

CUTERA

CUTERA, INC.
2017 PROXY STATEMENT AND 2016 ANNUAL REPORT

CUTERA

Dear Stockholders:

You are cordially invited to attend the 2017 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 14, 2017 at 9:00 a.m. Pacific Time.

The attached Notice of 2017 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 2016 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,



James Reinstein,
President and Chief Executive Officer

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**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[®]

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):

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

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(1) Amount Previously Paid:

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

(3) Filing Party:

(4) Date Filed:

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NOTICE OF 2017 ANNUAL MEETING OF STOCKHOLDERS TO BE HELD ON

JUNE 14, 2017

at 9:00 A.M. Pacific Time

To our Stockholders:

You are cordially invited to attend the 2017 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 14, 2017 at 9:00 a.m. Pacific Time, for the following purposes:

1. Approve the Second Amended and Restated Certificate of Incorporation (the “Second Amended and Restated Certificate”) to declassify the board of directors;
2. Elect three Class I directors to each serve for a three-year term that expires at the 2020 Annual Meeting of Stockholders and until their successors have been duly elected and qualified;
3. Ratify the selection of BDO USA, LLP as the independent registered public accounting firm of the Company (the “Independent Registered Public Accounting Firm”) for the fiscal year ending December 31, 2017;
4. Approve the Amended and Restated 2004 Equity Incentive Plan;
5. Hold a non-binding advisory vote on the compensation of Named Executive Officers; and
6. 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, our 2016 Annual Report and a form of proxy card or voting instruction card (collectively referred to as “Proxy Material”). The notice will have instructions on how to access our Proxy Material over the internet and instructions on how stockholders can receive a paper copy of our Proxy Materials if so desired.

The meeting will begin promptly at 9:00 a.m., local time, and check-in will begin at 8:50 a.m. local time. Only holders of record of shares of our common stock (NASDAQ: CUTR) at the close of business on April 17, 2017 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,

President and Chief Executive Officer

Brisbane, California
May 1, 2017

YOUR VOTE IS IMPORTANT!

YOU ARE CORDIALLY INVITED TO ATTEND THE MEETING IN PERSON. WHETHER OR NOT YOU EXPECT TO ATTEND THE MEETING, PLEASE COMPLETE, DATE, SIGN AND RETURN THE ENCLOSED PROXY, OR VOTE OVER THE TELEPHONE OR THE INTERNET AS INSTRUCTED IN THESE MATERIALS, AS PROMPTLY AS POSSIBLE IN ORDER TO ENSURE YOUR REPRESENTATION AT THE MEETING. A RETURN ENVELOPE (WHICH IS POSTAGE PREPAID IF MAILED IN THE UNITED STATES) HAS BEEN PROVIDED FOR YOUR CONVENIENCE. EVEN IF YOU HAVE VOTED BY PROXY, YOU MAY STILL VOTE IN PERSON IF YOU ATTEND THE MEETING. PLEASE NOTE, HOWEVER, THAT IF YOUR SHARES ARE HELD OF RECORD BY A BROKER, BANK OR OTHER NOMINEE AND YOU WISH TO VOTE AT THE MEETING, YOU MUST OBTAIN A PROXY ISSUED IN YOUR NAME FROM THAT RECORD HOLDER.

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**PROXY STATEMENT
FOR
2017 ANNUAL MEETING OF STOCKHOLDERS
TO BE HELD ON JUNE 14, 2017**

The Board of Directors (“Board”) of Cutera, Inc., a Delaware corporation, is soliciting your proxy to vote at our 2017 Annual Meeting of Stockholders to be held on Wednesday, June 14, 2017, beginning at 9:00 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, 2016, filed with the U.S. Securities and Exchange Commission (the “SEC”) on March 15, 2017, and the term “Annual Meeting” means our 2017 Annual Meeting of Stockholders.

We are sending the Notice of Internet Availability of Proxy Materials on or about May 5, 2017, to all stockholders of record at the close of business on April 17, 2017 (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 17, 2017). 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, along with instructions regarding procedures designed to ensure the authenticity and correctness of your proxy vote.

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 prior to the Record Date 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 9:00 a.m., local time. Check-in will begin at 8:50 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, 13,844,338 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 13,844,338 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 6,922,170 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. Approval of the Second Amended and Restated Certificate to declassify the Board of directors;
 2. Election of three nominees to serve as Class I directors on our Board;
 3. Ratification of BDO USA, LLP (“BDO”) as the Independent Registered Public Accounting Firm for the fiscal year ending December 31, 2017;
 4. Approval of the Amended and Restated 2004 Equity Incentive Plan;
 5. Non-binding advisory vote on the compensation of Named Executive Officers; and
 6. 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.

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 the Second Amended and Restated Certificate of Incorporation to declassify the Board, “FOR” the ratification of BDO as the Independent Registered Public Accounting Firm for the fiscal year ending December 31, 2017, “FOR” the approval of the Amended and Restated 2004 Equity Incentive Plan, and “FOR” the Non-binding advisory vote on the compensation of our Named Executive Officers.

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 the individuals listed on the proxy card 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:

Approval of the Second Amended and Restated Certificate of Incorporation. The affirmative “FOR” vote of 66 2/3% of the outstanding shares of Cutera 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.”

Election of Directors. Each director nominee receiving affirmative “FOR” votes in excess of “Against” votes at the meeting (a majority of votes cast) will be elected to serve as a Class I director. 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.

Ratification of BDO as our Independent Registered Public Accounting Firm for the fiscal year ending December 31, 2017. 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.”

Approval of the Amended and Restated 2004 Equity Incentive Plan. 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.”

Non-binding advisory vote on the compensation of our Named Executive Officers. 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” the approval of the Second Amended and Restated Certificate, “FOR” all of the Company’s nominees to the Board, “FOR” ratification of BDO as our Independent Registered Public Accounting Firm, “FOR” the approval of the Amended and Restated 2004 Equity Incentive Plan, “FOR” the approval, by non-binding vote, of executive compensation, 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 approval of the Second Amended and Restated Certificate, the election of directors, the approval of the Amended and Restated 2004 Equity Incentive Plan, or 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 BDO as the Independent Registered Public Accounting Firm.

However, if you do not instruct your broker how to vote with respect to the approval of the Second Amended and Restated Certificate, the election of directors, the approval of the Amended and Restated 2004 Equity Incentive Plan, and the non-binding vote on executive compensation, 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 the presence of a quorum, 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 five 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, James A. Reinstein, President and Chief Executive Officer, and Gregory Barrett, one of our Directors, with full power of substitution, 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 and Legal 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 2018, the written proposal must be received by our corporate Secretary at our principal executive offices no later than January 5, 2018, 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 the close of business on the later of 120 calendar days in advance of such annual meeting and 10 days following the date on which public announcement of the date of the meeting is first made. 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 5, 2018 unless 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.

Copy of Bylaw Provisions: Our bylaws are available on the Investor page of our website at www.cutera.com. You may also 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 50 (including our Chief Executive Officer (“CEO”) and our Chief Financial Officer (“CFO”));
- each of our directors; and
- all of our directors and Named Executive Officers (“NEOs”) 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 17, 2017 (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 13,846,414 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	Approximate Percent Owned
		Exercisable Within 60 Days	
BlackRock, Inc.	1,343,378	—	9.7%
Renaissance Technologies, LLC	1,063,260	—	7.7%
Dimensional Fund Advisors LP	913,450	—	6.6%
David B. Apfelberg, M.D.	4,204	5,550	*
Gregory Barrett	26,254	19,550	*
David A. Gollnick	71,182	5,550	*
Larry E. Laber	21,176	21,999	*
Timothy J. O’Shea	36,158	5,550	*
Miguel A. Pardos	15,198	22,042	*
J. Daniel Plants	— ⁽¹⁾	14,884	*(1)
James A. Reinstein	2,400	—	*
Clint H. Severson	4,000	14,884	*
Ronald J. Santilli	76,967	53,600	*
Jerry P. Widman	35,358	5,550	*
All directors and Named Executive Officers as a group (11 persons).....	292,897	169,159	3.3%

*Less than 1%.

(1) Mr. Plants is the Managing Partner of Voce Capital Management LLC, the holder of 477,031 shares (approximately 3.4%) of our outstanding common stock as of the Record Date. While Mr. Plants has disclaimed beneficial ownership of the shares owned by Voce Capital Management LLC, except to the extent of his pecuniary interest therein, he has the sole or shared voting power of these shares.

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, 2016 all reports were timely filed except that the following Form 4s were not timely filed due to an administrative error by the Company.

- (i) Mr. Gollnick and Mr. Santilli's Form 4 filed on November 3, 2016 related to the grant of restricted stock units awarded on October 28, 2016.
- (ii) Mr. Santilli's Form 4 filed on May 1, 2017 for his purchase of stock pursuant to the Company's Employee Stock Purchase Plan on May 2, 2016, the Company's withholding of shares for satisfying the minimum tax liability upon the vesting of his restricted stock units on June 1, 2016 and January 1, 2017.

CORPORATE GOVERNANCE AND BOARD MATTERS

Director Independence

Our common stock is listed on the NASDAQ Stock Market ("NASDAQ"). Under the NASDAQ listing standards, independent directors must comprise a majority of a listed company's board of directors. In addition, the NASDAQ listing standards require that, subject to specified exceptions, each member of a listed company's audit, compensation, and nominating and corporate governance committees be independent. Under the NASDAQ listing standards, a director will only qualify as an "independent director" if, in the opinion of that listed company's board of directors, that director does not have a relationship that would interfere with the exercise of independent judgment in carrying out the responsibilities of a director.

Audit committee members must also satisfy the additional independence criteria set forth in Rule 10A-3 under the Exchange Act, and the NASDAQ listing standards. Compensation committee members must also satisfy the additional independence criteria set forth in Rule 10C-1 under the Exchange Act and the NASDAQ listing standards.

Our Board has undertaken a review of the independence of each of our directors. The Company's directors are David B. Apfelberg, M.D., Gregory Barrett, David A. Gollnick, Timothy J. O'Shea, J. Daniel Plants, James A. Reinstein, Clint H. Severson, and Jerry P. Widman. Based on information provided by each director concerning his background, employment and affiliations, our Board has determined that each of the directors other than James A. Reinstein, the Company's President and CEO, and David A. Gollnick, the Company's former Vice President of North American Sales and former Executive Vice President of Research and Development, satisfy the current "independent director" standards established by NASDAQ.

Board Leadership Structure

The roles of Chairman of the Board and Chief Executive Officer are currently filled by separate individuals. Our Board believes that the separation of the offices of the Chairman and Chief Executive Officer is appropriate at this time because it allows our Chief Executive Officer to focus primarily on our business strategy, operations and corporate vision. However, our Board does not have a policy mandating the separation of the roles of Chairman and Chief Executive Officer, though one can be established by the Board. Our Board elects our Chairman and Chief Executive Officer, and each of these positions may be held by the same person or by different people. We believe that it is important that the Board retain flexibility to determine whether these roles should be separate or combined based upon the Board's assessment of our needs and our leadership at a given point in time.

We believe that independent and effective oversight of our business and affairs is maintained through the composition of our Board, the leadership of our independent directors and the committees and our governance structures and processes already in place. The Board consists of a substantial majority of independent directors, and the committees of our Board are composed solely of independent directors.

Our Chairman of the Board is J. Daniel Plants. We believe Mr. Plants' qualifications to serve as our Chairman include his substantial experience as a strategic advisor and corporate attorney, as well as his role as the founder of a successful investment management firm and status as a significant Company stockholder, which bring valuable skills and perspective to the Board in the areas of finance, capital markets, strategy and corporate governance.

As described in more detail below, the Board has four standing committees: an Audit Committee, a Compensation Committee, a Nominating and Corporate Governance Committee and a Strategic Transactions Committee. As deemed advisable by the Board, various *ad hoc* committees may be established from time to time to accomplish a specific goal or purpose and cease to exist when that goal or purpose is realized. The chairman and each member of all 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

Risk is inherent with every business, and we face a number of risks, including strategic, financial, business and operational, political, regulatory, legal and compliance, and reputational. We have designed and implemented processes to manage risk in our operations. 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.

Our Board believes that open communication between management and our Board is essential for effective risk management and oversight. Our Board meets with our Chief Executive Officer and other members of the senior management team at meetings of our Board, where, among other topics, they discuss strategy and risks facing the Company, as well as at such other times as they deem appropriate.

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 risks associated with our cash investment policies, risks related to regulatory matters, and evaluating and advising on other matters. 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. The Strategic Transactions Committee evaluates business development opportunities from time to time, as well as any risks and benefits associated with acquiring potential targets, and reports back to the full Board with their recommendations.

Committees of the Board

Our Board has four standing committees: the Audit Committee, the Compensation Committee, the Nominating and Corporate Governance Committee and the Strategic Transactions Committee. Additionally, in 2016, the Board established the CEO Search committee. 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	Strategic Transactions Committee	CEO Search Committee
Non-Employee Directors:					
David B. Apfelberg, M.D.		X	X		
Gregory Barrett.....		X*	X		X*
David A. Gollnick					
Timothy J. O'Shea.....	X		X*	X	
J. Daniel Plants.....			X	X*	X
Clint H. Severson	X		X		X
Jerry P. Widman.....	X*	X	X		
Employee Director:					
James Reinstein					
Number of Meetings Held During the Last Fiscal Year	5	6	1	3	5
<i>X = Committee member</i> <i>* = Chairman of Committee</i>					

Audit Committee. The Audit Committee oversees the Company's accounting and financial reporting processes and the audits of its financial statements. The Audit Committee operates under a written charter adopted by the Board and a copy of the charter can be found on the Investor page, under the Corporate Governance section of our website at www.cutera.com. 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 report of the Audit Committee appears on page 16 of this proxy statement.

Compensation Committee. The Compensation Committee, together with our Board, establishes compensation for our CEO and the other executive officers and administers the Company's Amended and Restated 2004 Equity Incentive Plan and the 2004 Employee Stock Purchase Plan. Each member of the Compensation Committee meets the requirements for independence for compensation committee members under the NASDAQ listing standards and SEC rules and regulations, including Rule 10C-1 under the Exchange Act. Each member of our Compensation Committee is also a non-employee director, as defined pursuant to Rule 16b-3 promulgated under the Exchange Act, and an outside director, as defined pursuant to Section 162(m) of the Internal Revenue Code. The Compensation Committee has a written charter, which was adopted by our Board, and can be found on the Investor page, under the Corporate Governance section of our website at www.cutera.com. The report of the Compensation Committee appears on page 55 of this proxy statement.

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. Each member of our nominating and corporate governance committee meets the requirements for independence under the NASDAQ listing standards and SEC rules and regulations. The Nominating and Corporate Governance Committee has a written charter, which was adopted by our Board and can be found on the Investor page, under the Corporate Governance section of our website at www.cutera.com.

In October 2016, The Nominating and Corporate Governance Committee eliminated the lead independent director position, recommended that the Board approve the appointment of Mr. Plants as the Chairman of the Board, and approved the establishment of the CEO Search Committee. The Committee members approved the following compensation for the services to be provided by the respective directors for these positions as follows:

- Chairman of the Board - \$50,000 per year
- Chairman of the Search Committee- \$96,000 per year
- Each Member of the CEO Search Committee- \$48,000 per year.

Strategic Transactions Committee. The Strategic Transactions Committee reviews and evaluates any potential strategic business combination transactions as the possibilities arise and other related or pertinent strategic alternatives for the Company (which may include, but are not limited to, a merger, other business combination, recapitalization, acquisition, spin-off, split-off, acquisition of a subsidiary, division or unit, or other similar transaction).

CEO Search Committee. Following the departure of Mr. Connors, our former President and CEO, in August 2016, our Board established a CEO Search Committee comprised of Mr. Barrett as the Chairman, Mr. Plants and Mr. Severson. The CEO Search Committee hired a search recruiter to identify and evaluate potential candidates, conducted interviews, evaluated the compensation needed to recruit a qualified candidate and finally negotiated the compensation package of Mr. Reinstein, the replacement President and CEO hired in January 2017.

Meetings Attended by Directors

During 2016, the Board held 11 meetings, the Audit Committee held five meetings, the Compensation Committee held six meetings, the Strategic Transactions Committee held three meetings, the Nominating and Corporate Governance Committee held one meeting and the CEO Search Committee held five formal meetings. Each of the directors attended at least 95% of the meetings of the Board or committee(s) on which he served during 2016.

The directors of the Company are encouraged to attend the Company's Annual Meeting of Stockholders. In 2016, directors Mr. Connors and Mr. Plants attended the meeting in-person, Mr. Severson was not able to attend, and the remaining five directors attended the meeting telephonically.

Director Nomination Process

Director Qualifications. While the Nominating and Corporate Governance Committee has not established specific minimum qualifications for director candidates and does not maintain a specific policy with respect to Board diversity, 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 no later than January 5, 2018:

- 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 2017 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 shares of Cutera common stock which vest over a one-year period, awarded to our non-employee directors in the fiscal year ended December 31, 2016.

2016 Director Compensation Table

Name	Fees Earned or Paid in Cash ⁽¹⁾	Stock Awards ⁽²⁾	Option Awards	All Other Compensation ⁽³⁾	Total
David B. Apfelberg, M.D.	\$ 51,000	\$ 60,000	\$ —	\$ —	\$ 111,000
Gregory Barrett	85,000	60,000	—	—	145,000
David A. Gollnick	33,750	147,100 ⁽⁴⁾	—	182,100 ⁽³⁾	362,950
Timothy J. O'Shea	62,500	60,000	—	—	122,500
J. Daniel Plants	72,500	60,000	—	—	132,500
Clint H. Severson	62,500	60,000	—	—	122,500
Jerry P. Widman	71,000	60,000	—	—	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 shares of Cutera common stock which vest over a one-year period, awarded during the fiscal year ended December 31, 2016 to each of the non-employee directors. In addition, Mr. Gollnick received 6,500 Restricted Stock Units ("RSUs") on October 28, 2016 valued at \$87,100 which vest over a four year period for consulting services provided to the Company in 2016. The valuation of the equity awards were 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. Mr. Gollnick's fees of \$182,100 related to management consulting services provided to the Company
- (4) In addition to the \$60,000 of stock awards for serving on our Board, Mr. Gollnick was granted 6,500 Restricted Stock Units ("RSUs") valued at \$87,100 for consulting services provided to the Company in 2016.

Compensation of the Board of Directors for their position on the Board and its committees

For 2016, our non-employee directors earned the following compensens:

- \$45,000 for service as a Board member;
- \$6,000 additionally for service as a Compensation Committee member;
- \$7,500 additionally for service as an Audit Committee member;
- \$5,000 additionally for service as a Strategic Transactions Committee member;
- \$20,000 additionally for service as Chairman of the Audit Committee;
- \$20,000 additionally for service as Chairman of the Compensation Committee; and
- \$5,000 additionally for service as Chairman of the Nominating and Corporate Governance Committee.

In October 2016, the Nominating and Corporate Governance Committee recommended the appointment of Mr. Plants as the Chairman of the Board and that the compensation payable for this position shall be \$50,000 per year.

In October 2016, the Nominating and Corporate Governance Committee approved (with Mr. Plants, Mr. Barrett and Mr. Severson abstaining from the voting) the following compensation for the services provided by the CEO Search Committee members, with effect from August 15, 2016, as follows:

- Mr. Barrett for his role as Chairman- \$96,000 per year.
- Each of Mr. Plants and Mr. Severson for their role as members - \$48,000 per year.

Equity Awards for Members of the Board of Directors

Our Amended and Restated 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 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. These shares vest on the one-year anniversary of the grant date.

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 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

The Compensation Committee consists of the following members: David Apfelberg, M.D., Gregory Barrett and Jerry Widman. Neither any member of the Compensation Committee, nor any of our NEOs, has a relationship that would constitute an interlocking relationship with executive officers or directors of another entity.

None of the members of our Compensation Committee is or has been our officer or employee. None of our executive officers currently serves, or in the past year has served, as a member of the Board or Compensation Committee (or other Board committee performing equivalent functions) of any entity that has one or more of its executive officers serving on our Board or Compensation Committee.

Family Relationships

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

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, 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, 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 (April 27, 2012) 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.

As of April 17, 2017, the non-employee directors' holdings and target guidelines were as follows:

Non-Employee Directors	Stock Ownership as of April 17, 2017	Minimum Stock Ownership Required
David B. Apfelberg, M.D.....	4,204 ⁽⁴⁾	6,716
Gregory Barrett	26,254	6,716 ⁽¹⁾
David A. Gollnick	71,182	6,716 ⁽¹⁾
Timothy J. O'Shea	36,158	6,716 ⁽¹⁾
J. Daniel Plants	— ⁽⁵⁾	6,716 ⁽²⁾
Clint H. Severson	4,000	6,716 ⁽³⁾
Jerry P. Widman	35,358	6,716 ⁽¹⁾

⁽¹⁾ Based on the closing stock price of \$20.10 on April 17, 2017, each of these non-employee directors already held shares that exceed the minimum stock ownership required.

⁽²⁾ By January 6, 2020, based on the closing stock price of \$20.10 on April 17, 2017.

⁽³⁾ By January 3, 2020, based on the closing stock price of \$20.10 on April 17, 2017.

⁽⁴⁾ Dr. Apfelberg has been in compliance with the stock ownership guidelines since they were put in place on April 27, 2012, since he owned the required number of shares on that date.

⁽⁵⁾ Mr. Plants is the Managing Partner of Voce Capital Management LLC, the holder of 477,031 shares (approximately 3.4%) of our outstanding common stock as of the Record Date. While Mr. Plants has disclaimed beneficial ownership of the shares owned by Voce Capital Management LLC, except to the extent of his pecuniary interest therein, he has the sole or shared voting power of these shares.

On January 6, 2015, we entered into an agreement with Voce Capital Management LLC and Mr. Plants (the "Voce Agreement"), which was filed with the SEC on January 8, 2015. The Voce Agreement states the terms and understandings concerning the nomination and election of Mr. Plants to our Board of Directors and other matters. Further, it was agreed that if, at any time Voce's ownership in our common stock (subject to adjustment for stock splits, reclassifications, combinations and similar adjustments) falls below 140,000 shares, then Mr. Plants will immediately resign from our Board.

REPORT OF THE AUDIT COMMITTEE

In accordance with its written charter, the Audit Committee of the Board is responsible for assisting the Board to fulfill its oversight of the integrity of the Company's financial statements and internal controls, the Company's compliance with legal and regulatory requirements, the independent auditors' qualifications and independence, and the performance of the Company's internal audit function and independent auditors. It is the responsibility of the Company's management to prepare the Company's financial statements, develop and maintain adequate systems of internal accounting and financial controls, facilitating the internal audit intended to evaluate the adequacy and effectiveness of the Company's financial and operating internal control systems.

BDO USA, LLP ("BDO"), the Company's independent registered public accounting firm for 2016 (the independent auditors), was responsible for performing independent audits of the Company's consolidated financial statements and internal control over financial reporting and issuing an opinion on the conformity of those audited financial statements with generally accepted accounting principles in the United States of America ("GAAP") and on the effectiveness of the Company's internal control over financial reporting. The independent auditors also review the Company's interim financial statements in accordance with applicable auditing standards.

In evaluating the independence of BDO, the Audit Committee has (i) received the written disclosures and the letter from BDO required by applicable requirements of the Public Company Accounting Oversight Board ("PCAOB") regarding the audit firm's communications with the committee concerning independence, and (ii) discussed with BDO the firm's independence from the Company and management. The committee has concluded that BDO was independent from the Company and its management. The committee has reviewed with the independent auditors and the Company's internal auditors the overall scope and specific plans for their respective audits, and the committee regularly monitored the progress of both in assessing the Company's compliance with Section 404 of the Sarbanes-Oxley Act, including their findings, required resources and progress.

In 2016, the Audit Committee held five meetings. At every regular meeting, the Committee reviews the results of the independent auditor's examinations, their evaluations of the Company's internal controls, and the overall quality of the Company's accounting and financial reporting. Following the regular meeting, the committee meets separately with the independent auditors, without management present, and also meets separately with the Company's management. In addition, from time-to-time the Audit Committee met with the independent internal audit firm.

The committee has met and discussed with management and the independent auditors the fair and complete presentation of the Company's financial statements. The committee has also discussed and reviewed with the independent auditors all communications required, including those described in Auditing Standards No. 16, "Communications with Audit Committees," as adopted by the PCAOB. The committee has discussed significant accounting policies applied in the financial statements as well as alternative treatments. Management has represented that the consolidated financial statements have been prepared in accordance with GAAP and the committee has reviewed and discussed the audited consolidated financial statements with both management and the independent auditors.

Relying on the foregoing reviews and discussions, the committee recommended to the Board, and the Board approved, inclusion of the audited consolidated financial statements in the Company's Annual Report on Form 10-K for the year ended December 31, 2016, for filing with the Securities and Exchange Commission.

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

Timothy J. O'Shea
Clint H. Severson
Jerry P. Widman

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.

**PROPOSAL ONE—APPROVAL OF THE SECOND AMENDED AND RESTATED CERTIFICATE TO
DECLASSIFY THE BOARD OF DIRECTORS**

The Board approved, adopted and declared advisable the amendment and restatement of the Company’s Amended and Restated Certificate of Incorporation (the “Amended and Restated Certificate”) on April 13, 2017, to declassify the Board, provide for the annual election of directors and confirm that directors may be removable with or without cause. The Board regularly reviews the Company’s corporate governance practices. Currently, the Company’s Amended and Restated Certificate divides Board members into three classes, with the directors in each class being elected for a three-year term. The term of the three classes is staggered so that only one class of directors is nominated for election at any one annual stockholder meeting. The Board has considered the advantages and disadvantages of maintaining a classified board structure and has concluded, after careful consideration, that an unclassified board is in the best interests of the Company and its stockholders. The Board believes that annual elections of directors will provide our stockholders with the opportunity to register their views on the performance of the entire Board each year and thereby enhance the Board’s accountability to stockholders.

If this Proposal One is approved by the requisite vote of stockholders, the entire Board will be elected annually for one-year terms to commence at the Annual Meeting in 2018, and directors will be removable with or without cause. To implement this amendment, the Amended and Restated Certificate will be amended and restated in its entirety as set forth in the Second Amended and Restated Certificate (the “Second Amended and Restated Certificate”) attached hereto as Appendix A, which will become effective in connection with its filing with the Secretary of State of the State of Delaware; our Board also intends to make certain conforming changes to our bylaws. This summary of the Second Amended and Restated Certificate is qualified in its entirety by the text of the Second Amended and Restated Certificate attached as Appendix A.

If our stockholders do not approve this Proposal One, our Board will remain classified and directors will remain removable only for cause.

Board of Directors’ Recommendation

THE BOARD OF DIRECTORS RECOMMENDS A VOTE “FOR” THE PROPOSAL TO AMEND AND RESTATE THE AMENDED AND RESTATED CERTIFICATE OF INCORPORATION OF CUTERA, INC. TO DECLASSIFY THE BOARD.

PROPOSAL TWO—ELECTION OF DIRECTORS

Classes of the Board of Directors

Our current 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 eight directors, divided among the three classes as follows:

- three Class I directors, David A. Gollnick, James A. Reinstein and Clint H. Severson, whose terms expire at our Annual Meeting of Stockholders to be held in 2017;
- two Class II directors, David B. Apfelberg, M.D. and Timothy J. O’Shea, whose terms expire at our Annual Meeting of Stockholders to be held in 2018; and
- three Class III directors Gregory Barrett, J. Daniel Plants and Jerry P. Widman, whose terms expire at the Annual Meeting of Stockholders to be held in 2019.

The name of each member of the Board, the class in which he serves, and his 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				
David A. Gollnick	2017	53	Former Vice President (“VP”) of North American Sales and Former Executive Vice President (“EVP”) of Research and Development	1998
James A. Reinstein	2017	52	President and CEO	2017
Clint H. Severson ⁽²⁾⁽³⁾	2017	69	President and CEO, Abaxis, Inc.	2015
Class II Directors				
David B. Apfelberg, M.D. ⁽¹⁾⁽³⁾	2018	75	Clinical Professor of Plastic Surgery, Stanford University Medical Center	1998
Timothy J. O’Shea ⁽²⁾⁽³⁾⁽⁴⁾	2018	64	Former Managing Director, Oxo Capital	2004
Class III Directors				
Gregory Barrett ⁽¹⁾⁽³⁾	2019	63	Former President and CEO, DFINE, Inc.	2011
J. Daniel Plants ⁽³⁾⁽⁴⁾	2019	49	Managing Partner, Voce Capital Management LLC	2015
Jerry P. Widman ⁽¹⁾⁽²⁾⁽³⁾	2019	74	Former CFO, Ascension Health	2004

(1) Member of the Compensation Committee.

(2) Member of the Audit Committee.

(3) Member of Nominating and Corporate Governance Committee.

(4) Member of the Strategic Transactions Committee.

Director Nominees

The Board has nominated David A. Gollnick, James A. Reinstein and Clint H. Severson for re-election as Class I directors.

David A. Gollnick has served as a member of our Board since our inception in August 1998. From September 2014 to present, Mr. Gollnick has consulted with the Company in various functions, including research and development, clinical development and other management support matters. From February 2014 to June 2014, he held the position of Vice President of North American Sales for the Company. From March 2009 to December 2014, Mr. Gollnick consulted with the Company regarding product development, clinical, sales and marketing support as needed. Mr. Gollnick served as our EVP of Research and Development from April 2007 to March 2009 and as Vice President of Research and Development from August 1998 until April 2007. From June 1996 to July 1998, Mr. Gollnick held the position of 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 include his technical experience in researching and developing products for the aesthetic medical equipment industry and his understanding of our employees, products and operations.

James A Reinstein has served as our President and CEO and a member of our Board since January 2017. Prior to joining Cutera, Mr. Reinstein served as the CEO of Drawbridge Health Inc., a joint venture of GE Ventures and GE Healthcare. Prior to Drawbridge, Mr. Reinstein was the CEO of Aptus Endosystems from 2012 until its acquisition by Medtronic in 2015. From 2007 to 2012, Mr. Reinstein was the EVP and Chief Commercial Officer of Cyberonics, Inc. Prior to Cyberonics, Mr. Reinstein held a variety of management positions of increasing responsibility within Boston Scientific Corporation from 1990 to 2007, including Vice President and Regional Head of an Asian business unit and Country Director of Boston Scientific de Mexico. Mr. Reinstein holds a BBA in Marketing from University of Georgia. We believe Mr. Reinstein's qualifications to serve on our Board include his prior education and training, leadership qualities, and over 25 years' executive experience in managing companies in the medical device industry.

Clint Severson has served as a member of our Board since January 2015. He is presently the Chairman, Chief Executive Officer and President of Abaxis, Inc., a manufacturer of portable blood analysis systems. Mr. Severson also currently serves on the Board of Trinity Biotech and was a member of the Board of Response Biomedical Corporation until they were acquired. From February 1989 to May 1996, Mr. Severson served as President and Chief Executive Officer of MAST Immunosystems, Inc., a privately-held medical diagnostics company. We believe Mr. Severson's qualifications to serve on our Board include his more than 40 years of experience as an executive in the medical and biotechnology industries.

If elected to our Board, and if Proposal One to approve the Second Amended and Restated Certificate to declassify our Board is not approved, then directors Mr. Gollnick, Mr. Reinstein and Mr. Severson would each hold office as a Class I director until our Annual Meeting of Stockholders to be held in 2020 and until such director's successor is elected and qualified, or until the earlier of their resignation, removal, or death. If Proposal One to declassify our Board is approved, then each such director would hold office until the Annual Meeting of stockholders to be held in 2018 and until such director's successor is elected and qualified or until such director's earlier death, resignation or removal.

Board of Directors' Recommendation

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

Directors Whose Terms Extend Beyond the 2017 Annual Meeting

David B. Apfelberg, M.D. has served as a member of our Board since November 1998. Since 1980, Dr. Apfelberg has held various roles at the Stanford University Medical Center, and currently serves as an Adjunct 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 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 include his medical expertise, understanding of our products, and his knowledge of the aesthetics market generally.

Gregory Barrett has served as a member of our Board since October 2011. Mr. Barrett also serves on the board of Aqua Medical, Inc. From September 2013 to October 2016, Mr. Barrett was the President and CEO of DFINE, Inc., a private medical device company that was acquired by Merit Medical. Mr. Barrett was the Chairman, President and CEO of BARRX Medical, Inc., a private medical device company that was acquired by Covidien, a manufacturer and distributor of products to treat gastrointestinal diseases. Prior to joining BARRX Medical in February 2004, from January 2001 through August 2003, Mr. Barrett served as President and CEO 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 holds a B.A. in Marketing from the University of Texas, Austin. We believe Mr. Barrett's qualifications to serve on our Board include his more than 38 years of diverse experiences in the medical device industry, including time spent serving as president and CEO of several medical device companies. Mr. Barrett has held various Board positions with Softscope Medical, BaroSense, Monteris Medical (currently Chairman of the Board and member of the Compensation Committee), as well as Board positions with the companies in which he was employed.

J. Daniel Plants was appointed Chairman of the Company's Board of Directors in October 2016 and has been a member of the Board since January 2015. Mr. Plants has been Managing Partner of Voce Capital Management LLC since 2009. Prior to founding Voce Capital Management, Mr. Plants held a number of positions at leading Wall Street firms, including executive roles in investment banking at Goldman Sachs and JPMorgan Chase, and as a corporate attorney with Sullivan & Cromwell. Mr. Plants co-founded The Bay Area Urban Debate League and served as its Vice Chairman from 2008 to 2012. Mr. Plants holds a Juris Doctorate degree from University of Michigan Law School and an undergraduate degree from Baylor University. We believe Mr. Plants' qualifications to serve on our Board include his substantial experience as a strategic advisor and corporate attorney, as well as his role as the founder of a successful investment management firm and status as a significant Company stockholder, which bring valuable skills and perspective to the Board in the areas of finance, capital markets, strategy and corporate governance.

Timothy J O'Shea has served as a member of our Board since April 2004. Mr. O'Shea was with OXO Capital from 2008 to 2014 serving as 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 currently acts as an advisor to several medical device companies. 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 include his corporate marketing knowledge as well as his diverse experience in the medical device industry working for a large medical device company.

Jerry P. Widman has served as a member of our Board 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 has served as a member of the Board of several other privately-held and publicly-held companies in the healthcare industry. Mr. Widman has accumulated over 50 years of Board experience with 14 companies. Mr. Widman holds a B.B.A. from Case Western Reserve University, an M.B.A. from the University of Denver, a J.D. from Cleveland State University, and is a Certified Public Accountant. We believe Mr. Widman's qualifications to serve on our Board include his financial expertise and prior experience as a CFO, as well as his experience serving on the boards of various public and private companies.

PROPOSAL THREE—RATIFICATION OF BDO USA, LLP AS OUR INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Audit Committee of the Board has selected BDO USA, LLP (“BDO”) as the Independent Registered Public Accounting Firm to perform the audit of the Company’s consolidated financial statements for the fiscal years ending December 31, 2017. BDO audited the Company’s consolidated financial statements for the fiscal years 2016, 2015 and 2014.

The Board is asking the stockholders to ratify the selection of BDO as the Company’s Independent Registered Public Accounting Firm for 2017. Although not required by law, by rules of NASDAQ, or by the Company’s bylaws, the Board is submitting the selection of BDO 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 BDO 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 BDO AS THE COMPANY’S INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM FOR 2017.

Audit and Non-Audit Services

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 BDO 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 2016 and 2015 were as follows:

Service Category	2016	2015
BDO USA LLP:		
Audit Fees ⁽¹⁾	\$ 513,821	\$ 457,120
Audit-Related Fees	\$ —	\$ —
Tax Fees.....	\$ —	\$ —
All Other Fees.....	\$ —	\$ —
Total BDO USA LLP	<u>\$ 513,821</u>	<u>\$ 457,120</u>

(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 2016 and 2015 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.

