CUTERA, INC.
2019 PROXY STATEMENT AND 2018 ANNUAL REPORT

Dear Stockholders:

You are cordially invited to attend the 2019 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, 2019 at 9:00 a.m. Pacific Time.

The attached Notice of 2019 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 2018 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,

R. Jason Richey
Chief Operating Officer &
Interim 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, INC.

(Name of Registrant as Specified In Its Charter)

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

Payment of Filing Fee (Check the appropriate box):

☒ No fee required.

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

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

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

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

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

☐ Fee paid previously with preliminary materials.

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

(1) Amount Previously Paid:

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

(3) Filing Party:

(4) Date Filed:

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NOTICE OF 2019 ANNUAL MEETING OF STOCKHOLDERS TO BE HELD ON

June 14, 2019

at 9:00 A.M. Pacific Time

To our Stockholders:

You are cordially invited to attend the 2019 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, 2019, at 9:00 a.m. Pacific Time, for the following purposes:

1. Elect six directors, constituting the entire Board of Directors, to each serve a one-year term that expires at the 2020 Annual Meeting of Stockholders and until their successors have been duly elected and qualified;

2. 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, 2019;

3. Hold a non-binding advisory vote on the compensation of Named Executive Officers;

4. Approve the amendment and restatement of the Amended and Restated 2004 Equity Incentive Plan as the 2019 Equity Incentive Plan; and

5. 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 2018 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. Your vote is important, regardless of the number of shares that you own. Whether or not you intend to attend the Annual Meeting of Stockholders, please vote as soon as possible to make sure that your shares are represented. 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 23, 2019 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,

Brisbane, California
April 30, 2019

Chief Operating Officer &
Interim President and Chief Executive Officer

YOUR VOTE IS IMPORTANT!

YOU ARE CORDIALLY INVITED TO ATTEND THE ANNUAL MEETING OF STOCKHOLDERS 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
2019 ANNUAL MEETING OF STOCKHOLDERS
TO BE HELD ON JUNE 14, 2019

The Board of Directors ("Board") of Cutera, Inc., a Delaware corporation, is soliciting your proxy to vote at our 2019 Annual Meeting of Stockholders to be held on June 14, 2019, 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, 2018, filed with the U.S. Securities and Exchange Commission (the "SEC") on March 18, 2019, and the term "*Annual Meeting*" means our 2019 Annual Meeting of Stockholders.

We are sending the Notice of Internet Availability of Proxy Materials on or prior to May 5, 2019, to all stockholders of record at the close of business on April 23, 2019 (the "Record Date").

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

What is a proxy statement and what is a proxy?

A proxy statement is a document that the rules and regulations of the United States including the SEC require the Company to give to you when it asks you to give a proxy designating individuals to vote on your behalf. A proxy is your legal designation to another person to vote shares that you own. That other person is called a proxy. If you delegate someone as your proxy in a written document, that document is also called a proxy or proxy card.

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. 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 on 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 Annual 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?

All stockholders of record at the close of business on the Record Date are entitled to notice of and to vote at the meeting, and at any postponements or adjournments thereof.

As of the Record Date, 14,036,644 shares of our common stock were outstanding. Each outstanding share of our common stock entitles the holder to one vote on each matter properly brought before the meeting. Accordingly, there are a maximum of 14,036,644 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 constitutes a quorum. A quorum is required to conduct business at the meeting. Accordingly, the presence of the holders of our common stock representing at least 7,018,323 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. Elect six nominees to serve as directors on our Board;

2. Ratify BDO USA, LLP ("BDO") as the Independent Registered Public Accounting Firm for the fiscal year ending December 31, 2019;

3. Non-binding advisory vote on the compensation of our Named Executive Officers;

4. Approve the amendment and restatement of the Amended and Restated 2004 Equity Incentive Plan as the 2019 Equity Incentive Plan; and

5. Transact any 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 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 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.

Will any other matters be decided at the Annual Meeting of Stockholders?

At the date of this proxy statement, the Company does not know of any other matters to be raised at the Annual Meeting of Stockholders other than those described in this proxy statement. If any other matters are, in accordance with the Delaware General Corporation Law, other applicable law, or the Company's Amended and Restated Certificate of Incorporation ("Articles"), properly presented for consideration at the Annual Meeting of Stockholders, such matters will, subject to the Delaware General Corporation Law, the Articles and applicable law, be considered at the Annual Meeting of Stockholders and the individuals named in the proxy card will vote on such matters in their discretion.

How does the Board recommend that I vote?

Our Board recommends that you vote your shares (i) "FOR" each of the six director nominees, (ii) "FOR" the ratification of BDO as the Independent Registered Public Accounting Firm for the fiscal year ending December 31, 2019, (iii) "FOR" the non-binding advisory vote on the compensation of our Named Executive Officers, and (iv) "FOR" approval of the amendment and restatement of the Amended and Restated 2004 Equity Incentive Plan as the 2019 Equity Incentive Plan.

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 Vice President, General Counsel & Corporate Secretary prior to your shares being voted, or by attending the meeting and voting in person. Attendance at the meeting will not cause your previously granted proxy to be revoked unless you specifically so request.

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

Is my vote confidential?

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

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

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

Election of Directors. 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 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, 2019. 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."

Approval of the amendment and restatement of the Amended and Restated 2004 Equity Incentive Plan as the 2019 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."

If you provide specific instructions with regard to certain items, your shares will be voted as you instruct on such items. If you sign your proxy card or voting instruction card without giving specific instructions, your shares will be voted in accordance with the recommendations of the Board ("FOR" all of the Company's nominees to the Board, "FOR" ratification of BDO as our Independent Registered Public Accounting Firm, "FOR" the approval, by non-binding vote, of executive compensation, "FOR" the approval of the 2019 Equity Incentive Plan, and in the discretion of the proxy holders on any other matters that may properly come before the meeting).

What is a "broker non-vote"?

A "*broker non-vote*" occurs when a broker expressly instructs on a proxy card that it is not voting on a matter, whether routine or non-routine. Under the rules that govern brokers who have record ownership of shares that are held in street name for their clients who are the beneficial owners of the shares, brokers have the discretion to vote such shares on routine matters, which includes ratifying the appointment of an independent registered public accounting firm but does not include the election of directors 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 election of directors 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 four proposals described in this proxy statement, we are not aware of any other business to be acted upon at the meeting. If you grant a proxy, the persons named as proxy holders, R. Jason Richey, our Chief Operating Officer and Interim President and Chief Executive Officer, and J. Daniel Plants, our Board Chairperson, 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 Darren W. Alch, our Vice President, General Counsel and Corporate Secretary 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, are not expected to 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 2020, the written proposal must be received by our Vice President, General Counsel & Corporate Secretary at our principal executive offices no later than January 6, 2020, 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:

General Counsel & Corporate 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 "Vice President, General Counsel & Corporate 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 Vice President, General Counsel & Corporate Secretary in accordance with the provisions of our bylaws, which require that the notice be received by our Vice President, General Counsel & Corporate Secretary no later than January 6, 2020 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 Vice President, General Counsel & 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 Current 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 current executive officers (including our Chief Operating Officer and Interim President and Chief Executive Officer and our Chief Financial Officer);
- each of our current directors; and
- our current directors and executive officers as a group.

The number of shares beneficially owned by each entity, person, director or executive officer is determined in accordance with the rules of the SEC, and the information is not necessarily indicative of beneficial ownership for any other purpose. Under such rules, beneficial ownership includes any shares over which the individual has the sole or shared voting power or investment power and any shares that the individual has the right to acquire within 60 days of April 23, 2019, through the exercise of any stock option or other right. The number and percentage of shares beneficially owned is computed on the basis of 14,036,644 shares of our common stock outstanding as of the Record Date plus, for each beneficial owner, the amount of shares issuable to such beneficial owner upon the exercise of warrants and options that are exercisable within 60 days. 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 Beneficially Owned	Warrants and Options Exercisable Within 60 Days	Approximate Percent Owned
GAMCO Investors, Inc. One Corporate Center Rye, New York 10580	2,104,247 (1)	--	15.0 %
BlackRock, Inc. 55 East 52nd Street New York, NY 10055	2,012,085 (2)	--	14.3 %
T. Rowe Price Associates, Inc. 100 E. Pratt Street Baltimore, MD 21202	899,703 (3)	--	6.4 %
The Vanguard Group 100 Vanguard Blvd. Malvern, PA 19355	789,742 (4)	--	5.6 %
Renaissance Technologies LLC. 800 Third Avenue New York, NY 10022	735,766 (5)	--	5.2 %
Joseph E. Whitters	87,446	--	*
R. Jason Richey	77,489	--	*
Gregory A. Barrett	41,991	--	*
Timothy J. O'Shea	38,699	--	*
Sandra A. Gardiner	31,161	6,003	*
Clinton H. Severson	14,287	14,000	*
David L. Apfelberg	10,491	--	*
J. Daniel Plants(6)	10,287	14,000	*
Katherine S. Zanotti	9,946	--	*
Elisha W. Finney	8,048	--	*
All current directors and executive officers as a group (10 persons)	329,845	34,003	2.3 %

**Less than 1%.*

(1) As reported in Amendment No. 10 to Schedule 13D filed by GAMCO Investors, Inc. on January 25, 2019 with the SEC. The aggregate number of shares reported relates to 2,104,247 shares owned as follows: 636,407 by Gabelli Funds, LLC ("Gabelli Funds"), 1,074,201 by GAMCO Asset Management Inc. ("GAMCO") and 393,639 by Teton Avisors, Inc. Mario Gabelli is deemed to have beneficial ownership of the shares owned beneficially by each of the foregoing persons. GCIA is deemed to have beneficial ownership of the shares owned beneficially by G.research, LLC. Associated Capital Group, Inc. ("AC"), GAMCO Investors, Inc. ("GBL") and GGCP, Inc. ("GGCP") are deemed to have beneficial ownership of the shares owned beneficially by each of the foregoing persons other than Mario Gabelli and the Gabelli Foundation, Inc. Each of the foregoing persons has the sole power to vote or direct the vote and sole power to dispose or to direct the disposition of the shares reported for it, either for its own benefit or for the benefit of its investment clients or its partners, as the case may be, except that (i) GAMCO does not have authority to vote 47,800 of the reported shares, (ii) Gabelli Funds has sole dispositive and voting power with respect to the shares of the Company held by the Funds so long as the aggregate voting interest of all joint filers does not exceed 25% of their total voting interest in the Company and, in that event, the Proxy Voting Committee of each Fund shall respectively vote that Fund's shares, (iii) at any time, the Proxy Voting Committee of each such Fund may take and exercise in its sole discretion the entire voting power with respect to the shares held by such fund under special circumstances such as regulatory considerations, and (iv) the power of Mario Gabelli, AC, GBL, and GGCP is indirect with respect to shares beneficially owned directly by the other persons.

(2) As reported in Amendment No. 4 to Schedule 13G filed by BlackRock, Inc. on January 24, 2019 with the SEC.
(3) As reported in Schedule 13G filed by T. Rowe Price Associates, Inc. on February 14, 2019 with the SEC.
(4) As reported in Schedule 13G filed by The Vanguard Group on February 11, 2019 with the SEC. Such beneficial owner reported that it has sole power to vote or direct the vote over 28,744 shares of our common stock, the shared power to vote or direct the vote over 1,500 shares of our common stock, the sole power to dispose or direct the disposition of 761,196 shares of our common stock, and the shared power to dispose or direct the disposition of 28,546 shares of our common stock.
(5) As reported in Amendment No. 4 to Schedule 13G filed by Renaissance Technologies LLC on February 13, 2019 with the SEC. Such beneficial owner reported that it has sole power to vote or direct the vote over 665,600 shares of our common stock, the sole power to dispose or direct the disposition of 665,600 shares of our common stock, and the shared power to dispose or direct the disposition of 70,166 shares of our common stock.
(6) Mr. Plants is the Managing Partner of Voce Capital Management LLC, the holder of 295,978 shares (approximately 2.1%) of our outstanding common stock as of the Record Date. Mr. Plants has disclaimed beneficial ownership of the shares owned by Voce Capital Management LLC, except to the extent of his pecuniary interest therein, however he has the sole or shared voting power of the shares reflected in this table.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Exchange Act requires our directors, certain 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) Statement of Changes of Beneficial Ownership of Securities forms they file (SEC Forms 3, 4, and 5).

Based solely on our review of the copies of such forms received by us, or written representations from reporting persons that no SEC Forms 3, 4 or 5 were required of such persons, we believe that during our fiscal year ended December 31, 2018 all reports were timely filed with the exception of the following:

(a) Mr. Richey's Form 4 filed on August 8, 2018 reporting one late transaction.

Each filing was made promptly after the issue was discovered.

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 current directors are David B. Apfelberg, M.D., Gregory A. Barrett, Elisha W. Finney, Timothy J. O'Shea, J. Daniel Plants, Clinton H. Severson, Joseph E. Whitters, and Katherine S. Zanotti. Based on information provided by each director concerning his or her background, employment and affiliations, our Board has determined that each of the directors satisfy the current "independent director" standards established by NASDAQ. In 2018, the Nominating and Corporate Governance Committee recommended to the Board that all directors other than our Chief Executive Officer be independent as defined by NASDAQ listing rules.

In early 2019, Ms. Finney and Mr. Severson informed the Board that they would not stand for re-election. Accordingly, following our Annual Meeting, the size of the Board will be reduced from eight members to six members.

Board Leadership Structure

The roles of Chairperson of the Board and Chief Executive Officer are filled by separate individuals. Our Board believes that the separation of the offices of the Chairperson 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 Chairperson and Chief Executive Officer, though one can be established by the Board. Our Board elects our Chairperson 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 currently consists entirely of independent directors, and the committees of our Board are composed solely of independent directors.

Our Chairperson of the Board is J. Daniel Plants. We believe Mr. Plants' qualifications to serve as our Chairperson 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 currently has four standing committees: an Audit Committee, a Compensation Committee, a Nominating and Corporate Governance Committee, and an Enterprise Risk 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 chairperson 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 chairperson are an important aspect of our Board leadership and governance 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, governance, membership and structure. The Enterprise Risk Committee, created in 2018, assists the Board in supervising the enterprise risk management activities of the Company and its subsidiaries, and advises the Board with respect to the enterprise risk management framework of the Company. The Enterprise Risk Committee further assists the Board in its oversight of the Company's management of key risks, including strategic and operational risks, as well as the guidelines, policies and processes for monitoring and mitigating such risks.

Committees of the Board

Our Board has four standing committees: the Audit Committee, the Compensation Committee, the Nominating and Corporate Governance Committee, and the Enterprise Risk Committee. The membership during the last fiscal year, and the function of each of the committees, are described below. On January 4, 2019, James A. Reinstein, the Company's President and Chief Executive Officer, resigned from all positions with the Company, including his role as a member of the Board. On February 19, 2019, the Board increased the number of directors constituting the Board from seven to eight directors and appointed Katherine S. Zanotti and Joseph E. Whitters to the Board.

Name of Director	Audit Committee	Compensation Committee	Nominating and Corporate Governance Committee	Enterprise Risk Committee	Search Committee[8]
Non-Employee Directors:					
J. Daniel Plants[7]	X	X			
David B. Apfelberg, M.D. [1]		X	X		
Gregory A. Barrett		X	X	X	X
Elisha W. Finney[2]	X			X	
Timothy J. O'Shea[3]	X		X	X	X
Clinton H. Severson[4]	X		X	X	
Joseph E. Whitters[5]	X			X	
Katherine S. Zanotti[6]		X		X	
Number of Meetings Held During the Last Fiscal Year	7	10	7	2	0

X = Committee member
** = Chairperson of Committee*
(1) Effective with the 2019 Annual Meeting, Dr. Apfelberg, is appointed to the Nominating and Corporate Governance Committee.
(2) In early 2019, Ms. Finney informed the Board that she would not stand for re-election. Effective with the 2019 Annual Meeting, Ms. Finney will no longer served as a member of the Audit Committee or the Enterprise Risk Committee.
(3) Effective with the 2019 Annual Meeting, Mr. O'Shea is appointed to the Enterprise Risk Committee.

(4) In early 2019, Mr. Severson informed the Board that he would not stand for re-election. Effective with the 2019 Annual Meeting, Mr. Severson will no longer serve as a member of the Audit Committee, the Nominating and Corporate Governance Committee, or the Enterprise Risk Committee.
(5) Effective with the 2019 Annual Meeting, Mr. Whitters is appointed to the Audit Committee and the Enterprise Risk Committee. Effective with the 2019 Annual Meeting, Mr. Whitters is appointed the Chairperson of the Audit Committee.
(6) Effective with the 2019 Annual Meeting, Ms. Zanotti is appointed to the Compensation committee and the Enterprise Risk Committee. Effective with the 2019 Annual Meeting, Ms. Zanotti is appointed the Chairperson of the Enterprise Risk Committee.
(7) Effective with the 2019 Annual Meeting, Mr. Plants is appointed to the Audit Committee and will no longer serve on the Compensation Committee.
(8) Formed in 2019 following the resignation of our President and Chief Executive Officer, James A. Reinstein.

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. Elisha W. Finney serves as a member of the Board and Chairperson of the Audit Committee. Our Board has determined that Ms. Finney qualifies as an "audit committee financial expert" as defined in the SEC rules. In early 2019, Ms. Finney informed the Board that she would not stand for re-election. Accordingly, effective with our Annual Meeting, Joseph E. Whitters will serve as a member of the Board and Chairperson of the Audit Committee. Our Board has determined that Mr. Whitters qualifies as an "audit committee financial expert" as defined in the SEC rules. The report of the Audit Committee appears on page 18 of this proxy statement.

Compensation Committee. The Compensation Committee, together with our Board, establishes compensation for our Chief Executive Officer and the other executive officers and administers the Company's 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. 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 59 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.

Enterprise Risk Committee. The Enterprise Risk Committee was created in 2018 to assist the Board and the Audit Committee, where applicable, in supervising the enterprise risk management activities of the Company and its subsidiaries and advise the Board with respect to the enterprise risk management framework of the Company. The Committee's function is primarily one of oversight, and its members do not provide any expert advice as to the Company's risk management. Each member of our Enterprise Risk Committee meets the requirements for independence under the NASDAQ listing standards and SEC rules and regulations. The Enterprise Risk Committee has a written charter in draft form which, when adopted by our Board, will be posted on the Investor page, under the Corporate Governance section of our website at www.cutera.com.

CEO Search Committee. In connection with the resignation of James A. Reinstein as President and Chief Executive Officer of the Company, and as prescribed in the CEO Succession Plan administered by the Nominating and Governance Committee, the Board formed a CEO Search Committee on January 4, 2019 to undertake a search for a President and Chief Executive Officer for the Company. While not a requirement, each member of our Search Committee meets the requirements for independence under the NASDAQ listing standards and SEC rules and regulations, nonetheless.

Meetings Attended by Directors

Each of the directors attended at least 90% of the meetings of the Board or committee(s) on which he or she served during 2018.

The directors of the Company are encouraged to attend the Company's Annual Meeting of Stockholders. In 2018, all of our directors at the time attended the meeting either physically or telephonically. Mr. Reinstein was physically present at the Annual Meeting of Stockholders, and the other directors joined the meeting telephonically.

Director Nomination Process

Director Qualifications. The Nominating and Corporate Governance Committee considers the appropriate balance of experience, skills and characteristics required of members of the Board. 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. While the Nominating and Corporate Governance Committee 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. However, California law requires that publicly held corporations headquartered in the state include at least one female director on their boards of directors. By the end of 2021, subject corporations with five board members must have at least two female directors, while those with six or more directors must have at least three female directors. The Company is in compliance with such law, and the Nominating and Corporate Governance Committee will continue to monitor the Company's compliance. The Nominating and Corporate Governance Committee and the Board are committed to diversity and consider diversity among other qualifications, experience, attributes or skills in its process of identifying and evaluating candidates to be nominees to the Board. As they do annually, in 2018 the Nominating and Corporate Governance Committee evaluated its procedures for recommending candidates to the Board. The procedure was reviewed by the entire Board and implemented in 2019 with the selection of Ms. Zanotti and Mr. Whitters to join the Board.

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 Vice President, General Counsel & Corporate Secretary at 3240 Bayshore Blvd., Brisbane, California 94005-1021 no later than January 6, 2020:

- 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 considers 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, diversity, independence, expertise, length of service, and other commitments. In addition, the Nominating and Corporate Governance Committee takes into account professional experience, skills and background in considering and evaluating candidates. Although diversity is one factor considered in the nomination process, the Company does not have a formal policy relating to diversity except as required by applicable law. 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, gender, religion, national origin, sexual orientation, disability or any other basis proscribed by law.

Director Nominees at our 2019 Annual Meeting. Our Nominating and Corporate Governance Committee recommended the 2019 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, 2018.

2018 Director Compensation Table

Name	Fees Earned or Paid in Cash ($)[1]	Stock Awards ($)[2]	All Other Compensation ($)[3]	Total ($)
J. Daniel Plants	101,000	99,994	--	200,994
David B. Apfelberg, M.D.	51,000	99,994	--	150,994
Gregory A. Barrett	73,750	99,994	--	173,744
Elisha W. Finney[4]	68,750	99,994	--	168,744
David A. Gollnick[6]	65,300	--	22,500	87,800
Timothy J. O'Shea	61,500	99,994	--	161,494
Clinton H. Severson[4]	64,250	99,994	--	164,244
Joseph E. Whitters[5]	--	--	--	--
Katherine S. Zanotti[5]	--	--	--	--

(1) The amounts reported in this column were earned in connection with serving on our Board and its various committees, and include service as Board or Committee Chairperson, each as described in this proxy statement.

(2) The amounts reported in this column represent the aggregate grant date fair value of shares of Cutera common stock awarded during the fiscal year ended December 31, 2018 to each of the non-employee directors.

(3) The amounts reported in this column represent fees for services provided for other than serving on our Board or its committees.

(4) Will not stand for re-election at the Company's 2019 Annual Meeting of Stockholders, however will serve as a director until June 14, 2019.

(5) Appointed on February 19, 2019.

(6) Ceased serving as a director as of the Company's 2018 Annual Meeting of Stockholders held on June 14, 2018.

Compensation of the Board of Directors for Their Position on the Board and its Committees

Effective October 31, 2017, on the recommendation of the Compensation Committee after consultation with the Compensation Committee's external compensation consultant, Compensia, the Board approved certain revisions to Board compensation. Thereafter, each non-employee director appointed to the Board earned the following compensation:

- $50,000 for service as the Chairperson of the Board;
- $45,000 for service as a Board member;
- Annual equity award of restricted shares with a grant date fair value of $100,000 for service as a Board member vesting over a one year period on the occurrence of the Annual Meeting of Stockholders;
- Initial equity award for new non-employee directors of restricted shares with a grant date fair value of $150,000, one-third of such shares to vest on each of the first three anniversaries of the date the Board appoints, or the stockholders elect, the new outside director;
- $6,000 additionally for service as a Compensation Committee member;
- $7,500 additionally for service as an Audit Committee member;
- $20,000 additionally for service as Chairperson of the Audit Committee;
- $20,000 additionally for service as Chairperson of the Compensation Committee; and
- $9,000 additionally for service as Chairperson of the Nominating and Corporate Governance Committee; and
- $5,000 additionally for service as a Nominating and Corporate Governance Committee member.
- $9,000 additionally for service as Chairperson of the Enterprise Risk Committee; and
- $5,000 additionally for service as an Enterprise Risk Committee member.

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. Until October 31, 2017, each non-employee director appointed to the Board received an initial option to purchase 14,000 shares of Cutera common stock upon his or her appointment. Each of these stock options had an exercise price equal to fair market value of Cutera common stock on the date of grant and a term of seven years, and becomes exercisable as to one-third of the shares subject to the option on each of the first three anniversaries of its date of grant, provided the non-employee director remains a director. In addition, until October 31, 2017, 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, received 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 of Stockholders. These shares vest on the one-year anniversary of the grant date. Effective October 31, 2017, the Board revised various elements of non-employee director compensation to provide for an annual grant to non-employee directors of shares of restricted stock pursuant to the Company's Amended and Restated 2004 Equity Incentive Plan, as amended, with a grant date fair market value of $100,000, and which vest on the next Annual Meeting of Stockholders. The Board also approved a revision to outside directors' initial award in the form of a one-time award of shares of restricted stock with a grant date fair value of $150,000, one-third of such shares to vest on each of the first three anniversaries of the date the Board appoints, or the stockholders elect, the new outside director. The award replaces the initial option to purchase 14,000 shares of Cutera common stock upon his or her appointment.

Code of Ethics

The Board has adopted a Corporate Code of Business Conduct and Ethics (the "Code") for all executive officers and other employees, agents and representatives. The Code is designed to deter wrongdoing and to promote honest, ethical, and socially and environmentally responsible conduct, including the ethical handling of actual or apparent conflicts of interest between personal and professional relationships; full, fair, accurate, timely and understandable disclosure in reports and documents that we file with, or submit to, the SEC and in other public communications made by us; compliance with applicable governmental laws, rules and regulations; the prompt internal reporting of violations of the Code to an appropriate person or persons identified in the Code; and accountability for adherence to the Code. Recently, the Board revised the Code to address certain environmental, social and governance matters that more closely reflect the importance the Board places on such matters. A copy of the revised Code is available on our website at www.cutera.com. Any change to, or waiver from, the code will be disclosed as required by applicable securities laws.

Compensation Committee Interlocks and Insider Participation

Currently, our Compensation Committee consists of David B. Apfelberg, Gregory A. Barrett, and J. Daniel Plants. The Board approved a resolution that, effective with our 2019 Annual General Meeting, the Compensation Committee will consist of the following members: David B. Apfelberg, M.D., Gregory A. Barrett, and Katherine S. Zanotti. No current or expected member of the Compensation Committee, nor any of our Named Executive Officers, has a relationship that would constitute an interlocking relationship with executive officers or directors of another entity.

No current or expected member of our Compensation Committee is or has been an officer or employee of the Company. 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 Vice President, General Counsel & Corporate 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, unless the communication is unduly hostile, threatening, illegal, does not reasonably relate to us or our business, or is inappropriate. The Corporate Secretary has the authority to discard or disregard any inappropriate communications or to take other appropriate actions with respect to any such inappropriate communications. The Board will endeavor to promptly respond to all appropriate communications and encourages all stockholders and interested persons to use the aforementioned email and mailing address to send communications relating to the our business to the Board and its members.

Succession Planning

Succession planning is a top priority for the Board and our management team, with the objective of having a pipeline of leaders for the immediate and long-term future. The Board and management take a proactive approach to achieve this objective. The Board has delegated to the Nominating and Corporate Governance Committee, pursuant to the committee's charter, the responsibility for CEO and senior management succession planning. The committee is tasked with doing so in the context of the challenges and opportunities facing us, of the skills and expertise likely to be required by us in the future and of the benefits of diversity in its widest sense. These processes enable the Board to address both long-term, planned occurrences, such as retirement or change in roles, as well as short-term unexpected events.

Environmental, Sustainability and Corporate Social Responsibility

Corporate responsibility and sustainability are important to Cutera and guide our actions as a company. We have always focused on delivering strong financial results, but we are committed to doing so in a way that respects the communities and environments in which we operate. In 2018, we engaged in a wide dialogue with investors on a variety of matters, including among other things, around their growing interest in environmental, social and governance ("ESG") performance and the impact on financial results. The Board has increased its own involvement in ESG matters by including various such matters in the revised Code of Business Conduct and Ethics.

Stock Ownership Guidelines

To enhance our overall corporate governance practices and director compensation program, our Board adopted revised stock ownership guidelines on July 28, 2017, applicable to our non-employee directors, as well as certain members of our senior management. 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. Our non-employee Directors are required to own the lesser of either (i) 5,200 shares of the Company's common stock, or (ii) a number of shares of the Company's common stock equal in value to at least three times the director's annual compensation for Board membership (however paid, and exclusive of Committee membership compensation). Each Director has five years from the later of the date of his or her initial election to the Board or the adoption of the revised guidelines (July 28, 2017) to attain the required level of ownership. Once attained, the level of ownership must be maintained.

As of the Record Date, the non-employee directors' holdings and target guidelines were as follows:

Non-Employee Directors	Stock Beneficial Ownership as of April 23, 2019	Minimum Stock Ownership Required[1]
J. Daniel Plants	10,287 [3]	5,200
David B. Apfelberg	10,491	5,200
Gregory A. Barrett	41,991	5,200
Elisha W. Finney[2]	8,048	5,200
Timothy J. O'Shea	38,699	5,200
Clinton H. Severson[4]	14,287	5,200
Joseph E. Whitters[5]	87,446	5,200
Katherine S. Zanotti[5]	9,946	5,200

[1] *Based on the closing stock price of $16.61on April 23, 2019, all non-employee directors already beneficially owned shares that exceed the minimum stock ownership required.*

[2] *In early 2019, Ms. Finney informed the Board that she would not stand for re-election.*

[3] *Mr. Plants is the Managing Partner of Voce Capital Management LLC, the holder of 295,978 shares (approximately 2.1%) 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 the shares represented here.*

[4] *In early 2019, Mr. Severson informed the Board that he would not stand for re-election.*

[5] *Appointed on February 19, 2019.*

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. Among other things, the Agreement provides 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, and 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 fiscal year 2018 (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 Audit Committee has concluded that BDO was independent from the Company and its management. The Audit 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 2018, the Audit Committee held seven meetings. At every regular quarterly 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 quarterly meeting, the Audit 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 meets with the Company's independent internal audit firm.

The Audit Committee met with management and the independent auditors and discussed the fair and complete presentation of the Company's financial statements. The Audit Committee also discussed and reviewed with the independent auditors, all communications required, including those described in Auditing Standards No. 1301, "Communications with Audit Committees," as adopted by the PCAOB. The Audit Committee discussed significant accounting policies applied in the financial statements, as well as alternative treatments. Management represents that the consolidated financial statements have been prepared in accordance with GAAP and the Audit Committee reviewed and discussed the audited consolidated financial statements with both management and the Company's independent auditors.

Relying on the foregoing reviews and discussions, the Audit 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, 2018, for filing with the Securities and Exchange Commission.

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

Elisha W. Finney, Chairperson
Timothy J. O'Shea
Clinton H. Severson

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—ELECTION OF DIRECTORS

Each of our current directors was elected or appointed to serve on the Board for a term ending at the 2019 annual meeting of stockholders and until his or her successor is duly elected and qualified or until such director's earlier death, resignation or removal. Each nominee for election at the Annual Meeting, if elected, will serve for a one-year term ending at the 2020 annual meeting of stockholders and until his or her successor is duly elected and qualified or until such director's earlier death, resignation or removal.

The name of each current member of the Board (each of which is a nominee for election to the Board, except for Elisha W. Finney and Clinton H. Severson) and his or her age as of the Record Date, principal occupation and length of service on the Board are as follows:

Name	Age	Principal Occupation	Director Since
J. Daniel Plants, Chairperson[1][7]	52	Managing Partner, Voce Capital Management LLC	2015
David B. Apfelberg, M.D.[1][9]	77	Retired Clinical Professor of Plastic Surgery, Stanford University Medical Center	1998
Gregory A. Barrett[1][3][4]	65	Retired President and Chief Executive Officer, DFINE, Inc.	2011
Elisha W. Finney[2][4][10]	57	Retired Executive Vice President and Chief Financial Officer, Varian Medical Systems	2017
Timothy J. O'Shea[2][3][12]	66	Retired Managing Director, Oxo Capital	2004
Clinton H. Severson[2][3][4][11]	71	Retired President and Chief Executive Officer, Abaxis, Inc.	2015
Joseph E. Whitters[5][7][8]	61	Retired Executive Vice President and Chief Financial Officer, First Health Group Corp.	2019
Katherine S. Zanotti[5][6][8]	64	Retired Chief Executive Officer, Arbonne International	2019

(1) Member of the Compensation Committee.
(2) Member of the Audit Committee.
(3) Member of Nominating and Corporate Governance Committee.
(4) Member of the Enterprise Risk Committee.
(5) Appointed on February 19, 2019.
(6) Member of the Compensation Committee effective with the 2019 Annual Meeting.
(7) Member of the Audit Committee effective with the 2019 Annual Meeting. Also effective with the 2019 Annual Meeting, Mr. Plants will no longer serve on the Compensation Committee.
(8) Member of the Enterprise Risk Committee effective with the 2019 Annual Meeting.
(9) Member of the Nominating and Corporate Governance Committee effective with the 2019 Annual Meeting.
(10) In early 2019, Ms. Finney informed the Board that she would not stand for re-election. She will continue as a director and in her role with the various committees on which she serves until that time.
(11) In early 2019, Mr. Severson informed the Board that he would not stand for re-election. He will continue as a director and in her role with the various committees on which she serves until that time.
(12) Effective with the 2019 Annual Meeting, Mr. O'Shea is appointed to the Enterprise Risk Committee.

Director Biographies

J. Daniel Plants was appointed Chairperson 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 and also serves on the board of Calix, Inc., a publicly-listed company that provides broadband communications access systems and software. Mr. Plants also served on the board of directors of Destination Maternity Corporation, a maternity apparel retailer, from November 2014 until December 2016. 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.

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 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 A. Barrett has served as a member of our Board since October 2011. Mr. Barrett also serves on the board of Aqua Medical, Inc., BTG plc, and Global Kinetics Corp. Ltd. From September 2013 to October 2016, Mr. Barrett was the President and Chief Executive Officer of DFINE, Inc., a private medical device company that was acquired by Merit Medical. Mr. Barrett was the Chairperson, President and Chief Executive Officer of BÂRRX Medical, Inc., a private medical device manufacturer and distributer of products to treat gastrointestinal diseases that was acquired by Covidien. Prior to joining BÂRRX Medical in February 2004, from January 2001 through August 2003, Mr. Barrett served as President and Chief Executive Officer of ACMI Corporation, a developer of medical visualization and energy systems; Group Vice President at Boston Scientific Corporation; Vice President, Global Sales and Marketing at both Orthofix Corporation (formerly American Medical Electronics) and Baxter Healthcare. Mr. Barrett holds a B.A. in Marketing from the University of Texas, Austin. Mr. Barrett has held various Board positions with Softscope Medical, BaroSense, Monteris Medical, as well as Board positions with the companies in which he was employed. We believe Mr. Barrett's qualifications to serve on our Board include his more than 41 years of diverse experiences in the medical device industry, including time spent serving as president and Chief Executive Officer of several medical device companies.

Elisha W. Finney (not nominated for re-election to the Board) has served on our Board since October 2017. Ms. Finney also serves on the board of Nanostring Technologies, iRobot Corporation, ICU Medical, and Mettler-Toledo International, Inc., and previously served as a director of Altera Corporation, Thoratec, and Laserscope. Ms. Finney spent the previous 29 years with Varian Medical Systems in positions of increasing responsibility, including serving as Executive Vice President and Chief Financial Officer until her retirement in 2017. At Varian, Ms. Finney's management responsibilities included corporate accounting; corporate communications and investor relations; internal audit; risk management; tax and treasury, and corporate information systems. Ms. Finney was named vice president, finance and Chief Financial Officer of Varian Medical Systems in April, 1999, Senior Vice President and Chief Financial Officer in 2005, and Executive Vice President and Chief Financial Officer in 2012. She joined Varian as risk manager in 1988. Prior to joining Varian, Ms. Finney was with the Fox Group in Foster City, California and Beatrice Foods in Chicago, Illinois. She holds a BA degree in risk management and insurance from the University of Georgia as well as an MBA degree from Golden Gate University in San Francisco.

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.

Clinton H. Severson (not nominated for re-election to the Board) has served as a member of our Board since January 2015. He served as the Chairperson, Chief Executive Officer and President of Abaxis, Inc., a manufacturer of portable blood analysis systems, until its acquisition by Zoetis in July 2018 for approximately $2.0 billion. 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.

Joseph E. Whitters has served as a member of our Board since February 2019. He has been an advisor/consultant to Frazier Healthcare, a private equity firm, since 2005. From 1986 to 2005, Mr. Whitters served in various capacities with First Health Group Corp., a publicly traded managed care company, most recently as an Executive Vice President. He also previously served as the Controller for United Healthcare Corp. from 1984 to 1986. Prior to that, Mr. Whitters served as the Manager of Accounting and Taxation for Overland Express, a publicly traded trucking company, and he began his career in public accounting with Peat Marwick (now KPMG). Mr. Whitters currently serves as a member of the board of directors of publicly-traded companies Accuray, Inc., InfuSystem Holdings, Inc., and PRGX Global, Inc., where he serves as Chairman. Previously, Mr. Whitters served on the boards of directors and audit committees of various public companies, including Analogic Corporation, Air Methods Corporation and Omnicell Technologies. Mr. Whitters has also been an advisor or board member of several private companies. Mr. Whitters holds a B.A. in Accounting from Luther College. We believe Mr. Whitters' business leadership skills and experience in building and running global financial organizations at listed companies will bring valuable expertise and perspective to the Board.

Katherine S. Zanotti has served as a member of our Board since February 2019. She previously served as chief executive officer of Arbonne International from August 2009 until June 2018. Ms. Zanotti has also served as Chairman of Natural Products Group (the holding company of Arbonne, Natures Gate, and Levlad) since March 2010. From July 2002 to March 2006, she served as senior vice president of marketing at McDonald's Corporation. Ms. Zanotti is a retired vice president of the Procter & Gamble Company and most recently served as vice president and general manager of the North American pharmaceutical business and the corporate women's health platform. Ms. Zanotti currently serves on the Board of Exact Sciences, as a member of the Board of Trustees of Xavier University. She previously served as a director of Hill-Rom Holdings, Inc., a worldwide manufacturer and provider of medical technologies and related services; Mentor Corporation, a medical device company; Alberto Culver Company, a personal care products company; and Third Wave Technologies, Inc., a molecular diagnostics company. She earned a bachelor's degree in economics and studio fine arts from Georgetown University and an MBA in marketing and finance from Xavier University. We believe Ms. Zanotti's qualifications to serve on our Board include her years of diverse experiences, including experience in the aesthetics industry, and her experience serving as president and Chief Executive Officer of Arbonne International.

For terms beginning with our 2019 Annual Meeting of Stockholders, the Board nominated David B. Apfelberg, Gregory A. Barrett, Timothy J. O'Shea, J. Daniel Plants, Joseph E. Whitters, and Katherine S. Zanotti for re-election as directors. The nominees were recommended to the Board by the Nominating and Corporate Governance Committee. The Nominating and Corporate Governance Committee recommended to the Board that all directors other than our Chief Executive Officer, if he or she is appointed as a director, be independent as defined by NASDAQ listing rules.

Ms. Finney notified the Board that she would not be standing for re-election at our 2019 Annual Meeting of Stockholders because of her numerous other Board commitments. Ms. Finney's decision is not based on any disagreement with the Company, nor any matter relating to the Company's operations, policies or practices.

Mr. Severson notified the Board that he would not be standing for re-election at our 2019 Annual Meeting of Stockholders for personal reasons. Mr. Severson's decision is not based on any disagreement with the Company, nor any matter relating to the Company's operations, policies or practices.

Following the 2019 Annual Meeting of Stockholders, the number of directors constituting the Board will be reduced from eight to six.

Board of Directors' Recommendation

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

PROPOSAL TWO—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, 2019. BDO audited the Company's consolidated financial statements for the fiscal years 2015 through 2018.

The Board is asking the stockholders to ratify the selection of BDO as the Company's Independent Registered Public Accounting Firm for 2019. 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 FISCAL YEAR 2019.

