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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, 2021

or

☐ **Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the transition period from ____ to ____
Commission file number: 000-50644

CUTERA, INC.

(Exact name of registrant as specified in its charter)

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

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

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

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

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

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 x

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 x

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 x No ☐

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

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 ☐

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

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. Yes x No ☐

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

The aggregate market value of the registrant's common stock, held by non-affiliates of the registrant as of June 30, 2021 (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, 2021, was approximately $796 million.

The number of shares of Registrant's common stock issued and outstanding as of February 22, 2022 was 18,060,261.

DOCUMENTS INCORPORATED BY REFERENCE

Part III incorporates by reference certain information from the registrant’s definitive proxy statement for the 2022 Annual Meeting of Stockholders, which will be filed with the Securities and Exchange Commission not later than 120 days after December 31, 2021.

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FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K contains “forward-looking statements” that involve risks and uncertainties. The Company’s actual results could differ materially from those discussed in the forward-looking statements. The statements contained in this report that are not purely historical are forward-looking statements within the meaning of Section 27A of the Securities Act and Section 21E of the Securities Exchange Act of 1934, as amended, 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 the Company 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 “the Company’s” refers to Cutera, Inc.

PART I

ITEM 1. BUSINESS

In this Annual Report on Form 10-K, “Cutera,” “the Company,” “we,” “us,” and “the Company’s” refer to Cutera, Inc. and its consolidated subsidiaries.

Company Background

Cutera was formed in 1988 as a Delaware 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®*, *enlighten SR®*, *excel® HR*, *excel® V*, *excel® V+*, *truSculpt® iD*, *truSculpt® flex*, *Secret PRO*, *Secret RF®*, and *xeo®* — each of which enables physicians and other qualified practitioners to perform safe and effective aesthetic procedures, including treatment for body contouring, skin resurfacing and revitalization, tattoo removal, removal of benign pigmented lesions, vascular conditions, hair removal, and toenail fungus. 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 and 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 *Secret RF*, a fractional RF microneedling device for skin revitalization, in January 2018, *enlighten SR* in April 2018, *truSculpt iD* in July 2018, *excel V+* in February 2019 and *truSculpt flex* in June 2019, Secret PRO in July 2020, and a product extension of excel V+ during the fourth quarter of 2020. In 2021 the Company introduced *truSculpt flex+*, a treatment mode that decreased the treatment time from approximately 45 minutes to 15 minutes.

The Company’s trademarks include: "*Cutera®*," "*AccuTip 500®," “CoolGlide®,” “CoolGlide excel®,” “enlighten®,” “excel HR®,” “excel V®,” “excel V+®,” “LimeLight®,” "MyQ®," “Pearl®,” “PICO Genesis®,” “ProWave 770®,” “Solera®,” “Titan®,” “truSculpt®,” “truSculpt iD™,” “truSculpt flex™,”"Secret PRO,” “Secret RF®,” and “xeo®.”* The Company’s logo and other trade names, trademarks, and service marks appearing in this document are the Company’s 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, the Company’s 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, the Company’s rights, or the right of the applicable licensor to these trademarks and trade names.

A description of each of the Company’s devices and a summary of the features of the Company’s primary platforms are as follows:

- ***Secret PRO*** – In 2020, the Company expanded its distribution of the Secret PRO device. Secret PRO features two proven technologies – RF microneedling and fractional CO_2. Secret PRO utilizes fractional CO_2 for skin resurfacing and radio frequency microneedling for deep dermal remodeling. The pairing of technologies provides practitioners the ability to tailor each treatment for a patients individual skin concerns. Used individually or in combination for best outcomes with minimal downtime. Each time a procedure is performed, the physician must use a new handpiece tip. The sale of the replacement tip results in recurring revenue.

- ***truSculpt flex*** – In June 2019, the Company introduced the truSculpt flex for the muscle-sculpting market. This product is a bio-electrical muscle stimulation device designed to strengthen, firm and tone the abdomen, buttocks and thighs, and can treat patients at all fitness levels. The truSculpt flex delivers Multi-Direction Stimulation with truControl, inducing muscle hypertrophy and hyperplasia. Johari Digital Healthcare Ltd. (the Company’s contract manufacturing organization) received 510(k) clearance from the United States (“U.S.”) Food and Drug Administration (“FDA”) for muscle conditioning in 2013. It is sold in the USA, Canada, Japan, certain Asia Pacific markets, and the European Union (“EU”) and is expected to be sold to a broader international customer base upon required regulatory approvals. The *truSculpt flex* includes a consumable handpiece that needs to be "refilled" after a set number of treatments are performed, resulting in recurring revenue. In 2021, the company introduced *truSculpt flex+*, a treatment mode that decreased the treatment time from approximately 45 minutes to 15 minutes.

- ***excel V+*** – In February 2019, the Company introduced the *excel V+*, a new iteration of the *excel V* vascular platform originally introduced in 2011. *Excel V+*, is a high-performance, vascular and benign pigmented lesion treatment platform

explicitly designed for the market of dermatologists and plastic surgeons. The *excel V+* has 50% more power than its predecessor and provides a 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 nanometers ("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. In Q4 of 2020, the Company introduced a product extension to its *excel V+ platform*, which included a new, 1 mm Dermastat handpiece and expanded specifications. The new *excel V+*, expanded treatment capabilities and provided dermatologists and aesthetic providers a higher level of precision and versatility for vascular and pigmented lesions. The *excel V+* continues to boast 50% more power than its predecessor (excel V) and provides a greater range of parameters for faster, more customizable treatments. *excel V+* is a solid-state laser platform combining the 532 nanometers ("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. The excel V+ device includes Cutera's signature laser genesis treatment, and introduced the 'green genesis' treatment – a micro-pulsed 532 treatment.

- ***truSculpt iD*** – In July 2018, the Company introduced a hands-free version of the Company's *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 radio frequency ("RF") system designed for circumferential reduction, lipolysis, and deep tissue heating and can treat all body and skin types. The *truSculpt iD* delivers targeted energy at 2 MHz, causing subcutaneous adipose tissue lipolysis. The Company received 510(k) clearance from the FDA for lipolysis of abdominal fat in 2018. Prior *truSculpt* platforms include the *truSculpt 3D*, a 2 MHz device for tissue heating and circumferential reduction of fat in the abdomen and flank, and the original *truSculpt* platform 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 handpiece that needs to be "refilled" after a set number of treatments are performed, resulting in recurring revenue.

- ***Secret RF*** – In January 2018, the Company introduced a new fractional RF microneedling device that delivers heat into the deeper layers of the skin using controlled RF energy. The targeted energy revitalizes the tissue, via hemostasis, and coagulation of the tissue, minimizing downtime. Each time a procedure is performed, the physician must use a new handpiece tip. The sale of the replacement tip results in recurring revenue. The Company is the distributor of Secret RF.

- ***enlighten*** – In December 2014, the Company introduced the *enlighten* laser platform with a dual wavelength (1064 nm + 532 nm). In December 2016, the Company introduced a three wavelength model (1064 nm + 532 nm + 670 nm), *enlighten III*. The *enlighten* system is a dual pulse duration (750 picoseconds, or "ps," and two nanoseconds, or "ns") laser system cleared for multi-colored tattoo removal and 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*, 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 PICO Genesis FX Micro Lens Array ("MLA") handpiece attachment.

- ***excel HR*** – In June 2014, the Company introduced the *excel HR* platform, a premium hair removal solution for all skin types, combining the Company's proven long-pulse 1064 nm Nd:YAG laser and a high-power 755 nm Alexandrite laser with sapphire contact cooling.