PROPOSAL FOUR—APPROVAL OF OUR AMENDED AND RESTATED 2004 EQUITY INCENTIVE PLAN

General

We are asking our stockholders to approve the amendment and restatement of the Cutera, Inc. Amended and Restated 2004 Equity Incentive Plan (the “Plan”). Our Board has approved the amendment and restatement of the Plan, subject to approval from stockholders at the 2017 Annual Meeting. We are asking our stockholders to approve the amendments because, among other things, we have insufficient shares available to continue to make equity grants, which we believe are necessary to be able to recruit new employees and continue to provide long-term incentives to existing employees and directors. Outstanding awards under our Plan will remain outstanding and shall continue to be subject to the terms of the Plan and the respective award agreements, until the expiration of such awards in accordance with their terms.

In addition to seeking approval for the additional shares, we are making amendments to certain key provisions of our Plan that we believe reflect good practices and that implement strong governance-related protections for our stockholders. In particular, we are seeking stockholder approval of the following material changes to the Plan:

- (i) Increase the number of shares available for future grant by 1,600,000;
- (ii) Extend the term of the Plan to the date of the Annual Meeting of the Company’s stockholders in 2022;
- (iii) Amend the Plan to provide that dividends cannot be paid to participants in the Plan with respect to awards granted under the Plan that have not yet vested and been exercised or settled;
- (iv) Implement a limitation in the Plan such that no non-employee director of the Company may be granted, in any fiscal year, equity awards with an aggregate grant date fair value greater than \$300,000; and
- (v) Obtain stockholder approval for the material terms of the Plan such that equity awards granted under the Plan may qualify as “performance based compensation” within the meaning of Section 162(m) of the Internal Revenue Code of 1986, as amended (“Section 162(m)”) (collectively, the “Amendments”).

Approval of the additional shares to be added to our Plan will allow us to continue to provide incentives to attract, retain and motivate eligible persons whose present and potential contributions are important to our success by offering them an opportunity to participate in our future performance. We believe that the Plan is in the best interests of the Company because of the continuing need to provide stock options, restricted stock units, performance stock units, and other equity-based incentives to attract and retain qualified personnel and to respond to relevant market changes in equity compensation practices. The use of equity compensation has historically been a significant part of our overall compensation philosophy and is a practice that we plan to continue. In addition, equity awards granted to employees under the Plan will provide our eligible employees with an opportunity to acquire or increase their ownership stake in us, and we believe this aligns their interests with those of our stockholders, creating strong incentives for our employees to work hard for our future growth and success.

We firmly believe that a broad-based equity program is a necessary and powerful employee incentive and retention tool that benefits all of our stockholders. Equity ownership programs put employees’ interests directly into alignment with those of other stockholders, as they reward employees based upon stock price performance. Without the ability to grant market-based equity incentive to our employees, we believe we would be at a disadvantage against competitor companies to provide the total compensation package necessary to attract, retain and motivate the employee talent critical to our future success. Without equity incentives, we would be forced to consider cash replacement alternatives to provide a market-competitive total compensation package necessary to attract, retain and motivate the employee talent critical to our future growth and success. These cash replacement alternatives could, among other things, reduce the cash available for investment in growth and development of new and existing products, cause a loss of motivation by employees to achieve superior performance over the longer term, and reduce the incentive of employees to remain employed with us during the equity award vesting period.

Our current practice is to limit equity grants to a select group of key employees that includes new hires, members of the management team, senior executive team members and non-employee directors. Our practice is to grant a mix of stock options, restricted stock units (“RSUs”) and performance stock units (“PSUs”). We believe that equity compensation is an important component of our long-term employee incentive and retention plan and has been very effective in enabling us to attract and retain the talent critical for an innovative and growth-focused company.

If the Company's stockholders do not approve the Amended and Restated 2004 Plan, then the term, conditions and current share limits of the Plan will continue in effect, and we will continue to make awards under the 2004 Plan, subject to such terms, conditions and share limits. However, the Company's plans to operate its business could be adversely affected as reduced equity awards could increase employee turnover, make it more difficult to motivate and retain existing employees, make us less competitive in hiring new talent into the Company to grow our business. Additionally, as a consequence, we may need to increase the cash-based compensation incentives in hiring and retaining top talent, which could adversely impact our financial results of operations, cash flows and balance sheet.

If approved, the Amended and Restated 2004 Plan is intended to allow us to deduct for U.S. federal income tax purposes the compensation recognized by our executive officers in connection with certain awards granted thereunder. Section 162(m) generally denies a corporate tax deduction for annual compensation exceeding \$1 million paid to the chief executive officer and other "covered employees" as determined under Section 162(m) and applicable guidance. However, certain types of compensation, including performance-based compensation, generally are excluded from this deductibility limit. To enable compensation in connection with stock options, stock appreciation rights and certain restricted stock grants, restricted stock units, performance shares and performance units awarded under the Amended and Restated 2004 Plan to qualify as "performance-based" within the meaning of Section 162(m), stockholders are being asked to approve the material terms of the Amended and Restated 2004 Plan, including the eligibility requirements for participating in the Plan, the performance measures upon which specific performance goals applicable to certain awards would be based, the limits on the number of Shares or compensation that could be paid to participants, and the other material terms of the awards described below. If the Amended and Restated 2004 Plan is approved, we will retain the ability to grant equity awards under the 2004 Plan that do not qualify as "performance-based" compensation within the meaning of Section 162(m).

Design of our Plan and Grant Practices

Our Plan design is set-up to conform to best current compensation practices and implement strong governance-related protections for our stockholders, which include:

- ✓ *Administration*- Our Plan is administered by the compensation committee of the Board, which is comprised entirely of independent non-employee directors.
- ✓ *No evergreen provision*- Stockholder approval is required for additional shares. Our Plan does not contain an annual "evergreen" provision so that stockholder approval is required to increase the maximum number of securities that may be issued under the Plan.
- ✓ *Exchange or repricing programs* are not allowed without stockholder approval. The Plan prohibits the repricing or other exchange for plan awards or cash of underwater stock options and stock appreciation rights without prior stockholder approval.
- ✓ *No discount stock options or stock appreciation rights*. All stock options and stock appreciation rights will have an exercise price equal to at least the fair market value of our common stock on the date the stock option or stock appreciation right is granted.
- ✓ *"Fungible share" provision* whereby for each full-value award issued under the Plan results in a requirement to subtract 2.12 shares from the shares reserved under the Plan.
- ✓ *No "liberal" share recycling features*- deducts the shares available for issuance under the Plan by the gross number of shares for which an award is exercised or vests, not the net number of shares actually issued upon exercise (in the event the exercise price is paid in shares of the Company's common stock or shares are withheld to satisfy tax withholding obligations).
- ✓ *Does not provide for the automatic full "single trigger" acceleration* of outstanding equity awards in the event of a change in control if such equity awards are assumed by the successor corporation.
- ✓ *Annual limits on non-employee director grants*, The Plan now includes a fixed maximum limit of \$300,000 as to the maximum value of equity awards that may be granted in each fiscal year to any single non-employee director.
- ✓ *No dividend payments on unvested shares*. No dividend payments will be made on unvested shares subject to grants, but instead any dividends will be deferred until awards become vested and are exercised / settled.
- ✓ *No tax gross-ups*. The Plan does not provide for any tax gross-ups.

Historical Equity Awards Data as of the Record Date (April 17, 2017)

As of April 17, 2017, we had 943,274 outstanding stock options with a weighted average exercise price of \$10.12 per share and a weighted average remaining contractual term of 3.91 years. We also had 498,407 outstanding RSUs and PSUs with a weighted average remaining contractual term of 1.24 years.

There were 1,925,682 shares available for grant in our Plan as of April 17, 2017 (including the 1,600,000 shares that we are requesting stockholders to approve at the 2017 Annual Meeting).

Burn Rate and Overhang

The following table summarizes the Company's gross burn rate over the prior three fiscal years (2014-2016):

<u>Fiscal Year</u>	<u>Option Grants</u>	<u>RSU Grants</u>	<u>PSUs Earned⁽¹⁾</u>	<u>WASO⁽²⁾</u>	<u>Burn Rate⁽³⁾</u>
2014.....	486,000	255,563	84,827	14,254,000	5.80%
2015.....	129,000	128,437	56,142	13,960,000	2.25%
2016.....	162,000	275,215	95,775	13,224,714	4.03%

(1) The Company granted 105,000 PSUs in 2014, 74,667 PSUs in 2015 and 204,976 PSUs in 2016.

(2) WASO means the weighted average common shares outstanding for each fiscal year.

(3) Burn Rate is calculated by dividing:

- The period's number of shares subject to stock options, plus RSU awards 'granted,' plus PSU awards 'earned' in each fiscal year during the period; divided by
- the weighted-average number of shares outstanding for each fiscal year during the period.

The Company's burn rate for fiscal year 2016, and for the three-year period from 2014 to 2016, was 4.0%.

Post-Increase Total Overhang as of Record Date (April 17, 2017)

The following table summarizes, as of April 17, 2017, the Company's issued and total equity overhang.

	<u>Issued Overhang⁽¹⁾</u>	<u>Total Overhang⁽²⁾</u>
Cutera (no additional share authorization)	10.4%	12.8%
Cutera (with additional share authorization)	10.4%	24.3%

(1) Issued overhang is calculated by dividing (a) the number of shares subject to equity awards outstanding at the end of the period by (b) the number of shares outstanding at the end of the period.

(2) Total overhang is calculated by dividing:

- the sum of (x) the number of shares subject to equity awards outstanding at the end of the period and (y) the number of shares available for future grant under equity plans, by;
- the number of shares outstanding at the end of the period.

Our Compensation Committee carefully considers the impact of potential dilution on our stockholders from equity-based awards, as well as the ability to maintain an equity incentive plan that can attract and retain employee talent, while keeping the rate of dilution low. After carefully forecasting our anticipated growth rate for the next few years and considering our historical forfeiture rates, we currently believe that the share reserve which will include the additional 1,600,000 shares will be sufficient for us to make anticipated grants of equity incentive awards under our current compensation program for at least the next two years. However, a change in business conditions or our strategy, one or more acquisitions, or equity market performance could alter this projection. The Compensation Committee and the Board believe that approving at least two years' projected equity awards would enable stockholders to continue to provide input on share increases in equity plans on a reasonable interval.

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

What Happens if Stockholders Do Not Approve the Amended and Restated 2004 Plan

If the Company's stockholders do not approve the Amended and Restated 2004 Plan, then the term, conditions and current share limits of the Plan will continue in effect, and we will continue to make awards under the 2004 Plan, subject to such terms, conditions and share limits. However, the Company's plans to operate its business could be adversely affected as reduced equity awards could increase employee turnover, make it more difficult to motivate and retain existing employees, make Cutera less competitive in hiring new talent into the Company to grow our business. Additionally, as a consequence, we may need to increase the cash-based compensation incentives in hiring and retaining top talent, which could adversely impact our financial results of operations, cash flows and balance sheet.

Vote Required

Approval of the amendment and restatement of the 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 APPROVAL OF THE AMENDED AND RESTATED PLAN.

Summary of the Amended and Restated Plan

The following is a summary of the principal features of the Plan and its operation. It is qualified in its entirety by reference to the Plan set forth in this proxy statement as Appendix B.

The 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 Plan include employees, directors and consultants who provide services to us or our subsidiaries. As of April 17, 2017, we had approximately 281 employees and 6 outside directors who were eligible to participate in this Plan. The Plan allows us to grant Awards to consultants, however, it has been our practice not to grant awards to consultants.

Number of Shares of Common Stock Available Under the Plan. A total of 1,750,000 shares of common stock were initially authorized for issuance under the Plan, plus approximately 499,000 shares were returned under the 1998 Stock Plan as a result of termination of options or repurchase of shares issued under such plan, and approximately 2,442,000 shares added pursuant to automatic annual increases under the Plan. In 2008, stockholders approved an amendment to the evergreening provision of the Plan which eliminated the “evergreen” provision which provided for an automatic annual increase in the number of shares available in the Plan. In 2012 and 2015 the stockholders approved an additional 1,910,000 and 1,500,000 shares, respectively, to be added to the 2004 Plan.

The Company’s Board of Directors approved on April 13, 2017 to add an incremental 1,600,000 shares to the Plan subject to stockholder approval at the 2017 Annual Meeting on June 14, 2017. As of April 17, 2017, approximately a total of 9,701,000 shares were authorized for issuance under the 2004 Plan, of which 1,925,682 shares remained available for future awards. The shares may be authorized, but unissued or reacquired common stock.

In 2012 the stockholders approved a “fungible share” provision whereby for each full-value award issued under the Plan results in a requirement to subtract 2.12 shares from the shares reserved under the Plan.

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 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 Plan. 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 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 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 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 Plan.

If we declare a stock dividend or engage in 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 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 Plan. Our Board, or its Compensation Committee, or a committee of directors or of other individuals satisfying applicable laws and appointed by our Board (the “Administrator”), administers the 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) (so that we can receive a federal tax deduction for certain compensation paid under the Incentive Plan).

Subject to the terms of the 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 Plan), to interpret the provisions of the 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 Plan provides for an automatic grant to outside directors of an option to purchase 14,000 shares (the “*First Option*”) on the date the person first becomes an outside director. Each First Option 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 an award 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. These shares vest on the one-year anniversary of the grant date.

Options. The Administrator is able to grant non-statutory stock options and incentive stock options under the Plan. The Administrator determines the number of shares subject to each option, although the 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 1,000,000 shares.

The Administrator determines the exercise price of options granted under the 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 exercised 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 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 Plan, will have complete discretion to determine the terms and conditions of SARs granted under the 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 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.

Limits on Awards Granted to Non-Employee Directors. No non-employee/ outside director may be granted, in any fiscal year, Awards under this Plan with a grant date fair value (determined in accordance with U.S. generally accepted accounting principles) of greater than \$300,000. Any Awards granted to an individual while he or she was an employee, or while he or she was a consultant but not an outside director, will not count for purposes of the limitations under this Plan.

Transferability of Awards. Awards granted under the 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.

Dividends on Awards. To the extent an Award permits the payment of dividends or other distributions on the Shares underlying the Award, Participants will not be entitled to receive such dividends or other distributions until such Award vests.

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.

Term of Plan. The Plan, as amended and restated, will become effective upon its adoption by the Board. It will continue in effect until the date of the Annual General Meeting in 2022, unless our Board terminates it earlier.

Amendment and Termination of the Plan. The Administrator has the authority to amend, alter, suspend or terminate the 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 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.

Federal Tax Aspects

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

Non-statutory Stock Options. No taxable income is reportable when a nonstatutory 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 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 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 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 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). We generally will be entitled to a tax deduction in connection with an Award under the 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 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), 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 approval of the 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 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

Number of Awards Granted to Employees, Consultants and Directors

The number of awards that an employee, director, or consultant may receive under the Plan is in the discretion of the administrator and therefore cannot be determined in advance. The following table sets forth: (i) the aggregate number of shares of common stock subject to options granted under the Plan during the fiscal year 2016 to each of our named executive officers; executive officers, as a group; directors who are not executive officers, as a group; and all employees who are not executive officers, as a group; (ii) the average per share exercise price of such options; (iii) the aggregate number of shares subject to RSUs and PSUs (at target) granted under the Plan during the fiscal year 2016 to each of our named executive officers; executive officers, as a group; directors who are not executive officers, as a group; and all employees who are not executive officers, as a group; and (iv) the grant-date value of shares subject to such RSUs and PSUs.

Name of Individual or Group	Number of Shares Subject to Options Granted	Average Per Share Exercise Price of Option Grants	Number of Shares Subject to RSUs and PSUs Granted	Dollar Value of Shares Subject to RSUs and PSUs Granted ⁽³⁾
James A. Reinstein ⁽¹⁾ <i>President and CEO</i>	—	—	—	—
Kevin A. Connors ⁽²⁾ <i>Former President and CEO</i>	—	—	97,900	\$ 1,027,950
Ronald J. Santilli..... <i>EVP and CFO</i>	—	—	70,052	\$ 784,997
Larry E. Laber..... <i>EVP Sales, North America</i>	5,000	\$ 10.80	25,000	\$ 277,000
Miguel A. Pardos..... <i>EVP International</i>	5,000	\$ 10.80	25,000	\$ 277,000
All executive officers, as a group.....	10,000	\$ 10.80	217,952	\$ 2,336,947
All directors who are not executive officers, as a group.....	—	—	45,350	\$ 507,069
All employees who are not executive officers, as a group.....	152,000	\$ 12.67	216,889	\$ 2,311,410

(1) Mr. Reinstein was appointed as President and Chief Executive Officer on January 9, 2017.

(2) Mr. Connors resigned as President and Chief Executive Officer on August 13, 2016.

(3) Reflects the aggregate grant date fair value of awards computed in accordance with ASC 718.

PROPOSAL FIVE—NON-BINDING ADVISORY VOTE ON THE COMPENSATION OF NAMED EXECUTIVE OFFICERS

General

As required pursuant to Section 14A of the Securities Exchange Act of 1934, the Board is asking you to approve, on an advisory and non-binding basis, the executive compensation programs and policies and the resulting 2016 compensation of our Named Executive Officers listed in the 2016 Summary Compensation Table on page 50 (our “NEOs”) as described in this proxy statement.

This proposal, commonly known as a “say-on-pay” proposal, gives our stockholders the opportunity to express their views on our NEOs’ compensation as a whole. This vote is not intended to address any specific item of compensation or any specific NEO, but rather the overall compensation of all of our NEOs and the philosophy, policies and practices described in this proxy statement. Because the vote is advisory, the result will not be binding on our Compensation Committee and it will not affect, limit or augment any existing compensation or awards. The say-on-pay vote will, however, provide information to the Compensation Committee and our Board regarding investor sentiment about our executive compensation philosophy, policies and practices, which they will take into account when considering future compensation arrangements. 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 NEOs 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.

We recommend you should read the Compensation Discussion and Analysis and compensation tables and also consider the factors below in determining whether to approve this proposal.

Compensation Philosophy and Objectives

Our Compensation Committee reviews the compensation of our NEOs and strikes a balance between fixed base pay and Pay-for-Performance (“PFP”) programs that tie compensation directly to specific business goals and management objectives. Our Compensation Committee designed our executive compensation program to support our near-term financial and strategic objectives and promote the long-term growth of our company.

Our compensation philosophy is to ensure that our compensation programs:

- support our key financial and strategic goals and relate to our corporate performance;
- align the interests of our executive officers with the interests of our stockholders;
- provide a total compensation package that is competitive and enables us to attract, motivate, reward and retain talented executive officers and employees;
- the majority of the compensation is of a PFP type. As a result, the impact of our growth in revenue, improvement of our operating results and the improvement of our stock price, all significantly impacted the compensation of our NEOs; and
- that the compensation of the NEOs remains competitive, so that we can continue to retain, attract, motivate, and reward the key employees whose knowledge, skills and performance are necessary for our continued growth and success.

We believe the compensation of our executive officers and employees should reflect our performance as an organization, and their performance as individuals, in attaining key financial and operating objectives established by our Board. In addition, we strive to promote an ownership mentality among our employees, including our executive officers, which we believe is best achieved through our equity incentive program and the Employee Stock Purchase Plan. Also, as our company matures and we lay the foundation for longer term growth and sustained profitability, we endeavor to conserve our cash resources. To that end, one important aspect of our overall compensation philosophy is to set base salaries that are conservative, relative to the companies in our compensation Peer Group in favor of equity and performance-based incentive compensation, which we believe best aligns the interests of our employees and our stockholders.

Key Features of Our Executive Compensation Program

WHAT WE DO	WHAT WE DON'T DO
<p>✓ Pay for Performance: We link the cash compensation of our executive officers to our performance and stockholder interests by heavily weighting their target total cash compensation opportunities to the achievement of strong financial performance tied to a balanced mix of pre-established performance measures and long-term equity awards that align their interests with those of our stockholders.</p>	<p>☒ No Special Perquisites or Benefits: We do not provide special perquisites or other personal benefits to our executive officers, such as company cars, club memberships, supplemental executive retirement plans or supplemental executive health benefits.</p>
<p>✓ Independent Compensation Advisor: The Compensation Committee selects and engages its own independent advisor to benchmark compensation at reasonable intervals.</p>	<p>☒ No Guaranteed Bonuses: We do not provide guaranteed minimum bonuses. Bonuses are contingent upon the achievement of key strategic company goals.</p>
<p>✓ Stock Ownership Guidelines: Our NEOs and the non-employee members of our Board are subject to stock ownership guidelines equal to a multiple of their respective annual base salaries (3x for our CEO and 1x for other NEOs) or Board retainers (3x for directors).</p>	<p>☒ No multi-year employment contracts for any executive or employee.</p>
<p>✓ Competitive and market based compensation: We pay fair and reasonable compensation that allows us to attract, motivate, retain and reward the key employees whose knowledge, skills and performance are necessary for our future growth and success.</p>	<p>☒ No Change-in-control single trigger or gross-ups: We do not have single-trigger equity vesting and do not provide any tax reimbursements or gross-ups for any severance or payments or benefits in the event of a change-in-control.</p>

Fiscal Year 2016 Compensation Overview

When designing our fiscal year 2016 executive compensation program, the Compensation Committee considered the program philosophy and objectives set forth above and the intense competition for executive talent within the medical device industry and the broader high-tech industry in Silicon Valley, California. On August 15, 2016, Kevin Connors, our then President and CEO, left the Company and Ronald Santilli, our then EVP and CFO, took over the position of Interim CEO and CFO until the Board could identify and recruit for that key leadership position. Included in our Compensation Discussion and Analysis below, is a discussion relating to Mr. Santilli and the other two NEOs- Larry Laber, EVP of North America sales and Miguel Pardos, EVP of International Sales. The Compensation Committee’s overall objective was to compensate our Interim CEO and CFO, as well as our other NEOs, in a manner that attracts and retains the caliber of individuals needed to manage and staff a demanding and high-growth business in the rapidly evolving, innovative and competitive medical device industry.

For a detailed discussion about our compensation philosophy, policies and practices, and other corporate governance policies, see the section titled “Executive Compensation” below beginning on page 35.

Summary of the Key Features of our 2016 Executive Compensation Program.

- Our NEOs are compensated with cash, incentive cash commissions/ bonuses, equity awards, non-equity incentives, and other customary employee benefits.
- The compensation of our NEOs is reviewed annually by the Compensation Committee, and adjustments are made to reflect performance-based factors and competitive conditions.

- We evaluate and reward our NEOs 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.
- Our Compensation Committee engages an outside compensation consultant to review our executive compensation programs, in comparison to a peer group of companies (the “Peer Group”), and recommend modifications at reasonable intervals.
- Our NEOs have Change of Control and Severance Agreements (“COC Agreements”) and, except for these arrangements, we do not have employment agreements with any of our NEOs.
- We have stock ownership guidelines equal to a multiple of their respective annual base salaries (3x for our CEO and 1x for other NEOs).

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 NEOs’ 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 compensation paid to the Company’s named executive officers, as disclosed pursuant to Item 402 of Regulation S-K, including the Compensation Discussion and Analysis, compensation tables and narrative discussion, is hereby APPROVED.”

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 NEOs.

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.

NAMED EXECUTIVE OFFICERS AND EXECUTIVE COMPENSATION

Set forth below is certain information as of the Record Date, which is April 17, 2017, concerning our NEOs.

Name	Age	Position(s)
James A. Reinstein	52	President, CEO and Director
Ronald J. Santilli	57	EVP and CFO
Larry E. Laber	46	EVP Sales, North America
Miguel A. Pardos	49	EVP International

James A Reinstein has served as our President and CEO and a member of our Board since January 9, 2017. Prior to joining Cutera, Mr. Reinstein served as the CEO of Drawbridge Health Inc., a joint venture of GE Ventures and GE Healthcare. Prior to Drawbridge, Mr. Reinstein was the CEO of Aptus Endosystems from 2012 until its acquisition by Medtronic in 2015. From 2007 to 2012, Mr. Reinstein was the EVP and Chief Commercial Officer of Cyberonics, Inc. Prior to Cyberonics, Mr. Reinstein held a variety of management positions of increasing responsibility within Boston Scientific Corporation from 1990 to 2007, including Vice President and Regional Head of an Asian business unit and Country Director of Boston Scientific de Mexico. Mr. Reinstein holds a BBA in Marketing from University of Georgia.

Ronald J. Santilli has served as our CFO since September 2001. From August 15, 2016 to December 31, 2016, Mr. Santilli held the dual role of Interim CEO and CFO. Mr. Santilli has performed the role of EVP since April 2007 to present and prior to that he held the position of Vice President of Finance and Administration. Prior to joining Cutera, 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 1982 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.

Larry E. Laber has served as our EVP of North America Sales since September 2014. Prior to joining Cutera, Mr. Laber spent 12 years at Cynosure, a manufacturer of laser and other light-based aesthetic treatment systems, where he spent his last four years as the Executive Director of Sales for North America. Mr. Laber holds a B.S. in Communications from California State University, Northridge.

Miguel A. Pardos has served as our EVP of International Sales since July 2014. Prior to joining Cutera, Mr. Pardos served five years as Vice President of Asia-Pacific for Syneron-Candela, a manufacturer of laser and other light-based aesthetic treatment systems. Before that, he was with GE Healthcare for nine years in a variety of leadership roles in Spain, Germany, Australia, and Singapore. Mr. Pardos holds a B.Sc. in Electrical Engineering from Universidad Politecnica Catalunya, and an Executive M.B.A. from Instituto de Empresa.

COMPENSATION DISCUSSION AND ANALYSIS

This Compensation Discussion and Analysis explains our executive compensation philosophy and programs, the decisions our “Compensation Committee” made under those programs during fiscal year 2016 and the factors considered in making those decisions. The Compensation Committee has the principal responsibility for establishing, implementing and continually monitoring adherence to our compensation philosophy and objectives. The Compensation Committee’s duties include evaluating the performance and advising the Board on the compensation of our Chief Executive Officer, and setting the compensation of our other executive officers. This Compensation Discussion and Analysis focuses on the compensation of our NEOs for 2016, which were:

- *Ronald J. Santilli*, Interim Chief Executive Officer and Chief Financial Officer as of December 31, 2016
- *Larry E. Laber*, EVP, North America Sales
- *Miguel A. Pardos*, EVP International Sales.

Mr. Reinstein was appointed as President and Chief Executive Officer on January 9, 2017, and therefore was not an NEO for 2016.

Compensation Philosophy and Objectives

For our Compensation Committee’s compensation philosophy and objectives relating to the compensation of our NEO, please refer to Proposal Five above.

Financial Highlights for 2016

We are a global medical device company focused on the design, development, manufacture and commercialization of laser and other energy-based aesthetic systems for practitioners worldwide. We sell systems, system upgrades, hand pieces, hand piece refills (applicable to Titan® and truSculpt*truSculpt*), and distribute third-party manufactured skincare products. In addition, we have a recurring service business that includes the selling of post-warranty service contracts, parts, hand piece replacements, and generating revenue from the servicing of products that are out of warranty.

Fiscal year 2016 was a year of continued investment in our business, which resulted in record annual revenue of \$118.1 million. Highlights of key achievements are as follows:

- *Our research and development team* delivered a new three wavelength (1064 nm + 532 nm+ 670 nm) and dual pulse duration (750 picosecond, or “ps,” and 2 nanosecond, or “ns”) laser system called *enlighten III*. This system is cleared for multi-colored tattoo removal and for the treatment of benign pigmented lesions, and it further broadens our strong and well diversified portfolio of products.
- *Increased investments in sales and marketing* over the recent two to three years in recruiting an industry trained, proven commercial leadership team, expanding the number of our direct sales professionals, and enhancing our sales and marketing efforts, all of which resulted in improved revenue growth and profitability.
- *Regulatory approvals:* In 2016, our regulatory team achieved an expanded FDA indication for our new three wavelength *enlighten III* system for marketing the 670 nm wave length for benign pigmented lesions. This system is also cleared for multi-colored tattoo removal. In addition, for our radio-frequency (“RF”) technology based *truSculpt* system designed for non-invasive body contouring, we achieved an expanded FDA clearance to market the system for the temporary reduction in circumference of the abdomen. These indications further enhance our ability to market these products more effectively.
- *Revenue grew* in 2016 to \$118.1 million, which represented a 25% growth rate compared to 2015 and represented a second consecutive year of annual growth in excess of 21%. Gross margin improved to 58% in 2016, compared to 57% in 2015, which was primarily due to the improved leverage of our operations as a result of increased revenue, the implementation of several management initiatives to improve the reliability of our products and product cost reductions.
- *Adjusted EBITDA* (Earnings Before Interest, Tax, Depreciation, Amortization and non-cash Stock Compensation): In 2016, our Adjusted EBITDA increased by \$6.3 million, or 847%, to \$7.1 million, compared to \$749,000 in 2015. This improvement was primarily attributable to the improved leverage of our operations as a result of increased revenue.
- *Cash generated by operations:* Our cash generated by operations improved by \$3.3 million, or 247%, in 2016 to \$1.9 million, compared to cash used in operations of \$1.4 million in 2015. This improvement was due to the improvement in our revenue, profitability and the continued conservative management of our working capital.

- *Stock Repurchase:* In 2015, we repurchased \$40 million of our common stock through our stock repurchase plan. In 2016, our Board approved a plan to repurchase another \$10 million of our common stock, under which we repurchased \$4.9 million of stock.

Our financial and operational success translated into superior long-term stock price growth for the benefit of our stockholders. In 2016, our Total Shareholder Return (“TSR”)⁽¹⁾ was 36% as our stock price improved from \$12.79 to \$17.35.

(1) (TSR is calculated as (Price @ end – Price @ beginning + Dividends)/ Price @ beginning).

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 2016:

- *Independent directors* oversee each of our Board’s sub-committees. As discussed in greater detail above, we have the following subcommittees:
 - *Nominating and Corporate Governance Committee* that reviews and makes recommendations on matters concerning corporate governance, Board composition, identification, evaluation and nomination of director candidates;
 - *Strategic Transactions Committee* that reviews and evaluates any strategic business combination transaction;
 - *Audit Committee* that oversees our accounting and financial reporting processes and the audits of our financial statements; and
 - *Compensation Committee* that establishes executive compensation and administers our equity plans.
- *The Compensation Committee* conducts an annual review and approval of our compensation strategy. We ensure that our compensation practices remain current with market conditions by having them reviewed by compensation consultant from time to time. 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. The following is a summary of the key features of our compensation program.

WHAT WE DO	WHAT WE DON'T DO
✓ Pay for Performance: We link the cash compensation of our executive officers to our performance and stockholder interests by heavily weighting their target total cash compensation opportunities to the achievement of strong financial performance tied to a balanced mix of pre-established performance measures and long-term equity awards that align their interests with those of our stockholders.	☒ No Special Perquisites or Benefits: We do not provide special perquisites or other personal benefits to our executive officers, such as company cars, club memberships, supplemental executive retirement plans or supplemental executive health benefits.
✓ Independent Compensation Advisor: The Compensation Committee selects and engages its own independent advisor to benchmark compensation at reasonable intervals.	☒ No Guaranteed Bonuses: We do not provide guaranteed minimum bonuses. Bonuses are contingent upon the achievement of key strategic company goals.
✓ Stock Ownership Guidelines: Our executive officers and the non-employee members of our Board of Directors are subject to stock ownership guidelines equal to a multiple of their respective annual base salaries (3x for our CEO and 1X for other NEOs) or Board retainers (3x for directors).	☒ No multi-year employment contracts for any executive or employee.
✓ Competitive and market based compensation: We pay fair and reasonable compensation that allows us to attract, motivate, retain and reward the key employees whose knowledge, skills and performance are necessary for our future growth and success.	☒ No Change-in-control single trigger or gross-ups: We do not have single-trigger equity vesting and do not provide any tax reimbursements or gross-ups for any severance or payments or benefits in the event of a change-in-control.

Compensation Committee's Roles and Responsibilities

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

The Compensation Committee establishes the compensation for our NEOs to ensure consistency with market compensation rates for similar positions, our compensation philosophy and corporate governance guidelines.

Compensation Committee Members

The members of the Compensation Committee are appointed by our Board. The chairman of the committee is Gregory Barrett and the other members are David B. Apfelberg, M.D. and Jerry P. Widman. 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.

Compensation Committee Charter

The Compensation Committee establishes the compensation for our NEOs and administers our Equity Incentive Plans, which are currently the Amended and Restated 2004 Equity Incentive Plan and the 2004 Employee Stock Purchase Plan. The Compensation Committee has a written charter, which can be found on our website (www.cutera.com) in the Investor section, under the Corporate Governance tab.

Duties of the Compensation Committee

The responsibilities of the Compensation Committee include:

- (i) Establishing the following for our NEOs and such other executive officers as appropriate:
 - (b) annual base salary;
 - (c) annual incentive bonus, which may include the setting of specific goals and target amounts;
 - (d) equity compensation;
 - (e) agreements for employment, severance and change-of-control payments and benefits; and
 - (f) 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
 - (g) other policies and plans for the provision of compensation to our employees, directors and consultants.

- (iii) Acting as Administrator of our Amended and Restated 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 Consultant

The Compensation Committee engaged an independent compensation consultant, Compensia, in December 2011, in June 2014 and in December 2016 to advise on compensation matters.

The compensation consultant performed the following activities for each of our NEOs:

- Reviewed the components of the total compensation package;
- Evaluate and develop a group of public companies that would be suitable to use as a Peer Group;
- Gather competitive market data with respect to compensation of executive officers of the Peer Group;
- Compare our NEOs' compensation against the Peer Group;
- Recommend any adjustments that should be considered for cash-based and equity-based compensation; and
- Recommend compensation components that would make the compensation variable, based on the performance of the Company.

Due to the significant cost associated with services provided by a compensation consultant, the Compensation Committee engages a compensation consultant every two to three years based on the need for additional guidance resulting from changes in the NEO's roles and responsibilities, NEO turnover and other factors as determined by our Compensation Committee.

Role of our Executives in Setting Compensation

In developing the compensation of the NEOs, the Compensation Committee meets with members of our management team, including our CEO, CFO, and other management employees as required. The purpose of these meetings is primarily for gathering financial data, obtaining their input on proposed compensation programs, establishing mechanisms for implementing and monitoring targets, and gathering other information on practices and packages for our NEOs, 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 NEOs and does not delegate any of its compensation functions to others.

Competitive Positioning

In developing, reviewing, and approving the annual compensation for our NEOs, the Compensation Committee, with the assistance of its compensation consultant, develops and maintains the Peer Group of public companies from which to gather competitive market data. The Compensation Committee approved the following set of selection criteria for determining the companies to comprise the compensation Peer Group in 2014 as follows

- (i) U.S.-based companies with a primary focus on health care equipment and supplies;
- (ii) revenue of between 0.5 times to 2.0 times of Cutera; and
- (iii) market capitalization of between 0.5 times to 2.5 times of Cutera.

This set of selection criteria led the independent compensation consultant to revise the then-existing Peer Group in 2014 to include the following companies:

AtriCure	Derma Sciences	SurModics
Atrion Corporation	IRIDEX	Synergetics USA
BIOLASE	LeMaitre Vascular	Vascular Solutions
Cardiovascular Systems	Photomedex	Zeltiq Aesthetics
CryoLife	RTI Surgical	
Cynosure	SPECTRANETICS	

Executive Compensation Actions

On August 15, 2016, Kevin Connors, our then President and CEO, left the Company and Ronald Santilli, our then EVP and CFO, took over the dual role of Interim CEO and CFO until the Board could identify and recruit for that key leadership position (hereafter referred to as the “Transitional Period”). Included in our Compensation Discussion and Analysis (“CD&A”) below is a discussion relating to the Mr. Santilli and the other two NEOs- Mr. Laber, EVP of North America Sales, and Mr. Pardos, EVP of International Sales.

In 2016, our Compensation Committee re-evaluated the compensation of our NEOs and recommended the following modifications to their compensation arrangements, which our Board approved:

1) **Cash Compensation**

- a) *Mr. Santilli’s* base salary and target bonus participation rate remained unchanged compared to 2015 at \$367,000 and 50%, respectively, for the period from January 1, 2016 to August 14, 2016. With effect from August 15, 2016 through December 31, 2016, Mr. Santilli’s base salary and his target bonus participation rate were increased to \$600,000 and 70%, respectively, which were the rates being paid to Mr. Connors prior to his departure. This action was taken by the Board to compensate Mr. Santilli for performing the dual role of Interim CEO and CFO for the duration that the Board was conducting a search to find the replacement President and CEO.
- b) *Mr. Laber’s* base salary was increased effective July 1, 2016 from \$400,000 to \$475,000 and his variable commission compensation remained unchanged at \$300,000 at the target revenue growth rate. The increase in base pay was provided to reward him for the 56% rate of revenue growth that the Company had achieved in North America in the first half of 2016, compared to 2015.
- c) *Mr. Pardos’* base salary and target commission compensation payments remained unchanged at \$251,000 and \$300,000, respectively.