Principal Accountant Fees and 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 2018 and 2017 were as follows:

Service Category	2018 ($)	2017 ($)
BDO USA LLP:		
Audit Fees[1]	$ 709,225	$ 970,371
Audit-Related Fees	$ --	$ --
Tax Fees	$ --	$ --
Non-Audit Fees[2]	$ --	$ 27,000
Total BDO USA LLP	$ 709,225	$ 997,371

(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 2018 and 2017 fiscal years as included in the annual report on Form 10-K; and the review of financial statements for interim periods included in the quarterly reports on Form 10-Q within those years.

(2) This category consists of fees for services rendered related to Internal Revenue Code, Sections 382 and 383 compliance to support the audit and financial statement disclosure.

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

General

As required pursuant to Section 14A of the Exchange Act, the Board is asking you to approve, on an advisory and non-binding basis, the executive compensation programs and policies and the resulting 2018 compensation of our Named Executive Officers listed in the 2018 Summary Compensation Table on page 51 (our "Named Executive Officers") 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 Named Executive Officers' compensation as a whole. This vote is not intended to address any specific item of compensation or any specific Named Executive Officer, but rather the overall compensation of all of our Named Executive Officers and the philosophy, policies and practices described in this proxy statement. 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 Named Executive Officers as disclosed in this proxy statement, they will consider our stockholders' concerns and the Compensation Committee will evaluate whether any actions are necessary to address those concerns.

We recommend that you 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 Named Executive Officers 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 executive compensation program aims to recruit and retain key executive officers responsible for our success and to help motivate these officers to enhance long-term stockholder value. To achieve these ends, the Compensation Committee's executive compensation decisions are based on the following principal objectives:

- Supporting our key financial and strategic goals and relate to our corporate performance;
- Aligning the interests of our executive officers with the interests of our stockholders;
- Providing a total compensation package that is competitive and enables us to attract, motivate, reward and retain talented executive officers and employees;
- Based, in large part, on PFP principles, such that changes in our revenue, operating results, product launches, and stock price, all significantly affect the compensation of our Named Executive Officers; and
- Balancing the components of compensation so that both short-term (annual) and long-term performance objectives are recognized.

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 competitive relative to the companies in our compensation Peer Group, in addition to 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
✓ ***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 ordinarily 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. *We provide our sales executives with a car allowance given their extended use of a vehicle other than simply commuting to and from the office in Brisbane.
✓ ***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 on the achievement of key strategic Company goals.
✓ ***Stock Ownership Guidelines:*** Our Named Executive Officers 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 Chief Executive Officer and 1x for other Named Executive Officers and members of senior management) or Board service 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.	

Fiscal Year 2018 Compensation Overview

When designing our fiscal year 2018 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 July 9, 2018, R. Jason Richey joined our Company full time as Chief Operating Officer. At that time, Mr. Richey was designated as an executive officer of the Company by the Board. Also at that time, the Board determined that Mr. Laber was no longer an "executive officer" based on the fact that he no longer performed a policy making function for the Company under the revised reporting structure. Included in our Compensation Discussion and Analysis below is a discussion relating to our named executive officers for 2018: Chief Executive Officer, Mr. Reinstein (resigned January 4, 2019); Chief Financial Officer, Ms. Gardiner; and Chief Operating Officer, R. Jason Richey (effective July 9, 2018). Mr. Richey was appointed Interim President and Chief Executive Officer on January 4, 2019. The Compensation Committee's overall objective is to compensate our Named Executive Officers in a manner that attracts and retains the caliber of individuals needed to manage and staff a demanding 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 "Named Executive Officers and Executive Compensation" below beginning on page 36.

Summary of the Key Features of our 2018 Executive Compensation Program.

- Our Named Executive Officers are compensated with a base salary (cash), incentive cash bonuses, equity awards, non-equity incentives, and other customary employee benefits.

- The compensation of our Named Executive Officers is reviewed annually (or more frequently as circumstances may dictate) by the Compensation Committee, and adjustments are made to reflect performance-based factors and competitive conditions.

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

- Our Compensation Committee engages an outside compensation consultant to review our executive compensation programs on an "as needed" basis, in comparison to a peer group of companies (the "Peer Group"), and recommend modifications at reasonable intervals when warranted.

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

- We have stock ownership guidelines equal to a multiple of their respective annual base salaries (3x for our Chief Executive Officer and 1x for other Named Executive Officers).

We believe that the information provided above and within the Executive Compensation section of this proxy statement demonstrates that our executive compensation program has been designed appropriately and is working to ensure our Named Executive Officers' interests are aligned with our stockholders' interests to support long-term value creation. Accordingly, we ask our stockholders to vote "FOR" the following resolution at the Annual Meeting:

> *"RESOLVED, that the 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, so-called "Say When on Pay," conducted at our 2017 Annual Meeting of Stockholders, the Board has adopted a policy providing for annual advisory votes on the compensation of the Named Executive Officers.

Board of Directors' Recommendation

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

PROPOSAL FOUR-APPROVAL OF OUR 2019 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 "Current Plan") as the Cutera, Inc. 2019 Equity Incentive Plan (the "Amended and Restated Plan"). Our Board has approved the Amended and Restated Plan, subject to approval from stockholders at the 2019 Annual Meeting. We are asking our stockholders to approve the Amended and Restated Plan 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 Current Plan will remain outstanding and shall continue to be subject to the current terms of the Current 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 Current 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 Current Plan:

(i) Increase the number of shares available for future grant by 1,400,000;
(ii) Extend the term of the Current Plan to the date of the Annual Meeting of the Company's stockholders in 2029;
(iii) Amend the Current Plan to eliminate the requirement for awards granted on or after June 14, 2019 that any shares subject to awards with an exercise price less than fair market value on the date of such grant will be counted against the Plan as 2.12 shares for each full value share awarded as set forth in Section 3(b) of the Current Plan;
(iii) Amend the Current Plan to remove the requirement that any shares subject to awards with an exercise price less than fair market value on the date of such grant will be counted against the Plan as 2.12 shares for each full value share awarded as set forth in Section 3(b) of the Current Plan;
(iv) Amend Section 11 of the Current Plan related to non-employee director initial and annual awards;
(v) Amend the Current Plan to remove certain provisions relating to the "performance based compensation" exception under Section 162(m) of the Code; and
(vi) Obtain stockholder approval for other editorial and administrative amendments to the Current Plan (collectively, the "Amendments").

Approval of the additional shares to be added to our Current 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 Amended and Restated Plan is in the best interests of the Company because of the continuing need to provide stock options, restricted stock, 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 Amended and Restated Plan will provide our eligible employees with an opportunity to acquire or increase their ownership stake in the Company, 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 incentives to our employees, we believe we would be at a disadvantage against other companies – both competitors in our commercial market, and those companies with whom we compete for talent -- 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 selected key employees that includes certain new hires, members of the management team, senior executive team members, non-employee directors, and other key contributors. Our practice has evolved following discussions with our compensation consultant to primarily grant only restricted stock awards ("RSAs"), restricted stock units ("RSUs") and performance stock units ("PSUs"). While the Amended and Restated Plan still provides the ability to issue stock options, SARs, and other awards, the Board currently intends, absent extraordinary circumstances, to limit its grant practices to the award of full-value shares such as RSAs, RSUs and 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 Plan, then the term, conditions and current share limits of the Current Plan will continue in effect, and we will continue to make awards under the Current 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.

Design of our Amended and Restated Plan and Grant Practices

Our Amended and Restated 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 Amended and Restated 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 Amended and Restated 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 Amended and Restated Plan.
- ✓ *Exchange or repricing programs* are not allowed without stockholder approval. The Amended and Restated 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.* Any 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.
- ✓ *No "liberal" share recycling features* - The Amended and Restated Plan deducts the shares available for issuance under the Amended and Restated 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 Amended and Restated 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 Amended and Restated Plan does not provide for any tax gross-ups.

Historical Equity Awards Data as of the Record Date (April 23, 2019)

As of April 23, 2019, we had 454,488 outstanding stock options with a weighted average exercise price of $21.03 per share and a weighted average remaining contractual term of 3.56 years. We also had 856,681 outstanding RSUs and PSUs with a weighted average remaining contractual term of 1.40 years.

There were 1,596,603 shares available for grant in our Current Plan as of April 23, 2019 (including the 1,400,000 shares that we are requesting stockholders to approve at the 2019 Annual Meeting).

Burn Rate and Overhang

The following table summarizes the Company's gross burn rate over the prior three fiscal years (2016-2018):

Fiscal Year	Option Grants	RSU Grants	PSUs Earned [1]	WASO[2]	Burn Rate[3]
2016	162,000	275,215	95,775	13,224,714	4.03%
2017	278,250	294,790	48,709	13,873,110	4.48%
2018	21,010	213,916	23,053	13,771,181	1.87%

(1) The Company granted 204,976 PSUs in 2016, 117,418 PSUs in 2017 and 51,208 PSUs in 2018.
(2) WASO means the weighted average common shares outstanding for each fiscal year.
(3) Burn Rate is calculated by dividing:
a. 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
b. The weighted-average number of shares outstanding for each fiscal year during the period.

The Company's burn rate for fiscal year 2018 was 1.87%, and for the three-year period from 2016 to 2018, was 3.46%.

Post-Increase Total Overhang as of Record Date (April 23, 2019)

The following table summarizes, as of April 23, 2019, the Company's issued and total equity overhang.

	Issued Overhang [1]	Total Overhang [2]
Cutera (no additional share authorization)	9.34 %	4.64 %
Cutera (with additional share authorization)	9.34 %	20.72 %

(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:
(a) 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;
(b) 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 1,400,000 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 will enable stockholders to continue to provide input on share increases in equity plans on a reasonable interval.

Our directors and Named Executive Officers have an interest in this proposal as they are eligible to receive equity awards under the Plan.

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

If the Company's stockholders do not approve the Amended and Restated Plan, then the term, conditions and current share limits of the Current Plan will continue in effect, and we will continue to make awards under the Current 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 A.

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 Amended and Restated Plan include employees, directors and consultants who provide services to us or our subsidiaries. As of April 23, 2019, we had approximately 401 employees, 26 consultants, and 8 outside directors who were eligible to participate in this Amended and Restated Plan. As stated, the Amended and Restated Plan allows us to grant Awards to contractors and consultants, and in certain circumstances, we have granted Awards to individual consultants of the Company performing a critical function.

Number of Shares of Common Stock Available Under the Amended and Restated Plan. The Company's Board of Directors approved on April 16, 2019 to add an incremental 1,400,000 shares to the Plan subject to stockholder approval at the 2019 Annual Meeting on June 14, 2019. As of April 23, 2019, a total of 9,701,192 shares were authorized for issuance under the Current Plan, of which 196,603 shares remained available for future awards. Upon stockholder approval of the Amended and Restated Plan at the 2019 Annual Meeting on June 14, 2019, a total of 11,101,192 shares is authorized for issuance under the Amended and Restated Plan, of which 1,596,603 shares remain available for future awards. The shares may be authorized, but unissued or reacquired common stock.

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 Amended and Restated 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 Amended and Restated Plan. Shares that have actually been issued under the Amended and Restated Plan under any Award will not be returned to the Amended and Restated Plan and will not become available for future distribution under the Amended and Restated 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 Amended and Restated 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 Amended and Restated 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 Amended and Restated 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 Amended and Restated 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 Amended and Restated 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 Amended and Restated 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* ").

Subject to the terms of the Amended and Restated 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 Amended and Restated Plan), to interpret the provisions of the Amended and Restated 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 Amended and Restated Plan provides for an automatic grant to each outside director on the date the person first becomes an outside director of shares of restricted stock represented by the quotient of $150,000 divided by the closing market price of Cutera common stock on the date the person first becomes an outside director (the "*Initial Award*"). Each Initial Award will vest and become exercisable as to one-third of the shares of restricted stock on each of the first three annual anniversaries 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 of restricted stock represented by the quotient of $100,000 divided by the closing market price of Cutera common stock on the date of such Annual Meeting. These shares of restricted stock 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 Amended and Restated Plan. The Administrator determines the number of shares subject to each option, although the Amended and Restated Plan provides that a participant may not receive options for more than 1,000,000 shares in any fiscal year, except in connection with his or her initial employment with us, in which case he or she may be granted an option covering up to an additional 1,000,000 shares.

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

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

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

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

Restricted Stock Units. Awards of restricted stock units result in a payment to a participant only if the vesting criteria the Administrator establishes is satisfied. For example, the Administrator may set vesting criteria based on the achievement of specific performance goals. The restricted stock units vest at a rate determined by the Administrator; provided, however, that after the grant of restricted stock units, the Administrator, in its sole discretion, may reduce or waive any restrictions for such restricted stock units. Upon satisfying the applicable vesting criteria, the participant will be entitled to the payout specified in the Award agreement. The Administrator, in its sole discretion, may pay earned restricted stock units in cash, shares, or a combination thereof. Restricted stock units that are fully paid in cash will not reduce the number of shares available for grant under the Amended and Restated 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 Amended and Restated Plan, will have complete discretion to determine the terms and conditions of SARs granted under the Amended and Restated 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 Amended and Restated Plan may be made subject to the attainment of performance goals relating to one or more business criteria and may provide for a targeted level or levels of achievement including, but not limited to: (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 Amended and Restated 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 Amended and Restated Plan.

Transferability of Awards. Awards granted under the Amended and Restated 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 Amended and Restated Plan. The Amended and Restated Plan will become effective upon its adoption by the Board, subject to approval by our stockholders at the 2019 Annual Meeting of Stockholders. It will continue in effect until the date of the Annual Meeting in 2029, unless our Board terminates it earlier.

Amendment and Termination of the Amended and Restated Plan. The Administrator has the authority to amend, alter, suspend or terminate the Amended and Restated 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 Amended and Restated 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 Amended and Restated Plan. Tax consequences for any particular individual may be different.

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

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

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

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

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

Section 409A. Section 409A addresses non-qualified deferred compensation arrangements. Awards granted under our Amended and Restated 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 Amended and Restated 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 Amended and Restated Plan in an amount equal to the ordinary income realized by a participant and at the time the participant recognizes such income (for example, the exercise of a nonstatutory stock option). Special rules limit the deductibility of compensation paid to our Chief Executive Officer, Chief Financial Officer and to each of our three most highly compensated executive officers for the taxable year. 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.Amended and Restated Plan

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 AMENDED AND RESTATED 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 Amended and Restated 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 Current Plan during the fiscal year 2018 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 Current Plan during the fiscal year 2018 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]				
Former President and CEO	--	--	20,836	478,707
Sandra A. Gardiner				
Chief Financial Officer	--	--	10,938	251,301
R. Jason Richey[2]				
Chief Operating Officer & Interim President and CEO	--	--	56,771	2,304,903
All executive officers, as a group	--	--	88,545	3,034,910
All directors who are not executive officers, as a group	--	--	13,392	599,962
All employees who are not executive officers, as a group	21,010	51.80	163,187	5,800,427

(1) Mr. Reinstein was appointed as President and Chief Executive Officer on January 9, 2017 and resigned on January 4, 2019.

(2) Mr. Richey joined the Company on July 9, 2018 as Chief Operating Officer and was appointed as Interim President and Chief Executive Officer upon Mr. Reinstein's resignation on January 4, 2019.

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

NAMED EXECUTIVE OFFICERS AND EXECUTIVE COMPENSATION

Set forth below is certain information as of the Record Date, concerning our Named Executive Officers.

Name	Age	Position(s)
James A. Reinstein[(1)]	54	Former President, Chief Executive Officer and Director
Sandra A. Gardiner	53	Executive Vice President and Chief Financial Officer
R. Jason Richey[(2)]	45	Chief Operating Officer and Interim President and Chief Executive Officer

(1) Resigned effective January 4, 2019.

(2) Joined the Company as Chief Operating Officer on July 9, 2018. Appointed as Interim President and Chief Executive Officer upon Mr. Reinstein's resignation effective January 4, 2019.

James A Reinstein served as our President and Chief Executive Officer and a member of our Board from January 9, 2017 until his resignation on January 4, 2019. Prior to joining Cutera, Mr. Reinstein served as the Chief Executive Officer of Drawbridge Health Inc., a joint venture of GE Ventures and GE Healthcare. Prior to Drawbridge, Mr. Reinstein was the Chief Executive Officer of Aptus Endosystems from 2012 until its acquisition by Medtronic in 2015. From 2007 to 2012, Mr. Reinstein was the Executive Vice President 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.

R. Jason Richey has served as our Chief Operating Officer since July 9, 2018. Mr. Richey has also served as the Company's Interim President and Chief Executive Officer since Mr. Reinstein's resignation on January 4, 2019. Immediately prior to joining Cutera, Mr. Richey served as the President of North America, for LivaNova, PLC, a $5 billion global medical device manufacturer headquartered in London, England with presence in more than 110 countries worldwide. Mr. Richey joined LivaNova via the merger of Cyberonics Inc. and Sorin SpA. During his 17 year tenure with LivaNova/Cyberonics he served the company in multiple positions of increasing responsibility to include: Vice President of Global Sales, Marketing, Market Access, and Government Affairs, President & General Manager of the Neuromodulation Franchise, and Regional President, North America. At Cyberonics, among other roles, Mr. Richey served as the Vice President and General Manager of the Company's International business. He began his medical device career at B Braun Medical in sales and sales management. Mr. Richey holds a BA degree in Biology from Indiana University.

Sandra A. Gardiner has served as our Chief Financial Officer since December 1, 2017. Before assuming the position as Chief Financial Officer, Ms. Gardiner performed the duties of the Chief Financial Officer on an interim consulting basis since July 2017. Prior to joining Cutera, Ms. Gardiner served as Vice President, Finance and Chief Financial Officer with Tria Beauty, Inc., a medical device manufacturer of laser based aesthetic devices. Prior to that, in a career that spans over 27 years, Ms. Gardiner held roles as Chief Financial Officer of Vermillion and Lipid Sciences, as well as three privately held companies: Asante Solutions, Aptus Endosystems, and Ventus Medical. Ms. Gardiner holds a Bachelor of Arts degree in Management Economics from the University of California, Davis and began her career with Advanced Cardiovascular Systems.

COMPENSATION DISCUSSION AND ANALYSIS

This Compensation Discussion and Analysis explains our executive compensation philosophy and programs, the decisions the Compensation Committee of our Board made under those programs during fiscal year 2018 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 Named Executive Officers for 2018:

- *James A. Reinstein,* Former President and Chief Executive Officer(1)
- *R. Jason Richey,* Chief Operating Officer and Interim President and Chief Executive Officer
- *Sandra A. Gardiner,* Executive Vice President and Chief Financial Officer

(1) Mr. Reinstein resigned from all positions with the Company effective January 4, 2019, however served as Chief Executive Officer throughout 2018.

Compensation Philosophy and Objectives

For our Compensation Committee's compensation philosophy and objectives relating to the compensation of our Named Executive Officer, please refer to Proposal Three above.

Financial Highlights for 2018

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 and other disposable products, 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 2018 was a year of continued investment in our business, which resulted in record annual revenue of $162.7 million. Highlights of key achievements are as follows:

- *We launched two new products in early 2018*, which accounted for approximately 16% of our total annual revenue. The *Secret RF* microneedling product is cleared for dermatologic use with treatments that can be tailored to address a patient's individual concerns such as fine lines, wrinkles, acne scars, photoaging and striae. *Secret RF* is distributed in North America and select European markets. The *Juliet* is a versatile multi-application platform utilizing an Er:YAG laser with the 2940 nm wavelength approved for coagulation, vaporization, ablation or cutting of soft tissue for use in dermatology and gynecology. Each product includes a disposable component that contributes to ongoing revenue.
- *Our research and development team* delivered a new "hands free" version of the *truSculpt*® system with six 40 cm2 RF applicators. In hands-free mode, the system is capable of treating patients quicker and more efficiently than existing body contouring technologies. The R&D team has also spent a considerable effort enhancing product performance and reliability.
- *Continued increased investments in sales and marketing* over the previous few years in recruiting and building an industry best commercial leadership team, expanding the number of our direct sales professionals, and enhancing our sales, field service, and marketing efforts, all designed to drive revenue growth and profitability. In 2018, we established and began staffing our Practice Development Management sales commercial team. This group is primarily engaged in driving consumable revenue, while our traditional sales force continues to focus on the sale of our light and energy-based platforms, typically referred to as capital equipment. Revenue from the sale of our consumable products increased by 71%.
- *Regulatory approvals:* In 2018, our regulatory team achieved an expanded FDA clearance for the *truSculpt* platform to add non-invasive lipolysis (breakdown of fat) of the abdomen and to remove the word "temporary" from the indication for reduction in circumference of the abdomen. We also expanded the indication for the *enlighten* system to include treatment of acne scars in the United States. In Europe and Canada, we received CE Mark and Medical Device Licenses for *truSculpt iD, 3D*, and the *enlighten MLA* systems. We continued to increase our portfolio in Japan with approval of *xeo SA, Titan XL*, and *enlighten SR*. We also achieved regulatory approval for *enlighten SR* in South Korea and *truSculpt ID* in United Arab Emirates and Thailand.

- *Revenue* increased 7% for the full year to a record $162.7 million, including 6% growth in North American systems revenue and 3% growth in International systems revenue.
- *Cash position remains* strong, with cash and investments of $35.6 million -- with no debt, and with working capital of approximately $40 million.

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 2018:

- *Independent directors* oversee each of our Board's committees. As discussed in greater detail above, we have the following four standing committees:
  - *Nominating and Corporate Governance Committee* that reviews and makes recommendations on matters concerning corporate governance, Board composition, identification, evaluation and nomination of director candidates;
  - *Audit Committee* that oversees our accounting and financial reporting processes and the audits of our financial statements;
  - *Compensation Committee* that establishes executive compensation and administers our equity plans; and
  - *Enterprise Risk Committee* that oversees the Company's management of key risks and the guidelines, policies and processes for monitoring and mitigating such risks.
- *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 our 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 a significant portion of the cash compensation of our executive officers to corporate 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 ordinarily 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. * We provide our sales executives with a car allowance given their extended use of a vehicle other than simply commuting to and from the office in Brisbane.
✓ ***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 on 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 Chief Executive Officer and 1x for other Named Executive Officers) or Board retainers (3x cash retainer for board service for directors).	☒ ***No multi-year employment contracts:*** We do not provide 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.	

Compensation Committee's Roles and Responsibilities

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

The Compensation Committee establishes compensation for our Named Executive Officers to ensure consistency with market compensation rates for similar positions, our compensation philosophy and corporate governance guidelines. In determining total compensation for our Named Executive Officers, the Compensation Committee aligns management incentives with long-term value creation for the Company's stockholders.

Compensation Committee Members

The members of the Compensation Committee are appointed by our Board. The chairperson of the committee is Gregory A. Barrett and the other members are David B. Apfelberg, M.D. and J. Daniel Plants. Each member of the Compensation Committee is 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 Named Executive Officers 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 and recommending to the Board the following for our Named Executive Officers and such other executive officers as appropriate:

  (a) annual base salary;

  (b) annual incentive bonus, which may include the setting of specific goals and target amounts;

  (c) equity compensation;

  (d) agreements for employment, severance and change-of-control payments and benefits; and

  (e) any other benefits, compensation or arrangements, other than benefits generally available to our employees.

(ii) Reviewing and making recommendations to our Board, at such intervals as may be decided by the Compensation Committee from time to time, regarding:

  (a) general compensation goals and guidelines for our employees and the criteria by which bonuses and stock compensation awards to our employees are determined; and

  (b) other policies and plans for the provision of compensation to our employees, directors, and consultants.

(iii) Acting as Administrator of our 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; and

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

Advisory Vote on Executive Compensation

We conducted an advisory vote on executive compensation at our 2018 annual meeting of stockholders. While this vote was not binding on the Company, our Board of Directors or our Compensation Committee, we believe that it is important for our stockholders to have an opportunity to vote on this proposal on an annual basis as a means to express their views regarding our executive compensation philosophy, our compensation policies and programs, and our decisions regarding executive compensation, all as disclosed in our proxy statement.

At the 2018 annual meeting of stockholders, our stockholders approved the proposal for the non-binding advisory vote on named executive officer compensation. The Board of Directors and the Compensation Committee reviewed these final vote results and determined that no changes to our executive compensation policies and decisions were necessary at this time based on the vote results.

Compensation Consultant

The Compensation Committee engages a compensation consultant periodically based on the need for additional guidance resulting from changes in our Named Executive Officers' roles and responsibilities, our corporate profile relative to our peers (*e.g.*, type of business, market capitalization, annual revenue, profitability, etc.), Named Executive Officer turnover, and other factors as determined by our Compensation Committee. Beginning in 2011, the Compensation Committee engaged Compensia, an independent compensation consultant, periodically to advise it on various compensation matters related to our Named Executive Officers, the Board, and other members of senior management compensation matters.

In 2017 and 2018, in connection with the Company's development of recommended pay levels and structures for our Named Executive Officers, the Compensation Committee instructed Compensia to perform the following activities:

- Evaluate and develop groups of public companies that would be suitable to use as Peer Groups;
- Gather competitive market data with respect to the compensation of both directors and executive officers of the Peer Groups and at comparably sized/valued companies in the broader technology and life science markets;
- Assess elements of our Named Executive Officers' compensation including base salary, target bonus, target total cash compensation and annual equity grant values relative to the practices at the Peer Groups and in the broader market; and
- Review and provide input to the Compensation Committee on the Company's recommended adjustments for cash-based and equity-based compensation for our directors and Named Executive Officers, including pay levels and pay structures (such as short- and long-term variable compensation components).

Role of our Executives in Setting Compensation

In developing the compensation of the Named Executive Officers, the Compensation Committee meets with members of our management team, including our Chief Executive Officer, Chief Financial Officer, and other management employees as required. The purpose of these meetings is primarily to gather financial data, obtain their input on proposed compensation programs, establish mechanisms for implementing and monitoring incentive and performance targets, and gather other information on practices and packages for our Named Executive Officers, other employees, and directors.

Management may make recommendations to the Compensation Committee on some or 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 and recommendations to the Board with respect to the compensation of our Named Executive Officers and does not delegate any of its compensation functions to others. The Compensation Committee determines the compensation of our Chief Executive Officer that should be recommended to the Board, without any recommendation from management.

Competitive Positioning

In developing, reviewing, and approving the annual compensation for our Named Executive Officers, 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. After consulting with Compensia, the Compensation Committee approved the following set of selection criteria for determining the companies to comprise the compensation Peer Group:

(i) U.S.-based companies with a primary focus on health care equipment and supplies;

(ii) Annual revenue generally between 0.5 times to 2.0 times of Cutera; and

(iii) Market capitalization generally between 0.5 times to 2.5 times of Cutera.

In October 2017, in connection with the development of additional compensation assessments that the Compensation Committee requested related to (a) director compensation, (b) our Chief Executive Officer's total equity compensation allocation in 2017, and (c) our 2018 Named Executive Officer compensation levels, the Compensation Committee, after consulting with Compensia, updated the Peer Group based on the selection criteria referenced above to include the following companies:

Accuray	Endologix	NanoString Technologies
AtriCure	Entellius Medical	Sientra
Atrion Corporation	Exactech	SurModics
Cardiovascular Systems	Glaukos	Syneron Medical
CryoLife	Intersect ENT	Vascular Solutions
Cynosure	iRhythm Technologies	Zeltiq Aesthetics
Derma Sciences	LeMaitre Vascular	

Executive Compensation Actions

Effective July 9, 2018, R. Jason Richey became the Company's Chief Operating Officer. Effective January 4, 2019, Mr. Richey assumed additional duties as the Company's Interim President and Chief Executive Officer when our then President and Chief Executive Officer, James A. Reinstein, resigned. Included in our Compensation Discussion and Analysis ("CD&A") below is a discussion relating to our Chief Executive Officer in 2018, Mr. Reinstein, our Chief Financial Officer, Sandra A. Gardiner, as well as Mr. Richey during fiscal year 2018.

In 2018, our Compensation Committee, after consultation with the Committee's compensation consultant, re-evaluated the compensation of some of our Named Executive Officers and recommended the following modifications to their compensation arrangements, which our Board approved:

1) **Cash Compensation**

   a) Effective January 1, 2018, as Chief Executive Officer, *Mr. Reinstein's* annual base salary was set at $575,000 and he was not entitled to receive any board compensation during the period of his employment. Mr. Reinstein was also eligible to participate in the Company's 2018 Management Bonus Program and his target bonus percentage was equal to 100% of his base salary.

   b) Effective January 1, 2018, as Chief Financial Officer, *Ms. Gardiner's* annual base salary was set at $350,000. Ms. Gardiner was also eligible to participate in the Company's 2018 Management Bonus Program and her target bonus percentage was equal to 50% of her base salary.

   c) At *Mr. Richey's* appointment to the role of Chief Operating Officer effective July 9, 2018, his annual base salary was set at $505,000. Mr. Richey was also eligible to participate in the Company's 2018 Management Bonus Program on a pro-rated basis and his target bonus percentage was equal to 75% of his base salary. No revisions were made to Mr. Richey's compensation upon his assumption of the duties as the Company's Interim President and Chief Executive Officer.

2) **Equity Grants.** Equity grants to our Named Executive Officers by our Board in fiscal year 2018, based on the recommendations of the Compensation Committee, were as follows:

   a) *Mr. Reinstein* was granted equity awards with a grant date fair value of $957,414 in fiscal year 2018, compared to $5,422,937 in fiscal year 2017. The fiscal year 2018 awards were an annual equity award comprised equally of restricted stock units and performance stock units. The grant date fair value of equity awarded to Mr. Reinstein in 2018 represented 17.6% of his fiscal year 2017 grant value.

   b) *Ms. Gardiner* was granted equity awards with a grant date fair value of $502,601 in fiscal year 2018, compared to $694,533 in fiscal year 2017. The fiscal year 2018 awards included an annual equity award comprised equally of restricted stock units and performance stock units. The grant date fair value of equity awarded to Ms. Gardiner in 2018 represented 72.4% of her fiscal year 2017 grant value.

   c) Upon *Mr. Richey's* appointment to the role of Chief Operating Officer effective July 9, 2018, he was granted an initial equity award with a grant date fair value of $2,304,903 vesting annually over a four-year period commencing from the date of hire, subject to Mr. Richey continuing to provide service to the Company through such vesting date. Mr. Richey did not receive any additional equity awards in 2018.

3) **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 Named Executive Officers 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. Further, the Compensation Committee also took into consideration the fact that, consistent with our compensation objectives, the equity awards granted increased our Named Executive Officers' 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 Named Executive Officers are compensated with cash, equity and non-equity incentives, and other customary employee benefits.

Cash Compensation

Cash compensation consists of:

- Base salary; and
- Participation in a discretionary Management Bonus Program for non-sales employees ("Management Bonus Program").

Our cash compensation goals for our Named Executive Officers are based upon a myriad of principles, including:

- Total cash compensation should generally be set at or above the 50th percentile of the Peer Group subject to various considerations;
- Base salary should reflect the individual's experience (in both the role he or she is performing, and the aesthetics industry more broadly), performance, and potential;
- A significant portion of cash compensation should be contingent on the achievement of key targets and be "at risk;"
- The amount of bonuses payable to our Named Executive Officers should be based on corporate performance measures established by the Compensation Committee that align the bonus payment with the achievement of specified annual operating goals intended to enhance long-term stockholder value; and

Base Salary and Total Target Cash Compensation

Total target cash compensation for our Named Executive Officers in 2018 included their annual base salary and annual target bonus opportunity (described below).

a) Upon his appointment as Chief Executive Officer effective January 9, 2017, Mr. Reinstein's base salary and target bonus participation rate for his role as Chief Executive Officer was set at $500,000 and 70%, respectively for 2017. For 2018, after consultation with the Board's independent compensation consultant, Mr. Reinstein's base salary and target bonus participation rate for his role as Chief Executive Officer were set at $575,000 and 100%, respectively.
b) Ms. Gardiner joined the Company on a consulting basis while the Company conducted a search for a permanent Chief Financial Officer on July 12, 2017. Ms. Gardiner became the Company's permanent Executive Vice President and Chief Financial Officer effective December 1, 2017. While serving as a consultant from July 12, 2017 until her appointment as the Executive Vice President, Chief Financial Officer on December 1, 2017, Ms. Gardiner was paid at an hourly rate of $410 per hour. Upon her permanent appointment as Chief Financial Officer, Ms. Gardiner's annual base salary was set at $350,000. Ms. Gardiner was also eligible to participate in the Company's 2017 Management Bonus Program effective from December 1, 2017 on a pro rata basis for 2017. Ms. Gardiner's target bonus percentage is equal to 50% of her base salary. Because her employment commenced December 1, 2017, Ms. Gardiner's compensation for 2018 remained the same: annual base salary at $350,000, and target bonus percentage equal to 50% of her base salary.
c) Mr. Richey joined the Company as Chief Operating Officer on July 9, 2018. Mr. Richey's annual base salary was set at $505,000. Mr. Richey was also eligible to participate in the Company's 2018 Management Bonus Program. Mr. Richey's target bonus percentage is equal to 75% of his base salary.

Discretionary Management Bonus Program

In addition to base salary, we provided Mr. Reinstein, Ms. Gardiner, and Mr. Richey a cash bonus under our Management Bonus Program in 2018. Up until 2018, the cash bonuses payable were determined quarterly based on the Company's performance for the then-preceding quarter assessed against annual targets. Payments under the Management Bonus Program were made quarterly and at the discretion of our Compensation Committee. Effective in 2018, because the Management Bonus Program is based on corporate performance measures that align the bonus payment with the achievement of specified *annual* operating goals, the Compensation Committee revised the structure of the Management Bonus Program payments to more appropriately reflect its intent, as well as to more closely align with our peers' practices. Effective in 2019, the Management Bonus Program payment will be made following the end of the fiscal year in which the bonus is earned, rather than on a quarterly basis. During 2018, designated as a "transitional year," a Management Bonus Program payment was made following our second fiscal quarter. The payment was based on the then-preceding half year performance and annualized. The payment reflected only 75% of the half-year calculated payment with the intent that a "true-up" would occur at the completion of the fiscal year.

Target Bonus Opportunities

For 2018, the target cash bonuses were designed to reward our Named Executive Officers based on the Company's overall financial performance and were established after the Compensation Committee consulted with the compensation consultant. As in prior years, the Compensation Committee determined that the target cash bonus for the Named Executive Officers 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 Named Executive Officers' performance, contributions, responsibilities, experience, prior years' target cash bonus and market conditions.

In 2018, the Compensation Committee established the target bonus opportunity for Mr. Reinstein at 100% of his base salary, Mr. Richey at 75% of his base salary, and maintained the target bonus opportunity for Ms. Gardiner at 50% of her base salary.

Corporate Performance Measures

For 2018, based on recommendations from the Compensation Committee, the Board established for 2018 the corporate performance measures for determining the bonuses payable to the Named Executive Officers as follows:

1) 2018 Global revenue against the targeted amount; ..... 35 %
2) *truSculpt* family revenue against the targeted amount; ..... 15 %
3) Annualized Gross Profit against a targeted amount; and ..... 25 %
4) Operating income achievement against a targeted amount. ..... 25 %

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. Gross profit and operating income were measured on a GAAP basis (minus any one-time, non-recurring expenses and benefits) and compared against the Board-approved budgeted amount. Additionally, the Compensation Committee decided that performance related to a specific product (*truSculpt* family of products) would further align executive bonuses with corporate objectives given the breadth of corporate functions required to successfully launch a new or enhanced product.

The Compensation Committee weighted each performance measure as set forth above, such that the given percentage of the bonus was "at risk" based on the level of achievement of the specific performance measure. Performance achievement of each of the specific performance measures was based on a sliding scale with the minimum achievement for any payout set at 90% of the individual performance measure, and the potential for "over-achievement" capped at 200% as set forth in the tables below:

Achievement	Payout	Achievement	Payout	Achievement	Payout
<89%	0%	110%	120%	135%	170%
90%	80%	115%	130%	140%	180%
95%	90%	120%	140%	145%	190%
100%	100%	125%	150%	150%	200%
105%	110%	130%	160%	>150%	Capped

Each fiscal quarter, we evaluated the Company's performance against these performance measures and applied the appropriate scale based on quarterly achievement. Because we paid 2018 bonuses on a semi-annual basis against an annual performance measure, mid-year bonuses were paid as 75% of the estimated basis with a "true up" as to actual at the end of 2018.

For fiscal year 2018, the cash bonus opportunity, and the amount actually earned by Named Executive Officers, was as follows:

Named Executive Officers	Annual Cash Bonus Opportunity ($)[1]	Annual Cash Bonus Paid for 2018 ($)
Mr. Reinstein	575,000	112,125
Ms. Gardiner	175,000	34,125
Mr. Richey	181,484[2]	--

(1) The Annual Cash Bonus Target and the Annual Cash Bonus Paid for each of the quarters in 2018 was based on the corporate performance measures and the target bonus percentage that each was entitled to, per the Management Bonus Program as applicable for each of the quarters.

(2) This amount represents a prorated amount based on Mr. Richey's employment commencing on July 9, 2018.

Long-Term Incentive Program

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

- Stockholder and Named Executive Officer interests should be aligned;
- Key and high-performing employees, who have a demonstrable impact on our performance or stockholder value, should be compensated in this manner;
- 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 the Peer Group awards for the respective position; and
- Actual awards should be tailored to reflect individual performance and attraction/retention objectives.

Equity Incentive Compensation

Under our Amended and Restated 2004 Equity Incentive Plan, we are permitted to grant stock options, stock appreciation rights, restricted stock (RSAs), restricted stock units (RSUs), performance stock awards (PSUs), and other stock or cash-based awards as determined by the Board. Under the Amended and Restated 2004 Equity Incentive Plan, we generally grant RSUs and PSUs to our executive officers, directors and employees. The grant date for RSUs and PSUs to our employees, Named Executive Officers and directors is typically the date that the Board meets and approves the grant or an approval is sought via a unanimous written consent. We typically grant annual equity awards to Named Executive Officers and certain members of management in January of each year, with a vest date of January 1. Our non-employee directors are granted restricted stock annually on the date of our Annual Meeting of Stockholders that vest on the one-year anniversary of the grant date. Aside from our annual equity awards practices, in 2018 the Compensation Committee of the Board implemented a practice whereby equity awards to employees would be awarded once each quarter (the 15th day of March, June, September, and December) with the grant date fair value to be calculated as of the date of the award.

Our Compensation Committee awarded the following equity awards to our Named Executive Officers in fiscal year 2018:

Name	Grant Date	Stock Option Awards: Number of Securities Underlying Options	Number of Restricted Stock unit Awards - Shares	Number of Performance Share Unit Awards Actually Achieved for Target Performance[3]	Base Price of RSU & PSU Awards; Exercise Price of Option Awards ($)	Grant Date Fair Value ($)
Mr. Reinstein.....	2/13/2018	--	10,418 [1]	5,209	45.95	478,707
Ms. Gardiner	2/13/2018	--	5,469 [1]	2,734	45.95	251,301
Mr. Richey.....	8/1/2018	--	56,771 [2]	--	40.60	2,304,903

(1) 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, 2018.

(2) One-fourth of the shares underlying this award vest on the first, second, third and fourth anniversary of the vesting commencement date of July 9, 2018.

(3) These PSU awards reflect the number of shares of stock that actually vested on January 1, 2019, based on the level of achievement (or failure to achieve) each of the performance targets discussed below. These achieved shares, which vested on January 1, 2019, represent 50% of the total awarded shares following assessment against the performance targets..

Performance Stock Unit Awards:

In January 2018, our Board, upon the recommendation of our Compensation Committee, granted Performance Stock Unit ("PSU") awards to our Named Executive Officers and other members of management, and established the performance metrics. The number of PSUs awarded to the Named Executive Officers resulted in a varying number of shares of common stock that vested on January 1, 2019 based on the achievement of the specified, binary performance metrics 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 performance metrics approved by the Board.

