's tax provision in the period in which they determined that the recovery was not probable.

The measurement of deferred taxes often involves an exercise of judgment related to the computation and realization of tax basis. The deferred tax assets and liabilities reflect management's assessment that tax positions taken, and the resulting tax basis, are more likely than not to be sustained if they are audited by taxing authorities. Also, assessing tax rates that the Company expects to apply and determining the years when the temporary differences are expected to affect taxable income requires judgment about the future apportionment of our income among the states in which the Company operates. These matters, and others, involve the exercise of significant judgment. Any changes in our practices or judgments involved in the measurement of deferred tax assets and liabilities could materially impact our financial condition or results of operations.

Valuation allowances are established when necessary to reduce deferred income tax assets to amounts that the Company believes are more likely than not to be recovered. The Company evaluates its deferred tax assets quarterly to determine whether adjustments to our valuation allowance are appropriate. In making this evaluation, the Company relies on its recent history of pre-tax earnings, estimated timing of future deductions and benefits represented by the deferred tax assets, and its forecasts of future earnings, the latter two of which involve the exercise of significant judgment. As of September 30, 2009, the Company could not sustain a conclusion that it was more likely than not that the Company would realize any of its deferred tax assets resulting from its cumulative losses reported in the recent past as well as other factors. Consequently, the Company established a valuation allowance against those deferred tax assets. The Company also performed this evaluation as of December 31, 2011, and determined the full valuation allowance was still required.

The Company establishes reserves for uncertain tax positions in accordance with the Income Taxes subtopic of the ASC. The subtopic prescribes the minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. Additionally, the subtopic provides guidance on derecognition, measurement, classification, interest and penalties, and transition of uncertain tax positions. The impact of an uncertain income tax position on income tax expense must be recognized at the largest amount that is more-likely-than-not to be sustained. An uncertain income tax position will not be recognized if it has less than a 50% likelihood of being sustained. The Company has provided taxes and related interest and penalties due for potential adjustments that may result from examinations of open U.S. Federal, state and foreign tax years. If the Company ultimately determines that payment of these amounts are not more-likely-than-not, the Company will reverse the liability and recognize a tax benefit during the period in which the Company makes the determination. The Company will record an additional charge in the Company's provision for taxes in the period in which the Company determines that the recorded tax liability is less than the Company expects the ultimate assessment to be.

Comprehensive Loss

Comprehensive loss generally represents all changes in stockholders' equity except those resulting from investments or contributions by stockholders. The Company's unrealized gains and losses on marketable and long-term investments represent the only component of other comprehensive loss.

On April 1, 2009, the Company adopted updates issued by the Financial Accounting Standards Board (FASB) to the recognition and presentation of other-than-temporary impairments. A cumulative effect adjustment was required to retained earnings and a corresponding adjustment to accumulated other comprehensive loss to reclassify the non-credit portion of previously other-than-temporarily impaired securities which were held at the beginning of the period of adoption and for which the Company does not intend to sell and it is more likely than not that the Company will not be required to sell such securities before recovery of the amortized cost basis. As a result of the implementation of this pronouncement, the Company reclassified the cumulative effect of the non-credit portion of previously recognized other-than-temporarily impaired adjustments of $3.5 million by increasing retained earnings and decreasing accumulated other comprehensive loss.

Foreign Currency

The U.S. dollar is the functional currency of the Company's subsidiaries. Monetary and non-monetary assets and liabilities are remeasured into U.S. dollars at the applicable period end exchange rate. Sales and operating expenses are remeasured at average exchange rates in effect during each period, except for those expenses related to non-monetary assets which are remeasured at historical exchange rates. Gains or losses resulting from foreign currency transactions are included in net income (loss) and are insignificant for each of the three years ended December 31, 2011. The effect of exchange rate changes on cash and cash equivalents was insignificant for each of the three years presented in the period ended December 31, 2011.

New Accounting Standards

On January 1, 2011, the Company adopted changes issued by the FASB to the classification of certain employee share-based payment awards. These changes clarify that there is not an indication of a condition that is other than market, performance, or service if an employee share-based payment award's exercise price is denominated in the currency of a market in which a substantial portion of the entity's equity securities trade and differs from the functional currency of the employer entity or payroll currency of the employee. An employee share-based payment award is required to be classified as a liability if the award does not contain a market, performance or service condition. Prior to this guidance, the Company did not consider the difference between the currency denomination of an employee share-based payment award's exercise price and the functional currency of the employer entity or payroll currency of the employee in determining the proper classification of the share-based payment award. The adoption of these changes had no impact on the Company's financial statements.

On January 1, 2011, the Company adopted changes issued by the FASB to disclosure requirements for fair value measurements. Specifically, the changes require a reporting entity to disclose, in the reconciliation of fair value measurements using significant unobservable inputs (Level 3), separate information about purchases, sales, issuances and settlements, (i.e., on a gross basis rather than as one net number). These changes were applied to the disclosure in the Fair Value of Financial Instruments section of Note 2 to the Condensed Consolidated Financial Statements. The adoption of these changes had no impact on our financial statements.

In May 2011, the FASB issued ASU No. 2011-04 "Fair Value Measurement: Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and International Financial Reporting Standards". Some of the amendments clarify the Board's intent about the application of existing fair value measurement requirements. Other amendments change a particular principle or requirement for measuring fair value or for disclosing information about fair value measurements. This guidance is effective for interim and annual periods beginning after December 15, 2011. The Company is still evaluating the potential future effects of this guidance.

In June 2011, the FASB amended its authoritative guidance on the presentation of comprehensive income. Under the amendment, an entity will have the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. This amendment, therefore, eliminates the currently available option to present the components of other comprehensive income as part of the statement of changes in stockholders' equity. The amendment does not change the items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income. The Company will adopt this amended guidance for the fiscal year beginning January 1, 2012. As this guidance relates to presentation only, the adoption of this guidance will not have any other effect on the Company's financial statements.

NOTE 2—INVESTMENT SECURITIES

The following tables summarize cash, cash equivalents, marketable securities and long term investments (in thousands):

	December 31,	
	2011	2010
Cash and cash equivalents:		
Cash	$ 2,153	$ 1,989
Cash equivalents:		
Money market funds	7,318	8,330
Commercial paper	4,549	2,200
Total cash and cash equivalents	14,020	12,519
Marketable securities:		
U.S. government notes	3,665	2,070
U.S. government agencies	41,565	24,087
Municipal securities	6,134	15,011
Commercial paper	4,747	11,465
Corporate debt securities	18,555	24,851
Total marketable securities	74,666	77,484
Long-term investments in ARS	3,027	6,784
Total cash, cash equivalents, marketable securities and long term investments	$ 91,713	$ 96,787

The following table summarizes unrealized gains and losses related to our marketable investments and long term investments, both designated as available-for-sale (in thousands):

December 31, 2011	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Market Value
Cash and cash equivalents	$ 14,020	$ —	$ —	$ 14,020
Marketable investments				
U.S. government notes	3,655	10	—	3,665
U.S. government agencies	41,535	44	(14)	41,565
Municipal securities	6,091	44	(1)	6,134
Commercial paper	4,747	1	(1)	4,747
Corporate debt securities	18,574	15	(34)	18,555
Total marketable securities	74,602	114	(50)	74,666
Long-term investments in ARS	3,900	—	(873)	3,027
Total cash, cash equivalents, marketable securities and long term investments	$ 92,522	$ 114	$ (923)	$ 91,713

December 31, 2010	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Market Value
Cash and cash equivalents	$ 12,519	$ —	$ —	$ 12,519
Marketable investments				
U.S. government notes	2,069	1	—	2,070
U.S. government agencies	24,088	17	(18)	24,087
Municipal securities	15,029	2	(20)	15,011
Commercial paper	11,459	7	(1)	11,465
Corporate debt securities	24,825	55	(29)	24,851
Total marketable securities	77,470	82	(68)	77,484
Long-term investments in ARS	8,325	—	(1,541)	6,784
Total cash, cash equivalents, marketable securities and long term investments	$ 98,314	$ 82	$ (1,609)	$ 96,787