- ***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 primary systems, the Company generates revenue from the distribution of skincare products, which are manufactured by ZO Skin Health, Inc. ("ZO"), and sold in the Japanese market. The Company also generates revenue from the sale of post-warranty services.

The Company offers its customers the ability to select the systems and applications that best fit their practice and subsequently upgrade their systems to add new applications. This upgrade path allows the Company's customers to cost-effectively build their aesthetic practices and provides the Company with a source of incremental revenue.

The Market for Non-Surgical Aesthetic Procedures

The Company believes several factors are contributing to the global growth of aesthetic treatment procedures and aesthetic laser equipment sales, including:

- ***Growing Improvement in Economic Environment, Aesthetic Accessibility, and Expanded Practitioner Base*** – The improvements in overall global economic conditions since the financial crisis of 2007-2008 have created an increased demand for aesthetic procedures, which has resulted in an expanding practitioner base to satisfy the demand. An expanding practitioner base paired with digital and mobile advancements has led to a broader range of accessibility options for potential patients.
- ***Aging Demographics of Industrialized Countries*** – The aging population of industrialized countries, the amount of discretionary income available to the "baby boomer" demographic segment ─ ages 57 to 75 as of 2021 ─ and their desire to retain a youthful appearance contribute to the increased demand for aesthetic procedures. With millennials entering their 40's the demand and preference for non-invasive aesthetic treatments are also rising. Millennials who are currently entering their 30's, including those in their 30's, have been earlier adopters of aesthetic treatments in comparison to older generations.
- ***Broader Range of Safe and Effective Treatments*** – Technical developments and an increase in treatable conditions due to new product introductions, have led to safe, effective, easy-to-use, and low-cost treatments with fewer side effects, resulting in broader adoption of aesthetic procedures by practitioners. In addition, technical advancements enable practitioners to offer a broader range of treatments. These technical developments reduce treatment and recovery times, leading to greater patient demand.
- ***Broader Base of Customers*** – Managed care and government payor reimbursement restrictions motivate physicians to establish or expand their elective aesthetic practices with procedures 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") expanded their practices to offer aesthetic procedures.
- ***Reductions in Cost per Procedure*** – Due partly to increased competition in the aesthetic market, the cost per procedure has decreased 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 2019, both surgical and non-surgical procedures increased compared to 2015. Surgical procedures increased by 6.2%, while non-surgical procedures increased by 13.3% over this four-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 the 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 more than 20%. Common side effects of this approach may include paradoxical hyperplasia with cooling devices, and nodules which typically resolve over time and the risk of burning the treatment area with radiofrequency devices. In June 2019, the Company introduced the *truSculpt flex*, a bio-electrical muscle stimulation device designed to strengthen, firm, and tone the abdomen, buttocks, and thighs. In 2021 the Company introduced *truSculpt flex+*, a treatment mode that decreased the treatment time from approximately 45 minutes to 15 minutes.

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.

The global tattoo removal market was valued at $122.8 million in 2019 and is projected to reach $219.0 million by 2026. According to market research, people tend to remove their tattoos due to career choices, social conditions, personal situations, and more, which have been the key drivers for the tattoo removal market. 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. The Company introduced the *enlighten* system, a dual pulse duration laser system, that was cleared for multi-colored tattoo removal.

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 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. In 2003, the Company introduced the xeo system platform utilized for hair removal, which combines intense pulse light technology with laser applications in a single system. In 2014, the Company introduced the *excel HR* platform, a premium hair removal solution for all skin types, combining the Company’s proven long-pulse 1064 nm Nd:YAG laser and a high-power 755 nm Alexandrite laser with sapphire contact cooling.

Skin Revitalization – Skin revitalization treatments include a broad range of popular alternatives, including Botox and collagen injections, chemical peels, 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.

With many modalities available today for skin revitalization and resurfacing, the Company has developed a range of clinically proven solutions uniquely paired with a patient’s lifestyle and skin concerns, such as *Secret PRO*, which utilizes fractional CO_2 for skin resurfacing and radio frequency microneedling for deep dermal remodeling and *Secret RF*, a novel fractional RF microneedling system for tissue coagulation and hemostasis designed to stimulate and remodel collagen and address the common signs of aging.

RF Microneedling – Also known as collagen induction therapy, microneedling 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 via hemostasis and tissue coagulation. In January 2018, the Company introduced *Secret RF* product, a RF fractional microneedling system. In 2020, the Company released the *Secret PRO*, which included the dual modality treatment options of RF microneedling and CO_2 laser.

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. In 2019, the Company introduced the *excel V+*, a high-performance, vascular and benign pigmented lesion treatment platform designed specifically for the core-market of dermatologists and plastic surgeons, which treats the entire range of cosmetic vascular and benign pigmented lesion conditions.

Laser and other energy-based non-surgical treatments for hair removal, veins, skin revitalization and body contouring are discussed in the following section.

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, melanin as well as other chromophores within the epidermis and dermis, 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 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, Secret PRO, Secret RF, truSculpt and xeo* platforms provide the long-lasting benefits of laser and other energy- based aesthetic treatments. The Company's technology allows for a wide variety of applications in a single system. Key features of the Company's solutions include:

- ***Multiple Applications Available in a Single System –*** Many of the Company's 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, which address discoloration, fine lines, and uneven texture. Because practitioners can use the Company's 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 –*** The Company's 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. The Company's 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. The Company's *Titan* hand piece utilizes a novel light source not previously used for aesthetic treatments. The Company's *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*** – The Company's *xeo*, *excel V* and *trusculpt flex* products allow the Company's customers to upgrade their system to the Company's newest technologies or add new applications to their system, each of which provide the Company with a source of incremental revenue. The Company believes that product upgradeability allows customers to take advantage of the Company's 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, the Company's 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 the Company's systems allows practitioners to effectively treat patients with both fine and coarse hair. Practitioners may use the Company's 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. The Company's 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. The Company's 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. The Company's *Pearl* and *Pearl Fractional* hand pieces include a scanner with multiple scan patterns to allow simple and fast treatments of the face. Finally, the Company's *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, the Company's proprietary algorithms and navigation enable the practitioner to treat a 300cm^2 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 the Company's Product Offering –*** Though the Company believes that its current portfolio of products is comprehensive, the Company's research and development group has a pipeline of potential products under development. The Company launched *excel V* in 2011, t*ruSculpt* 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, *truSculpt 3D* launched in 2017, *enlighten SR* launched in April 2018, *truSculpt iD* launched in July 2018, *excel V+* launched in February 2019 and *truSculpt flex* launched in June 2019. The Company also introduced *Secret RF*, in January 2018, and *Secret PRO*, a fractional CO_2 and RF microneedling device, in September 2020. In 2021, the company introduced *truSculpt flex+*, a treatment mode that decreased the treatment time from approximately 45 minutes to 15 minutes.

- ***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 the Company's international distribution channels, 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 the Company's products to a broad customer base. The Company also believes that its customers' success is largely dependent upon having an existing medical practice, for which the Company's systems provide incremental revenue sources to augment a customer's existing practice revenue.

- ***Leverage the Company's 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 the Company's interest in generating revenue with the Company's 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 *truSculpt flex* cycle and pulsed-light handpieces are refillable products, while the Company's single use disposable tips applicable to *Secret PRO, and Secret RF* are consumable products. Each provides the Company with the opportunity to participate in the procedure-based revenue from the Company's 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.