2) **Equity Grants.** Fiscal year 2016 was a year of transition for equity awards for the following two reasons:

- a) In fiscal year 2015, in order to align the financial performance measurement criteria of PSU awards to the Company’s fiscal year with effect from January 1, 2016, instead of granting a full-years’ worth of equity awards (“Annual Equity Award”), the Board granted half of the Annual Equity Award grants in fiscal year 2015. As a result, the 2016 ‘Annual Equity Award’ was approximately double the 2015 Annual Equity Award for Mr. Santilli but more than double for Mr. Laber and Pardos to reward them for the improved revenue growth rates as well as increase their pay-for-performance equity compensation on a go forward basis; and

- b) On August 15, 2016 our then President and CEO (Mr. Connors) left the Company and the Board, under advice from the Compensation Committee, granted incremental transitional equity awards (“Transitional Equity Awards”) to the NEOs to compensate them for the increased level of performance and as a retention tool to motivate them during the Transitional Period until a replacement President and CEO could be hired.

The equity grants that were granted to our NEOs by our Board in fiscal year 2016, based on the recommendations of the Compensation Committee, were as follows:

- i) *Mr. Santilli* was granted a total equity award value of \$784,997 in fiscal year 2016, compared to \$295,372 in fiscal year 2015. The fiscal year 2016 awards were comprised of an Annual Equity Award of \$556,500, which represented 188% of his fiscal year 2015 grant value, which were split 50% RSUs and 50% PSUs; and a Transitional Equity Award of \$228,497 (representing 8,526 RSUs and 8,526 PSUs) to increase his equity compensation to the level that we were paying Mr. Connors during the Transitional Period.
 - ii) *Mr. Laber’s* was granted a total equity award value of \$293,458 in fiscal year 2016, compared to \$206,940 in fiscal year 2015. The fiscal year 2016 awards were comprised of an Annual Equity Award of \$210,000, which represented 134% of his fiscal year 2015 grant value, in the form of 50% RSUs and 50% PSUs; and a Transitional Equity Award of \$83,458 (representing 5,000 RSUs and 5,000 stock Options).
 - iii) *Mr. Pardos* was granted a total equity award value of \$293,458 in fiscal year 2016, compared to \$60,280 in fiscal year 2015. The fiscal year 2016 awards were comprised of an Annual Equity Award of \$210,000, which represented 174% of his fiscal year 2015 grant value, in the form of 50% RSUs and 50% PSUs; and a Transitional Equity Award of \$83,458 (representing 5,000 RSUs and 5,000 stock Options).
- 2) **Established the Performance Goals for the PSUs granted.** The goals established are detailed below in the section titled "Equity Incentive Compensation."

The Compensation Committee concluded that the changes to the compensation of our NEOs strengthened the alignment of their interests with those of our stockholders, were sufficient to maintain competitiveness with the executives in comparable positions at the companies in our Peer Group, promoted retention and achieved the motivation and continuity desired during the Transitional Period. Further, the Compensation Committee also took into consideration the fact that, consistent with our compensation objectives, the equity awards granted increased our NEOs’ stake in the Company, thereby reinforcing their incentive to manage our business as owners and subject a significant portion of their total compensation to fluctuations in the market price of our common stock in alignment with stockholder interests.

Compensation Components

Our NEOs 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 discretionary Management Bonus Program (“Bonus Program”) for non-sales employees;
- Sales Commission Plan that pays for year-over-year revenue growth;
- Participation in a profit-sharing plan for non-sales employees; and
- An auto allowance to sales employees to compensate them for using their personal automobiles for business purposes and a housing allowance for Mr. Pardos given that he resides in a foreign country away from his home.

Our cash compensation goals for our NEOs are based upon the following principles:

- Total cash compensation 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 contingent upon the achievement of key targets and be "at risk";
- The amount of bonuses payable to non-sales employees for any quarter should be based on revenue growth and the improvement of the operating profit before stock-based compensation and non-operational expenses, or "adjusted operating profit," compared with the same quarter in the prior year; and
- The amount of sales commissions payable for any quarter to sales employees should be based on the degree of achievement of revenue growth targets compared with the prior year.

Base Salary and Total Target Cash Compensation

Total target cash compensation for our NEOs includes their annual base salary, annual target bonus/ sales commission opportunity (described below) and annual profit-sharing payments.

a) *Mr. Santilli's* base salary and target bonus participation rate for his role as EVP and CFO remained unchanged, compared to 2015, at \$367,000 and 50%, respectively, for the period from January 1, 2016 to August 14, 2016. For the Transitional Period (August 15, 2016 through December 31, 2016), Mr. Santilli's base salary and his target bonus participation rate were increased to \$600,000 and 70%, respectively, which were the rates being paid to Mr. Connors prior to his departure. In addition, Mr. Santilli earned \$16,110 in profit sharing in fiscal year 2016.

b) *Mr. Laber's* base salary was increased effective July 1, 2016 from \$400,000 to \$475,000 and his variable commission compensation was maintained at \$300,000 based on a target revenue growth rate of 20%. The actual sales commission earned by Mr. Laber for fiscal year 2016, based on the revenue growth that the Company succeeded in achieving in his territory, was \$561,808. In addition, Mr. Laber was paid \$16,289 for an auto allowance and his 401(k) employer matched contribution.

c) *Mr. Pardos'* base salary remained unchanged at the equivalent of \$251,000 and his variable target commission compensation payments were established at \$300,000. The actual sales commission earned by Mr. Pardos for fiscal year 2016, based on the revenue growth that he succeeded in achieving for his territory, was \$211,604. In addition, Mr. Pardos was paid \$72,023 for an auto and housing allowance.

Discretionary Management Bonus Program

In addition to base salary, we provided Mr. Santilli cash bonus under our Bonus Program in 2016. The cash bonuses payable were determined quarterly based on the Company's performance for the then-preceding quarter. Payments under the Bonus Program are made quarterly and are at the discretion of our Compensation Committee.

Given our Bonus Program is discretionary, the Compensation Committee reduced the bonus payouts as calculated according to the terms of the Bonus Program by changing the 'Adjusted Operating Profit Factor to 0.0 in the first quarter of 2016 given we were in a net operating loss position, and adjusted the revenue growth rate factor to 5.5 in the second quarter of 2016 to reduce the amount of bonus payable.

Our EVP, Sales North America and our EVP International Sales do not participate in the Bonus Program or the Profit Sharing Program, but are entitled to earn commissions and bonuses based on a variable commission plan that is based on our sales and sales growth.

Target Bonus Opportunities

For 2016, the target cash bonuses were designed to reward our NEOs based on the Company's overall financial performance and were established based on the recommendation that the compensation consultant provided to the Compensation Committee. As in prior years, the Compensation Committee determined that the target cash bonus for the non-sales NEO should be determined as a percentage of their base salary. The target bonus opportunity is reviewed annually by the Compensation Committee and is based on several factors, including the scope of the NEOs' performance, contributions, responsibilities, experience, prior years' target cash bonus and market conditions.

In 2016, the Compensation Committee maintained the target bonus opportunity for Mr. Santilli, in his role as CFO at 50% of base salary. In August 2016, during the Transitional Period, Mr. Santilli's target bonus opportunity was increased from 50% to 70% of base salary.

Corporate Performance Measures

For 2016, the Board, based on recommendations from the Compensation Committee, the Board maintained for 2016 the corporate performance measures for determining the bonuses payable to the non-sales NEOs as follows:

- 1) Revenue Growth Rate; and
- 2) Adjusted Operating Profit Improvement.

The Board believed that these corporate performance measures continue to align the bonus payment with the achievement of the Company's annual operating goals and enhancing long-term stockholder value creation. Adjusted Operating Profits was defined as operating profit less stock-based compensation expense and non-operational expenses. The Compensation Committee decided that non-operational expenses should be excluded from the operating profit amount as they were deemed unrelated to quarterly "operating" performance.

The Compensation Committee maintained the multipliers for each of the performance measures at the same rate as in 2015, which were 7.5 x for the 'Revenue Growth Rate' multiplier and 5 x for the 'Adjusted Operating Profit Improvement Multiplier.'

Using these measures, each fiscal quarter, we compared our performance against the same fiscal quarter in the prior year, and applied the associated multiplying factor to the percentage improvement for that quarter to determine our quarterly performance for that measure. If one performance measure's percentage improvement for a fiscal quarter in 2016 was negative, when compared to the same fiscal quarter for the prior year, the multiplier for that measure was set to zero.

For example, with the revenue growth factor of 7.5 and the adjusted operating profit improvement factor of 5, at 10% revenue growth and 10% adjusted operating profit improvement, an individual would be eligible to receive 125% of his or her target bonus opportunity for that quarter. At 15% revenue growth and 15% adjusted operating profit improvement, an individual would be eligible to receive 187.5% of his or her target bonus opportunity. Based on the actual quarterly revenue growth and adjusted operating profit improvement for each of the quarters in 2016, our NEOs earned the following bonus payout multipliers of their respective target bonus opportunity for the respective quarters.

<u>Fiscal Period</u>	<u>Revenue Growth (expressed as a percentage)</u>	<u>Factor</u>	<u>Revenue Growth Multiplier</u>	<u>Adjusted Operating Profit Improvement (expressed as a percentage)</u>	<u>Factor</u>	<u>Adjusted Operating Profit Multiplier</u>	<u>Total Payout Multiplier</u>
First quarter*	17.57%	7.50	131.80%	8.03%	0.00*	0.00%	131.80%
Second quarter*	21.78%	5.50*	119.77%	5.56%	5.00	27.81%	147.58%
Third quarter	31.18%	7.50	233.85%	6.77%	5.00	33.845%	267.70%
Fourth quarter	26.07%	7.50	195.52%	6.37%	5.00	31.845%	227.37%

* According to the Bonus Program, the revenue growth rate factor and the adjusted operating profit factor for 2016 was 7.5 and 5.0, respectively. However, given that the Bonus Program is discretionary, the Compensation Committee reduced the bonus payout

by changing the adjusted operating profit factor to 0.0 in the first quarter of 2016 and the revenue growth rate factor to 5.0 in the second quarter of 2016.

For fiscal year 2016, the cash bonus opportunity, and the amount actually earned, was as follows:

Named Executive Officer	Annual Cash Bonus Target ⁽¹⁾	Annual Cash Bonus Paid for 2016 ⁽²⁾
Mr. Santilli	\$272,188	\$571,243

- (1) The Annual Cash Bonus Target and the Annual Cash Bonus Paid for each of the quarters in 2016 was based on the corporate performance measures and the target bonus percentage (50% from 1/1/2016 to 8/14/2016 and 70% from 8/15/2016 to 12/31/2016) that Mr. Santilli was entitled to, per the Bonus Program Plan as applicable for each of the quarters.
- (2) The actual annual bonus paid to Mr. Santilli was calculated based on the achievement of the performance measures and as adjusted by the Compensation Committee (see the adjustments made discussed above).

Profit-Sharing Program

We have a profit sharing program for our NEOs and other non-sales employees pursuant to which quarterly cash payments are made. 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 NEOs' gross salary earned during that quarter.

In 2016, Mr. Santilli earned \$16,110 in profit sharing payments.

Sales Commission Plan

In 2016, the Compensation Committee reviewed the sales commission plans for NEOs Mr. Laber and Mr. Pardos. They determined that year-over-year revenue growth continues to be a very critical factor for the future success of the Company and that the compensation of the sales executives should reflect their performance as individuals in attaining revenue growth for the Company. Further, the Compensation Committee determined that establishing rates that would incentivize our sales executives leaders to grow the revenue is in the best interest of the Company and ultimately of our stockholders as revenue growth ultimately drives improved stock price.

Sales commissions payable for any quarter are based on the degree of achievement of revenue growth, compared with the prior year. For 2016, the Compensation Committee established Mr. Laber's and Mr. Pardos' sales commission at \$300,000 for a target revenue growth rate of 20% year-over-year. The commission payable to each of Mr. Laber and Mr. Pardos, at varying degrees of revenue growth compared to the prior year, were as follows:

Revenue Growth Rate, Compared to Prior Year (%)	Sales Commission Payout (FY 2016)
0%	\$100,000
10%	\$200,000
20%	\$300,000
30%	\$400,000
40%	\$500,000
50%	\$600,000

For fiscal year 2016, the cash commission opportunity at a target revenue growth rate of 20%, and the amount actually earned, was as follows:

<u>Named Executive Officer</u>	<u>Annual Cash Sales Commission at Target</u>	<u>Annual Cash Commission Paid for 2016</u>
Mr. Laber	\$300,000	\$561,808
Mr. Pardos	\$300,000	\$211,604

Long-Term Incentive Program

We believe that equity-based compensation promotes and encourages long-term successful performance by our NEOs that is aligned with the organization’s goals and the generation of stockholder value. Our equity compensation goals for our NEOs 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 Amended and Restated 2004 Equity Incentive Plan, we are permitted to grant stock options, stock appreciation rights, restricted shares, RSU awards, PSU awards and other stock-based awards. Under the Amended and Restated 2004 Equity Incentive is Plan, we grant options to our executive officers, directors and employees to purchase shares of our common stock at an exercise price equal to the fair market value of such stock on the date of grant. The grant date for stock options to our employees, NEOs and directors is typically the date that the Board meets and approves the grant or an approval is sought via a unanimous written consent. Prior to fiscal year 2016, we used to grant annual merit grants, on or around June 1st of each year. However, with effect from 2016, we moved our annual merit grants to granting them in January of each year. Our non-employee directors are granted RSUs annually on the date of our Annual Meeting of Stockholders that vest on the one-year anniversary of the grant date. 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.

Our Compensation Committee awarded the following equity awards to our NEOs in fiscal year 2016:

<u>Names</u>	<u>Grant Date</u>	<u>Stock Option Awards: Number of Securities Underlying Options</u>	<u>Number of Restricted Stock Unit Awards – Shares</u>	<u>Number of Performance Share Unit Awards for Target Performance-Shares⁽¹⁾</u>	<u>Base Price of RSU and PSU Awards</u>	<u>Grant Date Fair Value of All Equity Award</u>
Mr. Santilli	02/08/2016	—	26,500 ⁽²⁾	26,500	\$ 10.50	556,500
	10/28/2016	—	8,526 ⁽²⁾	8,526	\$ 13.40	228,497
						<u>\$ 784,997</u>
Mr. Laber	02/08/2016	—	10,000 ⁽⁴⁾	10,000	\$ 10.50	210,000
	09/09/2016	5,000 ⁽³⁾	—	—	—	16,458
	10/28/2016	—	5,000 ⁽⁵⁾	—	\$ 13.40	67,000
						<u>\$ 293,458</u>
Mr. Pardos.....	02/08/2016	—	10,000 ⁽⁶⁾	10,000	\$ 10.50	210,000
	09/09/2016	5,000 ⁽³⁾	—	—	—	16,458
	10/28/2016	—	5,000 ⁽⁵⁾	—	\$ 13.40	67,000
						<u>\$ 293,458</u>

(1) The PSU awards reflect the number of shares of stock that was expected to vest on March 15, 2017 assuming 100% achievement of each of the performance targets discussed below. The actual number of shares that vested on March 15, 2017, were 23,067 for Mr. Santilli and 6,586 for both Mr. Laber and Mr. Pardos, representing an aggregate of 66% of achievement for all performance targets.

(2) One-third of the shares underlying this award vest on the first, second and third anniversary of the vesting commencement date of January 1, 2016.

(3) One-fourth of the shares underlying each of these stock options vest on the first anniversary of the vesting commencement date of September 9, 2016 and 1/48th of the underlying shares vest each month thereafter.

(4) 10%, 20%, 30% and 40% of the shares underlying this award vest on the first, second, third and fourth anniversary of the vesting commencement date of January 1, 2016, respectively.

(5) One-fourth of the shares underlying this award vest on the first, second, third and fourth anniversary of the vesting commencement date of October 28, 2016.

(6) One-fourth of the shares underlying this award vest on the first, second, third and fourth anniversary of the vesting commencement date of January 1, 2016.

Performance Stock Unit Awards:

In February 2016, our Board, upon the recommendation of our Compensation Committee, granted PSUs to the NEOs and established the below mentioned performance goals. The number of PSUs awarded to the NEOs resulted in a varying number of shares of common stock that would have vested on March 15, 2017 based on the degree of achievement of the three performance goals as set forth below and subject to the recipient continuing to provide service to the Company through the vesting date. The PSU awards represent the aggregate number of shares that could have been earned from achievement of the three performance goals at targets that were pre-determined by the Board.

Performance Goal	Weighting of Goal
(1) Actual revenue achievement, compared to the target established by the Company's Board	40%
(2) Degree of improvement of the Company's operating loss, compared to the target established by the Company's Board.....	40%
(3) Expanded FDA clearance for a specific product.	20%

The following matrix provides an example of the number of shares of common stock that was expected to vest on March 15, 2017, based on the performance at varying degrees of achievement of all three performance criteria:

Name	Number of Shares of Common Stock that Would Have Vested on March 15, 2017				
	If Minimum Thresholds are Not Met	At 90% of Target Performance	At 100% of Target Performance	At 110% of Target Performance	At 200% of Target Performance
Mr. Santilli	—	21,716	35,026	41,331	77,057
Mr. Laber	—	6,200	10,000	11,800	22,000
Mr. Pardos.....	—	6,200	10,000	11,800	22,000

Benefits

We provide the following benefits to our NEOs generally on the same basis as the benefits provided to all employees. These benefits are consistent with those offered by other companies and specifically with those companies with which we compete for employees:

- Health, dental and vision insurance;
- Life insurance;
- Short-term and long-term disability insurance;
- 401(k) plan with 25% employer matching contributions, capped at 6% of total cash compensation; and
- Flexible Spending Accounts.

Employee Stock Purchase Plan

We maintain a 2004 Employee Stock Purchase Plan that provides eligible employees with the opportunity to purchase shares of our 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 COC Agreements, we do not have employment agreements with any of our NEOs. We have COC Agreements with each of our NEOs. The purpose of these agreements is to provide incentives to our NEOs 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 COC 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 Code generally disallows public companies a tax deduction for federal income tax purposes of remuneration in excess of \$1 million paid to the chief executive officer and each of the three other most highly-compensated executive officers (other than the chief financial officer) in any taxable year. However, remuneration in excess of \$1 million may generally be deducted if it is qualified performance based compensation within the meaning of Section 162(m) of the Code. In this regard, the compensation income realized upon the exercise of stock options granted under a stockholder-approved stock option plan generally will be deductible so long as the options are granted by a committee whose members are non-employee directors and certain other conditions are satisfied.

The Compensation Committee believes that, in establishing the cash and equity incentive compensation plans and arrangements for our executive officers, the potential deductibility of the compensation payable under those plans and arrangements should be only one of a number of relevant factors taken into consideration, and not the sole governing factor. For that reason, the Compensation Committee may deem it appropriate to provide one or more of our executive officers with the opportunity to earn incentive compensation, whether through cash incentive awards tied to our financial performance or equity incentive awards tied to the executive officer's continued service, which may be in excess of the amount deductible by reason of Section 162(m) or other provisions of the Code.

The Compensation Committee believes it is important to maintain cash and equity incentive compensation at the requisite level to attract and retain the individuals essential to our financial success, even if all or part of that compensation may not be deductible by reason of the Section 162(m) limitation.

Stock options granted under the Amended and Restated 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 Amended and Restated 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 ("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 have approved each of our equity compensation plans, which are as follows:

- Amended and Restated 2004 Equity Incentive Plan; and
- 2004 Employee Stock Purchase Plan ("ESPP").

The following table provides information regarding the shares of Cutera common stock that may be issued upon the exercise of stock options, RSUs, PSUs, and the projected ESPP contributions under our equity compensation plans as of December 31, 2016.

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.....	1,158,039	\$ 8.92 ⁽¹⁾	1,450,153
Equity compensation plan not approved by security holders .	—	—	—
Total.....	1,158,039	\$ 8.92 ⁽¹⁾	1,450,153

(1) The weighted average exercise price does not take into account outstanding RSUs or PSUs, which have no exercise price.

Other Compensation Practices and Policies

Stock Ownership Guidelines

To enhance our overall corporate governance practices and executive compensation program, 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 our 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 (appointment as NEO), our CEO and our other NEOs must hold shares of our common stock having a value not less than three times and one time respectively of their annual salary.

As of April 17, 2017, the NEOs' holdings and targeted guidelines were as follows:

Named Executive Officer	Stock Ownership as of April 17, 2017	Minimum Stock Ownership Required ⁽¹⁾
Mr. Reinstein.....	2,400	74,627 ⁽²⁾
Mr. Santilli	76,967	18,259 ⁽³⁾
Mr. Laber	21,176	23,632 ⁽²⁾
Mr. Pardos.....	15,198	12,515 ⁽²⁾

(1) Based on the closing stock price of \$20.10 on April 17, 2017.

(2) Minimum stock ownership required by January 2022

(3) Minimum stock ownership required by April 2017

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.

2016 Summary Compensation Table

The following table sets forth summary compensation information for the fiscal years ended December 31, 2016, 2015 and 2014 for our NEOs.

Name and Principal Position	Salary	Bonus ⁽¹⁾	Option Awards ⁽²⁾	Stock Awards ⁽²⁾	All Other Compensation	Total
Ronald J. Santilli, <i>EVP and CFO</i>						
2016	\$ 455,258	\$ 587,353	\$ —	\$ 784,997	\$ 16,110 ⁽³⁾	\$ 1,843,718
2015	358,229	308,824	—	295,372	11,894 ⁽³⁾	974,319
2014	328,083	176,246	—	418,740	11,662 ⁽³⁾	934,731
Larry E. Laber, <i>EVP Sales, North America</i>						
2016	\$ 437,500	\$ 561,808	\$ 16,458	\$ 277,000	\$ 16,289 ⁽⁴⁾	\$ 1,309,055
2015	400,000	444,632	—	206,940	173,034 ⁽⁴⁾	1,224,606
2014	121,212	91,087	98,733	401,200	3,273 ⁽⁴⁾	715,505
Miguel A. Pardos, <i>EVP International</i>						
2016	\$ 251,394	\$ 211,604	\$ 16,458	\$ 277,000	\$ 72,023 ⁽⁵⁾	\$ 828,479
2015	251,550	281,337	—	60,280	72,446 ⁽⁵⁾	665,613
2014	118,921	150,813	233,807	39,880	34,249 ⁽⁵⁾	577,670

- (1) The amounts reported in this column represent the bonus earned for each of the years covered in the table in accordance with our discretionary Bonus Program (see section above describing our discretionary Bonus Program) and sales commissions and bonuses for Mr. Laber and Mr. Pardos.
- (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 2016, 2015 and 2014 calculated in accordance with ASC Topic 718. See Note 6 of the Consolidated Notes to Financial Statements included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2016 filed with the SEC on March 15, 2017 for a discussion of the valuation assumptions for stock-based compensation.
- (3) Amounts represent 401(k) employer-match contributions and a non-cash benefit associated with a Company sponsored, non-business event for achieving sales targets in accordance with our commission incentive plan.
- (4) Amounts represent an auto allowance, 401(k) employer-match contributions and a non-cash benefit associated with a Company sponsored, non-business event for achieving sales targets in accordance with our commission incentive plan.
- (5) Amounts represent the combined value of a housing allowance and an auto allowance.

2016 Grants of Plan-Based Awards Table

The following table lists grants of plan-based RSU and PSU awards made to our NEOs during the fiscal year ended December 31, 2016.

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 Underlying Options	Base Price of Awards ⁽¹⁾	Grant Date Fair Value of Awards ⁽¹⁾
		Threshold	Target	Maximum				
Mr. Santilli.....	02/08/2016	—	—	—	53,000	—	\$ 10.50	\$ 556,500
	10/28/2016	—	—	—	17,052	—	13.40	228,497
Mr. Laber.....	02/08/2016	—	—	—	20,000	—	\$ 10.50	\$ 210,000
	09/09/2016	—	—	—	—	5,000	10.80	16,458
	10/28/2016	—	—	—	5,000	—	13.40	67,000
Mr. Pardos.....	02/08/2016	—	—	—	20,000	—	\$ 10.50	\$ 210,000
	09/09/2016	—	—	—	—	5,000	10.80	16,458
	10/28/2016	—	—	—	5,000	—	13.40	67,000

- (1) The amounts reported in this column reflect the grant date fair value of equity awards calculated in accordance with ASC Topic 718. See Note 6 of the Notes to Consolidated Financial Statements included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2016 filed with the SEC on March 15, 2017 for a discussion of the valuation assumptions for our stock-based compensation.

2016 Outstanding Equity Awards at Fiscal Year-End Table

The following table lists the outstanding equity incentive awards held by our NEOs as of December 31, 2016.

Name	Option Awards				Stock Awards		
	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	Market Value of Shares or Units of Stock that Have Not Vested	Date Awards Will be Fully Vested
Mr. Santilli.....	15,562	—	8.72	5/27/2018			
	32,500	—	6.88	7/27/2019			
	43,333	—	8.91	6/10/2020			
					35,026 ⁽¹⁾	607,701 ⁽¹⁾	3/15/2017 ⁽¹⁾
					7,000 ⁽²⁾	121,450 ⁽²⁾	6/01/2017 ⁽²⁾
				6,533 ⁽³⁾	113,348 ⁽³⁾	6/01/2018 ⁽³⁾	
				26,500 ⁽⁴⁾	459,775 ⁽⁴⁾	1/01/2019 ⁽⁴⁾	
				8,526 ⁽⁵⁾	147,926 ⁽⁵⁾	8/15/2019 ⁽⁵⁾	
Mr. Laber.....	16,875	13,125 ⁽⁶⁾	10.03	10/24/2021			
	—	5,000 ⁽¹⁴⁾	10.80	9/09/2023			
					10,000 ⁽¹⁾	173,500 ⁽¹⁾	3/15/2017 ⁽¹⁾
					20,000 ⁽⁷⁾	347,000 ⁽⁷⁾	9/11/2018 ⁽⁷⁾
					1,250 ⁽⁸⁾	21,688 ⁽⁸⁾	12/31/2018 ⁽⁸⁾
					10,350 ⁽⁹⁾	179,573 ⁽⁹⁾	6/01/2019 ⁽⁹⁾
				10,000 ⁽¹⁰⁾	173,500 ⁽¹⁰⁾	1/01/2020 ⁽¹⁰⁾	
				5,000 ⁽¹¹⁾	86,750 ⁽¹¹⁾	10/28/2020 ⁽¹¹⁾	
Mr. Pardos.....	42,292	27,708 ⁽⁶⁾	9.97	7/25/2021			
	—	5,000 ⁽¹⁴⁾	10.80	9/09/2023			
					10,000 ⁽¹⁾	173,500 ⁽¹⁾	3/15/2017 ⁽¹⁾
					2,000 ⁽¹²⁾	34,700 ⁽¹²⁾	7/11/2018 ⁽¹²⁾
					3,000 ⁽⁹⁾	52,050 ⁽⁹⁾	6/01/2019 ⁽⁹⁾
				10,000 ⁽¹³⁾	173,500 ⁽¹³⁾	1/01/2020 ⁽¹³⁾	
				5,000 ⁽¹¹⁾	86,750 ⁽¹¹⁾	10/28/2020 ⁽¹¹⁾	

- (1) These PSU awards reflect the number of shares of stock that was expected to vest on March 15, 2017 assuming 100% achievement of each of the performance targets discussed abovebelow. The actual number of shares that vested on March 15, 2017, were 23,067 for Mr. Santilli and 6,586 for both Mr. Laber and Mr. Pardos representing a 66% of achievement of the performance targets.
- (2) One-third of the shares underlying this award vest on the first, second and third anniversary of the vesting commencement date of June 1, 2014.
- (3) One-third of the shares underlying this award vest on the first, second and third anniversary of the vesting commencement date of June 1, 2015.
- (4) One-third of the shares underlying this award vest on the first, second and third anniversary of the vesting commencement date of January 1, 2016.
- (5) One-third of the shares underlying this award vest on the first, second and third anniversary of the vesting commencement date of August 15, 2016.
- (6) One-fourth of the shares underlying each of these stock options vest on the first anniversary of the vesting commencement date of October 24, 2014 and 1/48th of the underlying shares vest each month thereafter.
- (7) One-fourth of the shares underlying this award vest on the first, second, third and fourth anniversary of the vesting commencement date of September 11, 2014.
- (8) One-fourth of the shares underlying this award vest on the first, second, third and fourth anniversary of the vesting commencement date of December 31, 2014.
- (9) One-fourth of the shares underlying this award vest on the first, second, third and fourth anniversary of the vesting commencement date of June 1, 2015.
- (10) 10%, 20%, 30% and 40% of the shares underlying this award vest on the first, second, third and fourth anniversary of the vesting commencement date of January 1, 2016, respectively.
- (11) One-fourth of the shares underlying this award vest on the first, second, third and fourth anniversary of the vesting commencement date of October 28, 2016.
- (12) One-fourth of the shares underlying this award vest on the first, second, third and fourth anniversary of the vesting commencement date of July 11, 2014.

- (13) One-fourth of the shares underlying this award vest on the first, second, third and fourth anniversary of the vesting commencement date of January 1, 2016.
- (14) One-fourth of the shares underlying each of these stock options vest on the first anniversary of the vesting commencement date of September 9, 2016 and 1/48th of the underlying shares vest each month thereafter.

2016 Options Exercised and Stock Vested Table

The following table lists the stock options exercised by, and stock awards vested to, our NEOs in the fiscal year ended December 31, 2016.

Name	Option Awards		Stock Awards	
	Number of Shares Acquired on Exercise	Value Realized on Exercise	Number of Shares Acquired on Vesting	Value Realized Upon Vesting ⁽¹⁾
Mr. Santilli	64,438	\$ 341,736	20,141	\$ 219,670
Mr. Laber	—	—	14,609	\$ 162,965
Mr. Pardos	—	—	5,112	\$ 57,098

- (1) The amounts reported in this column represent the fair market value of the shares of our 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 NEOs, during 2016.

Nonqualified Deferred Compensation

We did not maintain any nonqualified defined contribution or other deferred compensation plans or arrangements for our executive officers, including our NEOs, during 2016.

Employment Agreements

We do not have employment agreements with any of our NEOs.

Potential Payments Upon Termination or Change in Control

Single Trigger:

We have entered into Change of Control (“COC”) Agreements with each of our NEOs. These agreements provide that if a NEO’s Named Executive Officer’s employment with the Company is terminated by the Company without “cause” (as defined in the applicable COC Agreement) or by the NEO’s Named Executive Officer for “good reason” (as defined in the agreement) either prior to three months before or after 12 months following a COC (as defined in the agreement) of the Company but not in connection with a COC (commonly referred to as “single trigger”), the NEO’s Named Executive Officer will receive, subject to signing a release of claims in favor of the Company, the following lump sum severance payment:

<u>Named Executive Officer</u>	<u>Lump Sum Severance Payments</u>
Mr. Reinstein.....	100% of base salary plus 100% of actual bonus paid in the prior fiscal year
Mr. Santilli	100% of base salary plus 12 months of COBRA
Mr. Laber	100% of base salary
Mr. Pardos.....	100% of base salary

Double Trigger

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 NEO for “good reason” and such termination occurs within the period beginning three months before, and ending 12 months following, a COC of the Company and in connection with a COC (commonly referred to as “double trigger”), the Named Executive Officer NEO will receive, subject to signing a release of claims in favor of the Company:

- (1) A lump sum severance payment based on the annual base salary as in effect immediately prior to such termination or, if greater, at the level in effect immediately prior to the COC, as follows:

<u>Named Executive Officer</u>	<u>Lump Sum Severance Payments</u>
Mr. Reinstein.....	100% of base salary, plus 100% of actual bonus paid in the prior fiscal year.
Mr. Santilli	150% of base salary, 150% of target bonus for the year of termination, and 18 months of COBRA.
Mr. Laber	100% of base salary, 100% of target bonus for the year of termination.
Mr. Pardos.....	100% of base salary, 100% of target bonus for the year of termination.

- (2) Automatic vesting in full of all outstanding and unvested equity awards held by each of the NEO as of the date of the COC; and

The COC agreements are for an initial term of three years, and will extend for an additional year unless the Company or the applicable Named Executive Officer NEO provides written notice at least 60 days prior to the third anniversary of the agreement. The COC agreement of our NEOs expire as follows:

<u>Named Executive Officer</u>	<u>COC Expiration Date</u>
Mr. Reinstein.....	January 9, 2021
Mr. Santilli	August 3, 2019
Mr. Laber	September 8, 2018
Mr. Pardos.....	July 11, 2018

For purposes of these agreements, “cause” means a NEO’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 NEO to a facility that is more than 50 miles from his then-current location).

The following table lists our NEOs 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 April 17, 2017.

Name	Estimated Total Value of Cash Payment	Estimated Total Value of Health Coverage Continuation
Mr. Reinstein.....	\$ 850,000	\$ —
Mr. Santilli.....	\$ 367,000	\$ 20,024
Mr. Laber.....	\$ 475,000	—
Mr. Pardos.....	\$ 251,550	—

The following table lists our NEOs 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 April 17, 2017.

Name	Estimated Total Value of Cash Payment	Estimated Total Value of Health Coverage Continuation	Value of Accelerated Equity ⁽¹⁾
Mr. Reinstein.....	\$ 850,000	—	\$ 628,000
Mr. Santilli.....	\$ 734,000	\$ 30,036	\$ 1,361,273
Mr. Laber.....	\$ 939,623	—	\$ 1,472,054
Mr. Pardos.....	\$ 535,467	—	\$ 901,244

(1) We estimated the value of acceleration of the outstanding and unvested stock options, RSU and PSU awards (assuming paid at 100% of target) held by each of our NEOs based on a market price of \$20.10 per share for Cutera common stock as of April 17, 2017.

Severance payments upon termination or change in control would be payable to the recipient only if the NEO executive signs and does not revoke a release of claims with the Company (in a form reasonably acceptable to the Company) and provided that such release of claims becomes effective no later than sixty (60) days following the termination date. In addition, the NEO executive would need to have complied to comply with the terms of any confidential information agreement executed by NEO executive in favor of the Company and the provisions of the severance agreements.

COMPENSATION COMMITTEE REPORT

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, M.D.
Gregory Barrett
Jerry P. Widman

(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.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

We describe below transactions and series of similar transactions, since the beginning of our last fiscal year, to which we were a party or will be a party, in which:

- the amounts involved exceeded or will exceed \$120,000; and
- any of our directors, nominees for director, executive officers or beneficial holders of more than 5% of our outstanding common stock, or any immediate family member of, or person sharing the household with, any of these individuals or entities (each, a related party), had or will have a direct or indirect material interest.

Consulting Agreement

We have a consulting agreement with Mr. Gollnick, a director of the Company, pursuant to which he is compensated for services that he provides to us, including product development, clinical sales and marketing support. Payments to Mr. Gollnick under this agreement in fiscal year 2016 were \$182,100 plus travel expenses. In addition, the Company granted Mr. Gollnick 6,500 RSUs with a grant-date fair value of \$87,100, that vest over four years (4) years at the rate of 25% per year on each of the four anniversaries from the vesting commencement date of October 28, 2016, subject to Mr. Gollnick continuing to provide consulting and/ or Board services to the Company. The Company's Audit Committee approved the extension of Mr. Gollnick's consulting agreement through December 31, 2018 at the rate of \$200 per hour for a maximum of 40 hours per week.

Other Transactions

We have entered into change of control severance agreements with our NEOs. See "Named Executive Officers and Executive Compensation — Potential Payments Upon Termination or Change in Control."

We have entered into indemnification agreements with our directors and executive officers. The indemnification agreements and our certificate of incorporation and bylaws require us to indemnify our directors and executive officers to the fullest extent permitted by Delaware law.