The Company did not have any gains or losses associated with its long-term investments. The realized gains and losses associated with short-term investments were as follows (in thousands):

	Year Ended December 31,		
	2011	2010	2009
Realized gains on investments	$ 5	$ 78	$ 103
Realized losses on investments	—	(4)	—

The following table summarizes the fair value and the gross unrealized losses for investments that were in an unrealized loss position, aggregated by category and by the length in time that the individual securities have been in a continuous loss position (in thousands):

	Less Than 12 Months		12 Months or Greater		Total	
December 31, 2011	**Fair Market Value**	**Gross Unrealized Losses**	**Fair Market Value**	**Gross Unrealized Losses**	**Fair Market Value**	**Gross Unrealized Losses**
U.S. government agencies	$ 12,758	$ (14)	$ -	$ -	$ 12,758	$ (14)
Municipal securities	929	(1)	-	-	929	(1)
Commercial paper	999	(1)	-	-	999	(1)
Corporate debt securities	-	-	7,799	(34)	7,799	(34)
Long-term investments in ARS	-	-	3,027	(873)	3,027	(873)
Total	$ 14,686	$ (16)	$ 10,826	$ (907)	$ 25,512	$ (923)

	Less Than 12 Months		12 Months or Greater		Total	
December 31, 2010	**Fair Market Value**	**Gross Unrealized Losses**	**Fair Market Value**	**Gross Unrealized Losses**	**Fair Market Value**	**Gross Unrealized Losses**
U.S. government agencies	$ 7,830	$ (18)	$ -	$ -	$ 7,830	$ (18)
Municipal securities	10,083	(19)	2,050	(1)	12,133	(20)
Commercial paper	-	-	-	-	-	-
Corporate debt securities	8,498	(29)	-	-	8,498	(29)
Long-term investments in ARS	-	-	6,784	(1,541)	6,784	(1,541)
Total	$ 26,411	$ (66)	$ 8,834	$ (1,542)	$ 35,245	$ (1,608)

The following table summarizes the estimated fair value of our marketable investments and long term investments classified by the contractual maturity date of the security as of December 31, 2011 (in thousands):

	Amount
Due in less than one year (fiscal year 2012)	$ 40,988
Due in 1 to 3 years (fiscal year 2013- 2014)	33,678
Due in 3 to 5 years (fiscal year 2015-2016)	—
Due in 5 to 10 years (fiscal year 2017-2022)	—
Due in greater than 10 years (fiscal year 2023 and beyond)	3,027
	$ 77,693

Fair Value Measurements

The following table summarizes 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 (in thousands):

December 31, 2011	Level 1	Level 2	Level 3	Total
Cash equivalents:				
Money market funds	$ 7,318	$ —	$ —	$ 7,318
Commercial paper	—	4,549	—	4,549
Short term marketable investments:				
Available-for-sale securities	—	74,666	—	74,666
Long-term investments:				
Available-for-sale ARS	—	—	3,027	3,027
Total assets at fair value	$ 7,318	$ 79,215	$ 3,027	$ 89,560

December 31, 2010	Level 1	Level 2	Level 3	Total
Cash equivalents:				
Money market funds	$ 8,331	$ —	$ —	$ 8,331
Commercial paper	—	2,200	—	2,200
Short term marketable investments:				
Available-for-sale securities	—	77,484	—	77,484
Long-term investments:				
Available-for-sale ARS	—	—	6,784	6,784
Total assets at fair value	$ 8,331	$ 79,684	$ 6,784	$ 94,799

The Company's Level 1 financial assets are money market funds with stated maturities of three months or less from the date of purchase, whose fair values are based on quoted market prices. The Company's Level 2 financial assets are highly liquid debt instruments of U.S. federal and municipal governments and their agencies, commercial paper and corporate debt securities whose fair values are obtained from readily-available pricing sources for the identical underlying security that may, or may not, be actively traded.

At December 31, 2011, observable market information was not available to determine the fair value of the Company's ARS investments. Therefore, the fair value is based on broker-provided valuation models that relied on Level 3 inputs including those that are based on expected cash flow streams and collateral values, assessments of counterparty credit quality, default risk underlying the security, market discount rates and overall capital market liquidity. The valuation of the Company's ARS investment portfolio is subject to uncertainties that are difficult to predict. Factors that may impact the valuations in the future include changes to credit ratings of the securities, as well as to the underlying assets supporting those securities, rates of default of the underlying assets, underlying collateral value, discount rates, counterparty risk and ongoing strength and quality of market credit and liquidity. These financial instruments are classified within Level 3 of the fair value hierarchy.

The table presented below summarizes the change in carrying value associated with Level 3 financial assets, which represents the Company's investment in long term ARS, for the year ended December 31, 2011 (in thousands):

Balance at December 31, 2009	$ 7,275
Total gains or losses (realized or unrealized)	
Included in earnings (or changes in net assets)	—
Included in other comprehensive income (loss)	(26)
Purchases and issuances	—
Settlements	(465)
Balance at December 31, 2010	6,784
Total gains or losses (realized or unrealized)	
Included in earnings (or changes in net assets)	—
Included in other comprehensive income (loss)	668
Purchases and issuances	—
Settlements	(4,425)
Balance at December 31, 2011	$ 3,027

NOTE 3—BALANCE SHEET DETAIL

Accounts Receivable

Trade accounts receivable are recorded at the invoiced amount and do not bear interest. The allowance for doubtful accounts is the Company's best estimate of the amount of probable credit losses existing in accounts receivable and is based on historical write-off experience and any specific customer issues that have been identified. Account balances are charged off against the allowance when it is probable the receivable will not be recovered. The Company had one customer who accounted for 8% at December 31, 2011 and 10% at December 31, 2010 of the Company's total accounts receivable balance.

Inventories

Inventories consist of the following (in thousands):

	December 31,	
	2011	2010
Raw materials	$ 6,587	$ 4,204
Finished goods	4,142	2,244
Total	$ 10,729	$ 6,448

Property and Equipment, net

Property and equipment, net consists of the following (in thousands):

	December 31,	
	2011	2010
Leasehold improvements	$ 590	$ 361
Office equipment and furniture	2,761	2,702
Machinery and equipment	2,893	2,688
	6,244	5,751
Less: Accumulated depreciation	(5,391)	(5,154)
Property and equipment, net	$ 853	$ 597

Depreciation expense related to property and equipment was $446,000 in 2011, $525,000 in 2010, and $664,000 in 2009.

Intangible Assets

Intangible assets were comprised of a patent sublicense acquired from Palomar in 2006 and a technology sublicense acquired in 2002. The components of intangible assets at December 31, 2011 and 2010 were as follows (in thousands):

	Gross Carrying Amount	Accumulated Amortization Amount	Net Amount
December 31, 2011			
Patent sublicense	$ 1,218	$ 793	$ 425
Technology sublicense	538	517	21
Total	$ 1,756	$ 1,310	$ 446
December 31, 2010			
Patent sublicense	$ 1,218	$ 656	$ 562
Technology sublicense	538	463	75
Total	$ 1,756	$ 1,119	$ 637

Amortization expense for intangible assets was $191,000 in 2011, $192,000 in 2010, and $196,000 in 2009.