- ***Generate Revenue from Skincare Products –*** The Company generates revenue from distribution of third party manufactured skincare products in Japan. These skincare products are purchased from a third-party manufacturer and sold to licensed physicians and other end users.

Products

The Company's *enlighten*, *excel*, *Secret PRO*, *Secret RF*, *truSculpt*, and *xeo platforms* allow for the delivery of laser light and/or RF energy for aesthetic applications from a single system. With the Company's *xeo* platform, practitioners can purchase customized systems with a variety of the Company's 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 the Company's currently offered products. Each checked box represents the applications included in the product in the years noted.

Applications:						Skin Revitalization				Noninvasive Body Contouring*
System Platforms	Products	Year	Energy Source	Hair Removal	Vascular Lesions	BPL's Dyschromia & Melasma	Texture, Lines and Wrinkles	Acne Scars	Tattoo Removal	Lipolysis*
xeo	*Nd:YAG*	2003	(a)	x	x		x			
	ProWave 770	2005	(b)	x						
	AcuTip 500	2005	(b)		x					
	Titan XL	2006	(c)							
	LimeLight	2006	(b)		x	x				
	Pearl	2007	(d)			x	x			
	Pearl Fractional	2008	(d)			x	x	x		
	ProWave LX	2013	(b)	x						
excel V		2011	(e)	x	x	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	x	
truSculpt 3D		2017	(f)							x
Secret RF		2018	(j)				x			
truSculpt iD		2018	(f)							x*
truSculpt flex		2019	(f)							x*
excel V+		2019	(e)	x	x	x	x			
Secret PRO		2020	(k)				x**			

EnergySources:

(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) Radio frequency at 2 MHz mono-polar; and
(k) Radio frequency at 2 MHz Bi-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 abdomen and elevating tissue temperature for the treatment of selected medical conditions such as relief of pain, muscle spasms, increase in local circulation, and the temporary improvement in the appearance of cellulite.*

***Via Hemostasis and Coagulation*

Upgrades

The Company's *xeo*, *excel V* and *trusculpt flex* products, are designed to allow customers to cost-effectively upgrade to the Company's newest technologies or add applications to their system, each of which provides the Company with a source of additional revenue.

Extended Contract Services and Support

The Company offers post-warranty services to its customers through extended service contracts that cover parts and labor for terms of one to four years. The Company also offers services on a time-and-materials basis for systems and detachable hand piece replacements. Revenue related to services performed on a time-and-materials basis is recognized when performed. These post-warranty services serve as additional sources of recurring revenue from the Company's installed product base.

The Company's products are engineered to enable quick and efficient service and support. There are several separate components of the Company's products, each of which can be removed and replaced. The Company believes that quick and effective delivery of service is important to its customers. As of December 31, 2021, the Company had 40 Field Service employees.

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

Training

Sales of systems to customers, except system sales through distributors, include training on the use of the system to be provided within 180 days of purchase. Training is also sold separately from systems. The Company recognizes revenue for training once the training has been provided.

Consumables (Other accessories)

The Company treats its customers' purchases of replacement cycles for *truSculpt iD* and *truSculpt flex*, as well as replacement *Titan* and *truSculpt 3D* hand pieces, as consumable revenue, which provides the Company with a source of recurring revenue from existing customers. The *Secret RF* and *Secret PRO* 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.

Applications and Procedures

The Company's 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 the Company's customers to treat the broadest range of conditions available with a single energy-based system.

Non-Invasive Body Contouring – The Company's *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. The Company's CE Mark allows the Company to market *truSculpt* in the 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 – The Company's *enlighten* systems, delivering picosecond or dual picosecond and nanosecond pulse durations are used for tattoo removal, the treatment of benign pigmented lesions, and a laser skin toning procedure that the Company refers to as *PICO Genesis*.

Hair Removal – The Company has two platforms, *excel HR* and *xeo*, which address hair removal for all skin types as well as hair thicknesses. The Company's *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 18 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 the Company's *xeo* as well as *excel V and 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. The *excel V* and *excel V+* devices are is a dual wavelength laser – 1064 nm and 532 nm – with adjustable spot sizes ranging from 2 mm to 12 mm for excel V and 1 mm - 16 mm for the *excel V+*. The 532 nm and 1064 wavelength can be used to treat over 20 conditions ranging from small veins and vessels to a variety of vascular lesions. For both of these devices, patients receive on average between one and six treatments, with six weeks or longer between treatments.

Skin Revitalization – The Company's *xeo, excel V, excel HR* and enlighten platforms, utilizing an Nd:YAG laser, allow the Company's 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. Skin revitalization was expanded with introduction of 'green genesis', a micro-pulsed 532 nm treatment on the *excelV+*.

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 approximately 15 to 30 minutes. Patients receive on average between one and three treatments at monthly intervals.

Additionally, the Company's *Secret RF* and *Secret PRO* platforms feature 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 devices* come with four treatment tips: a 25-pin tip, both insulated and semi-insulated, and a semi-insulated 64-pin tip. The treatment has minimal side effects, negligible downtime and results in improved skin tone and texture as well as improvement in acne scars.

Dyschromia – The Company's pulsed-light technologies allow the Company's 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 the Company's *LimeLight* hand pieces. These hand pieces include one of the Company's 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 the Company's *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 – The Company's *Titan* technology allows the Company's customers to use deep dermal heating to tighten lax skin. The practitioner delivers a spectrum of light to the skin through the Company's *Titan* hand piece. This hand piece includes the Company's 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.

The Company's CE Mark allows the Company 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. the Company has a 510(k) clearance only for deep dermal heating.

Sales and Marketing

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, the Netherlands, Spain, Switzerland and the United Kingdom. International sales and services outside of these direct markets are made through a network of distributors in over 42 countries, as well as a direct international sales force. The Company internally manages its U.S. and Canadian sales organization as one North American sales region.

The Company also sells certain items like hand piece refills, cycle refills, consumable tips, and marketing brochures through the Company's web site www.mycutera.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 the Company's 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, hand piece refills and replacement disposable tips, ongoing training and support, and by 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 the Company's products to further enhance customer loyalty and uncover new sales opportunities.

Competition

The industry in which the Company operates 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 Abbvie (acquired Allergan and its division Zeltiq), Bausch Health (formerly Valeant Pharmaceuticals), Vieve, Soliton, InMode and Lutronic, as well as private companies, including Sisram, Candela (formerly Syneron Candela, acquired in 2017 by an affiliate of private equity funds advised by Apax Partners), Sciton, BTL Industries and several others. In late 2019, Clayton, Dubilier & Rice entered into an agreement under which its managed funds acquired Cynosure, LLC, a leader in medical aesthetics systems and technologies, from Hologic, Inc. Cynosure develops, manufactures, and markets medical aesthetic treatment systems for dermatologists, plastic surgeons, medical spas and other healthcare practitioners, with sales and distribution worldwide. In early 2020, the affiliated private equity funds of Baring Private Equity Asia completed the acquisition of Lumenis, a provider of specialty energy-based medical devices across the fields of aesthetics, urology, ophthalmology, ENT and gynecology, with an international presence.

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 the Company. There are many companies, both public and private, that are developing 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 the Company's products are attractive alternatives to other devices and treatments by differentiating the Company's 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 the Company's competitors, are committed to, or prefer, the products offered by these competitors. Competitive pressures may result in price reductions and reduced margins for the Company's products.

The Company also sells skincare products in Japan under the exclusive distribution agreement with ZO which granted the Company the exclusive right to promote, market, sell, and distribute the products produced by ZO in Japan. ZO's skincare products compete against other Physician-dispensed skincare brands developed and marketed by other companies, such as Environ, Navision and Revision Skincare, among others.