Policies and Procedures for Related Party Transactions

Our Board has adopted a written policy that our executive officers, directors, nominees for election as a director, beneficial owners of more than 5% of any class of our common stock and any members of the immediate family of any of the foregoing persons are not permitted to enter into a related person transaction with us without the prior consent of our Audit Committee. Any request for us to enter into a transaction with an executive officer, director, nominee for election as a director, beneficial owner of more than 5% of any class of our common stock or any member of the immediate family of any of the foregoing persons in which the amount involved exceeds \$120,000 and such person would have a direct or indirect interest must first be presented to our Audit Committee for review, consideration and approval. In approving or rejecting any such proposal, our Audit Committee is to consider the material facts of the transaction, including, but not limited to, whether the transaction is on terms no less favorable than terms generally available to an unaffiliated third-party under the same or similar circumstances and the extent of the related person's interest in the transaction. We did not have a formal review and approval policy for related party transactions at the time of any of the transactions described above. However, all of the transactions described above were entered into after presentation, consideration and approval by our Board and/or our Audit Committee.

OTHER MATTERS

Fiscal Year 2016 Annual Report and SEC Filings

Our financial statements for our fiscal year ended December 31, 2016 are included in our Annual Report on Form 10-K, which we will make available to stockholders at the same time as this proxy statement. This proxy statement and our annual report are posted on our website and are available from the SEC at its website at www.sec.gov. A copy of our annual report may be obtained, without charge, by sending a written request to Cutera, Inc., Attention: Investor Relations, 3240 Bayshore Boulevard, Brisbane, California 94005.

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 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,

/s/ Ronald J. Santilli
Ronald J. Santilli,
Executive Vice President and Chief
Financial Officer
Brisbane, California
May 1, 2017

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

2017 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 May 1, 2017 and hereby appoints James A. Reinstein (our President, Chief Executive Officer and Director) and Gregory Barrett (our Director), 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 2017 Annual Meeting of Stockholders of Cutera, Inc. to be held on June 14, 2017 at 9:00 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

The Board of Directors of Cutera, Inc. recommends a vote FOR the following proposals:

Please mark your votes as indicated:

	FOR	AGAINST	ABSTAIN		FOR	AGAINST	ABSTAIN
1. Approval of the Second Amended and Restated Certificate of Incorporation to declassify the board of directors.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	3. Ratification of BDO USA, LLP as the Independent Registered Public Accounting Firm for the fiscal year ending December 31, 2017.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

2. Election of Directors:
Class I Nominees:

	FOR	WITHHOLD		FOR	AGAINST	ABSTAIN
			4. Approval of the Amended and Restated 2004 Equity Incentive Plan.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

David A. Gollnick

James A. Reinstein

Clint H. Severson

	FOR	AGAINST	ABSTAIN
5. Non-binding advisory vote on the compensation of Named Executive Officers.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

THIS PROXY WILL BE VOTED AS DIRECTED OR, IF NO CONTRARY DIRECTION IS INDICATED, WILL BE VOTED AS FOLLOWS: (1) FOR THE APPROVAL OF THE SECOND AMENDED AND RESTATED CERTIFICATE OF INCORPORATION TO DECLASSIFY THE BOARD OF DIRECTORS; (2) FOR THE ELECTION OF THE NOMINATED CLASS I DIRECTORS; (3) FOR THE RATIFICATION OF THE APPOINTMENT OF BDO USA, LLP AS OUR INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM FOR THE FISCAL YEAR ENDING DECEMBER 31, 2017; (4) FOR THE APPROVAL OF THE AMENDED AND RESTATED 2004 EQUITY INCENTIVE PLAN; (5) FOR THE APPROVAL BY NON-BINDING ADVISORY VOTE ON THE COMPENSATION OF NAMED EXECUTIVE OFFICERS; AND (6) 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.

AMENDED AND RESTATED CERTIFICATE OF INCORPORATION**OF****CUTERA, INC.**

(as amended and restated on April 13, 2017, subject to stockholder approval on June 14, 2017)

Cutera, Inc., a corporation organized and existing under the laws of the State of Delaware, hereby certifies as follows:

A. The name of the corporation is Cutera, Inc. The original Certificate of Incorporation of the corporation was filed with the Delaware Secretary of State on August 10, 1998 under the name of Acme Medical, Inc.

B. Pursuant to Sections 242 and 245 of the General Corporation Law of the State of Delaware, this Amended and Restated Certificate of Incorporation restates and amends the provisions of the Certificate of Incorporation of this corporation.

C. The text of the Certificate of Incorporation is hereby amended and restated in its entirety to read as follows:

1.

The name of the corporation is Cutera, Inc. (the "Corporation").

2.

The address of the Corporation's registered office in the State of Delaware is 1209 Orange Street, City of Wilmington, County of New Castle, Delaware 19801. The name of its registered agent at such address is The Corporation Trust Company.

3.

The purpose of the Corporation is to engage in any lawful act or activity for which corporations may be organized under the General Corporation Law of Delaware.

4.

The Corporation is authorized to issue two classes of shares of stock to be designated, respectively, Common Stock, \$0.001 par value, and Preferred Stock, \$0.001 par value. The total number of shares that the Corporation is authorized to issue is 55,000,000 shares. The number of shares of Common Stock authorized is 50,000,000. The number of shares of Preferred Stock authorized is 5,000,000.

The Preferred Stock may be issued from time to time in one or more series pursuant to a resolution or resolutions providing for such issue duly adopted by the Board of Directors (authority to do so being hereby expressly vested in the board). The Board of Directors is further authorized to determine or alter the rights, preferences, privileges and restrictions granted to or imposed upon any wholly unissued series of Preferred Stock and to fix the number of shares of any series of Preferred Stock and the designation of any such series of Preferred Stock. The Board of Directors, within the limits and restrictions stated in any resolution or resolutions of the Board of Directors originally fixing the number of shares constituting any series, may increase or decrease (but not below the number of shares in any such series then outstanding) the number of shares of any series subsequent to the issue of shares of that series.

The authority of the Board of Directors with respect to each such class or series shall include, without limitation of the foregoing, the right to determine and fix:

- (i) the distinctive designation of such class or series and the number of shares to constitute such class or series;
- (ii) the rate at which dividends on the shares of such class or series shall be declared and paid, or set aside for payment, whether dividends at the rate so determined shall be cumulative or accruing, and whether the shares of such class or series shall be entitled to any participating or other dividends in addition to dividends at the rate so determined, and if so, on what terms;
- (iii) the right or obligation, if any, of the Corporation to redeem shares of the particular class or series of Preferred Stock and, if redeemable, the price, terms and manner of such redemption;
- (iv) the special and relative rights and preferences, if any, and the amount or amounts per share, which the shares of such class or series of Preferred Stock shall be entitled to receive upon any voluntary or involuntary liquidation, dissolution or winding up of the Corporation;
- (v) the terms and conditions, if any, upon which shares of such class or series shall be convertible into, or exchangeable for, shares of capital stock of any other class or series, including the price or prices or the rate or rates of conversion or exchange and the terms of adjustment, if any;
- (vi) the obligation, if any, of the Corporation to retire, redeem or purchase shares of such class or series pursuant to a sinking fund or fund of a similar nature or otherwise, and the terms and conditions of such obligation;
- (vii) voting rights, if any, on the issuance of additional shares of such class or series or any shares of any other class or series of Preferred Stock;
- (viii) limitations, if any, on the issuance of additional shares of such class or series or any shares of any other class or series of Preferred Stock; and
- (ix) such other preferences, powers, qualifications, special or relative rights and privileges thereof as the Board of Directors of the Corporation, acting in accordance with this Amended and Restated Certificate of Incorporation, may deem advisable and are not inconsistent with law and the provisions of this Amended and Restated Certificate of Incorporation.

5.

The Corporation reserves the right to amend, alter, change, or repeal any provision contained in this Amended and Restated Certificate of Incorporation, in the manner now or hereafter prescribed by statute, and all rights conferred upon the stockholders herein are granted subject to this right.

6.

The Corporation is to have perpetual existence.

7.

(a) Limitation of Liability. To the fullest extent permitted by the General Corporation Law of the State of Delaware as the same exists or as may hereafter be amended, a director of the Corporation shall not be personally liable to the Corporation or its stockholders for monetary damages for breach of fiduciary duty as a director.

(b) Indemnification. The Corporation may indemnify to the fullest extent permitted by law any person made or threatened to be made a party to an action or proceeding, whether criminal, civil, administrative or investigative, by reason of the fact that such person or his or her testator or intestate is or was a director, officer or employee of the Corporation, or any predecessor of the Corporation, or serves or served at any other enterprise as a director, officer or employee at the request of the Corporation or any predecessor to the Corporation.

(c) Amendments. Neither any amendment nor repeal of this Article VII, nor the adoption of any provision of the Corporation's Certificate of Incorporation inconsistent with this Article VII, shall eliminate or reduce the effect of this Article VII, in respect of any matter occurring, or any action or proceeding accruing or arising or that, but for this Article VII, would accrue or arise, prior to such amendment, repeal, or adoption of an inconsistent provision.

8.

(a) Number of Directors. The number of directors which constitutes the whole Board of Directors of the Corporation shall be designated in the Bylaws of the Corporation. No decrease in the number of directors constituting the Board of Directors shall shorten the term of any incumbent director.

Vacancies occurring on the Board of Directors for any reason and newly created directorships resulting from an increase in the authorized number of directors may be filled only by vote of a majority of the remaining members of the Board of Directors, although less than a quorum, at any meeting of the Board of Directors.

(b) Election of Directors. Elections of directors need not be by written ballot unless the Bylaws of the Corporation shall so provide.

9.

In furtherance and not in limitation of the powers conferred by statute, the Board of Directors is expressly authorized to make, alter, amend or repeal the Bylaws of the Corporation.

10.

No action shall be taken by the stockholders of the Corporation except at an annual or special meeting of the stockholders called in accordance with the Bylaws and no action shall be taken by the stockholders by written consent. The affirmative vote of sixty-six and two-thirds percent (66 2/3%) of the then outstanding voting securities of the Corporation, voting together as a single class, shall be required for the amendment, repeal or modification of the provisions of Article VIII or Article X of this Amended and Restated Certificate of Incorporation or Sections 2.3 (Special Meeting), 2.4 (Advance Notice Procedures; Notice of Stockholders' Meetings) or 2.9 (Voting) of the Corporation's Bylaws.

11.

Meetings of stockholders may be held within or without the State of Delaware, as the Bylaws may provide. The books of the Corporation may be kept (subject to any provision contained in the statutes) outside of the State of Delaware at such place or places as may be designated from time to time by the Board of Directors or in the Bylaws of the Corporation.

This Amended and Restated Certificate of Incorporation has been duly adopted by the Board of Directors of the Corporation in accordance with the provisions of Sections 242 and 245 of the General Corporation Law of the State of Delaware, as amended.

This Amended and Restated Certificate of Incorporation has been duly approved by the written consent of the stockholders of the corporation in accordance with Sections 242 and 245 of the General Corporation Law of the State of Delaware, as amended.

In witness whereof, the Corporation has caused this Certificate to be signed by James Reinstein, its President and Chief Executive Officer, this 13th day of April, 2017.

A handwritten signature in black ink, appearing to read "J. Reinstein", with a stylized flourish extending from the end.

James Reinstein, President and
Chief Executive Officer

CUTERA, INC.

2004 EQUITY INCENTIVE PLAN

(as amended and restated on April 13, 2017, subject to stockholder approval on June 14, 2017)

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

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

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

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

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

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

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

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

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

(f) “Board” means the Board of Directors of the Company.

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

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

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

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

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

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

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

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

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

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

(m) "Determination Date" means the latest possible date 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 17 of the Plan.

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

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

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

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

3. Stock Subject to the Plan.

(a) Stock Subject to the Plan. Subject to the provisions of Section 17 of the Plan, as of April 13, 2017, the maximum aggregate number of shares of common stock that may be awarded and sold under the amended and restated 2004 Plan was 9,701,192, of which 1,925,682 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 17, the maximum number of Shares that may be issued upon the exercise of Incentive Stock Options will equal the aggregate Share number stated in Section 3(a), plus, to the extent allowable under Section 422 of the Code, any Shares that become available for issuance under the Plan under this Section 3(c).

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

4. Administration of the Plan.

(a) Procedure.

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

(ii) 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 22(c) of the Plan), including the discretionary authority to extend the post-termination exercisability period of Awards longer than is otherwise provided for in the Plan;

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

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

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

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

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

5. Eligibility. 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 17.

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

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

(c) Option Exercise Price and Consideration.

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

(1) In the case of an Incentive Stock Option

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

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

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

(2) In the case of a Nonstatutory Stock Option, the per Share exercise price will be determined by the Administrator, but the per Share exercise price will be no less than 100% of Fair Market Value per Share on the date of grant. 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 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.

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

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

(d) Exercise of Option.

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

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

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

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

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

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

7. Restricted Stock.

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

(b) Restricted Stock Agreement. Each Award of Restricted Stock will be evidenced by an Award Agreement that will specify the Period of Restriction, the number of Shares granted, and such other terms and conditions as the Administrator, in its sole discretion, will determine. Notwithstanding the foregoing sentence, 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 not be entitled to receive dividends or other distributions paid with respect to such Shares. Following the lapse of the Period of Restriction, Service Providers will be entitled to receive all dividends or other distributions paid with respect to such Shares that accrue after the lapse of the Period of Restrictions. If any such dividends or distributions are paid in Shares, the Shares will be subject to the same restrictions on transferability as the Shares with respect to which they were paid.

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

(i) 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 17. In addition, if a SAR is cancelled in the same Fiscal Year in which it was granted (other than in connection with a transaction described in Section 17), the cancelled SAR will be counted against the numerical share limits set forth above.

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

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

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

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

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

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

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

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

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

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

10. Performance Units and Performance Shares.

(a) Grant of Performance Units/Shares. Performance Units and Performance Shares may be granted to Service Providers at any time and from time to time, as will be determined by the Administrator, in its sole discretion. The Administrator will have complete discretion in determining the number of Performance Units and Performance Shares granted to each Participant provided that during any Fiscal Year, 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 and Award Grants to Outside Directors.

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

(a) Type of 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 11(f), 13 and 17).

(c) First Option. Each person who first becomes an Outside Director following the Registration Date will be automatically granted an Option to purchase 14,000 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 Award. Each Outside Director will be automatically granted an award of shares represented by the quotient of \$60,000 divided by the closing market price of the Company’s common stock on the annual meeting of the stockholders of the Company (a “Subsequent Award”), if as of such date, he or she will have served on the Board for at least the preceding six (6) months.

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

(i) The term of the First 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 First Option.

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

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

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

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

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

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

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

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

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

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

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

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

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

18. Tax Withholding

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

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

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

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

21. Term of Plan. Subject to Section 25 of the Plan, the Plan will become effective upon its adoption by the Board. It will continue in effect until the date of the annual meeting of the stockholders of the Company in 2022, unless terminated earlier under Section 22 of the Plan.

22. Amendment and Termination of the Plan.

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

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

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

23. Conditions Upon Issuance of Shares.

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

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

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

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

**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, 2016

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:

<u>Title of Each Class</u>	<u>Name of Each Exchange on Which Registered</u>
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 Smaller reporting company
(Do not check if a 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, 2016 (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 June 30, 2016, was approximately \$98 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 28, 2017 was 13,866,428.

DOCUMENTS INCORPORATED BY REFERENCE

Part III incorporates by reference certain information from the registrant's definitive proxy statement for the 2017 Annual Meeting of Stockholders, which will be filed with the Securities and Exchange Commission not later than 120 days after December 31, 2016.

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PART I

ITEM 1. BUSINESS

We are a global medical device company founded as a Delaware corporation in 1998 and have our headquarters in Brisbane, California. We specialize in the design, development, manufacture, marketing and servicing of laser and other energy based aesthetics systems for practitioners worldwide. We offer easy-to-use products based on the following key product platforms: *enlighten*[™], *excel HR*[™], *truSculpt*[™], *excel V*[™], and *xeo*[®]— each of which enables physicians and other qualified practitioners to perform safe and effective aesthetic procedures for their customers. Each of our laser and other energy-based platforms consists of one or more hand pieces and a console that incorporates an intuitive user interface, a laser or other energy-based module, control system software and high voltage electronics. However, depending on the application, the laser or other energy-based module is sometimes contained in the hand piece itself.

Our trademarks include: "Cutera," "*Acutip*," "*CoolGlide*," "*enlighten*," "*excel HR*," "*excel V*," "*GenesisPlus*," "*PicoGenesis*," "*solera*," "*titan*," "*truSculpt*," and "*xeo*." Our logo and our other trade names, trademarks and service marks appearing in this document are our property. Other trade names, trademarks and service marks appearing in this annual report on Form 10-K are the property of their respective owners. Solely for convenience, our trademarks and trade names referred to in this annual report on Form 10-K appear without the [™] or [®] symbols, but those references are not intended to indicate, in any way, that we will not assert, to the fullest extent under applicable law, our rights, or the right of the applicable licensor to these trademarks and trade names.

A description of each of our hand pieces, and the aesthetic conditions they are designed to treat, is contained in the section below entitled "Products" and a summary of the features of our primary products is as follows:

- ***enlighten***- In December 2014, we introduced our *enlighten* laser platform with a dual wavelength (1064 nanometer, or "nm" + 532 nm) and in December 2016 we introduced a three wavelength (1064 nm + 532 nm+ 670 nm) model called *enlighten III*. The *enlighten* system is a dual pulse duration (750 picosecond, or "ps," and 2 nanosecond, or "ns") laser system and is cleared for multi-colored tattoo removal and for the treatment of benign pigmented lesions.
- ***excel HR***- In June 2014, we introduced our *excel HR* platform, a premium hair removal solution for all skin types, combining Cutera's proven long-pulse 1064 nm Nd:YAG laser and a high-power 755 nm Alexandrite laser with sapphire contact cooling.
- ***truSculpt***- In August 2012, we commenced shipments of our *truSculpt* platform with a 25cm² hand piece. *truSculpt* is a high-powered radio frequency ("RF") platform designed for deep tissue heating. This system is designed to treat all body areas and with its unique electrode design is able to achieve comfortable, uniform heating of subcutaneous tissue. In the fourth quarter of 2012, we commenced shipping a larger 40cm² hand piece that enables faster treatments of larger areas. In the third quarter of 2013, we commenced shipping a smaller 16 cm² hand piece. In December 2016, we received a 510(k) clearance from the U.S. Food and Drug Administration ("FDA") to market *truSculpt* for the temporary reduction in circumference of the abdomen.
- ***excel V***- In February 2011, we introduced our *excel V* platform, a high-performance, vascular and benign pigmented lesion treatment 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 and benign pigmented lesion conditions, without the need for costly consumables.
- ***xeo***- In 2003, we introduced the *xeo* platform, which can combine pulsed light and laser applications in a single system. The *xeo* is a multi-application platform on which a customer can purchase hand piece applications for the removal of unwanted hair, treatment of vascular lesions, and skin revitalization by treating discoloration, fine lines and laxity.

Other than the above mentioned five primary systems, we continue to generate revenue from our legacy products such as *GenesisPlus*[™], *CoolGlide*[®], *solera*[®], and a third-party sourced system called *myQ*[™] for the Japanese market.

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 incremental revenue.

In addition to systems and upgrades, we generate revenue from the sale of post-warranty services, Titan hand piece refills, and skincare products (Japanese market only).

The Structure of Skin and Conditions that Affect Appearance

The skin is the body's largest organ and is comprised of two 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, including advancing 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, leading to uneven texture, wrinkles and skin laxity; and
- Uneven pigmentation or sun spots due to long-term sun exposure.

In addition to these skin conditions, people seek removal of unwanted tattoos as well as removal of fat in certain body areas in order to improve their appearance and confidence.

The Market for Non-Surgical Aesthetic Procedures

The market for non-surgical aesthetic procedures has grown significantly over the past several years. Medical Insight, an independent industry research and analysis firm, estimated that in 2015 total sales of products in the global aesthetic market exceeded \$7 billion and indicated that total sales should increase 11.8% annually through 2019. For North America, the American Society of Plastic Surgeons estimates that in 2015 there were over 14.2 million minimally-invasive aesthetic procedures performed, a 2% increase over 2014 and a 158% increase over 2000.

We believe there are several factors contributing to the global growth of aesthetic treatment procedures and aesthetic laser equipment sales, including:

- **Improved Economic Environment and Expanded Physician Base-** The improvements in overall global economic conditions since the last recession have created increased demand for aesthetic procedures, which in turn has resulted in an expanding practitioner base to satisfy the demand.
- **Aging Demographics of Industrialized Countries-** The aging population of industrialized countries, the amount of discretionary income available to the "baby boomer" demographic segment — ages 52 to 70 in 2016 — and their desire to retain a youthful appearance, have increased the demand for aesthetic procedures. In 2016, there were approximately 75 million people in the baby boomer category, which is nearly 25%, of the U.S. population.
- **Broader Range of Safe and Effective Treatments-** Technical developments, as well as an increase in treatable conditions due to new product introductions, 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 treatment and recovery times, which in turn have led to greater patient demand.
- **Broader Base of Customers-** Managed care and government payer reimbursement restrictions on physicians, has motivated them to establish or seek to 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 practitioners, such as gynecologists, family practitioners, primary care physicians, physicians performing aesthetic treatments in non-medical offices, and other qualified practitioners ("non-core practitioners") have expanded their practices and are offering aesthetic procedures.
- **Reductions in Cost per Procedure:** Due in part to increased competition in the aesthetic market, the cost per procedure has been reduced in the past few years. This has attracted a broader base of customers and patients for aesthetic procedures.
- **Wide Acceptance of Aesthetic Procedures and Increased Focus on Body Image and Appearance-** According to an American Society for Aesthetic Plastic Surgery survey in 2010, 51% of Americans (including 53% of women and 49% of men) approved of cosmetic surgery, and 67% of Americans responded that they would not be embarrassed if their friends or family knew they had undergone a cosmetic procedure. Broader social acceptance of aesthetic treatments, has also driven the growth in aesthetic procedures.

Non-Surgical Aesthetic Procedures for Improving the Body and/ or 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 other energy-based technologies to achieve similar therapeutic results. Some of these common therapies and their limitations are described below.

Tattoo removal- The only effective way to remove tattoos on the body is to utilize laser systems that deliver very short pulse durations with high peak power intensity in order to break up the ink particles that comprise tattoos. According to a Tattoo Incidence Study published in ORC International in June 2015, up to 27% of Americans have one or more tattoos, and that 1 in 4 tattoo bearing American adults have "tattoo regret". Despite the effectiveness of lasers for tattoo removal, common complaints concerning laser tattoo removal include a low rate of complete clearance (sometimes no better than 50% after several treatments) as well as the high number of treatments for satisfactory clearance (often 10 or more treatments spaced four to eight weeks apart). The latest generation of picosecond pulse duration lasers, pulses in the trillionths of a second, meaningfully improve clearance as well as a reduction in total number of treatments.

Hair Removal- Techniques for hair removal include waxing, depilatories, tweezing, shaving, electrolysis and laser and other energy-based hair removal. The only techniques that provide a long-lasting solution are electrolysis and other energy-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.

Non-Invasive Body Contouring.

Our radio-frequency ("RF") technology based *truSculpt* system is designed for the non-invasive body contouring market. In performing the procedure, energy is applied to heat the dermis of the skin with the goal of shrinking and tightening collagen fibers. In addition, the RF energy procedure can be used for treating fat, due to its selectivity for heating subcutaneous adipose tissue while modestly heating the overlying skin. In December 2016 we received 510(k) clearance from the FDA to market *truSculpt* for the temporary reduction in circumference of the abdomen. Non-invasive procedures result in a more subtle and incremental change to the skin, than for example a surgical facelift or a lipolysis procedure. Drawbacks to this approach may include surface irregularities that may resolve over time, and the risk of burning the treatment area.

Skin Rejuvenation- Skin rejuvenation treatments include a broad range of popular alternatives, including Botox and collagen injections, chemical peels, microdermabrasions, radio frequency treatments and lasers and other energy-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 microdermabrasion, 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 who 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 2015, approximately 6.8 million injections of Botox and 2.4 million injections of collagen and other soft-tissue fillers were administered; and 1.3 million chemical peels and 800,000 microdermabrasion procedures were performed.

Leg and Facial Veins- Current aesthetic treatment methods for leg and facial veins include sclerotherapy and laser and other energy-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 322,000 sclerotherapy procedures were performed in 2015.

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

Laser and Other Energy-Based Aesthetic Treatments

Laser and other energy-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 other energy-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. Practitioners 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 energy-based treatments require an appropriate combination of the following four parameters:

- **Energy Level-** the amount of light or radio frequency emitted to heat a target;
- **Pulse Duration-** the time interval over which the energy is delivered;
- **Spot Size or Electrode Size-** the diameter of the energy beam, which affects treatment depth and area; and
- **Wavelength or Frequency-** the position in the electromagnetic spectrum which impacts the absorption and the effective depth 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 *enlighten*, *truSculpt*, *excel HR*, *excel V*, *xeo*, and *GenesisPlus* platforms provide the long-lasting benefits of laser and other energy-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 platforms feature multiple-applications that enable practitioners to perform a variety of aesthetic procedures using a single device. These procedures include hair removal, vascular treatments and skin rejuvenation — including the treatment of discoloration, fine lines, 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-** Our innovative 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. *excel V* is a stand-alone laser device 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. *truSculpt* is a monopolar radio frequency platform with a unique electrode design that delivers high-powered energy at 1 MHz for the deep and uniform heating of the subcutaneous tissues at sustained therapeutic temperatures. This system includes real-time skin temperature sensing and a large 40cm² surface area for faster treatments over large areas of the body.
- **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 provides our customers with the option to add additional

applications to their existing systems and provides us with a source of incremental 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); facial veins; and perform skin rejuvenation procedures for discoloration, texture, fine lines, and wrinkles on any type of skin. 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 an intuitive 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. 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 other energy-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. We launched *GenesisPlus* in 2010, *excel V* in 2011, *truSculpt* in 2012, the *ProWave LX* and *truSculpt* 16 cm² hand pieces in 2013 and *excel HR* and *enlighten* in 2014. Such products will allow us to leverage our existing customer call points and provide us with new customer call points, 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. We continue to build brand recognition, add additional products to our international distribution channel, and focus on enhancing our global distribution network, all of which we expect will increase our revenue.
- **Increasing Focus on Practitioners with Established Medical Offices-** We believe there is growth opportunity in targeting our products to a broad customer base. We believe that our customers' success is largely dependent upon having an existing medical practice, in which our systems provide incremental revenue sources to augment their existing practice revenue. The success of our *excel V* platform has resulted from strong adoption by core customers in dermatology and plastic and reconstructive surgery.
- **Leveraging our Installed Base -** With the introduction of *excel V*, *truSculpt*, *excel HR* and *enlighten*, we are able to effectively offer additional platforms into our existing installed base. In addition, each of these platforms allows for potential future upgrades to offer additional indications or capabilities. We believe this program aligns our interest in generating revenue with our customers' interest in improving the return on their investment by expanding the range of treatments that can be performed in their practice.
- **Generating Revenue from Services and Refillable Hand Pieces-** Our *Titan* 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*, *truSculpt*, *myQ*, *excel HR* and *enlighten* platforms allow for the delivery of multiple laser and energy-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 currently offered products and each checked box represents the applications that were included in the product in the years noted.

Applications:	System Platforms:	Products:	Year:	Energy Source:	Hair Removal:	Vascular Lesions:	Skin Rejuvenation			Non Invasive Body Contouring*:
							Dyschromia:	Texture, Lines and Wrinkles:	Skin Laxity:	Melasma & Tattoo Removal:
	<i>CoolGlide</i>	<i>CV</i>	2000	(a)	x					
		<i>Excel</i>	2001	(a)	x	x				
		<i>Vantage</i>	2002	(a)	x	x		x		
	<i>xeo</i>	<i>Nd:YAG</i>	2003	(a)	x	x		x		
		<i>OPS600</i>	2003	(b)			x			
		<i>LP560</i>	2004	(b)			x			
		<i>Titan S</i>	2004	(c)					x	
		<i>ProWave 770</i>	2005	(b)	x					
		<i>AcuTip 500</i>	2005	(b)		x				
		<i>Titan V/XL</i>	2006	(c)					x	
		<i>LimeLight</i>	2006	(b)			x			
		<i>Pearl</i>	2007	(d)			x	x		
		<i>Pearl Fractional</i>	2008	(d)				x		
		<i>ProWave LX</i>	2013	(b)	x					
	<i>solera</i>	<i>Titan S</i>	2004	(c)					x	
		<i>ProWave 770</i>	2005	(b)	x					
		<i>OPS 600</i>	2005	(b)			x			
		<i>LP560</i>	2005	(b)			x			
		<i>AcuTip 500</i>	2005	(b)		x				
		<i>Titan V/XL</i>	2006	(c)					x	
		<i>LimeLight</i>	2006	(b)			x			
	<i>GenesisPlus</i>		2010	(a)				x		
	<i>excel V</i>		2011	(e)		x	x	x		
	<i>myQ</i>		2011	(e)						X
	<i>truSculpt</i>		2012	(f)						x
	<i>excel HR</i>		2014	(g)	x					
	<i>enlighten(dual wavelength)</i>		2014	(h)					x	
	<i>enlighten III</i>		2016	(i)					x	

Energy Sources:

(a). 1064nm Nd:YAG laser;

(b). Flashlamp;

(c). Infrared laser;

(d). 2790 nm YSGG laser;

(e). Combined frequency-doubled 532 nm and 1064 nm Nd:YAG laser;

(f). Radio frequency at 1 MHz

(g) Combined frequency 755 nm Alexandrite laser and 1064 nm Nd:YAG laser;

(h) Dual wavelength 532 nm and 1064 ND: Yag laser;

(i) Three wavelength 532 nm, 670 nm, and 1064 ND: Yag laser

* Our CE Mark allows us to market *truSculpt* in the European Union, Australia and certain other countries outside the U.S. for fat reduction, body shaping and body contouring. In the U.S. we have 510(k) clearance for the temporary reduction in circumference of the abdomen and elevating tissue temperature for the treatment of selected medical conditions such as relief of pain, muscle spasms, increase in local circulation, and the temporary improvement in the appearance of cellulite.

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 an intuitive 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 an intuitive 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. Our *truSculpt* control console includes a high-powered, mono-polar RF generator at 1MHz capable of delivering up to 300 watts of energy. The *truSculpt* system dynamically adjusts current, voltage and power during treatment as needed to reach and maintain the appropriate treatment levels.

Hand Pieces

enlighten Hand Piece- The *enlighten hand piece* delivers 532 nm, 670 nm (in *enlighten III* only), and 1064 nm laser energy to treat benign pigmented lesions and the removal of multi-color tattoos. *enlighten's* single hand piece consists of an energy-delivery component housing a motorized focus lens assembly connected to an articulated arm. The hand piece features spot size adjustability from 2 to 8mm, adjustable in 1 mm increments. As with all Cutera laser and light-based systems, the hand piece does not require manual power calibration through a separate calibration port. The power calibration is automatic and built into the laser system.

excel HR Hand Piece- The dual wavelength *excel HR* system introduced in June 2014 delivers 1064 nm and 755 nm laser energy to the treatment area for hair removal. *excel HR's* single hand piece consists of an energy-delivery component housing an optical fiber and lens. The hand piece features a sapphire window and peripheral cooling plate with temperature monitoring. The sapphire window allows for 30 watts of temperature regulation with user selectable settings ranging from 4 to 20 degrees centigrade and provides cooling of the skin before, during, and immediately after each laser pulse. This "pre, parallel, and post" cooling provides an anesthetic benefit that makes treatments more comfortable than systems without contact cooling, and also increases the safety profile of treatments by reducing the chances of burning skin. The hand piece has a wide spot-size range between 3 to 18 mm (5 to 18 mm, alexandrite mode).

truSculpt Hand Pieces- The *truSculpt* product introduced in August 2012 is used for the non-invasive heating of subcutaneous tissue. We sell two different *truSculpt* hand pieces: 40 cm² for larger body parts and the 16cm² for smaller parts of the body. Each of the *truSculpt* hand pieces is light weight and ergonomically designed for operator comfort, which allows for the uniform heat distribution delivered by the hand pieces. In addition, the hand pieces have a built-in, real time, temperature sensing system to monitor the temperature during the treatment.

excel V Hand Piece- The *excel V* system introduced in February 2011 delivers 1064 nm and 532 nm laser energy to the skin for the treatment of vascular and benign pigmented lesion. The *excel V* system supports two hand pieces, both consisting of an energy-delivery component housing an optical fiber and lens. One hand piece includes a sapphire window cooling plate with temperature monitoring. This hand piece offer a spot size range from 1.5 to 12 mm in 0.1 mm increments, and is capable of delivering either the 1064 nm or 532 nm laser energy. 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 dual aiming beams that facilitate consistent treatments by maintaining the correct distance of the hand piece to the skin to ensure that the fixed 8 mm spot size is maintained.

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. 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 embedded 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-treatment 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.

GenesisPlus Hand Piece- Our *GenesisPlus* system launched in 2010 delivers 1064 nm laser energy to the treatment area for the temporary increase of clear nail in patients with onychomycosis and for the treatment of fine wrinkles, diffuse redness and rosacea. This lightweight 1064nm Nd:YAG hand piece consists of an energy-delivery component, housing an optical fiber and lens. The hand piece includes a non-contact temperature sensor to monitor the treatment area temperature. In addition, the hand piece includes dual coaxial 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*, *ProWave LX*, *AcuTip 500*, and *LimeLight* hand pieces are designed to produce a pulse of light over a wavelength spectrum to treat discoloration such as age and sun spots and other dyschromia. The hand pieces can also be used for hair removal, and treatment of 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*, *ProWave LX*, 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 induce heating in the dermis. We are aware that some practitioners use the *Titan* hand piece to treat skin laxity (although the hand piece is cleared in the U.S. by the 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 U.S. by the FDA only for skin resurfacing and coagulation). This hand piece penetrates the deep dermis producing a series of micro-columns 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 *excel V*, *xeo* and *solera* platforms are multi-application products that are designed to allow our customers to cost-effectively upgrade to our newest technologies, which provide our customers the option to add applications to their system and provides us with a source of additional revenue, which we classify as Product revenue.

Service

We offer post-warranty services to our customers through extended service contracts that cover preventive maintenance and/or replacement parts and labor, or by 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.

Hand Piece Refills

We treat our customer's purchase of replacement *Titan* or *truSculpt* hand pieces as "refill" revenue, which provides us with a source of recurring revenue from existing customers. Following the launch of *truSculpt* product in 2012, we charged customers for hand piece refills. However, beginning in the third quarter of 2013 we include *truSculpt* refills as part of our standard warranty and service contract product offerings.

Skincare

We distribute ZO Skin Health, Inc.'s ("ZO") physician-dispensed, topical skincare products. Through the second quarter of 2014, we also distributed Merz's *Radiesse*[®] dermal filler product 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.

Tattoo Removal- Our *enlighten* system- that delivers the picosecond and nanosecond pulse duration, as well as our *myQ* Q-switched laser, are used for tattoo removal, the treatment of benign pigmented lesions, and laser skin toning that we refer to as PicoGenesis.

Non-Invasive Body Contouring- Our *truSculpt* technology allows practitioners to apply a hand piece directly to the skin and deliver high-powered RF energy that results in the deep and uniform heating of the subcutaneous fat tissue at sustained therapeutic temperatures. This heating can cause selective destruction of fat cells, which are eliminated from the treatment area through the body's natural wound healing processes. The treatment takes approximately 45 minutes and two or more treatments may be required to obtain the desired aesthetic results. Our CE Mark allows us to market the *truSculpt* in the European Union, Australia and certain other countries outside the U.S. for fat reduction, body shaping and body contouring. In the U.S., *truSculpt* has a 510(k) clearance for the temporary reduction in circumference of the abdomen, and elevating tissue temperature for the treatment of selected medical conditions such as relief of pain, muscle spasms, increase in local circulation, and the temporary improvement in the appearance of cellulite.

Hair Removal- Our laser technology allows our customers to treat all skin types and hair thicknesses. Our 1064 nm Nd:YAG and 755 nm Alexandrite lasers 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 and 755 nm Alexandrite hand pieces allow our customers to treat all skin types, while our *ProWave 770* and *ProWave LX* hand pieces, with pulsed light technology, treat the majority of skin types quickly and effectively.