Based on intangible assets recorded at December 31, 2011, and assuming no subsequent additions to, or impairment of the underlying assets, the remaining estimated annual amortization expense is expected to be as follows (in thousands):

Year ending December 31,	Amount
2012	$ 158
2013	138
2014	138
2015	12
Total	$ 446

Accrued Liabilities

Accrued liabilities consist of the following (in thousands):

	December 31,	
	2011	2010
Payroll and related expenses	$ 4,172	$ 3,035
Warranty	1,121	796
Customer deposits	1,054	131
Sales tax	839	809
Professional fees	483	335
Royalty	434	475
Income tax	276	—
Sales and marketing accruals	191	131
Other	692	482
Total	$ 9,262	$ 6,194

NOTE 4—WARRANTY AND SERVICE CONTRACTS

The Company has a direct field service organization in the United States. Internationally, the Company provides direct service support through its wholly-owned subsidiaries in Australia, Canada, France, Japan, Spain, Switzerland (through November 2011) as well as through a network of distributors and third-party service providers in several other countries where it does not have a direct presence. The Company provides a warranty with its products, depending on the type of product. After the original warranty period, maintenance and support are offered on a service contract basis or on a time and materials basis. The Company currently provides for the estimated cost to repair or replace products under warranty at the time of sale.

Warranty Accrual (in thousands)

	December 31,	
	2011	2010
Balance at beginning of year	$ 796	$ 1,049
Add: Accruals for warranties issued during the year	4,043	3,061
Less: Settlements made during the year	(3,718)	(3,314)
Balance at end of year	$ 1,121	$ 796

Deferred Service Contract Revenue (in thousands)

	December 31,	
	2011	2010
Balance at beginning of year	$ 6,765	$ 8,128
Add: Payments received	8,332	8,254
Less: Revenue recognized	(9,259)	(9,617)
Balance at end of year	$ 5,838	$ 6,765

Costs incurred under service contracts amounted to $4.6 million in 2011, $4.3 million in 2010, and $4.7 million in 2009, and are recognized as incurred.

NOTE 5—STOCKHOLDERS' EQUITY, STOCK PLANS AND STOCK-BASED COMPENSATION EXPENSE

Stock Option Plans

As of December 31, 2011, the Company had the following stock-based employee compensation plans:

2004 Employee Stock Purchase Plan

On January 12, 2004, the Board of Directors adopted the 2004 Employee Stock Purchase Plan. A total of 200,000 shares of common stock were reserved for issuance pursuant to the 2004 Employee Stock Purchase Plan. Under the 2004 Employee Stock Purchase Plan, or 2004 ESPP, eligible employees are permitted to purchase common stock at a discount through payroll deductions. The 2004 ESPP offering and purchase periods are for approximately six months. Shares of common stock eligible for purchase are increased on the first day of each fiscal year by an amount equal to the lesser of (i) 600,000 shares, (ii) 2.0% of the outstanding shares of common stock on such date or (iii) an amount as determined by the Board of Directors. The Company's Board of Directors voted not to increase the shares available for future grant on January 1, 2011 and 2010. The price of the common stock purchased is the lower of 85% of the fair market value of the common stock at the beginning of an offering period or at the end of the offering period. Under the 2004 ESPP the Company issued 45,161 shares in 2011 and 43,859 shares in 2010. At December 31, 2011, 1,056,936 shares remained available for future issuance.

2004 Equity Incentive Plan and 1998 Stock Plan

In 1998, the Company adopted the 1998 Stock Plan, or 1998 Plan, under which 4,650,000 shares of the Company's common stock were reserved for issuance to employees, directors and consultants.

On January 12, 2004, the Board of Directors adopted the 2004 Equity Incentive Plan. A total of 1,750,000 shares of common stock were originally reserved for issuance pursuant to the 2004 Equity Incentive Plan. In addition, the shares reserved for issuance under the 2004 Equity Incentive Plan included shares reserved but un-issued under the 1998 Plan and shares returned to the 1998 Plan as the result of termination of options or the repurchase of shares.

Options granted under the 1998 Plan and 2004 Equity Incentive Plan may be incentive stock options or non-statutory stock options. Stock purchase rights may also be granted under the 2004 Equity Incentive Plan. Incentive stock options may only be granted to employees. The Board of Directors determines the period over which options become exercisable, however, except in the case of options granted to officers, directors and consultants, options shall become exercisable at a rate of no less than 20% per year over five years from the date the options are granted. Options are to be granted at an exercise price not less than the fair market value per share on the grant date for incentive options or 85% of fair market value for nonqualified stock options. For employees holding more than 10% of the voting rights of all classes of stock, the exercise price shall not be less than 110% of the fair market value per share on the grant date. Options granted under the Plan to employees generally become exercisable 25% on the first anniversary of the vesting commencement date and an additional 1/48th of the total number of shares subject to the option shares shall become exercisable on the last day of each calendar month thereafter until all of the shares have become exercisable. Unvested options that have been exercised are subject to repurchase upon termination of the holder's status as an employee, director or consultant. The contractual term of the options granted is either five, seven or ten years.

In accordance with the 2004 Equity Incentive Plan, the Company's non-employee directors are granted $60,000 of grant date fair value, fully vested, stock awards annually on the date of the Company's Annual Meeting of stockholders. In the year ended December 31, 2011 and 2010, the Company issued 37,925 and 37,266 shares of stock, respectively. In addition, in the year ended December 31, 2011 and 2010, the Company's Board of Directors granted 39,300 and 109,025, respectively, of RSUs to certain members of the Company's management. These RSUs vest at the rate of one-third on June 1of the year of grant, and one-third in each of the subsequent two years. The Company measured the fair market values of the underlying stock on the dates of grant and recognizes the stock-based compensation expense using the straight-line method over the vesting period.

The Company issues new shares upon the exercise of options, restricted stock units and ESPP shares.

Option Exchange Program

In July 2009, the Company completed its Option Exchange Program for its employees to exchange certain options outstanding for new options to purchase shares of the Company's common stock. As a result, options to purchase 864,373 shares of the Company's common stock were cancelled and new options to purchase up to 447,841 shares of the Company's common stock were issued in exchange. The new options have an exercise price per share of $8.49, the closing price of the Company's common stock as reported on the Nasdaq Global Select Market on the date that the offer expired and Option Exchange Program was completed, are unvested as of the grant date, and subject to an additional six (6) months of vesting over and above the vesting schedule of the surrendered options.

Given the Option Exchange Program was designed to be approximately a "value-for-value" exchange, the Company did not incur any significant additional non-cash compensation charges as the fair value of the replacement options was approximately equal to or less than the fair value of the surrendered options. The Company determined the fair value of stock options using the Black Scholes valuation model.

Option Activity

Activity under the 1998 Plan and 2004 Equity Incentive Plan is summarized as follows:

		Options Outstanding			
	Shares Available For Grant	Number of Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life (in years)	Aggregate Intrinsic Value (in $ millions)(1)
Balances as of December 31, 2008	2,013,089	3,081,733	$ 12.94	4.6	6.0
Options granted (2)	(1,409,371)	1,409,371	$ 8.51		
Options exercised	—	(527,721)	$ 0.55		
Options cancelled (expired or forfeited) (2)	1,270,828	(1,270,828)	$ 17.55		
Stock awards granted	(36,540)	—	—		
Restricted stock units cancelled (expired or forfeited)	2,375	—	—		
Balances as of December 31, 2009	1,840,381	2,692,555	$ 10.87	5.1	$ 1.6
Options granted (2)	(961,500)	961,500	$ 10.14		
Options exercised	—	(90,362)	$ 3.74		
Options cancelled (expired or forfeited) (2)	267,274	(267,274)	$ 9.91		
Stock awards granted	(146,291)	—	—		
Restricted stock units cancelled (expired or forfeited)	5,583	—	—		
Balances as of December 31, 2010	1,005,447	3,296,419	$ 10.93	4.4	$ 1.1
Options granted (2)	(1,206,500)	1,206,500	$ 8.61		
Options exercised	—	(207,624)	$ 5.92		
Options cancelled (expired or forfeited) (2)	746,273	(746,273)	13.40		
Stock awards granted	(77,225)	—	—		
Restricted stock units cancelled (expired or forfeited)	6,542	—	—		
Balances as of December 31, 2011	474,537	3,549,022	$ 9.92	4.6	$ 0.4
Exercisable as of December 31, 2011		1,806,558	$ 10.86	3.5	$ 0.4

(1) Based on the closing stock price of the Company's stock of $7.45 on December 30, 2011, $8.29 on December 31, 2010 and $8.51 on December 31, 2009.