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.

The Company's research and development activities are conducted by 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 the Company's 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 challenging 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 the Company's strategic objectives and strengthen its existing businesses by making future acquisitions and investments, or by 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 cash flows.

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, and at third party contract manufacturers' facilities. 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. All Secret RF systems are manufactured by Ilooda Co. Ltd, who also manages all related regulatory activities. 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 the Company's manufacturing. To date, the Company has not experienced significant delays in obtaining any of its components or subassemblies.

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 the Company's intellectual property rights. As of January 19, 2022, the Company had 28 issued and unexpired U.S. patents, eight pending U.S. patent applications, and four pending international applications under the Patent Cooperation Treaty (PCT). The Company intends to file for additional patents and trademarks to continue to strengthen the Company's 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 the Company's technology or to provide the Company with a competitive advantage.

The Company has also obtained certain trademarks and trade names for the Company's products and maintain certain details about the Company's processes, products, and strategies as trade secrets. In the U.S. and several foreign countries, the Company registers its Company name and certain of its product names as trademarks, including *Cutera, AcuTip, CoolGlide, CoolGlide excel, enlighten, excel V+, LimeLight, myQ, Pearl, PICO Genesis, ProWave 770, truSculpt, truSculpt iD, truSculpt flex, Secret PRO, SecretRF, and xeo.* The Company may have common law rights in other product names, including *excel V, Solera, Titan and excel HR.* The Company intends to file for additional trademarks to continue to strengthen the Company's 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 the Company 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 the Company's 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 the Company's products, which may permit third parties to compete against the Company more effectively, and the Company may be involved in future costly intellectual property litigation, which could impact the Company's 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 the Company 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 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, or de novo 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. For Class II, the manufacturer must submit to the FDA a pre-market notification requesting permission to commercially distribute the device. This process is 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 the Company's 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 the Company's 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 may take significantly longer, as FDA may require additional information. 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 the Company's 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, treatment of vascular, benign pigmented lesions and treatment of wrinkles	December 2013
- addition of treatment of mild to moderate inflammatory acne vulgaris	March 2016
- 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 532/1064 nm for multi-colored tattoo removal and treatment of benign pigmented lesion and picosecond 670 nm for benign pigmented lesions	October 2016
- enlighten III higher performance specifications for 532/1064 nm; addition of nanosecond mode for 670nm	April 2016
- enlighten III addition of tattoo removal for lighter colored inks (green and blue) for 670 nm	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 the Company's 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 topical heating to elevate tissue temperature for the treatment of selected medical conditions such as relief of pain and muscle spasms and increase in local circulation; massage device for temporary reduction in the appearance of cellulite	April 2008
- Temporary reduction in circumference of the abdomen	December 2016
- Reduction in circumference of the abdomen	August 2017
- truSculpt 3D and iD: For non-invasive lipolysis of the abdomen and for reduction in circumference of the abdomen	June 2018
- truSculpt flex: for improvement of abdominal tone, strengthening of abdominal muscles, and development of firmer abdomen; and strengthening, toning, and firming of buttocks and thighs	June 2019

Product Modifications

Pursuant to FDA regulations, after a device receives 510(k) clearance, any modification that could significantly affect its safety or effectiveness, or that would constitute a major change in its intended use, labeling and biocompatibility, requires a new clearance. 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 the Company's products after receiving regulatory clearance and determined that new 510(k) clearances are not required for these modifications. If the FDA disagrees with the Company's determination not to seek a new 510(k) clearance, the FDA may retroactively require the Company to seek 510(k) clearance.

Clinical Trials

When FDA approval of a Class II device requires human clinical trials, only approval from the Institutional Review Board ("IRB") is required to proceed with the planned and IRB approved clinical trial/study.

The Company is required to manufacture the Company's products in compliance with the FDA's Quality System Regulation ("QSR") and the international quality management standard for medical systems ISO 13485:2016. The QSR and ISO 13485 cover the methods and documentation of the design, testing, control, manufacturing, labeling, quality assurance, packaging, storage and shipping of the Company's products. Since 2017, the Company has been enrolled in the Medical Device Single Audit Program ("MDSAP"). The MDSAP allows a single audit of a medical device manufacturer's Quality Management System ("QMS"), which satisfies the requirements of five regulatory jurisdictions (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") 13485:2016 and Medical Device Directive (MDD)/EU Medical Device Regulation MDR").

MDSAP re-certification occurs every three years with a surveillance audit taking place annually. Major findings during these audits or an increase in field reportable events could trigger regulatory enforcement action including by the FDA. The Company's manufacturing facility is ISO 13485 certified. The Company had a successful MDSAP re-certification audit in January 2021. There were no significant findings or observations as a result of this audit. However, the Company's failure to maintain compliance with the QSR requirements could result in the shutdown of the Company's manufacturing operations and the recall of the Company's products, which would have a material adverse effect on the Company's business. In the event that one of the Company's 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 the Company to market the Company's 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.

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 the Company's compliance with the QSR and other applicable regulations, which may include the manufacturing facilities of the Company's subcontractors. In the past, the Company's 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. The Company's 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 regulations also require 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 the Company's products;
- Operating restrictions or partial suspension or total shutdown of production;
- Refusing the Company's requests for 510(k) clearance of new products, new intended uses, or modifications to existing products;
- Withdrawing 510(k) clearance 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 the Company's 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 different than that required for FDA clearance. 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 the Company's existing approvals for *enlighten*, *excel V, excel HR* , *LimeLight*, *ProWave*, *Solera, Titan*, *truSculpt iD* and *xeo*.

In the European Economic Area ("EEA"), which is composed of the 27 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. From January 1, 2021 the UK Conformity Assessed (UKCA) mark replaced the CE mark as the new product comfomity marking requirement in England, Wales, and Scotland. Medical devices will have until July 1, 2023 to comply. The CE mark continues to be required for goods sold in Northern Ireland. 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, the Company's facility was awarded the ISO 9001 and EN 46001 certification.

In January 2018, the Company conducted the Company's recertification audit to the requirements of ISO 13485:2003 under the MDSAP for the five regulatory jurisdictions signatory to MDSAP (FDA - US, Health Canada - Canada, TGA - Australia, PMDA - Japan, and ANVISA - Brazil); and for the EU under EN ISO 13485:2016 and MDD 93/42/EEC. In January 2021, the Company passed the recertification audit re-confirming compliance with ISO13485:2016 and MDSAP. The MDSAP and EU certification can be used to demonstrate compliance with GMP/QSR/QMS requirements for all five 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 the Company 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 the Company's 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 the Company's 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 the Company's 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 court 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 the Company's 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. The Company will continue its efforts to comply with the GDPR requirements and to adapt the Company's business processes to those requirements.

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, the Company's 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 the Company's knowledge at this time, the Company does not expect that compliance with environmental protection laws will have a material impact on the Company's consolidated results of operations, financial position or cash flows.

Employees and Human Capital

As of December 31, 2021, the Company had 461 employees, compared to 323 employees as of December 31, 2020. The Company believes that its future success will depend in part on the Company's continued ability to attract, hire and retain qualified personnel. None of the Company's employees are represented by a labor union, and the Company believes its employee relations are good. The Company is committed to fostering a diverse and inclusive workplace that attracts and retains exceptional talent. Through ongoing employee development, comprehensive compensation and benefits, and a focus on health, safety and employee wellbeing, the Company strives to help its employees in all aspects of their lives so they can do their best work.