For hair removal treatments, the treatment site on the skin is first cleaned and shaved. The practitioner then applies a thin layer of gel to improve contact and aid gliding of the hand piece across the skin. If using the *CoolGlide* 1064nm Nd:YAG hand piece, the hand piece is applied directly to the skin to cool the area to be treated, then moved and a laser pulse is delivered to the pre-cooled area. To remove hair using the *excel HR*, *excel V*, *ProWave 770* and *ProWave LX* hand pieces, 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 light which is converted to heat 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 three to six treatments on average. Each treatment can take between five

minutes to 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; the *excel V* 1064 nm and 532 nm hand piece with adjustable spot sizes from 1.5 to 12 mm; and the *excel HR* 1064 nm and 755 nm hand pieces with adjustable spot sizes from 3 mm to 18 mm, each 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 mm spot size, uses pulsed-light technology and is designed for the treatment of facial vessels.

The vein treatment procedure 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* and *excel HR* hand pieces, the cooling can be performed before, during and after 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, picosecond laser and other energy-based technologies allow our customers to perform non-invasive and minimally-invasive treatments that reduce redness, dyschromia, fine lines and wrinkles, improve skin texture, and treat other aesthetic conditions.

Texture, Lines and Wrinkles- When using a 1064nm Nd:YAG laser to improve skin texture 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 micro-columns 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 U.S. for the treatment of wrinkles and deep dermal imperfections. However, in the U.S. we have a 510(k) clearance only for skin resurfacing and coagulation.

Toenail Fungus- In addition to performing skin rejuvenation, our CE Mark allows us to market *GenesisPlus* in the European Union, Australia and certain other countries outside the U.S. for the treatment of onychomycosis ("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 dual 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. In the U.S. we have 510(k) clearance to market *GenesisPlus* for the temporary increase of clear nail in patients with onychomycosis.

Dyschromia- Our pulsed-light technologies allow our customers to safely and effectively treat red and brown dyschromia (skin discoloration), benign 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 benign 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 of the *excel V* and *enlighten systems*, as well as the 755 nm infrared wavelength of the *excel HR*, can be used to treat benign 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 regrowth. 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 U.S. for the treatment of wrinkles through skin tightening. However, in the U.S. we have a 510(k) clearance for only deep dermal heating.

Sales and Marketing

In the U.S. 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, 2016, we had a U.S. direct sales force of 52 employees. We internally manage our U.S. and Canadian sales organization as one North American sales region with 58 territories as of December 31, 2016.

International sales are generally made through a worldwide distributor network in over 40 countries, as well as a direct international sales force of 34 employees, as of December 31, 2016. As of December 31, 2016, we had direct sales offices in Australia, Belgium, Canada, France, Hong Kong, Japan, Spain (until January 2017), Switzerland and the United Kingdom. Our international revenue as a percentage of total revenue represented 45% in 2016, 48% in 2015 and 55% in 2014.

We also sell certain items like *Titan* hand piece refills and marketing brochures through 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. To increase market penetration, in addition to marketing to the core specialties of plastic surgeons and dermatologists, we also market to non-core 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) skincare 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 other energy-based products offered by public companies, such as Cynosure (Hologic announced its intent to acquire Cynosure in February 2017), Elen (in Italy), XIO Group (acquired Lumenis in September 2015), Syneron, Zeltiq (Allergan announced its intent to acquire Zeltiq in February 2017), Valeant (acquired Solta in January 2014), as well as private companies, including Alma, Sciton, and several others.

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, 2016, our research and development activities were conducted by a staff of 38 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 \$11.2 million in 2016, \$10.7 million in 2015 and \$10.5 million in 2014.

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, 2016, we had a 47-person global service department. Internationally, we provide direct service support through our Australia, Belgium, Canada, France, Hong Kong, Japan, and Switzerland offices, through third-party service providers in Spain and U.K, and also through a network of distributors in over 40 countries.

We provide a standard one-year warranty coverage for all of our 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 purchase extended service plans covering replacement parts and labor.

In countries where we are represented by distributor partners, our customers are serviced through the distributor network. Distributors are generally provided 14 to 16 months warranty coverage for parts only, with labor being provided to the end customer by the distributor.

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. With respect to the *truSculpt* and other hand pieces, if a customer's system is out of warranty, and they have not purchased an extended service contract that covers hand piece replacements, then the customer is charged for their replacement hand piece.

Our *Titan* hand pieces generally include a warranty for a set number of shots, instead of for a period of time.

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 supply disruption 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 full quality system audit for three weeks during March 2014. There were no significant findings as a result of this audit and our responses have been accepted by the FDA. Our failure to maintain compliance with the QSR requirements could result in the shutdown of our manufacturing operations and the recall of our products, which would have a material adverse effect on our 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 U.S., 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. In January 2016, we passed our surveillance recertification audit establishing compliance with the most current requirements of EN ISO 13485:2012, CAN/CSA ISO 13485:2003, and MDD 93/42/EEC. 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, 2016, we had 34 issued U.S. patents and two pending U.S. patent applications. In the U.S. and several foreign countries, we have registered our Company name and several of our product names as trademarks, including *Cutera*, *Acutip 500*, *CoolGlide*, *CoolGlide Excel*, *enlighten*, *Limelight*, *myQ*, *Pearl*, *ProWave 770*, *ProWave LX*, *solera*, *Titan*, *xeo* and *truSculpt*. We may have common law rights in other product names, including *excel V*, *Pearl Fractional*, *solera Titan* and *excel HR*. We intend to file for additional patents and trademarks to continue to strengthen our intellectual property rights.

We licensed certain patents from Palomar (acquired by Cynosure in 2013) and paid ongoing royalties based on sales of applicable hair-removal products. The royalty rate on these products ranged from 3.75% to 7.50% of revenue. The remaining U.S. patents expired in February 2015 and the remaining international patents expired in February 2016. As a result, all our revenue from February 2016 onwards will not be subject to royalties. Our revenue from systems that do not include hair-removal capabilities (such as our *solera Titan*, *xeo SA*, *GenesisPlus*, *myQ*, *excel V* and *enlighten*), and other revenue from service contracts, *Titan*, skincare products, were 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 was being amortized on a straight-line basis over their expected useful life of 9-10 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;
- Product sales and distribution; and
- Complaint Handling.

FDA's Pre-market Clearance and Approval Requirements

Unless an exemption applies, each medical device we wish to commercially distribute in the U.S. 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 pseudo folliculitis barbae, commonly referred to as razor bumps, and for the reduction of red pigmentation in scars	June 2002
- treatment of wrinkles.....	October 2002
- treatment to increase clear nail in patients with onychomycosis.....	April 2011
- expanded spot size to 5 mm for clear nail in patients with onychomycosis	May 2013
- addition of Alexandrite 755 nm laser wavelength for hair removal, permanent hair reduction and the treatment of vascular and benign pigmented lesions	December 2013
- <i>enlighten</i> picosecond and nanosecond 532/1064 nm for the treatment of benign pigmented lesions.....	August 2014
- <i>enlighten</i> picosecond and nanosecond 532/1064 nm for multi-colored tattoo removal	November 2014
- <i>enlighten III</i> picosecond and nanosecond 670 nm wavelength approved for benign pigmented lesions	November 2016
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
truSculpt radio frequency (“RF”) product for deep tissue heating for the temporary relief of minor muscle and joint pain and for a temporary improvement in the appearance of cellulite	
- 16cm ² to 25cm ² hand pieces for smaller body parts.....	April 2008
- 16cm ² to 40cm ² hand pieces for larger body parts.....	November 2012
- Product labeling and technology updates for existing clearances	September 2014
- Temporary reduction in circumference of the abdomen.....	December 2016

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 regulations, 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 28 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 and in March 2006, March 2010, February 2011 and January 2012 we passed ISO 13485 recertification audits. Our most recent recertification audit occurred in January 2015. We passed the audit establishing compliance with the most current requirements of EN ISO 13485:2012, CAN/CSA ISO 13485:2003, and MDD 93/42/EEC.

Employees

As of December 31, 2016, we had 297 employees, compared to 262 employees as of December 31, 2015. Of the 297 employees at December 31, 2016, 122 were in sales and marketing, 69 in manufacturing operations, 47 in technical service, 38 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, Compensation, and Nominating and Corporate Governance 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. Information contained on, or that can be accessed through, our website does not constitute part of this report and inclusions of our website address in this report are inactive textual references only.

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. Our business, financial condition and results of operations may be impacted by a number of factors. In addition to the factors discussed elsewhere in this report, the following risks and uncertainties could materially harm our business, financial condition or results of operations, including causing our actual results to differ materially from those projected in any forward-looking statements. The following list of significant risk factors is not all-inclusive or necessarily in order of importance. Additional risks and uncertainties not presently known to us, or that we currently deem immaterial, also may materially adversely affect us in future periods. You should carefully consider these risks and uncertainties before investing in our securities.

We may be unable to maintain profitability.

Although we had profitable third and fourth quarters in 2016 and gave financial guidance that we expect to be profitable for the full year of 2017, there can be no assurance that we will be able to maintain profitability. Given our recent operating history of very few profitable quarters, we cannot be certain that we will be able to maintain profitability in the future and you should not rely on our operating results for any prior quarterly or annual periods as an indication of our future operating performance. Any predictions about the performance of our operations in the future may not be as accurate as they could be if we had a longer history of profitability.

Revenue growth in our business is driven by several factors and one such factor is new product introductions. Our ability to sustain profitability depends on our ability to introduce new products that are adopted by our customers and on the extent to which we can increase revenue and control our costs to be able to leverage our expenses. In addition, we need to be able to counter any unforeseen difficulties, complications, product delays or other unknown factors that may require additional expenditures. Because of the numerous risks and uncertainties associated with our growth prospects, product development, sales and marketing and other efforts, unforeseen litigation expenses, etc., we are unable to predict the extent of our future profitability or losses.

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 our 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 non-core practitioners in the past, several of our sales professionals do not have established relationships with the core market, consisting of dermatologists and plastic surgeons, or where those relationships exist, they are not very strong.

We have experienced direct sales employee and sales management turnover in North America, Japan, and Europe. Competition for sales professionals who are familiar and trained to sell in the aesthetic equipment market continues to be strong. As a result, we have lost some of our sales people to our competitors. Our industry is characterized by a few established companies that compete vigorously for talented sales professionals. Further, as the economy in North America has rebounded from the recent recession, some of those sales professionals have left our company for jobs that they perceive to be better opportunities, both within and outside of the aesthetic industry. However, we have also hired a record number of new sales people, including several from our competitors. Several of our sales employees and sales management have been recently hired or recently transferred into different roles, and it will take time for them to be fully trained to improve their productivity. In addition, due to the competition for sales professionals in our industry, we have recruited sales professionals from outside the industry. Sales professionals from outside the industry take longer to train and to become familiar with our products and the procedures in which they are used. As a result of a lack of industry knowledge, these sales professionals may take longer to become productive members of our sales force.

We train our existing and recently recruited sales professionals to better understand our existing and new product technologies and how they can be positioned against our competitors' products. These initiatives are intended to improve the productivity of our sales professionals and our revenue and profitability. It takes time for the sales professionals to become productive following their training and there can be no assurance that the recently recruited sales professionals will be adequately trained in a timely manner, or that our direct sales productivity will improve, or that we will not experience significant levels of attrition in the future.

Measures we implement in an effort to recruit, 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 we are not able to improve the productivity and retention of our North American and international sales professionals, then our total revenue, profitability and stock price may be adversely impacted.

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 body contouring, hair removal, treatment of veins, tattoo removal, and skin rejuvenation, including the treatment of diffuse redness, skin laxity, fine lines, wrinkles, skin texture, pore size and benign pigmented lesions, etc. For example, in the fourth quarter of 2014, we launched *enlighten*, a dual wavelength, dual pulse duration tattoo removal and benign pigmented lesions treatment system featuring picosecond technology. To grow in the future, we must continue to develop and/or 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 are 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.

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

- Inability to develop and market our products to the core market specialties of dermatologists and plastic surgeons;
- Poor financial performance of market segments that attempt to introduce 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, or an increase in the cost of borrowing, for some of our potential customers.

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

We depend on skilled and experienced personnel to operate our global business effectively. Changes to management or the inability to recruit, hire, train and retain qualified personnel, could harm our ability to successfully manage, develop and expand our business, 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. The loss of any of our executive officers could weaken our management expertise and harm our business, and we may not be able to find adequate replacements on a timely basis, or at all. Except for Change of Control and Severance Agreements for our executive officers and a few key employees, 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 and their knowledge of our business and industry would be difficult to replace. 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.

We recently hired a new Chief Executive Officer and President (“CEO”), who also is on our Board of Directors. His prior experience is primarily with medical device companies, but not within our aesthetics industry specifically. In addition, he has never been a public company CEO. Recently hired executives may view the business differently than prior members of management, and over time may make changes to the existing personnel and their responsibilities, our strategic focus, operations or business plans. We can give no assurances that we will be able to properly manage any such shift in focus, or that any changes to our business, would ultimately prove successful. In addition, leadership transitions and management changes can be inherently difficult to manage and may cause uncertainty or a disruption to our business or may increase the likelihood of turnover in key officers and employees. Our success depends in part on having a successful leadership team. If we cannot effectively manage the leadership transitions and management changes, it could make it more difficult to successfully operate our business and pursue our business goals. We cannot ensure that we will be able to retain the services of any members of our executive officers or other key employees. If we do not succeed in attracting well-qualified employees, retaining and motivating existing employees or integrating new executives and employees, our business could be materially and adversely affected.

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. The staff we hire to perform administrative functions may become stretched due to our increased growth and they may not be able to perform their jobs effectively or efficiently as a result.

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 lease for our corporate headquarters and manufacturing facility in California, U.S.A., expires on December 31, 2017. We cannot provide assurance that we will be able to renew our lease for this facility at a reasonable increased rate, and if not, that we will be able to relocate to a new facility that meets our needs upon terms that we find acceptable.

We occupy office space in facilities leased from a commercial landlord, and we cannot provide any assurance that we will be able to remain in the same space after our lease expires on December 31, 2017. There is significant demand for leased facilities in the San Francisco Bay area and leasing costs have increased significantly over the last few years. We can provide no assurance that we will be able to renew our lease for this facility at a reasonable increased rate, or that we will be able to relocate to a new facility that meets our needs and upon terms that we find acceptable. Whether we remain in our current facility or move to a new facility, we expect to pay more per square foot for space than we are currently paying.

If we move to a new facility, we anticipate that it will be in the same general vicinity as our current location. However, we may experience loss of key employees, incur relocation costs and capital expenditures relating to the process of evaluating our options, negotiating a new lease, moving, and purchasing furniture, fixtures and equipment. Searching for a new facility and managing a relocation process will require expense, time and attention from members of management. Further, we may incur related expenses, such as those associated with regulatory approvals or clearances to manufacture our products, and may encounter disruption of operations related to the move, all of which could have a material adverse effect on our financial condition and results of operations until we are fully operational in a new facility.

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 macro-economic and business conditions in our key markets of North America, Japan, Asia (excluding Japan), the Middle East, Europe and Australia;
- The lack of credit financing, or an increase in the cost of borrowing, for some of our potential customers due to increasing interest rates.
- The overall demand for our products by the core market specialties of dermatologists and plastic surgeons;
- The timing and success of new product introductions by us or our competitors or any other change in the competitive landscape of the market for non-surgical aesthetic procedures, including consolidation among our competitors;
- The level of awareness of aesthetic procedures and the market adoption of our products;
- Changes in our pricing policies or those of our competitors;
- Governmental budgetary constraints or shifts in government spending priorities;
- General political developments, both domestic and in our foreign markets, including economic and political uncertainty caused by the recent election of a new U.S. president;
- Natural disasters;
- Currency exchange rate fluctuations; and
- Any trade restrictions or higher import taxes that may be imposed by foreign countries against products sold internationally by U.S. companies.

Macroeconomic developments, like global recessions and financial crises 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.

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.

The price of our common stock has increased by over 85% in the six months ended February 28, 2017 and 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.

The price of our common stock has increased by over 85% in the six months ended February 28, 2017 due in part to our recent improved revenue and profitability performance, the purchase of two of our competitors (Cynosure and Zeltiq) in February 2017, the financial guidance we communicated to the investor community in February 2017, repurchases of our stock, the overall rise in the stock market following the conclusion of the U.S. presidential election in November 2016 and other factors. As of December 31, 2016, approximately 50% 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, 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. 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;
- Actual or anticipated changes or fluctuations in our results of operations;
- Actual or anticipated changes in analysts' estimates, investors' perceptions, recommendations by securities analysts or our failure to achieve analysts' estimates;
- The announcement of new products, service enhancements, distributor relationships or acquisitions by us or our competitors;
- The announcement of the departure of a key employee or executive officer by us or our competitors;
- Regulatory developments or delays concerning our, or our competitors' products; and
- The initiation of any other litigation by us or against us.

Actual or perceived instability and / or volatility 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.

In addition, if the market for medical-device company stocks or the stock market in general experiences a loss of investor confidence, the trading price of our common stock could decline for reasons unrelated to our business, results of operations or financial condition. The trading price of our common stock might also decline in reaction to events that affect other companies in our industry even if these events do not directly affect us. In the past, following periods of volatility in the market price of a company's securities, securities class action litigation has often been brought against that company. Any future securities litigation could result in substantial costs and divert our management's attention and resources from our business. This could have a material adverse effect on our business, results of operations and financial condition.

We may fail to meet our publicly announced guidance or other expectations about our business and future operating results, which would cause our stock price to decline.

We started providing, and may continue to provide, financial guidance about our business and future operating results in February 2017. In developing this guidance, our management must make certain assumptions and judgments about our future operating performance, including projected hiring of sales professionals, continued growth of revenue in the aesthetic device market, continue to increase our market share, reduce costs of production of our recently introduced products, and continued stability of the macro-economic environment in our key markets. Furthermore, analysts and investors may develop and publish their own projections of our business, which may form a consensus about our future performance. Our business results may vary significantly from such guidance or that consensus due to a number of factors, many of which are outside of our control, and which could adversely affect our operations and operating results. Furthermore, if we make downward revisions of our previously announced guidance, or if our publicly announced guidance of future operating results fails to meet expectations of securities analysts, investors or other interested parties, the price of our common stock would decline.

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

International revenue is a material component of our business strategy, and represented 45% of our total revenue in 2016 compared to 48% of our total revenue in 2015. In addition, while our international revenue in 2015 increased by 8% compared to 2014, it was negatively impacted by the appreciation of the U.S. Dollar versus the major currencies in which we transact. 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, our direct business in Japan declined in 2015, due in part to the negative impact of foreign exchange and employee turnover, which negatively impacted our revenue from international operations.

We have experienced significant turnover of our European sales team in the past. While we continue to have a direct sales and service organization in France, Belgium, Spain, Switzerland and the United Kingdom, a significant portion of our European revenue is generated through our network of distributors. Though we continue to evaluate and replace non-performing distributors, and have recently brought greater focus on collaborating with our distributor partners, there can be no assurance given that these initiatives will result in improved European-sourced revenue or profitability in the future.

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:

- Fluctuating foreign currency exchange rates;
- Difficulties in staffing and managing our foreign operations;
- Increased management, travel, infrastructure and legal compliance costs associated with having multiple international operations;
- Political and economic uncertainty around the world, such as the recent U.S. presidential election and the United Kingdom's referendum in June 2016 in which voters approved an exit from the European Union ("EU"), commonly referred to as "Brexit";
- Compliance with multiple and changing foreign laws and regulations, including foreign certification and regulatory requirements and the risks and costs of non-compliance with such laws and regulations;
- Lengthy payment cycles and difficulty in collecting accounts receivable;
- Compliance with laws and regulations for foreign operations, including the United States Foreign Corrupt Practices Act, the United Kingdom Bribery Act, import and export control laws, tariffs, trade barriers, economic sanctions and other regulatory or contractual limitations on our ability to sell our offerings in certain foreign markets, and the risks and costs of non-compliance;
- Customs clearance and shipping delays;
- Lack of awareness of our brand in international markets;
- Preference for locally-produced products; and
- Reduced protection for intellectual property rights in some countries and practical difficulties of enforcing intellectual property and contract rights abroad.

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.

In addition, compliance with laws and regulations applicable to our international operations increases our cost of doing business in foreign jurisdictions. We may be unable to keep current with changes in foreign government requirements and laws as they change from time to time. Failure to comply with these regulations could have adverse effects on our business. In many foreign countries it is common for others to engage in business practices that are prohibited by our internal policies and procedures or United States regulations applicable to us. In addition, although we have implemented policies and procedures designed to ensure compliance with these laws and policies, there can be no assurance that all of our employees, contractors, distributors and agents will comply with these laws and policies. Violations of laws or key control policies by our employees, contractors, distributors or agents could result in delays in revenue recognition, financial reporting misstatements, fines, penalties, or the prohibition of the importation or exportation of our offerings and could have a material adverse effect on our business operations and financial results.

To successfully market and sell third party products internationally, we must address many issues that are unique to the related distribution arrangements which could reduce our available cash reserves and negatively impact our profitability.

We have entered into distribution arrangements pursuant to which we utilize our sales force and distributors to sell products manufactured by other companies. In Japan, we have a non-exclusive right to distribute a Q-switched laser product manufactured by a third party OEM. We also have an exclusive agreement with ZO to distribute certain of their proprietary skincare products in Japan. Each of these agreements requires us to purchase annual minimum dollar amounts of their products.

Each of these distribution agreements presents its own unique risks and challenges. For example, to sell skincare products we need to invest in creating a sales structure that is experienced in the sale of such products and not in capital equipment. We need to commit resources to train our sales force, obtain regulatory licenses in Japan and develop new marketing materials to promote the sale of skincare products. 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 negatively impacting our profitability and reducing our available cash reserves.

If we do not make the minimum purchases required in the distribution contracts, or if the third party manufacturer revokes our distribution rights, we could lose the distribution rights of the products to physicians in Japan, which would adversely affect our future revenue, results of operations, cash flows and our stock price.

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.

We generally offer credit terms of 30 to 90 days to qualified customers. In addition, from time to time, we offer certain key international distributors, with whom we have had an extended period of relationship and payment history, payment terms that are significantly longer than the regular 30 to 90 day terms. This allows such international distributor partners to have our products in stock and provide our products to customers on a timely basis. As of December 31, 2016, one international distributor partner accounted for 12% of our outstanding accounts receivable balance.

While we believe we have an adequate basis to ensure that we collect our accounts receivable, we cannot provide any assurance that the financial position of customers to whom we have provided payment terms will not change adversely before we receive payment. In the event that there is a default by any of the customers to whom we have provided credit terms, we may recognize a bad debt charge in our general and administrative expenses. If this bad debt charge is material, it could negatively affect our future results of operations, cash flows and our stock price.

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

Foreign currency fluctuations could result in volatility of 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 and Canadian Dollar. As a result, changes in the exchange rates of these currencies to the U.S. Dollar will affect our results from operations. For example, in 2016 the U.S. Dollar devalued against the Japanese Yen by approximately 10%, which had a significant positive foreign exchange impact on our revenue – both from a re-measurement gain upon the conversion of our Japanese Yen denominated revenue as well as the additional positive revenue impact due to the effective price decrease for the local customers importing our U.S. Dollar denominated systems into Japan. However in 2015, as a result of the strengthening of the U.S. Dollar, relative to many other major currencies, our products priced in U.S. Dollars became more expensive relative to products of our foreign competitors. In addition, our revenue earned in foreign currencies, such as our locally generated revenue in Japan, was negatively impacted upon translation into U.S. Dollars. Both these factors had a negative impact on our international revenue in 2015, compared to 2014. Future foreign currency fluctuations could adversely impact and increase the volatility of our revenue, profitability and stock price.

Our ability to effectively compete and generate additional revenue from new and existing products depends 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;
- Identification and development of 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. In addition, increased consolidation in our industry may lead to increased competition. 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 conventional non-energy-based treatments, such as electrolysis, Botox and collagen injections, chemical peels, microdermabrasion and sclerotherapy. Our products also compete against laser and other energy-based products offered by public companies, such as Cynosure (Hologic announced its intent to acquire Cynosure in February 2017), Elen (in Italy), XIO Group (acquired Lumenis in September 2015), Syneron, Zeltiq (Allergan announced its intent to acquire Zeltiq in February 2017), Valeant (acquired Solta in January 2014), as well as private companies, including Alma, Sciton, and several others. Further, other companies could introduce new products that are in direct competition with our products. 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.

Recently, there has been consolidation in the aesthetic industry leading to companies combining their resources, which increases competition and could result in increased downward pressure on our product prices. For example, in February 2017, Allergan announced its intent to acquire Zeltiq and Hologic announced its intent to acquire Cynosure, XIO Group acquired Lumenis in September 2015, and Valeant acquired Solta in January 2014. These consolidations have resulted in increased competition and pricing pressure, as the newly-combined entities have greater financial resources, deeper sales channels and greater pricing flexibility than we do. Rumored or actual consolidation of our partners and competitors will likely cause uncertainty and disruption to our business and can cause our stock price to fluctuate.

The energy-based aesthetic market faces competition from non-energy-based medical products, such as Botox 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.

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 other-energy-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 other energy-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.

If we fail to comply with applicable regulatory requirements, it could result in enforcement action by the U.S. Food and Drug Administration (the "FDA"), federal and state agencies or international regulatory bodies.

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

- Warning letters, fines, injunctions, consent decrees and civil penalties;
- Repair, replacement, refund, 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 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 U.S. 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 U.S., it must first receive either 510(k) clearance or pre-market 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 U.S. and revenue derived from the U.S. market may be adversely affected.

Medical devices may be marketed in the U.S. only for the indications for which they are approved or cleared by the FDA. 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, in many instances, change frequently. 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 prohibiting 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.

Federal regulatory reforms and changes occurring at the 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 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 (the “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 have had multiple quality system audits by the FDA, our Notified Body, and other foreign regulatory agencies, with the most recent inspection by the FDA occurring over three weeks in March 2014. There were no significant findings and only one observation as a result of this audit. Our response to this observation was accepted by the FDA. 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.

We are a sponsor of Biomedical Research. As such, we are also subject to FDA regulations relating to the design and conduct of clinical trials. We are subject to unannounced BIMO audits, with the most recent inspection by FDA occurring over 5 days in August 2016. There were no significant findings and only two observations as a result of this audit. Our responses to these observations were accepted by the FDA. Failure to take satisfactory corrective action in response to an adverse BIMO inspection or our failure to comply with Good Clinical Practices could result in us no longer being able to sponsor Biomedical Research, the reversal of 510(k) clearances previously granted based on the results of clinical trials conducted to gain clinical data to support those 510(k) clearances, or enforcement actions, including a public warning letter, 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 U.S. are subject to foreign regulatory requirements that vary widely from country to country. In addition, exports of medical devices from the U.S. 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 U.S., 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.

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.

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.

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 and 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 U.S., 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.

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, 2016, our balance in marketable investments was \$40 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, 2016 would have potentially decreased by approximately \$198,000, 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).

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, 2016, we had 34 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 U.S.

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 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.

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

Some of our customers and prospective customers have had difficulty 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-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.

From time to time we may become subject to income tax audits or similar proceedings, and as a result we may incur additional costs and expenses or owe additional taxes, interest and penalties that may negatively impact our operating results.

We are subject to income taxes in the United States and certain foreign jurisdictions where we operate through a subsidiary, including Australia, Belgium, Canada, France, Hong Kong, Japan, Spain, Switzerland and the United Kingdom. Our determination of our tax liability is subject to review by applicable domestic and foreign tax authorities.

We are currently under audit for our California sales and use tax returns for the period July 2013 through June 2016, and are uncertain of the potential outcome of this audit. Also, in June 2016, we underwent an audit of our Canadian goods and services tax and harmonized sales tax returns for the period January 2013 to July 2015. Although this audit resulted in immaterial adjustments, the final timing and resolution of any future tax examinations are subject to significant uncertainty and could result in our having to pay amounts to the applicable tax authority in order to resolve examination of our tax positions, which could result in an increase or decrease of our current estimate of unrecognized tax benefits and may negatively impact our financial position, results of operations or cash flows.

We may be adversely affected by changes in U.S. tax laws, importation taxes and other changes that may be imposed by the current administration.

Congress and the current administration have indicated a desire to reform the U.S. corporate income tax. As part of any tax reform, it is possible that the current corporate income tax rate may be reduced, and there may be other potential changes including limiting or eliminating various other deductions, credits or tax preferences. In addition, if the current administration starts levying import taxes on products being sourced from Mexico and other international locations from where we source components for building our products, this could adversely affect our cost of producing our products and profitability.

At this time, it is not possible to measure the potential impact on the value of our business, prospects or results of operations that might result upon enactment of U.S. tax laws and other changes.

Any acquisitions that we make could result in operating difficulties, dilution, and other consequences that may adversely impact our business and results of operations.

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. 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.

We have limited experience as a team with acquiring companies and products. 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. Acquisitions could diminish our available cash balances for other uses, result in the incurrence of debt, contingent liabilities, or amortization expenses, and restructuring charges. Also, the anticipated benefits or value of our acquisitions or investments may not materialize and could result in an impairment of goodwill and/or purchased long-lived assets, similar to the \$650,000 charge we recorded in the fourth quarter of 2014 related to an acquisition completed in 2012.

Our failure to address these risks or other problems encountered in connection with our past or future acquisitions and investments could cause us to fail to realize the anticipated benefits of such acquisitions or investments, incur unanticipated liabilities, and harm our business and our financial condition or results.

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 and certain key employees, 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. In addition, as a Delaware corporation, we are subject to Section 203 of the Delaware General Corporation Law. These provisions may prohibit large stockholders, in particular those owning 15% or more of our outstanding voting stock, from merging or combining with us for a certain period of time. Any of these provisions could, under certain circumstances, depress the market price 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 countries as follows:

<u>Country</u>	<u>Square Footage</u>	<u>Lease termination or Expiration</u>
Japan.....	Approximately 5,896	Two leases, one of which expires in March 2018 and one which expires in December 2017.
France.....	Approximately 2,239	One lease which expires in October 2021 but can be terminated with six months' notice prior to October 2018.

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

ITEM 3. LEGAL PROCEEDINGS

We were not a party to any pending litigation that we believe will have a material impact to our results of operations as of December 31, 2016.

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 28, 2017, the closing sale price of our common stock was \$20.40 per share.

Common Stockholders

We had 9 stockholders of record as of February 28, 2017. Since many stockholders choose to hold their shares under the name of their brokerage firm, we estimate that the actual number of stockholders was over 2,000 shareholders.

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			
	2016		2015	
	High	Low	High	Low
4th Quarter	\$ 17.50	\$ 11.94	\$ 14.52	\$ 11.99
3rd Quarter	12.25	10.52	15.60	13.07
2nd Quarter	12.15	10.00	15.98	12.87
1st Quarter	12.87	10.43	14.26	10.86

Issuer Purchases of Equity Securities

The following table summarizes the activity related to stock repurchases for the years ended December 31, 2016 and 2015 (in thousands except per share data):

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares That May Yet Be Purchased Under the Plans or Programs
As of December 31, 2014.....	—	\$ —	—	\$ 10,000
Additional amount approved February 18, 2015..	—	\$ —	—	\$ 40,000
February 18-28, 2015	56	\$ 12.85	56	\$ 39,276
March 1-31, 2015	330	\$ 13.55	330	\$ 34,806
April 1-30, 2015	284	\$ 13.57	284	\$ 30,946
May 1-31, 2015	296	\$ 14.38	296	\$ 26,693
June 1-30, 2015	298	\$ 14.75	298	\$ 22,294
July 1-31, 2015	95	\$ 14.94	95	\$ 20,878
August 1-31, 2015	1,040	\$ 14.41	1,040	\$ 5,898
September 1-30, 2015	210	\$ 14.44	210	\$ 2,860
October 1-31, 2015.....	209	\$ 13.70	209	—
As of December 31, 2015	<u>2,818</u>	<u>\$ 14.19</u>	<u>2,818</u>	<u>\$ —</u>
Additional amount approved February 8, 2016....				\$ 10,000
March 1-31, 2016	28	\$ 10.89	28	\$ 9,695
April 1-30, 2016	11	\$ 10.91	11	\$ 9,572
May 1-31, 2016	123	\$ 10.35	123	\$ 8,298
June 1-30, 2016	117	\$ 10.64	117	\$ 7,060
July 1-31, 2016.....	74	\$ 10.87	74	\$ 6,258
August 1-31, 2016	62	\$ 10.86	62	\$ 5,576
September 1-30, 2016	40	\$ 10.89	40	\$ 5,141
As of December 31, 2016	<u>455</u>	<u>\$ 10.67</u>	<u>455</u>	<u>\$ 5,141</u>

As of December 31, 2014, there was \$10.0 million authorized for the repurchase of our common stock under the Company's Stock Repurchase Program. On February 18, 2015, our Board of Directors approved the expansion of our Stock Repurchase Program from \$10 million to \$40 million, under which we were authorized to repurchase shares of our common stock. In the year ended December 31, 2015, we repurchased 2,818,038 shares of our common stock for approximately \$40.0 million.

On February 8, 2016, our Board of Directors approved the expansion of our Stock Repurchase Program by an additional \$10 million. In the year ended December 31, 2016, we repurchased 455,311 shares of our common stock for approximately \$4.9 million. As of December 31, 2016, there remained an additional \$5.1 million to be purchased. On February 13, 2017 our Board of Directors approved the expansion of our Stock Repurchase Program by an additional \$5 million. We plan to make the repurchases from time to time through open market transactions at prevailing prices and/or through privately-negotiated transactions, and/or through a pre-arranged Rule 10b5-1 trading plan.

Sales of Unregistered Securities

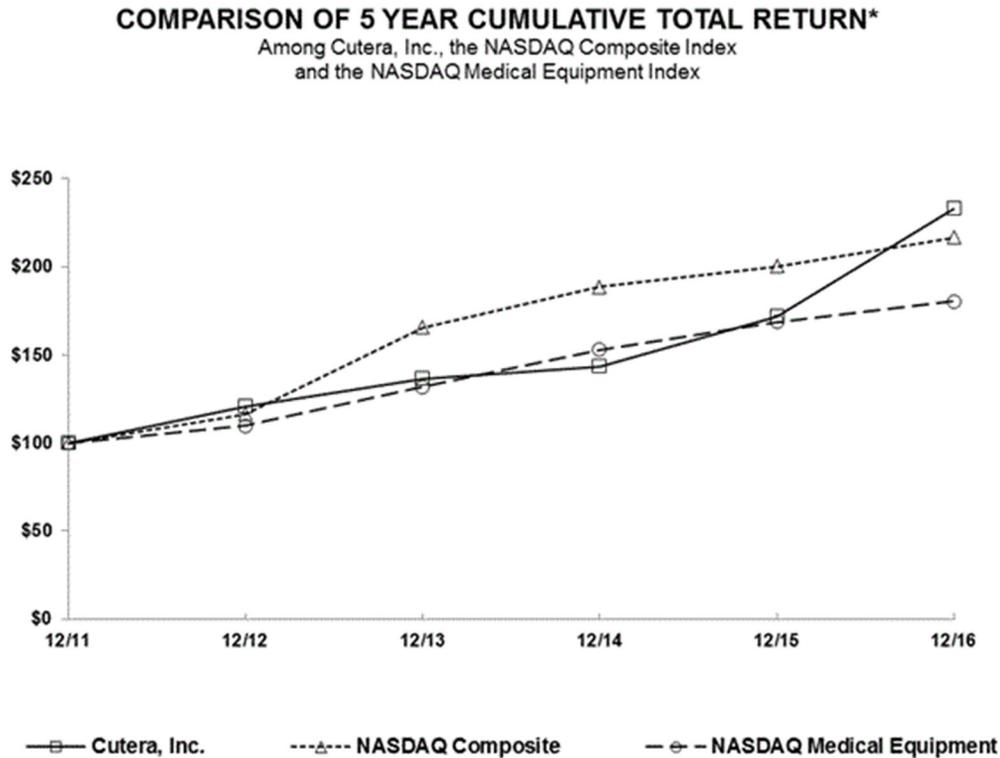
We did not sell any unregistered securities during the period covered by this Annual Report on Form 10-K.