(2) Included in options granted and options cancelled are shares granted and cancelled in connection with the Company's Option Exchange Program in 2009 (see 'Option Exchange Program' above for more details).

The aggregate intrinsic value in the table above represents the total pre-tax intrinsic value (the aggregate difference between the Company's closing stock price on the last trading day of the fiscal year and the exercise price, multiplied by the number of in-the-money options) that would have been received by the option holders had all option holders exercised their options on December 31, 2011. The aggregate intrinsic amount changes based on the fair market value of the Company's common stock. Total intrinsic value of options exercised was $521,000 in 2011, $128,000 in 2010, and $3.2 million in 2009. The options outstanding and exercisable at December 31 of the respective year were in the following exercise price ranges:

	Options Outstanding		Options Exercisable	
Range of Exercise Prices	Number Outstanding	Weighted-Average Remaining Contractual Life (in years)	Number Outstanding	Weighted-Average Exercise Price
$4.25–$8.48	381,425	3.69	179,508	$ 5.15
$8.49–$8.49	296,773	2.93	258,193	8.49
$8.66–$8.66	599,833	4.20	414,797	8.66
$8.72–$8.72	811,500	6.31	—	—
$8.75–$9.74	174,000	7.62	45,376	9.38
$10.24–$10.24	625,916	5.18	259,982	10.24
$10.43–$14.14	423,196	2.92	412,323	11.85
$14.78–$24.46	207,254	3.04	207,254	20.26
$25.39–$25.39	20,000	2.47	20,000	25.39
$25.73–$25.73	9,125	2.59	9,125	25.73
$4.25–$25.73	3,549,022	4.63	1,806,558	$ 10.86

As of December 31, 2010 there were 1,679,268 options that were exercisable at a weighted average exercise price of $12.12.

Restricted Stock Units and Stock Awards

Information with respect to restricted stock units activity is as follows (in thousands):

	Number of Shares	Weighted-Average Grant-Date Fair Value	Aggregate Fair Value (1) (in thousands)
Outstanding at December 31, 2010	67,096	$ 10.24	
Granted	77,225	$ 8.32	
Vested (2)	(82,526)	$ 8.93	$ 691[3]
Forfeited	(6,542)	$ 9.99	
Outstanding at December 31, 2011	55,253	$ 9.55	

(1) Represents the value of the Company's stock on the date that the restricted stock units vest.
(1) The number of restricted stock units vested includes shares that the Company withheld on behalf of the employees to satisfy the statutory tax withholding requirements.
(3) On the grant date, the fair value for these vested awards was $737,000.

Stock-Based Compensation

Stock-based compensation expense for stock options, restricted stock units, stock awards and ESPP shares for the year ended December 31, 2011, 2010 and 2009 was as follows (in thousands):

	Year Ended December 31,		
	2011	2010	2009
Stock options	$ 3,047	$ 3,628	$ 3,763
RSUs and Stock awards	775	927	360
ESPP	85	95	113
Total stock-based compensation expense	$ 3,907	$ 4,650	$ 4,236

Total stock-based compensation expense by department recognized during the year ended December 31, 2011, 2010 and 2009 was as follows (in thousands):

	Year Ended December 31,		
	2011	2010	2009
Cost of revenue	$ 659	$ 724	$ 717
Sales and marketing	788	1,189	1,044
Research and development	698	629	473
General and administrative	1,762	2,108	2,002
Total stock-based compensation expense	$ 3,907	$ 4,650	$ 4,236

As of December 31, 2011, the unrecognized compensation cost, net of expected forfeitures, was $4.6 million for stock options and stock awards, which will be recognized using the straight- line attribution method over an estimated weighted-average remaining amortization period of 2.49 years. For the ESPP, the unrecognized compensation cost, net of expected forfeitures, was $31,000, which will be recognized using the straight- line attribution method over an estimated weighted-average amortization period 0.33 years.

Valuation Assumptions and Fair Value of Stock Option and ESPP Grants

The Company uses the Black-Scholes option pricing model to estimate the fair value of options granted under its equity incentive plans and rights to acquire stock granted under its employee stock purchase plan. The Company based the weighted average estimated values of employee stock option grants and rights granted under the employee stock purchase plan, as well as the weighted average assumptions used in calculating these values, on estimates at the date of grant, as follows:

	Stock Options			Stock Purchase Plan		
	2011	2010	2009	2011	2010	2009
Estimated fair value of grants during the year	$ 3.10	$ 3.76	$ 3.93	$ 2.06	$ 2.41	$ 2.39
Expected term (in years)(1)	4.15	3.84	4.23	0.50	0.50	0.50
Risk-free interest rate(2)	1.41%	1.73%	2.6%	0.08%	0.2%	0.1%
Volatility(3)	43%	46%	55%	39%	40%	52%
Dividend yield(4)	—%	—%	—%	—%	—%	—%

(1) The expected term represents the period during which the Company's stock-based awards are expected to be outstanding. The estimated term is based on historical experience of similar awards, giving consideration to the contractual terms of the awards, vesting requirements, and expectation of future employee behavior, including post-vesting terminations.

(2) The risk-free interest rate is based on U.S. Treasury debt securities with maturities close to the expected term of the option as of the date of grant.

(3) Expected volatility is a 50%/50% blend of implied and historical volatility. The Company has determined that this is a more reflective measure of market conditions and a better indicator of expected volatility, than its limited historical volatility since the IPO of its common stock.

(4) The Company has not historically issued any dividends and does not expect to do so in the foreseeable future.

The Company periodically estimates forfeiture rates based on its historical experience within separate groups of employees and adjusts the stock-based payment expense accordingly.

NOTE 6—COMMON STOCK REPURCHASES

Restricted Stock Unit Withholdings

The Company issues restricted stock units as part of its equity incentive plans, which are described more fully in "Note 5—Stockholders' Equity, Stock Plans and Stock-Based Compensation Expense." For the majority of restricted stock units granted, the number of shares issued on the date the restricted stock units vest is net of the statutory withholding requirements paid on behalf of the employees. The Company withheld 16,629 in 2011, 14,283 in 2010, and 3,934 in 2009, shares of common stock to satisfy its employees' tax obligations of $146,000 in 2011, $126,000 in 2010, and $32,000 in 2009. The Company paid this amount in cash to the appropriate taxing authorities. Although shares withheld are not issued, they are treated as common stock repurchases for accounting and disclosure purposes, as they reduce the number of shares that would have been issued upon vesting.