Performance Metric	Weighting of Goal
(1) Achieve $15M in combined revenue from newly launched *Juliet* and *Secret RF* products; and.....	50%
(2) Achieve total revenue growth vs. 2017 of at least 20%.....	50%

The following table sets forth the number of shares of common stock that actually vested for our Named Executive Officers on January 1, 2019, based on the achievement of the two performance criteria:

Number of Shares of Common Stock that Vested on January 1, 2019

Name	If Minimum Thresholds are Not Met	At 100% of Target Performance
Mr. Reinstein.....	--	10,418
Ms. Gardiner	--	5,469
Mr. Richey[(1)]	N/A	N/A

(1) Mr. Richey's employment commenced on July 9, 2018. Accordingly, he was not awarded any PSUs in 2018.

Benefits

We provide the following benefits to our Named Executive Officers 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 employee eligible contributions;
- ESPP participation eligibility (see below); 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 Named Executive Officers. We have Change of Control and Severance Agreements with each of our Named Executive Officers. The purpose of these agreements is to provide incentives to our Named Executive Officers to continue their employment with the Company and not be distracted by the possibility of loss of employment as a result of an acquisition of the Company or for other reasons. For a summary of the material terms and conditions of these 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, chief financial officer, and each of the three other most highly-compensated executive officers in any taxable year.

The Tax Cuts and Jobs Act of 2017 was signed into law on December 22, 2017. The new law expands the types of compensation subject to the $1 million limitation under Section 162(m) of the Code to include compensation that was previously deductible as "performance based compensation" and to also now include the chief financial officer as a covered employee. In addition, the new rule expands the definition of a "covered employee" to include any individuals who have previously been a covered employee for any years after December 31, 2016.

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.

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, 2018.

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights ($)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) ($)
Equity compensation plans approved by security holders	563,714	14.68 (1)	1,712,369
Equity compensation plan not approved by security holders	--	--	--
Total	563,714	$ 14.68 (1)	1,712,369

(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 our Board believes 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 (July 28, 2017) or his or her first date of employment, our Chief Executive Officer and our other Named Executive Officers 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 the Record Date, the current Named Executive Officers' holdings and targeted guidelines were as follows:

Named Executive Officer	Stock Ownership as of April 23, 2019	Minimum Stock Ownership Required[1]
Mr. Reinstein[2]	N/A	N/A
Ms. Gardiner	5,092	23,178[4]
Mr. Richey	--	30,403[3]

(1) Based on the closing stock price of $16.61 on April 23, 2019.

(2) Resigned from all roles with the Company on January 4, 2019 and no longer subject to stock ownership guidelines.

(3) Minimum stock ownership required by July 2023.

(4) Minimum stock ownership required by December 2022.

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.

2018 Summary Compensation Table

The following table sets forth summary compensation information for the fiscal years ended December 31, 2018, 2017 and 2016 for our Named Executive Officers.

Name, Principal Position, and Year	Salary ($)	Bonus ($)[1]	Option Awards ($)[2]	Stock Awards ($)[2]	All Other Compensation ($)[3]	Total ($)
James A. Reinstein, *Former President and Chief Executive Officer*						
2016	--	--	--	--	--	--
2017	489,583	350,189	181,737	5,241,200	2,019	6,264,728
2018	575,000	112,125		478,707	3,755	1,169,587
Sandra A. Gardiner, *Executive Vice President & Chief Financial Officer*						
2016	--	--	--	--	--	--
2017	29,167	14,902	258,785	339,242	--	642,095
2018	350,000	34,125		251,301	3,825	639,251
R. Jason Richey, *Chief Operating Officer and Interim President and Chief Executive Officer*						
2016	--	--	--	--	--	--
2017	--	--	--	--	--	--
2018[4]	241,979	--	--	2,304,903	1,042	2,547,924

(1) The amounts reported in this column represent the bonus paid for each of the years covered in the table in accordance with our discretionary Management Bonus Program (see section above describing our discretionary Management Bonus Program) for our Named Executive Officers.

(2) The amounts reported in this column represent the aggregate grant date fair value of equity awards granted during each of the fiscal years 2018, 2017 and 2016 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, 2018 filed with the SEC on March 18, 2019 for a discussion of the valuation assumptions for stock-based compensation.

(3) Amounts reported in this column represent vested 401(k) employer-match contributions.

(4) Mr. Richey joined the company as Chief Operating Officer on July 9, 2018. Amounts reflected, if any, in the Columns titled "Salary ($)" and "Bonus ($)" represent prorated amounts based on the start date of Mr. Richey's employment with the Company.

2018 Grants of Plan-Based Awards Table

The following table lists grants of plan-based RSU and PSU awards made to our Named Executive Officers during the fiscal year ended December 31, 2018.

Name	Grant Date	Estimated Future Payouts Under Non-Equity Incentive Plan Awards			Stock Awards: Number of Shares of Stock or Units	Option Awards: Number of Securities Underlying Options	Base Price of Awards ($)[1]	Grant Date Fair Value of Awards ($)[1]
		Threshold	Target	Maximum				
Mr. Reinstein.	2/13/2018	--	--	--	20,836	--	45.95	957,414
Ms. Gardiner .	2/13/2018	--	--	--	10,938	--	45.95	502,601
Mr. Richey	8/1/2018	--	--	--	56,771	--	40.60	2,304,902

(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, 2018 filed with the SEC on March 18, 2019 for a discussion of the valuation assumptions for our stock-based compensation.

2018 Outstanding Equity Awards at Fiscal Year-End Table

The following table lists the outstanding equity incentive awards held by our Named Executive Officers as of December 31, 2018.

	Option Awards				Stock Awards		
Name	Number of Securities Underlying Unexercised Earned Options Exercisable	Number of Securities Underlying Unexercised Unearned Options Unexercisable	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. Reinstein[9]	14,375	15,625 [1]	17.90	1/9/2024			
					10,418 [2]	478,708	1/1/2019
					9,333 [3][10]	167,061	1/1/2020
					85,000 [4][11]	4,029,000	12/15/2021
					10,418 [5][11]	478,707	1/1/2022
Ms. Gardiner	4,002	12,003 [6]	47.40	12/15/2024			
					5,469 [2]	251,301	1/1/2019
					3,840 [7]	182,016	12/1/2021
					5,469 [5]	251,301	1/1/2022
Mr. Richey.....	--	--	--	--			
					56,771 [8]	2,304,903	7/9/2022

1 *One-fourth of the shares underlying each of these stock options vest on the first anniversary of the vesting commencement date of January 9, 2017 and 1/48th of the remaining shares vest each month thereafter.*

2 *These PSU awards would have vested on January 1, 2019, subject to the achievement of each of the performance targets discussed herein. The actual number of shares that vested on January 1, 2019, represents 50% of the awarded shares based on the achievement (or failure to achieve) the performance targets.*

3 *One-third of the RSU awards underlying this award vest on the first, second and third anniversary of the vesting commencement date of January 1, 2017.*

4 *15%, 15%, 25% and 45% of the shares underlying this award vest on the first, second, third and fourth anniversary of the vesting commencement date of December 15, 2017, respectively.*

5 *One-fourth of the RSU awards underlying this award vest on the first, second, third and fourth anniversary of the vesting commencement date of January 1, 2018.*

6 *One-fourth of the shares underlying each of these stock options vest on the first anniversary of the vesting commencement date December 15, 2017, and 1/48th of the remaining shares vest each month thereafter.*

7 *One-fourth of the RSU awards underlying this award vest on the first, second, third and fourth anniversary of the vesting commencement date of December 1, 2017.*

8 *One-fourth of the RSU awards underlying this award vest on the first, second, third and fourth anniversary of the vesting commencement date of July 9, 2018.*

9 *Resigned effective January 4, 2019.*

10 *Any unvested shares, with the exception of 4,666 shares, were forfeited upon Mr. Reinstein's resignation effective January 4, 2019. 4,666 shares are contingent upon Mr. Reinstein's fulfillment of the terms of a consulting agreement entered into following his resignation.*

11 *Shares forfeited upon Mr. Reinstein's resignation effective January 4, 2019.*

2018 Options Exercised and Stock Vested Table

The following table lists the stock options exercised by, and stock awards vested to, our Named Executive Officers in the fiscal year ended December 31, 2018.

	Option Awards		Stock Awards	
Name	Number of Shares Acquired on Exercise	Value Realized on Exercise ($)	Number of Shares Acquired on Vesting	Value Realized Upon Vesting ($)[1]
Mr. Reinstein	--	--	33,667	1,094,348
Ms. Gardiner	--	--	3,317	59,895
Mr. Richey	--	--	--	--

(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 Named Executive Officers, during 2018.

Nonqualified Deferred Compensation

We did not maintain any nonqualified defined contribution or other deferred compensation plans or arrangements for our executive officers, including our Named Executive Officers, during 2018.

Employment Agreements

Other than Change of Control and Severance Agreements discussed herein, we do not have employment agreements with any of our Named Executive Officers.

Potential Payments Upon Termination or Change in Control

Single Trigger:

In 2017, after consulting with Compensia, the Compensation Committee recommended that we enter into revised Change of Control ("COC") Agreements with each of our Named Executive Officers. These revised agreements provide that if a 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 Named Executive Officer for "good reason" (as defined in the agreement) not in connection with a COC (either prior to three months before or after 12 months following a COC, as defined in the agreement) of the Company (commonly referred to as "single trigger"), the Named Executive Officer will receive, subject to signing a release of claims in favor of the Company, the following severance payment:

Named Executive Officer	Lump Sum Severance Payments
Mr. Reinstein	100% of base salary; 100% of actual bonus paid in the prior fiscal year; and 12 months of COBRA reimbursement
Ms. Gardiner	100% of base salary; 100% of actual bonus paid in the prior fiscal year; and 12 months of COBRA reimbursement
Mr. Richey	100% of base salary; 100% of actual bonus paid in the prior fiscal year; and 12 months of COBRA reimbursement

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 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 will receive, subject to signing a release of claims in favor of the Company:

(I) A 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:

Named Executive Officer	Lump Sum Severance Payments
Mr. Reinstein	100% of base salary; 100% of actual bonus paid in the prior fiscal year; and 12 months of COBRA reimbursement
Ms. Gardiner	100% of base salary; 100% of actual bonus paid in the prior fiscal year; and 12 months of COBRA reimbursement
Mr. Richey	100% of base salary; 100% of actual bonus paid in the prior fiscal year; and 12 months of COBRA reimbursement

and

(II) Automatic vesting in full of all outstanding and unvested equity awards that solely vest on a time basis held by each Named Executive Officer as of the date of the COC. If, however, such equity awards are to vest and/or the amount of the awards to vest is to be determined based on the achievement of performance criteria (e.g. PSU), then the equity awards are cancelled.

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 provides written notice at least 60 days prior to the third anniversary of the COC Agreement. The COC Agreements of our Named Executive Officers expire as follows:

Named Executive Officer	COC Expiration Date
Mr. Reinstein[(1)]	N/A
Ms. Gardiner	December 1, 2020
Mr. Richey	July 9, 2021

(1) Mr. Reinstein resigned all positions with the Company on January 4, 2019 and entered into a Separation Agreement and Release at that time which supersedes and replaces all agreements with the Company related to his employment with and separation from the Company.

For purposes of these agreements, "cause" means a Named Executive Officer's termination of employment only upon:

(i) His or her willful failure to substantially perform his or her duties (subject to notice and a reasonable period to cure), other than a failure resulting from his or her complete or partial incapacity due to physical or mental illness or impairment;

(ii) His or her willful act which constitutes gross misconduct and which is injurious to the Company;

(iii) His or her willful breach of a material provision of the agreement (subject to notice and reasonable period to cure); or

(iv) His or her 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 or her consent:

(i) a material reduction in his or her authority, duties, or responsibilities relative to duties, position or responsibilities in effect immediately prior to such reduction;

(ii) a material reduction in his or her cash compensation as in effect immediately prior to such reduction; or

(iii) a material change in the geographic location at which he or she must perform services (in other words, the relocation of the Named Executive Officer to a facility that is more than 50 miles from his or her then-current location).

The following table lists our current Named Executive Officers and the estimated payments and benefits that each of them would have received had their employment with the Company been terminated without "cause" or had they resigned for "good reason" on April 23, 2019 not in connection with a change of control of the Company.

Name	Estimated Total Value of Cash Payment ($)	Estimated Total Value of Health Coverage Continuation ($)
Mr. Richey	883,750 (1)	16,520
Ms. Gardiner	419,125	11,031

(1) Mr. Richey joined the Company on July 9, 2018 and was not eligible for a full year Management Bonus and did not receive an "actual bonus paid" as described in the Change of Control and Severance Agreement. Accordingly, this estimate is based on his eligible bonus opportunity, not his actual bonus paid in 2018.

The following table lists our current Named Executive Officers and the estimated payments and benefits that each of them would have received had their employment with the Company been terminated without "cause" or had they resigned for "good reason" in connection with a change of control of the Company on April 23, 2019.

Name	Estimated Total Value of Cash Payment ($)	Estimated Total Value of Health Coverage Continuation ($)	Value of Accelerated Equity ($)(1)
Mr. Richey	883,750	16,520	942,966
Ms. Gardiner	419,125	11,031	353,992

(1) We estimated the value of acceleration of any outstanding and unvested stock option and RSU awards held by each of our current Named Executive Officers based on a market price of $16.61 per share for Cutera common stock at close of the market on April 23, 2019. Awards that vest based on the achievement of performance criteria (e.g. PSUs) are cancelled in accordance with the terms of our Amended and Restated 2004 Equity Incentive Plan.

Severance payments upon termination or change in control would be payable to the recipient only if the Named Executive Officer 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 Named Executive Officer would need to have complied and agreed to comply with the terms of any confidential information agreement executed by Named Executive Officer in favor of the Company and the provisions of the severance agreements.

Principal Executive Officer Pay Ratio Disclosure

Pursuant to a mandate of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act") and Item 402(u) of Regulation S-K, we are providing disclosure of the ratio of the median employee's annual total compensation to the total annual compensation of the principal executive officer ("PEO"). The Company's PEO for 2018 was Mr. Reinstein. When identifying the median employee, the Board determined that there has been no change between 2017 and 2018 in our employee population or employee compensation arrangements that it believes would significantly impact the pay ratio disclosure.

	PEO ($)	**Median Employee[1] ($)**
Total Compensation [2]	1,169,587	100,862
PEO to Median Employee Pay Ratio	**11.6 : 1**	

(1) Our median employee was determined using all employees as of December 31, 2017, exclusive of our Chief Executive Officer. At that time, we had two employees who were the median employee. Although one of the median employees is no longer employed with us, the other employee remains employed with us and has compensation that is substantially similar to the original median employee based on the compensation measure used to select the original median employee. Wages and salaries were annualized for those employees that were not employed for the full year of 2017. Base salary and cash bonus or sales commission, as appropriate, were considered when determining the median employee. We elected not to include grant date fair value of equity awards in determining the median employee because we determined that equity was not granted widely enough throughout the organization, and could serve to artificially skew the analysis. All compensation not paid in US dollars was converted to US dollars using the historic exchange rate made available by the Federal Reserve System of the U.S. as of December 31 of the year in which the compensation was earned. All equity for our Chief Executive Officer was recorded at grant date fair value.

(2) Total Compensation includes all components recorded in the Summary Compensation Table at page 51.

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.

Gregory A. Barrett, Chairperson
David B. Apfelberg, M.D.
J. Daniel Plants

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

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 are expected to 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.

Change of Control and Severance Agreements

We have entered into change of control severance agreements with our Named Executive Officers. 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 2018 Annual Report and SEC Filings

Our financial statements for our fiscal year ended December 31, 2018 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/ Darren W. Alch
Darren W. Alch
Vice President, General Counsel & Corporate Secretary
Brisbane, California
April 30, 2019

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

2019 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 5, 2019 and hereby appoints R. Jason Rickey (our Interim President and Chief Executive Officer) and J. Daniel Plants (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 2019 Annual Meeting of Stockholders of Cutera, Inc. to be held on June 14, 2019 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: ☒

1. Election of Directors:

	FOR	WITHHOLD
David B. Apfelberg, MD	☐	☐
Gregory A. Barrett	☐	☐
Timothy J. O'Shea	☐	☐
J. Daniel Plants	☐	☐
Joseph E. Whitters	☐	☐
Katherine S. Zanotti	☐	☐

2. Ratification of BDO USA, LLP as the Independent Registered Public Accounting Firm for the fiscal year ending December 31, 2019.

FOR	AGAINST	ABSTAIN
☐	☐	☐

3. Non-binding advisory vote on the compensation of Named Executive Officers.

FOR	AGAINST	ABSTAIN
☐	☐	☐

4. Approval of the amendment and restatement of the Amended and Restated 2004 Equity Incentive Plan as the 2019 Equity Incentive Plan.

FOR	AGAINST	ABSTAIN
☐	☐	☐

THIS PROXY WILL BE VOTED AS DIRECTED OR, IF NO CONTRARY DIRECTION IS INDICATED, WILL BE VOTED AS FOLLOWS: (1) FOR THE ELECTION OF THE NOMINATED DIRECTORS; (2) FOR THE RATIFICATION OF THE APPOINTMENT OF BDO USA, LLP AS OUR INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM FOR THE FISCAL YEAR ENDING DECEMBER 31, 2019; (3) FOR THE APPROVAL BY NON-BINDING ADVISORY VOTE ON THE COMPENSATION OF NAMED EXECUTIVE OFFICERS; (4) FOR THE APPROVAL OF THE AMENDMENT AND RESTATEMENT OF THE AMENDED AND RESTATED 2004 EQUITY INCENTIVE PLAN AS THE 2019 EQUITY INCENTIVE PLAN; AND (5) AS THE PROXY HOLDERS DEEM ADVISABLE ON SUCH OTHER MATTERS AS MAY BE BROUGHT PROPERLY BEFORE THE ANNUAL 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.

APPENDIX - A

CUTERA, INC.

2019 EQUITY INCENTIVE PLAN

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

3. Stock Subject to the Plan.

(a) Stock Subject to the Plan. Subject to the provisions of Section 17 of the Plan, as of April 23, 2019, the maximum aggregate number of shares of common stock that may be awarded and sold under the Plan was 11,101,192, of which 1,696,603 shares remained available for future awards.

(b) Full Value Awards. Any Shares subject to Awards granted prior to April 23, 2019 with an exercise price less than Fair Market Value on the date of grant of such Awards will be counted against the numerical limits of this Section 3 as 2.12 Shares for every one Share subject thereto. Further, if Shares acquired pursuant to any such Award are forfeited or repurchased by the Company and would otherwise return to the Plan pursuant to Section 3(c), 2.12 times the number of Shares so forfeited or repurchased will return to the Plan and will again become available for issuance. This Section 3(b) shall not apply to Awards granted on or after April 23, 2019.

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

stated in Section 3(a), plus, to the extent allowable under Section 422 of the Code, any Shares that become available for issuance under the Plan under this Section 3(c).

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

4. Administration of the Plan.

(a) Procedure.

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

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

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

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

(i) to determine the Fair Market Value;

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(d) Exercise of Option.

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

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

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

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

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

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

7. Restricted Stock.

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

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

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

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

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

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

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

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

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

8. Restricted Stock Units.

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

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

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

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

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

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

9. Stock Appreciation Rights.

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

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

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

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

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

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

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

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

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

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

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

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

10. Performance Units and Performance Shares.

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

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

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

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

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

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

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

11. Formula Award Grants to Outside Directors.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

18. Tax Withholding

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

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

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

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

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

22. Amendment and Termination of the Plan.

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

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

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

23. Conditions Upon Issuance of Shares.

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

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

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, 2018

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)

Form 10-K

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

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

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

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

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

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

Indicate by check mark whether the registrant has submitted electronically, every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and 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, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

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

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

Indicate by check mark whether 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, 2018 (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, 2018, was approximately $418 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 March 1, 2019 was 14,014,511.

DOCUMENTS INCORPORATED BY REFERENCE

Part III incorporates by reference certain information from the registrant's definitive proxy statement for the 2019 Annual Meeting of Stockholders, which will be filed with the Securities and Exchange Commission not later than 120 days after December 31, 2018.

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FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K contains "forward-looking statements" that involve risks and uncertainties. Our actual results could differ materially from those discussed in the forward-looking statements. The statements contained in this report that are not purely historical are forward-looking statements within the meaning of Section 27A of the Securities Act and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act. Forward-looking statements are often identified by the use of words such as, but not limited to, "anticipate," "believe," "can," "continue," "could," "estimate," "might," "expect," "intend," "may," "plan," "project," "seek," "should," "strategy," "target," "will," "would" or variations of these terms and similar expressions, or the negative of these terms or similar expressions intended to identify forward-looking statements. Forward-looking statements are necessarily based on estimates and assumptions that, while considered reasonable by Cutera and its management based on their knowledge and understanding of the business and industry, are inherently uncertain. Forward-looking statements are subject to risks, uncertainties and other important factors that could cause actual results and the timing of certain events to differ materially from future results expressed or implied by such forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those identified below and those discussed in the section titled "Risk Factors" included under Part I, Item 1A below. Furthermore, such forward-looking statements speak only as of the date of this report. Except as required by law, the Company undertakes no obligation to update any forward-looking statements to reflect events or circumstances after the date of such statements.

The following discussion and analysis should be read in conjunction with and are qualified in their entirety by reference to the discussions included in Item 1A - Risk Factors, Item 7 - Management's Discussion & Analysis of Financial Condition and Results of Operations, and elsewhere in this Annual Report on Form 10-K.

In this Annual Report on Form 10-K, unless the context otherwise requires, references to the "Company," "Cutera," "we," "us" and "our" refers to Cutera, Inc.

PART I

ITEM 1. BUSINESS

In this Annual Report on Form 10-K, "Cutera," "the Company," "we," "us" and "our" refer to Cutera, Inc. and its consolidated subsidiaries. *Cutera*®, *AcuTip*®, *CoolGlide*®, *CoolGlide excel*®, *enlighten*®, *excel HR*®, *excel V*®, *LimeLight*®, *myQ*®, *Pearl*®, *PicoGenesis*™, *ProWave 770*®, *Solera*®, *Titan*®, *truSculpt*®, *Vantage*® and *xeo*® are trademarks or registered trademarks of the Company.

Company Background

Cutera was formed in 1988 as a Deleware corporation and is a global provider of laser and energy-based aesthetic systems for practitioners worldwide. The Company designs, develops, manufactures, distributes and markets light and energy-based product platforms for use by physicians and other qualified practitioners (collectively, "practitioners"), enabling them to offer safe and effective aesthetic treatments to their customers. In addition, the Company distributes third-party manufactured skincare products. The Company currently offers easy-to-use products based on the following key platforms: *enlighten*, *excel HR*, *truSculpt*, *excel V*, *xeo*, *Juliet*™, and *Secret*™ *RF*— each of which enables physicians and other qualified practitioners to perform safe and effective aesthetic procedures, including treatment for body contouring, skin resurfacing and revitalization, tattoo removal, removal of benign pigmented lesions, vascular conditions, hair removal, toenail fungus and women's health. The Company's platforms are designed to be easily upgraded to add additional applications and hand pieces, which provide flexibility for the Company's customers as they expand their practices. The Company's ongoing research and development activities primarily focus on developing new products, as well as improving and enhancing the Company's portfolio of existing products. The Company also explores ways to expand the Company's product offerings through alternative arrangements with other companies, such as distribution arrangements. The Company introduced *Juliet*, a product for women's health, in December 2017, *Secret RF*, a fractional RF microneedling device for skin revitalization, in January 2018, *enlighten SR* in April 2018, and *truSculpt iD* in July 2018.

The Company's trademarks include: *"Cutera," "AcuTip," "CoolGlide," "CoolGlide excel," "enlighten," "excel HR," "excel V," "LimeLight," 'myQ," "Pearl," "PicoGenesis," "ProWave 770," "Solera," "Titan," "truSculpt," "Vantage" and "xeo."* The Company's logo and 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 the Company

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 the Company's 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 platforms is as follows:

- ***truSculpt iD*** –In July 2018 the Company introduced a hands-free version of our *truSculpt* platform, the *truSculpt iD*, for the non-surgical body sculpting market. It includes consumable cycles that need to be ordered by the practitioner after a set number of treatments are performed, resulting in recurring revenue. This product is a high-powered RF system designed for body contouring, lipolysis and deep tissue heating, and is able to treat all body and skin types. The *truSculpt iD* delivers targeted energy at 2 MHz, causing lipolysis of the subcutaneous adipose tissue. The Company received 510(k) clearance from the United States ("U.S.") Food and Drug Administration ("FDA") for lipolysis of abdominal fat in 2018. It was primarily sold in the U.S. and Canada in 2018 and is planned to be sold to a broader international customer base in 2019. Prior *truSculpt* platforms include the *truSculpt 3D*, a 2 MHZ device for tissue heating and temporary reduction in the abdomen, and the original *truSculpt* platform which was launched in August 2012 and delivered treatments at 1 MHz. In December 2016, the Company received 510(k) clearance from the FDA to market the *truSculpt* platform for the temporary reduction in circumference of the abdomen. The *truSculpt 3D* includes a consumable hand piece that needs to be "refilled" after a set number of treatments are performed, resulting in recurring revenue.
- ***Juliet*** – In December 2017, the Company introduced the *Juliet* laser for women's intimate health. *Juliet* is a versatile multi-application platform utilizing an Er:YAG laser with the 2940 nm wavelength. This Erbium wavelength produces noticeable results due to its high peak absorption in water. Additionally, *Juliet's* Erbium technology allows for a controlled thermal delivery to tissue, keeping the procedure safe for patients while minimizing downtime. *Juliet* delivers two passes of energy to the target area during treatment. The first pass uses ablation to vaporize the tissue and create micro-channels of injury. The second pass uses coagulation to deliver a thermal injury to the area, which further stimulates the body's normal wound healing process, revitalizing, and remodeling damaged tissue and introducing the formation of new blood vessels. *Juliet* also has a disposable tip, which must be changed for every procedure. As a result, the replacements of the tips results in recurring revenue.
- ***Secret RF*** – In January 2018, the Company introduced a new fractional radio frequency ("RF") microneedling device that delivers heat into the deeper layers of the skin using controlled RF energy. The targeted energy revitalizes, rebuilds and firms up tissue, effectively remodeling collagen, improving mild wrinkles and diminishing scars while leaving the outer layer of skin intact, minimizing downtime. Each time a procedure is performed, it requires the physician to use a new hand piece tip. The sale of the replacement tip results in recurring revenue.
- ***enlighten*** – In December 2014, the Company introduced the *enlighten* laser platform with a dual wavelength (1064 nanometer, or "nm" + 532 nm) and in December 2016, we introduced a three wavelength model (1064 nm + 532 nm + 670 nm)*, 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 and acne scars. In 2018, the Company introduced an expanded performance *enlighten III* and in April 2018, the Company introduced *enlighten SR,* which is a lighter version of *enlighten* with reduced optical performance. Clinical studies were conducted to support an FDA clearance in October 2018 for treatment of acne scars on patients with Fitzpatrick skin types II-V when used with the Micro Lens Array (MLA) hand piece attachment.
- ***excel HR*** – In June 2014, the Company introduced the *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.
- ***excel V+*** – In March 2019, the Company introduced the *excel V+*, a new iteration of the *excel V* vascular platform originally introduced in 2011. The *excel V+*, a high-performance, vascular and benign pigmented lesion treatment platform designed specifically for the core-market of dermatologists and plastic surgeons. The *excel V+* has 50% higher power than its predecessor and provides greater range of parameters for faster more customizable treatments. The *excel V* and *excel V+* are solid-state laser platforms providing a combination of the 532 nm green laser with 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.
- ***xeo*** – In 2003, the Company introduced the *xeo* platform, which combines intense pulsed light technology with 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.

In addition to the above mentioned seven primary systems, the Company continues to generate revenue from its legacy products such as *GenesisPlus, CoolGlide*, and the distribution of ZO's skincare products, a third-party product sold in the Japanese market. The Company also generates revenue from the sale of post-warranty services, as well as the sales of *Titan* hand piece refills.

The Company offers its 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.

The Market for Non-Surgical Aesthetic Procedures

The market for non-surgical aesthetic procedures has grown significantly over the past several years. According to data presented at the IMCAS Global Market Summit in February 2019, the medical aesthetic global market has doubled from $6.3 billion to $11 billion from 2014 to 2018, and is projected to reach $15 billion by 2022. The market growth rate for 2018 was 5.1% and a 6.3% growth is estimated in 2019. Body sculpting is expected to grow at a CAGR of 9.7%.

The Company believes 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 54 to 72 in 2018 ─ and their desire to retain a youthful appearance, contribute to the increased demand for aesthetic procedures.
- ***Broader Range of Safe and Effective Treatments –*** Technical developments, as well as an increase in treatable conditions due to new product introductions, lead 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 advancements enable practitioners to offer a broader range of treatments. These technical developments reduce treatment and recovery times, which in turn lead to greater patient demand.
- ***Broader Base of Customers –*** Managed care and government payor reimbursement restrictions motivate physicians 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 core practitioners 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") expand their practices and offer 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 attracts a broader base of customers and patients seeking aesthetic procedures.
- ***Wide Acceptance of Aesthetic Procedures and Increased Focus on Body Image and Appearance –*** According to the American Society for Aesthetic Plastic Surgery survey in 2016, both surgical and non-surgical procedures increased compared to 1997. Surgical procedures increased by 99%, while non-surgical procedures increased by 650% over this 20-year period.

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 aesthetic procedures and their limitations are described below.

Non-Invasive Body Contouring – Treatments for non-invasive body sculpting can be done utilizing a variety of technologies including radio frequency, laser, cooling and ultrasound. Procedures address reduction of unwanted fat on the abdomen, flanks, arms, thighs, submentum and back, and can require one or more treatments. Systems with the ability to induce non-invasive lipolysis (breakdown of fat) offer a more permanent solution with an average fat reduction of greater than 20%. Side effects to this approach may include nodules that typically resolve over time, and the risk of burning the treatment area.

Tattoo removal – The most effective way to remove tattoos on the body is to utilize laser systems that deliver very short pulse durations with high peak power 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 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). However, the latest generation of tattoo removal lasers produce picosecond pulse durations, (a trillionth of a second) and thereby, can meaningfully improve tattoo clearance and reduce the total number of treatments.

Hair Removal – Techniques for hair removal include waxing, depilatories, tweezing, shaving, electrolysis, laser as well as other energy-based hair removal modalities. The only techniques that provide a long-lasting solution are electrolysis, laser, and other energy-based technology such as an Intense Pulsed Light ("IPL"). 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. In comparison, lasers can quickly treat large areas with a high degree of safety and efficacy.

Skin Revitalization – Skin revitalization treatments include a broad range of popular alternatives, including Botox and collagen injections, chemical peel, microdermabrasion, radio frequency treatment and laser 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.

Other skin revitalization 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.

Microneedling – (also known as collagen induction therapy) is a minimally invasive revitalization treatment that involves using fine needles to create hundreds of tiny, invisible puncture wounds in the top layer of the skin, which stimulates the body's natural wound healing processes, resulting in cell turnover and increased collagen and elastin production. Our recently introduced *Secret RF* product is a RF fractional microneedling system that helps deliver tailored energy to improve fine lines, wrinkles, and scars from the inside out.

Women's Intimate Health – Lasers and RF technology have emerged as a treatment for issues unique to women's health such as vulvar vaginal atrophy and genitourinary symptoms of menopause. The condition causes vaginal dryness, inflammation and irritation, which can lead to painful or frequent urination. Traditional treatments use estrogen therapy to combat vulvar vaginal atrophy and genitourinary symptoms of menopause to restore vaginal health, but not all women suffering from the symptoms are candidates. Lasers have been shown to ablate the vaginal tissue generating a healing response that may lead to system improvement.

Leg and Facial Veins – Current aesthetic treatment methods for leg and facial veins include sclerotherapy, as well as 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.

Laser and other energy-based non-surgical treatments for hair removal, veins, skin revitalization 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 resulted in a well-established market for these procedures.

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. Ablative skin resurfacing improves 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 improves the appearance of the skin by treating the underlying structure of the skin.

Safe and effective laser and energy-based treatments require an appropriate combination of the 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.

Technology and Design of the Company's Systems

The Company's *enlighten, excel HR, excel V*, *Juliet, Secret RF, truSculpt, and xeo* platforms provide the long-lasting benefits of laser and other energy-based aesthetic treatments. Our technology allows for a wide variety of applications in a single system. Key features of our solutions include:

- ***Multiple Applications Available in a Single System –*** Many of 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 revitalization ─ including the treatment of discoloration, fine lines, and uneven texture. Because practitioners can use our systems for multiple indications, the investment in a unit is spread across a greater number of patients and procedures, and the acquisition cost may be more rapidly recovered.

- ***Technology and Design Leadership –*** Our innovative laser technology combines multiple wavelengths, 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 not 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.

- ***Upgradeable Platform –*** Some of our products allow our customers to upgrade their system to our newest technologies or add new applications to their system, each of which provide us with a source of incremental revenue. The Company believes 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 –*** For hair removal, our products are safe and effective 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 veins on the leg; to treat facial veins; and perform skin revitalization procedures for discoloration, texture, fine lines, and wrinkles on any type of skin. The ability to customize treatment parameters based on skin type enables practitioners to offer safe and effective therapies to a broad base of their patients.

- ***Ease of Use –*** The Company designs its products to be easy to use. Our proprietary hand pieces are lightweight and ergonomic, minimize user fatigue, and facilitate 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 simple, independently adjustable controls from which to select a wide range of treatment parameters to suit each patient's profile. For instance, 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. Finally, our *truSculpt iD* embodies the best of many of the above

features. Unlike other body sculpting treatments on the market that require certain body types, or pinchable fat, *truSculpt iD* is "body agnostic" with the ability to customize treatments to the patient's needs and body type. In addition, our proprietary algorithms and navigation enable the practitioner to treat a 300cm2 area in only 15 minutes.

Business Strategy

The Company's goal is to maintain and expand its position as a leading worldwide provider of light and energy-based aesthetic devices and complementary aesthetic products by executing the following strategies:

- ***Continue to Expand our Product Offering –*** Though the Company believes that its current portfolio of products is comprehensive, our research and development group has a pipeline of potential products under development. The Company launched *excel V* in 2011, *truSculpt* in 2012, *ProWave LX* in 2013, and *excel HR* and *enlighten* in 2014. In addition, the Company continues to expand offerings on the Company's current platforms with further enhancement such as the *enlighten III* launched in 2016, *enlighten SR* launched in April 2018, *truSculpt 3D* launched in 2017 and *truSculpt iD* launched in July 2018. The Company also introduced *Juliet*, a product for women's health, in December 2017, and *Secret RF*, a fractional RF microneedling device for skin revitalization, in January 2018. Just recently, in March 2019, the Company introduced the *excel V+*, an enhanced iteration of our *excel V* vascular platform originally launched in 2011. These products allow the Company to leverage existing customer call points, and create new customer call points.

- ***Increase Revenue and Improve Productivity –*** The Company believes that the market for aesthetic systems will continue to offer growth opportunities. The Company continues to build brand recognition, add additional products to our international distribution channel, and focus on enhancing the Company's global distribution network, all of which the Company expects will contribute to increased revenue.

- ***Increase Focus on Practitioners with Established Medical Offices –*** The Company believes there is growth opportunity in targeting our products to a broad customer base. The Company also believes that its customers' success is largely dependent upon having an existing medical practice, in which the Company's systems provide incremental revenue sources to augment their existing practice revenue.

- ***Leverage our Installed Base*** – With the introduction of *enlighten, excel V*, *excel HR* and *truSculpt,* the Company is able to effectively offer additional platforms into the existing installed base. In addition, each of these platforms allows for potential future upgrades that offer additional capabilities. The Company believes 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.

- ***Generate Revenue from Services and Refillable, Consumable, Hand Pieces –*** The Company's *Titan, truSculpt 3D, truSculpt iD* and pulsed-light hand pieces are refillable products, while our *Juliet* and *Secret RF* tips are consumable products. Each provides us with the opportunity to participate in the procedure based revenue from our existing customers. The Company offers post-warranty services to its 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 revenue.

Products

The Company's *excel V, excel HR, enlighten, Juliet, Secret RF, truSculpt, xeo*, *CoolGlide*, and *myQ* platforms allow for the delivery of multiple laser and energy-based aesthetic applications from a single system. With our *xeo* platform, practitioners can purchase customized systems with a variety of our multi-technology applications. Each of the Company's products consists of a control console and one or more hand pieces, depending on the model.

The following table lists our currently offered products. Each checked box represents the applications included in the product in the years noted.

Applications:						Skin Revitalization				Noninvasive Body Contouring*	Women's Health
System Platforms	Products	Year	Energy Source	Hair Removal	Vascular Lesions	BPL's Dyschromia & Melasma	Texture, Lines and Wrinkles	Acne Scars	Tattoo Removal	Lipolysis*	Gynecology
CoolGlide...	*CV*	2000	(a)	x							
	Excel	2001	(a)	x	x						
	Vantage	2002	(a)	x	x		x				
xeo	*Nd:YAG*	2003	(a)	x	x		x				
	ProWave 770	2005	(b)	x							
	AcuTip 500	2005	(b)		x						
	Titan V/XL	2006	(c)								
	LimeLight	2006	(b)		x	x					
	Pearl	2007	(d)			x	x				
	Pearl Fractional	2008	(d)			x	x				
	ProWave LX	2013	(b)	x							
excel V.....		2011	(e)	x	x	x	x				
myQ		2011	(e)			x			x		
truSculpt		2012	(f)							x	
excel HR		2014	(g)	x	x	x					
enlighten(dual wavelength)....		2014	(h)			x			x		
enlighten III (MLA).....		2016	(i)			x		x	x		
truSculpt 3D.....		2017	(f)							x	
Juliet		2018	(j)			x	x				x
Secret RF		2018	(k)				x				
truSculpt iD.....		2018	(f)							x*	

Energy Sources:
(a) 1064 nm Nd:YAG laser;
(b) Visible and near-infrared Intense Pulsed Light;
(c) Infrared Intense Pulsed Light;
(d) 2790 nm Er:YSGG laser;
(e) Combined frequency-doubled 532 nm and 1064 nm Nd:YAG laser;
(f) Radio frequency at 1 & 2 MHz – mono-polar
(g) Combined 755 nm Alexandrite laser and 1064 nm Nd:YAG laser;
(h) Dual wavelength 532 nm and 1064 nm Nd:YAG picosecond laser;
(i) Three wavelength 532 nm, 670 nm, and 1064 nm Nd:YAG picosecond laser;
(j) 2940 nm Er:YAG laser; and
(k) Radio frequency at 2 MHz mono-polar.

* *The Company's CE Mark allows it 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. the Company has 510(k) clearance for the reduction in circumference of the abdomen, non-invasive lipolysis (breakdown of fat) of the abdoment 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.*

Upgrade

The Company's *enlighten, truSculpt,* and *xeo* products, are designed to allow customers to cost-effectively upgrade to our newest technologies or add applications to their system, each of which provide us with a source of additional revenue.

Service

The Company offers post-warranty service contracts, parts, detachable hand piece replacements (except for *Titan, truSculpt 3D* and *truSculpt iD*) and service labor for the repair and maintenance of products that are out of warranty, all of which are classified as "Service" revenue. These post-warranty services serve as additional sources of recurring revenue from our installed product base.

Hand Piece Refills

The Company treats its customers' purchase of replacement *Titan, truSculpt 3D* and *truSculpt iD* , as well as single use disposable tips applicable to *Juliet* and *Secret RF* as "Consumables" revenue, which provides us with a source of recurring revenue from existing customers. Hand piece refills of our legacy *truSculpt* product are included in the standard warranty and service contract offerings for this product.