Securities Authorized for Issuance under Equity Compensation Plans

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.

Performance Graph

Below is a graph showing the cumulative total return to our stockholders during the period from December 31, 2011 through December 31, 2016 in comparison to the cumulative return on the NASDAQ Composite Index (U.S.) and the NASDAQ Medical Equipment Index during that same period.



*\$100 invested on 12/31/11 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 of our filings 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.

ITEM 6. SELECTED FINANCIAL DATA

The table set forth below contains certain consolidated financial data for each of our last five fiscal years. The following selected consolidated financial data should be read in conjunction with Item 7 “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and our consolidated financial statements and the related notes appearing in Item 8 “Financial Statements and Supplementary Data” of this Annual Report on Form 10-K.

Consolidated Statements of Operations Data (in thousands, except per share data):	Year Ended December 31,				
	2016	2015	2014	2013	2012
Net revenue	\$ 118,056	\$ 94,761	\$ 78,138	\$ 74,594	\$ 77,277
Cost of revenue	49,921	40,478	34,765	32,712	35,737
Gross profit.....	68,135	54,283	43,373	41,882	41,540
Operating expenses:					
Sales and marketing.....	41,563	35,942	32,246	27,984	28,664
Research and development.....	11,232	10,733	10,543	9,216	8,427
General and administrative.....	12,943	12,129	11,203	9,938	11,276
Total operating expenses.....	65,738	58,804	53,992	47,138	48,367
Income (loss) from operations.....	2,397	(4,521)	(10,619)	(5,256)	(6,827)
Interest and other income, net	323	293	226	455	497
Income (loss) before income taxes.....	2,720	(4,228)	(10,393)	(4,801)	(6,330)
Income tax (benefit) provision	143	212	219	(54)	218
Net income (loss)	\$ 2,577	\$ (4,440)	\$ (10,612)	\$ (4,747)	\$ (6,548)
Net income (loss) per share:					
Basic.....	\$ 0.19	\$ (0.32)	\$ (0.74)	\$ (0.33)	\$ (0.46)
Diluted.....	\$ 0.19	\$ (0.32)	\$ (0.74)	\$ (0.33)	\$ (0.46)
Weighted-average number of shares used in per share calculations:					
Basic.....	13,225	13,960	14,254	14,421	14,089
Diluted.....	13,753	13,960	14,254	14,421	14,089

Consolidated Balance Sheet Data (in thousands):	As of December 31,				
	2016	2015	2014	2013	2012
Cash, cash equivalents and marketable investments.....	\$ 54,074	\$ 48,407	\$ 81,146	\$ 83,073	\$ 85,572
Working capital (current assets less current liabilities)	59,460	49,398	81,900	84,654	88,788
Total assets.....	91,854	77,518	108,913	108,669	112,794
Retained earnings (accumulated deficit)	(27,046)	(29,672)	(25,232)	(14,620)	(9,873)
Total stockholders’ equity.....	61,010	50,034	80,508	84,265	90,774

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, 2016. 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 18. 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 or 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, 2016.

Executive Summary

Company Description

We are a leading medical device company specializing in the research, development, manufacture, marketing and servicing of laser and other energy-based aesthetics systems for practitioners worldwide. We offer easy-to-use products which enable physicians and other qualified practitioners to perform safe and effective aesthetic procedures, including treatment of vascular conditions and removal of benign pigmented lesions, hair-removal, skin rejuvenation, body contouring, skin resurfacing, tattoo removal and toenail fungus. Our platforms are designed to be easily upgraded to add additional applications and hand pieces, which provide flexibility for our customers as they expand their practices. 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, hand piece refills, and third-party manufactured skincare products. In the second quarter of 2014, we terminated our agreement with Merz for the distribution of its *Radiesse* dermal filler product.

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. We market, sell and service our products through direct sales and service employees in the U.S., Australia, Belgium, Canada, France, Hong Kong, Japan, Spain (until January 2017), Switzerland and the United Kingdom. Sales and Service outside of these direct markets are made through a worldwide distributor network in over 40 countries. As of December 31, 2016, we had a U.S. direct sales force of 52 employees and a direct international sales force of 34 employees.

Products Revenue

Our Products revenue is derived from the sale of Products, Hand piece refills, and Skincare 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 other energy based module, control system software and high voltage electronics; as well as one or more hand pieces. However, depending on the application, the laser or other energy based module is sometimes contained in the hand piece such as with our Pearl and Pearl Fractional applications instead of within the console.

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 choose and provides us with a source of additional revenue, which we treat as Product revenue.

For our Titan hand pieces, after a set number of treatments have been performed, the customer is required to send the hand piece back to the factory for refurbishment, which we refer to as "refilling" the hand piece and is classified as Hand piece revenue.

Skincare revenue relates to the distribution of ZO's skincare products in Japan, and through the second quarter of 2014, also included Merz Pharma GmbH's ("Merz") *Radiesse* dermal filler product.

Service 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.

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.
- Strengthening against the U.S. dollar of key international currencies in which we transact (Australian Dollar, Japanese Yen, Euro, and British Pound).
- 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, system upgrades, Hand piece refills, and Skincare products.

For a detailed discussion of the significant business trends impacting our business, please see "Results of Operations" below.

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 U.S. ("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 earn revenue from the sale of Products, Hand piece refills, Skincare products and Service. We recognize revenue when persuasive evidence of an arrangement exists, transfer of title to the customer has occurred, the sales price is fixed or determinable, and collectability is reasonably assured. We defer revenue in the event that any of these revenue recognition criteria is not met.

- *Persuasive evidence of an arrangement exists:* We use customer purchase agreements or contracts, or customer purchase orders to determine the existence of an arrangement;
- *Transfer of title:* Our standard terms generally specify that title transfers upon shipment to the customer. We generally use third party shipping documents and/or signed customer acknowledgements to verify that title has transferred. For service revenue, we use the date that services have been rendered;
- *Sales price is fixed or determinable:* We assess whether the sales price is fixed or determinable at the time of the transaction. Sales prices are documented in the customer purchase agreement or purchase order received prior to shipment. Our standard terms do not allow for trial or evaluation periods, rights of return or refund, payments contingent upon the customer obtaining financing or other terms that could impact the customer's obligation; and
- *Collectability is reasonably assured:* We assess whether collection is reasonably assured based on a number of factors, including receipt of cash or credit card payment, customer's past transaction history, credit worthiness, or the receipt of an irrevocable letter of credit.

Multiple-Element Arrangements

For Product revenue, all of the tangible products, including the embedded software, are delivered to the customer at the time of sale. In some circumstances, in conjunction with the purchase of a system or upgrade, customers purchase service contracts for one or more years to cover their products. For these transactions, the following multiple-element arrangement exists: a tangible product delivered to the customer at the inception of the revenue arrangement; and a service contract for delivery of services to the customer over a contractually stated period of time defined in the service contract.

For multiple-element arrangements, judgments are required as to the allocation of the proceeds received from an arrangement to the multiple elements of the arrangement. For multiple element arrangements we allocate revenue to all deliverables based on their relative selling prices. Because we have neither vendor-specific objective evidence (“VSOE”) nor third-party evidence of selling price (“TPE”) for our systems, the allocation of revenue has been based on our best estimate of selling prices (“BESP”). The objective of BESP is to determine the price at which we would transact a sale if the product or service was sold on a stand-alone basis. We determine BESP for our deliverables by considering multiple factors including, but not limited to, features and functionality of the system, geographies, type of customer and market conditions.

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.

Hand Piece Refills

When customers purchase a hand piece refill, we ship a previously refurbished unit and recognize revenue upon shipment. With respect to our *truSculpt* hand pieces, we include unlimited hand piece replacements in the *truSculpt* standard warranty contract and recognize the revenue under the warranty model, in which the revenue for the system sale was recognized up-front along with an estimate of the costs which will be incurred under the warranty obligation recorded in cost of revenue.

Shipping and Handling Costs

We expense shipping and handling costs as incurred and include them in cost of revenue. In those cases where we bill shipping and handling costs to customers, we classify the amounts billed as revenue.

Stock-based Compensation Expense

Stock Options

We account for stock-based compensation in accordance with the fair value recognition provisions of U.S. GAAP. To value options, we use the Black-Scholes option-pricing model, which requires the input of highly subjective assumptions. These assumptions include:

- Estimating the length of time employees will retain their vested stock options before exercising them (“expected term”);
- Estimated volatility of our common stock price over the expected term;
- Number of options that will ultimately not complete their vesting requirements (“forfeiture rate”); and
- Expected risk-free interest rate and dividend rate over the expected term.

The assumptions for expected volatility and expected term are the two assumptions that significantly affect the grant date fair value.

The expected term represents the weighted-average period that our stock options are expected to be outstanding. The expected term is based on the observed and expected time to post-vesting exercise of options by employees. We use historical exercise patterns of previously granted options in relation to stock price movements to derive an employee behavioral pattern used to forecast expected exercise patterns.

We estimate volatility based on historical volatility and we also consider implied volatility when there is sufficient volume of freely traded options with comparable terms and exercise prices in the open market.

Changes in expected risk-free interest rate and dividend rate do not significantly impact the calculation of fair value, and determining this input is not highly subjective.

Changes in the subjective assumptions of expected term, volatility and forfeiture rate can materially affect the estimate of fair value of stock-based compensation and, consequently, the related amount recognized on our Consolidated Statements of Operations.

Restricted Stock Units

We grant restricted stock unit (“RSU”) awards to our management employees, officers and directors. RSUs are measured based on the fair market values of the underlying stock on the dates of grant and the stock-based compensation expense is recognized over the vesting period. Shares are issued on the vesting dates net of the minimum statutory tax withholding requirements to be paid by us on behalf of our employees. As a result, the actual number of shares issued will be fewer than the actual number of RSUs outstanding. Furthermore, we record the obligation for withholding amounts to be paid by us as a reduction to additional paid-in capital.

Performance Stock Units

Performance stock unit (“PSU”) awards are granted to our officers and other members of management. The final number of shares of common stock issuable at the end of the performance measurement period, subject to the recipient’s continued service through that date, is determined based on the degree of achievement of the performance goals. The fair value of PSUs that have operational goals is measured based on the market price of our stock on the date of grant, whereas PSUs with market-based measurement goals are measured using a Monte-Carlo simulation option-pricing model. The Monte-Carlo simulation option-pricing model uses the same input assumptions as the Black-Scholes model; however, it also further incorporates into the fair-value determination the possibility that the market condition may not be satisfied.

Stock-based compensation expense for PSUs with operational goals is recognized based on the expected degree of achievement of the performance goals over the vesting period. However, stock-based compensation expense for market-based PSU awards are recognized regardless of whether the market condition is satisfied, provided that the requisite service has been provided.

On the vesting date of PSU awards, we issue fully-paid up common stock, net of the minimum statutory tax withholding requirements to be paid by us and record the obligation for withholding amounts as a reduction to additional paid-in capital.

Forfeiture Rates

In accounting for share-based compensation expenses, we are required to develop an estimate of the number of share-based awards that will be forfeited due to employee turnover. Adjustments in the estimated forfeiture rates can have a significant effect on our reported share-based compensation, as we recognize the cumulative effect of the rate adjustments for all expense amortization in the period the estimated forfeiture rates were adjusted. We estimate and adjust forfeiture rates based on a periodic review of recent forfeiture activity and expected future employee turnover. If a revised forfeiture rate is higher than previously estimated forfeiture rate, we may make an adjustment that will result in a decrease to the expense recognized in the financial statements during the period when the rate was changed. Adjustments in the estimated forfeiture rates could also cause changes in the amount of expense that we recognize in future periods.

Intangible Assets

Our intangible assets include identifiable intangibles and goodwill. Identifiable intangibles include sub-licenses, rights acquired from a former distributor and those acquired in conjunction with an acquisition in 2012. All of our identifiable intangibles have finite lives.

In February 2012, we acquired the global aesthetic business unit of IRIDEX Corporation, which included various laser systems (such as the *VariLite* and *Gemini*) and an installed base of customers, whose products are being serviced by us. This acquisition was considered a business combination for accounting purposes, and as such, in addition to valuing all the assets, we recorded goodwill associated with the expected synergies from leveraging the customer relationships and integrating new product offerings into our business. The fair values of the assets acquired were determined to be \$4.8 million of net tangible and intangible assets and \$1.3 million of goodwill.

Identifiable intangible assets with finite lives are subject to impairment testing and are reviewed for impairment when events or circumstances indicate that such assets may not be recoverable at their carrying value. We evaluate the recoverability of the carrying value of these identifiable intangibles based on estimated undiscounted cash flows to be generated from such assets. If the cash flow estimates or the significant operating assumptions upon which they are based change in the future, we may be required to record additional impairment charges. When events or changes in circumstances indicate that the carrying amount of long-lived assets may not be recoverable, we recognize such impairment in the event the net book value of such assets exceeds the future undiscounted cash flows attributable to such assets.

The valuation and classification of intangible assets and goodwill and the assignment of useful amortization lives for the intangible assets involves judgments and the use of estimates. The evaluation of these intangibles and goodwill for impairment under established accounting guidelines is required on a recurring basis. Changes in business conditions could potentially require future adjustments to asset valuations. If we determine that the remaining useful lives of assets are shorter than we had originally estimated, we accelerate the rate of amortization over the assets' new, shorter useful lives. A considerable amount of judgment is required in assessing impairment, which includes financial forecasts. Should conditions be different from management's current estimates, material write-downs of long-lived assets may be required, which would adversely affect our operating results.

As of December 31, 2014, we evaluated the recoverability of our long-lived assets. Relating to the purchased intangible assets associated with the Iridex acquisition in 2012, due to the discontinuation of the manufacture and sale of all products acquired, reduction in projected future service revenue, and reduction in projected revenue expected from the distributor relationships acquired, we determined based on an undiscounted cash flow model that the remaining carrying value of these assets was impaired. Based on a discounted cash flow model, we measured the impairment of the purchased intangible assets and recorded an impairment charge of \$650,000 in cost of revenue in the year ended December 31, 2014. Our valuation model relied on unobservable inputs, referred to as Level 3 in the fair value hierarchy, that are supported by little or no market activity and reflect the use of significant management judgment and included expected future cash flow streams as well as a market discount rate. Our valuation model is subject to uncertainties that are difficult to predict. As of December 31, 2016 and December 31, 2015 we determined that there was no impairment to our long-lived assets.

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 inventory cost is not recoverable 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, timing of new product introductions 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 down 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. For sales to distributors, we generally provide a 14 to 16 month warranty for parts only, with labor being provided to the end customer by the distributor.

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 during the warranty period to repair or replace product parts that fail, including the refurbishment of any *truSculpt* refills included as part of the original sale. 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 U.S. 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 changes in the valuation allowance, foreign operations, research and development tax credits, state taxes, and certain benefits realized related to stock option activity. 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 U.S. The effective tax rate in 2016, 2015 and 2014 was approximately 5%, (5)%, and (2)%, respectively. Our future effective tax rates could be adversely affected by earnings being lower in countries where we have lower statutory rates and being higher 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, 2016, we had an aggregate of approximately \$3.1 million of unremitted earnings of foreign subsidiaries that have been, or are intended to be, indefinitely reinvested for continued use in foreign operations. Depending on the timing and nature of the distribution, if the total undistributed earnings of foreign subsidiaries were remitted while the Company is able to utilize its net operating losses, it is likely there would be no material additional tax resulting from the distribution.

Our deferred tax assets and liabilities are recognized for the expected future tax consequences of temporary differences between the financial reporting and tax bases of assets and liabilities, and for net operating losses (“NOL”) 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. We have fully reserved our U.S. federal and state deferred tax assets due to our history of operating losses. In the future, if we conclude that sufficient positive evidence (including our estimate of future taxable income) exists to support a reversal of all or a portion of the valuation allowance, we expect that a significant portion of any release of the valuation allowance will be recorded as an income tax benefit at the time of release.

The utilization of NOL carryforwards and tax credits may be subject to a substantial annual limitation due to the ownership change limitations provided by Section 382 of the U.S. Internal Revenue Code (“IRC” or the “Code”), and similar state provisions. The annual limitation may result in the expiration of NOL carryforwards and tax credits before utilization. We have completed an IRC Section 382 analysis through December 31, 2016 and determined that there were no significant limitations to the utilization of NOL or tax credit carryforwards. As such, the NOL and tax credit carryforwards presented in this Form 10-K are not expected to expire unutilized, unless there is a future ownership change as determined by Section 382 of the IRC.

Litigation

We have been, and may in the future become, subject to legal proceedings related to securities litigation, intellectual property, product liability claims, contractual disputes, trademark and copyright, 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 effective dates of adoption and effects on results of operations and financial condition see Note 1 “Summary of Significant Accounting Policies — Recent Accounting Pronouncements” 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,		
	2016	2015	2014
Net revenue	100%	100%	100%
Cost of revenue	42%	43%	44%
Gross profit	58%	57%	56%
Operating expenses:			
Sales and marketing	35%	38%	41%
Research and development	10%	11%	14%
General and administrative	11%	13%	14%
Total operating expenses	56%	62%	69%
Income (loss) from operations.....	2%	(5)%	(13)%
Interest and other income, net.....	—%	—%	—%
Income (loss) before income taxes	2%	(5)%	(13)%
Income tax provision	—%	—%	—%
Net income (loss)	2%	(5)%	(13)%

Net Revenue

The following table sets forth selected consolidated revenue by major geographic area and product category with changes thereof.

(Dollars in thousands)	Year Ended December 31,				
	2016	% Change	2015	% Change	2014
Revenue mix by geography:					
United States	\$ 65,513	34%	\$ 48,916	38%	\$ 35,494
<i>Percent of total</i>	55%		52%		45%
Japan.....	\$ 14,727	28%	\$ 11,504	(14)%	\$ 13,328
Asia, excluding Japan.....	13,445	(14)%	15,596	41%	11,023
Europe	7,539	(2)%	7,728	(1)%	7,792
Rest of the world	16,832	53%	11,017	5%	10,501
Total international revenue	52,543	15%	45,845	8%	42,644
<i>Percent of total</i>	45%		48%		55%
Total consolidated revenue	\$ 118,056	25%	\$ 94,761	21%	\$ 78,138
Revenue mix by product category:					
Systems – North America	\$ 58,595	45%	\$ 40,528	49%	\$ 27,122
Systems – International	34,126	11%	30,695	18%	25,984
Total Systems	92,721	30%	71,223	34%	53,106
Hand Piece Refills.....	2,498	(14)%	2,910	(22)%	3,714
Skincare.....	3,809	32%	2,889	(17)%	3,479
Service.....	19,028	7%	17,739	(1)%	17,839
Total consolidated revenue	\$ 118,056	25%	\$ 94,761	21%	\$ 78,138

Revenue by Geography:

Our U.S. revenue increased by 34% in 2016, compared to 2015. The increase in U.S. revenue was primarily a result of revenue generated across all our major platforms, including our recently introduced *enlighten* and *excel HR* products, as well as continued growth of our *excel V*, *xeo* and *truSculpt* products.

Our U.S. revenue increased by 38% in 2015, compared to 2014. The increase in U.S. revenue was primarily a result of revenue generated by our most recently introduced *enlighten* and *excel HR* products, continued growth of our *excel V*, *xeo* and *truSculpt* products, partially offset by declines in revenue from other legacy products.

Our total international revenue increased by 15% in 2016, compared to 2015, and represented 45% of our total revenue. The increase in international revenue was primarily a result of increases in our direct business in Japan as well as increases in our distributor business in the Middle East, Europe and Asia. This was partially offset by a decline in our direct business in Europe.

Our total international revenue increased by 8% in 2015, compared to 2014, and represented 48% of our total revenue. The increase in international revenue was primarily a result of increases in our distributor business in Asia Pacific and Europe as well as our direct business in Australia. This was partially offset by a decline in our direct business in Japan and the negative impact associated with the appreciation of the U.S. Dollar against the Euro, Japanese Yen and the Australian Dollar.

Revenue by Product Category:

Our Product revenue increased by 30% in 2016, compared to 2015. This increase in Product revenue was primarily attributable to revenue generated by the most recently launched *enlighten* platform (*enlighten III* was launched in December 2016) and *excel HR*, the continued growth in *xeo*, *excel V* and *truSculpt*, partially offset by revenue declines in our other legacy products.

Our Product revenue increased by 34% in 2015, compared to 2014. This increase in Product revenue was primarily attributable to revenue generated by our most recently introduced *enlighten* and *excel HR* products, the continued growth in *excel V* sales and increases in sales of *truSculpt*, partially offset by declines in our legacy products.

Our Hand Piece Refills revenue decreased by 14% and 22% in 2016 and 2015, respectively, compared to the respective prior year periods. These decreases were due primarily to declines in *Titan* hand piece refill revenue caused by reduced utilization.

Our Skincare revenue increased by 32% in 2016, compared to 2015. This increase was primarily due to expanded product offerings of this distributed product, as well as an increase in the value of the Japanese Yen versus the U.S Dollar by approximately 10% in 2016, when compared to 2015. Our Skincare revenue decreased by 17% in 2015, compared to 2014. This decrease was primarily a result of the devaluation of the Japanese Yen versus the U.S. Dollar by approximately 14% in 2015, compared to 2014, which had an adverse impact on our revenue.

Our Service revenue increased by 7% in 2016 and decreased by 1% in 2015, compared to the respective prior year periods. The increase in 2016, compared to 2015, was due primarily to increased sales of system parts to our network of international distributors.

Gross Profit

(Dollars in thousands)	Year Ended December 31,				
	2016	% Change	2015	% Change	2014
Gross Profit	\$ 68,135	26%	\$ 54,283	25%	\$ 43,373
<i>As a percentage of total revenue</i>	<i>58%</i>		<i>57%</i>		<i>56%</i>

Our cost of revenue consists primarily of material, personnel expenses, royalty expense, product warranty costs, amortization of intangibles and manufacturing overhead expenses. The patents that we licensed for applicable hair-removal products, expired in February 2016 and as a result, all of our revenue from February 2016 onwards was not subject to royalties. Gross margin as a percentage of net revenue improved to 58% in 2016, compared to 57% in 2015, which was primarily attributable to the following:

- A \$23.3 million increase in total revenue, which improved the leverage of our manufacturing department expenses; partially offset by
- A continued shift in product mix towards lower margin products, primarily as a result of our growth in both *excel HR* and *enlighten* products which have a higher cost structure than our other product platforms.

Gross margin as a percentage of net revenue improved to 57% in 2015, compared to 56% in 2014, which was primarily attributable to the following:

- A \$16.6 million increase in total revenue, which improved the leverage of our manufacturing department expenses; and
- A one-time impairment charge in 2014 of \$650,000 for purchased intangibles related to a previous acquisition, which did not reoccur in 2015; partially offset by
- A partial shift in product mix towards lower margin products, primarily as a result of our newly introduced *excel HR* and *enlighten* products in 2014, which have a higher cost structure than our legacy products.

Sales and Marketing

(Dollars in thousands)	Year Ended December 31,				
	2016	% Change	2015	% Change	2014
Sales and marketing	\$ 41,563	16%	\$ 35,942	11%	\$ 32,246
<i>As a percentage of total revenue</i>	<i>35%</i>		<i>38%</i>		<i>41%</i>

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 by \$5.6 million in 2016, compared to 2015, which was primarily attributable to the following:

- \$3.2 million increase in personnel related expenses in North America, due primarily to higher commissions as a result of increased North American revenue and higher salaries due to an increase in headcount;
- \$1.2 million increase in North America travel and entertainment expense, due primarily to increased activity and increase headcount;
- \$1.1 million of increased promotional spending, primarily in North America; partially offset by
- \$705,000 of decreased personnel related expenses in our international direct and distributor business, primarily due to reduced severance costs, lower salaries and benefit expenses.

Sales and marketing expenses increased by \$3.7 million in 2015, compared to 2014, which was primarily attributable to the following:

- \$2.6 million increase in personnel related expenses in North America, due primarily to higher commissions as a result of increased North American revenue and an increase in severance costs;
- \$1.1 million increase in non-Japan international spending, primarily as a result of higher international sales headcount as well as the expansion of our international operations;
- \$713,000 of increased promotional spending, primarily in North America; partially offset by
- \$1.1 million decrease in Japan expenses resulting primarily from the continued devaluation of the Japanese Yen versus the U.S. Dollar.

Sales and marketing expenses as a percentage of net revenue, decreased to 35% and 38% in 2016 and 2015, respectively, compared to 38% and 41% in the respective prior year periods. These decreases are attributable to the increased leveraging of our sales and marketing expenses as revenue has increased.

Research and Development (“R&D”)

(Dollars in thousands)	Year Ended December 31,				
	2016	% Change	2015	% Change	2014
Research and development.....	\$ 11,232	5%	\$ 10,733	2%	\$ 10,543
<i>As a percentage of total revenue</i>	<i>10%</i>		<i>11%</i>		<i>14%</i>

Research and development expenses consist primarily of personnel, clinical and regulatory expenses, as well as material costs. R&D expenses increased \$499,000 in 2016, compared to 2015, which was primarily attributable to:

- \$735,000 of higher personnel expenses;
- \$202,000 increase in expensed tools and equipment spending; partially offset by
- A decrease of \$333,000 in material spending.

R&D expenses increased \$190,000 in 2015, compared to 2014, which was primarily attributable to:

- \$739,000 of higher personnel expenses;
- \$262,000 increase in expensed tools and equipment spending; partially offset by
- A decrease of \$900,000 in material spending.

General and Administrative (“G&A”)

(Dollars in thousands)	Year Ended December 31,				
	2016	% Change	2015	% Change	2014
General and administrative.....	\$ 12,943	7%	\$ 12,129	8%	\$ 11,203
<i>As a percentage of total revenue</i>	<i>11%</i>		<i>13%</i>		<i>14%</i>

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 \$814,000 in 2016, compared to 2015, which was primarily attributable to:

- Litigation settlement expenses and legal fees associated with a litigation matter settled in the second quarter of 2016; partially offset by
- \$594,000 of decreased U.S. medical excise tax, due to the two-year moratorium effective January 1, 2016.

G&A expenses increased by \$926,000 in 2015, compared to 2014, which was primarily attributable to:

- \$1.2 million of increased personnel related expenses;
- \$182,000 of increased excise tax, due to increased sales in the U.S.; partially offset by
- \$304,000 of decreased legal fees and costs of settlements; and
- A reduction of \$200,000 in fees resulting from the conclusion of a management consulting engagement in 2014 that did not reoccur in 2015.

Interest and Other Income, Net

The components of “Interest and Other Income, Net” are as follows:

(Dollars in thousands)	Year Ended December 31,				
	2016	% Change	2015	% Change	2014
Interest income	\$ 330	—%	\$ 330	(19)%	\$ 406
Other income (expense), net.....	(7)	(81)%	(37)	(79)%	(180)
Total interest and other income, net	<u>\$ 323</u>	10%	<u>\$ 293</u>	30%	<u>\$ 226</u>

Interest income was flat in 2016, compared to 2015. Interest income decreased 19% in 2015, compared to 2014, primarily attributable to decreases in our cash, cash equivalents and marketable investments balances resulting from repurchasing \$40 million of our common stock, as well as decreased yields on our investments. Our cash, cash equivalents and marketable investments at December 31, 2016, 2015 and 2014 were \$54.1 million, \$48.4 million and \$81.1 million, respectively.

Income Tax Provision

(Dollars in thousands)	Year Ended December 31,				
	2016	\$ Change	2015	\$ Change	2014
Income (loss) before income taxes.....	\$ 2,720	\$ 6,948	\$ (4,228)	\$6,165	\$ (10,393)
Income tax provision.....	143	(69)	212	(7)	219
Effective tax rate.....	5%		(5)%		(2)%

In 2016, 2015 and 2014, we recorded an income tax provision of \$143,000, and \$212,000 and \$219,000, respectively, which was primarily related to foreign tax expenses as we applied a full valuation allowance against all U.S. federal and state deferred tax assets arising during each of these years.

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 and marketable investments (in thousands):

(Dollars in thousands)	Year ended December 31,		
	2016	2015	Change
Cash, cash equivalents and marketable securities:			
Cash and cash equivalents	\$ 13,775	\$ 10,868	\$ 2,907
Marketable investments.....	40,299	37,539	2,760
Total	<u>\$ 54,074</u>	<u>\$ 48,407</u>	<u>\$ 5,667</u>

Cash Flows

In summary, our cash flows were as follows:

(Dollars in thousands)	Year ended December 31,		
	2016	2015	2014
Cash flows provided by (used in):			
Operating activities.....	\$ 1,992	\$ (1,359)	\$ (4,286)
Investing activities.....	(3,392)	32,646	(5,611)
Financing activities.....	4,307	(30,222)	3,458
Net increase (decrease) increase in cash and cash equivalents.....	\$ 2,907	\$ 1,065	\$ (6,439)

Cash Flows from Operating Activities

We generated net cash of \$2.0 million in operating activities during 2016, which was primarily attributable to:

- \$7.3 million provided by operations based on a net income of \$2.6 million after adjusting for non-cash related items of \$4.7 million, consisting primarily of stock-based compensation expense of \$3.7 million and depreciation and amortization expense of \$1.0 million;
- \$3.5 million generated from an increase in accrued liabilities, primarily associated with personnel costs; partially offset by
- \$4.9 million used as a result of an increase in accounts receivable that resulted primarily from increased product sales in December 2016, compared to December 2015;
- \$2.9 million used to increase raw material inventories due to an expanded product line; and
- \$0.8 million used as a result of a decrease in deferred revenue, due primarily from the amortization of service contracts from previous years that was not replaced by new contracts given our decision to not provide discounted extended service contracts with our system sales.

We used net cash of \$1.4 million in operating activities during 2015, which was primarily attributable to:

- \$1.1 million provided by operations based on a net loss of \$4.4 million after adjusting for non-cash related items of \$5.5 million, consisting primarily of stock-based compensation expense of \$4.1 million and depreciation and amortization expense of \$1.2 million;
- \$2.7 million generated from an increase in accrued liabilities, primarily associated with personnel costs; offset by
- \$2.3 million used as a result of a decrease in deferred revenue due primarily from the amortization of service contracts from previous years;
- \$1.1 million used to pay down a high accounts payable balance as of December 31, 2014; and
- \$1.1 million used to increase raw material and finished goods inventories due to an expanded product line.

Cash Flows from Investing Activities

We used net cash of \$3.4 million in investing activities in 2016, which was primarily attributable to:

- \$37.7 million used to purchased marketable investments;
- \$0.5 million used to purchase property and equipment; partially offset by
- \$34.8 million in proceeds from the sales and maturities of marketable investments.

We generated net cash of \$32.6 million in investing activities in 2015, which was primarily attributable to:

- \$33.4 million in proceeds from the sales and maturities, net of purchases, of marketable investments for financing our stock repurchase and operations; partially offset by
- \$0.7 million of cash used to purchase property and equipment.

Cash Flows from Financing Activities

Net cash provided by financing activities in 2016 was \$4.3 million, which was primarily due to:

- proceeds of \$10.1 million from the issuance of common stock due to employees exercising their stock options and purchasing stock through the Employee Stock Purchase Plan (or “ESPP”) program; partially offset by
- the repurchase of common stock for \$4.9 million; and
- \$0.6 million of cash used for taxes paid related to net share settlement of equity awards.

Net cash used in financing activities in 2015 was \$30.2 million, which was primarily due to:

- the repurchase of common stock for \$40.1 million;
- \$1.0 million of cash used for taxes paid related to net share settlement of equity awards; partially offset by
- proceeds of \$11.1 million from the issuance of common stock due to employees exercising their stock options and purchasing stock through the ESPP program.

Adequacy of cash resources to meet future needs

We had cash, cash equivalents and marketable investments of \$54.1 million as of December 31, 2016. 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 several years, as well as for financing the \$10.1 million remaining in our Stock Repurchase Program.

Contractual Obligations

The following are our contractual obligations, consisting of future minimum lease commitments related to facility and vehicle leases as of December 31, 2016:

Contractual Obligations	Payments Due by Period (\$'000's)				
	Total	Less Than 1 Year	1-3 Years	3-5 Years	More Than 5 Years
Operating leases	\$ 2,141	\$ 1,912	\$ 229	\$ —	\$ —
Capital leases	993	367	626	—	—
Total leases	<u>\$ 3,134</u>	<u>\$ 2,279</u>	<u>\$ 855</u>	<u>\$ —</u>	<u>\$ —</u>

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, 2016. 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 an \$82,000 long-term income tax liability for unrecognized tax benefits and accrued interest as of December 31, 2016. 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.

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. As of December 31, 2015, we were not involved in any unconsolidated transactions.

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 Risk

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 of generally less than eighteen months. Based on discounted cash flow modeling with respect to our total investment portfolio as of December 31, 2016, assuming a hypothetical increase in interest rates of one percentage point, the fair value of our total investment portfolio would potentially decline by approximately \$198,000.

Foreign Currency Risk

In 2016 and 2015, our international revenue was approximately 45% and 48%, respectively, of our total revenue. Approximately 45% and 49%, of our international revenue was denominated in U.S. Dollars. All of the remaining revenue was denominated in Japanese Yen, Euros, Australian Dollars and Swiss Francs. Our Japanese Yen denominated revenue represents the majority of our foreign currency denominated revenue.

In 2016, the U.S. Dollar devalued against the Japanese Yen by approximately 10%, which had a significant positive foreign exchange impact on our revenue – both from a re-measurement gain upon the conversion of our Japanese Yen denominated revenue as well as the additional positive revenue impact due to the effective price decrease for the local customers importing our U.S. Dollar denominated systems into Japan. In addition, the U.S. Dollar devaluation against the Japanese Yen had an unfavorable foreign currency translation impact on our local cost of sales and operating expenses.

In 2015, the Japanese Yen, compared to the U.S. Dollar, devalued by approximately 14%, which had a significant adverse foreign exchange impact on our revenue – both from a re-measurement loss upon the conversion of our Japanese Yen denominated revenue as well as the additional negative revenue impact due to the effective price increase for the local customers importing our U.S. Dollar denominated systems into Japan. In addition, the Japanese Yen devaluation had a favorable foreign currency translation impact on our local cost of sales and operating expenses.

We have historically not engaged in hedging activities relating to our foreign currency denominated transactions, given we have a natural hedge resulting from our foreign cash receipts being utilized to fund our respective local currency expenses.

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:

	<u>Page</u>
Report of Independent Registered Public Accounting Firm.....	51
Consolidated Balance Sheets	52
Consolidated Statements of Operations	53
Consolidated Statements of Comprehensive Income (Loss).....	54
Consolidated Statements of Stockholders' Equity	55
Consolidated Statements of Cash Flows	56
Notes to Consolidated Financial Statements	57

The following Consolidated Financial Statement Schedule of the Registrant and its subsidiaries for the years ended December 31, 2015, 2014 and 2013 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:

<u>Schedule</u>		<u>Page</u>
II	Valuation and Qualifying Accounts	80

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

Board of Directors and Stockholders
Cutera, Inc.
Brisbane, California

We have audited the accompanying consolidated balance sheets of Cutera, Inc. as of December 31, 2016 and 2015, and the related consolidated statements of operations, comprehensive income (loss), stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2016. In connection with our audits of the financial statements, we have also audited the financial statement schedule listed in the accompanying index. These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our 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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes 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, as well as evaluating the overall presentation of the financial statements and schedule. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Cutera, Inc. at December 31, 2016 and 2015, and the results of its operations and its cash flows for each of the three years ended December 31, 2016, 2015 and 2014, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Cutera Inc.'s internal control over financial reporting as of December 31, 2016 and 2015, based on criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated March 15, 2017 expressed an unqualified opinion thereon.