Diversity, Equity and Inclusion

The Company is committed to create and maintain a diverse and safe work environment to capture the ideas and perspectives that fuel innovation and enable its workforce, customers, and communities to succeed in creating the future of medical aesthetics. The Company strives to create an inclusive workplace where people can design, manufacture, and market a comprehensive portfolio of aesthetic laser and energy-based products that enable its customers (the practitioner) to provide safe and effective treatments. Its commitment to diversity and inclusion starts at the highest levels of the Company.

Employee Engagement

The Company regularly collects feedback to better understand and improve the employee experience and identify opportunities to continually strengthen its culture. The Company wants to know what is working well, what the Company can do better and how well its employees understand and practice the Company's cultural values. In 2021, nearly 93% of its employees participated in its annual employee survey.

Leadership development and training

At Cutera, the Company believes that the best leaders are the ones who come from within. These leaders learn with Cutera, grow with Cutera and reach their potential through challenging job experiences. The Company provides learning opportunities by offering valuable training resources for employees in order to ensure its people have everything they need to succeed both personally and professionally. The Company's employees are encouraged to take responsibility for their own development and create learning plans that best fit their needs and development goals.

Health, Safety and Wellness

The physical health, financial well-being, life balance and mental health of its employees is vital to its success. The Company sponsors wellness initiatives designed to enhance physical, financial, and mental well-being for all employees. The Company has successfully implemented a number of safety and social distancing measures within its premises to protect the health and safety of associates who are required to be on-premise to support its business.

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, Compensation, Nominating and Corporate Governance, and Enterprise Risk Committees and its Code of Ethics, Corporate Governance Guidelines, By-Laws, and Certificate of Incorporation, 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," under "Financials" on the Investor Relations portion of the Company's 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 the Company's business, financial condition or results of operations, including causing the Company's 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 deems immaterial, also may materially adversely affect the Company in future periods. You should carefully consider these risks and uncertainties before investing in the Company's securities.

Summary of Risk Factors

The Company's business, financial condition, operating results and cash flows are subject to numerous risks and uncertainties that are summarized below. The below summary of risk factors should be read together with the more detailed discussion of risks set forth following this section under the heading "Risk Factors," as well as elsewhere in this Annual Report on Form 10-K.

Risks Related to the Company's Business and its Industry

- Global Supply Chain Disruption and Inflation may have a material adverse effect on the Company's business, financial condition and results of operations.
- The Company's business, financial condition, liquidity, capital, and results of operations have been, and may continue to be, adversely affected by the COVID-19 pandemic.
- The increase in sales of skincare products in Japan may be temporarily caused by the change in its customer's spending habits due to the COVID-19 pandemic.
- The increase in sales of skincare products in Japan may be temporary and sales of Skincare products may decline in the future.
- The trading price of the Company's notes and common stock may fluctuate substantially.
- 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
- Reliance on contract manufacturers increases the risk that we will not have sufficient supply or that such supply will not be available to us at an acceptable cost
- Any defects in the design, material or workmanship of its products, defective design, material or workmanship or misuse of its products will cause additional costs, including product recalls and product liability suits, and harm the Company's reputation.
- Failure in hiring, training and retaining sales professionals and skilled and experienced personnel, or changes to management will cause adversely affects the Company's operation and operation results.
- Inability to obtain regulatory clearance for our new energy-based solution for the treatment of Acne or that the device will be widely adopted by customers or their patients.
- The aesthetic equipment market is characterized by rapid innovation and high competition, which may adversely affect the Company if it does not continue to innovate and develop new products and applications.
- The Company competes against companies that offer alternative solutions to its products, have greater resources, or have a larger customer base and broader product offerings than the Company's offerings.
- The Company's business is subject to regulatory requirements, laser performance standards, federal regulatory reforms, FDA and other government agencies' regulation and oversight which may negatively affect its business, financial condition and results of operations if the Company fails to comply with them.
- The Company's products may cause or contribute to adverse medical events or be subject to failures or malfunctions that would be subject to sanctions that could harm its reputation, business, financial condition and results of operations.
- 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.
- Failure in International expansion and economic and other risks associated with international sales and operations could adversely affect the Company's business.
- Some of 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.
- 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.

- If customers are not trained and/or the Company’s products are used by non-licensed practitioners, it could result in product misuse and adverse treatment outcomes, which could harm the Company’s reputation, result in product liability litigation, distract management and result in additional costs, all of which could harm the Company’s business.
- The Company’s products are subject to clinical trial process which is lengthy and expensive with uncertain outcomes. Delays or failures in the Company's clinical trials will prevent it from commercializing any modified or new products.
- Intellectual property rights may not provide adequate protection for some or all the Company’s products, or the Company may be involved in future costly intellectual property litigation.
- 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.
- Any acquisitions that the Company makes could result in operating difficulties, dilution, and other consequences that may adversely impact the Company’s business and results of operations.
- Inability to access credit on favorable terms for the funding of the Company’s operations and capital projects may be limited due to changes in credit markets.
- Security breaches, cyber-security incidents and other disruptions could compromise the Company’s information and impact the Company’s business, financial condition or results of operations.
- Macroeconomic political and market conditions, and catastrophic events may adversely affect the Company’s business, results of operations, financial condition and the trading price of the notes and the stock.
- The Company has a relatively limited number of shares of common stock outstanding, which could result in the increase in volatility of its stock price and the trading price of the notes.
- Disaster or other similar event could cause damage to its facilities and equipment, which might require the Company to cease or curtail sales of these sole sourced platforms.
- Income tax audits or similar proceedings or changes in accounting standards may have a material adverse effect on the Company’s results of operations and financial position.

Risks Related to the Notes

- Although the notes are referred to as convertible senior notes, they are effectively subordinated to any of the Company's secured debt and any liabilities of its subsidiaries.
- Regulatory actions and other events may adversely affect the trading price and liquidity of the notes.
- Volatility in the market price and trading volume of the Company's common stock could adversely impact the trading price of the notes.
- The Company may still incur substantially more debt or take other actions which would intensify the risks discussed above.
- The Company may not have the ability to raise the funds necessary to settle conversions of the notes in cash or to repurchase the notes upon a fundamental change, and its future debt may contain limitations on its ability to pay cash upon conversion or repurchase of the notes.
- The conditional conversion feature of the notes, if triggered, may adversely affect the Company's financial condition and operating results.
- Holders of notes will not be entitled to any rights with respect to the Company's common stock, but they will be subject to all changes made with respect to the Company's common stock to the extent the Company satisfies its conversion obligation, in whole or in part, with shares of its common stock.
- The conditional conversion feature of the notes could result in holders receiving less than the value of the Company's common stock into which the notes would otherwise be convertible.
- Upon conversion of the notes, holders may receive less valuable consideration than expected because the value of the Company's common stock may decline after holders exercise their conversion right but before the Company satisfies it conversion obligation.
- The notes are not protected by restrictive covenants.
- The increase in the conversion rate for notes converted in connection with a make-whole fundamental change or during a redemption period may not adequately compensate holders for any lost value of their notes as a result of such transaction or redemption.
- The conversion rate of the notes may not be adjusted for all dilutive events.
- Provisions in the indenture governing the notes may deter or prevent a business combination that may be favorable to the holders.
- The capped call transactions may affect the value of the notes and the Company's common stock.
- The Company is subject to counterparty risk with respect to the capped call transactions.
- Some significant restructuring transactions may not constitute a fundamental change, in which case the Company would not be obligated to offer to repurchase the notes.