NOTE 7—INCOME TAXES

The Company files income tax returns in the U.S. federal and various state and local jurisdictions and foreign jurisdictions. The components of the provision for income taxes are as follows (in thousands):

	Year Ended December 31,		
	2011	2010	2009
Current:			
Federal	$ (52)	$ (154)	$ (1,973)
State	69	37	32
Foreign	208	235	338
	225	118	(1,603)
Deferred:			
Federal	(13)	(45)	9,686
State	13	45	871
Foreign	18	(116)	(46)
	18	(116)	10,511
Provision for income taxes	$ 243	$ 2	$ 8,908

The Company's deferred tax asset consists of the following (in thousands):

	December 31,	
	2011	2010
Net operating loss	$ 8,939	$ 6,281
Stock-based compensation	6,374	5,644
Other accruals and reserves	3,374	3,385
Credits	2,062	1,488
Capital loss	312	558
Foreign	370	388
Accrued warranty	429	303
Depreciation and amortization	206	146
Other	(143)	63
Net deferred tax asset before valuation allowance	21,923	18,256
Valuation allowance	(21,553)	(17,868)
Net deferred tax asset after valuation allowance	$ 370	$ 388

The Company's deferred tax asset balance is reported in the following captions in the Consolidated Balance Sheets (in thousands):

	December 31,	
	2011	2010
Deferred tax asset (current portion)	$ 55	$ 63
Deferred tax asset, net of current portion	446	325
Accrued liabilities (current deferred tax liability)	(131)	—
Net deferred tax asset after valuation allowance	$ 370	$ 388

The differences between the U.S. federal statutory income tax rate to the Company's effective tax are as follows:

	Year Ended December 31,		
	2011	2010*	2009*
U.S. federal statutory income tax rate	35.00%	35.00%	35.00%
State tax rate, net of federal benefit	2.56	2.81	(0.38)
Benefit for research and development credit	6.02	2.97	1.05
Changes in unrecognized tax benefits	(0.02)	2.59	0.71
Tax-exempt interest	0.19	0.98	5.42
Meals and entertainment	(0.88)	(0.63)	(0.76)
Foreign income inclusion	(2.15)	—	(0.32)
Income tax refund	2.34	(1.13)	11.00
Stock-based compensation	(9.64)	(1.54)	(8.91)
Adjustment to beginning deferreds for state rate changes	4.30	(0.53)	(0.47)
Tax effect of other comprehensive income	(2.01)	—	—
Valuation allowance	(37.54)	(38.31)	(142.18)
Other	(0.65)	(2.21)	(1.73)
Effective tax rate	(2.48)%	0.00%	(101.57)%

* Certain items have changed for classification purposes.

The Company recognizes deferred tax assets for the expected future tax consequences of temporary differences between the financial reporting and tax bases of assets and liabilities, and for operating losses and tax credit carryforwards. The Company records a valuation allowance to reduce the deferred tax assets to their estimated realizable value, when it is more likely than not that it will not be able to generate sufficient future taxable income to realize the net carrying value. The Company reviews the deferred tax asset and valuation allowance on a quarterly basis, and considers whether positive and negative evidence exists to effect the realization of deferred tax assets. After considering both the positive and negative evidence as of September 30, 2009, the Company determined that it was not more-likely-than-not that it would realize the full value of its deferred tax assets. As a result, the Company established a valuation allowance of $10.2 million against the net deferred tax asset balance as of December 31, 2008. In addition, the Company recorded a valuation allowance against its deferred tax assets generated in 2009, 2010 and 2011, which resulted in a valuation allowance of $21.6 million as of December 31, 2011.

As of December 31, 2011, the Company had cumulative net operating loss carry-forwards for federal and state income tax reporting purposes of approximately $24.0 million and $9.6 million, respectively. The federal net operating loss carry-forwards expire through the year 2031 and the state net operating loss carry-forwards expire at various dates through the year 2031. Such net operating losses consist of excess tax benefits from employee stock option exercises and have not been recorded in the Company's deferred tax assets. The Company will record approximately $3.9 million as a credit to additional paid in capital as and when such excess tax benefits are ultimately realized.

As of December 31, 2011, the Company had research and development tax credits for federal and state income tax purposes of approximately $3.2 million and $3.6 million, respectively. The federal research and development tax credits expire through the year 2031. The state research and development credits can be carried forward indefinitely, except for $284,000, which will expire at various dates through the year 2020. The Company maintained a valuation allowance against these tax credits as of December 31, 2011. The Tax Reform Act of 1986 and similar state provisions limit the use of net operating loss carryforwards in certain situations where equity transactions result in a change of ownership as defined by Internal Revenue Code Section 382. In the event the Company should experience an ownership change, as defined, utilization of its federal and state net operating loss carryforwards could be limited.

Undistributed earnings of the Company's foreign subsidiaries net of foreign income inclusion of approximately $2.7 million at December 31, 2011, are considered to be indefinitely reinvested and, accordingly, no provision for federal and state income taxes has been provided thereon. Upon distribution of those earnings in the form of dividends or otherwise, the Company would be subject to both U.S. income taxes (subject to an adjustment for foreign tax credits) and withholding taxes payable to various foreign countries.

Uncertain Tax Positions

The Company establishes reserves for uncertain tax positions in accordance with the ASC. The subtopic prescribes the minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. Additionally, the subtopic provides guidance on derecognition, measurement, classification, interest and penalties, and transition of uncertain tax positions. The impact of an uncertain income tax position on income tax expense must be recognized at the largest amount that is more-likely-than-not to be sustained. An uncertain income tax position will not be recognized if it has less than a 50% likelihood of being sustained. The Company has provided taxes and related interest and penalties due for potential adjustments that may result from examinations of open U.S. Federal, state and foreign tax years. If the Company ultimately determines that payment of these amounts are not more-likely-than-not, the Company will reverse the liability and recognize a tax benefit during the period in which the Company makes the determination. The Company will record an additional charge in the Company's provision for taxes in the period in which the Company determines that the recorded tax liability is less than the Company expects the ultimate assessment to be. The Company's policy is to include interest and penalties related to gross unrecognized tax benefits within the provision for income taxes.

The following table summarizes the activity related to the Company's gross unrecognized tax benefits in December 31, 2009 to December 31, 2011 (in thousands):

	Year Ended December 31,		
	2011	2010	2009
Balance at beginning of year	$ 555	$ 787	$ 1,640
Increases related to prior year tax positions	—	—	88
Decreases related to prior year tax positions	—	(29)	(857)
Increases related to current year tax positions	44	24	29
Decreases related to lapsing of statute of limitations	(16)	(227)	(113)
Balance at end of year	$ 583	$ 555	$ 787

The Company's total unrecognized tax benefits that, if recognized, would affect its effective tax rate were approximately $400,000 and $405,000 as of December 31, 2011 and 2010, respectively. The Company had accrued approximately $79,000 and $71,000 for payment of interest as of December 31, 2011 and 2010, respectively. Interest included in the provision for income taxes was not significant in all the periods presented. The Company has not accrued any penalties related to its uncertain tax positions as it believes that it is more likely than not that there will not be any assessment of penalties. The Company expects that the amount of unrecognized tax benefits will not change within the next 12 months.

The Company files U.S., state, and foreign income tax returns in jurisdictions with varying statutes of limitations. The 2004 through 2011 tax years generally remain subject to examination by U.S., federal and most state tax authorities due to the Company's net operating loss and credit carryforwards. For significant foreign jurisdictions, the 2006 through 2011 tax years generally remain subject to examination by their respective tax authorities.

NOTE 8—NET LOSS PER SHARE

Basic net loss per share is calculated by dividing net loss by the weighted-average number of common shares outstanding during the year. Diluted net income per share is calculated by using the weighted-average number of common shares outstanding during the year increased to include the number of additional shares of common stock that would have been outstanding if the dilutive potential shares of common stock had been issued. The dilutive effect of outstanding options, Employee Stock Purchase Plan shares and restricted stock units is reflected in diluted net income per share by application of the treasury stock method, which includes consideration of stock-based compensation.

For years presented with a net loss, diluted net loss per common share is the same as basic net loss per common share, as the effect of the potential common stock equivalents is anti-dilutive and as such is excluded from the calculations of the diluted net loss per share.