Skincare

The Company distributes third party manufactured skincare products ("Skincare" revenue in the Japanese market).

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.

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 15 minutes and two or more treatments may be required to obtain the desired aesthetic results. Our CE Mark allows us to market *truSculpt* in the European Union ("EU"), Australia and certain other countries outside the U.S. for fat reduction, body shaping, body contouring and circumferential reduction. In the U.S., *truSculpt* has 510(k) clearance for topical heating for the purpose of elevating tissue temperature for the treatment of selected medical conditions, such as relief of pain and muscle spasms and increase in local circulation. Additionally, the 2 MHz setting for the 40 cm2 hand piece is indicated for reduction in circumference of the abdomen and non-invasive lipolysis (breakdown of fat) of the abdomen. The *truSculpt* massage device is intended to provide a temporary reduction in the appearance of cellulite.

Tattoo Removal – Our *enlighten* systems, delivering picosecond and nanosecond pulse duration, and our *myQ* Q-switched laser are used for tattoo removal, the treatment of benign pigmented lesions, and a laser skin toning procedure that the Company refers to as *PicoGenesis*.

Hair Removal – We have two platforms, *excel HR* and *xeo*, which address hair removal for all skin types as well as hair thicknesses. Our *xeo* platform allows practitioners to select between the 1064 nm mode for darker, course hair, and the *ProWave LX* hand piece designed to address finer, vellus hair. Contact cooling is present on both hand pieces for epidermal protection. *excel HR* employs both a 1064 nm Nd:YAG as well as a 755 nm Alexandrite for hair removal. Like the *xeo*, the 1064 nm wavelength addresses darker, course hair while the 755 nm wavelength is used for finer, lighter hair. Both wavelengths are transmitted through the same *CoolView* hand piece with spot sizes up to 20 mm for the 755 nm wavelength and up to 18 mm for the 1064 nm wavelength. The *CoolView* hand piece employs sapphire as a means of contact cooling – epidermal protection. Both platforms are cleared for treating all skin types.

Vascular Lesions – Both our *xeo* as well as *excel V* platforms are capable of treating a wide range of aesthetic vein conditions, including spider and reticular veins, and small facial veins. *xeo* employs the *LimeLight* hand piece for addressing small veins as well as vascular lesions while the Nd:YAG is appropriate for deeper, larger vessels. *LimeLight* is a fixed spot size IPL while the Nd:YAG has adjustable spot sizes up to 10mm. *excel V* is a dual wavelength laser - 1064 nm and 532 nm – with adjustable spot sizes ranging from 2 mm to 12 mm. The 532 nm wavelength can be used to treat over 20 conditions ranging from small veins and vessels to a variety of vascular lesions while the Nd:YAG is appropriate for deeper, larger vessels. For both of these devices, patients receive on average between one and six treatments, with six weeks or longer between treatments.

Skin Revitalization – Our *xeo*, *excel V*, *excel HR* and enlighten platforms, utilizing an Nd:YAG laser, allow our customers to perform non-invasive and minimally-invasive treatments that reduce redness, dyschromia, fine lines, improve skin texture, and treat other aesthetic conditions. When using a 1064 nm 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 with a spacing of two to four weeks between treatments.

Texture, Lines and Wrinkles – The *xeo* platform can address fine lines and wrinkles using the *Pearl* and *Pearl Fractional* hand pieces. When treating fine lines, texture and wrinkles 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.

Our recently launched *Juliet* laser is a versatile multi-application platform utilizing an Er:YAG laser with the 2940 nm wavelength. This Erbium wavelength produces noticeable results with fewer side effects, due to its high peak absorption in water. Additionally, *Juliet's* Erbium technology allows for a controlled thermal delivery to tissue. The Microspot hand piece delivers fractionated energy to induce skin resurfacing and improved skin quality, tone and texture.

Additionally, our recently launched *Secret RF platform* is a Radio Frequency microneedling device that employs fractionated RF energy (2 MHz) delivered at different pre-programmed depths in the dermis to produce new collagen. The *Secret RF* comes with four treatment tips: a 25-pin tip, both insulated and semi-insulated, and a 64-pin tip, both insulated and semi-insulated. The treatment has minimal side effects, negligible downtime and results in improved skin tone and texture as well as improvement in acne scars.

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 *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.

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.

In treating benign pigmented lesions, the hand piece is placed directly on the skin and then the 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.

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 Quality – 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 compromised skin, 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 EU, 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. the Company markets and sells its products through a direct sales organization. The Company internally manages its U.S. and Canadian sales organization as one North American sales region. As of December 31, 2018, the Company had 68 territories and a direct sales force of 68 employees. In addition, the Company created a new commercial organization in 2018 dedicated to supporting consumable products for procedures performed in physicians' practices. As of December 31, 2018, the Company had nine employees related to consumable sales support.

International sales are made both through a worldwide distributor network in over 40 countries, as well as a direct international sales force. As of December 31, 2018, the Company had a direct sales force in Australia, Belgium, France, Germany, Hong Kong, Japan, Spain, Switzerland and the United Kingdom with a total of 41 direct sales employees.

The Company also sells certain items like hand piece refills, cycle refills, consumable tips and marketing brochures through our web site www.cutera.com.

Customers generally demand quality, performance, ease of use, and high productivity in relation to the cost of ownership. The Company responds to these customer demands by introducing new products focused on these requirements in the markets it serves. Specifically, the Company believes it introduces new products and applications that are innovative, address the specific aesthetic procedures in demand, and are upgradeable on its customers' existing systems. In addition, the Company provides attractive upgrade pricing to new product families. To increase market penetration, the Company also markets to non-core practitioners in addition to our core specialties of plastic surgeons and dermatologists.

The Company seeks to establish strong ongoing relationships with its customers through the upgradeability of the Company's products, sales of extended service contracts, the refilling of hand pieces and replacement of disposable tips, ongoing training and support, and distributing skincare products in Japan. The Company primarily targets its marketing efforts to practitioners through office visits, workshops, trade shows, webinars and trade journals. The Company also markets to potential patients through brochures, workshops and its website. In addition, the Company offers 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

The industry the Company operates in is subject to intense competition. The Company's products compete against conventional non-energy-based treatments, such as electrolysis, Botox and collagen injections, chemical peels, microdermabrasion and sclerotherapy. The products also compete against laser and other energy-based products offered by other public companies, such as Hologic (acquired Cynosure in March 2017), El.En S.p.A, XIO Group (acquired Lumenis in September 2015), Allergan (acquired Zeltiq in April 2017), Bausch Health (Valeant), Vieve, as well as private companies, including Sisram, Syneron Candela (acquired in 2017 by an affiliate of private equity funds advised by Apax Partners), Sciton, InMode, BTL Industries and several others.

Competition among providers of laser and other energy-based devices for the aesthetic market is characterized by extensive research and development efforts, and innovative technology. While the Company attempts to protect its 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 the Company does or product applications for certain sub-markets in which the Company does not participate. Additional competitors may enter the market, and the Company is likely to compete with new companies in the future. To compete effectively, the Company has 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. The Company has encountered, and expects 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

The Company focuses its research and development efforts on innovation and improvement for products and services that align with its mission: the Company consistently strives to understand its customers' expectations for total excellence. The Company accomplishes this by its commitment to continuous improvement in design, manufacturing and service, which the Company believes provides for superior products and services to ensure on going customer satisfaction, trust and loyalty. The Company seeks to comply with all applicable domestic and international regulations to maintain the highest quality.

As of December 31, 2018, the Company's research and development activities were conducted by a staff of 38 employees with a broad base of experience in lasers, optoelectronics, software, and other related disciplines. The Company develops working relationships with outside contract engineering and design consultants, giving our team additional technical and creative breadth. The Company works closely with thought leaders and customers, to understand unmet needs and emerging applications in aesthetic medicine.

Acquisitions, Investments, and Distribution Agreements

The Company's strategy of providing a broad range of therapeutic capabilities requires a wide variety of technologies, products and capabilities. The rapid pace of technological development in the aesthetic device industry and the specialized expertise required in different areas make it difficult for the Company to develop a broad portfolio of technological solutions. In addition to internally generated growth through research and development efforts, the Company has considered, and expects to continue to consider, acquisitions, investments and distribution agreements to provide access to new products and technologies in both new and existing markets.

The Company expects to further our strategic objectives and strengthen its existing businesses by making future acquisitions, investments, or entering into new distribution agreements in areas that the Company believes it can acquire or stimulate the development of new technologies and products. Mergers and acquisitions of medical technology companies, as well as distribution relationships are inherently risky and no assurance can be given that any acquisition will be successful or will not materially adversely affect the Company's consolidated operations, financial condition and/or cash flows.

Service and Support

The Company's 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. The Company believes that quick and effective delivery of service is important to its customers. As of December 31, 2018, the Company had 65 people in our global service department. Internationally, the Company provides direct service support in Australia, Austria, Belgium, France, Germany, Hong Kong, Japan, Spain, Switzerland and the United Kingdom. Services and support outside of these direct markets are made through a worldwide distributor network in over 40 countries.

The Company offers post-warranty services to its customers through extended service contracts that cover replacement parts and labor for a term of one, two, or three years. The Company also offers services on a time-and-materials basis for detachable hand piece replacements, parts and labor. Customers are notified before their initial warranty expires and are able to purchase extended service plans covering replacement parts and labor.

In countries where the Company is represented by distributor partners, customers are serviced through the distributor. Distributors are generally provided 14 to 16 months warranty coverage for parts only, with labor customarily provided to the end customer by the distributor. The Company's *Titan, truSculpt 3D* and *truSculpt iD* hand pieces generally include a warranty for a set number of shots, instead of for a period of time.

Manufacturing

The Company manufactures its products with components and subassemblies supplied by vendors, and assembles and tests each of its products at the Brisbane, California facility. Quality control, cost reduction and inventory management are top priorities of the manufacturing operations.

The Company purchases certain components, subassemblies and assembled systems from a limited number of suppliers. The Company has flexibility with its suppliers to adjust the number of components and subassemblies as well as the delivery schedules. The forecasts 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. The potential for disruption of supply is reduced 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, the Company has not experienced significant delays in obtaining any of its components or subassemblies. The Company uses small quantities of common cleaning products in its manufacturing operations, which are lawfully disposed of through a normal waste management program. The Company does not forecast any material costs due to compliance with environmental laws or regulations.

The Company is required to manufacture our products in compliance with the FDA's Quality System Regulation ("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. The Company had an FDA full quality system audit in March 2017. There were no significant findings or observations as a result of this audit, however 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 specified quality requirements, the Company may have to

qualify a new supplier and could experience manufacturing delays as a result. The Company has 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 EU, the European Free Trade Association and countries which have entered into Mutual Recognition Agreements with the EU. In January 2018, the Company conducted our recertification audit to the requirements of ISO 13485:2003 under the Medical Device Single Audit Program ("MDSAP") for the 5 regulatory jurisdictions signatory to MDSAP (FDA - US, Health Canada - Canada, Therapeutic Goods Administration ("TGA") - Australia, Pharmaceuticals and Medical Devices Agency ("PMDA") - Japan, and Agência Nacional de Vigilancia Sanitária ("ANVISA") - Brazil); and for the EU under Europäische Norm ("EN") International Standards Organization ("ISO") 13485:2012 and Medical Device Directive (MDD") 93/42/EEC. The Company passed the recertification audit establishing compliance with ISO 13485:2003 under MDSAP; EN ISO 13458:2012; and MDD 93/42/EEC. The MDSAP and EU certification can be used to establish compliance with Good Manufacturing Practices ("GMP"), QSR, and Quality Management System ("QMS") requirements for all six regulatory jurisdictions, replacing routine audits from each regulatory jurisdiction. Our manufacturing facility is ISO 13485 certified.

Patents and Proprietary Technology

The Company relies 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 February 28, 2019, the Company had 32 issued U.S. patents and 5 pending U.S. patent applications. The Company intends to file for additional patents and trademarks to continue to strengthen our intellectual property rights. Patents typically have a 20-year term from the application filing date. There can be no assurance that pending patent applications will result in the issuance of patents, that patents issued to or licensed by the Company will not be challenged or circumvented by competitors, or that these patents will be found to be valid or sufficiently broad to protect our technology or to provide the Company with a competitive advantage.

The Company has also obtained certain trademarks and trade names for our products and maintain certain details about our processes, products and strategies as trade secrets. In the U.S. and several foreign countries, the Company registers its Company name and several of its product names as trademarks, including *Cutera*, *AcuTip*, *CoolGlide*, *CoolGlide excel*, *excel*, *enlighten, Juliet, LimeLight*, *myQ*, *Pearl*, *ProWave 770* , *ProWave LX*, *Secret RF, Solera* (discontinued as of January 2018), *Titan*, *truSculpt and xeo*. The Company may have common law rights in other product names, including *excel V*, *Pearl Fractional*, *Solera, Titan* and *excel HR.* The Company intends to file for additional patents and trademarks to continue to strengthen our intellectual property rights.

The Company relies on non-disclosure and non-competition agreements with employees, technical consultants and other parties to protect, in part, trade secrets and other proprietary technology. The Company also requires them to agree to disclose and assign to us all inventions conceived in connection with the relationship. There can be no assurance that these agreements will not be breached, that the Company will have adequate remedies for any breach, that others will not independently develop equivalent proprietary information or that third parties will not otherwise gain access to our trade secrets and proprietary knowledge.

For additional information, please refer to Item 1A. Risk Factors of this Annual Report on Form 10-K, under the section entitled "*Risk Factors - 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, and we may be involved in future costly intellectual property litigation, which could impact our future business and financial performance."*

Government Regulation

United States

The Company's products are medical devices subject to regulation by numerous government agencies, including the FDA and counterpart agencies outside the U.S. To varying degrees, each of these agencies require us to comply with laws and regulations governing the research, development, testing, manufacturing, labeling, pre-market clearance or approval, marketing, distribution, advertising, promotion, record keeping, reporting, tracking, and importing and exporting of medical devices. In the U.S., FDA regulations govern the following activities that the Company performs 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;*
- *record keeping;*
- *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 the Company wishes to commercially distribute in the U.S. will require either prior 510(k) clearance, de novo 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 more rigorous pre-market approval. All of our current products are class II devices.

510(k) Clearance Pathway

When 510(k) clearance is required, the Company 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 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 the Company 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
- *enlighten* picosecond and nanosecond 532/1064 nm for the treatment of benign pigmented lesions	August 2014
- *enlighten* picosecond and nanosecond 532/1064 nm for multi-colored tattoo removal	November 2014
- *enlighten III* picosecond and nanosecond 670 nm wavelength cleared for benign pigmented lesions	November 2016
- *enlighten* picosecond and nanosecond 532/1064 nm higher performance specifications for multi-colored tattoo removal and the treatment of benign pigmented lesions	April 2017
- *enlighten III* picosecond and nanosecond 532/670/1064 nm for multi-colored tattoo removal, adding 670 nm for the treatment of green and blue tattoo inks, and the treatment of benign pigmented lesions with higher performance specifications	October 2017
- *enlighten* Micro Lens Array (MLA) for treatment of acne scars	December 2018
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 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. Additionally, it is cleared for reduction in circumference of the abdomen and non-invasive lipolysis of the abdomen.	
- 16cm2 to 25cm2 hand pieces for smaller body parts	April 2008
- 16cm2 to 40cm2 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
- *truSculpt* 2.0: Hands-free treatment powering sequentially six 40 cm2 puck-style applicators	August 2017
- *truSculpt iD*: for non-surgical fat-reduction and circumferential reduction procedures	June 2018

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 the Company developed to date requires pre-market approval, although development of future devices or clearances may require pre-market approval.

Product Modifications

Pursuant to FDA regulations, 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, requires a new clearance or approval. The FDA requires manufacturers to make this determination initially, but the FDA can review any such decision and may disagree with a manufacturer's determination. To date, the Company has modified aspects of our products after receiving regulatory clearance, and determined that new 510(k) clearances are not required for these modifications. If the FDA disagrees with our determination not to seek a new 510(k) clearance or PMA, the FDA may retroactively require the Company to seek 510(k) clearance or pre-market approval. The FDA could also require the Company 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, the Company 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 ("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 the Company submits and obtains 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. The Company is 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 the Company believes that it is 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.

The Company is 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 and penalties.

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

The Company is 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. The Company believes 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 clearance or approval requirements may be different from those in the U.S.

In Japan, the Company is actively seeking approvals for products to supplement our existing approvals for *enlighten, excel V, excel HR*, *LimeLight*, *ProWave*, *Solera, Titan*, *truSculpt iD* and *xeo*.

In the European Economic Area, or EEA, (which is composed of the 28 Member States of the EU plus Norway, Liechtenstein and Iceland), a single regulatory approval process exists, and conformity with the legal requirements is represented by the CE mark. While it remains somewhat unresolved, the cabinet of the United Kingdom agrees that the UK should maintain conformity with the CE mark process following Brexit. Other countries, such as Switzerland, have entered into Mutual Recognition Agreements and allow the marketing of medical devices that meet EU requirements. The EU 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 to the essential requirements of the applicable directives and, accordingly, can be commercially distributed throughout the EEA 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 EEA, 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, the Company 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, the Company received our ISO 13485:2003 certification and in March 2006, March 2009, and January 2012 we passed ISO 13485 recertification audits. In January 2015, the Company passed a recertification audit establishing compliance with the requirements of EN ISO 13485:2012, CAN/CSA ISO 13485:2003, and MDD 93/42/EEC. In January 2018, the Company conducted our recertification audit to the requirements of ISO 13485:2003 under the Medical Device Single Audit Program (MDSAP) for the 5 regulatory jurisdictions signatory to MDSAP (FDA - US, Health Canada - Canada, TGA - Australia, PMDA - Japan, and ANVISA - Brazil); and for the EU under EN ISO 13485:2012 and MDD 93/42/EEC. The Company passed the recertification audit establishing compliance with ISO 13485:2003 under MDSAP; EN ISO 13458:2012; and MDD 93/42/EEC. In January 2019, the Company passed the upgrade audit establishing compliance with ISO 13485:2016 and the surveillance audit under MDSAP. The MDSAP and EU certification can be used to establish compliance with GMP/QSR/QMS requirements for all six regulatory jurisdictions, replacing routine audits from each regulatory jurisdiction. For cause audits can still occur.

Applicability of Anti-Corruption Laws and Regulations

The Company's worldwide business is subject to the U.S. Foreign Corrupt Practices Act of 1977 (the "FCPA"), the United Kingdom Bribery Act of 2010 (the "UK Bribery Act") and other anti-corruption laws and regulations applicable in the jurisdictions where the Company operates. The FCPA can be used to prosecute companies in the U.S. for arrangements with physicians, or other parties outside the U.S., if the physician or party is a government official of another country and the arrangement violates the law of that country. The UK Bribery Act prohibits both domestic and international bribery, as well as bribery across both public and private sectors. There are similar laws and regulations applicable to Cutera outside the U.S., all of which are subject to evolving interpretations. For additional information, please refer to Item 1A. Risk Factors of this Annual Report on Form 10-K, under the sections entitled "Risk Factors – the Company's failure to comply with rules relating to bribery, foreign corrupt practices, and privacy and security laws may subject the Company to penalties and adversely impact our reputation and business operations."

Patient Privacy and Security Laws

Various laws worldwide protect the confidentiality of certain patient health and other consumer information, including patient medical records, and restrict the use and disclosure of patient health information by healthcare providers. Privacy standards in Europe and Asia are becoming increasingly strict, enforcement action and financial penalties related to privacy in the EU are growing, and new laws and restrictions are being passed. The management of cross-border transfers of information among and outside of EU member countries is becoming more complex, which may complicate our clinical research and commercial activities, as well as product offerings that involve transmission or use of data. The Company will continue its efforts to comply with those requirements and to adapt our business processes to those standards.

In the U.S., the Health Insurance Portability and Accountability Act of 1996 ("HIPAA"), as amended by the Health Information Technology and Clinical Health Act ("HITECH") and their respective implementing regulations, including the final omnibus rule published on January 25, 2013, imposes specified requirements relating to the privacy, security and transmission of individually identifiable health information. Among other things, HITECH makes HIPAA's privacy and security standards directly applicable to "business associates," defined as independent contractors or agents of covered entities that create, receive, maintain or transmit protected health information in connection with providing a service for or on behalf of a covered entity. HITECH also increased the civil and criminal penalties that may be imposed against covered entities, business associates and possibly other persons, and gave state attorneys new general authority to file civil actions for damages or injunctions in federal courts to enforce the federal HIPAA laws and seek attorney's fees and costs associated with pursuing federal civil actions. In addition, state laws govern the privacy and security of health information in certain circumstances, many of which differ from each other in significant ways, thus complicating compliance efforts. The Company potentially operates as a business associate to covered entities in a limited number of instances. In those cases, the patient data that the Company receives may include protected health information, as defined under HIPAA. Enforcement actions can be costly and interrupt regular operations of its business. While the Company has not been named in any such actions, if a substantial breach or loss of data from our records were to occur, the Company could become a target of such litigation.

In the EU, Regulation 2016/679 on the protection of natural persons with regard to the processing of personal data and on the free movement of such data ("General Data Protection Regulation" or "GDPR") came into effect on May 25, 2018. The GDPR replaces Directive 95/46/EC ("Data Protection Directive"). While many of the principles of the GDPR reflect those of the Data Protection Directive, for example in relation to the requirements relating to the privacy, security and transmission of individually identifiable health information, there are a number of changes. In particular: (1) pro-active compliance measures are introduced, such as the requirement to carry out a Privacy Impact Assessment and to appoint a Data Protection Officer where health data is processed on a "large scale;" and (2) the administrative fines that can be levied are significantly increased, the maximum being the higher of €20 million, or 4%, of the total worldwide annual turnover of the group in the previous financial year. While we believe we are compliant with GDPR, the recent implementation of regulation, coupled with the early limited enforcement action make it difficult to assess.

Environmental Health and Safety Laws

The Company is also subject to various environmental health and safety laws and regulations worldwide. Like other medical device companies, our manufacturing and other operations involve the use and transportation of substances regulated under environmental health and safety laws including those related to the transportation of hazardous materials. To the best of our knowledge at this time, the Company does not expect that compliance with environmental protection laws will have a material impact on our consolidated results of operations, financial position or cash flows.

Employees

As of December 31, 2018, the Company had 402 employees, compared to 367 employees as of December 31, 2017. Of the 402 employees at December 31, 2018, 161 were in sales and marketing, 89 in manufacturing operations, 77 in technical service, 38 in research and development and 37 in general and administrative. The Company believes that its 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 the Company believes its employee relations are good.

Available Information

The Company makes its periodic and current reports, including the Company's Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and any amendments to those reports, filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as well as its charters for the Company's Audit and Compensation Committees and its Code of Ethics, available free of charge, on the Company's website as soon as practicable after such material is electronically filed or furnished with the Securities and Exchange Commission (the "SEC"). The Company's website address is www.cutera.com and the reports are filed under "SEC Filings," on the Company-Investor Relations portion of our website. These reports and other information concerning the Company may be accessed through the SEC's website at www.sec.gov.

ITEM 1A. RISK FACTORS

The Company operates in a rapidly changing economic and technological environment that presents numerous risks, many of which are driven by factors that the Company cannot control or predict. The Company's 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 the Company, or that the Company 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.

The Company's annual and quarterly operating results may fluctuate in the future, which may cause the Company's share price to decline.

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

- the ability of the Company's sales force to effectively market and promote the Company's products, and the extent to which those products gain market acceptance;
- the inability to meet the Company's debt repayment obligations under the Loan and Security Agreement with Wells Fargo Bank, N.A. (the"Revised Revolving Line of Credit") due to insufficient cash;
- the possibility that cybersecurity breaches, data breaches, and other disruptions could compromise our information or result in the unauthorized disclosure of confidential information;
- the existence and timing of any product approvals or changes;
- the rate and size of expenditures incurred on the Company's clinical, manufacturing, sales, marketing and product development efforts;
- the Company's ability to attract and retain personnel;
- the availability of key components, materials and contract services, which depends on the Company's ability to forecast sales, among other things;
- investigations of the Company's business and business-related activities by regulatory or other governmental authorities;
- variations in timing and quantity of product orders;
- temporary manufacturing interruptions or disruptions;
- the timing and success of new product and new market introductions, as well as delays in obtaining domestic or foreign regulatory approvals for such introductions;
- increased competition, patent expirations or new technologies or treatments;
- impact of the FDA communication letter regarding "vaginal rejuvenation" procedures using energy-based devices on sales of the Company's products;
- product recalls or safety alerts;
- litigation, including product liability, patent, employment, securities class action, stockholder derivative, general commercial and other lawsuits;

- volatility in the global market and worldwide economic conditions;
- changes in tax laws, including changes domestically and internationally, or exposure to additional income tax liabilities;
- the impact of the new EU privacy regulations (GDPR) on the Company's resources;
- the financial health of our customers and their ability to purchase our products in the current economic environment; and
- other unusual or non-operating expenses, such as expenses related to mergers or acquisitions, may cause operating results to vary.

As a result of any of these factors, the Company's consolidated results of operations may fluctuate significantly, which may in turn cause its share price to fluctuate.

If defects are discovered in the Company's products, the Company may incur additional unforeseen costs, customers may not purchase the Company's product and the Company's reputation may suffer.

The Company's success depends on the quality and reliability of its products. While the Company's subject components are sourced and products manufactured to stringent quality specifications and processes, the Company's products incorporate different components including optical components, and other medical device software, any of which may contain errors or exhibit failures, especially when products are first introduced. In addition, new products or enhancements may contain undetected errors or performance problems that, despite testing, are discovered only after commercial shipment. Because our products are designed to be used to perform complex surgical procedures, due to the serious and costly consequences of product failure, the Company and its customers have an increased sensitivity to such defects. In the past, the Company has voluntarily recalled certain products. Although our products are subject to stringent quality processes and controls, the Company cannot provide assurance that its products will not experience component aging, errors, or performance problems. If the Company experiences product flaws or performance problems, any or all of the following could occur:

- delays in product shipments;
- loss of revenue;
- delay in market acceptance;
- diversion of our resources;
- damage to our reputation;
- product recalls;
- regulatory actions;
- increased service or warranty costs; or
- product liability claims.

Costs associated with product flaws or performance problems could have a material adverse effect on our business, financial condition, results of operations, or cash flows.

The success and continuing development of our products depends, in part, upon maintaining strong relationships with physicians and other healthcare professionals.

If the Company fails to maintain our working relationships with physicians and other ancillary healthcare and aesthetic professionals, the Company's products may not be developed and marketed in line with the needs and expectations of the professionals who use and support our products. Physicians assist us as researchers, marketing consultants, product consultants, and public speakers, and the Company relies on these professionals to provide us with considerable knowledge and experience. If the Company is unable to maintain these strong relationships, the development and marketing of our products could suffer, which could have a material adverse effect on our consolidated financial condition and results of operations.

The Company relies heavily on its sales professionals to market and sell its products worldwide. If the Company is unable to hire, effectively train, manage, improve the productivity of, and retain our sales professionals, the Company's business will be harmed, which would impair its future revenue and profitability.

The Company's success largely depends on our ability to hire, train, manage, train, and improve the productivity levels of the Company's sales professionals worldwide. Because of the Company's focus on non-core practitioners in the past, several of its 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 appropriately strong.

Competition for sales professionals who are familiar with, and trained to sell in, the aesthetic equipment market continues to be robust. As a result, the Company occasionally loses our sales people to competitors. The Company's industry is characterized by a few established companies that compete vigorously for talented sales professionals. Some of its sales professionals leave the Company for jobs that they perceive to be better opportunities, both within and outside of the aesthetic industry. For instance, in the second half of 2018, the Company experienced significant turnover of our sales professionals, including several people in key sales leadership positions. Most of these sales professionals went to work for a competitor. We believe the loss of these sales professionals negatively impacted our sales performance in the second half of 2018. The Company believes it has adequate measures in place to protect our proprietary and confidential information when employees leave our Company, however the ability to enforce these measures varies from jurisdiction to jurisdiction and we must make a case-by-case decision regarding legal enforcement action. For instance, covenants not-to-compete are not allowed in many states, and if allowed, difficult to enforce in many jurisdictions. Furthermore, such legal enforcement actions are expensive and we cannot give any assurance that these enforcement actions will be successful.

However, the Company also continues to hire and train new sales people, including several from our competitors. Several of the Company's sales employees and sales management are recently hired or 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, the Company also recruits sales professionals from outside the industry. Sales professionals from outside the industry typically take longer to train and 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.

The Company trains its 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 newly recruited sales professionals will be adequately trained in a timely manner, or that the Company direct sales productivity will improve, or that the Company will not experience significant levels of attrition in the future.

Measures the Company implements 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 its operations, additional departures from our sales organization, or further reduce our revenue and harm our business. If the Company is not able to improve the productivity and retention of our North American and international sales professionals, then the Company's total revenue, profitability and stock price may be adversely impacted.

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

The aesthetic light and energy-based treatment system industry is subject to continuous technological development and product innovation. If the Company does not continue to innovate and develop new products and applications, our competitive position will likely deteriorate as other companies successfully design and commercialize new products and applications or enhancements to our current products. The Company created products to apply our technology to body contouring, hair removal, treatment of veins, tattoo removal, and skin revitalization, including the treatment of diffuse redness, skin laxity, fine lines, wrinkles, skin texture, pore size and benign pigmented lesions, etc. For example, the Company introduced *Juliet*, a product for women's intimate health, in December 2017, *Secret RF*, a fractional RF microneedling device for skin revitalization, in January 2018, *enlighten SR* in April 2018, and *truSculpt iD* in July 2018. To grow in the future, the Company 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 the Company's product offerings, the Company must, among other things:

- develop or otherwise acquire new products that either add to or significantly improve our current product offerings;
- obtain regulatory clearance for these new products;
- 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 the Company's financial performance. To be successful in the aesthetics industry, the Company believes it needs to continue to innovate. The Company's business strategy is based, in part, on its expectation that the Company will continue to increase or enhance its product offerings. The Company needs to continue to devote substantial research and development resources to make new product introductions, which can be costly and time consuming to its organization.

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

While the Company attempts 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. The Company expects that any competitive advantage the Company may enjoy from current and future innovations may diminish over time as companies successfully respond to our, or create their own, innovations. Consequently, the Company believes that it will have to continuously innovate and improve our products and technology to compete successfully. If the Company is unable to innovate successfully, its products could become obsolete and its revenue could decline as its customers and prospects purchase its competitors' products.

Demand for our products in any of the Company's 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;
- competitive threat from new innovations, product introductions capturing mind and wallet share
- reduced patient demand for elective aesthetic procedures;
- failure to build and maintain relationships with opinion leaders within the various market segments; and
- the lack of credit financing, or an increase in the cost of borrowing, for some of our potential customers.

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

The search for a permanent President and Chief Executive Officer ("CEO"), may cause uncertainty regarding the future of the Company's business, impact employee hiring and retention, increase the volatility in our stock price, and adversely impact the Company's revenue, operating results, and financial condition.

On January 4, 2019, James A. Reinstein resigned as President and Chief Executive Officer and a member of the Company's board of directors ("Board"). Since then the Company's current Chief Operating Officer, R. Jason Richey has been acting as Chief Operating Officer and Interim CEO.

The Board is conducting a search for a new President and CEO. The Board's search for a President and CEO, and any related speculation and uncertainty regarding our future business strategy and direction in connection with the search and the appointment of a President and CEO, may cause or result in:

- Disruption of our business or distraction of our employees and management;
- Difficulty recruiting, hiring, motivating and retaining talented and skilled personnel, including a permanent President and CEO;
- Departures of other members of management;
- Increased stock price volatility; and
- Difficulty in establishing, maintaining or negotiating business or strategic relationships or transactions.

If the Company is unable to mitigate these or other potential risks related to the uncertainty caused by the Board's search for and appointment of a President and CEO, it may disrupt the Company's business or adversely impact its revenue, operating results, and financial condition. Further, there can be no assurance that the Company will be able to attract a qualified permanent President and CEO who has the qualifications to lead the Company or that the Company can hire a President and CEO on acceptable terms.

The Company depends on skilled and experienced personnel to operate its global business effectively. Changes to management or the inability to recruit, hire, train and retain qualified personnel, could harm the Company's ability to successfully manage, develop and expand its business, which would impair the Company's future revenue and profitability.

The Company is highly dependent on the principal members of our management, sales personnel and scientific personnel. For example, in the second half of 2018, the Company experienced significant turnover of our sales professionals, including several people in key sales leadership positions. Most of these sales professionals went to work for a competitor. We believe the loss of these sales professionals negatively impacted our sales performance in the second half of 2018. Additionally, the Company's product development plans depend, in part, on the Company's ability to attract and retain engineers with experience in medical devices. Attracting and retaining qualified personnel will be critical to our success, and competition for qualified personnel is intense. The Company may not be able to attract and retain personnel on acceptable terms given the competition for such personnel among technology and healthcare companies and universities. The loss of any of these persons or the Company's inability to attract, train and retain qualified personnel could harm our business and our ability to compete and become profitable.

Security breaches and other disruptions could compromise our information and impact our business, financial condition or results of operations.

The Company relies on networks, information management software and other technology, or information systems, including the Internet and third-party hosted services, to support a variety of business processes and activities, including procurement and supply chain, manufacturing, distribution, invoicing, order processing and collection of payments. The Company uses information systems to process financial information and results of operations for internal reporting purposes and to comply with regulatory financial reporting, legal and tax requirements. In addition, the Company depends on information systems for digital marketing activities and electronic communications among our locations around the world and between company personnel as well as customers and suppliers. Because information systems are critical to many of our operating activities, our business processes may be impacted by system shutdowns or service disruptions. These disruptions may be caused by failures during routine operations such as system upgrades or user errors, as well as network or hardware failures, malicious or disruptive software, computer hackers, geopolitical events, natural disasters, failures or impairments of telecommunications networks, or other catastrophic events. These events could result in unauthorized disclosure of material confidential information. If our information systems suffer severe damage, disruption or shutdown and the Company business continuity plans do not effectively resolve the issues in a timely manner, we could experience delays in reporting our financial results and we may lose revenue and profits as a result of our inability to timely manufacture, distribute, invoice and collect payments. Misuse, leakage or falsification of information could result in a violation of data privacy laws and regulations and damage our reputation and credibility, and could expose us to liability. The Company may also be required to spend significant financial and other resources to remedy the damage caused by a security breach or to repair or replace networks and information systems. Like most major corporations, the Company's information systems are a target of attacks. As of December 2018, we have not had any disruptions to our information systems that have materially affected our business, financial condition or results of operations. However, there can be no assurance that such disruptions will not have a material adverse effect on us in the future.

Changes in accounting standards and estimates could have a material adverse effect on our results of operations and financial position.

Generally accepted accounting principles and the related authoritative guidance for many aspects of our business, including revenue recognition, inventories, warranties, leases, income taxes and stock-based compensation, are complex and involve subjective judgments. Changes in these rules or changes in the underlying estimates, assumptions or judgments by our management could have a material adverse effect on our results of operations and may retroactively affect previously reported results. For example, recently issued authoritative guidance for lease accounting will result in a significant increase to long-term assets and liabilities given we have a significant number of leases.

The Company's ability to access credit on favorable terms, if necessary, for the funding of our operations and capital projects may be limited due to changes in credit markets.

The Company recently revised its Revolving Credit Facility with Wells Fargo Bank, N.A. The Original Revolving Line of Credit contained financial and other covenants as well as the maintenance of a leverage ratio not to exceed 2.5 to 1.0 and a TTM adjusted EBITDA of not less than $10 million. During the third quarter of 2018, the Company determined that it was in violation of certain financial covenants in the Original Revolving Line of Credit. Upon receipt of this notice, we entered into discussions with Wells Fargo to amend and revise certain terms of the Original Revolving Line of Credit. Following the

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

Subsequent to December 2018, the Company again determined that it was in violation of certain financial covenants in the First Amended Revolving Line of Credit. We again entered into discussions with Wells Fargo to amend and revise certain terms of the First Amended Revolving Line of Credit. On or about, March 11, 2019 the Company entered into a Second Amendment and Waiver to the Loan and Security Agreement with Wells Fargo (the "Second Amended Revolving Line of Credit"). The Second Amended Revolving Line of Credit requires the Company to maintain a minimum cash balance of $15 million at Wells Fargo, but removes all other covenants so long as no money is drawn on the line of credit. At such time as the Company elects to draw on the Second Amended Revolving Line of Credit, however, the Company must be in compliance with the various financial covenants or it will not be able to access the credit.

Additionally, although the Company does not currently carry any debt, in the past, the credit markets and the financial services industry have experienced disruption characterized by the bankruptcy, failure, collapse or sale of various financial institutions, increased volatility in securities prices, diminished liquidity and credit availability and intervention from the U.S. and other governments. Continued concerns about the systemic impact of potential long-term or widespread downturn, energy costs, geopolitical issues, the availability and cost of credit, the global commercial and residential real estate markets and related mortgage markets and reduced consumer confidence have contributed to increased market volatility. The cost and availability of credit has been and may continue to be adversely affected by these conditions. The Company cannot be certain that funding for our capital needs will be available from our existing financial institutions and the credit markets if needed, and if available, to the extent required and on acceptable terms. The Revolving Credit Facility terminates on May 30, 2021 and if the Company cannot renew or refinance this facility or obtain funding when needed, in each case on acceptable terms, such conditions may have an adverse effect on our revenues and results of operations.

The Company's ability to report timely and accurate information could be negatively impacted by its plan to implement a new accounting and enterprise resource planning ("ERP") system.

The Company is in the process of implementing a new accounting and ERP system. The Company has not previously had a comprehensive ERP system and to date has relied on a myriad of non-integrated systems, as well as manual processes. A system implementation of this magnitude entails a significant degree of inherent risk. The key elements of this implementation include the conversion of data from existing systems to the new system and the design of the new system to process and report financial and other transactions in an accurate and complete manner. If these, or other aspects of the implementation are not executed successfully, then its ability to report timely and accurate information could be negatively impacted. Failure to report required information in a timely or accurate fashion could result in financial penalties, fines and other administrative actions. Such events could have a material adverse effect on our total enterprise value and stock price.

Additionally, the process of implementing a new ERP system is capital intensive and includes the inherent risk of incurring significant additional costs should the time and resource requirements of the implementation be greater than what the Company currently anticipates.

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 and lending requirements;
- 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 elections;
- natural disasters;
- tax law changes
- 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 the Company's common stock has decreased by approximately 60% for the twelve months ended December 31, 2018 and may fluctuate substantially due to several factors, some of which are discussed below. Further, the Company has a relatively limited number of shares of common stock outstanding, a large portion of which is held by a small number of investors, which could result in the increase in volatility of its stock price.

The price of the Company's common stock has decreased by approximately 60% for the twelve months ended December 31, 2018 due in part to the deceleration in total revenue growth and profitability and other factors. 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:

- 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 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.

The Company may fail to meet its publicly announced guidance or other expectations about its business and future operating results, which could cause its stock price to decline.

The Company started providing, and may continue to provide, financial guidance about its business and future operating results. In developing this guidance, the Company's management must make certain assumptions and judgments about its future operating performance, including but not limited to projected hiring of sales professionals, growth of revenue in the aesthetic device market, increase or decrease of its market share, costs of production of its recently introduced products, and 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. The Company's 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 its operations and operating results. Furthermore, if the Company makes 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 could decline.

To successfully market and sell our products internationally, the Company must address many issues that are unique to the Company's international business. Furthermore, international expansion is a key component of our growth strategy, although our international operations and foreign transactions expose us to additional operational challenges that the Company might not otherwise face.