/s/ BDO USA, LLP
San Jose, California
March 15, 2017

CUTERA, INC.
CONSOLIDATED BALANCE SHEETS
(in thousands, except share and per share data)

	December 31,	
	2016	2015
Assets		
Current assets:		
Cash and cash equivalents	\$ 13,775	\$ 10,868
Marketable investments	40,299	37,539
Accounts receivable, net of allowance for doubtful accounts of \$21 and \$4, respectively	16,547	11,669
Inventories	14,977	12,078
Other current assets and prepaid expenses	2,251	1,675
Total current assets	87,849	73,829
Property and equipment, net	1,907	1,473
Deferred tax assets	377	350
Intangibles, net	2	143
Goodwill	1,339	1,339
Other long-term assets	380	384
Total assets	\$ 91,854	\$ 77,518
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 2,598	\$ 1,959
Accrued liabilities	17,397	13,834
Deferred revenue	8,394	8,638
Total current liabilities	28,389	24,431
Deferred revenue, net of current portion	1,705	2,287
Income tax liability	168	182
Other long-term liabilities	582	584
Total liabilities	30,844	27,484
Commitments and contingencies (Note 10)		
Stockholders' equity:		
Convertible preferred stock, \$0.001 par value:		
Authorized: 5,000,000 shares; Issued and outstanding: none	—	—
Common stock, \$0.001 par value:		
Authorized: 50,000,000 shares; Issued and outstanding: 13,773,389 and 12,980,807 shares at December 31, 2016 and 2015, respectively	14	13
Additional paid-in capital	88,114	79,782
Accumulated deficit	(27,046)	(29,672)
Accumulated other comprehensive loss	(72)	(89)
Total stockholders' equity	61,010	50,034
Total liabilities and stockholders' equity	\$ 91,854	\$ 77,518

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,		
	2016	2015	2014
Net revenue:			
Products	\$ 99,028	\$ 77,022	\$ 60,299
Service	19,028	17,739	17,839
Total net revenue	118,056	94,761	78,138
Cost of revenue:			
Products	40,149	32,402	26,796
Service	9,772	8,076	7,969
Total cost of revenue	49,921	40,478	34,765
Gross profit	68,135	54,283	43,373
Operating expenses:			
Sales and marketing	41,563	35,942	32,246
Research and development	11,232	10,733	10,543
General and administrative	12,943	12,129	11,203
Total operating expenses	65,738	58,804	53,992
Income (loss) from operations	2,397	(4,521)	(10,619)
Interest and other income, net	323	293	226
Income (loss) before income taxes	2,720	(4,228)	(10,393)
Income tax provision	143	212	219
Net income (loss)	\$ 2,577	\$ (4,440)	\$ (10,612)
Net income (loss) per share:			
Basic	\$ 0.19	\$ (0.32)	\$ (0.74)
Diluted	\$ 0.19	\$ (0.32)	\$ (0.74)
Weighted-average number of shares used in per share calculations:			
Basic	13,225	13,960	14,254
Diluted	13,753	13,960	14,254

The accompanying notes are an integral part of these consolidated financial statements.

CUTERA, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(in thousands)

	Year Ended December 31,		
	2016	2015	2014
Net income (loss)	\$ 2,577	\$ (4,440)	\$ (10,612)
Other comprehensive income (loss):			
Available-for-sale investments			
Net change in unrealized gain (loss) on available-for-sale investments	30	(87)	(42)
Less: Reclassification adjustment for net gains on investments recognized during the year	(3)	(7)	(4)
Net change in unrealized gain (loss) on available-for-sale investments	27	(94)	(46)
Tax provision	10	—	—
Other comprehensive income (loss), net of tax	17	(94)	(46)
Comprehensive income (loss)	\$ 2,594	\$ (4,534)	\$ (10,658)

The accompanying notes are an integral part of these consolidated financial statements.

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

	<u>Common Stock</u>		<u>Additional Paid-in Capital</u>	<u>Retained Earnings (Accumulated Deficit)</u>	<u>Accumulated Other Comprehensive Income (loss)</u>	<u>Total Stockholders' Equity</u>
	<u>Shares</u>	<u>Amount</u>				
Balance at December 31, 2013.....	13,931,833	\$ 14	\$ 98,820	\$ (14,620)	\$ 51	\$ 84,265
Issuance of common stock for employee purchase plan	52,759	—	451	—	—	451
Exercise of stock options	396,970	—	3,307	—	—	3,307
Issuance of common stock in settlement of restricted and performance stock units, net of shares withheld for employee taxes, and stock awards	65,388	—	(156)	—	—	(156)
Stock-based compensation expense	—	—	3,299	—	—	3,299
Net loss.....	—	—	—	(10,612)	—	(10,612)
Net change in unrealized loss on available-for-sale investments	—	—	—	—	(46)	(46)
Balance at December 31, 2014.....	14,446,950	14	105,721	(25,232)	5	80,508
Issuance of common stock for employee purchase plan	55,872	—	577	—	—	577
Exercise of stock options	1,141,904	2	10,500	—	—	10,502
Issuance of common stock in settlement of restricted and performance stock units, net of shares withheld for employee taxes, and stock awards	154,119	—	(1,018)	—	—	(1,018)
Repurchase of common stock	(2,818,038)	(3)	(40,082)	—	—	(40,085)
Stock-based compensation expense	—	—	4,084	—	—	4,084
Net loss.....	—	—	—	(4,440)	—	(4,440)
Net change in unrealized loss on available-for-sale investments	—	—	—	—	(94)	(94)
Balance at December 31, 2015.....	12,980,807	13	79,782	(29,672)	(89)	50,034
Deferred tax relating to adoption of ASU 2016-09.....	—	—	—	49	—	49
Issuance of common stock for employee purchase plan	79,922	—	768	—	—	768
Exercise of stock options	1,051,138	1	9,342	—	—	9,343
Issuance of common stock in settlement of restricted and performance stock units, net of shares withheld for employee taxes, and stock awards	116,833	—	(618)	—	—	(618)
Repurchase of common stock	(455,311)	—	(4,873)	—	—	(4,873)
Stock-based compensation expense	—	—	3,713	—	—	3,713
Net income	—	—	—	2,577	—	2,577
Net change in unrealized loss on available-for-sale investments	—	—	—	—	17	17
Balance at December 31, 2016.....	<u>13,773,389</u>	<u>\$ 14</u>	<u>\$ 88,114</u>	<u>\$ (27,046)</u>	<u>\$ (72)</u>	<u>\$ 61,010</u>

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,		
	2016	2015	2014
Cash flows from operating activities:			
Net income (loss)	\$ 2,577	\$ (4,440)	\$ (10,612)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Stock-based compensation	3,713	4,084	3,299
Depreciation and amortization	982	1,186	1,336
Impairment of intangible assets	—	—	650
Other	15	227	206
Changes in assets and liabilities:			
Accounts receivable	(4,899)	(536)	(1,460)
Inventories	(2,899)	(1,090)	(1,982)
Other current assets and prepaid expenses	(432)	241	239
Other long-term assets	4	(23)	(37)
Accounts payable	639	(1,124)	1,263
Accrued liabilities	3,461	2,687	1,650
Other long-term liabilities	(329)	(289)	(285)
Deferred revenue	(826)	(2,319)	1,410
Income tax liability	(14)	37	37
Net cash provided by (used in) operating activities	<u>1,992</u>	<u>(1,359)</u>	<u>(4,286)</u>
Cash flows from investing activities:			
Acquisition of property, equipment and software	(537)	(746)	(734)
Disposal of property and equipment	20	—	—
Proceeds from sales of marketable investments	9,008	21,171	12,354
Proceeds from maturities of marketable investments	25,810	35,918	26,915
Purchase of marketable investments	(37,693)	(23,697)	(44,146)
Net cash provided by (used in) investing activities	<u>(3,392)</u>	<u>32,646</u>	<u>(5,611)</u>
Cash flows from financing activities:			
Repurchase of common stock	(4,873)	(40,085)	—
Proceeds from exercise of stock options and employee stock purchase plan	10,111	11,079	3,758
Taxes paid related to net share settlement of equity awards	(618)	(1,018)	(156)
Payments on capital lease obligation	(313)	(198)	(144)
Net cash provided by (used in) financing activities	<u>4,307</u>	<u>(30,222)</u>	<u>3,458</u>
Net increase (decrease) in cash and cash equivalents	2,907	1,065	(6,439)
Cash and cash equivalents at beginning of year	10,868	9,803	16,242
Cash and cash equivalents at end of year	<u>\$ 13,775</u>	<u>\$ 10,868</u>	<u>\$ 9,803</u>
Supplemental cash flow information:			
Cash paid for interest	\$ 43	\$ 20	\$ 26
Cash paid for income taxes	<u>\$ 222</u>	<u>\$ 160</u>	<u>\$ 225</u>
Supplemental non-cash investing and financing activities:			
Assets acquired under capital lease	<u>\$ 801</u>	<u>\$ 285</u>	<u>\$ 70</u>

The accompanying notes are an integral part of these consolidated financial statements.

CUTERA, INC.
NOTES TO 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 other energy-based aesthetic systems for practitioners worldwide. The Company designs, develops, manufactures, and markets laser and other energy-based product platforms for use by physicians and other qualified practitioners which enable them to offer safe and effective aesthetic treatments to their customers. The Company currently markets the following key system platforms: *enlighten*TM, *excel HR*TM, *truSculpt*TM, *excel V*TM, and *xeo*[®]. The Company’s systems offer multiple hand pieces and applications, which allow customers to upgrade their systems. The sales of systems, system upgrades, hand pieces, hand piece refills (applicable to *Titan*[®] and *truSculpt*) and the distribution of third party manufactured skincare products are classified as “Products” revenue. In addition to Products revenue, the Company generates revenue from the sale of post-warranty service contracts, parts, detachable hand piece replacements (except for *Titan* and *truSculpt*) and service labor for the repair and maintenance of products that are out of warranty, all of which is classified as “Service” revenue.

Headquartered in Brisbane, California, the Company has wholly-owned subsidiaries that are currently operational in Australia, Belgium, Canada, France, Hong Kong, Japan, Spain (until January 2017), Switzerland and the United Kingdom. These subsidiaries market, sell and service the Company’s 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, valuation of inventories, 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 and other share based awards, 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, and Marketable Investments

The Company invests its cash primarily in money market funds and in highly liquid debt instruments of U.S. federal and municipal governments and their agencies, commercial paper and corporate debt securities. All highly liquid investments with stated maturities of three months or less from date of purchase are classified as cash equivalents; all highly liquid investments with stated maturities of greater than three months are classified as marketable investments. The majority of the Company’s cash and investments are held in U.S. banks and 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. Investments with remaining maturities more than one year are viewed by the Company as available to support current operations, and are classified as current assets under the caption marketable investments in the accompanying Consolidated Balance Sheets. Investments in marketable 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.

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, 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

After determining the fair value of available-for-sales debt instruments, gains or losses on these securities are recorded to other comprehensive income (loss), until either the security is sold or the Company determines that the decline in value is other-than-temporary. The primary differentiating factors that the Company considers in classifying impairments as either temporary or other-than-temporary impairments are the Company's intent and ability to retain the investment in the issuer for a period of time sufficient to allow for any anticipated recovery in market value or the maturity of the investment, the length of the time and the extent to which the market value of the investment has been less than cost and the financial condition and near-term prospects of the issuer. There were no other-than-temporary impairments in the years ended December 31, 2016, 2015, and 2014.

Allowance for Sales Returns and Doubtful Accounts

The allowance for sales returns is based on the Company's estimates of potential future product returns and other allowances related to current period product revenue. The Company analyzes historical returns, current economic trends and changes in customer demand and acceptance of our products.

The allowance for doubtful accounts is based on the Company's assessment of the collectability of customer accounts. The Company regularly reviews the allowance by considering factors such as historical experience, credit quality, the age of the accounts receivable balances, and current economic conditions that may affect a customer's ability to pay.

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 three major financial institutions in the U.S. 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.

The Company invests in debt instruments, including bonds of the U.S. Government, its agencies and municipalities. The Company has also 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 of generally less than eighteen months.

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. As of December 31, 2016 and 2015, there was one customer who represented 12% and 10%, respectively, of the Company's net accounts receivable.

During the years ended December 31, 2016, 2015, and 2014, domestic revenue accounted for 55%, 52%, and 45%, respectively, of total revenue, while international revenue accounted for 45%, 48%, and 55%, respectively, of total revenue. No single customer represented more than 10% of total revenue for any of the years ended December 31, 2016, 2015, and 2014.

The Company is also 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, Food and Drug Administration and/or international regulatory approvals required for new products and compliance with government regulations.

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 an estimated economic life of two years. Amortization expense related to demonstration units is recorded in Products cost of revenue or in the respective operating expense line based on which function and purpose for which the demonstration units are being used. 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.

As of December 31, 2016 and 2015, demonstration inventories, net of accumulated depreciation, included in Finished goods inventory balance was \$2.4 and \$2.3 million, respectively.

Property and Equipment

Property and equipment are stated at cost, net of accumulated depreciation. Depreciation recognized is on a straight-line basis over the estimated useful lives of the assets, generally as follows:

	<u>Useful Lives</u>
Leasehold improvements.....	Lesser of useful life or term of lease
Office equipment and furniture (in years)	3
Machinery and equipment (in years).....	3

Upon sale or retirement of property and equipment, 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.

Depreciation expense related to property and equipment for 2016, 2015 and 2014, was \$841,000, \$734,000 and \$562,000 respectively. Amortization expense for vehicles leased under capital leases is included in depreciation expense.

Goodwill and Intangible Assets

Goodwill, which represents the excess of the purchase price over the fair value of net tangible and identifiable intangible assets, is not subject to amortization, but is subject to at least an annual assessment for impairment, applying a fair-value based test.

The Company's intangible assets are comprised of purchased technology sub-licenses, acquired customer relationships, and those assets acquired in conjunction with an asset acquisition in February 2012 including existing customer relationships, product portfolio and a manufacturing process for the products acquired. All identifiable intangibles have finite lives and are carried at cost, net of accumulated amortization. Amortization was recorded using the straight-line method, except for a portion of the purchased intangibles which are being amortized on a declining-balance basis, over their respective useful lives, which range from approximately 11 months to 10 years.

Impairment of Long-lived Assets

Goodwill is not amortized, but is tested for impairment at least annually or as circumstances indicate their value may no longer be recoverable. The goodwill impairment test is performed annually during the fourth fiscal quarter (or earlier if impairment indicators arise). The Company continues to operate in one segment, which is considered to be the sole reporting unit and therefore, goodwill was tested for impairment at the enterprise level. As of December 31, 2016, there has been no impairment of goodwill.

The Company evaluates the recoverability of its long-lived assets, which include amortizable intangible and tangible assets. Acquired intangible assets with definite useful lives are amortized over their useful lives. The Company evaluates long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value of long-lived assets may not be recoverable. The Company recognizes such impairment in the event the net book value of such assets exceeds the future undiscounted cash flows attributable to such assets. In 2014, the Company's impairment review indicated that certain purchased long-lived assets associated with the Iridex acquisition were impaired and an impairment charge of \$650,000 was recognized. No other impairment losses were incurred in the periods presented.

Warranty Obligations

The Company provides a standard one-year warranty on all systems sold to end-customers. Warranty coverage provided is for labor and parts necessary to repair the systems during the warranty period. For sales to distributors, the Company generally provides a 14 to 16 month warranty for parts only, with labor being provided to the end customer by the distributor.

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

Products 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. 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 Products cost of revenue.

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 Company determined that its multiple-element arrangements are generally comprised of the following elements that are recognized as separate units of accounting: Product and service contracts.

For multiple-element arrangements revenue is allocated to each element based on their relative selling prices. Relative selling prices are based on vendor specified objective evidence ("VSOE"), if available, third-party evidence of selling price ("TPE") when VSOE does not exist, and on best estimate of selling price ("BESP") if VSOE and TPE do not exist. Because the Company has neither VSOE nor TPE for its systems and service contracts, the allocation of revenue is based on the Company's BESP for each element. The objective of BESP is to determine the price at which the Company would transact a sale if the product or service was sold on a stand-alone basis. The Company determines BESP for its products or services by considering multiple factors including, prices charged for stand-alone sales, features and functionality of the products and

services, geographies, type of customer, and market conditions. Revenue allocated to each element is then recognized when the other revenue recognition criteria are met for the element.

With respect to the sale of its *truSculpt* product, the Company includes unlimited refills as part of the *truSculpt* standard warranty and the Company does not account for the *truSculpt* warranty as a separate deliverable under the multiple-element arrangement revenue guidance. Upon a *truSculpt* sale, the Company recognizes the estimated costs which will be incurred under the warranty obligation in Products cost of revenue.

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 billed on a time and material basis, from customers whose systems are not under a service contract, is recognized as the services are provided. Service revenue for the years ended December 31, 2016, 2015, and 2014 was \$19.0 million, \$17.7 million, and \$17.8 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, costs associated with product warranties and any inventory or intangible write-downs.

The Company's system sales include a control console, universal graphic user interface, control system software, high voltage electronics and a combination of applications (referred to as hand pieces). Hand pieces are programmed to have a limited number of uses to ensure the safety of the device to patients. The Company sells refurbished hand pieces, or "refills," of its *Titan* product and provides for refurbishment of other hand pieces under warranty or service contracts. When customers purchase a replacement hand piece (or "refill") or are provided a replacement hand piece under a warranty or service contract, the Company ships the customer a previously refurbished unit. Upon the receipt of the expended hand piece from the customer the Company capitalizes the expended hand piece as inventory at the estimated fair value. Cost of revenue includes the costs incurred to refurbish hand pieces.

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 for 2016, 2015 and 2014 were \$1.3 million, \$1.2 million and \$1.6 million, respectively.

Stock-based Compensation

The Company accounts for its employee stock options under the fair value method of accounting using a Black-Scholes valuation model to measure stock option expense at the date of grant. The fair value of Restricted Stock Units ("RSUs") is measured at the market price of the Company's stock on the date of grant. The fair value of Performance Stock Units ("PSUs") that have operational measurement goals, are measured at the market price of the Company's stock on the date of grant. PSUs with market-based measurement goals are valued using the Monte-Carlo simulation option-pricing model. The Monte-Carlo simulation option-pricing model uses the same input assumptions as the Black-Scholes model, however, it further incorporates into the fair-value determination the possibility that the market condition may not be satisfied. Stock-based compensation expense for market-based PSU awards is recognized regardless of whether the market condition is satisfied, provided that the requisite service has been provided.

Stock-based compensation expense, net of estimated forfeitures, is recognized over the requisite service period.

For RSUs and PSUs, the Company issues shares on the vesting dates, net of the minimum tax 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 and PSUs that vest. The Company records the liability for withholding amounts to be paid by the Company as a reduction to additional paid-in capital when the shares are issued.

Cash flows resulting from the tax benefits due to tax deductions in excess of the compensation cost recognized for stock-based awards for options exercised and for RSUs and PSUs vested during the period (excess tax benefits), are classified as operating cash flows.

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. For deferred tax assets which are not subject to a valuation allowance, 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 the recoverability of the deferred tax assets, the Company could be required to record a valuation allowance against the net carrying value of 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 the Company's income among the states in which the Company operates. These matters, and others, involve the exercise of significant judgment. Any changes in the Company's practices or judgments involved in the measurement of deferred tax assets and liabilities could materially impact the Company's 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 the Company's 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. The Company maintains a full valuation allowance against its U.S. federal and state deferred tax asset due to a history of operating losses.

The Company establishes reserves for uncertain tax positions in accordance with the Income Taxes subtopic of ASC 740. 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 de-recognition, 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. The Company will reverse the liability and recognize a tax benefit during the period in which the Company makes the determination that the tax position is effectively settled through examination, negotiation, or litigation, or the statute of limitations for the relevant taxing authority to examine and challenge the tax position has expired. 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 includes all changes in stockholders' equity except those resulting from investments or contributions by stockholders. For the periods presented, the accumulated other comprehensive income (loss) consisted solely of the unrealized gains or losses on the Company's available-for-sale investments, net of tax.

Foreign Currency

The U.S. Dollar is the functional currency of the Company's subsidiaries. Monetary assets and liabilities are re-measured into U.S. Dollars at the applicable period end exchange rate. Sales and operating expenses are re-measured at average exchange rates in effect during each period. 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, 2016. 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, 2016.

Segments

The Company operates in one segment. Management uses one measurement of profitability and does not segregate its business for internal reporting. As of December 31, 2016 and 2015, 98% of all long-lived assets were maintained in the U.S. See Note 9 for details relating to revenue by geography.

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Updates ("ASU") No. 2014-09, *Revenue from Contracts with Customers*, outlining a single comprehensive model for entities to utilize to recognize revenue when it transfers goods or services to customers in an amount that reflects the consideration that will be received in exchange for the goods and services. Additional disclosures will also be required to enable users to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. In 2016, the FASB issued accounting standards updates to address implementation issues and to clarify the guidance for identifying performance obligations, licenses and determining if a company is the principal or agent in a revenue arrangement. In August 2015, the FASB deferred the effective date of this standards update to fiscal years beginning after December 15, 2017, with early adoption permitted on the original effective date of fiscal years beginning after December 15, 2016. The standard permits the use of either a retrospective or modified retrospective application. The Company is evaluating the effects of the new guidance and have not yet selected a transition method or determined the potential effects of adoption on the consolidated financial statements.

In July 2015, the FASB issued ASU No. 2015-11, *Simplifying the Measurement of Inventory*. Currently, an entity is required to measure its inventory at the lower of cost or market, whereby market can be replacement cost, net realizable value, or net realizable value less an approximately normal profit margin. The changes require that inventory be measured at the lower of cost and net realizable value, thereby eliminating the use of the other two market methodologies. Net realizable value is defined as the estimated selling prices in the ordinary course of business less reasonably predictable costs of completion, disposal, and transportation. These changes do not apply to inventories measured using LIFO (last-in, first-out) or the retail inventory method. These changes became effective on January 1, 2017 and management does not expect the updated standard to have a material impact on the reported inventory balances in the Consolidated Financial Statements and related disclosures.

In February 2016, the FASB issued ASU 2016-02, *Leases*. This guidance establishes a right-of-use ("ROU") model that requires a lessee to record a ROU asset and lease liability on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the Consolidated Statement of Operations. The mandatory adoption date of this standard is for fiscal years beginning after December 15, 2018. A modified retrospective transition approach is required for leases existing at, or entered into, after the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. The Company expects that upon adoption, ROU assets and lease liabilities will be recognized in the balance sheet in amounts that will be material.

Adopted Accounting Pronouncements

The Company early adopted ASU 2016-09 in the fourth quarter of 2016. For a detailed discussion of the impact of the adoption, refer to "Note 6—Income Taxes."

NOTE 2—INVESTMENT SECURITIES

The following tables summarize cash, cash equivalents and marketable securities (in thousands):

	December 31,	
	2016	2015
Cash and cash equivalents:		
Cash	\$ 6,672	\$ 9,830
Cash equivalents:		
Money market funds	6,053	1,000
Commercial paper	1,050	38
Total cash and cash equivalents	<u>13,775</u>	<u>10,868</u>
Marketable securities:		
U.S. government notes	8,398	7,779
U.S. government agencies	3,916	12,608
Municipal securities	1,325	4,346
Commercial paper	12,299	4,040
Corporate debt securities	14,361	8,766
Total marketable securities	<u>40,299</u>	<u>37,539</u>
Total cash, cash equivalents and marketable securities	<u>\$ 54,074</u>	<u>\$ 48,407</u>

The following table summarizes unrealized gains and losses related to the Company's marketable investments (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Market Value
December 31, 2016				
Cash and cash equivalents	\$ 13,775	\$ —	\$ —	\$ 13,775
Marketable investments				
U.S. government notes	8,403	4	(9)	8,398
U.S. government agencies	3,918	—	(2)	3,916
Municipal securities	1,325	—	—	1,325
Commercial paper	12,299	2	(2)	12,299
Corporate debt securities	14,366	3	(8)	14,361
Total marketable securities	<u>40,311</u>	<u>9</u>	<u>(21)</u>	<u>40,299</u>
Total cash, cash equivalents and marketable securities	<u>\$ 54,086</u>	<u>\$ 9</u>	<u>\$ (21)</u>	<u>\$ 54,074</u>
December 31, 2015				
Cash and cash equivalents	\$ 10,868	\$ —	\$ —	\$ 10,868
Marketable investments				
U.S. government notes	7,780	1	(2)	7,779
U.S. government agencies	12,630	3	(25)	12,608
Municipal securities	4,344	2	—	4,346
Commercial paper	4,041	1	(2)	4,040
Corporate debt securities	8,783	—	(17)	8,766
Total marketable securities	<u>37,578</u>	<u>7</u>	<u>(46)</u>	<u>37,539</u>
Total cash, cash equivalents and marketable securities	<u>\$ 48,446</u>	<u>\$ 7</u>	<u>\$ (46)</u>	<u>\$ 48,407</u>

No investments were in a continuous unrealized loss position for longer than 12 months as of December 31, 2016 and 2015.

The following table summarizes the estimated fair value of the Company's marketable investments classified by the contractual maturity date of the security as of December 31, 2016 (in thousands):

	<u>Amount</u>
Due in less than one year (fiscal year 2017).....	\$ 36,796
Due in 1 to 3 years (fiscal year 2018-2019).....	3,503
Total marketable securities	<u>\$ 40,299</u>

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):

<u>December 31, 2016</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash equivalents:				
Money market funds.....	\$ 6,053	\$ —	\$ —	\$ 6,053
Commercial paper	—	1,050	—	1,050
Short term marketable investments:				
Available-for-sale securities.....	—	40,299	—	40,299
Total assets at fair value	<u>\$ 6,053</u>	<u>\$ 41,349</u>	<u>\$ —</u>	<u>\$ 47,402</u>
<u>December 31, 2015</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash equivalents:				
Money market funds.....	\$ 1,000	\$ —	\$ —	\$ 1,000
Commercial paper	—	38	—	38
Short term marketable investments:				
Available-for-sale securities.....	—	37,539	—	37,539
Total assets at fair value	<u>\$ 1,000</u>	<u>\$ 37,577</u>	<u>\$ —</u>	<u>\$ 38,577</u>

The Company's Level 1 financial assets are money market funds with fair values that are based on quoted market prices. The Company's Level 2 investments include U.S. government-backed securities and corporate securities that are valued based upon observable inputs that may include benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers and reference data including market research publications. The average remaining maturity of the Company's Level 2 investments as of December 31, 2016 is less than 36 months and all of these investments are rated by S&P and Moody's at A or better.

At December 31, 2014, the Company evaluated the fair values of its intangible assets, which are classified within Level 3 of the fair value hierarchy. With respect to the purchased intangible assets associated with the Iridex acquisition in 2012, the Company determined that there was impairment in the value of these intangible assets based on an undiscounted cash flow model. The recorded impairment charge of the purchased intangibles was estimated using a discounted cash flow model. This model relied on Level 3 inputs that included expected future cash flow streams as well as a market discount rate that are subject to uncertainties that are difficult to predict.

NOTE 3—BALANCE SHEET DETAIL

Inventories

Inventories consist of the following (in thousands):

	<u>December 31,</u>	
	<u>2016</u>	<u>2015</u>
Raw materials.....	\$ 10,966	\$ 7,982
Finished goods	4,011	4,096
Total.....	<u>\$ 14,977</u>	<u>\$ 12,078</u>

Property and Equipment, net

Property and equipment, net, consists of the following (in thousands):

	December 31,	
	2016	2015
Leasehold improvements.....	\$ 652	\$ 822
Office equipment and furniture.....	2,973	2,970
Machinery and equipment.....	5,435	4,662
	9,060	8,454
Less: Accumulated depreciation	(7,153)	(6,981)
Property and equipment, net	<u>\$ 1,907</u>	<u>\$ 1,473</u>

Included in machinery and equipment are financed vehicles used by the Company's North American sales employees. As of December 31, 2016 and 2015, the gross capitalized value of the leased vehicles was \$1.4 million and \$862,000 and the related accumulated depreciation was \$492,000 and \$374,000, respectively.

Goodwill and Other Intangible Assets

Goodwill and other intangible assets comprise a patent sublicense acquired from Palomar in 2006, intangible assets and goodwill related to the acquisition of Iridex's aesthetic business unit, and, customer relationships in the Benelux countries acquired from a former distributor in 2013. The components of intangible assets at December 31, 2016 and 2015 were as follows (in thousands):

	Gross Carrying Amount	Accumulated Amortization & Impairment Amount	Net Amount
<u>December 31, 2016</u>			
Patent sublicense	\$ 1,218	\$ 1,218	\$ —
Customer relationship intangible related to acquisition	2,510	2,508	2
Other identified intangible assets related to acquisition.....	780	780	—
Other intangible.....	155	155	—
Goodwill.....	1,339	—	1,339
Total	<u>\$ 6,002</u>	<u>\$ 4,661</u>	<u>\$ 1,341</u>
<u>December 31, 2015</u>			
Patent sublicense	\$ 1,218	\$ 1,218	\$ —
Customer relationship intangible related to acquisition	2,510	2,367	143
Other identified intangible assets related to acquisition.....	780	780	—
Other intangible.....	155	155	—
Goodwill.....	1,339	—	1,339
Total	<u>\$ 6,002</u>	<u>\$ 4,520</u>	<u>\$ 1,482</u>

As of December 31, 2014, the Company evaluated the recoverability of its long-lived assets. Relating to the purchased intangible assets associated with the Iridex acquisition in 2012, due to the discontinuation of the manufacture and sale of all products acquired, lower than projected future service revenue, and lower than projected revenue expected from the distributor relationships acquired, the Company concluded based on future undiscounted cash flows that the remaining carrying value of these assets was impaired. As a result, the Company recorded an impairment charge of \$650,000 in cost of revenue.

Amortization expense (excluding the impairment charge described above) in the 2016, 2015, and 2014 fiscal years for intangible assets was \$141,000, \$452,000, and \$773,000, respectively.

Based on intangible assets recorded at December 31, 2016, and assuming no subsequent additions to, or impairment of the underlying assets, the remaining annual amortization expense will be as follows (in thousands):

<u>Year ending December 31,</u>	<u>Amount</u>
2017.....	\$ 2
Total	<u>\$ 2</u>

Accrued Liabilities

Accrued liabilities consist of the following (in thousands):

	<u>December 31,</u>	
	<u>2016</u>	<u>2015</u>
Accrued payroll and related expenses	\$ 9,036	\$ 7,726
Accrued sales tax.....	2,373	1,935
Warranty liability	2,461	1,819
Other accrued liabilities	3,527	2,354
Total	<u>\$ 17,397</u>	<u>\$ 13,834</u>

NOTE 4—WARRANTY AND SERVICE CONTRACTS

The Company has a direct field service organization in the U.S. Internationally, the Company provides direct service support through its wholly-owned subsidiaries in Australia, Belgium, Canada, France, Hong Kong, Japan, and Switzerland, as well as through third-party service providers in Spain and United Kingdom. In several other countries, where it does not have a direct presence, the Company provides service through a network of distributors and third-party service providers.

After the original warranty period, maintenance and support are offered on a service contract basis or on a time and materials basis. The Company provides for the estimated cost to repair or replace products under warranty at the time of sale.

Warranty Accrual (in thousands)

	<u>December 31,</u>	
	<u>2016</u>	<u>2015</u>
Balance at beginning of year.....	\$ 1,819	\$ 1,167
Add: Accruals for warranties issued during the year	5,375	4,134
Less: Settlements and expirations made during the year.....	(4,733)	(3,482)
Balance at end of year	<u>\$ 2,461</u>	<u>\$ 1,819</u>

Deferred Service Contract Revenue (in thousands)

	<u>December 31,</u>	
	<u>2016</u>	<u>2015</u>
Balance at beginning of year.....	\$ 10,469	\$ 12,949
Add: Payments received.....	12,344	10,378
Less: Revenue recognized.....	(13,382)	(12,858)
Balance at end of year	<u>\$ 9,431</u>	<u>\$ 10,469</u>

Costs incurred under service contracts in 2016, 2015 and 2014 amounted to \$6.7 million, \$6.2 million, and \$6.6 million, respectively, and are recognized as incurred.

NOTE 5—STOCKHOLDERS' EQUITY, STOCK PLANS AND STOCK-BASED COMPENSATION EXPENSE

As of December 31, 2016, the Company had the following stock-based employee compensation plans:

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. In 2012 the stockholders approved a "fungible share" provision whereby each full-value award issued under the 2004 Equity Incentive Plan results in a requirement to subtract 2.12 shares from the shares reserved under the Plan.

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. Options granted under the Plan to employees generally vest over a four year term from the vesting commencement date and become exercisable 25% on the first anniversary of the vesting commencement date and an additional 1/48th on the last day of each calendar month until all of the shares have become exercisable. During 2013 and 2012 the officers of the Company were granted options that vest over a three year term at the rate of 1/3rd on the one year anniversary of the vesting commencement date and 1/36th thereafter. In 2014 the officers of the Company were granted RSUs and PSUs but were not granted any options. The contractual term of the options granted in 2013 and 2012 was seven years.

In accordance with the 2004 Equity Incentive Plan, prior to 2012, the Company's non-employee directors were granted \$60,000 of grant date fair value, fully vested, stock awards annually on the date of the Company's Annual Meeting of stockholders. Commencing with 2012, the Company's non-employee directors get \$60,000 of RSUs annually that cliff-vest on the one year anniversary of the grant date. Additionally, in 2016, one of our non-employee directors was granted 6,500 RSUs for consulting services rendered to the Company. In the years ended December 31, 2016, 2015 and 2014, the Company issued 45,350, 21,020 and 38,688 RSUs, respectively, to its non-employee directors.

In the years ended December 31, 2016, 2015 and 2014 the Company's Board of Directors granted 229,865, 107,417 and 211,250 respectively, of RSUs to its executive officers and certain members of the Company's management. The RSUs granted to the employees vest at the rate of one-fourth on the one-year anniversary of the grant date, and one-fourth in each of the subsequent three years. The RSUs granted to the executive officers vest at the rate of one-third on the one-year anniversary of the grant date, 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 over the vesting period.

In the years ended December 31, 2016, 2015 and 2014 the Company's Board of Directors granted its executive officers and certain senior management employees 204,976, 74,667 and 105,000 of PSUs. The PSUs vest over a period of 12 months, 8.5 months and 12 months, respectively, subject to the recipient's continued service and achievement of the pre-established operational goals related to revenue and operating income improvement. For the 2015 PSU awards, in addition to operational goals, there was a market-based goal as well. At the vest date, the Company issues fully-paid up common stock, based on the degree of achievement of the pre-established targets.

2004 Employee Stock Purchase Plan

On January 12, 2004, the Board of Directors adopted 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. The 2004 ESPP has an evergreen provision based on which 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 did not increase the shares available for future grant on January 1, 2016, 2015 and 2014. The price of the common stock purchased is the lower of 85% of the fair market value of the common stock at the beginning or end of a six month offering period. In the years ended December 31, 2016, 2015 and 2014, under the 2004 ESPP, the Company issued 79,922, 55,872 and 52,759 shares, respectively. At December 31, 2016, 770,063 shares remained available for future issuance.

Option Activity

Activity under the 1998 Plan and 2004 Equity Incentive Plan is summarized as follows:

	Shares Available For Grant	Number of Shares	Options Outstanding		
			Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life (in years)	Aggregate Intrinsic Value (in \$ millions) ⁽¹⁾
Balances as of December 31, 2013	709,483	3,792,162	\$ 9.42	4.2	\$ 5.1
Additional shares reserved ⁽²⁾	200,000	—	—		
Options granted.....	(486,300)	486,300	\$ 9.78		
Options exercised.....	—	(396,970)	\$ 8.33		
Options cancelled (expired or forfeited).....	418,925	(418,925)	\$ 11.15		
Stock awards granted.....	(764,394)	—	—		
Stock awards cancelled (expired or forfeited).....	52,046	—	—		
Balances as of December 31, 2014	129,760	3,462,567	\$ 9.39	3.4	\$ 5.7
Additional shares reserved ⁽³⁾	1,300,000	—	—		
Options granted.....	(129,000)	129,000	\$ 13.26		
Options exercised.....	—	(1,141,904)	\$ 9.20		
Options cancelled (expired or forfeited).....	300,866	(300,866)	\$ 12.37		
Stock awards granted.....	(430,580)	—	—		
Stock awards cancelled (expired or forfeited).....	92,379	—	—		
Balances as of December 31, 2015	1,263,425	2,148,797	\$ 9.31	3.4	\$ 7.9
Options granted.....	(162,000)	162,000	\$ 11.55		
Options exercised.....	—	(1,051,138)	\$ 8.89		
Options cancelled (expired or forfeited).....	143,187	(143,187)	\$ 12.93		
Stock awards granted.....	(1,018,005)	—	—		
Stock awards cancelled (expired or forfeited).....	495,050	—	—		
Balances as of December 31, 2016	721,657	1,116,472	\$ 9.56	3.7	\$ 8.7
Exercisable as of December 31, 2016		767,277	\$ 8.92	3.0	\$ 6.5
Vested and expected to vest, net of estimated forfeitures, as of December 31, 2016		1,069,923	\$ 9.47	3.6	\$ 8.4

(1) Based on the closing stock price of the Company's stock of \$17.35 on December 30, 2016, \$12.79 on December 31, 2015, \$10.68 on December 31, 2014 and \$10.18 on December 30, 2013.