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):

	Year Ended December 31,		
	2011	2010	2009
Numerator:			
Net loss—basic and diluted	$ (10,061)	$ (10,518)	$ (17,679)
Denominator:			
Weighted-average number of common shares outstanding used in computing basic net loss per share	13,807	13,540	13,279
Dilutive potential common shares used in computing diluted net loss per share	—	—	—
Total weighted-average number of shares used in computing diluted net loss per share	13,807	13,540	13,279

Anti-dilutive Securities

The following number of weighted 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 years presented because including them would have had an anti-dilutive effect (in thousands):

	Year Ended December 31,		
	2011	2010	2009
Options to purchase common stock	3,667	3,187	2,746
Restricted stock units	61	48	5
Employee stock purchase plan shares	70	66	84
Total	3,798	3,301	2,835

NOTE 9—DEFINED CONTRIBUTION PLAN

In the United States, the Company has an employee savings plan (401(k) Plan) that qualifies as a deferred salary arrangement under Section 401(k) of the Internal Revenue Code. Eligible employees may make voluntary contributions to the 401(k) Plan up to 100% of their annual compensation, subject to statutory annual limitations. From April 1999 to December 31, 2008, the Company made discretionary matching contributions of 50% to 75% of all U.S. employees' contributions in each 401(k) Plan year. The Company made no discretionary contributions in 2011, 2010 and 2009 under the 401(k) Plan.

For the Company's Japanese subsidiary, it has established an employee retirement plan at its discretion. In addition, for some of the Company's other foreign subsidiaries, the Company deposits funds with insurance companies, third-party trustees, or into government-managed accounts consistent with the requirements of local laws. The Company has fully funded or accrued for its obligations as of December 31, 2011, and the related expense for each of the three years then ended was not significant.

NOTE 10—SEGMENT, GEOGRAPHIC AND MAJOR CUSTOMER INFORMATION

In accordance with the FASB ASC 280 guidance on disclosures about segments of an enterprise and related information, operating segments are identified as components of an enterprise about which separate discrete financial information is available for evaluation by the chief operating decision maker, or decision-making group, in making decisions how to allocate resources and assess performance. The Company's chief decision maker, as defined under the FASB's ASC 280 guidance, is a combination of the Chief Executive Officer and the Executive Vice President and Chief Financial Officer. To date, the Company has viewed its operations, managed its business, and used one measurement of profitability for the one operating segment – the sale of aesthetic medical equipment and services, and distribution of cosmeceutical and dermal filler products, to qualified medical practitioners. In addition, substantially all of the Company's long-lived assets are located in the United States. As a result, the financial information disclosed in the Company's Consolidated Financial Statements represents all of the material financial information related to the Company's operating segment. The following table summarizes revenue by geographic region, which is based on the shipping location of where the product is delivered, and product category (in thousands):

	Year Ended December 31,		
	2011	2010	2009[1]
Revenue mix by geography:			
United States	$ 23,313	$ 19,337	$ 21,019
Japan	15,019	13,625	9,636
Asia, excluding Japan	4,984	5,131	4,727
Europe	3,571	5,801	7,087
Rest of the world	13,403	9,380	11,213
Consolidated total	$ 60,290	$ 53,274	$ 53,682
Revenue mix by product category:			
Products	$ 33,703	$ 27,808	$ 26,842
Upgrades	3,505	4,824	6,343
Service	13,411	13,231	13,186
Titan hand piece refills	4,686	3,863	5,599
Dermal filler and cosmeceuticals[1]	4,985	3,548	1,712
Consolidated total	$ 60,290	$ 53,274	$ 53,682

(1) Beginning in 2010, we classified revenue from dermal fillers and cosmeceuticals product in the revenue category 'Dermal fillers and cosmeceuticals.' Previously, we classified this revenue under the category of 'Products.' As such, we reclassified the 2009 revenue from 'Products' to 'Dermal fillers and cosmeceuticals.'

The Company had one customer that accounted for 8% at December 31, 2011 and 10% at December 31, 2010 of the Company's total accounts receivable balance.

NOTE 11—COMMITMENTS AND CONTINGENCIES

Facility Leases

As of December 31, 2011, the Company was committed to minimum lease payments for facilities and other leased assets under long-term non-cancelable operating leases as follows (in thousands):

Year Ending December 31,	Amount
2012	$ 1,680
2013	1,739
2014	1,717
2015	1,370
2016	1,310
2017 and thereafter	1,346
Future minimum rental payments	$ 9,162

Gross rent expense was $1.9 million in 2011, $1.7 million in 2010 and $1.6 million in 2009.

Purchase Commitments

The Company maintains certain open inventory purchase commitments with its suppliers to ensure a smooth and continuous supply for key components. The Company's liability in these purchase commitments is generally restricted to a forecasted time-horizon as agreed between the parties. These forecasted time-horizons can vary among different suppliers. The Company's open inventory purchase commitments with its suppliers were not significant at December 31, 2011.

Indemnifications

In the normal course of business, the Company enters into agreements that contain a variety of representations, warranties, and indemnification obligations. For example, the Company has entered into indemnification agreements with each of its directors and executive officers. The Company's exposure under its various indemnification obligations is unknown and not reasonably estimable as they involve future claims that may be made against the Company. As such, the Company has not accrued any amounts for such obligations.

Litigation

A Telephone Consumer Protection Act, or TCPA, class action lawsuit was filed against the Company in January 2008 and settled in 2009 on a class-wide basis. In 2009, the Company paid a total of $950,000 in exchange for a full release of all claims and recorded a charge of $850,000 in its 2009 Consolidated Statements of Operations for the cost of the settlement, net of the administrative expenses and contributions from its insurance carrier.

Other Legal Matters

In addition to the foregoing lawsuits, the Company is named from time to time as a party to product liability and contractual lawsuits in the normal course of its business. As of December 31, 2011, the Company was not a party to any pending litigation that the Company believes will have a material impact to its results of operations other than those described above in the "Litigation" section.

NOTE 12—SUBSEQUENT EVENT

On February 2, 2012, the Company completed the acquisition of certain assets of IRIDEX Corporation's global aesthetic business for $5.1 million in cash. The company will account for this acquisition as a business combination.

SUPPLEMENTARY FINANCIAL DATA (UNAUDITED)
(In thousands, except per share amounts)

Quarter ended:	Dec. 31, 2011	Sept. 30, 2011	June 30, 2011	March 31, 2011	Dec. 31, 2010	Sept. 30, 2010	June 30, 2010	March 31, 2010
Net revenue	$ 18,542	$ 15,232	$ 14,895	$ 11,621	$ 15,216	$ 12,092	$ 12,217	$ 13,749
Cost of revenue	7,506	6,772	6,476	5,224	6,233	5,661	5,335	5,829
Gross profit	11,036	8,460	8,419	6,397	8,983	6,431	6,882	7,920
Operating expenses:								
Sales and marketing	6,779	6,426	6,348	5,946	6,123	5,799	6,452	6,361
Research and development	2,313	2,352	2,346	2,130	2,173	1,871	1,506	1,454
General and administrative	2,878	2,310	2,588	2,328	2,238	2,352	2,744	2,242
Litigationsettlement	—	—	—	—	—	—	—	—
Total operating expense	11,970	11,088	11,282	10,404	10,534	10,022	10,702	10,057
Loss from operations	(934)	(2,628)	(2,863)	(4,007)	(1,551)	(3,591)	(3,820)	(2,137)
Interest and other income, net	140	91	199	184	144	132	141	166
Loss before income taxes	(794)	(2,537)	(2,664)	(3,823)	(1,407)	(3,459)	(3,679)	(1,971)
Provision (benefit) for income taxes	93	326	(208)	32	(127)	—	82	47
Net loss	$ (887)	$ (2,863)	$ (2,456)	$ (3,855)	$ (1,280)	$ (3,459)	$ (3,761)	$ (2,018)
Net loss per share—basic	$ (0.06)	$ (0.21)	$ (0.18)	$ (0.28)	$ (0.09)	$ (0.25)	$ (0.28)	$ (0.15)
Net loss per share—diluted	$ (0.06)	$ (0.21)	$ (0.18)	$ (0.28)	$ (0.09)	$ (0.25)	$ (0.28)	$ (0.15)
Weighted average number of shares used in per share calculations:								
Basic	13,930	13,862	13,765	13,667	13,622	13,589	13,501	13,438
Diluted	13,930	13,862	13,765	13,667	13,622	13,589	13,501	13,438

SCHEDULE II

CUTERA, INC.