The Company is focused on international expansion as a key component of our growth strategy and have identified specific areas of opportunity in various international markets. International revenue is a material component of our business strategy, and represented 37% of our total revenue in 2018 compared to 38% of our total revenue in 2017. The Company depends on third-party distributors and a direct sales force to sell its products internationally, and the Company may be unable to increase or maintain its level of international revenue.

The Company has experienced significant turnover of our international sales team in the past. For instance, the Company announced on February 9, 2018, that Miguel Pardos resigned his position as Executive Vice President, International Sales of Cutera, effective on February 28, 2018. Cutera reassigned Mr. Pardos' duties among existing members of the International team. Though the departure did not have an adverse effect on the Company's international sales, it added additional pressure on the existing members. While the Company continues to have a direct sales and service organization in Australia, Japan, France, Belgium, Spain, Germany, Switzerland and the United Kingdom, a significant portion of its international revenue is generated through its network of distributors. Though the Company continues to evaluate and replace non-performing

distributors, and has recently brought greater focus on collaborating with its distributor partners, there can be no assurance given that these initiatives will result in improved international revenue or profitability in the future.

To grow the Company's business, it 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 the Company is not able to increase or maintain international revenue growth, our total revenue, profitability and stock price may be adversely impacted.

Economic and other risks associated with international sales and operations could adversely affect the Company's business.

In 2018, 37% of our total revenue was from customers outside of North America. The Company expects its sales from international operations and export sales to continue to be a significant portion of our revenue. The Company has placed a particular emphasis on increasing its growth and presence in international markets. The Company's international operations and sales are subject, in varying degrees, to risks inherent in doing business outside the U.S. These risks include:

- changes in trade protection measures, including embargoes, tariffs and other trade barriers, and import and export regulations and licensing requirements;
- instability and uncertainties arising from the global geopolitical environment, such as economic nationalism, populism, protectionism and anti-global sentiment;
- changes in tax laws and potential negative consequences from the interpretation, application and enforcement by governmental tax authorities of tax laws and policies;
- unanticipated changes in other laws and regulations or in how such provisions are interpreted or administered;
- reduced protection for intellectual property rights in some countries and practical difficulties of enforcing intellectual property and contract rights abroad
- possibility of unfavorable circumstances arising from host country laws or regulations, including those related to infrastructure and data transmission, security and privacy;
- currency exchange rate fluctuations and restrictions on currency repatriation;
- difficulties and expenses related to implementing internal control over financial reporting and disclosure controls and procedures;
- disruption of sales from labor and political disturbances;
- regional safety and security considerations;
- increased costs and risks in developing, staffing and simultaneously managing global sales operations as a result of distance as well as language and cultural differences;
- increased management, travel, infrastructure and legal compliance costs associated with having multiple international operations;
- lengthy payment cycles and difficulty in collecting accounts receivable;
- preference for locally-produced products, as well as protectionist laws and business practices that favor local companies; and
- outbreak or escalation of insurrection, armed conflict, terrorism or war

Changes in the geopolitical or economic environments in the countries in which the Company operates could have a material adverse effect on our financial condition, results of operations or cash flows. For example, changes in U.S. policy regarding international trade, including import and export regulation and international trade agreements, could also negatively impact our business. In 2018, the U.S. imposed tariffs on certain goods imported from China and certain other countries, which has resulted in retaliatory tariffs by China and other countries. Additional tariffs imposed by the U.S. on a broader range of imports, or further retaliatory trade measures taken by China or other countries in response, could adversely impact our financial condition and results of operations.

The Company's global operations are required to comply with the U.S. Foreign Corrupt Practices Act of 1977, as amended ("FCPA"), Chinese anti-corruption laws, U.K. Bribery Law, and similar anti-bribery laws in other jurisdictions, and with U.S. and foreign export control, trade embargo and customs laws. If the Company fails to comply with any of these laws, the Company could suffer civil and criminal sanctions.

Additionally, the Company continues to monitor Brexit and its potential impacts on our results of operations and financial condition. Volatility in foreign currencies is expected to continue as the United Kingdom executes its exit from the EU. If the United Kingdom's membership in the EU terminates without an agreement (referred to as a "hard Brexit"), there could be increased costs from re-imposition of tariffs on trade between the United Kingdom and EU, increased transportation costs, shipping delays because of the need for customs inspections and procedures and shortages of certain goods. The United

Kingdom will also need to negotiate its own tax and trade treaties with countries all over the world, which could take years to complete and could result in a material impact to our consolidated revenue, earnings and cash flow.

In addition to the general risks that the Company faces outside the U.S., our operations in emerging markets could involve additional uncertainties for us, including risks that governments may impose withholding or other taxes on remittances and other payments to us, or the amount of any such taxes may increase; governments may seek to nationalize our assets; or governments may impose or increase investment barriers or other restrictions affecting our business. In addition, emerging markets pose other uncertainties, including the difficulty of enforcing agreements, challenges collecting receivables, protection of our intellectual property and other assets, pressure on the pricing of our products and services, higher business conduct risks, ability to hire and retain qualified talent and risks of political instability. The Company cannot predict the impact such events might have on our business, financial condition and results of operations.

In addition, compliance with laws and regulations applicable to our international operations increases our cost of doing business in foreign jurisdictions. The Company 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 U.S. regulations applicable to us. In addition, although the Company has 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, the Company must address many issues that are unique to the related distribution arrangements which could reduce our available cash reserves and negatively impact our profitability.

The Company has entered into distribution arrangements pursuant to which the Company utilizes its sales force and distributors to sell products manufactured by other companies. In Japan, the Company has a non-exclusive right to distribute a Q-switched laser product manufactured by a third party OEM. The Company also has 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. Additionally, the Company has entered into distribution arrangements with other companies to promote and sell the *Secret RF* and *Juliet* products.

Each of these distribution agreements presents its own unique risks and challenges. For example, to sell skincare products the Company needs to invest in creating a sales structure that is experienced in the sale of such products and not in capital equipment. The Company needs to commit resources to train our sales force, obtain regulatory licenses, and develop new marketing materials to promote the sale of these products. In addition, the minimum commitments and other costs of distributing products manufactured by these companies may exceed the incremental revenue that the Company derives from the sale of their products, thereby negatively impacting our profitability and reducing our available cash reserves.

If the Company does not make the minimum purchases required in the distribution contracts, or if the third party manufacturer revokes our distribution rights, the Company could lose the distribution rights of the products, which would adversely affect the Company's future revenue, results of operations, cash flows and its stock price.

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

The Company generally offers credit terms of 30 to 90 days to qualified customers. In addition, from time to time, it offers certain key international distributors, with whom the Company has 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 its products in stock and provide its products to customers on a timely basis. As of December 31, 2018, one international distributor partner accounted for 3.4% of our outstanding accounts receivable balance.

While the Company believes it has an adequate basis to ensure that it collects its accounts receivable, the Company cannot provide any assurance that the financial position of customers to whom it has provided payment terms will not change adversely before the Company receives payment. In the event that there is a default by any of the customers to whom the Company has provided credit terms, the Company 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 its stock price.

Additionally, in the event of deterioration of general business conditions or the availability of credit, the financial strength and stability of our customers and potential customers may deteriorate over time, which may cause them to cancel or delay their purchase of its products. In addition, the Company may be subject to increased risk of non-payment of its accounts receivables. The Company may also be adversely affected by bankruptcies or other business failures of our customers and potential customers. A significant delay in the collection of funds or a reduction of funds collected may impact our liquidity or result in bad debts.

The Company's ability to effectively compete and generate additional revenue from new and existing products depends upon the Company's ability to distinguish the Company and its products from the competitors and their products, and to develop and effectively market new and existing products. The Company's 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, the Company has to demonstrate that its 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 the Company's competitors have newer or different products and more established customer relationships than the Company does, which could inhibit our market penetration efforts. For example, the Company has 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 the Company is unable to increase our market penetration or compete effectively, its revenue and profitability will be adversely impacted.

The Company competes against companies that offer alternative solutions to its products, or have greater resources, a larger installed base of customers and broader product offerings than ours. In addition, increased consolidation in the Company's industry may lead to increased competition. If the Company is not able to effectively compete with these companies, it may harm its business.

The medical technology and aesthetic product markets are highly competitive and dynamic and are characterized by rapid and substantial technology development and product innovations. The Company's products compete against conventional non-energy-based treatments, such as electrolysis, Botox and collagen injections, chemical peels, microdermabrasion and sclerotherapy. The Company's products also compete against laser and other energy-based products offered by public companies. 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, Allergan acquired Zeltiq in April 2017, Hologic acquired Cynosure in March 2017, XIO Group acquired Lumenis in September 2015, and Valeant acquired Solta in January 2014. These consolidations have created newly-combined entities with greater financial resources, deeper sales channels and greater pricing flexibility than the Company. Rumored or actual consolidation of our partners and competitors could 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. The Company 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 the Company's products, practitioner demand for its 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 an unstable economy, maybe significantly impacted;
- 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 the Company's sales and marketing efforts; and
- the education of the Company's customers and patients on the benefits and uses of the Company's 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 the Company fails to comply with applicable regulatory requirements, it could result in enforcement action by the U.S. Food and Drug Administration, federal and state agencies or international regulatory bodies and our commercial operations would be harmed.

The Company's 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.The FDA, state authorities and international regulatory bodies have broad enforcement powers. If the Company fails 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.

Federal regulatory reforms and changes occurring at the FDA could adversely affect the Company's ability to sell its 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 the Company's 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 its products.

For instance, on or about July 30, 2018, the FDA issued a public statement and sent letters to a number of companies in the medical aesthetics industry expressing concerns regarding "vaginal revitalization" procedures using energy-based devices. The Company's *Juliet* device is promoted and used by physicians in procedures that are the subject of the FDA's public warning. However, neither the Company nor its distribution partner were named in the announcement, and neither the Company nor its distribution partner have received a letter from the agency as of the date of this filing. Working with our

distribution partner and the FDA, the Company is assessing the potential parameters of an additional study regarding our *Juliet* device to address the concerns highlighted in the FDA's statement. However, there can be no assurances that we will reach an agreement with our distribution partner on the execution details of such a study, or that such a study will be successful in addressing the FDA's safety concerns with our *Juliet* device.

Notwithstanding, the Company saw a significant slowdown in the sales of *Juliet* in the third and fourth quarters of 2018. The Company believes this relates to the safety letter, given the timing. The Company supports any action that helps ensure patient safety going forward. The Company has a robust, multi-functional process that reviews its promotional claims and materials to ensure they are truthful, not misleading, fair and balanced, and supported by sound scientific evidence.

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

The Company is 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. The Company has 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 in March, 2017. There were no significant findings or observations as a result of this audit. Failure to take satisfactory corrective action in response to an adverse QSR inspection or its 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 its products, civil or criminal penalties, or other sanctions, such as those described in the preceding paragraph, which would cause its sales and business to suffer.

The Company is a sponsor of Biomedical Research. As such, the Company is also subject to FDA regulations relating to the design and conduct of clinical trials. The Company 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 the Company modifies one of its FDA-cleared devices, it may need to seek a new clearance, which, if not granted, would prevent the Company from selling its modified products or cause it to redesign its 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. The Company may not be able to obtain additional 510(k) clearance or premarket approvals for new products or for modifications to, or additional indications for, its existing products in a timely fashion, or at all. Delays in obtaining future clearance would adversely affect its ability to introduce new or enhanced products in a timely manner, which in turn would harm its revenue and future profitability.

The Company has made modifications to its devices in the past and may make additional modifications in the future that it believes do not or will not require additional clearance or approvals. If the FDA disagrees, and requires new clearances or approvals for the modifications, the Company may be required to recall and to stop marketing the modified devices, which could harm the Company's operating results and require it to redesign its products.

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

Sales of the Company's 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. The Company may be unable to obtain or maintain regulatory qualifications, clearances or approvals in other countries. The Company may also incur significant costs in attempting to obtain and in maintaining foreign regulatory approvals or qualifications. If the Company experience delays in receiving necessary qualifications, clearances or approvals to market its products outside the U.S., or if the Company fails to receive those qualifications, clearances or approvals, the Company may be unable to market its 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 its products may not be discovered prior to shipment to customers, which could materially increase its expenses, adversely impact profitability and harm its business.

The design of the Company's products is complex. To manufacture them successfully, the Company must procure quality components and employ individuals with a significant degree of technical expertise. If the Company's designs are defective, or the material components used in its products are subject to wearing out, or if suppliers fail to deliver components to specification, or if its employees fail to properly assemble, test and package its products, the reliability and performance of its products will be adversely impacted.

If the Company's products contain defects that cannot be repaired easily, inexpensively, or on a timely basis, the Company 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 the Company due to a defective design, material or workmanship or misuse of its products and could result in expensive and time-consuming litigation, payment of substantial damages and an increase in its insurance rates.

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

The Company is currently involved in litigation that could adversely affect the Company's business and financial results, divert management's attention from our business, and subject the Company to significant liabilities.

As described under "Note 11- Commitments and Contingencies - Contingencies" in our consolidated financial statements included in this Annual Report on Form 10-K, the Company is involved in various litigation, which may adversely affect the Company's financial condition and may require us to devote significant resources to our defense of these claims.

Such litigation involves certain non-compete provisions of an agreement an employee of ours was a party to while employed by a competitor. The competitor alleges causes of action for breach of contract (against the employee) and intentional interference with contractual relations (Cutera). The Company believes the non-compete provisions are unenforceable. The competitor has also threatened to file a complaint against another current employee based in Arizona. As of March 14, 2019, the Company is involved in several lawsuits worldwide, with most of the claims in various federal or state courts throughout the U.S. The complaints generally seek damages and other relief based on theories of breach of express and implied warranties, fraudulent and negligent misrepresentation/concealment, unjust enrichment, and violations of various state consumer protection statutes.

Although the Company is defending these matters vigorously, the Company cannot predict with certainty the outcome or effect of any claim or other litigation matter, and there can be no assurance as to the ultimate outcome of any litigation or proceeding. Litigation may have a material adverse effect on the Company because of potential adverse outcomes, defense costs, the diversion of our management's resources, availability of insurance coverage and other factors.

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 the Company does not require training for users of its products, and sell its 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 its products. The Company does not supervise the procedures performed with our products, nor does the Company require that direct medical supervision occur—that is determined by state law. The Company and its distributors generally offer but do not require product training to the purchasers or operators of our products. In addition, the Company sometimes sells its systems to companies that rent its systems to third parties and that provide a technician to perform the procedures. The lack of training and the purchase and use of its products by non-physicians may result in product misuse and adverse treatment outcomes, which could harm our reputation and its 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 the Company's marketable investments or impair the Company's liquidity.

The primary objective of most of our investment activities is to preserve principal. To achieve this objective, the Company invests its 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, 2018, our balance in marketable investments was $9.5 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, there would not have any adverse impact the Company's earnings. As a result, changes in the market interest rates will affect its future net income (loss).

The Company's manufacturing operations are dependent upon third-party suppliers, making its vulnerable to supply shortages and price fluctuations, which could harm its business.

Many of the components and materials that comprise its products is 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. The Company's reliance on these suppliers subjects us to a number of risks that could harm its 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;
- 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 the Company is 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 the Company's inability to obtain substitute components or materials from alternate sources at acceptable prices in a timely manner, could impair its ability to meet the demand of the Company's customers, which would have an adverse effect on the Company's business.

Risks related to the reduction or interruption in supply and an inability to develop alternative sources for supply may adversely affect the Company's manufacturing operations and related product sales.

The Company maintains manufacturing operations at its facility in Brisbane, California, and purchase many of the components and raw materials used in manufacturing these products from numerous suppliers in various countries. Any problem affecting a supplier (whether due to external or internal causes) could have a negative impact on us.

In a few limited cases, specific components and raw materials are purchased from primary or main suppliers (or in some cases, a single supplier) for reasons related to quality assurance, cost-effectiveness ratio and availability. While the Company works closely with its suppliers to ensure supply continuity, the Company cannot guarantee that its efforts will always be successful. Moreover, due to strict standards and regulations governing the manufacture and marketing its products, it may not be able to quickly locate new supply sources in response to a supply reduction or interruption, with negative effects on its ability to manufacture its products effectively and in a timely fashion.

The Company's manufacturing is currently conducted at a single site, and the occurrence of a catastrophic disaster or other similar event could cause damage to its facilities and equipment, which might require the Company to cease or curtail operations.

The Company is vulnerable to damage from various types of disasters, including fires, earthquakes, terrorist acts, floods, power losses, communications failures and similar events. If any such disaster were to occur, the Company may not be able to operate our business at our facility in Brisbane, California. Our manufacturing facilities require FDA approval, which could result in significant delays before the Company could manufacture products from a replacement facility. The insurance the Company maintains may not be adequate to cover our losses resulting from disasters or other business interruptions. Therefore, any such catastrophe could seriously harm our business and consolidated results of operations.

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.

The Company relies on patent, copyright, trade secret and trademark laws and confidentiality agreements to protect our technology and products. At December 31, 2018, the Company had 32 issued U.S. patents and 5 pending U.S. patent applications. 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, the Company's patent applications may not issue as patents or, if issued, may not issue in a form that will be advantageous to us. Any patents the Company obtains 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. The Company 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 the Company does not know whether the steps it has taken to protect the Company's intellectual property will be effective. Moreover, the laws of many foreign countries will not protect the Company's 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 the Company's products and attempt to replicate some or all of the competitive advantages the Company derives from our development efforts, design around our protected technology, or develop their own competitive technologies that fall outside of the Company's intellectual property rights. If the Company's intellectual property is not adequately protected against competitors' products and methods, the Company's competitive position and its business could be adversely affected.

The Company may be involved in future costly intellectual property litigation, which could impact its future business and financial performance.

The Company's competitors or other patent holders may assert that the Company's present or future products and the methods the Company employs are covered by their patents. In addition, the Company does not know whether its 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 the Company may seek to resolve any potential future claims or actions, it may not be able to do so on reasonable terms, or at all. If, following a successful third-party action for infringement, the Company cannot obtain a license or redesign our products, it 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.

The Company 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, the Company has been involved in litigation to protect the trademark rights associated with its company name or the names of its 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 its core business.

The expense and potential unavailability of insurance coverage for the Company's customers could adversely affect its ability to sell its products, and therefore adversely affect its financial condition.

Some of the Company's customers and prospective customers have had difficulty procuring or maintaining liability insurance to cover their operation and use of its products. Medical malpractice carriers are withdrawing coverage in certain states or substantially increasing premiums. If this trend continues or worsens, the Company's 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 its ability to sell its products, and that could harm its financial condition.

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

The Company is subject to income taxes in the U.S. and certain foreign jurisdictions where it operates through a subsidiary, including Australia, Belgium, Canada, France, Germany, Hong Kong, Japan, Spain, Switzerland, Italy and the United Kingdom. The Company's determination of its tax liability is subject to review by applicable domestic and foreign tax authorities.

The Company is currently under tax examination in Germany ("Cutera GmbH") for tax years ended December 31, 2011 through 2013 and are uncertain of the potential outcome of this examination. The Company underwent audits for our California sales and use tax returns for the period July 2013 through June 2016, and Canadian goods and services tax and harmonized sales tax returns for the period January 2013 to July 2015. Although these audits 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. An increase or decrease of tax related to tax examination resolution could result in a change in the Company's income tax accrual and could negatively impact its financial position, results of operations or cash flows.

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

The Company is subject to taxes in the U.S. and other jurisdictions. Tax rates in these jurisdictions may be subject to significant change due to economic and/or political conditions. A number of other factors may also impact our future effective tax rate including:

- the jurisdictions in which profits are determined to be earned and taxed;
- the resolution of issues arising from tax audits with various tax authorities
- changes in valuation of our deferred tax assets and liabilities;
- increases in expenses not deductible for tax purposes, including write-offs of acquired intangibles and impairment of goodwill in connection with acquisitions;
- changes in availability of tax credits, tax holidays, and tax deductions;
- changes in share-based compensation; and
- changes in tax laws or the interpretation of such tax laws and changes in generally accepted accounting principles.

In the U.S., the Patient Protection and Affordable Care Act, as amended by the Health Care and Education Reconciliation Act (collectively, the "Affordable Care Act"), for example, has the potential to significantly impact the pharmaceutical and medical device industries. The Affordable Care Act imposed, among other things, an annual excise tax of 2.3% on any entity that manufactures or imports medical devices offered for sale in the U.S. Due to subsequent legislative amendments the excise tax has been suspended for the period January 1, 2016 to December 31, 2019, and, absent further legislative action, will be reinstated starting January 1, 2020, which may result in a material adverse effect on our financial condition or cash flows.

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

While the Company from time to time evaluates potential acquisitions of businesses, products and technologies, and anticipates continuing to make these evaluations, the Company has no present understandings, commitments or agreements with respect to any material acquisitions or collaborative projects. The Company may not be able to identify appropriate acquisition candidates or strategic partners, or successfully negotiate, finance or integrate any businesses, products or technologies that the Company acquire.

The Company has 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 the Company's operations and it 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 its acquisitions or investments may not materialize and could result in an impairment of goodwill and/or purchased long-lived assets.

The Company 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.

The Company's failure to comply with rules relating to bribery, foreign corrupt practices, and privacy and security laws may subject the Company to penalties and adversely impact its reputation and business operations.

The Company business is subject to regulation and oversight worldwide including:

- the FCPA, which prohibits corporations and individuals from paying, offering to pay or authorizing the payment of anything of value to any foreign government official, government staff member, political party or political candidate in an attempt to obtain or retain business or to otherwise influence a person working in an official capacity;
- the UK Bribery Act, which prohibits both domestic and international bribery, as well as bribery across both public and private sectors; and bribery provisions contained in the German Criminal Code, which, pursuant to draft legislation being prepared by the German government, may make the corruption and corruptibility of physicians in private practice and other healthcare professionals a criminal offense;
- Health Insurance Portability and Accountability Act of 1996, as amended by The Health Information Technology for Economic and Clinical Health Act , which governs the conduct of certain electronic healthcare transactions and protects the security and privacy of protected health information; and
- analogous state and foreign law equivalents of each of the above laws, such as state laws that require device companies to comply with the industry's voluntary compliance guidelines and the applicable compliance guidance promulgated by the federal government; and state laws governing the privacy and security of health information in certain circumstances, many of which differ from each other in significant ways and may not have the same effect, thus complicating compliance efforts.

The risk of being found in violation of these laws is increased by the fact that many of them have not been fully interpreted by the regulatory authorities or the courts, and their provisions are open to a variety of interpretations. Because of the breadth of these laws and the narrowness of the statutory exceptions and safe harbors available under such laws, it is possible that some of the Company's business activities, including our relationships with practitioners and thought leaders worldwide, some of whom recommend, purchase and/or use our devices, as well as the Company's sales agents and distributors, could be subject to challenge under one or more of such laws. The Company is also exposed to the risk that our employees, independent contractors, principal investigators, consultants, vendors, independent sales agents and distributors may engage in fraudulent or other illegal activity. While the Company has policies and procedures in place prohibiting such activity, misconduct by these parties could include, among other infractions or violations, intentional, reckless and/or negligent conduct or unauthorized activity that violates FDA regulations, including those laws that require the reporting of true, complete and accurate information to the FDA, manufacturing standards, laws that require the true, complete and accurate reporting of financial information or data or other commercial or regulatory laws or requirements. It is not always possible to identify and deter misconduct by our employees and other third parties, and the precautions the Company takes to detect and prevent this activity may not be effective in controlling unknown or unmanaged risks or losses or in protecting the Company from governmental investigations or other actions or lawsuits stemming from a failure to be in compliance with such laws or regulations.

There are similar laws and regulations applicable to us outside the U.S., all of which are subject to evolving interpretations. Global enforcement of anti-corruption laws, including but not limited to the UK Bribery Act, the Brazil Clean Companies Act, and continued enforcement in the Europe, Middle East and Asia Pacific has increased substantially in recent years, with more frequent voluntary self-disclosures by companies, aggressive investigations and enforcement proceedings by governmental agencies, and assessment of significant fines and penalties against companies and individuals. The Company's operations create the risk of unauthorized payments or offers of payments by one of its employees, consultants, sales agents, or distributors because these parties are not always subject to its control. It is the Company's policy to implement safeguards to discourage these practices; however, its existing safeguards and any future improvements may prove to be less than effective, and its employees, consultants, sales agents, or distributors may engage in conduct for which the Company might be held responsible. Any alleged or actual violations of these regulations may subject us to government scrutiny, severe criminal or civil sanctions and other liabilities, and could negatively affect its business, reputation, operating results, and financial condition.

While the Company believes it has a strong culture of compliance and adequate systems of control, and it seeks continuously to improve its systems of internal controls and to remedy any weaknesses identified, there can be no assurance that the policies and procedures will be followed at all times or will effectively detect and prevent violations of the applicable laws by one or more of its employees, consultants, agents or partners and, as a result, the Company may be subject to penalties and material adverse consequences on its business, financial condition or results of operations.

ITEM 1B. UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 2. PROPERTIES

The Company occupies 66,000 square feet for its U.S. Corporate office in Brisbane, California, under a lease which extends through January 31, 2023. The original lease expired on December 31, 2017, and the Company entered into a Second Amendment on July 6, 2017 that extended the term of the lease from December 31, 2017 to January 31, 2023. Pursuant to the terms of the Second Amendment to the Lease Agreement, the Company has the option to extend the term of the lease by an additional 60 months. Additionally, the Company also has a one-time option to terminate the amended lease early effective as of December 31, 2020, in return for payment of a termination fee.

In addition, the Company has leased office facilities in certain countries as follows:

Country	Square Footage	Lease termination or Expiration
Japan.....	Approximately 5,896	Two leases, one of which was originally scheduled to expire in March 2018, but was extended for another three years from March 2018 to March 2021, and the other which expires in December 2019.
France.....	Approximately 2,239	One lease which expires in October 2021.
Spain.....	Approximately 3,584	One lease signed effective February 1, 2018, which expires in January 31, 2021.

The Company believes that these facilities are suitable and adequate for its current and future needs for at least the next twelve months.

ITEM 3. LEGAL PROCEEDINGS

From time to time, the Company may be involved in legal and administrative proceedings and claims of various types. For a description of material pending legal and regulatory proceedings and settlements as of December 31, 2018, please see Note 11 to the Company's consolidated financial statements entitled "Commitments and Contingencies," Item 8, included in this Annual Report on Form 10-K.

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

The Company's common stock trades on The NASDAQ Global Select Market under the symbol "CUTR." As of March 1, 2019, the closing sale price of its common stock was $17.72 per share.

Common Stockholders

The Company had 5 stockholders of record as of March 1, 2019. Since many stockholders choose to hold their shares under the name of their brokerage firm, the Company estimates that the actual number of stockholders was over 4,700 shareholders.

Issuer Purchases of Equity Securities

There were no repurchases of our common stock under the Company's Stock Repurchase Program in 2018.

Sales of Unregistered Securities

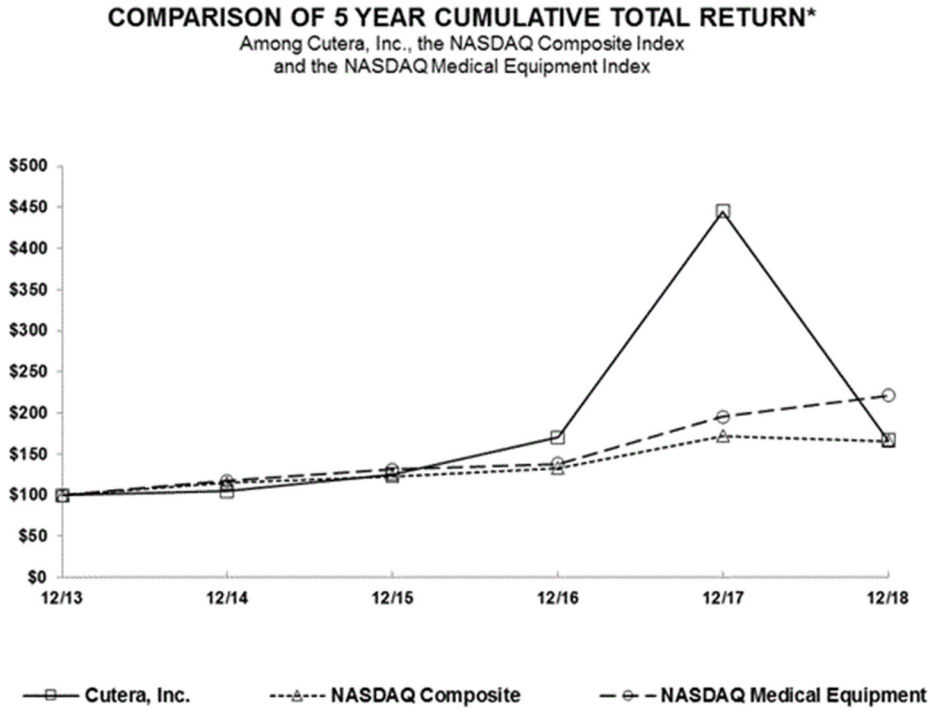
The Company did not sell any unregistered securities during the period covered by this Annual Report on Form 10-K.

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

The graph set forth below compares the cumulative total stockholder return on our common stock between December 31, 2013, and December 31, 2018, with the cumulative total return for (1) our common stock, (2) the NASDAQ Composite index and (3) the NASDAQ Medical Equipment Index over the same period. This graph assumes the investment of $100.00 on December 31, 2013 in our common stock, the NASDAQ Composite Index, and the NASDAQ Medical Equipment Index,



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.

ITEM 6. SELECTED FINANCIAL DATA

The following selected consolidated financial data should be read in conjunction with our Consolidated Financial Statements and the accompanying Notes and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included elsewhere in this report. The selected data in this section is not intended to replace the Consolidated Financial Statements.

	Year Ended December 31,				
Consolidated Statements of Operations Data (in thousands, except per share data):	**2018**	**2017**	**2016**	**2015**	**2014**
Net revenue	$ 162,720	$ 151,493	$ 118,056	94,761	$ 78,138
Cost of revenue	82,338	65,383	49,921	40,478	34,765
Gross profit	80,382	86,110	68,135	54,283	43,373
Operating expenses:					
Sales and marketing	58,420	52,070	41,563	35,942	32,246
Research and development	14,359	12,874	11,232	10,733	10,543
General and administrative	20,995	14,090	12,943	12,129	11,203
Lease termination income	--	(4,000)	--	--	--
Total operating expenses	93,774	75,034	65,738	58,804	53,992
Income (loss) from operations	(13,392)	11,076	2,397	(4,521)	(10,619)
Interest and other income, net	(123)	884	323	293	226
Income (loss) before income taxes	(13,515)	11,960	2,720	(4,228)	(10,393)
Income tax (benefit) provision	17,255	(18,033)	143	212	219
Net income (loss)	$ (30,770)	$ 29,993	$ 2,557	$ (4,440)	$ (10,612)
Net income (loss) per share:					
Basic	$ (2.23)	$ 2.16	$ 0.19	$ (0.32)	$ (0.74)
Diluted	$ (2.23)	$ 2.04	$ 0.19	$ (0.32)	$ (0.74)
Weighted-average number of shares used in per share calculations:					
Basic	13,771	13,873	13,225	13,960	14,254
Diluted	13,771	14,728	13,753	13,960	14,254

	As of December 31,				
Consolidated Balance Sheet Data (in thousands):	**2018**	**2017**	**2016**	**2015**	**2014**
Cash, cash equivalents and marketable investments	$ 35,575	$ 35,912	$ 54,074	$ 48,407	$ 81,146
Working capital (current assets less current liabilities)	39,578	45,063	59,460	49,398	81,900
Total assets	97,637	111,238	91,854	77,518	108,913
Retained earnings (accumulated deficit)	(24,010)	2,947	(27,046)	(29,672)	(25,232)
Total stockholders' equity	46,386	64,893	61,010	50,034	80,508

* Financial results for year ended December 31, 2018, as compared to the years ended December 31, 2017, 2016, 2015, and 2014 reflect the effects of adopting ASU 2014-09, "Revenue from Contracts with Customers (Topic 606)" and the related amendments (ASC 606), which provided a new basis of accounting for our revenue arrangements during fiscal year 2018. The adoption of ASC 606 limits the comparability of revenue and certain expenses, including revenues and costs and operating expenses, presented in the results of operations for the year ended December 31, 2018 when compared to the years ended December 31, 2017, 2016, 2015, and 2014. For additional information regarding the impact from adoption of this accounting standard, see Note 1, "Revenue Recognition" to the Consolidated Financial Statements set forth in Item 8 of this Annual Report on Form 10-K.

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, 2018. 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. The Company's 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. The Company cautions 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. The Company undertakes 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 the Company's 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. The Company encourages 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 the Company focuses 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, 2018.

Executive Summary

Company Description

The Company is a leading medical device company specializing in the research, development, manufacture, marketing and servicing of light and other energy based aesthetics systems for practitioners worldwide. In addition to internal development of products, the Company distributes third party sourced products under our own brand names. The Company offers easy-to-use products which enable practitioners to perform safe and effective aesthetic procedures, including treatment for body contouring, skin resurfacing and revitalization, tattoo removal, removal of benign pigmented lesions, vascular conditions, hair removal, toenail fungus and women's intimate health. 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, the Company generates revenue from the sale of post warranty service contracts, providing services for products that are out of warranty, hand piece refills and other per procedure related revenue on select systems, and distribution of third-party manufactured skincare products.

The Company's ongoing research and development activities primarily focus on developing new products, as well as improving and enhancing the Company's portfolio of existing products. The Company also explores ways to expand the Company's product offerings through alternative arrangements with other companies, such as distribution arrangements. The Company introduced *Juliet*, a product for women's intimate health, in December 2017, *Secret RF*, a fractional RF microneedling device for skin revitalization, in January 2018, *enlighten SR* in April 2018, and *truSculpt iD* in July 2018.

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

Products and Services

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

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

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

Service includes prepaid service contracts, training services, *enlighten* installation, direct billings for detachable hand piece replacements and revenue for parts, customer marketing support and labor on out-of-warranty products.

Significant Business Trends.

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

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

For a detailed discussion of the significant business trends impacting the Company's business, please see the section titled "Results of Operations" below.

Factors that May Impact Future Performance

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

On July 30, 2018, the FDA issued a public statement and sent letters to a number of companies in the medical aesthetics industry expressing concerns regarding "vaginal rejuvenation" procedures using energy-based devices. The Company was not named in the announcement, and the Company has not received a letter from the agency, however the Company's *Juliet* device is promoted and used by physicians in procedures that are the subject of the FDA's public statement. The Company is not aware of any adverse events resulting from the use of *Juliet* , and believes that *Juliet*'s development and promotion is based on science and clinical evidence. Notwithstanding, the Company experienced a significant slowdown in the sale of *Juliet* systems in the third and fourth quarters of 2018. The Company believes this relates to the safety letter, given the timing.

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

A detailed discussion of these and other factors that could impact the Company's future performance are provided in (1) the Company's Annual Report on Form 10-K for the year ended December 31, 2017- Part I, Item 1A "Risk Factors." (2) the Company's reports and registration statements filed and furnished from time to time with the SEC, and (3) other announcements the Company makes from time to time.

Critical accounting policies, significant judgments and use of estimates

The preparation of the Company's Consolidated Financial Statements and related disclosures in conformity with generally accepted accounting principles in the U.S. ("GAAP") requires the Company 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 the Company believes are reasonable under the circumstances. The Company periodically reviews its estimates and make adjustments when facts and circumstances dictate. To the extent that there are material differences between these estimates and actual results, its financial condition or results of operations will be affected.

Critical accounting estimates, as defined by the SEC, are those that are most important to the portrayal of the Company's financial condition and results of operations and require our management's most difficult and subjective judgments and estimates of matters that are inherently uncertain. The Company's critical accounting estimates are as follows:

Revenue Recognition

Revenue is recognized upon transfer of control of promised products or services to customers in an amount that reflects the consideration to which the Company expects to be entitled in exchange for promised goods or services. The Company's performance obligations are satisfied either over time or at a point in time.

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

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

Nature of Products and Services

Systems

System revenue represents the sale of a system or an upgrade of an existing system. A system consists of a console that incorporates a universal graphic user interface, a laser or other energy based module, control system software and high voltage electronics, as well as one or more hand pieces. However, depending on the application, the laser or other energy based module is sometimes contained in the hand piece such as with the Company's *Pearl* and *Pearl Fractional* applications instead of within the console.

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

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

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

For systems sold directly to end-customers that are credit approved, revenue is recognized when the Company transfers control to the end-customer, which occurs when the product is shipped to the customer or when the customer receives the product, depending on the nature of the arrangement. The Company recognizes revenue on a cash basis for system sales to international direct end-customer sales that have not been credit approved, as the performance obligations in the contract are satisfied. For systems sold through credit approved distributors, revenue is recognized at the time of shipment.

The Company's system arrangements generally do not provide a right of return. The Company provides a standard one-year warranty coverage for all systems sold to end-customers to cover parts and service, and extended service plans that vary by the type of product and the level of service desired.

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

Skincare products

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

Consumables (Other accessories)

The Company treats its customers' purchases of replacement *Titan*, *truSculpt 3D* and *truSculpt iD* hand pieces as Consumable revenue, which provides the Company with a source of recurring revenue from existing customers. The Company's recently launched *Juliet* and *Secret RF* products have single use disposable tips which must be replaced after every treatment. Sales of these consumable tips further enhance the Company's recurring revenue. Hand piece refills of the Company's legacy *truSculpt* product are accounted for in accordance with the Company's standard warranty and service contract policies.

Extended contract services

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

Training

Sales of systems to customers include training on the system to be provided within 90 to 180 days of purchase. The Company considers training as a separate performance obligation as customers can immediately benefit from the training due to the fact that the customer already has the system. Training is also sold separately from systems. The Company recognizes revenue for training when the training is provided. Training is not required for customers to use the systems.

Customer Marketing Support

In North America, the Company offers marketing and consulting phone support to its customers who purchase its *truSculpt 3D* and *truSculpt iD* systems. These customer marketing support services include a practice development model and marketing training, performed remotely with ongoing phone consultations for six months from date of purchase. The Company considers customer marketing support a separate performance obligation, and recognizes revenue over the six-month term of the contracts.

Significant Judgments

More judgments and estimates are required under ASC Topic 606 than were required under the previous revenue recognition guidance, ASC Topic 605. Revenue recognition under ASC Topic 606 for the Company's arrangements may be dependent on contract-specific terms.

Judgment is required to determine the standalone selling price ("SSP") for each distinct performance obligation. The Company estimates SSPs for each performance obligation as follows:

Systems: The SSPs for systems are based on directly observable sales in similar circumstances to similar customers. When SSP is not directly observable, the Company estimates SSP using the expected cost plus margin approach.

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

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

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

The Company will combine two or more contracts entered into at or near the same time with the same customer (or related parties of the customer) and account for the contracts as a single contract. If a group of agreements are so closely related that they are, in effect, part of a single arrangement, such agreements are deemed to be one arrangement for revenue recognition purposes. The Company exercises significant judgment to evaluate the relevant facts and circumstances in determining whether the separate agreements should be accounted for separately or as, in substance, a single arrangement. The Company's judgments about whether a group of contracts comprise a single arrangement can affect the allocation of consideration to the distinct performance obligations, which could have an effect on results of operations for the periods involved.

The Company is required to estimate the total consideration expected to be received from contracts with customers. Generally, the Company has not experienced significant returns from or refunds to customers. These estimates require significant judgment and the change in these estimates could have an effect on the Company's results of operations during the periods involved.