- The Company has not registered the notes or the common stock issuable upon conversion, if any, which will limit the ability of holders to resell them.
- The Company cannot assure the holders of the notes that an active trading market will develop for the notes.
- Any adverse rating of the notes may cause their trading price to fall.
- The holders of the notes may be subject to tax if the Company makes or fails to make certain adjustments to the conversion rate of the notes even though the holders do not receive a corresponding cash distribution.
- The Company may redeem the notes at its option, which may adversely affect the holders' return.
- The notes will initially be held in book-entry form and, therefore, holders must rely on the procedures and the relevant clearing systems to exercise their rights and remedies.

Risks Related to Ownership of the Company's Common Stock

- Anti-takeover provisions contained in the Company's amended and restated certificate of incorporation and amended and restated bylaws, as well as provisions of Delaware law, could impair a takeover attempt.
- The Company's business could be negatively affected by activist shareholders.
- If securities or industry analysts do not publish or cease publishing research or reports about the Company, its business, its market or its competitors, or if they adversely change their recommendations regarding the Company's common stock, the market price and trading volume of its notes and common stock could decline.
- The Company does not expect to declare any dividends on its common stock in the foreseeable future.
- If the Company raises additional capital through the sale of shares of the Company’s common stock, convertible securities or debt in the future, its stockholders’ ownership in the Company could be diluted and restrictions could be imposed on the Company’s business.

Risks Related to the Company’s Business and its Industry

Global Supply Chain Disruption and Inflation may have a material adverse effect on the Company's business, financial condition and results of operations.

The disruptions to the global economy in 2020 and 2021 impeded global supply chains and resulted in longer lead times and increased component costs and freight expenses. In some instances, the Company depends on a sole source supplier arrangement, and alternative suppliers may not be readily available. The supply of these components is critical to the Company's manufacturing needs. Despite the actions the Company has undertaken to minimize the impacts from disruptions to the global economy, there can be no assurances that unforeseen future events in the global supply chain, and inflationary pressures, will not have a material adverse effect on its business, financial condition, and results of operations.

The effects of the COVID-19 pandemic have affected how the Company and its customers are operating its businesses, and the duration and extent to which this will impact its future results of operations and overall financial performance remains uncertain.

The COVID-19 pandemic and related public health measures have affected how the Company and its customers are operating their businesses and have materially and adversely affected the Company’s business and the Company’s financial results. To date, the impact includes: a) the deferral of procedures using its products, b) disruptions or restrictions on the ability of many of the Company’s employees and of third parties on which the Company relies, to work effectively, including “stay-at-home” orders and similar government actions; and c) temporary closures of its facilities and of the facilities of the Company’s customers and suppliers. If the pandemic has a substantial impact on its employees’ or customers’ businesses and productivity, the Company’s results of operations and overall financial performance may be materially and adversely affected. The global macroeconomic effects of the pandemic may persist for an indefinite period.

As jurisdictions throughout the world continue to respond to the pandemic, the degree of the foregoing impacts may increase in scope or magnitude or the Company may experience additional adverse effects in one or more regions. Any other outbreaks of contagious diseases or other adverse public health developments in countries where the Company operates or where its customers or suppliers are located could also have a material and adverse effect on its business, financial condition and results of operations.

Due to the COVID-19 pandemic, customers and their patients have been, and in certain regions continue to be, required, or are choosing, to defer elective procedures in which the Company's products otherwise could be used, and many facilities that specialize in the procedures in which the Company's products otherwise could be used have temporarily closed and in some cases continue to be temporarily closed or operating at reduced hours. In addition, even after the pandemic subsides or governmental orders no longer prohibit or recommend against performing such procedures, patients may continue to defer such procedures due to personal concerns. Further, facilities at which its products typically are used may not reopen or, even if they reopen, patients may elect to have procedures performed at facilities that are, or are perceived to be, lower-risk, such as private surgery centers,

and the Company's products may not be approved at such facilities, and the Company may be unable to have the Company's products approved for use at such facilities on a timely basis, or at all. The effect of the pandemic on the broader economy could also negatively affect demand for elective procedures using its products, both in the near- and long-term. Workforce limitations and travel restrictions resulting from government actions taken to contain the spread of COVID-19 have and will continue to adversely affect almost every aspect of its business. If a significant percentage of the Company's workforce, or of the workforce of third parties on which the Company relies, cannot work, including because of illness or travel or government restrictions, its operations will be negatively affected. Due to government restrictions and social distancing guidelines in many countries around the world, there is an increased reliance on working from home for the Company's workforce and on the workforce of third parties on which the Company rely. For example, most of the Company's sales personnel and third-party agents currently are working largely using virtual and online engagement tools and tactics, which may be less effective than its typical in-person sales and marketing programs. In addition, the Company reduced access to its hands-on customer trainings, which, in turn, adversely impacted the Company's ability to educate and train customers on the proper use of the Company's products, which may make surgeons less comfortable using, and therefore less likely to use, the Company's products. The Company believes that interruptions resulting from the COVID-19 pandemic may limit its ability to develop, and therefore launch, the products the Company believes will drive the Company's future revenue growth on the timelines the Company anticipated previously, or at all, and could also delay the planned launch of products in 2022 and beyond. It may also cause the Company not to submit required filings on its previous timelines, including with the FDA, or other regulatory bodies, both in the U.S. and outside the U.S. The COVID-19 pandemic has adversely impacted the Company's clinical trial operations in the United States. In addition, changes impacting workforce function at the FDA and other regulatory bodies, as well as changes impacting workforce function at the facilities at which the Company seeks to have new products approved for use, could adversely impact the timing of when the Company's new products are cleared for marketing and approved for use, either of which would adversely impact the timing of its ability to sell these new products and would have a material and adverse effect on the Company's revenue growth.

As a result of the COVID-19 outbreak, some of the Company's customers are being required to shelter-in-place and are not working. In cases where the Company's customers are working, they are performing fewer procedures. When they are performing procedures, customers are mostly focused on medically necessary procedures that should not be delayed. Non-urgent, non-essential procedures are getting cancelled or delayed. As a result of fewer aesthetic procedures being performed and anxiety about the economic future, the Company's customers may cancel orders for laser systems or will use less consumables. Some of the Company's customers will feel less confident about making investments in their practices and focus on retaining their cash. As a result of cash conservation efforts by the Company's customers, the Company may also encounter problems collecting on its receivables, which will impact the Company's cash position and could result in negative cash flows.

Further, disruptions in the manufacture and distribution of the Company's products or in its supply chain may occur as a result of the COVID-19 pandemic, including for the reasons above, or other events that result in staffing shortages, production slowdowns, stoppages, or disruptions in delivery systems, any of which could materially and adversely affect the Company's ability to manufacture or distribute its products, or to obtain the raw materials and supplies necessary to manufacture and distribute the Company's products, in a timely manner, or at all.

The Company may also experience other unknown adverse impacts from COVID-19 that cannot be predicted. For example, customers and other facilities at which the Company sells its products may renegotiate their purchase prices, including as a result of, or the perception that they may be suffering, financial difficulty as a result of the pandemic. Similarly, facilities at which the Company seeks to sell its products in the future may require price reductions relative to the price at which the Company previously expected to sell its products. Reduction in the prices at which the Company sells products to existing customers may have a material and adverse effect on its future financial results and reductions in the prices at which the Company expected to sell products would have a material and adverse effect on its expectations for revenue growth.

Further, the global capital markets experienced, and the Company expects will continue to experience, disruption and volatility due to the COVID-19 pandemic, adversely impacting access to capital for the Company's customers and suppliers who need access to capital. Their inability to access capital in a timely manner, or at all, could adversely impact demand for its products and/or adversely impact its ability to manufacture or supply its products, any of which could have a material and adverse effect on the Company's business.