(2) Approved by Board of Directors in 2014, approved by stockholders in 2015.

(3) Approved by stockholders in 2015.

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, 2016. The aggregate intrinsic amount changes based on the fair market value of the Company's common stock. Total intrinsic value of options exercised in 2016, 2015 and 2014 was \$3.6 million, \$5.1 million, and \$824,000, respectively. The options outstanding and exercisable at December 31, 2016 were in the following exercise price ranges:

Range of Exercise Prices	Options Outstanding		Options Exercisable	
	Number Outstanding	Weighted-Average Remaining Contractual Life (in years)	Number Outstanding	Weighted-Average Exercise Price
\$6.88	158,643	2.57	158,643	\$ 6.88
\$7.15 – \$8.52	32,750	1.85	32,750	7.71
\$8.72	127,995	1.40	127,995	8.72
\$8.80	213,741	3.46	166,370	8.80
\$8.91 – \$9.65	144,460	4.19	100,019	9.31
\$9.97 – \$10.03	115,000	4.66	67,605	9.99
\$10.24 – \$10.86	114,133	3.87	55,394	10.30
\$10.90 – \$11.98	116,250	5.66	24,792	11.18
\$13.40 – \$14.04	88,500	5.87	31,938	13.67
\$15.32	5,000	5.56	1,771	15.32
\$6.88 – \$15.32	<u>1,116,472</u>	3.74	<u>767,277</u>	<u>\$ 8.92</u>

As of December 31, 2015 there were 1,561,916 options that were exercisable at a weighted average exercise price of \$9.05.

Stock Awards (RSU and PSU) Activity Table

Information with respect to restricted stock units' and performance stock units' activity is as follows (in thousands):

	Number of Shares	Weighted-Average Grant-Date Fair Value	Aggregate Fair Value ⁽¹⁾ (in thousands)	Aggregate Intrinsic Value ⁽²⁾ (in thousands)
Outstanding at December 31, 2013	179,465	\$ 8.34		\$ 1,827
Granted	360,563	\$ 9.72		
Vested ⁽³⁾	(81,157)	\$ 8.62	\$ 777 ⁽⁴⁾	
Forfeited	(24,550)	\$ 8.14		
Outstanding at December 31, 2014	434,321	\$ 9.31		\$ 4,639
Granted	203,104	\$ 14.81		
Vested ⁽³⁾	(222,220)	\$ 11.79	\$ 3,285 ⁽⁵⁾	
Forfeited	(43,575)	\$ 9.09		
Outstanding at December 31, 2015	371,630	\$ 12.39		\$ 4,753
Granted	480,191	\$ 10.80		
Vested ⁽³⁾	(172,990)	\$ 12.56	\$ 1,906 ⁽⁶⁾	
Forfeited	(233,514)	\$ 11.36		
Outstanding at December 31, 2016	<u>445,317</u>	\$ 11.15		\$ 7,726

(1) Represents the value of the Company's stock on the date that the restricted stock units and performance stock units vest.

(2) Based on the closing stock price of the Company's stock of \$17.35 on December 31, 2016, \$12.79 on December 31, 2015, \$10.68 on December 30, 2014 and \$10.18 on December 31, 2013.

(3) 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.

(4) On the grant date, the fair value for these vested awards was \$699,000.

(5) On the grant date, the fair value for these vested awards was \$2.6 million.

(6) On the grant date, the fair value for these vested awards was \$2.2 million.

Stock-Based Compensation

Stock-based compensation expense for stock options, restricted stock units, performance stock units and ESPP shares for the year ended December 31, 2016, 2015 and 2014 was as follows (in thousands):

	Year Ended December 31,		
	2016	2015	2014
Stock options.....	\$ 989	\$ 1,438	\$ 1,811
RSUs	1,508	1,297	875
PSUs.....	967	1,167	455
ESPP	249	182	158
Total stock-based compensation expense.....	<u>\$ 3,713</u>	<u>\$ 4,084</u>	<u>\$ 3,299</u>

As of December 31, 2016, the unrecognized compensation cost, net of expected forfeitures, was \$3.3 million for stock options and stock awards, which will be recognized over an estimated weighted-average remaining amortization period of 1.66 years. For the ESPP, the unrecognized compensation cost, net of expected forfeitures, was \$110,000, which will be recognized over an estimated weighted-average amortization period 0.33 years.

The Company issues new shares of common stock upon the exercise of stock options, vesting of RSUs and PSUs, and the issuance of ESPP shares. The amount of cash received from these issuances, net of taxes withheld and paid, in 2016, 2015 and 2014 was \$9.5 million, \$10.1 million and \$3.6 million. There was no direct tax benefit (deficit) in 2016, 2015 or 2014. 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.

Total stock-based compensation expense recognized during the year ended December 31, 2016, 2015 and 2014 was recorded in the Consolidated Statement of Operations as follows (in thousands):

	Year Ended December 31,		
	2016	2015	2014
Cost of revenue	\$ 341	\$ 447	\$ 560
Sales and marketing	1,179	1,054	641
Research and development.....	596	662	581
General and administrative.....	1,597	1,921	1,517
Total stock-based compensation expense	<u>\$ 3,713</u>	<u>\$ 4,084</u>	<u>\$ 3,299</u>

Valuation Assumptions and Fair Value of Stock Options 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		
	2016	2015	2014	2016	2015	2014
Expected term (in years) ⁽¹⁾	3.83	3.24	4.18	0.50	0.50	0.50
Risk-free interest rate ⁽²⁾	1.09%	0.90%	1.31%	0.46%	0.17%	0.06%
Volatility ⁽³⁾	40%	30%	41%	39%	36%	37%
Dividend yield ⁽⁴⁾	—%	—%	—%	—%	—%	—%
Weighted average estimated fair value at grant date	<u>\$ 3.72</u>	<u>\$ 4.78</u>	<u>\$ 3.36</u>	<u>\$ 3.22</u>	<u>\$ 3.51</u>	<u>\$ 2.65</u>

- (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) *Estimated volatility is based on historical volatility. The Company also considers implied volatility when there is sufficient volume of freely traded options with comparable terms and exercise prices in the open market.*
- (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. The forfeiture rates used in 2016 ranged from 0% to 17%.

Stock Awards Withholdings

For Stock Awards granted to employees, the number of shares issued on the date the Stock Awards vest is net of the tax withholding requirements paid on behalf of the employees. In 2016, 2015 and 2014, the Company withheld 56,157, 68,101, and 15,769 shares of common stock, respectively, to satisfy its employees' tax obligations of \$619,000, \$1.0 million, and \$156,000, respectively. 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.

Stock Repurchase Program

As of December 31, 2014, there was \$10.0 million authorized for the repurchase of the Company's common stock under the Company's Stock Repurchase Program, originally adopted in November 2012 and modified on August 5, 2013. The Stock Repurchase Program permits the Company to purchase its common stock through a 10b5-1 program based on predetermined pricing and volume as well as open-market purchases that are subject to management discretion and regulatory restrictions. On February 18, 2015, the Company's Board of Directors approved the expansion of its Stock Repurchase Program from \$10 million to \$40 million. In the year ended December 31, 2015, the Company repurchased 2,818,038 shares of its common stock for approximately \$40.0 million.

On February 8, 2016, the Company's Board of Directors approved the expansion of its Stock Repurchase Program by an additional \$10 million. In the year ended December 31, 2016, the Company repurchased 455,311 shares of its common stock for approximately \$4.9 million. As of December 31, 2016, there remained an additional \$5.1 million to be purchased. On February 13, 2017 the Company's Board of Directors approved the expansion of its Stock Repurchase Program by an additional \$5 million. The Company plans to make the repurchases from time to time through open market transactions at prevailing prices and/or through privately-negotiated transactions, and/or through a pre-arranged Rule 10b5-1 trading plan.

Adjustment to Retained Earnings

The Company early adopted ASU 2016-09 in the fourth quarter of 2016 with effect from the beginning of 2016 and recorded a net increase to prior-period retained earnings of \$49,000 relating to the cumulative effect adjustment upon adoption. For a detailed discussion of the impact of the adoption, refer to “Note 6—Income Taxes.”

NOTE 6—INCOME TAXES

The Company files income tax returns in the U.S. federal and various state and local jurisdictions and foreign jurisdictions. The Company’s income (loss) before provision for income taxes consisted of the following (in thousands):

	Year Ended December 31,		
	2016	2015	2014
U.S.	\$ 2,207	\$ (4,588)	\$ (10,592)
Foreign	513	360	199
Income (loss) before income taxes.....	<u>\$ 2,720</u>	<u>\$ (4,228)</u>	<u>\$ (10,393)</u>

The components of the provision for income taxes are as follows (in thousands):

	Year Ended December 31,		
	2016	2015	2014
Current:			
Federal	\$ —	\$ (7)	\$ (7)
State	16	23	19
Foreign	131	218	110
Total Current	<u>147</u>	<u>234</u>	<u>122</u>
Deferred:			
Federal	(24)	33	32
State	(2)	—	—
Foreign	22	(55)	65
Total Deferred	<u>(4)</u>	<u>(22)</u>	<u>97</u>
Tax provision	<u>\$ 143</u>	<u>\$ 212</u>	<u>\$ 219</u>

The Company’s deferred tax asset consists of the following (in thousands):

	December 31,	
	2016	2015
Net operating loss carryforwards	\$ 15,487 *	\$ 14,231
Stock-based compensation	1,486	2,462
Other accruals and reserves	2,160	4,679
Credits	9,006 *	4,477
Foreign	377	350
Accrued warranty	890	657
Depreciation and amortization	2,627	1,105
Other	95	5
Deferred tax asset before valuation allowance	32,128	27,966
Valuation allowance	(31,751)*	(27,616)
Deferred tax asset after valuation allowance	377	350
Deferred tax liability on goodwill	(85)	(103)
Net deferred tax asset	<u>\$ 292</u>	<u>\$ 247</u>

* Includes impact of adopting ASU 2016-09 in the fourth quarter of 2016 with effect from the beginning of 2016, which resulted in excess windfall net operating loss and tax credit carryforwards that were converted into deferred tax net operating losses and tax credits, with a corresponding increase in valuation allowance as of the beginning of 2016.

The Company's deferred tax asset balance is reported in the following captions in the Consolidated Balance Sheets (in thousands):

	December 31,	
	2016	2015
Deferred tax asset.....	\$ 377	\$ 350
Income tax liability.....	(85)	(103)
Net deferred tax asset after valuation allowance.....	<u>\$ 292</u>	<u>\$ 247</u>

The differences between the U.S. federal statutory income tax rates to the Company's effective tax rate are as follows:

	Year Ended December 31,		
	2016	2015*	2014*
U.S. federal statutory income tax rate.....	34.00%	34.00%	34.00%
State tax rate, net of federal benefit.....	(14.56)	1.94	1.62
Benefit for research and development credit.....	(9.25)	15.92	7.24
Stock-based compensation.....	14.36	(19.19)	(5.56)
Foreign rate differential.....	(0.16)	(1.47)	(1.04)
True ups.....	(0.67)	—	—
Other.....	6.08	(4.58)	(1.78)
Valuation allowance.....	(24.57)	(31.63)	(36.58)
Effective tax rate.....	<u>5.23%</u>	<u>(5.01)%</u>	<u>(2.10)%</u>

*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 has recorded a full valuation allowance against its U.S. federal and state deferred tax assets due to its history of operating losses. In the years ended December 31, 2016, 2015 and 2014, there was a net increase in the valuation allowance of \$4.1 million, \$1.6 million, and \$3.3 million, respectively.

As of December 31, 2016, the Company had cumulative net operating loss carry-forwards for federal and state income tax reporting purposes of approximately \$42.0 million and \$21.8 million, respectively. The federal net operating loss carry-forwards if not utilized will begin to expire beginning in 2029 through the year 2035 and the state net operating loss carry-forwards if not utilized will expire beginning in 2029 through the year 2035. The Company maintained a valuation allowance against these net operating loss carry-forwards as of December 31, 2016.

As of December 31, 2016, the Company had research and development tax credits for federal and state income tax purposes of approximately \$5.0 million and \$6.2 million, respectively. The federal research and development tax credits if not utilized will expire beginning in 2024 through the year 2035. The state research and development credits can be carried forward indefinitely, except for \$268,000, which will expire beginning in 2020 through 2021. The Company maintained a valuation allowance against these tax credits as of December 31, 2016.

In March 2016, the FASB issued ASU No. 2016-09, *Improvements to Employee Share-Based Payment Accounting* as part of its simplification initiative, which involves several aspects of accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. The changes required by this Update are effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods. Prior to ASU 2016-09, tax benefits in excess of compensation cost ("windfalls") were recorded in equity, and tax deficiencies ("shortfalls") were recorded in equity to the extent of previous windfalls, and then to the income statement. While the simplification reduces some of the administrative complexities by eliminating the need to track a "windfall pool," it increases the volatility of income tax expense. The ASU also removes the requirement to delay recognition of a windfall tax benefit until it reduces current taxes payable. Under the new guidance, the benefit is recorded when it arises, subject to normal valuation allowance considerations. Under the new guidance, entities are permitted to make an accounting policy election for the impact of forfeitures on the recognition of expense for share-based payment awards. Forfeitures can be estimated or recognized when they occur. Estimates of forfeitures are still required in certain circumstances, such as at the time of modification of an award or issuance of a replacement award in a business combination.

In accordance with ASU 2016-09, the Company decided to early adopt ASU 2016-09 in the fourth quarter of 2016 with effect from the beginning of 2016, and:

1. Elected to continue to estimate its forfeiture rate, rather than recognizing forfeitures as they occur;
2. Recorded a net increase to prior-period retained earnings of \$49,000 relating to the cumulative effect adjustment upon adoption; and
3. Excess windfall net operating loss and tax credit carryforwards were converted into deferred tax net operating losses of \$1.2 million and tax credits of \$3.9 million, with a corresponding increase in valuation allowance as of the beginning of 2016 of \$5.2 million.

The utilization of NOL carryforwards and tax credits may be subject to a substantial annual limitation due to the ownership change limitations provided by Section 382 of the U.S. Internal Revenue Code (“IRC”), and similar state provisions. The annual limitation may result in the expiration of NOL carryforwards and tax credits before utilization. The Company completed an IRC Section 382 analysis through December 31, 2016 and determined that there were no significant limitations to the utilization of NOL or tax credit carryforwards. As such, the NOL and tax credit carryforwards presented are not expected to expire unutilized, unless there is a future ownership change as determined by Section 382 of the IRC.

Undistributed earnings of the Company’s foreign subsidiaries at December 31, 2016 and 2015 were approximately \$3.1 million and \$2.8 million, respectively, and are considered to be indefinitely reinvested and, accordingly, no provision for federal and state income taxes has been provided thereon. If these foreign earnings were to be repatriated in the future, the related U.S. tax liability would be reduced by any foreign income taxes previously paid on these earnings. Because of the availability of U.S. foreign tax credits, the determination of the unrecognized deferred tax liability on these earnings is not practicable.

Uncertain Tax Positions

The Company establishes reserves for uncertain tax positions based on 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 Company files U.S., state, and foreign income tax returns in jurisdictions with varying statutes of limitations. The 2005 through 2016 tax years generally remain subject to examination by U.S., federal and California state tax authorities due to the Company’s net operating loss and credit carryforwards. For significant foreign jurisdictions, the 2011 through 2016 tax years generally remain subject to examination by their respective tax authorities.

The following table summarizes the activity related to the Company’s gross unrecognized tax benefits in December 31, 2014 to December 31, 2016 (in thousands):

	Year Ended December 31,		
	2016	2015	2014
Balance at beginning of year	\$ 651	\$ 597	\$ 535
Increases related to prior year tax positions	—	—	—
Increases related to current year tax positions	56	54	62
Decreases related to lapsing of statute of limitations	—	—	—
Balance at end of year	<u>\$ 707</u>	<u>\$ 651</u>	<u>\$ 597</u>

The Company’s total unrecognized tax benefits and accrued interest that, if recognized, would affect its effective tax rate at December 31, 2016 and 2015, were approximately \$82,000 and \$78,000, respectively. As of December 31, 2016 and 2015, the Company had accrued approximately \$49,000 and \$45,000 for payment of interest, 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 materially change within the next 12 months.

NOTE 7—NET INCOME (LOSS) PER SHARE

Basic net income (loss) per share is computed using the weighted-average number of shares outstanding during the period. In periods of net income, diluted shares outstanding include the dilutive effect of in-the-money equity awards (stock options, restricted stock units and performance stock units), which is calculated based on the average share price for each fiscal period using the treasury stock method. Under the treasury stock method, the amount the employee must pay for the equity award, and the amount of compensation cost for future service that the Company has not yet recognized, are all assumed to be used to repurchase shares. Diluted earnings per share is the same as basic earnings per share for the periods in which the Company had a net loss because the inclusion of outstanding common stock equivalents would be anti-dilutive.

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

	Year Ended December 31,		
	2016	2015	2014
Options to purchase common stock.....	220	2,575	3,489
Restricted stock units	24	296	213
Employee stock purchase plan shares	—	93	86
Performance stock units	—	24	37
Total.....	<u>244</u>	<u>2,988</u>	<u>3,825</u>

NOTE 8—DEFINED CONTRIBUTION PLAN

In the U.S., 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. In 2016, 2015 and 2014, the Company made discretionary contributions under the 401(k) Plan of \$262,000, \$244,000 and \$211,000, respectively.

For the Company’s Japanese subsidiary, a discretionary employee retirement plan has been established. 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, 2016, and the related expense for each of the three years then ended was not significant.

NOTE 9—SEGMENT INFORMATION AND REVENUE BY GEOGRAPY AND PRODUCTS

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’s chief decision maker has viewed its operations, managed its business, and used one measurement of profitability for the one operating segment – which sells aesthetic medical equipment and services, and distributes skincare products, to qualified medical practitioners. Substantially all of the Company’s long-lived assets are located in the U.S.

The following table summarizes revenue by geographic region, based on the location of the customer, and by product category (in thousands):

	Year Ended December 31,		
	2016	2015	2014
Revenue mix by geography:			
United States.....	\$ 65,513	\$ 48,916	\$ 35,494
Japan.....	14,727	11,504	13,328
Asia, excluding Japan.....	13,445	15,596	11,023
Europe.....	7,539	7,728	7,792
Rest of the world.....	16,832	11,017	10,501
Consolidated total.....	<u>\$ 118,056</u>	<u>\$ 94,761</u>	<u>\$ 78,138</u>
Revenue mix by product category:			
Products.....	\$ 92,721	\$ 71,223	\$ 53,106
Hand Piece Refills.....	2,498	2,910	3,714
Skincare.....	3,809	2,889	3,479
Total product revenue.....	99,028	77,022	60,299
Service.....	19,028	17,739	17,839
Consolidated total.....	<u>\$ 118,056</u>	<u>\$ 94,761</u>	<u>\$ 78,138</u>

NOTE 10—COMMITMENTS AND CONTINGENCIES

Facility Leases

As of December 31, 2016, 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
2017.....	\$ 1,912
2018.....	189
2019.....	35
2020.....	5
Future minimum rental payments.....	<u>\$ 2,141</u>

Gross rent expense recognized in the years ended December 31, 2016, 2015 and 2014 was \$1.6 million, \$1.5 million and \$1.5 million, respectively.

Vehicle Leases

As of December 31, 2016, the Company was committed to minimum lease payments for vehicles leased under long-term non-cancelable capital leases as follows (in thousands):

Year Ending December 31,	Amount
2017.....	\$ 367
2018.....	354
2019.....	266
2020.....	6
Future minimum lease payments.....	<u>\$ 993</u>

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, 2016.

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 and certain key employees. 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 and Litigation Settlements

The Company is named from time to time as a party to product liability and contractual lawsuits in the normal course of business. The Company routinely assesses the likelihood of any adverse judgments or outcomes related to legal matters and claims, as well as ranges of probable losses. A determination of the amount of the reserves required, if any, for these contingencies is made after analysis of each known issue, historical experience, whether it is more likely than not that the Company shall incur a loss, and whether the loss is estimable. As of December 31, 2016 and 2015, the Company had accrued \$138,000 and \$110,000, respectively, related to pending product liability and contractual lawsuits.

NOTE 11—RELATED PARTIES

In 2016, the Company paid \$182,100 to Mr. Dave Gollnick, a founder and director of the Company, for product development, clinical sales and marketing support services. In addition, the Company granted him 6,500 RSUs with a grant-date fair value of \$87,100, that vest over three (3) years at the rate of 33.33% per year on each of the three anniversaries from the vesting commencement date of October 28, 2016, subject to him continuing to provide consulting and/ or board services to the Company. The Company's Audit Committee approved the extension of Mr. Gollnick's consulting agreement through December 31, 2018 at the rate of \$200 per hour for a maximum of 40 hours per week.

NOTE 12—SUBSEQUENT EVENTS

On February 8, 2016, the Company's Board of Directors approved the expansion of its Stock Repurchase Program by an additional \$10 million. In the year ended December 31, 2016, the Company repurchased 455,311 shares of its common stock for approximately \$4.9 million. As of December 31, 2016, there remained an additional \$5.1 million to be purchased. On February 13, 2017 the Company's Board of Directors approved the expansion of its Stock Repurchase Program by an additional \$5 million. The Company plans to make the repurchases from time to time through open market transactions at prevailing prices and/or through privately-negotiated transactions, and/or through a pre-arranged Rule 10b5-1 trading plan.

SUPPLEMENTARY FINANCIAL DATA (UNAUDITED)

(In thousands, except per share amounts)

Quarter ended:	Dec. 31, 2016	Sept. 30, 2016	June 30, 2016	March 31, 2016	Dec. 31, 2015	Sept. 30, 2015	June 30, 2015	March 31, 2015
Net revenue	\$ 37,875	\$ 30,281	\$ 27,477	\$ 22,423	\$ 30,042	\$ 23,085	\$ 22,563	\$ 19,071
Cost of revenue	15,962	12,538	11,472	9,949	12,145	9,594	9,687	9,052
Gross profit	<u>21,913</u>	<u>17,743</u>	<u>16,005</u>	<u>12,474</u>	<u>17,897</u>	<u>13,491</u>	<u>12,876</u>	<u>10,019</u>
Operating expenses:								
Sales and marketing	11,561	10,574	10,712	8,716	9,899	8,790	9,066	8,187
Research and development	2,897	2,914	2,712	2,709	2,812	2,748	2,728	2,445
General and administrative	3,010	2,716	3,997	3,220	3,189	2,937	3,014	2,989
Total operating expenses....	<u>17,468</u>	<u>16,204</u>	<u>17,421</u>	<u>14,645</u>	<u>15,900</u>	<u>14,475</u>	<u>14,808</u>	<u>13,621</u>
Income (loss) from operations	4,445	1,539	(1,416)	(2,171)	1,997	(984)	(1,932)	(3,602)
Interest and other income, net.....	<u>(204)</u>	<u>166</u>	<u>217</u>	<u>144</u>	<u>105</u>	<u>84</u>	<u>96</u>	<u>8</u>
Income (loss) before income taxes.....	4,241	1,705	(1,199)	(2,027)	2,102	(900)	(1,836)	(3,594)
Income tax provision.....	28	61	30	24	52	57	53	50
Net income (loss)	<u>\$ 4,213</u>	<u>\$ 1,644</u>	<u>\$ (1,229)</u>	<u>\$ (2,051)</u>	<u>\$ 2,050</u>	<u>\$ (957)</u>	<u>\$ (1,889)</u>	<u>\$ (3,644)</u>
Net income (loss) per share—basic	<u>\$ 0.31</u>	<u>\$ 0.12</u>	<u>\$ (0.09)</u>	<u>\$ (0.16)</u>	<u>\$ 0.16</u>	<u>\$ (0.07)</u>	<u>\$ (0.13)</u>	<u>\$ (0.25)</u>
Net income (loss) per share—diluted	<u>\$ 0.30</u>	<u>\$ 0.12</u>	<u>\$ (0.09)</u>	<u>\$ (0.16)</u>	<u>\$ 0.15</u>	<u>\$ (0.07)</u>	<u>\$ (0.13)</u>	<u>\$ (0.25)</u>
Weighted average number of shares used in per share calculations:								
Basic	<u>13,591</u>	<u>13,163</u>	<u>13,131</u>	<u>13,010</u>	<u>12,978</u>	<u>13,827</u>	<u>14,441</u>	<u>14,611</u>
Diluted	<u>14,201</u>	<u>13,544</u>	<u>13,131</u>	<u>13,010</u>	<u>13,591</u>	<u>13,827</u>	<u>14,441</u>	<u>14,611</u>

SCHEDULE II

CUTERA, INC.

VALUATION AND QUALIFYING ACCOUNTS

(in thousands)

For the Years Ended December 31, 2016, 2015 and 2014

	Balance at Beginning of Year	Additions	Deductions	Balance at End of Year
Deferred tax assets valuation allowance				
Year ended December 31, 2016	\$ 27,616	\$ 6,755	\$ 2,620	\$ 31,751
Year ended December 31, 2015	\$ 26,046	\$ 3,327	\$ 1,757	\$ 27,616
Year ended December 31, 2014	\$ 22,762	\$ 3,780	\$ 496	\$ 26,046

	Balance at Beginning of Year	Additions	Deductions	Balance at End of Year
Allowance for doubtful accounts receivable				
Year ended December 31, 2016	\$ 4	\$ 21	\$ 4	\$ 21
Year ended December 31, 2015	\$ —	\$ 4	\$ —	\$ 4
Year ended December 31, 2014	\$ 19	\$ 4	\$ 23	\$ —

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* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Based on this evaluation, the Company's management concluded that the Company's internal control over financial reporting was effective as of December 31, 2016. The effectiveness of our internal control over financial reporting as of December 31, 2016 has been audited by BDO USA 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.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Stockholders of Cutera, Inc.

We have audited Cutera, Inc.'s internal control over financial reporting as of December 31, 2016, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Cutera, Inc.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying "Item 9A, Management's Report on Internal Control Over Financial Reporting". Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit 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 audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

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 (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) 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 (3) 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.

In our opinion, Cutera, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2016, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of Cutera, Inc.' as of December 31, 2016 and 2015 and the related consolidated statements of operations, comprehensive loss, stockholders' equity, and cash flows for the years ended December 31, 2016, 2015 and 2014 and our report dated March 15, 2017 expressed an unqualified opinion thereon.

/s/ BDO USA, LLP

San Jose, California
March 15, 2017

ITEM 9B. OTHER INFORMATION

The Company has established that the 2017 Annual Meeting of Stockholders will be held at its principal executive offices located at 3240 Bayshore Blvd., Brisbane, CA 94005-1021 on June 14, 2017 at 10:00 a.m. and the record date for the purposes of voting in that meeting shall be April 17, 2017.

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 2017 Annual Meeting of Stockholders with the Securities and Exchange Commission within 120 days after the end of our fiscal year ended December 31, 2016.

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

In 2016, we paid \$182,100 to Mr. Dave, a founder and director of the Company, for product development, clinical sales and marketing support services. In addition, we granted him 6,500 restricted stock units with a grant-date fair value of \$87,100, that vest over three (3) years at the rate of 33.33% per year on each of the three anniversaries from the vesting commencement date of October 28, 2016, subject to him continuing to provide consulting and/ or board services to us. The Audit Committee approved the extension of Mr. Gollnick's consulting agreement through December 31, 2018 at the rate of \$200 per hour for a maximum of 40 hours per week.

Further information required by this item regarding certain relationships and related transactions, and director independence, is discussed in detail and incorporated herein by reference to the information set forth in the sections titled "Certain Relationships and Related Transactions" and "Corporate Governance and Board Matters" in our 2017 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.
10.4 ⁽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.
10.14 ⁽⁶⁾	2004 Equity Incentive Plan, as amended by its Board of Directors on April 27, 2012.
10.19 ⁽⁷⁾	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 for Kevin Connors, President and Chief Executive Officer
10.21 ⁽⁹⁾	Change of Control and Severance Agreement for Ronald Santilli, Executive Vice President and Chief Financial Officer
10.22 ⁽⁹⁾	Form of Performance Unit Award Agreement for 2016
10.23 ⁽¹⁰⁾	Change of Control and Severance Agreement for James Reinstein, President and Chief Executive Officer
16.1 ⁽⁸⁾	Letter regarding change in certifying accountants.
23.1 ⁽¹¹⁾	Consent of Independent Registered Public Accounting Firm.
24.1	Power of Attorney.
31.1 ⁽¹¹⁾	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2 ⁽¹¹⁾	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1 ⁽¹¹⁾	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 ⁽¹¹⁾	The following materials from Cutera Inc.'s Annual Report on Form 10-K for the year ended December 31, 2016, formatted in XBRL (Extensible Business Reporting Language): (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Income, (iii) Consolidated Statements of Comprehensive Loss, (iv) Consolidated Statement of Stockholders' Equity, (v) Consolidated Statements of Cash Flows, and (vi) Notes to Consolidated Financial Statements, tagged at Level I through IV.

⁽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 30, 2012.

⁽⁷⁾ Incorporated by reference from our Quarterly Report on Form 10-Q filed on November 1, 2010.

⁽⁸⁾ Incorporated by reference from Current Report on Form 8-K filed April, 2, 2014.

⁽⁹⁾ Incorporated by reference from our Quarterly Report on Form 10-Q filed on August 1, 2016.

⁽¹⁰⁾ Incorporated by reference from Current Report on Form 8-K filed January, 11, 2017.

⁽¹¹⁾ Filed herewith

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, 2017.

CUTERA, INC.

By: /s/ JAMES A. REINSTEIN
James A. Reinstein
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 James A. Reinstein, 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.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ JAMES A. REINSTEIN</u> James A. Reinstein	President, Chief Executive Officer and Director (Principal Executive Officer)	March 15, 2017
<u>/s/ RONALD J. SANTILLI</u> Ronald J. Santilli	Executive Vice President and Chief Financial Officer (Principal Accounting Officer)	March 15, 2017
<u>/s/ J. DANIEL PLANTS</u> J. Daniel Plants	Chairman of the Board of Directors	March 15, 2017
<u>/s/ DAVID B. APFELBERG</u> David B. Apfelberg	Director	March 15, 2017
<u>/s/ GREGORY A. BARRETT</u> Gregory A. Barrett	Director	March 15, 2017
<u>/s/ DAVID A. GOLLNICK</u> David A. Gollnick	Director	March 15, 2017
<u>/s/ CLINT H. SEVERSON</u> Clint H. Severson	Director	March 15, 2017
<u>/s/ TIM O'SHEA</u> Tim O'Shea	Director	March 15, 2017
<u>/s/ JERRY P. WIDMAN</u> Jerry P. Widman	Director	March 15, 2017

**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, James A. Reinstein, 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, 2017

/s/ JAMES A. REINSTEIN
James A. Reinstein
President, Chief Executive Officer and Director
(Principal Executive Officer)

**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 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, 2017

/s/ **RONALD J. SANTILLI**

Ronald J. Santilli
Executive Vice President and Chief Financial Officer
(Principal Financial and Accounting Officer)

**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, 2016, 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, 2017

/s/ JAMES A. REINSTEIN
James A. Reinstein
President, Chief Executive Officer and Director
(Principal Executive Officer)

Date: March 15, 2017

/s/ RONALD J. SANTILLI
Ronald J. Santilli
Executive Vice President and Chief Financial Officer
(Principal Financial and Accounting Officer)

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Corporate Information (as of April 17, 2017)

ABOUT US

Brisbane, California-based Cutera is a leading provider of laser, light and other energy-based aesthetic systems for practitioners worldwide. Since 1998, we have been developing innovative, easy-to-use products that enable physicians and other qualified practitioners to offer safe and effective aesthetic treatments to their patients. For more information, call 1-888-4CUTERA or visit www.cutera.com.

BOARD OF DIRECTORS

J. Daniel Plants^{5,8}, Chairman of the Board, Cutera, Inc.; Managing Partner, Voce Capital Management LLC

James A. Resinstein, President, Chief Executive Officer and Director, Cutera, Inc.

David B. Apfelberg, MD^{3,5}, Adjunct Clinical Professor of Plastic Surgery, Stanford University Medical Center

Gregory Barrett^{4,5}, Former President and Chief Executive Officer, DFINE, Inc.

David A. Gollnick, Former Vice President of North American Sales and Former Executive Vice President of Research and Development, Cutera, Inc.

Timothy J. O'Shea^{1,6,7}, Former Managing Director, Oxo Capital

Clint H. Severson¹, President and Chief Executive Officer, Abaxis, Inc.

Jerry P. Widman^{2,3,5}, Former Chief Financial Officer, Ascension Health

- 1- Audit Committee member
- 2- Chairman of Audit Committee
- 3- Compensation Committee member
- 4- Chairman of Compensation Committee
- 5- Nominating and Corporate Governance Committee member
- 6- Chairman of Nominating and Corporate Governance Committee
- 7- Strategic Transactions Committee member
- 8- Chairman of Strategic Transactions Committee

MANAGEMENT TEAM

James A. Resinstein, President, Chief Executive Officer and Director

Ronald J. Santilli, Executive Vice President and Chief Financial Officer

Larry E. Laber, Executive Vice President, Sales, North America

Miguel A. Pardos, Executive Vice President, International

Lukas Hunziker, Vice President, Research and Development

Marina Kamenakis, Vice President, Global Marketing

Rajesh Madan, Vice President, Finance and Legal

Bradley J. Renton, Vice President, Regulatory and Medical Affairs & Compliance Officer

Bernie Schneider, Vice President, Operations

Cindee Van Vleck, Vice President, Global Human Resources

ANNUAL MEETING

Annual meeting of stockholders will be held on June 14, 2017, 9:00 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

BDO USA, 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, 2017. 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

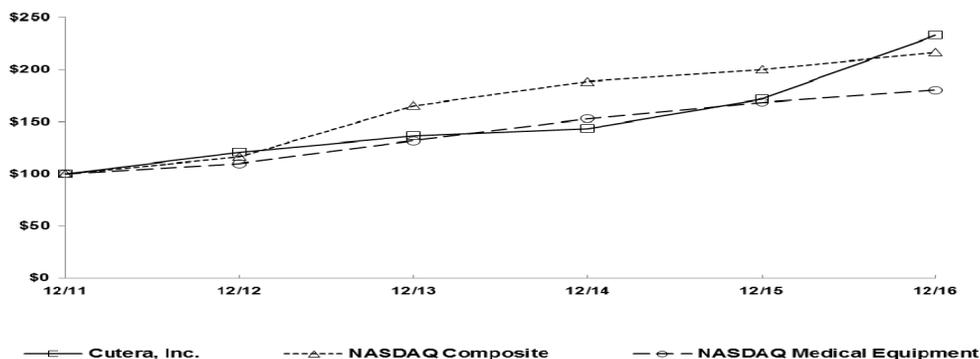
Our common stock is traded on The NASDAQ Global market under the symbol "CUTR." We have not declared or paid any cash dividends on our capital stock since our inception. We currently expect to retain future earnings, if any, for use in the operation and expansion of our business and do not anticipate paying any cash dividends in the foreseeable future. As of April 17, 2017, we had 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			
	2016		2015	
	High	Low	High	Low
4th Qtr.	\$ 17.50	\$ 11.94	\$ 14.52	\$ 11.99
3rd Qtr.	12.25	10.52	15.60	13.07
2nd Qtr.	12.15	10.00	15.98	12.87
1st Qtr.	12.87	10.43	14.26	10.86

COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN*

Among Cutera, Inc., the NASDAQ Composite Index and the NASDAQ Medical Equipment Index



*\$100 invested on 12/31/11 in stock or index, including reinvestment of dividends. Fiscal year ending December 31.