Bill and Hold Arrangement

Under the ASC 605 in 2017, the Company segregated certain products for one order at the request of a customer for a limited period of time at a third-party storage facility ("bill -and -hold"). Revenue recognition for the bill-and-hold transaction requires consideration of, among other things, whether the customer has made a written fixed commitment to purchase the product; the existence of a substantial business purpose for the arrangement; the bill-and-hold arrangement is at the request of the customer; the scheduled delivery date must be reasonable and consistent with the buyer's business purpose; title and risk of ownership must pass to the customer and no additional performance obligations exist by the Company, at the time of the bill-and-hold the product is complete and ready for shipment and the product has been segregated from the Company's inventory. The Company recognized revenue of $938,000 for that bill-and-hold transaction in 2017.

The Company recognized revenue of $0 and $938,000 for a bill-and-hold transaction in 2018 and 2017 respectively. There were no such transactions in 2016.

Loyalty Program

The Company launched a customer loyalty program during the third quarter of 2018 for qualified customers located in the U.S. and Canada. Under the program, customers accumulate points based on the customers purchasing or purchasing levels. Once a loyalty program member achieves a certain tier level, the member earns a reward. A customer's account has to be in good standing in order to receive the benefits of the rewards program. Rewards are given on a quarterly basis and must be used in the following quarter. Customers receive a notification regarding their rewards tier by the fifth (5^{th}) day of the following quarter. All unused rewards are forfeited.

The fair value of the reward earned by loyalty program members is included in accrued liabilities and recorded as a reduction of net sales at the time the reward is earned.

Deferred Sales Commissions

Incremental costs of obtaining a contract, including sales commissions, are capitalized and amortized on a straight-line basis over the expected customer relationship period if the Company expects to recover those costs. The Company uses the portfolio method to recognize the amortization expense related to these capitalized costs related to initial contracts and such expense is recognized over a period associated with the revenue of the related portfolio, which is generally two to three years for the Company's product and service arrangements.

Total capitalized costs as of the year ended December 31, 2018 were $5.2 million and are included in other long-term assets in the Company's consolidated balance sheet. Amortization of this asset was $1.8 million during the year ended December 31, 2018 and is included in sales and marketing expense in the Company's consolidated statements of operations.

Valuation of Inventories

The Company states its inventories at the lower of cost and net realizable value, computed on a standard cost basis, which approximates actual cost on a first-in, first-out basis. Net realizable value is the estimated selling price in the ordinary course of business, less reasonably predictable cost of completion, disposal, and transportation. 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. The Company provides 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 net realizable value to establish a lower cost basis for the inventories. The Company balances 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.

Stock-based Compensation Expense

The Company accounts for stock-based compensation costs in accordance with the accounting standards for share-based compensation, which require that all share based payments to employees and non-employees be recognized in the consolidated statements of operations based on their fair values. The Company grants stock options, restricted stock units ("RSUs") and performance stock units ("PSUs") equity awards and employee stock purchase plan ("ESPP").

Stock Options

The Company accounts for stock-based compensation in accordance with the fair value recognition provisions of U.S. GAAP. To value options, the Company uses the Black- Scholes option-pricing model using the single-option approach, which requires the input of highly subjective and complex assumptions. The Company recognizes the expense associated with options using a single award approach over the requisite service period. The Company accounts for all stock options awarded to nonemployees at the fair value of the consideration received or the fair value of the equity instrument issued, as calculated using the Black-Scholes model. The Company subjects stock options granted to non-employees to periodic revaluation at each reporting date as the underlying equity instruments vest.

The assumptions used in the Black-Scholes-option pricing model to determine the fair value of award include the following:

- Expected term – The expected term represents the weighted-average period that the recipient of the option will retain their vested stock options before exercising them. The expected term is based on the observed and expected time to post-vesting exercise of options by employees. The Company 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. The expected term of groups of employees that have similar historical exercise patterns has been considered separately for valuation purposes.

- Volatility – The underlying stock price volatility of our stock. The Company estimates volatility based on a 50-50 blend of our historical volatility and the implied volatility of freely traded options of our stock in the open market

- Expected risk-free interest rate and dividend rate over the expected term. The risk-free interest rate is based on the U.S. treasury yield curve in effect at the time of grant for the expected term of the stock option.

Restricted Stock Units

The Company grants RSUs to our directors, officers and management employees and non-employees. The fair value of RSUs is based on the stock price on the grant date using a single-award approach. The RSUs are subject to a service vesting condition and are recognized on a straight-line basis over the requisite service period. For RSUs to non-employees, the Company recognizes expense on an accelerated attribution method and these equity awards are re-measured at fair value at the end of each reporting period, with the changes in fair value recorded to stock-based compensation expense in the period in which the change occurs. Shares are issued on the vesting dates, net of applicable tax withholding requirements to be paid by us on behalf of the recipient. As a result, the actual number of shares issued will be fewer than the actual number of RSUs outstanding. Furthermore, the Company records the obligation for withholding amounts to be paid by us as a reduction to additional paid-in capital.

Performance Stock Units

Performance stock units are granted to our officers and management employees and non-employees. PSU's with operational measurement goals are measured at 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. 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 expected degree of achievement of the performance goals. For PSUs to non-employees, the Company recognizes expense on an accelerated attribution method and these equity awards are re-measured at fair value at the end of each reporting period, with the changes in fair value recorded to stock-based compensation expense in the period in which the change occurs. Stock-based compensation expense for PSUs 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, the Company issues fully-paid up common stock, net of the minimum statutory tax withholding requirements to be paid by us and records the obligation for withholding amounts as a reduction to additional paid-in capital.

Forfeiture Rates

The Company recognizes share-based compensation expense for the portion of the equity award that is expected to vest over the requisite service period and develops an estimate of the number of share-based awards which will ultimately vest, primarily based on historical experience within separate groups of employees. The forfeiture rates used in 2018 ranged from 0% to 17%. The estimated forfeiture rate is reassessed periodically throughout the requisite service period. Such estimates are revised if they differ materially from actual forfeitures. As required, the forfeiture estimates will be adjusted to reflect actual forfeitures when an award vests. For the award types discussed above, if the employee or non-employee terminates employment prior to being vested in an award, then the award is forfeited.

Provision for Income Taxes

The Company is 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. The Company recognizes tax benefits from uncertain tax positions only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such positions are then measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement.

The Company's 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. The Company's 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 Company's future effective tax rates could be adversely affected by earnings being lower in countries where the Company has lower statutory rates and being higher in countries where the Company has 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 its U.S. deferred tax assets. In addition, the Company is subject to the examination of our income tax returns by the Internal Revenue Service and other tax authorities. The Company regularly assesses the likelihood of adverse outcomes resulting from these examinations to determine the adequacy of our provision for income taxes.

Undistributed earnings of the Company's foreign subsidiaries at December 31, 2018 are considered to be indefinitely reinvested and, accordingly, no provision for federal and state income taxes has been provided thereon. Due to the Transition Tax and Global Intangible Low-Tax Income ("GILTI") regimes as enacted by the 2017 Tax Act, those foreign earnings will not be subject to federal income taxes when actually distributed in the form of a dividend or otherwise. The Company, however, could still be subject to state income taxes and withholding taxes payable to various foreign countries. The amounts of taxes which the Company could be subject to are not material to the accompanying financial statements.

In December 2017, the SEC staff issued Staff Accounting Bulletin No. 118, Income Tax Accounting Implications of the Tax Cuts and Jobs Act ("SAB 118"), which allows companies to record provisional amounts during a measurement period not to extend beyond one year of the enactment date. Since the 2017 Tax Act was passed late in the fourth quarter of 2017, and ongoing guidance and accounting interpretation was yet to be issued, the Company's accounting of the transition tax and deferred tax re-measurements was incomplete as of December 31, 2017. The Company filed its 2017 Federal corporate income tax return in the fourth quarter of 2018. The Company's final analysis and impact of the 2017 Tax Act is reflected in the tax provision and related tax disclosures for the year ended December 31, 2018. There was a net increase of approximately $0.3 million to the originally estimated $7.3 million remeasurement of deferred tax assets. The Company considers the $0.3 million true-up to be an immaterial change in estimate which has been reflected within the measurement period in accordance with SAB 118.

In January 2018, the FASB released guidance on the accounting for tax on the GILTI provisions of the 2017 Tax Act. The GILTI provisions impose a tax on foreign income in excess of a deemed return on tangible assets of foreign corporations. The guidance indicates that either accounting for deferred taxes related to GILTI inclusions or treating any taxes on GILTI inclusions as a period cost are both acceptable methods subject to an accounting policy election. The Company has elected to treat any taxes on GILTI inclusions as a period cost.

The Company has included in our Consolidated Balance Sheet a long-term income tax liability for unrecognized tax benefits and accrued interest of $394,000 as of December 31, 2018. At this time, the Company is 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.

Litigation

The Company has been, and may in the future become subject to a number of legal proceedings involving securities litigation, product liability, intellectual property, contractual disputes, trademark and copyright, and other matters. The Company records a liability and related charge to earnings in its consolidated financial statements for legal contingencies when the loss is considered probable and the amount can be reasonably estimated. Our assessment is reevaluated each accounting period and is based on all available information, including discussion with any outside legal counsel that represents us. If a reasonable estimate of a known or probable loss cannot be made, but a range of probable losses can be estimated, the low-end of the range of losses is recognized if no amount within the range is a better estimate than any other. If a loss is reasonably possible,

but not probable and can be reasonably estimated, the estimated loss or range of loss is disclosed in the notes to the consolidated financial statements.

Off-Balance Sheet Arrangements

The Company does 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, 2018, the Company was not involved in any unconsolidated transactions.

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 Pronouncements" in the Notes to Consolidated Financial Statements in Part II, Item 8 of this Annual Report on 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,		
	2018	**2017**	**2016**
Net revenue	100%	100%	100%
Cost of revenue	51%	43%	42%
Gross profit	49%	57%	58%
Operating expenses:			
Sales and marketing	36%	34%	35%
Research and development	9%	8%	10%
General and administrative	13%	9%	11%
Lease termination income	—	(2)%	—
Total operating expenses	58%	50%	56%
Income (loss) from operations	(8)%	7%	2%
Interest and other income, net	—%	1%	—%
Income (loss) before income taxes	(8)%	8%	2%
Income tax (benefit) provision	11%	(12)%	—%
Net income (loss)	(19)%	20%	2%

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, 2018	% Change	2017	% Change	2016
Revenue mix by geography:					
United States	$ 101,862	8%	$ 94,581	44%	$ 65,513
International	$ 60,858	7%	$ 56,912	8%	$ 52,543
Consolidated total revenue	$ 162,720	7%	$ 151,493	28%	$ 118,056
United States as a percentage of total revenue	*63%*		*62%*		*55%*
International as a percentage of total revenue	*37%*		*38%*		*45%*
Revenue mix by product category:					
Systems					
– North America	$ 93,977	6%	$ 88,338	51%	$ 58,595
– Rest of World	38,618	3%	37,544	10%	34,126
Total Systems	132,595	5%	125,882	36%	92,721
Consumables	4,162	71%	2,436	(2)%	2,498
Skincare	5,778	33%	4,342	14%	3,809
Total Products	142,535	7%	132,660		99,028
Service	20,185	7%	18,833	(1)%	19,028
Total Net revenue	$ 162,720	7%	$ 151,493	28%	$ 118,056

Total Net Revenue

The Company's revenue increased by 7% for the year ended December 31, 2018, compared to 2017, due primarily to strong demand for the Company's new products - the *truSculpt* portfolio of products and *Secret RF* systems, primarily offset by softness in the overall women's health market, competitive trends affecting certain legacy system pricing, and greater than expected turnover in our North American salesforce in the fourth quarter on 2018.

Revenue by Geography

The Company's U.S. revenue increased 8% for the year ended December 31, 2018, compared to 2017. This increase was due primarily to the introduction of *Secret RF* and *Juliet* during January 2018, and *truSculpt iD* in July 2018.

The Company's U.S. revenue increased 44% in 2017, compared to 2016. The increase in U.S. revenue was primarily a result of revenue generated from the launch of *truSculpt 3D*, as well as continued growth of our *enlighten III*, *excel HR* and *xeo* products, partially offset by decline in sales of some of our legacy systems.

The Company's international revenue increased 7% for the year ended December 31, 2018, compared to 2017. The increase was due to growth in the Company's business in the Middle East and Asia (excluding Japan).

The Company's international revenue increased 8% in 2017, compared to 2016. The increase in international revenue was primarily a result of increases in the Company's direct business in Japan, Australia, as well as increases in our distributor business in the Middle East, Europe and Asia, partially offset by a decline in revenue from our direct business in Europe and our Latin America distributors.

Revenue by Product Type

Systems Revenue

Systems revenue in North America increased 5%, for the year ended December 31, 2018, compared to 2017, due to sales in the U.S. and the introduction of *Secret RF* and *Juliet* during January 2018, and *truSculpt iD in July 2018*. The Rest of the World systems revenue increased 3%, for the year ended December 31, 2018, compared to 2017. The increase in Rest of the

World revenue was primarily a result of an increase in the Company's direct business in Asia, excluding Japan, as well as increases in the Company's distributor business in the Middle East and Europe, partially offset by decreases in the Company's direct business in Australia and Europe.

The Company's Systems revenue increased by 36% in 2017, compared to 2016. This increase in Systems revenue was primarily attributable to revenue generated by the launch of *truSculpt 3D* and *enlighten III*.

Consumables Revenue

Consumables revenue increased 71%, for the year ended December 31, 2018, compared to 2017. The increase in consumables revenue was due to the introduction of *Secret RF* and *Juliet* during January 2018, and *truSculpt iD in July 2018,* each of which have consumable elements.

The Company's consumables revenue decreased 2% in 2017 compared to 2016. This decrease was due primarily to declines in *Titan* consumables revenue caused by reduced utilization, partially offset by an increase in *truSculpt 3D* consumables revenue.

Skincare Revenue

The Company's revenue from Skincare products in Japan increased 33%, for the year ended December 31, 2018, compared to 2017. This increase was due primarily to increased marketing and promotional activities.

The Company's skincare revenue increased 14% in 2017, compared to 2016. 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 4% and 10% in 2017 and 2016, respectively, when compared to prior periods.

Service Revenue

The Company's Service revenue increased 7%, for the year ended December 31, 2018, compared to 2017. This increase was due primarily to increased sales of service contracts, time and material to the Company's network of international distributors.

The Company's Service revenue decreased 1% in 2017, compared to 2016.

Gross Profit

	Year Ended December 31,				
(Dollars in thousands)	**2018**	**% Change**	**2017**	**% Change**	**2016**
Gross Profit	$ 80,382	(7)%	$ 86,110	26%	$ 68,135
As a percentage of total revenue	*49%*		*57%*		*58%*

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

Gross margin for the year ended December 31, 2018 declined 8%, compared to the same period in 2017. The reduced gross margins during 2018 was due primarily to:

- Lower average system pricing across the legacy portfolio, including continued pricing pressure on the *enlighten* system; and
- $5.0 million product remediation charge related to one of the Company's legacy systems, of which $1.1 million was utilized in the fourth quarter.

The gross margin for the year ended December 31, 2017 declined 1%, compared to the same period in 2016, due primarily to increased warranty costs, as well as higher Service personnel costs due to investments in additional headcount to fuel future growth.

Sales and Marketing

(Dollars in thousands)	Year Ended December 31, 2018	% Change	2017	% Change	2016
Sales and marketing	$ 58,420	12%	$ 52,070	25%	$ 41,563
As a percentage of total revenue	*36%*		*34%*		*35%*

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

The $6.4 million increase in sales and marketing expenses for the year ended December 31, 2018 compared to 2017 was due primarily to:

- $2.9 million of higher promotional and product demonstration expenses, primarily in North America;
- $1.7 million of higher travel related expenses in North America resulting from increased headcount;
- $0.8 million increase in software user license fees and other expenses;
- $0.6 million increase in consulting and outside professional fees;
- $0.4 million increase in stock-based compensation due to increased headcount; and
- $0.1 million of higher facility expenses due to the increase in our Brisbane headquarters rental cost.

The $10.5 million increase in sales and marketing expenses for the year ended December 31, 2017 compared to 2016 was due primarily to:

- $7.2 million increase in personnel related expenses, due primarily to higher commissions as a result of North America revenue growth and other higher personnel costs resulting primarily from an increased headcount;
- $1.4 million increase in promotional spending driven by graphic design, workshops and advertising as we continue to invest in growth;
- $0.9 million increase in consultant fees and commissions related to the revenue increase in North America; and
- $0.4 million increased travel expenses associated with the increased activity and headcount.

Research and Development ("R&D")

(Dollars in thousands)	Year Ended December 31, 2018	% Change	2017	% Change	2016
Research and development	$ 14,359	12%	$ 12,874	2%	$ 11,232
As a percentage of total revenue	*9%*		*8%*		*10%*

R&D expenses consist primarily of personnel expenses, clinical research, regulatory and material costs. R&D expenses increased by $1.5 million or 12%, and represented 9% of total net revenue during the year ended December 31, 2018, compared to 8% of total net revenue in 2017. This increase in expense was due primarily to increase in material cost related to ongoing research and development efforts.

R&D expenses increased by $1.6 million or 13%, and represented 10% of total net revenue during the year ended December 31, 2017, compared to 11% of total net revenue in 2016. This increase in expense was due primarily to $0.9 million of higher personnel expenses driven primarily by an increase in headcount and $0.5 million increase in consulting expenses.

General and Administrative ("G&A")

(Dollars in thousands)	Year Ended December 31, 2018	% Change	2017	% Change	2016
General and administrative	$ 20,995	49%	$ 14,090	9%	$ 12,943
As a percentage of total revenue	*13%*		*9%*		*11%*

G&A expenses consist primarily of personnel expenses, legal, accounting, audit and tax consulting fees, as well as other general and administrative expenses. G&A expenses increased by $6.9 million, or 49%, and represented 13% of total net revenue during the year ended December 31, 2018, compared to 9% of total net revenue in 2017, due primarily to:

- $2.8 million of increased personnel related expenses, including stock-based compensation, driven by increased headcount;
- $2.1 million of increased fees related to professional fees and consulting services, primarily related to accounting, legal, audit and tax fees;
- $1.3 million of increase in allowance for doubtful accounts;
- $0.5 million of increase in other administrative expense including travel; and
- $0.2 million of increase in insurance expense.

General and Administrative expenses increased $1.1 million in 2017, compared to 2016, primarily due to:

- $1.3 million increase in personnel costs due to increased headcount, contract employees and stock-based compensation expenses to support growth in our business.
- $0.6 million of higher accounting, tax and audit fees;
- $0.3 million of higher project consulting costs; offset by
- $1.2 million expense reduction attributable to a litigation settlement and legal fees associated with a matter settled in 2016.

Interest and Other Income (expense), Net

Interest and other income, net, consists of the following:

	Year Ended December 31,				
(Dollars in thousands)	**2018**	**% Change**	**2017**	**% Change**	**2016**
Total interest and other income (expense), net	$ (123)	(114)%	$ 884	174%	$ 323
As a percentage of total net revenue	(0.1)%		0.6%		0.3%

Net interest and other income, decreased $1.0 million or (114%) for the year ended December 31, 2018, compared to 2017. This decrease was due primarily to an increase in interest expense related to significant financing components included in our multi-year post-warranty service contracts for customers who make payment more than one year in advance of receiving the service under the new revenue standard effective January 1, 2018, an increase in net foreign exchange losses, as well as a decrease in interest income from the Company's marketable investments resulting from a decrease in the investment balance. The Company adopted the new revenue standard under modified retrospective method and so there was no equivalent expense last year.

Income Tax Provision

	Year Ended December 31,				
(Dollars in thousands)	**2018**	**$ Change**	**2017**	**$ Change**	**2016**
Income (loss) before income taxes	$ (13,515)	$ 25,475	$ 11,960	$ 9,240	$ 2,720
Income tax (benefit) provision	17,255	35,288	(18,033)	(18,176)	143

During the year ended December 31, 2018, the Company applied a valuation allowance of $16.9 million against certain U.S. federal and state deferred tax assets. In 2017, the Company recorded an income tax benefit of $18.0 million. This tax benefit was primarily related to a ($26.3) million release of our valuation allowance against certain U.S deferred tax assets, which was partially offset by $7.3 million for the revised measurement of our U.S deferred tax assets resulting from the 2017 US Tax Act, $0.7 million current tax expense and $0.3 million of other deferred tax expense.

Liquidity and Capital Resources

Sources and Uses of Cash

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

As of December 31, 2018 and December 31, 2017, the Company had $39.6 million and $45.1 million of working capital, respectively. Cash and cash equivalents plus marketable investments decreased by $0.3 million to $35.6 million as of December 31, 2018, from $35.9 million as of December 31, 2017, primarily as a result of the decline in the Company's stock price that impacted cash provided by the exercise of stock options and the Company's employee stock purchasing program, increased inventory purchases related to the increasing demand of our products, and an increase in investments in sales, service and other management headcount to facilitate continued revenue expansion. Cash and cash equivalents plus marketable investments decreased by $18.2 million to $35.9 million as of December 31, 2017, from $54.1 million as of December 31, 2016, primarily as a result of the Company's share buyback program in 2017, increased inventory purchases related to the increasing demand of our products, and an increase in investments in sales, service and other management headcount to facilitate continued revenue expansion.

Cash, Cash Equivalents and Marketable Investments

The following table summarizes our cash and cash equivalents and marketable investments (in thousands):

	Year ended December 31,		
(Dollars in thousands)	**2018**	**2017**	**Change**
Cash, cash equivalents and marketable securities:			
Cash and cash equivalents	$ 26,052	$ 14,184	$ 11,868
Marketable investments	9,523	21,728	(12,205)
Total	$ 35,575	$ 35,912	$ (337)

Consolidated Cash Flow Data

In summary, our cash flows were as follows:

	Year ended December 31,		
(Dollars in thousands)	**2018**	**2017**	**2016**
Cash flows provided by (used in):			
Operating activities	$ 307	$ 14,287	$ 1,992
Investing activities	10,773	17,694	(3,392)
Financing activities	788	(31,572)	4,307
Net increase (decrease) increase in cash and cash equivalents	$ 11,868	$ 409	$ 2,907

Cash Flows from Operating Activities

Net cash provided by operating activities was $0.3 million during 2018, which was due primarily to:

- $30.8 million net loss as adjusted for non-cash related items consisting primarily of valuation allowance against certain U.S. differed tax assets of $17.4 million (excluding the $1.2 million tax effect of the ASC 606 Adoption), stock-based compensation expense of $7.2 million, $1.3 million provision for doubtful accounts receivable, and $3.0 million depreciation and amortization expenses;
- $4.3 million generated from an increase in accounts payable due primarily to increased inventory related purchases;
- $3.8 million cash used to settle accrued liabilities;
- $3.8 million cash used to increase pre-paid expenses and other long term assets;
- $2.5 million generated due to decrease in inventories;
- $0.1 million used as a result of increased accounts receivables; and
- $0.1 million generated as a result of increased deferred revenue.

The Company generated net cash of $14.3 million in operating activities during 2017, which was primarily attributable to:

- $17.4 million provided by operations based on a net income of $30.0 million after adjusting for $5.1 million non-cash stock-based compensation expense, $1.0 million of depreciation and amortization expense, and $18.7 million net change in deferred tax assets;
- $15.3 million generated from a $9.3 million increase in accrued liabilities primarily associated with personnel costs, $4.4 million increase in accounts payable, and a $1.6 million increase in deferred revenue due to higher extended service contracts sold; which was offset by
- $13.8 million of cash used to increase inventories due primarily to higher raw materials required for future product revenue growth; and
- $4.2 million used to increase in accounts receivable.

Cash Flows from Investing Activities

Net cash provided by investing activities was $10.8 million during 2018, which was attributable primarily to:

- $23.1 million in net proceeds from the sales and maturities of marketable investments; partially offset by
- $10.9 million of cash used to purchase marketable investments; and
- $1.5 million of cash used to purchase property, equipment and software.

Net cash provided net cash of $17.7 million from investing activities in 2017, primarily attributable to:

- $18.5 million net proceeds from the maturities and sales of marketable investments; offset by
- $0.9 million used to purchase property and equipment.

Cash Flows from Financing Activities

Net cash provided by financing activities was $0.8 million during 2018, which was primarily due to:

- $4.4 million proceeds from exercise of stock options and employee stock purchase plan, offset by
- $3.1 million of cash used for taxes paid related to net share settlement of equity awards; and
- $0.5 million of cash used to pay capital lease obligations.

Net cash used in financing activities in 2017 was $31.6 million, which was primarily due to:

- $35.2 million used to repurchase our common stock;
- $1.5 million used for taxes paid related to net share settlement of equity awards; offset partially by
- $5.4 million net proceeds from the issuance of common stock due to employees exercising their stock options and purchasing stock through the Employee Stock Purchase Plan ("ESPP") program.

Adequacy of Cash Resources to Meet Future Needs

The Company had cash, cash equivalents, and marketable investments of $35.6 million as of December 31, 2018. The Company's principal source of liquidity in the year ended December 31, 2018 is cash from maturity and sales of marketable investments and cash generated from the issuance of common stock through exercise of stock options and the Company's employee stock purchasing program. The Company believes that the existing cash resources are sufficient to meet the Company's anticipated cash needs for working capital and capital expenditures for at least the next several years.

Loan and Security Agreement

On May 30, 2018, the Company and Wells Fargo Bank, N.A. ("Wells Fargo") entered into a Loan and Security Agreement (the "Original Revolving Line of Credit") in the original principal amount of $25 million. The Original Revolving Line of Credit terminates on May 30, 2021. As of December 31, 2018, there were no borrowings under the Original Revolving Line of Credit.

Covenants

The Original Revolving Line of Credit contained financial and other covenants as well as the maintenance of a leverage ratio not to exceed 2.5 to 1.0 and a TTM adjusted EBITDA of not less than $10 million. A violation of any of the covenants could result in a default under the Original Revolving Line of Credit that would permit the lenders to restrict the Company's ability to further access the revolving line of credit for loans and letters of credit and require the immediate repayment of any outstanding loans under the Loan and Security Agreement.

During the third quarter of 2018 the Company was notified that it was in violation of certain financial covenants in the Original Revolving Line of Credit. Upon receipt of this notice, the Company entered into discussions with Wells Fargo to amend and revise certain terms of the Original Revolving Line of Credit. Following the end of our third quarter, on or about November 2, 2018, the Company entered into a First Amendment and Waiver to the Loan and Security Agreement with Wells Fargo (the "First Amended Revolving Line of Credit").

The First Amended Revolving Line of Credit provided for an original principal amount of $15 million, with the ability to request an additional $10 million, and a waiver of any existing defaults under the Original Revolving Line of Credit as long as the Company is in compliance with the terms of the Revised Revolving Line of Credit.

Similar to the Original Revolving Line of Credit, the First Amended Revolving Line of Credit contained revised financial and other covenants as well as the maintenance of a leverage ratio not to exceed 2.0 to 1.0 and a graduated scale of TTM adjusted EBITDA of not less than $1 million as of the last day of the 2018 third fiscal quarter; $2.5 million as of the last day of the 2018 fourth fiscal quarter; $4 million as of the last day of the 2019 first and second fiscal quarters; $6.5 million as of the last day of the 2019 third fiscal quarter; and $10 million as of the last day of each fiscal quarter.

Subsequent to December 2018, the Company again determined that it was in violation of certain financial covenants in the First Amended Revolving Line of Credit. The Company again entered into discussions with Wells Fargo to amend and revise certain terms of the First Amended Revolving Line of Credit. On or about, March 11, 2019 the Company entered into a Second Amendment and Waiver to the Loan and Security Agreement with Wells Fargo (the "Second Amended Revolving Line of Credit"). The Second Amended Revolving Line of Credit requires the Company to maintain a minimum cash balance of $15 million at Wells Fargo, but removes all other covenants so long as no money is drawn on the line of credit. The Company may draw down on the line of credit at the time it reaches and maintains TTM adjusted EBITDA of not less than $10 million, and a leverage ratio not to exceed 2.5 to 1.0.

Contractual Obligations

The following are our contractual obligations, consisting of future minimum lease commitments related to facility and vehicle leases as of December 31, 2018:

	Payments Due by Period ($'000's)				
Contractual Obligations	**Total**	**Less Than 1 Year**	**1-3 Years**	**3-5 Years**	**More Than 5 Years**
Operating leases	$ 11,223	$ 3,011	$ 5,503	$ 2,709	$ —
Capital leases	1,015	576	287	152	—
Total leases	12,238	3,587	5,790	2,861	$ —

Purchase Commitments

The Company maintains certain open inventory purchase commitments with our 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 as of December 31, 2018 were $1.7 million and $7.2 million respectively for 2019 and 2020.

Other

In the normal course of business, we enter into agreements that contain a variety of representations, warranties, and indemnification obligations. For example, the Company has 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, the Company has not accrued any amounts for such obligations.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate and Market Risk

The primary objective of the Company's investment activities is to preserve principal while at the same time maximizing the income the Company receives from investments without significantly increasing risk. To achieve this objective, the Company maintains its portfolio of cash equivalents and short- and long-term investments in a variety of high quality securities, including U.S. treasuries, U.S. government agencies, corporate debt, cash deposits, money market funds, commercial paper, non-U.S. government agency securities, and municipal bonds. The securities are classified as available-for-sale and consequently are recorded at fair value with unrealized gains or losses reported as a separate component of accumulated other comprehensive loss. The weighted average maturity of the Company's portfolio as of December 31, 2018 was approximately 0.3 years. If interest rates rise, the market value of our investments may decline, which could result in a realized loss if we are forced to sell an investment before its scheduled maturity. A hypothetical increase in interest rate by one percentage point would have resulted in no impact on the Company's total investment portfolio.

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

As of December 31, 2018, the Company had not drawn on the Revolving Line of Credit. Subsequent to December2018, the Company again determined that it was in violation of certain financial covenants in the First Amended Revolving Line of Credit. The Company again entered into discussions with Wells Fargo to amend and revise certain terms of the First Amended Revolving Line of Credit. On or about, March11, 2019, the Company entered into a Second Amendment and Waiver to the Loan and Security Agreement with Wells Fargo (the "Second Amended Revolving Line of Credit"). The Second Amended Revolving Line of Credit requires the Company to maintain a minimum cash balance of $15 million at Wells Fargo, but removes all other covenants so long as no money is drawn on the line of credit. Overall interest rate sensitivity is primarily influenced by any amount borrowed on the line of credit and the prevailing interest rate on the line of credit facility. The effective interest rate on the line of credit facility is based on a floating per annum rate equal to the LIBOR rate. The LIBOR rate was 2.52% as of December 31, 2018, and accordingly the Company may incur additional expenses if the Company has an outstanding balance on the line of credit and the LIBOR rate increases in future periods.

Inflation

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

Foreign Exchange Fluctuations

The Company generates revenue in Japanese Yen, Euros, Australian Dollars, Canadian Dollars, British Pounds and Swiss Francs. Additionally, a portion of the Company's operating expenses and assets and liabilities are denominated in each of these currencies. Therefore, fluctuations in these currencies against the U.S. dollar could materially and adversely affect the Company's results of operations upon translation of the Company's revenue denominated in these currencies, as well as the remeasurement of the Company's international subsidiaries' financial statements into U.S. dollars.

The Company has historically not engaged in hedging activities relating to the Company's foreign currency denominated transactions, given the Company has a natural hedge resulting from the Company's foreign cash receipts being utilized to fund the 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:

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

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of Cutera, Inc. (the "Company") and subsidiaries as of December 31, 2018 and 2017, 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, 2018, and the related notes and schedule listed in the accompanying index (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company and subsidiaries at December 31, 2018 and 2017, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2018, in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the Company's internal control over financial reporting as of December 31, 2018, 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 18, 2019 expressed an unqualified opinion thereon.

Change in Accounting Principle

As discussed in Notes 1 to the consolidated financial statements, the Company has changed its accounting method for recognizing revenue from contracts with customers in fiscal year 2018 due to the adoption of Topic 606: Revenue from Contracts with Customers."

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's consolidated financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ BDO USA, LLP
We have served as the Company's auditor since 2014.
San Jose, California
March 18, 2019

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders of Cutera, Inc.:

Opinion on Internal Control over Financial Reporting

We have audited Cutera, Inc.'s (the "Company's") internal control over financial reporting as of December 31, 2018, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (the "COSO criteria"). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2018, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the consolidated balance sheets of the Company and subsidiaries as of December 31, 2018 and 2017, 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, 2018, and the related notes and financial statement schedule listed in the accompanying index and our report dated March 18, 2019 expressed an unqualified opinion thereon.

Basis for Opinion

The Company'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 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 are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit of internal control over financial reporting in accordance with the standards of the PCAOB. 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.

Definition and Limitations of Internal Control over Financial Reporting

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.

/s/ BDO USA, LLP
San Jose, California
March 18, 2019

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

	December 31, 2018	December 31, 2017
Assets		
Current assets:		
Cash and cash equivalents	$ 26,052	$ 14,184
Marketable investments	9,523	21,728
Accounts receivable, net of allowance for doubtful accounts of $1,257 and $9, respectively	19,637	20,777
Inventories	28,014	28,782
Other current assets and prepaid expenses	3,972	2,903
Total current assets	87,198	88,374
Property and equipment, net	2,672	2,096
Deferred tax assets	457	19,055
Goodwill	1,339	1,339
Other long-term assets	5,971	374
Total assets	$ 97,637	$ 111,238
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 11,279	$ 7,002
Accrued liabilities	23,300	26,848
Extended warranty liabilities	3,159	—
Deferred revenue	9,882	9,461
Total current liabilities	47,620	43,311
Deferred revenue, net of current portion	2,684	2,195
Income tax liability	394	379
Other long-term liabilities	553	460
Total liabilities	51,251	46,345
Commitments and contingencies (Note 11)		
Stockholders' equity:		
Common stock, $0.001 par value: Authorized: 50,000,000 shares; Issued and outstanding: 13,968,852 and13,477,973 shares at December 31, 2018 and 2017, respectively	14	13
Additional paid-in capital	70,451	62,025
Retained earnings (accumulated deficit)	(24,010)	2,947
Accumulated other comprehensive loss	(69)	(92)
Total stockholders' equity	46,386	64,893
Total liabilities and stockholders' equity	$ 97,637	$ 111,238

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,		
	2018	**2017**	**2016**
Net revenue:			
Products	$ 142,535	$ 132,660	$ 99,028
Service	20,185	18,833	19,028
Total net revenue	162,720	151,493	118,056
Cost of revenue:			
Products	66,843	56,363	40,149
Service	15,495	9,020	9,772
Total cost of revenue	82,338	65,383	49,921
Gross profit	80,382	86,110	68,135
Operating expenses:			
Sales and marketing	58,420	52,070	41,563
Research and development	14,359	12,874	11,232
General and administrative	20,995	14,090	12,943
Lease termination income	—	(4,000)	—
Total operating expenses	93,774	75,034	65,738
Income (loss) from operations	(13,392)	11,076	2,397
Interest and other income(expense), net	(123)	884	323
Income (loss) before income taxes	(13,515)	11,960	2,720
Income tax (benefit) provision	17,255	(18,033)	143
Net income (loss)	$ (30,770)	$ 29,993	$ 2,577
Net loss per share:			
Basic	$ (2.23)	$ 2.16	$ 0.19
Diluted	$ (2.23)	$ 2.04	$ 0.19
Weighted-average number of shares used in per share calculations:			
Basic	13,771	13,873	13,225
Diluted	13,771	14,728	13,753

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,		
	2018	**2017**	**2016**
Net income (loss)	$ (30,770)	$ 29,993	$ 2,577
Other comprehensive income (loss):			
Available-for-sale investments			
Net change in unrealized gain (loss) on available-for-sale investments	14	(15)	30
Less: Reclassification adjustment for net gains on investments recognized during the year	9	(5)	(3)
Net change in unrealized gain (loss) on available-for-sale investments	23	(20)	27
Tax provision		—	10
Other comprehensive income (loss), net of tax	23	(20)	17
Comprehensive income (loss)	$ (30,747)	$ 29,973	$ 2,594

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

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

	Common Stock		Additional Paid-in Capital	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income (loss)	Total Stockholders' Equity
	Shares	Amount				
Balance at December 31, 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	—	—	9,342
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	13,773,389	$ 14	$ 88,114	$ (27,046)	$ (72)	$ 61,010
Issuance of common stock for employee purchase plan	78,479	—	1,059	—	—	1,059
Exercise of stock options	488,398	—	4,376	—	—	4,376
Issuance of common stock in settlement of restricted and performance stock units, net of shares withheld for employee taxes, and stock awards	160,309	—	(1,469)	—	—	(1,469)
Repurchase of common stock	(1,022,602)	(1)	(35,165)	—	—	(35,166)
Stock-based compensation expense	—	—	5,110	—	—	5,110
Net income	—	—	—	29,993	—	29,993
Net change in unrealized loss on available-for-sale investments	—	—	—	—	(20)	(20)
Balance at December 31, 2017	13,477,973	$ 13	$ 62,025	$ 2,947	$ (92)	$ 64,893
Adjustment to opening balance for ASC 606 adoption	—	—	—	3,813	—	3,813
Issuance of common stock for employee purchase plan	64,511	1	1,680	—	—	1,680
Exercise of stock options	271,902	—	2,718	—	—	2,718
Issuance of common stock in settlement of restricted and performance stock units, net of shares withheld for employee taxes, and stock awards	154,466	—	(3,128)	—	—	(3,128)
Stock-based compensation expense	—	—	7,157	—	—	7,157
Net loss	—	—	—	(30,770)	—	(30,770)
Net change in unrealized loss on available-for-sale investments	—	—	—	—	23	23
Balance at December 31, 2018	13,968,852	$ 14	$ 70,451	$ (24,010)	$ (69)	$ 46,386

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,		
	2018	**2017**	**2016**
Cash flows from operating activities:			
Net income (loss)	$ (30,770)	$ 29,993	$ 2,577
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Stock-based compensation	7,157	5,110	3,713
Depreciation and amortization	1,209	1,016	982
Amortization of contract acquisition costs	1,834	—	—
Change in deferred tax assets	17,438	(18,678)	22
Provision for doubtful accounts receivable	1,257	(1)	—
Other	241	(51)	(7)
Changes in assets and liabilities:			
Accounts receivable	(117)	(4,229)	(4,899)
Inventories	768	(13,805)	(2,899)
Other current assets and prepaid expenses	(1,070)	(591)	(432)
Other long-term assets	(2,754)	6	4
Accounts payable	4,277	4,404	639
Accrued liabilities	(3,781)	9,345	3,461
Extended warranty liabilities	3,159	—	—
Other long-term liabilities	140	—	(329)
Deferred revenue	1,305	1,557	(826)
Income tax liability	15	211	(14)
Net cash provided by operating activities	308	14,287	1,992
Cash flows from investing activities:			
Acquisition of property, equipment and software*	(1,488)	(855)	(537)
Disposal of property and equipment	41	53	20
Proceeds from sales of marketable investments	13,044	33,640	9,008
Proceeds from maturities of marketable investments	10,050	45,812	25,810
Purchase of marketable investments	(10,874)	(60,956)	(37,693)
Net cash provided by (used in) investing activities	10,773	17,694	(3,392)
Cash flows from financing activities:			
Repurchase of common stock	—	(35,167)	(4,873)
Proceeds from exercise of stock options and employee stock purchase plan	4,399	5,435	10,111
Taxes paid related to net share settlement of equity awards	(3,129)	(1,469)	(618)
Payments on capital lease obligation	(483)	(371)	(313)
Net cash provided by (used in) financing activities	787	(31,572)	4,307
Net increase (decrease) in cash and cash equivalents	11,868	409	2,907
Cash and cash equivalents at beginning of year	14,184	13,775	10,868
Cash and cash equivalents at end of year	$ 26,052	$ 14,184	$ 13,775
Supplemental cash flow information:			
Cash paid for interest	$ 85	$ 70	$ 43
Cash paid for income taxes	472	$ 220	$ 222
Supplemental non-cash investing and financing activities:			
Assets acquired under capital lease	$ 610	$ 365	$ 801

*Included in Acquisition of property, equipment and software investing activity balance is non-cash investing of $143,576

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

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Operations and Principles of Consolidation

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

Headquartered in Brisbane, California, the Company has wholly-owned subsidiaries that are currently operational in Australia, Belgium, Canada, France, Germany, Hong Kong, Japan, Spain, Switzerland and the United Kingdom. The Company's wholly owned subsidiary in Italy is currently dormant. These active 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 ("GAAP") requires the Company's management to make estimates and assumptions that affect the amounts reported of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial Statements and the accompanying notes, and the reported amounts of revenue and expenses during the reported periods. Actual results could differ materially from those estimates.