The extent to which the COVID-19 pandemic will impact the Company's business going forward will depend on numerous evolving factors that cannot be reliably predicted, including the duration and scope of the pandemic; governmental, business, and individuals' actions in response to the pandemic; and the impact on economic activity including the possibility of recession or financial market instability.

The Company expects the customers will return and the amount of revenue to increase in 2022 compared to 2021 as the economic environment outlook due to the COVID-19 pandemic improves. However, the COVID-19 outbreak continues to be fluid and the

aftermath of the business and economic disruptions due to the COVID-19 pandemic is still uncertain, making it difficult to forecast the final impact it could have on the Company's future operations. The spread of the coronavirus, which caused a broad impact in 2020 and 2021 globally, including restrictions on travel, shifting work force to work remotely and quarantine policies put into place by businesses and governments, had a material economic effect on the Company's business. Notably, healthcare facilities in many countries effectively banned elective procedures. Many of the Company's products are used in aesthetic elective procedures and as such, the bans on elective procedures substantially reduced the Company's sales and marketing efforts in the early months of the pandemic. The Company cannot presently predict the scope and severity of any impacts in future periods from the business shutdowns or disruptions due to the COVID-19 pandemic, but the impact on economic activity such as the possibility of recession or financial market instability could have a material adverse effect on the Company's business, revenue, operating results, cash flows and financial condition.

The increase in sales of skincare products in Japan may be temporary and sales of Skincare products may decline in the future.

During 2020 and 2021, the Company experienced a significant increase in sales of skincare products under the exclusive distribution agreement with ZO which allows the Company to sell ZO's skincare products in Japan. The reason for the increase in skincare products sales might have been the result of changes in customers' spending habits to purchase more aesthetic treatments which could be applied at home due to limitations on in-person aesthetic procedures, social distancing and mask wearing requirements due to the COVID-19 pandemic. Future growth in sales of skincare products depends on the customers' spending habits, which may change back to original spending habits after the COVID-19 pandemic. Such changes may have a material adverse effect on the Company's revenue, operating results and cash flows.

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

There has been recent volatility in the price of the Company's common stock. The Company believes this is due in part to the overall impact of COVID-19 on the aesthetic industry and its partial recovery, the remaining open territories associated with the Company's North America salesforce, and other factors. As a result of the Company's relatively limited public float, its common stock may be less liquid than the stock of companies with broader public ownership. Among other things, trading of a relatively small volume of the Company's common stock may have a greater impact on the trading price for the Company's notes and shares than would be the case if the Company's public float were larger. The public market price of the Company's common stock has in the past fluctuated substantially and, due to the current concentration of stockholders, the trading price of the notes and the common stock may continue to do so in the future. The market price for the Company's notes and common stock could also be affected by a number of other factors, including the general market conditions unrelated to the Company's operating performance, including market volatility as a result of the COVID-19 outbreak.

The market price for the Company's notes and common stock could also be affected by a number of other factors, including:

- the general market conditions unrelated to the Company's operating performance;
- sales of large blocks of the Company's common stock, including sales by the Company's executive officers, directors and large institutional investors;
- quarterly variations in the Company's, or the Company's competitors', results of operations;
- actual or anticipated changes or fluctuations in the Company's results of operations;
- actual or anticipated changes in analysts' estimates, investors' perceptions, recommendations by securities analysts or the Company's failure to achieve analysts 'estimates;
- the announcement of new products, service enhancements, distributor relationships or acquisitions by the Company or the Company's competitors;
- the announcement of the departure of a key employee or executive officer by the Company or the Company's competitors;
- regulatory developments or delays concerning the Company's, or the Company's competitors' products; and
- the initiation of any litigation by the Company or against the Company, including the lawsuit initiated by the Company on January 31, 2020 in Federal District Court in California against Lutronic Aesthetics, Inc. as previously disclosed on February 3, 2020, or against the Company.

Actual or perceived instability and / or volatility in the Company's stock price could reduce demand from potential buyers of the Company's stock, thereby causing the trading price of the Company's notes and stock 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 the Company's notes and stock could decline for reasons unrelated to the Company's business, results of operations or financial condition. The trading price of the Company's notes and common stock might also decline in

reaction to events that affect other companies in the Company's 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 the Company's management's attention and resources from the Company's business. This could have a material adverse effect on the Company's business, results of operations and financial condition.

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 currently completing the implementation of a new accounting and ERP system. If 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 and accurate fashion could result in financial penalties, fines and other administrative actions. Such events could have a material adverse effect on the Company's total enterprise value and stock price.

We currently rely on third-party contract manufacturers ("CMs") to produce certain systems. This reliance on CMs increases the risk that we will not have sufficient supply or that such supply will not be available to us at an acceptable cost, which may have a material adverse effect on our business

We have entered into arrangements with third-party contract manufacturers to produce and deliver fully assembled systems ready for direct shipment to our customers. We may experience supply shortfalls or delays in shipping products to our customers if our contract manufacturers experience delays, disruptions, quality control problems in their manufacturing operations, or if we have to change or add manufacturers or contract manufacturing locations. Even if products are available, we may be unable to obtain sufficient quantities at an acceptable cost or quality. Although we have contracts with our manufacturers that include terms to protect us in the event of early termination, we may not have adequate time to transition all of our manufacturing needs to an alternative manufacturer under comparable commercial terms. As well, a significant portion of our manufacturing is performed in foreign countries and is therefore subject to risks associated with doing business outside of the U.S., including import restrictions, export restrictions, disruptions to our supply chain, cyberattacks, pandemics, regional climate-related events, or regional conflicts. The failure by us or our CMs to produce sufficient quantities at acceptable cost and quality may have a material adverse effect on our business.

The Company's annual and quarterly operating results may fluctuate in the future, which may cause the Company's trading price for the notes and shares 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 its senior credit facility due to insufficient cash;
- the possibility that cybersecurity breaches, data breaches, and other disruptions could compromise the Company's 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;
- 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 EU privacy regulations (GDPR) on the Company's resources;

- the financial health of the Company's customers and their ability to purchase the Company's products in the current economic environment;
- other unusual or non-operating expenses, such as expenses related to mergers or acquisitions, may cause operating results to vary; and
- an epidemic or pandemic, such as the current COVID-19 pandemic.

As a result of any of these factors, the Company's consolidated results of operations may fluctuate significantly, which may in turn cause the trading price of the notes and the shares 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 sources 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 the Company's 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 the Company's 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 the Company's resources;
- damage to the Company's 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 the Company's business, financial condition, results of operations or cash flows.

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

If the Company fails to maintain the Company's 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 the Company's products. Physicians assist the Company as researchers, marketing consultants, product consultants, and public speakers, and the Company relies on these professionals to provide the Company with considerable knowledge and experience. If the Company is unable to maintain these strong relationships, the development and marketing of the Company's products could suffer, which could have a material adverse effect on the Company's 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 the Company's sales professionals, the Company's business will be harmed, which would impair its future revenue and profitability.

The Company's success largely depends on the Company's ability to hire, train, manage, 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 its 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

2020, the Company experienced significant turnover of the Company's sales professionals, including several people in key sales leadership positions. Most of these sales professionals went to work for a competitor and the loss of these sales professionals negatively impacted the Company's sales performance until the Company was able to hire and train replacement personnel. The Company believes it has adequate measures in place to protect the Company's proprietary and confidential information when employees leave the Company, however the ability to enforce these measures varies from jurisdiction to jurisdiction and the Company 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, are difficult to enforce in many jurisdictions. Furthermore, such legal enforcement actions are expensive and the Company 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 the Company's 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 the Company's 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 the Company's 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 the Company's sales force.