VALUATION AND QUALIFYING ACCOUNTS
(in thousands)
For the Years Ended December 31, 2011, 2010 and 2009

	Balance at Beginning of Year	Additions	Deductions	Balance at End of Year
Deferred tax assets valuation allowance				
Year ended December 31, 2011	$ 17,868	$ 4,148	$ 463	$ 21,553
Year ended December 31, 2010	$ 13,838	$ 5,347	$ 1,317	$ 17,868
Year ended December 31, 2009	$ 1,367	$ 13,131	$ 660	$ 13,838

	Balance at Beginning of Year	Additions	Deductions	Balance at End of Year
Allowance for doubtful accounts receivable				
Year ended December 31, 2011	$ 20	$ 39	$ 51	$ 8
Year ended December 31, 2010	$ 586	$ 116	$ 682	$ 20
Year ended December 31, 2009	$ 61	$ 675	$ 150	$ 586

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Attached as exhibits to this Annual Report are certifications of the Company's Chief Executive Officer (CEO) and Chief Financial Officer (CFO), which are required in accordance with Rule 13a-14 of the Securities Exchange Act of 1934, as amended (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.

The Company conducted an evaluation of the effectiveness of the design and operation of its disclosure controls and procedures (as defined in the Rules 13a-15(e) and 15d-15(e) under the Exchange Act) (Disclosure Controls) as of the end of the period covered by this Report required by Exchange Act Rules 13a-15(b) or 15d-15(b). The controls evaluation was conducted under the supervision and with the participation of the Company's management, including the CEO and CFO. Based on this evaluation, the CEO and our CFO have concluded that as of the end of the period covered by this report the Company's disclosure controls and procedures were effective at a reasonable assurance level.

Definition of Disclosure Controls

Disclosure Controls are controls and procedures designed to reasonably assure that information required to be disclosed in the Company's reports filed under the Exchange Act, such as this Report, is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Disclosure Controls are also designed to reasonably assure that such information is accumulated and communicated to the Company's management, including the CEO and CFO, as appropriate to allow timely decisions regarding required disclosure. The Company's Disclosure Controls include components of its internal control over financial reporting, which consists of control processes designed to provide reasonable assurance regarding the reliability of its financial reporting and the preparation of financial statements in accordance with generally accepted accounting principles in the U.S. To the extent that components of the Company's internal control over financial reporting are included within its Disclosure Controls, they are included in the scope of the Company's annual controls evaluation.

Management's Report on Internal Control over Financial Reporting

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. Under the supervision and with the participation of the Company's management, including the CEO and CFO, the Company conducted an evaluation of the effectiveness of its internal control over financial reporting based on criteria established in the framework in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, the Company's management concluded that the Company's internal control over financial reporting was effective as of December 31, 2011. The effectiveness of our internal control over financial reporting as of December 31, 2011 has been audited by PricewaterhouseCoopers LLP, an Independent Registered Public Accounting Firm, as stated in their report, which is included herein.

Limitations on the Effectiveness of Controls

The Company's management, including the CEO and CFO, does not expect that the Company's disclosure controls or internal control over financial reporting will prevent all error and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision making can be faulty and that breakdowns can occur because of simple error or mistake. Controls can also be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. The design of any system of controls is based in part on certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with policies or procedures. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

Changes in Internal Control over Financial Reporting

There were no changes in the Company's internal control over financial reporting that occurred during the most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

The Company has established that the 2012 Annual Meeting of Stockholders will be held at its principal executive offices located at 3240 Bayshore Blvd., Brisbane, CA 94005-1021 on June 13, 2012 at 10:00 a.m. and the record date for the purposes of voting in that meeting shall be April 16, 2012.

PART III

Certain information required by Part III is omitted from this Annual Report on Form 10-K because we will file a Definitive Proxy Statement (the "Proxy Statement") for our 2012 Annual Meeting of Stockholders with the Securities and Exchange Commission within 120 days after the end of our fiscal year ended December 31, 2011.

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by this Item is incorporated herein by reference to the Proxy Statement.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this Item is incorporated herein by reference to the Proxy Statement.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by this Item is incorporated herein by reference to the Proxy Statement.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required by this Item is incorporated herein by reference to the Proxy Statement.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information required by this Item is incorporated herein by reference to the Proxy Statement.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(1) The financial statements required by Item 15(a) are filed as Item 8 of this annual report.

(2) The financial statement schedule required by Item 15(a) filed as Item 8 of this annual report.

(3) Exhibits.

Exhibit No.	Description
3.2[1]	Amended and Restated Certificate of Incorporation of the Registrant (Delaware).
3.4[1]	Bylaws of the Registrant.
4.1[4]	Specimen Common Stock certificate of the Registrant.
10.1[1]	Form of Indemnification Agreement for directors and executive officers.
10.2[1]	1998 Stock Plan.
10.3[1]	2004 Equity Incentive Plan.
10.4[5]	2004 Employee Stock Purchase Plan.
10.6[1]	Brisbane Technology Park Lease dated August 5, 2003 by and between the Registrant and Gal-Brisbane, L.P. for office space located at 3240 Bayshore Boulevard, Brisbane, California.
10.10[2]	Settlement Agreement and Non-Exclusive Patent License, each between the Registrant and Palomar Medical Technologies, Inc. dated June 2, 2006.
10.11[3]	Form of Performance Unit Award Agreement.
10.13[4]†	Distribution Agreement between the Registrant and PSS World Medical Shared Services, Inc., a subsidiary of PSS World Medical dated October 1, 2006.
10.14[6]	Cutera, Inc. 2004 Equity Incentive Plan, as amended by its Board of Directors on April 25, 2008.
10.18[7]	Consulting Agreement dated March 2, 2009 by and between the Company and David A. Gollnick.
10.19[8]	First Amendment to Brisbane Technology Park Lease dated August 11, 2010 by and between the Company and BMR-Bayshore Boulevard LLC, as successor-in-interest to Gal-Brisbane, L.P., the original landlord, for office space located at 3240 Bayshore Boulevard.
10.20[9]	Change of Control and Severance Agreement dated January 5, 2011 by and between the Company and Len DeBenedictis, Chief Technology Officer of Cutera, Inc.
23.1	Consent of Independent Registered Public Accounting Firm.
24.1	Power of Attorney (see page 88).
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

(1) Incorporated by reference from our Registration Statement on Form S-1 (Registration No. 333-111928) which was declared effective on March 30, 2004.
(2) Incorporated by reference from our Current Report on Form 8-K filed on June 2, 2006.
(3) Incorporated by reference from our Quarterly Report on Form 10-Q filed on November 14, 2005.
(4) Incorporated by reference from our Quarterly Report on Form 10-Q filed on November 8, 2006.
(5) Incorporated by reference from our 2006 Annual Report on Form 10-K filed on March 16, 2007.
(6) Incorporated by reference from our Definitive Proxy Statement on Form 14A filed with the SEC on April 28, 2008.
(7) Incorporated by reference from our Current Report on Form 8-K filed on March 4, 2009.
(8) Incorporated by reference from our Quarterly Report on Form 10-Q filed on November 1, 2010.
(9) Incorporated by reference from our 2010 Annual Report on Form 10-K filed on March 15, 2011.
† Confidential Treatment has been requested for certain portions of this exhibit.

SIGNATURES

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 15th day of March, 2012.

CUTERA, INC.