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

Risks and Uncertainties

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

Comparability

The Company adopted the new revenue standard effective January 1, 2018, using the modified retrospective method. Prior period financial statements were not retrospectively restated. The consolidated balance sheet as of December 31, 2018 and results of operations for December 31, 2018 were prepared using an accounting standard that was different than that in effect for the year ended December 31, 2017. As a result the consolidated balance sheets as of December 31, 2018 and December

31, 2017 are not directly comparable, nor are the consolidated statement of operations for the years ended December 31, 2018 and December 31, 2017.

Recent Accounting Pronouncements Not Yet Adopted

In February 2016, the FASB issued ASU 2016-02, "Leases," (also known as ASC Topic 842) which will require, among other items, lease accounting to recognize most leases as assets and liabilities on the balance sheet. Qualitative and quantitative disclosures will be enhanced to better understand the amount, timing and uncertainty of cash flows arising from leases. In July 2018, the FASB issued ASU 2018 -11, "Targeted Improvements," which gives the option to apply the transition provisions of ASU 2016-02 at its adoption date instead of at the earliest comparative period presented in its financial statements. In addition, ASU 2018 2018 -11 provides a practical expedient that permits lessors to not separate nonlease components from the associated lease component if certain conditions are met. Also in July 2018, the FASB issued ASU 2018-10, "Codification Improvements to ASC Topic 842, Leases," which clarifies certain aspects of ASU 2016-02. The Company will adopt ASU 2016-02 on a modified retrospective basis on its adoption date of January 1, 2019 with practical expedients, instead of at the earliest comparative period presented in the Company's financial statements.

The Company will adopt ASC Topic 842 - Leases on January 1, 2019, applying the modified retrospective transition approach to all leases existing at the date of initial application. The new standard provides a number of optional practical expedients in transition. The Company elected the 'package of practical expedients', which permits the Company not to reassess under the new standard the Company's prior conclusions about lease identification, lease classification and initial direct costs. The Company did not elect the practical expedient to use hindsight in determining the lease term.

The Company expects that this standard will have a material effect on our financial statements. While the Company continues to assess all of the effects of adoption, the Company currently believes the most significant effects relate to the recognition of new right-of-use ("ROU") assets and lease liabilities on our balance sheet for our auto, office, and embedded leases; and the requirement to provide significant new disclosures about our leasing activities.

Upon the adoption of ASC Topic 842, the Company will recognize additional operating liabilities ranging from $10.0 million to $11.0 million, with corresponding ROU assets of the same amount based on the present value of the remaining minimum rental payments under current leasing standards for existing operating leases.

The new standard also provides practical expedients for an entity's ongoing accounting. The Company will elect the short-term lease recognition exemption for all leases that qualify. This means, for those leases that qualify, the Company will not recognize ROU assets or lease liabilities, and this includes not recognizing ROU assets or lease liabilities for existing short-term leases of those assets in transition. The Company also will not elect the practical expedient to not separate lease and non-lease components for all of our leases.

Recently Adopted Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, "Revenue from Contracts with Customers," amending revenue recognition guidance and requiring more detailed disclosures to enable users of financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The amended guidance, herein referred to as ASC Topic 606, is effective for annual and interim reporting periods beginning after December 15, 2017, with early adoption permitted for public companies effective for annual and interim reporting periods beginning after December 15, 2016. The Company adopted the new revenue standard in the first quarter of fiscal year 2018 using the modified retrospective method. The Company recognized the cumulative effect of applying the new revenue standard as an adjustment to retained earnings. The comparative information has not been restated and continues to be reported under the accounting standards in effect for the periods presented.

See "Revenue Recognition," for additional accounting policy and transition disclosures.

On January 26, 2017, the FASB issued Accounting Standards Update No. 2017-04, Intangibles—Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment. The new guidance requires only a one-step quantitative impairment test, whereby a goodwill impairment loss will be measured as the excess of a reporting unit's carrying amount over its fair value (not to exceed the total goodwill allocated to that reporting unit). The new guidance eliminates Step 2 of the current two-step goodwill impairment test, and requires companies to perform the goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. Companies will continue to have the option of performing a qualitative assessment of goodwill impairment; however, if a company performs a qualitative assessment of its goodwill and fails, it must proceed with quantitative impairment testing (ASC 350-20-35-3A).

The amendment is effective for the Company for its fiscal years beginning after December 15, 2019. The amendment is required to be adopted prospectively. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017 (350-20-65-3). The Company early adopted ASU 2017-04—Intangibles—Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment, on October 1, 2018. There was no material impact upon adoption of the new standard to the financial statements.

See ” Goodwill and Other Intangible Assets” in Note 3 – Balance Sheet Detail.

In June 2018, the FASB issued ASU No. 2018-07, "Compensation -Stock Compensation (Topic 718): Improvement to Nonemployee Share-Based Payment Accounting". The new guidance changes the accounting for nonemployee awards including: (1) equity-classified share-based payment awards issued to nonemployees will be measured on the grant date, instead of the previous requirement to remeasure the awards through the performance completion date, (2) for performance conditions, compensation cost associated with the award will be recognized when the achievement of the performance condition is probable, rather than upon achievement of the performance condition, and (3) the current requirement to reassess the classification (equity or liability) for nonemployee awards upon vesting will be eliminated, except for awards in the form of convertible instruments. The new guidance also clarifies that any share-based payment awards issued to customers should be evaluated under ASC Topic 606. The amendments in the new guidance are effective for annual and interim reporting periods beginning after December 15, 2018, with early adoption permitted for public companies, but no earlier than an entity’s adoption date of ASC Topic 606. The Company will adopt the new standard effective January 1, 2019 and the Company does not expect to have a material impact upon adoption of the new standard to the financial statements.

Revenue

The Company adopted ASC Topic 606, "Revenue from Contracts with Customers," on January 1, 2018, applying the modified retrospective method to all agreements that were not completed as of January 1, 2018. Results for reporting periods beginning after January 1, 2018 are presented under ASC Topic 606, while prior period amounts are not adjusted and continue to be reported under the accounting standards in effect for the prior periods. A cumulative catch up adjustment was recorded to beginning retained earnings to reflect the impact of all existing arrangements under ASC Topic 606.

Upon adoption of ASC Topic 606, the Company recorded an increase to retained earnings, net of deferred tax liability, of $3.8 million (Note 14) for contracts still in force as of January 1, 2018 for the following items in the first quarter of 2018:

- $237,000 reduction in deferred revenue balances for the differences in the amount of revenue recognized for the Company’s revenue streams as a result of allocation of revenue based on standalone selling prices to the Company’s various performance obligations.
- $151,000 increase in deferred revenue balances, related to the accretion of financing costs for multi-year post-warranty service contracts for customers who pay more than one year in advance of receiving the service. The Company estimated interest expense for such advance payments under the new revenue standard.
- $210,000 decrease in accrued liabilities.
- $4.7 million for the capitalization of the incremental contract acquisition costs, such as sales commissions paid in connection with system sales. These contract acquisition costs were capitalized and are being amortized over the period of anticipated support renewals which is estimated to be approximately 2.5 years. The Company expensed such costs when incurred under the prior guidance.
- $1.2 million deferred tax liability related to the direct tax effect of the ASC Topic 606 adoption.

The following table summarizes the effects of adopting ASC Topic 606 on the Company’s consolidated balance sheet as of December 31, 2018:

	As reported under ASC Topic 606	Adjustments	Balances under Prior GAAP
		(In thousands)	
Other long-term assets	$ 5,971	$ (5,217)	$ 754
Deferred revenue	12,566	(106)	12,460
Retained earnings (deficit)	(24,010)	4,610	(19,400)

The following table summarizes the effects of adopting ASC Topic 606 on Company's consolidated income statement for the year ended December 31, 2018:

	As reported under Topic 606	Adjustments	Balances under Prior GAAP
		(In thousands)	
Products revenue	$ 142,535	$ 274	$ 142,261
Service revenue	20,185	280	19,905
Sales and marketing	58,420	540	58,960
Interest and other income, net*	(123)	297	174

** Included in interest and other income, net, is the estimated interest expense for advance payment related to service contracts under the new revenue standard.*

Adoption of the standard had no impact on total net cash from or used in operating, investing, or financing activities within the consolidated statements of cash flows.

As part of the Company's adoption of ASC Topic 606, the Company elected to use the following practical expedients: (i) not to adjust the promised amount of consideration for the effects of a significant financing component when the Company expects, at contract inception, that the period between the Company's transfer of a promised product or service to a customer and when the customer pays for that product or service will be one year or less; (ii) to expense costs as incurred for costs to obtain a contract when the amortization period would have been one year or less; (iii) not to recast revenue for contracts that begin and end in the same fiscal year; and (iv) not to assess whether promised goods or services are performance obligations if they are immaterial in the context of the contract with the customer.

Revenue recognition

Revenue recognition- Period before January 1, 2018 - ASC Topic 606 Adoption

The Company recognized revenue under ASC Topic 605 prior to the adoption of ASC Topic 606 effective January 1 2018. Under ASC 605, the Company recognized products revenue when title and risk of ownership was 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, service contracts, training, and in some cases, marketing support and installation.

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 the Company allocates revenue to all deliverables based on their relative selling prices in accordance with the FASB Accounting Standards Codification ("ASC") 605-25. Because the Company has neither vendor specific objective evidence ("VSOE") nor third-party evidence of selling price for the Company's systems, the allocation of revenue has been based on the Company's best estimate of selling prices ("BESP"). 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 the Company's deliverables by considering multiple factors including, but not limited to, features and functionality of the system, geographies, type of customer and market conditions

With respect to the sale of its earlier generation of the *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. Revenue from the sale of refills is recorded as Product revenue in the period in which such sales are made.

Customer Marketing Arrangements

The Company has a customer marketing and incentive program called “Cutera Bucks” for its North America customers through which it offers various sales incentives and discounts and pays or reimburses customers for qualifying expenses associated with practice set-up, advertising procedures related to the system purchased, and other expenses. The Company records such incentives as a reduction of revenue at the time when the sale of the system is recorded.

Service 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. Revenue from services performed in the absence of a service contract, including installation and training revenue, is recognized when the related services are performed and collectability is reasonably assured. Service revenue billed on a time and material basis, from customers whose systems are not under a service contact, is recognized as the services are provided. Service revenue for the years ended December 31, 2017 and 2016 was $18.8 million, and $19.0 million.

Bill and Hold Arrangement

Under ASC 605 in 2017 the Company segregated certain products for one order at the request of a customer for a limited period of time at a third-party storage facility (“bill -and -hold”). Revenue recognition for the bill-and-hold transaction requires consideration of, among other things, whether the customer has made a written fixed commitment to purchase the product; the existence of a substantial business purpose for the arrangement; the bill-and-hold arrangement is at the request of the customer; the scheduled delivery date must be reasonable and consistent with the buyer's business purpose; title and risk of ownership must pass to the customer and no additional performance obligations exist by the Company, at the time of the bill-and-hold the product is complete and ready for shipment and the product has been segregated from the Company's inventory. The Company recognized revenue of $938,000 for a bill-and-hold transaction in 2017. There were no such transactions in 2016.

Revenue recognition- Period after January 1, 2018 - ASC Topic 606 Adoption

Revenue is recognized upon transfer of control of promised products or services to customers in an amount that reflects the consideration to which the Company expects to be entitled in exchange for promised goods or services. The Company’s performance obligations are satisfied either over time or at a point in time. Revenue from performance obligations that are transferred to customers over time accounted for approximately 12% of the Company’s total revenue for the twelve months ended December 31, 2018.

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

For the Company’s system sale arrangements that include an extended service contract, the period of service commences at the expiration of the Company’s standard warranty offered at the time of the system sale. The Company considers the extended service contracts terms in the arrangements that are legally enforceable to be performance obligations. Other than extended service contracts and marketing services (which are satisfied over time), the Company generally satisfies all of the

performance obligations at a point in time. Systems, system accessories (hand pieces), training, time and materials services are also sold on a stand-alone basis, and related performance obligations are satisfied at a point in time. For contracts with multiple performance obligations, the Company allocates the transaction price of the contract to each performance obligation on a relative standalone selling price basis.

Nature of Products and Services

Systems

System revenue represents the sale of a system or an upgrade of an existing system. A system consists of a console that incorporates a universal graphic user interface, a laser or other energy based module, control system software and high voltage electronics, as well as one or more hand pieces. However, depending on the application, the laser or other energy based module is sometimes contained in the hand piece such as with the Company's *Pearl* and *Pearl Fractional* applications instead of within the console.

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

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

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

For systems sold directly to end-customers that are credit approved, revenue is recognized when the Company transfers control to the end-customer, which occurs when the product is shipped to the customer or when the customer receives the product, depending on the nature of the arrangement. The Company recognizes revenue on a cash basis for system sales to international direct end-customer sales that have not been credit approved, as the performance obligations in the contract are satisfied. For systems sold through credit approved distributors, revenue is recognized at the time of shipment.

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

Skincare products

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

Consumables (Other accessories)

The Company treats its customers' purchases of replacement *Titan*, *truSculpt 3D* and *truSculpt iD* hand pieces as Consumable revenue, which provides the Company with a source of recurring revenue from existing customers. The Company's recently launched *Juliet* and *Secret RF* products have single use disposable tips which must be replaced after every treatment. Sales of these consumable tips further enhance the Company's recurring revenue. Hand piece refills of the Company's legacy *truSculpt* product are accounted for in accordance with the Company's standard warranty and service contract policies.

Extended contract services

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

and-materials basis is recognized when performed. These post-warranty services serve as additional sources of recurring revenue from the Company's installed product base

Training

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

Customer Marketing Support

In North America, the Company offers marketing and consulting phone support to its customers who purchase *truSculpt 3D* and *truSculpt iD* systems. These customer marketing support services include a practice development model and marketing training, performed remotely with ongoing phone consultations for six months from date of purchase. The Company considers customer marketing support a separate performance obligation, and recognizes revenue over the six-month term of the contracts.

Significant Judgments

The Company combines two or more contracts entered into at or near the same time with the same customer and accounts for the contracts as a single contract. The contracts are negotiated as a package with a single commercial objective. The Company exercises significant judgment to evaluate the relevant facts and circumstances in determining whether the separate contracts of contracts comprise a single contract can affect the allocation of consideration to the distinct performance obligations, which could have an effect on results of operations for the periods involved.

The Company is required to estimate the total consideration expected to be received from contracts with customers. In limited circumstances, the consideration expected to be received is variable based on the specific terms of the contract The Company has not experienced significant returns or refunds to customers. Estimating consideration expected to be received from contracts with customers requires significant judgment and the change in these estimates could have an effect on its results of operations during the periods involved.

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

Systems: The SSPs for systems are based on directly observable sales in similar circumstances to similar customers. When SSP is not directly observable, the Company estimates SSP using the expected cost plus margin approach.

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

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

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

Set-up /Installation: Set-up or installation for all other systems (excluding the enlighten system) is immaterial in the context of the contract as the set-up or installation for systems other than enlighten. The related costs to complete set-up or installation are immaterial.

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

Loyalty Program

The Company launched a customer loyalty program during the third quarter of 2018 for qualified customers located in the U.S. and Canada. Under the programs, customers accumulate points based on their purchasing levels. Once a loyalty program member achieves a certain tier level, the member earns a reward. A customer's account has to be in good standing in order to receive the benefits of the rewards program. Rewards are given on a quarterly basis and must be used in the following quarter. Customers receive a notification regarding their rewards tier by the fifth (5^{th}) day of the following quarter. All unused rewards are forfeited.

The fair value of the reward earned by loyalty program members is included in accrued liabilities and recorded as a reduction of net sales at the time the reward is earned.

Cash Equivalents, and Marketable Investments

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

The Company determines the appropriate classification of its investments in marketable securities at the time of purchase and re-evaluates such designation at each balance sheet date. The Company's marketable securities have been classified and accounted for as available-for-sale securities. Investments with remaining maturities of more than one year are viewed by the Company as available to support current operations, and are classified as current assets under the caption marketable investments in the accompanying 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 of Financial Instruments

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. The Company's financial instruments include cash equivalents, accounts receivable, accounts payable and accrued liabilities. Carrying amounts of the Company's financial instruments, approximate their fair values as of the balance sheet dates given 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 in accordance with ASC 820:

- 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.

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. The Company also considers counterparty credit risk in its assessment of fair value.

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, 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, 2018, 2017, and 2016.

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 the Company's products.

In cases where the Company is aware of circumstances that may impair a specific customer's ability to meet its obligations to the Company, the Company records a specific allowance against amounts due from the customer, and thereby reduces the net recognized receivable to the amounts it reasonably believes will be collected

Concentration of Credit Risk and Other Risks and Uncertainties

The Company operates in markets that are highly competitive and rapidly changing. Significant technological changes, shifting customer needs, the emergence of competitive products or services with new capabilities and other factors could negatively impact our operating results.

The Company is also subject to risks related to changes in the value of our significant balance of financial instruments. 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. To date, 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 debt securities. The Company has established guidelines relative to credit ratings, diversification and maturities that seek to maintain safety and liquidity. 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 twelve months.

Accounts receivable are recorded net of an allowance for doubtful accounts, and are typically unsecured and are derived from revenue earned from worldwide customers. The Company controls credit risk through credit approvals, credit limits, and monitoring procedures. The Company performs credit evaluations of its customers and maintains reserves for potential credit losses. As of December 31, 2018 and 2017, there was one customer who represented 4.9% of the Company's net accounts receivable. During the years ended December 31, 2018, 2017, and 2016, domestic revenue accounted for 62%, 62%, and 55%, respectively, of total revenue, while international revenue accounted for 37%, 38%, and 45%, respectively, of total revenue. No single customer represented more than 10% of total revenue for any of the years ended December 31, 2018, 2017, and 2016.

Supplier concentration

The Company relies on third parties for the supply of components of its products, as well as third-party logistics providers. In instances where these parties fail to perform their obligations, the Company may be unable to find alternative suppliers or satisfactorily deliver its products to its customers.

Inventories

Inventories are stated at the lower of cost and net realizable value, cost being determined on a standard cost basis which approximates actual cost on a first-in, first-out basis. Net realizable value is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. The cost basis of the Company's inventory is reduced for any products that are considered excessive or obsolete based upon assumptions about future demand and market conditions.

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, 2018 and 2017, demonstration inventories, net of accumulated depreciation, included in finished goods inventory balance was $2.9 million and $1.9 million, respectively.

Property and Equipment

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

	Useful Lives
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 2018, 2017 and 2016, was $1.2 million, $1.0 million and $0.8 million respectively. Amortization expense for vehicles leased under capital leases is included in depreciation expense.

Goodwill and Intangible Assets

Goodwill and intangible assets with indefinite useful lives are not amortized, but are tested for impairment at least annually during the fourth fiscal quarter, or if circumstances indicate their value may no longer be recoverable. Goodwill represents the excess of the purchase price over the fair value of net identifiable assets and liabilities.

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, 2018, there has been no impairment of goodwill. All acquired intangible assets have been fully amortized as of December 31, 2018.

Warranty Obligations

The Company offers post-warranty services to its customers through extended service contracts that cover replacement parts and labor for a term of one, two, or three years. 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 also offers services on a time-and-materials basis for detachable hand piece replacements, parts and labor. These post-warranty services serve as additional sources of recurring revenue from the Company's installed product base.

Deferred Sales Commissions

Incremental costs of obtaining a contract, including sales commissions, are capitalized and amortized on a straight-line basis over the expected customer relationship period. The Company uses the portfolio method to recognize the amortization expense related to these capitalized costs related to initial contracts and such expense is recognized over a period associated with the revenue of the related portfolio, which is generally two to three years for the Company's product and service arrangements.

Total capitalized costs for the year ended December 31, 2018 was $5.2 million and are included in other long-term assets in the Company's consolidated balance sheet. Amortization of this asset was $1.8 million during the year ended December 31, 2018 and is included in sales and marketing expense in the Company's consolidated statements of operations.

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 the Company's internal manufacturing processes, service contracts technology license amortization and royalties, costs associated with product warranties and any inventory 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* and *truSculpt 3D* products and provides for the cost of refurbishment of these hand pieces as part of cost of revenue. When customers purchase a replacement hand piece 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

Research and development costs are expensed as incurred and include costs related to research, design, development, testing of products, salaries, benefits and other headcount related costs, facilities, material, third party contractors, regulatory affairs, clinical and development costs.

Advertising Costs

Advertising costs are included as part of sales and marketing expense and are expensed as incurred. Advertising expenses for 2018, 2017 and 2016 were $2.8 million, $1.8 million and $1.3 million, respectively.

Stock-based Compensation

The Company accounts for share-based employee compensation plans using the fair value recognition and measurement provisions under U.S. GAAP. The Company’s share-based compensation cost is measured at the grant date, based on the fair value of the award, and is recognized as expense on a straight-line basis over the requisite service period. The Company estimates expected forfeitures at the time of grant and revises, if necessary, in subsequent periods if actual forfeitures differ from those estimated.

Expected Term: The expected term represents the weighted-average period that the stock options are expected to be outstanding prior to being exercised. The Company determines expected term based on historical exercise patterns and its expectation of the time it will take for employees to exercise options still outstanding.

Expected Volatility: The underlying stock price volatility of our stock. The Company estimates volatility based on a 50-50 blend of our historical volatility and the implied volatility of freely traded options of our stock in the open market.

Risk-Free Interest Rate: The risk-free interest rate is based on the U.S. treasury yield curve in effect at the time of grant for the expected term of the stock option.

- The fair value of stock options ("options") on the grant date is estimated using the Black-Scholes option-pricing model using the single-option approach. The Black-Scholes option pricing model requires the use of highly subjective and complex assumptions, including the option's expected term and the price volatility of the underlying stock, to determine the fair value of award. The Company recognizes the expense associated with options using a single award approach over the requisite service period. The Company accounts for all stock options awarded to non-employees at the fair value of the consideration received or the fair value of the equity instrument issued, as calculated using the Black-Scholes model.

- The fair value of restricted stock units is determined based on the closing quoted 50-day moving average price of the Company’s common stock on the day of the grant.

- The fair value of Performance Stock Units ("PSUs") that have operational measurement goals, are measured at the 50-day moving average 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.

  See Note 9 - Stockholders' Equity, Stock Plans and Stock-Based Compensation Expense for a detailed discussion of the Company's stock plans and share-based compensation expense.

Income Taxes

The Company is 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. The Company recognizes tax benefits from uncertain tax positions only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such positions are then measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement.

The Company's 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. The Company's 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 Company's future effective tax rates could be adversely affected by earnings being lower in countries where the Company has lower statutory rates and being higher in countries where the Company has 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 its U.S. deferred tax assets. In addition, the Company is subject to the examination of our income tax returns by the Internal Revenue Service and other tax authorities. The Company regularly assesses the likelihood of adverse outcomes resulting from these examinations to determine the adequacy of our provision for income taxes.

Undistributed earnings of the Company's foreign subsidiaries at December 31, 2018 are considered to be indefinitely reinvested and, accordingly, no provision for federal and state income taxes has been provided thereon. Due to the Transition Tax and Global Intangible Low-Tax Income ("GILTI") regimes as enacted by the 2017 Tax Act, those foreign earnings will not be subject to federal income taxes when actually distributed in the form of a dividend or otherwise. The Company, however, could still be subject to state income taxes and withholding taxes payable to various foreign countries. The amounts of taxes which the Company could be subject to are not material to the accompanying financial statements.

In December 2017, the SEC staff issued Staff Accounting Bulletin No. 118, Income Tax Accounting Implications of the Tax Cuts and Jobs Act ("SAB 118"), which allows companies to record provisional amounts during a measurement period not to extend beyond one year of the enactment date. Since the 2017 Tax Act was passed late in the fourth quarter of 2017, and ongoing guidance and accounting interpretation was yet to be issued, the Company's accounting of the transition tax and deferred tax re-measurements was incomplete as of December 31, 2017. The Company filed its 2017 Federal corporate income tax return in the fourth quarter of 2018. The Company's final analysis and impact of the 2017 Tax Act is reflected in the tax provision and related tax disclosures for the year ended December 31, 2018. There was a net increase of approximately $0.4 million to the originally estimated $7.3 million remeasurement of deferred tax assets. The Company considers the $0.4 million true-up to be an immaterial change in estimate which has been reflected within the measurement period in accordance with SAB 118.

In January 2018, the FASB released guidance on the accounting for tax on the GILTI provisions of the 2017 Tax Act. The GILTI provisions impose a tax on foreign income in excess of a deemed return on tangible assets of foreign corporations. The guidance indicates that either accounting for deferred taxes related to GILTI inclusions or treating any taxes on GILTI inclusions as a period cost are both acceptable methods subject to an accounting policy election. The Company has elected to treat any taxes on GILTI inclusions as a period cost.

Computation of Net Income (Loss) per Share

Basic net income per share is computed using the weighted average number of shares outstanding during the period. Diluted net income per share is computed using the weighted average number of the Company's shares and dilutive potential shares outstanding during the period. Dilutive potential shares primarily consist of employee stock options, restricted stock units, and shares to be purchased by employees under the Company's employee stock purchase plan.

GAAP requires that employee equity share options, non-vested shares, and similar equity instruments granted by the Company be treated as potential common shares outstanding in computing diluted earnings per share. Diluted shares outstanding include the dilutive effect of equity awards, 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 exercising stock options and the amount of compensation cost for future service that the Company has not yet recognized are assumed to be used to repurchase shares. Diluted earnings per share ("EPS") is same as basic when the Company incurs a loss.

Comprehensive Income (Loss)

Comprehensive income (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, 2017. 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, 2018.

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, 2018, and 2017, 89% and 98% of long-lived assets were in the United States, respectively. Revenue is attributed to a geographic region based on the location of the end customer. See Note 13 – Segment Information and Revenue by Geography and Products for details relating to revenue by geography.

NOTE 2—INVESTMENT SECURITIES

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

	December 31,	
	2018	**2017**
Cash and cash equivalents:		
Cash	$ 21,969	$ 14,058
Cash equivalents:		
Money market funds	4,083	126
Total cash and cash equivalents	26,052	14,184
Marketable securities:		
U.S. government notes	1,397	11,870
U.S. government agencies	2,677	—
Municipal securities	200	200
Commercial paper	2,433	1,833
Corporate debt securities	2,816	7,825
Total marketable securities	9,523	21,728
Total cash, cash equivalents and marketable securities	$ 35,575	$ 35,912

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

December 31, 2018	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Market Value
Cash and cash equivalents	$ 26,052	$ —	$ —	$ 26,052
Marketable investments				
U.S. government notes	1,397	—	—	1,397
U.S. government agencies	2,677	—	—	2,677
Municipal securities	200	—	—	200
Commercial paper	2,433	—	—	2,433
Corporate debt securities	2,825	—	(9)	2,816
Total marketable securities	9,532		(9)	9,523
Total cash, cash equivalents and marketable securities	$ 35,584	$	$ (9)	$ 35,575

December 31, 2017	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Market Value
Cash and cash equivalents	$ 14,184	$ —	$ —	$ 14,184
Marketable investments				
U.S. government notes	11,885	—	(15)	11,870
Municipal securities	201	—	(1)	200
Commercial paper	1,836	—	(3)	1,833
Corporate debt securities	7,838	2	(15)	7,825
Total marketable securities	21,760	2	(34)	21,728
Total cash, cash equivalents and marketable securities	$ 35,944	$ 2	$ (34)	$ 35,912

No investments were in a continuous unrealized loss position for longer than 12 months as of December 31, 2018 and 2017.

The unrealized losses on the available-for-sale investments are related to corporate securities and government securities. The Company determined these unrealized losses to be temporary. Factors considered in determining whether a loss is temporary included the length of time and extent to which the investment's fair value has been less than the cost basis; the financial condition and near-term prospects of the investee; extent of the loss related to credit of the issuer; the expected cash flows from the security; the Company's intent to sell the security; and whether or not the Company will be required to sell the security before the recovery of its amortized cost.

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, 2018 (in thousands):

	Amount
Due in less than one year	$ 9,121
Due in 1 to 3 years	402
Total marketable securities	$ 9,523

Fair Value Measurements

The following table summarizes financial assets measured and recognized at fair value on a recurring basis and classified under the appropriate level of the fair value hierarchy as described above (in thousands):

December 31, 2018	Level 1	Level 2	Level 3	Total
Cash equivalents:				
Money market funds	$ 4,083	$ —	$ —	$ 4,083
Short term marketable investments:				
Available-for-sale securities	—	9,523	—	9,523
Total assets at fair value	$ 4,083	$ 9,523	$ —	$ 13,606

December 31, 2017	Level 1	Level 2	Level 3	Total
Cash equivalents:				
Money market funds	$ 126	$ —	$ —	$ 126
Commercial paper	—	—	—	—
Short term marketable investments:				
Available-for-sale securities	—	21,728	—	21,728
Total assets at fair value	$ 126	$ 21,728	$ —	$ 21,854

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, 2018 is less than 12 months and all of these investments are rated by S&P and Moody's at A or better. The Company recognizes transfers between levels of the fair value hierarchy as of the end of the reporting period. There were no transfers within the hierarchy during the years ended December 31, 2018 or 2017.

NOTE 3—BALANCE SHEET DETAIL

Inventories

Inventories consist of the following (in thousands):

	December 31,	
	2018	2017
Raw materials	$ 16,991	$ 19,160
Work in process	2,306	2,744
Finished goods	8,717	6,878
Total	$ 28,014	$ 28,782

Property and Equipment, net

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

	December 31,	
	2018	2017
Leasehold improvements	$ 660	$ 640
Office equipment and furniture	2,835	2,370
Machinery and equipment	7,304	6,277
	10,799	9,287
Less: Accumulated depreciation	(8,127)	(7,191)
Property and equipment, net	$ 2,672	$ 2,096

Included in machinery and equipment are financed vehicles used by the Company's North American sales employees. As of December 31, 2018 and 2017, the gross capitalized value of the leased vehicles was $1.9 million and $1.6 million and the related accumulated depreciation was $1.1 million and $0.7 million, respectively. Included in Property and equipment is construction in progress of $0.4 million that is yet to be depreciated.

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, 2018 and 2017 were as follows (in thousands):

	Gross Carrying Amount	Accumulated Amortization & Impairment Amount	Net Amount
December 31, 2018			
Patent sublicense	$ 1,218	$ 1,218	$ —
Customer relationship intangible related to acquisition	2,510	2,510	—
Other identified intangible assets related to acquisition	780	780	—
Other intangible	155	155	—
Goodwill	1,339	—	1,339
Total	$ 6,002	$ 4,663	$ 1,339
December 31, 2017			
Patent sublicense	$ 1,218	$ 1,218	$ —
Customer relationship intangible related to acquisition	2,510	2,510	—
Other identified intangible assets related to acquisition	780	780	—
Other intangible	155	155	—
Goodwill	1,339	—	1,339
Total	$ 6,002	$ 4,663	$ 1,339

The Company did not incur any amortization expense for intangible assets in 2018. Amortization expense in the 2017 and 2016 fiscal years for intangible assets was $2,000 and $141,000, respectively. Intangible assets were fully amortized and there were no additions as of December 31, 2018.

Accrued Liabilities

Accrued liabilities consist of the following (in thousands):

	December 31,	
	2018	2017
Accrued payroll and related expenses	$ 9,377	$ 12,567
Sales and marketing accruals	2,379	3,710
Accrued sales tax	2,935	2,920
Warranty liability	4,666	3,508
Other accrued liabilities	3,943	4,143
Total	$ 23,300	$ 26,848

Product Remediation Liability

During the fourth quarter of 2018, the Company recognized a liability for a product remediation plan related to of one of its legacy systems. This was related to a voluntary action initiated by the Company to replace a component in one of the Company's legacy products. The developed remediation plan consists primarily of replacement of a component in the system. The accrued liability consisted of cost of materials and labor costs to replace the component in all units that are under the Company's standard warranty or are covered under the existing extended warranty contracts. . The Company recorded approximately $5.0 million related to this remediation, of which $1.1 million was utilized in the fourth quarter. Approximately

$0.8 million out of the $5.0 million is included in accrued liabilities and $3.2 million is separately recorded as extended warranties.

NOTE 4— WARRANTY AND EXTENDED SERVICES CONTRACT

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

After the original warranty period, maintenance and support are offered on an extended service contract basis or on a time and materials basis. The Company provides for the estimated cost to repair or replace products under standard warranty at the time of sale. Costs incurred in connection with extended service contracts are recognized at the time when costs are incurred, except the one-time extended service contracts charge of $3.2 million related to the cost to replace a component in one of the Company's legacy products.. The following table provides the changes in the product standard warranty accrual for the years ended December 31, 2018 and 2017 (in thousands):

	December 31,	
	2018	2017
Balance at beginning of year	$ 3,508	$ 2,461
Add: Accruals for warranties issued during the period	9,205	7,583
Less: Warranty related expenses during the period	(8,045)	(6,536)
Balance at end of year	$ 4,668	$ 3,508

NOTE 5— DEFERRED REVENUE

The Company records deferred revenue when revenue is to be recognized subsequent to invoicing. For extended service contracts, the Company generally invoices customers at the beginning of the extended service contract term. The Company's extended service contracts typically have one, two or three year terms. Deferred revenue also includes payments for installation, training and extended marketing support service. Approximately 79% of the Company's deferred revenue balance of $12.6 million as of December 31, 2018 will be recognized over the next 12 months.

The following table provides changes in the deferred contract revenue balance for the years ended December 31, 2018 and 2017 (in thousands):

	December 31,	
	2018	2017
Balance at beginning of year	$ 10,719	$ 9,431
Add: Payments received	14,882	14,369
Less: Revenue recognized	(13,746)	(13,081)
Balance at end of year	$ 11,855	$ 10,719

Costs for extended service contracts in 2018, 2017 and 2016 were $7.8 million, $6.0 million and $6.7 million, respectively. The $7.8 million in 2018 includes a one-time extended service contract cost of $3.2 million to replace a component in one of the Company's legacy products (See Note 3).

NOTE 6—STOCKHOLDERS' EQUITY, STOCK PLANS AND STOCK-BASED COMPENSATION EXPENSE

As of December 31, 2018, 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 one-third 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 fair value (determined by dividing the award amount by the 50-day moving average stock price on the day of the award), fully vested, stock awards annually on the date of the Company's Annual Meeting of stockholders. Following Board of Directors action on October 31, 2017, the Company's nonemployee directors receive $60,000 of RSUs granted annually that cliff-vest on the one-year anniversary of the grant date. In the years ended December 31, 2018, 2017 and 2016, the Company issued 13,392, 21,605 and 45,350 RSUs, respectively, to its non-employee directors. Included in the 2016 grants, was 6,500 RSUs granted to one of the Company's non-employee directors for consulting services to the Company, which vest over a period of four years from the grant date.

In the years ended December 31, 2018, 2017 and 2016 the Company's Board of Directors granted 210,532, 270,707 and 229,865 RSUs, respectively, 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 annual RSUs granted to the executive officers vests 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. In addition, on December 15, 2017, the Company's Board granted 100,000 RSUs to the President and Chief Executive Officer, which vest according to the following schedule: 15%, 15%, 25% and 15% on the first, second, third and fourth anniversary of the grant date, respectively. 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. On the vesting date, the Company issues fully paid up common stock, net of stock withheld to settle the recipient's minimum statutory tax liability.

In the years ended December 31, 2018, 2017 and 2016 the Company's Board of Directors granted its executive officers and certain senior management employees 47,824, 117,418 and 204,976 of PSUs, respectively. All PSUs vesting was subject to the recipient's continued service and achievement of pre-established goals that were operational (in 2018, 2017 and 2016). The operational PSU goals were related to revenue growth, operating income improvement and specific product releases. On the vest date of the PSUs, the Company issues fully-paid up common stock, based on the degree of achievement of the pre-established targets, net of the stock withheld to settle the recipient's minimum statutory tax liability. 50% of the U.S. domestic metric was achieved while international metric was not achieved in 2018.

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, 2019, 2018 and 2017. 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, 2018, 2017and 2016, under the 2004 ESPP, the Company issued 64,511, 78,479 and 79,922 shares, respectively. At December 31, 2018, 627,073 shares remained available for future issuance.

Option Activity

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

		Options Outstanding			
	Shares Available For Grant	Number of Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life (in years)	Aggregate Intrinsic Value (in $ millions) [1]
Balances as of December 31, 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
Options granted	(278,250)	278,250	$ 31.00		
Options exercised	—	(488,398)	$ 8.96		
Options cancelled (expired or forfeited)	66,405	(66,405)	$ 16.54		
Stock awards granted	(873,881)	—	—		
Stock awards cancelled (expired or forfeited)	258,935	—	—		
Additional shares reserved[2]	1,600,000	—	—		
Balances as of December 31, 2017	1,494,866	839,919	$ 16.46	3.99	$ 24.4
Options granted	(21,010)	21,010	$ 50.65		
Options exercised	—	(271,902)	$ 9.99		
Options cancelled (expired or forfeited)	81,322	(81,322)	$ 21,55		
Stock awards granted	(562,070)				
Stock awards cancelled (expired or forfeited)	148,197				
Balances as of December 31, 2018	1,141,305	507,705	$ 20.52	3.52	$ 2.00
Exercisable as of December 31, 2018		335,348	$ 14.68	2.73	$ 1.87
Vested and expected to vest, net of estimated forfeitures, as of December 31, 2018		485,469	$ 19.88	3.42	$ 19.86

(1) *Based on the closing stock price of $17.02 of the Company's stock on December 31, 2018, $45.35 on December 30, 2017, $17.35 on December 31 2016 and $12.79 on December 31, 2015.*

(2) *Approved by the board of directors and stockholders in 2017..*

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, 2018. The aggregate intrinsic amount changes based on the fair market value of the Company's common stock. Total intrinsic value of options exercised in 2018, 2017 and 2016 was $8.3 million, $8.0 million, and $3.6 million, respectively. The options outstanding and exercisable at December 31, 2018 were in the following exercise price ranges:

Exercise Prices	Number Outstanding	Contractual Life (in years)	Number Outstanding
$6.88 – $7.44	28,832	0.58	28,832
$8.80	97,268	1.44	97,268
$9.65 – $10.79	54,564	3.01	49,544
$10.80 – $11.24	57,521	3.18	47,293
$11.67 – $17.90	72,583	2.44	48,855
$18.55 – $25.70	71,250	5.21	28,512
$39.30	72,000	5.83	23,230
$43.40	6,510	6.45	—
$47.40	38,927	5.86	10,564
$53.90	8,250	5.30	1,250

Stock Awards (RSU and PSU) Activity Table

Information with respect to RSUs and PSUs 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, 2015	371,630	$ 12.39		$ 4,753
Granted	480,191	$ 10.80		
Vested [3]	(172,990)	$ 12.56	$ 1,906 [5]	
Forfeited	(233,514)	$ 11.36		
Outstanding at December 31, 2016	445,317	$ 11.15		$ 7,726
Granted	412,208	$ 28.74		
Vested [3]	(224,799)	$ 10.91	$ 5,168 [6]	
Forfeited	(122,139)	$ 13.56		
Outstanding at December 31, 2017	510,587	$ 24.88		$ 23,155
Granted	265,124	$ 44.57		
Vested [3]	(231,515)	$ 21.10	$ 9,483 [6]	
Forfeited	(69,905)	$ 20.01		
Outstanding at December 31, 2018	474,291	$ 38.44		$ 8,072

(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 $* 17.02 *on* December 31, 2018*, $*45.35 *on* December 31, 2017*, $*17.35 on December 31*,* 2016 *and* $12.79 *on* December 30*,* 2015.
(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 $*2.2 *million.*
(5) *On the grant date, the fair value for these vested awards was* $2.5 *million.*
(6) *On the grant date, the fair value for these vested awards was* $4.9 *million.*

Stock-Based Compensation

Stock-based compensation expense for the years ended December 31, 2018, 2017 and 2016 was as follows (in thousands):

	Year Ended December 31,		
	2018	2017	2016
Stock options	$ 838	$ 815	$ 989
RSUs	4,648	1,813	1,508
PSUs	1,105	2,093	967
ESPP	566	389	249
Total stock-based compensation expense	$ 7,157	$ 5,110	$ 3,713

As of December 31, 2018, the unrecognized compensation cost, net of expected forfeitures, was $12.8 million for stock options and stock awards, which will be recognized over an estimated weighted-average remaining amortization period of 2.63 years. For the ESPP, the unrecognized compensation cost, net of expected forfeitures, was $272,000, 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 (excluding PSUs), net of taxes withheld and paid, in 2018, 2017and 2016 was $1.3 million, $4.0 million and $9.5 million.