By: */s/ KEVIN P. CONNORS*
Kevin P. Connors
President and Chief Executive Officer

Power of Attorney

KNOW ALL MEN AND WOMEN BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Kevin P. Connors, his attorney-in-fact, for him or her in any and all capacities, to sign any amendments to this Annual Report on Form 10-K, and to file the same, with exhibits thereto and other documents in connection therewith, with the U.S. Securities and Exchange Commission, hereby ratifying and confirming all that said attorney-in-fact, or his substitute, may do or cause to be done by virtue thereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ KEVIN P. CONNORS ***Kevin P. Connors***	President, Chief Executive Officer and Director (Principal Executive Officer)	March 15, 2012
/s/ RONALD J. SANTILLI ***Ronald J. Santilli***	Executive Vice President and Chief Financial Officer (Principal Accounting Officer)	March 15, 2012
David B. Apfelberg	Director	March 15, 2012
/s/ GREGORY A. BARRETT ***Gregory A. Barrett***	Director	March 15, 2012
/s/ DAVID A. GOLLNICK ***David A. Gollnick***	Director	March 15, 2012
/s/ MARK LORTZ ***Mark Lortz***	Director	March 15, 2012
/s/ TIM O'SHEA ***Tim O'Shea***	Director	March 15, 2012
/s/ JERRY P. WIDMAN ***Jerry P. Widman***	Director	March 15, 2012

EXHIBIT 31.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER
PURSUANT TO 15 U.S.C. SECTION 7241, AS
ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Kevin P. Connors, certify that:

1. I have reviewed this annual report on Form 10-K 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 our 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 our 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 our 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 fourth 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 our 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: March 15, 2012

/s/ KEVIN P. CONNORS

Kevin P. Connors
President, Chief Executive Officer and Director
(Principal Executive Officer)

EXHIBIT 31.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER
PURSUANT TO 15 U.S.C. SECTION 7241, AS
ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Ronald J. Santilli, certify that:

1. I have reviewed this annual report on Form 10-K 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 our 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 our 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 our 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 fourth 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 our 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 any other 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: March 15, 2012

/s/ RONALD J. SANTILLI

Ronald J. Santilli
Chief Financial Officer and Executive Vice President
(Principal Financial and Accounting Officer)

EXHIBIT 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

In connection with the annual report on Form 10-K of Cutera, Inc. a Delaware corporation, for the period ended December 31, 2011, as filed with the Securities and Exchange Commission, each of the undersigned officers of Cutera, Inc. certifies pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to his respective knowledge:

(1) the annual report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
(2) the information contained in the annual report fairly presents, in all material respects, the financial condition and results of operations of Cutera, Inc. for the periods presented therein.

Date: March 15, 2012

/s/ Kevin P. Connors
Kevin P. Connors
President, Chief Executive Officer and Director
(Principal Executive Officer)

Date: March 15, 2012

/s/ Ronald J. Santilli
Ronald J. Santilli
Chief Financial Officer and Executive Vice President
(Principal Financial and Accounting Officer)

Corporate Information (as of April 30, 2012)

BOARD OF DIRECTORS

Kevin P. Connors, President and Chief Executive Officer, Cutera, Inc.
David B. Apfelberg, MD[2,4], Clinical Professor of Plastic Surgery, Stanford University Medical Center
Gregory Barrett[2], President and Chief Executive Officer, BÂRRX Medical (recently acquired by Covidien)
David A. Gollnick, Former Executive Vice President of Research and Development at Cutera, Inc.
Mark Lortz[1], Former Chief Executive Officer, TheraSense, Inc.
Timothy J. O'Shea[1], Managing Director, Oxo Capital
Jerry P. Widman[1,2,3] , Former Chief Financial Officer, Ascension Health

1-Audit Committee member
2-Compensation Committee member
3-Chairman of Audit Committee
4-Chairman of Compensation Committee

MANAGEMENT TEAM

Kevin P. Connors, President, Chief Executive Officer and Director
Ronald J. Santilli, Executive Vice President and Chief Financial Officer
Leonard C. DeBenedictis, Chief Technology Officer

ANNUAL MEETING

Annual meeting of stockholders will be held on June 13, 2012, 10:00 a.m. (PDT) at: 3240 Bayshore Blvd., Brisbane, California 94005.

TRANSFER AGENT

Computershare Trust Company, Inc.
350 Indiana St., Suite 800
Golden, Colorado 80401
303-262-0600

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

2012- Ernst & Young LLP,
Redwood City, California
2011- PricewaterhouseCoopers LLP,
San Jose, California

CORPORATE LEGAL COUNSEL

Wilson, Sonsini, Goodrich & Rosati, P.C., Palo Alto, California

CORPORATE/STOCKHOLDER INFORMATION

Our Form 10-K was filed with the Securities and Exchange Commission on March 15, 2012. For additional copies of this report, Form 10-K, or other financial information, without charge, please visit the Investor Relations page on our website at: www.cutera.com or write to ir@cutera.com.

STOCK LISTING AND MARKET DATA

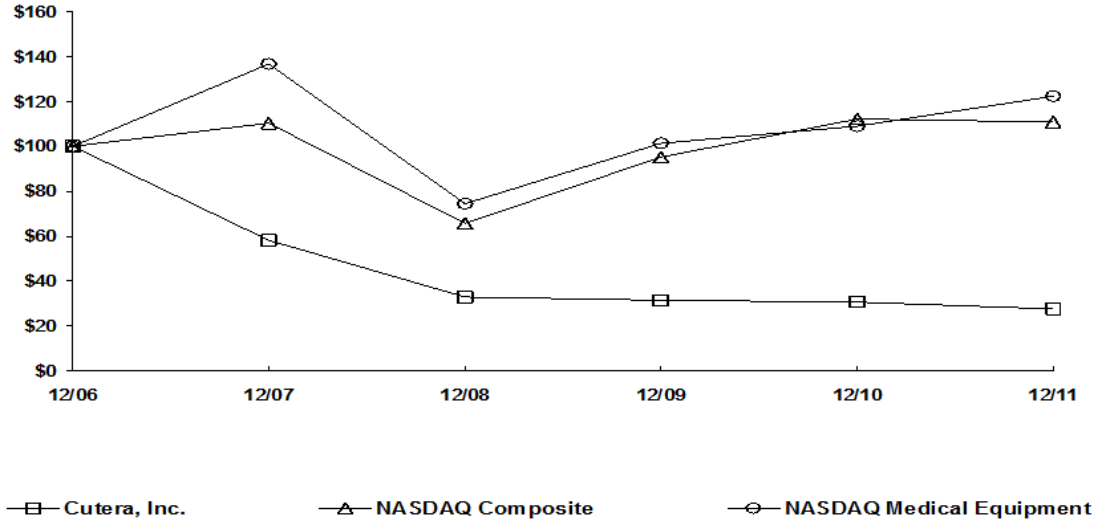
Our common stock is traded on The NASDAQ Global market under the symbol "CUTR." We have not declared or paid any cash dividends on our capital stock since our inception. We currently expect to retain future earnings, if any, for use in the operation and expansion of our business and do not anticipate paying any cash dividends in the foreseeable future. As of February 29, 2012, we believe there were approximately 2,000 holders of record of our common stock.

The following table sets forth quarterly high and low closing sales prices per share of our common stock as reported on The NASDAQ Global Market for the periods indicated.

	Common Stock			
	2011		2010	
	High	Low	High	Low
4th Qtr.	$ 7.93	$ 6.96	$ 8.39	$ 7.01
3rd Qtr.	8.74	7.03	9.00	6.99
2nd Qtr.	9.46	7.59	12.04	8.62
1st Qtr.	9.94	8.08	11.03	8.25

COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN*

Among Cutera, Inc., the NASDAQ Composite Index, and the NASDAQ Medical Equipment Index



*$100 invested on 12/31/06 in stock or index, including reinvestment of dividends.
Fiscal year ending December 31.