Total stock-based compensation expense recognized during the year ended December 31, 2018, 2017 and 2016 was recorded in the Consolidated Statement of Operations as follows (in thousands):

	Year Ended December 31,		
	2018	2017	2016
Cost of revenue	$ 743	$ 660	$ 341
Sales and marketing	2,105	1,642	1,179
Research and development	824	936	596
General and administrative	3,485	1,872	1,597
Total stock-based compensation expense	$ 7,157	$ 5,110	$ 3,713

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		
	2018	2017	2016	2018	2017	2016
Expected term (in years) [1]	3.7	3.70	3.83	0.50	0.50	0.50
Risk-free interest rate [2]	2.6%	1.73%	1.09%	2.34%	1.14%	0.46%
Volatility [3]	44%	40%	40%	61%	42%	39%
Dividend yield [4]	—%	—%	—%	—%	—%	—%
Weighted average estimated fair value at grant date	$ 18.0	$ 9.98	$ 3.72	$ 9.6	$ 8.21	$ 3.22

(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.* The expected term of groups of employees that have similar historical exercise patterns has been considered separately for valuation purposes.

(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.*

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 2018 ranged from 0% to 17%.

Non-Employee Stock-Based Compensation

Stock-based compensation expense related to stock options granted to non-employees is recognized based on the fair value of the stock options, determined using the Black-Scholes option pricing model, as they are earned. The awards generally vest over the time period the Company expects to receive services from the nonemployee. The Company revalues stock options granted to non-employees at each reporting date as the underlying equity instruments vest.

The Company granted 3,384 RSUs to non-employees during the year ended December 31, 2018, 7,745 stock options and 2,478 RSUs during the year ended 2017, and zero shares during the year ended 2016. The 7,745 stock options granted in 2017 vests over 4 years at 25% on the first anniversary of the grant date and 1/48th each month thereafter.

The 3,384 RSUs granted in 2018 vests over 4 years at 25% each anniversary of the grant date. These RSUs and stock options were granted in exchange for consulting services to be rendered and are measured and recognized as they are earned.

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 2018, 2017 and 2016, the Company withheld 77,049, 64,490, and 56,157shares of common stock, respectively, to satisfy its employees' tax obligations of $3,130,360, $1,469,000 and $619,000, 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.

NOTE 7—INCOME TAXES

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

	Year Ended December 31,		
	2018	2017	2016
U.S.	$ (14,177)	$ 11,203	$ 2,207
Foreign	662	757	513
Income (loss) before income taxes	$ (13,515)	$ 11,960	$ 2,720

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

	Year Ended December 31,		
	2018	2017	2016
Current:			
Federal	$ (15)	$ 148	$ —
State	123	71	16
Foreign	303	511	131
Total Current	411	730	147
Deferred:			
Federal	15,674	(17,393)	(24)
State	1,230	(1,348)	(2)
Foreign	(60)	(22)	22
Total Deferred	16,844	(18,763)	(4)
Tax provision	$ 17,255	$ (18,033)	$ 143

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

	December 31,	
	2018	2017
Net operating loss carryforwards	$ 11,227	$ 8,604
Stock-based compensation	1,040	1,179
Other accruals and reserves	1,924	1,663
Credits	10,857	11,781
Foreign	457	399
Accrued warranty	1,863	847
Depreciation and amortization	2,024	1,592
Other	282	303
Deferred tax asset before valuation allowance	29,674	26,368
Valuation allowance	(27,865)	(7,242)
Deferred tax asset after valuation allowance	1,809	19,126
Deferred tax liability	(1,269)	—
Deferred tax liability on goodwill	(83)	(71)
Net deferred tax asset	$ 457	$ 19,055

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,		
	2018	2017*	2016*
U.S. federal statutory income tax rate	21.00%	34.00%	34.00%
State tax rate	(4.95)	(5.59)	(14.56)
Meals and entertainment	(2.66)	2.15	7.56
Stock-based compensation	13.66	(21.55)	14.36
SAB 118 Change in Estimate	(2.43)	—	
Foreign rate differential	0.11	(0.50)	(0.16)
Other	(1.21)	0.65	(2.15)
General business credit	4.31	(2.72)	(9.25)
Change in Federal Tax Rate	—	60.98	—
Valuation allowance	(155.49)	(218.17)	(24.57)
Effective tax rate	(127.66)%	(150.75)%	5.23%

* *Other balance in* 2017 *and* 2016 *was reclassified for consistency with current year.*

The Company assesses the ability to realize its net deferred tax assets by evaluating all available evidence, both positive and negative, including (1) cumulative results of operations in recent years, (2) sources of recent income (loss), (3) estimates of future taxable income and (4) the length of net operating loss and tax credit carryforward periods. Such assessment is required on a jurisdiction-by-jurisdiction basis. In making such assessment, significant weight is given to evidence that can be objectively verified.

The Company's deferred tax assets are primarily comprised of U.S. Net Operating Loss ("NOL"), tax credit and other deferred tax assets relating to book-to-tax temporary differences. The Company had recorded and maintained a full valuation allowance against those net deferred tax assets to reduce them to their estimated net realizable value through September 30, 2017. As of December 31, 2017, the Company determined that it is more likely than not that a portion of the net deferred tax assets would be realized for federal and U.S. states, except California, and therefore recorded a net valuation allowance release of $26.3 million.

As of each reporting date, the Company's management considers new evidence, both positive and negative, that could impact management's view with regard to future realization of deferred tax assets. As of December 31, 2018, in part because in the current year, the Company achieved three years of cumulative pre-tax losses in the U.S. federal tax jurisdiction, management determined that sufficient negative evidence exists as of December 31, 2018, to conclude that it is more likely than not that certain of its net deferred taxes would not be realizable, and therefore, recorded a valuation allowance in the amount of $16.9 million accordingly.

At December 31, 2018, the Company had approximately $45.7 million and $20.5 million of federal and state net operating loss carryforwards, respectively, available to offset future taxable income. The federal and state net operating loss carryforwards, if not utilized will generally begin to expire in 2029 through 2038. $11.8 million of total federal net operating loss carryforwards were generated post December 31, 2017 and have no expiration. At December 31, 2018, the Company had research and development tax credits available to offset federal, California and Massachusetts tax liabilities in the amount of $6.7 million, $7.4 million and $0.3 million, respectively. Federal credits will begin to expire in 2024, California state tax credits have no expiration, and Massachusetts tax credits begin to expire in 2021.

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, 2018 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, 2018 are considered to be indefinitely reinvested and, accordingly, no provision for federal and state income taxes has been provided thereon. Due to the Transition Tax and GILTI regimes as enacted by the 2017 Tax Act, those foreign earnings will not be subject to federal income taxes when actually distributed in the form of a dividend or otherwise. The Company, however, could still be subject to state income taxes and withholding taxes payable to various foreign countries. The amounts of taxes which the Company could be subject to are not material to the accompanying financial statements.

In December 2017, the SEC staff issued Staff Accounting Bulletin No. 118, Income Tax Accounting Implications of the Tax Cuts and Jobs Act ("SAB 118"), which allows companies to record provisional amounts during a measurement period not to extend beyond one year of the enactment date. Since the 2017 Tax Act was passed late in the fourth quarter of 2017, and ongoing guidance and accounting interpretation was yet to be issued, the Company's accounting of the transition tax and deferred tax re-measurements was incomplete as of December 31, 2017. The Company filed its 2017 Federal corporate income tax return in the fourth quarter of 2018. The Company's final analysis and impact of the 2017 Tax Act is reflected in the tax provision and related tax disclosures for the year ended December 31, 2018. There was a net increase of approximately $0.3 million to the originally estimated $7.3 million remeasurement of deferred tax assets. The Company considers the $0.3 million true-up to be an immaterial change in estimate which has been reflected within the measurement period in accordance with SAB 118.

In January 2018, the FASB released guidance on the accounting for tax on the GILTI provisions of the 2017 Tax Act. The GILTI provisions impose a tax on foreign income in excess of a deemed return on tangible assets of foreign corporations. The guidance indicates that either accounting for deferred taxes related to GILTI inclusions or treating any taxes on GILTI inclusions as a period cost are both acceptable methods subject to an accounting policy election. The Company has elected to treat any taxes on GILTI inclusions as a period cost.

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 performs 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 the Company believes it has adequately reserved for its uncertain tax positions, no assurance can be given that the final tax outcome of these matters will not be different. The Company adjusts 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 and penalties.

The Company files U.S., state, and foreign income tax returns in jurisdictions with varying statutes of limitations. The 2005 through 2018 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 2017 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, 2016 to December 31, 2018 (in thousands):

	Year Ended December 31,		
	2018	2017	2016
Balance at beginning of year	$ 1,519	$ 707	$ 651
Decreases related to prior year tax positions	(70)	643	—
Increases related to current year tax positions	114	169	56
Balance at end of year	$ 1,563	$ 1,519	$ 707

It is the Company's policy to recognize interest and penalties related to income tax matters in income tax expense. As of December 31, 2018, the Company had accrued interest and penalties of $107,000 related to uncertain tax positions.

NOTE 8—NET 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, performance stock units and employee stock purchase plan contributions), which is calculated based on the average share price for each fiscal period using the treasury stock method. In accordance with ASC 260, the assumed proceeds under the treasury stock method include the average unrecognized compensation expense of in-the money stock options and restricted stock units. This results in the assumed buyback of additional shares, thereby reducing the dilutive impact of equity awards.

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

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

	Year Ended December 31,		
	2018	2017	2016
Numerator:			
Net Income(loss)	$ (30,770)	$ 29,993	$ 2,577
Denominator:			
Weighted average shares of common stock outstanding used in computing net income (loss) per share, basic	13,771	13,873	13,225
Dilutive effect of incremental shares and share equivalents	—	855	528
Weighted average shares of common stock outstanding used in computing net income (loss) per share, diluted	13,771	14,728	13,753
Net income(loss) per share:			
Net income (loss) per share, basic	$ (2.23)	$ 2.16	$ 0.19
Net income (loss) per share, diluted	$ (2.23)	$ 2.04	$ 0.19

The following numbers of 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 period presented because including them would have had an anti-dilutive effect (in thousands):

	Year Ended December 31,		
	2018	2017	2016
Options to purchase common stock	664	42	220
Restricted stock units	432	9	24
Employee stock purchase plan shares	133	—	—
Performance stock units	43	—	—
Total	1,272	51	244

NOTE 9—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 2018, 2017 and 2016, the Company made discretionary contributions under the 401(k) Plan of $0.4 million, $0.3 million and $0.2 million, 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, 2018, and the related expense for each of the three years then ended was not significant.

NOTE 10—SEGMENT INFORMATION AND REVENUE BY GEOGRAPHY AND PRODUCTS

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

The following table presents a summary of revenue by geography for the year ended December 31, 2018 and 2017 (in thousands):

	Year Ended December 31,		
	2018	2017	2016
Revenue mix by geography:			
United States	$ 101,862	$ 94,581	$ 65,513
Japan	17,819	17,264	14,727
Asia, excluding Japan	15,467	13,719	13,445
Europe	8,875	8,317	7,539
Rest of the world	18,696	17,612	16,832
Total Consolidated revenue	$ 162,720	$ 151,493	$ 118,056
Revenue mix by product category:			
Systems	$ 132,594	$ 125,883	$ 92,721
Consumables	4,162	2,435	2,498
Skincare	5,778	4,342	3,809
Total product revenue	142,535	132,660	99,028
Service	20,185	18,833	19,028
Total Consolidated revenue	$ 162,720	$ 151,493	$ 118,056

NOTE 11—COMMITMENTS AND CONTINGENCIES

OPERATING LEASES

Facility Leases

As of December 31, 2018, 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
2019	$ 3,011
2020	2,939
2021	2,564
2022	2,495
2023 and thereafter	214
Future minimum rental payments	$ 11,223

Gross rent expense recognized in the years ended December 31, 2018, 2017 and 2016 was $2.9 million, $1.5 million and $1.6 million, respectively.

Vehicle Leases

As of December 31, 2018, 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
2019	$ 576
2020	287
2021	152
Future minimum lease payments	$ 1,015

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. Although open purchase orders are considered enforceable and legally binding, the terms generally allow the Company the option to cancel, reschedule, and adjust their requirements based on the Company's business needs prior to the delivery of goods or performance of services The Company's open inventory purchase commitments with its suppliers as of December 31, 2018 were $1.7 million and $7.2 million respectively, for 2019 and 2020.

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.

Contingencies

The Company is named from time to time as a party to other legal proceedings, product liability, commercial disputes, employee disputes, and contractual lawsuits in the ordinary course of business. These matters are subject to many uncertainties and outcomes that are not predictable and that may not be known for extended periods of time. A liability and related charge are recorded to earnings in the Company's consolidated financial statements for legal contingencies when the loss is considered probable and the amount can be reasonably estimated. The assessment is re-evaluated each accounting period and is based on all available information, including discussion with outside legal counsel. If a reasonable estimate of a known or probable loss cannot be made, but a range of probable losses can be estimated, the low-end of the range of losses

is recognized if no amount within the range is a better estimate than any other. If a material loss is reasonably possible, but not probable and can be reasonably estimated, the estimated loss or range of loss is disclosed in the notes to the consolidated financial statements. The Company expenses legal fees as incurred.

As of December 31, 2018 and December 31, 2017, the Company had accrued $171,000 and $91,000, respectively related to various pending commercial and product liability lawsuits. The Company does not believe that a material loss in excess of accrued amounts is reasonably possible.

NOTE 12—DEBT

Loan and Security Agreement

On May 30, 2018, the Company and Wells Fargo Bank, N.A. (“Wells Fargo”) entered into a Loan and Security Agreement (the “Original Revolving Line of Credit”) in the original principal amount of $25 million. The Original Revolving Line of Credit terminates on May 30, 2021. As of December 31, 2018, there were no borrowings under the Original Revolving Line of Credit.

Covenants

The Original Revolving Line of Credit contained financial and other covenants as well as the maintenance of a leverage ratio not to exceed 2.5 to 1.0 and a Trailing Twelve Month ("TTM") adjusted EBITDA of not less than $10 million. A violation of any of the covenants could result in a default under the Original Revolving Line of Credit that would permit the lenders to restrict the Company’s ability to further access the revolving line of credit for loans and letters of credit and require the immediate repayment of any outstanding loans under the Loan and Security Agreement.

During the third quarter of 2018, the Company was notified that it was in violation of certain financial covenants in the Original Revolving Line of Credit. Upon receipt of this notice, the Company entered into discussions with Wells Fargo to amend and revise certain terms of the Original Revolving Line of Credit. Following the end of the Company's third quarter, on or about November 2, 2018, the Company entered into a First Amendment and Waiver to the Loan and Security Agreement with Wells Fargo (the “First Amended Revolving Line of Credit”).

The First Amended Revolving Line of Credit provided for an original principal amount of $15 million, with the ability to request an additional $10 million and a waiver of any existing defaults under the Original Revolving Line of Credit as long as the Company is in compliance with the terms of the Revised Revolving Line of Credit.

Similar to the Original Revolving Line of Credit, the First Amended Revolving Line of Credit contained revised financial and other covenants as well as the maintenance of a leverage ratio not to exceed 2.0 to 1.0 and a graduated scale of TTM adjusted EBITDA of not less than $1 million as of the last day of the 2018 third fiscal quarter; $2.5 million as of the last day of the 2018 fourth fiscal quarter; $4 million as of the last day of the 2019 first and second fiscal quarters; $6.5 million as of the last day of the 2019 third fiscal quarter; and $10 million as of the last day of each fiscal quarter.

Subsequent to December 2018, the Company again determined that it was in violation of certain financial covenants in the First Amended Revolving Line of Credit. The Company again entered into discussions with Wells Fargo to amend and revise certain terms of the First Amended Revolving Line of Credit. On or about, March 11, 2019 the Company entered into a Second Amendment and Waiver to the Loan and Security Agreement with Wells Fargo (the “Second Amended Revolving Line of Credit”). The Second Amended Revolving Line of Credit requires the Company to maintain a minimum cash balance of $15 million at Wells Fargo, but removes all other covenants so long as no money is drawn on the line of credit. The Company may draw down on the line of credit at the time it reaches and maintains TTM adjusted EBITDA of not less than $10 million, and a leverage ratio not to exceed 2.5 to 1.0.

As of the date of this filing, there were no borrowings under either the Second Amended Revolving Line of Credit, First Amended Revolving Line of Credit, or the Original Revolving Line of Credit, and the Company is in compliance with all financial covenants of the Revised Revolving Line of Credit.

NOTE 13—RELATED PARTIES

In 2018 and 2017, the Company paid $63,000 and $196,000, respectively, to a former board member Mr. Dave Gollnick for product development, clinical sales and marketing support services. In addition, as of December 31, 2016, the Company granted Mr. Gollnick 6,500 RSUs with a grant-date fair value of $87,100, that vest over three 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.

The Company signed an agreement with a real estate firm, T3 Advisors, effective September 2017, to assist the Company in real estate related issues (including strategic planning and search for new facilities). One of T3 Advisors' Senior Vice President "Mr. Austin Barrett" is related to Greg Barrett – a member of the Company's board of directors. In 2018 and 2017, the Company incurred $192,000 and $38,000 respectively, related to T3 Advisors Real estate brokerage services.

NOTE 14—CORRECTION OF PRIOR PERIOD IMMATERIAL ERROR

During the three months ended June 30, 2018, management discovered that the Company had not recorded the tax effect of the adoption of ASC Topic 606 in the balance sheet of the unaudited condensed consolidated financial statements as of March 31, 2018. Upon adoption of ASC Topic 606, the Company recorded an increase to retained earnings of $5.0 million for contracts still in force as of January 1, 2018. The tax effect of the ASC Topic 606 adoption was $1.2 million.

The Company evaluated the impact of the error on prior periods and determined that the effect was not material to the financial statements as of and for the three months ended March 31, 2018 and six months ended June 30, 2018. The Company corrected the error in the unaudited condensed consolidated financial statements as of and for the six months ended June 30, 2018. The correction of the error increased the Company's deferred tax liability by $1.2 million and decreased retained earnings by $1.2 million (Note 1) as of January 1, 2018.

The Company's condensed consolidated statements of operations, comprehensive income (loss) and cash flows for the three months ended March 31, 2018, the three, six and nine months ended September 30, 2018, and the consolidated statements for the year ended December 31, 2018 were not affected by this correction of the error. Accordingly, the Company's loss per share for the three months ended March 31, 2018, the three, six and nine months ended September 30, 2018, and the year ended December 31, 2018 remains unchanged.

NOTE 15—SUBSEQUENT EVENTS

The Company evaluates events or transactions that occur after the balance sheet date through to the date which the financial statements are issued, for potential recognition or disclosure in its consolidated financial statements in accordance with Subsequent Events.

Effective January 4, 2019, James A. Reinstein resigned from his position as Chief Executive Officer and as a member of the Company's board of directors. Effective as of that same date, the board of directors appointed the Company's current Chief Operating Officer, R. Jason Richey to serve as Interim President and Chief Executive Officer of the Company while the board of directors conducts a search for the Company's next Chief Executive Officer.

In connection with Mr. Reinstein's resignation, the Company entered into a Separation Agreement and release with him. Pursuant to the Separation Agreement, Mr. Reinstein will serve as a consultant to the Company for six months to assist with transition matters. In accordance with the Separation Agreement and General Release filed as Exhibit 10.2 to Form 8-K filed on January 9, 2019, Mr. Reinstein will receive a cash payment of approximately $0.6 million, equivalent to (i) twelve (12) months of his annual base salary as in effect on the Separation Date, and (ii) 100% of his actual bonus for the prior fiscal year, consistent with the 2018 MBP program payout, less applicable withholdings. The payment was made to Mr. Reinstein within thirty (30) days after the effective date. He will also vest in outstanding equity awards of 4,667 shares through April 4, 2019.

SUPPLEMENTARY FINANCIAL DATA (UNAUDITED)
(In thousands, except per share amounts)

Quarter ended:	Dec. 31, 2018	Sept. 30, 2018	June 30, 2018	March 31, 2018	Dec. 31, 2017	Sept. 30, 2017	June 30, 2017	March 31, 2017
Net revenue	$ 45,469	$ 40,573	$ 42,553	$ 34,125	$ 47,632	$ 38,173	$ 36,389	$ 29,299
Cost of revenue	26,683	18,688	20,176	16,791	20,299	15,963	15,343	13,778
Gross profit	18,786	21,885	22,377	17,334	27,333	22,210	21,046	15,521
Operating expenses:								
Sales and marketing	15,318	14,479	15,535	13,088	15,362	13,148	12,787	10,773
Research and development	3,464	3,244	4,095	3,556	3,481	3,467	2,981	2,945
General and administrative	5,494	5,160	4,902	5,439	3,947	3,379	3,548	3,216
Lease termination income	—	—	—	—	—	(4,000)	—	—
Total operating expenses	24,276	22,883	24,532	22,083	22,790	15,994	19,316	16,934
Income (loss) from operations	(5,490)	(998)	(2,155)	(4,749)	4,543	6,216	1,730	(1,413)
Interest and other income, net	(44)	(49)	(129)	98	138	197	276	273
Income (loss) before income taxes	(5,534)	(1,047)	(2,284)	(4,651)	4,681	6,413	2,006	(1,140)
Income tax provision	20,760	(174)	(712)	(2,619)	(18,199)	225	59	(118)
Net income (loss)	$ (26,293)	$ (873)	$ (1,572)	$ (2,032)	$ 22,880	$ 6,188	$ 1,947	$ (1,022)
Net income (loss) per share—basic	$ (1.89)	$ (0.06)	$ (0.11)	$ (0.15)	$ 1.66	$ 0.44	$ 0.14	$ (0.07)
Net income (loss) per share—diluted	$ (1.89)	$ (0.06)	$ (0.11)	$ (0.15)	$ 1.57	$ 0.42	$ 0.13	$ (0.07)
Weighted average number of shares used in per share calculations:								
Basic	13,932	13,851	13,709	13,587	13,744	13,973	13,935	13,840
Diluted	13,932	13,851	13,709	13,587	14,569	14,767	14,629	13,840

SCHEDULE II

CUTERA, INC.

VALUATION AND QUALIFYING ACCOUNTS
(in thousands)
For the Years Ended December 31, 2018, 2017 and 2016

	Balance at Beginning of Year	Additions	Deductions	Balance at End of Year
Deferred tax assets valuation allowance				
Year ended December 31, 2018	$ 7,242	$ 22,770	$ 2,147	$ 27,865
Year ended December 31, 2017	$ 31,751	$ 617	$ 25,126	$ 7,242
Year ended December 31, 2016	$ 27,616	$ 6,755	$ 2,620	$ 31,751

	Balance at Beginning of Year	Additions	Deductions	Balance at End of Year
Allowance for doubtful accounts receivable				
Year ended December 31, 2018	$ 9	$ 1,880	$ 632	$ 1,257
Year ended December 31, 2017	$ 21	$ 14	$ 26	$ 9
Year ended December 31, 2016	$ 4	$ 21	$ 4	$ 21

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures

The Company maintains disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) that are designed to ensure that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and that such information is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate, to allow for timely decisions regarding required disclosure.

As required by SEC Rule 13a-15(b), the Company carried out an evaluation, under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this Annual Report on Form 10-K. Based on the foregoing, the Company's Interim Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), concluded that the Company's disclosure controls and procedures were effective at the reasonable assurance level.

Attached as exhibits to this Annual Report are certifications of the Company's CEO and 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.

Inherent Limitations Over Internal Controls

Our internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP. Our internal control over financial reporting includes those policies and procedures that:

- pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors; and
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of our assets that could have a material effect on the financial statements.

Management, including the Company's CEO and CFO, does not expect that our internal controls will prevent or detect all errors and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are 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 internal controls can provide absolute assurance that all control issues and instances of fraud, if any, have been detected. Also, any evaluation of the effectiveness of controls in future periods are subject to the risk that those internal controls may become inadequate because of changes in business conditions, or that the degree of compliance with the policies or procedures may deteriorate.

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 such term is defined in the Exchange Act Rules 13a-15(f). Under the supervision and with the participation of our management, including Company's CEO and CFO, the Company conducted an assessment of the effectiveness of our internal control over financial reporting based on the framework in Internal Control Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on the results of our assessment under the framework in the Internal Control-Integrated Framework (2013), the Company's management concluded that the Company's internal control over financial reporting was effective as of December 31, 2018.

The effectiveness of our internal control over financial reporting as of December 31, 2018, has been audited by an independent registered public accounting firm, as stated in their attestation report, which is included in their annual report under "Item 8. Financial Statements and Supplementary Data" of this Annual Report on Form 10-K.

Changes in Internal Control over Financial Reporting

There were no changes in the Company's internal control over financial reporting that occurred during the quarter ended December 31, 2018, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

None

PART III

Certain information required by Part III is omitted from this report on Form 10-K and is incorporated herein by reference to our definitive Proxy Statement for our next Annual Meeting of Stockholders (the "Proxy Statement"), which we intend to file pursuant to Regulation 14A of the Securities Exchange Act of 1934, as amended, within 120 days after December 31, 2018.

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by this item concerning our directors and corporate governance is incorporated by reference to the information set forth in the section titled "Directors and Corporate Governance" in the Company's Proxy Statement. Information required by this item concerning the Company's executive officers is incorporated by reference to the information set forth in the section entitled "Executive Officers of the Company" in the Company's Proxy Statement. Information regarding our Section 16 reporting compliance and code of business conduct and ethics is incorporated by reference to the information set forth in the section entitled "Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters" in the Company's Proxy Statement.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this item regarding executive compensation is incorporated by reference to the information set forth in the sections titled "Executive Compensation" and "Compensation for Directors" in the Company's Proxy Statement.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by this item regarding security ownership of certain beneficial owners and management is incorporated by reference to the information set forth in the section titled "Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters" in the Company's Proxy Statement.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required by this item regarding certain relationships and related transactions and director independence is incorporated by reference to the information set forth in the sections titled "Certain Relationships and Related Transactions" and "Directors and Corporate Governance" in the Company's Proxy Statement.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information required by this item regarding principal accountant fees and services is incorporated by reference to the information set forth in the section titled "Principal Accountant Fees and Services" in the Company's Proxy Statement.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

The following documents are filed as part of this Annual Report on Form 10-K

(1) Financial Statements-See Index to Consolidated Financial Statements at Item 8 of this Annual Report on Form 10-K.

(2) The following financial statement schedule of the Company is filed as part of this report and should be read in conjunction with the financial statements of the Company:

Schedule II: Valuation and Qualifying Accounts.

(3) Exhibits.

Exhibit No.	Description
3.1	Amended and Restated Certificate of Incorporation of the Registrant (filed as Exhibit 3.5 to our Quarterly Report on Form 10-Q filed on November 7, 2017 and incorporated herein by reference)
3.2	Bylaws of the Registrant (filed as Exhibit 3.4 to our Current Report on Form 8-K filed on January 8, 2015 and incorporated herein by reference)
4.1	Specimen Common Stock certificate of the Registrant (filed as Exhibit 4.1 to our Annual Report on Form 10-K filed on March 25, 2005 and incorporated herein by reference)
10.1*	Form of Indemnification Agreement for directors and executive officers (filed as Exhibit 10.1 to our Current Report on Form 8-K filed on February 21, 2019 and incorporated herein by reference)
10.2*	1998 Stock Plan (filed as Exhibit 10.2 to our registration statement on Form S-1 filed on January 15, 2004 and incorporated herein by reference)
10.3*	2004 Employee Stock Purchase Plan (filed as Exhibit 10.4 to our Annual Report on Form 10-K filed on March 16, 2007 and incorporated herein by reference)
10.4	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 (filed as Exhibit 10.6 to our registration statement on Form S-1 filed on January 15, 2004 and incorporated herein by reference)
10.5	Settlement Agreement between the Registrant and Palomar Medical Technologies, Inc. dated June 2, 2006 (filed as Exhibit 99.1 to our Current Report on Form 8-K filed on June 6, 2006 and incorporated herein by reference)
10.6	Non-Exclusive Patent License between the Registrant and Palomar Medical Technologies, Inc. dated June 2, 2006 (filed as Exhibit 99.2 to our Current Report on Form 8-K filed on June 6, 2006 and incorporated herein by reference)
10.7*	Form of Performance Unit Award Agreement (filed as Exhibit 10.11 to our Quarterly Report on Form 10-Q filed on November 14, 2005 and incorporated herein by reference)
10.8*	Amended and Restated 2004 Equity Incentive Plan (filed as Appendix B to our definitive proxy statement on Form 14A filed on May 1, 2017 and incorporated herein by reference)
10.9	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 (filed as Exhibit 10.19 to our Quarterly Report on Form 10-Q filed on November 1, 2010 and incorporated herein by reference)
10.10*	Change of Control and Severance Agreement between Kevin P. Connors and the Registrant (filed as Exhibit 10.20 to our Quarterly Report on Form 10-Q filed on August 1, 2016 and incorporated herein by reference)
10.11*	Change of Control and Severance Agreement between Ronald J. Santilli and the Registrant (filed as Exhibit 10.21 to our Quarterly Report on Form 10-Q filed on August 1, 2016 and incorporated herein by reference)
10.12*	Form of Performance Stock Unit Award Agreement (filed as Exhibit 10.22 to our Quarterly Report on Form 10-Q filed on August 1, 2016 and incorporated herein by reference)
10.13*	Change of Control and Severance Agreement between James Reinstein and the Registrant (filed as Exhibit 10.23 to our Current Report on Form 8-K filed on January 11, 2017 and incorporated herein by reference)
10.14	Lease Termination Agreement dated July 6, 2017 by and between the Registrant and SI 28, LLC (filed as Exhibit 10.26 to our Quarterly Report on Form 10-Q filed on August 7, 2017 and incorporated herein by reference)

10.15	Second Amendment to Lease dated July 6, 2017 by and between the Company and BMR-Bayshore Boulevard LP (filed as Exhibit 10.27 to our Quarterly Report on Form 10-Q filed on August 7, 2017 and incorporated herein by reference)
10.16	Transition Agreement dated July 12, 2017 by and between the Company and Ronald J. Santilli (filed as Exhibit 10.28 to our Quarterly Report on Form 10-Q filed on November 7, 2017 and incorporated herein by reference)
10.17*	Chief Financial Officer Consulting Agreement dated July 12, 2017 by and between the Company and Sandra A. Gardiner (filed as Exhibit 10.29 to our Quarterly Report on Form 10-Q filed on November 7, 2017 and incorporated herein by reference)
10.18	Loan and Security Agreement dated May 30, 2018 by and between the Company and Wells Fargo Bank, N.A. (filed as Exhibit 10.1 to our Current Report on Form 8-K filed on June 5, 2018 and incorporated herein by reference).
10.19	Separation Agreement dated January 4, 2019 by and between the Company and James Reinstein (filed as Exhibit 10.2 to our Current Report on Form 8-K on January 9, 2019 and incorporated herein by reference).
23.1	Consent of Independent Registered Public Accounting Firm
24.1	Power of Attorney
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

* Management contract or compensatory plan

ITEM 16. SUMMARY OF 10K

None

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 the18th day of March, 2019.

CUTERA, INC.

By: */s/ JASON R. RICHEY*
Jason R. Richey
Chief Operating Officer and Interim Chief Executive Officer

Power of Attorney

KNOW ALL MEN AND WOMEN BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Jason R. Richey, and Sandra A. Gardiner, and each of them, as his or her true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution for him or her and in his or her name, place, and stead, in any and all capacities to sign any and all 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, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done therewith, as fully to all intents and purposes as they might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, and any of them or their substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ JASON R. RICHEY Jason R. Richey	Chief Operating Officer and Interim Chief Executive Officer (Principal Executive Officer)	March 18, 2019
/s/ SANDRA A.GARDINER Sandra A. Gardiner	Executive Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)	March 18, 2019
/s/ J. DANIEL PLANTS J. Daniel Plants	Chairman of the Board of Directors	March 18, 2019
/s/ DAVID B. APFELBERG David B. Apfelberg	Director	March 18, 2019
/s/ GREGORY A. BARRETT Gregory A. Barrett	Director	March 18, 2019
/s/ELISHA W. FINNEY Elisha W. Finney	Director	March 18, 2019
/s/ TIM O'SHEA Tim O'Shea	Director	March 18, 2019
/s/CLINT H. SEVERSON Clint H. Severson	Director	March 18, 2019

EXHIBIT 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Cutera, Inc.
Brisbane, California

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 (Nos. 333-114149, 333-123495, 333-132583, 333-141376, 333-149703, 333-158160, 333-187502, 333-206864, and 333-221542) of Cutera, Inc. of our reports dated March 18, 2019, relating to the consolidated financial statements and financial statement schedule, and the effectiveness of Cutera, Inc.'s internal control over financial reporting, which appear in this Form 10-K.

/s/ BDO USA, LLP
San Jose, California
March 18, 2019

EXHIBIT 31.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER
PURSUANT TO 15 U.S.C. SECTION 7241, AS
ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Jason R. Richey, 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 18, 2019

/s/ JASON R. RICHEY
Jason R. Richey
Chief Operating Office and Interim Chief Executive Officer
(Principal Executive Officer)

EXHIBIT 31.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER
PURSUANT TO 15 U.S.C. SECTION 7241, AS
ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Sandra A. Gardiner, 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 18, 2019

/s/ SANDRA A.GARDINER
Sandra A. Gardiner
Executive Vice President and Chief Financial Officer
(Principal Financial and Accounting Officer)

EXHIBIT 32.1

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

In connection with the annual report on Form 10-K of Cutera, Inc. a Delaware corporation, for the period ended December 31, 2018, 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 18, 2019

/s/ JASON R. RICHEY
Jason R. Richey
Chief Operating Office and Interim Chief Executive Officer
(Principal Executive Officer)

Date: March 18, 2019

/s/ SANDRA A. GARDINER
Sandra A. Gardiner
Executive Vice President and Chief Financial Officer
(Principal Financial and Accounting Officer)

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Corporate Information (as of April 23, 2019)

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[3], Chairman of the Board, Cutera, Inc.; Managing Partner, Voce Capital Management LLC
David B. Apfelberg, MD[3], Retired Adjunct Clinical Professor of Plastic Surgery, Stanford University Medical Center
Gregory A. Barrett[3,5,8], Retired President and Chief Executive Officer, DFINE, Inc.
Elisha W. Finney[2,7], Retired Executive Vice President and Chief Financial Officer, Varian Medical Systems
Timothy J. O'Shea[1,6], Retired Managing Director, Oxo Capital
Clint H. Severson[1,5,8], Retired President and Chief Executive Officer, Abaxis, Inc.
Joseph E. Whitters[9], Retired Executive Vice President and Chief Financial Officer, First Health Group Corp.
Katherine S. Zanotti[9], Retired President and Chief Executive Officer, Abaxis, Inc.

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- Enterprise Risk Committee member
8- Chairman of Enterprise Risk Committee
9- Appointed to the Board on February 19, 2019. Will assume committee roles effective with the annual meeting of stockholders on June 14, 2019.

MANAGEMENT TEAM

R. Jason Richey, Chief Operating Officer & Interim President and Chief Executive Officer
Sandra A. Gardiner, Executive Vice President & Chief Financial Officer
Larry E. Laber, Executive Vice President, Sales, North America
Darren W. Alch, VP, General Counsel and Corporate Secretary
Marina Kamenakis, Vice President, Global Marketing
Michael Karavitis, Executive Vice President, Chief Technology Officer
Michael Palumbo, VP, Global Service
Ray Lee, Vice President, Regulatory Affairs and Quality Assurance
Cindee Van Vleck, Vice President, Global Human Resources

ANNUAL MEETING

Annual meeting of stockholders will be held on June 14, 2018, 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

Thompson & Knight LLP, Dallas, Texas

CORPORATE/STOCKHOLDER INFORMATION

Our Form 10-K was filed with the Securities and Exchange Commission on March 26, 2018. 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

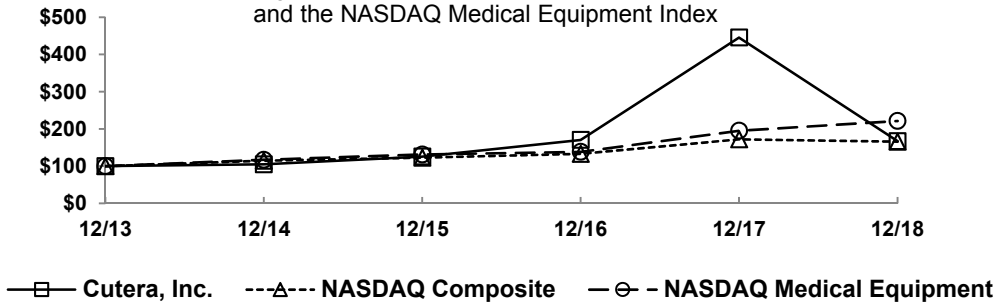
Our common stock is traded on The NASDAQ Global market under the symbol "CUTR." We have not declared or paid any cash dividends on our capital stock since our inception. We currently expect to retain future earnings, if any, for use in the operation and expansion of our business and do not anticipate paying any cash dividends in the foreseeable future. As of April 23, 2019, we had approximately 4,700 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			
	2018		2017	
	High	Low	High	Low
4th Qtr.	$ 30.70	$ 14.36	$ 48.50	$ 37.35
3rd Qtr.	44.15	29.50	41.35	25.55
2nd Qtr.	55.85	35.45	26.55	19.20
1st Qtr.	54.60	44.25	21.90	17.45

COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN*

Among Cutera, Inc., the NASDAQ Composite Index and the NASDAQ Medical Equipment Index



*$100 invested on 12/31/13 in stock or index, including reinvestment of dividends.
Fiscal year ending December 31.