The Company trains its existing and recently recruited sales professionals to better understand the Company's existing and new product technologies and how they can be positioned against the Company's competitors' products. These initiatives are intended to improve the productivity of the Company's sales professionals and the Company's 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 the Company's 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 the Company's sales organization, or further reduce the Company's revenue and harm the Company's business. If the Company is not able to improve the productivity and retention of the Company's North American and international sales professionals, then the Company's total revenue, profitability and stock price may be adversely impacted.

The Company is planning to launch an energy-based solution for the treatment of Acne and can provide no assurance that the Company will obtain regulatory clearance for this Acne device or that the device will be widely adopted by customers or their patients.

The Company has recently announced plans to bring an energy-based device for Acne to market. The Company has spent several years working on this program, fine-tuning the product, and designing and developing the procedure to deliver a safe, comfortable and effective solution for Acne patients. Despite these efforts, the Company may not be successful in obtaining final approval from the FDA. Additionally, the Company may be unable to establish and manage a sufficient or effective sales force in a timely or cost-effective manner, and any sales force the Company does establish may not be capable of generating demand for this device, therefore hindering the Company's ability to generate revenues and achieve or sustain profitability from this Acne device.

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 the Company's 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, the Company's competitive position will likely deteriorate as other companies successfully design and commercialize new products and applications or enhancements to the Company's current products. The Company created products to apply the Company's technology to body contouring, hair removal, treatment of veins, tattoo removal and skin revitalization, including the treatment of diffuse redness, fine lines and wrinkles via hemostasis and coagulation, skin texture, pore size and benign pigmented lesions, etc. For example, the Company introduced Secret RF, a fractional RF microneedling device for skin revitalization, in January 2018, enlighten SR in April 2018, truSculpt iD in July 2018, excel V+ in February 2019, truSculpt flex in June 2019, and the Secret Pro, a device combining the benefits of RF microneedling with the capabilities of a fractional, ablative CO_2 laser in September of 2020. In 2021, the Company introduced truSculpt flex+, a treatment mode that decreased the treatment time from approximately 45 minutes to 15 minutes. 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 the Company's current product offerings;
- obtain regulatory clearance for these new products;
- convince the Company's existing and prospective customers that the Company's product offerings are an attractive revenue-generating addition to their practice;
- sell the Company's product offerings to a broad customer base;
- identify new markets and alternative applications for the Company's technology;
- protect the Company's 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 its 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 the Company's. 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 the Company's, or create their own, innovations. Consequently, the Company believes that it will have to continuously innovate and improve the Company's 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 prospective customers purchase its competitors' products.

Demand for the Company's products in any of the Company's markets could be weakened by several factors, including:

- inability to develop and market the Company's 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 the Company's products from those of the Company's competitors;
- competitive threat from new innovations and product introductions;
- 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 the Company's potential customers.

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

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's success largely depends on the skills, experience and efforts of the Company's officers and other key employees. The loss of any of the Company's executive officers could weaken its management expertise and harm the Company's business, and it may not be able to find adequate replacements on a timely basis, or at all. Except for Change of Control and Severance Agreements for the Company's executive officers and a few key employees, the Company does not have employment contracts with any of its officers or other key employees. Any of the Company's officers and other key employees may terminate their employment at any time and their knowledge of the Company's business and industry may be difficult to replace. The Company does not have a succession plan in place for each of its officers and key employees. In addition, the Company does not maintain "key person" life insurance policies covering any of the Company's employees.

In addition to dependence on the Company's officers and key employees, the Company is highly dependent on other sales and scientific personnel. For example, in the first quarter of 2020 the Company experienced turnover of its sales professionals, including several people in key sales leadership positions. Most of these sales professionals went to work for a competitor. 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 the Company's 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 the Company's business and the Company's ability to compete and become profitable.

Security breaches, cyber-security incidents and other disruptions could compromise the Company's information and impact the Company's 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 the Company's locations around the world and between company personnel as well as customers and suppliers. Because information systems are critical to many of the Company's operating activities, the Company's 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 the Company's information systems suffer severe damage, disruption or shutdown and the Company business continuity plans do not effectively resolve the issues in a timely manner, the Company could experience delays in reporting the Company's financial results and the Company may lose revenue and profits as a result of the Company's 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 the Company's reputation and credibility, and could expose the Company 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.

A cyber security attack or other incident that bypasses the Company's information systems security could cause a security breach which may lead to a material disruption to the Company's information systems infrastructure or business and may involve a significant loss of business or patient health information. If a cyber security attack or other unauthorized attempt to access the Company's systems or facilities were successful, it could result in the theft, destruction, loss, misappropriation or release of confidential information or intellectual property, and could cause operational or business delays that may materially impact the Company's ability to provide various healthcare services. Any successful cyber security attack or other unauthorized attempt to access the Company's systems or facilities also could result in negative publicity which could damage the Company's reputation or brand with the Company's patients, referral sources, payors or other third parties and could subject the Company to a number of adverse consequences, the vast majority of which are not insurable, including but not limited to disruptions in the Company's operations, regulatory and other civil and criminal penalties, fines, investigations and enforcement actions (including, but not limited to, those arising from the SEC, Federal Trade Commission, Office of Civil Rights, the Office of Inspector General or state attorneys general), fines, private litigation with those affected by the data breach, loss of customers, disputes with payors and increased operating expense, which either individually or in the aggregate could have a material adverse effect on the Company's business, financial position, results of operations and liquidity.

The Company has not had any disruptions to its information systems that have materially affected its business, financial condition or results of operations. However, there can be no assurance that such disruptions may occur and have a material adverse effect on the Company in the future.

Changes in accounting standards and estimates could have a material adverse effect on the Company's results of operations and financial position.

Generally accepted accounting principles and the related authoritative guidance for many aspects of the Company's business, including revenue recognition, inventories, warranties, leases, income taxes, expected credit losses, fair-value measurements, and stock-based compensation, are complex and involve subjective judgments. Changes in these rules or changes in the underlying estimates, assumptions or judgments by the Company's management could have a material adverse effect on the Company's results of operations and may retroactively affect previously reported results.

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

On July 9, 2020, the Company terminated its Wells Fargo Revolving Line of Credit and subsequently entered into a Loan and Security Agreement with Silicon Valley Bank (the "SVB Revolving Line of Credit"). The agreement provides for a four-year secured revolving loan facility in an aggregate principal amount of up to $30.0 million. The SVB Revolving Line of Credit matures on July 9, 2024. As of December 31, 2021, the Company had not drawn on this credit facility.

A violation of any of the covenants could result in a default under the SVB Revolving Line of Credit that would permit Silicon Valley Bank 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 agreement. In addition, these covenants are subject to renegotiation at the beginning of each fiscal year, which further reduces the Company's ability to anticipate whether this source of capital will continue to be available in the near term.

Additionally, 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 the Company's capital needs will be available from the Company's existing financial institutions and the credit markets if needed, and if available, to the extent required and on acceptable terms. The SVB Revolving Line of Credit terminates on July 9, 2024 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 the Company's revenues and results of operations.

Covenants in the Loan and Security Agreement governing the Company's revolving credit facility may restrict its operations, and if the Company does not effectively manage its business to comply with these covenants, its financial condition could be adversely impacted.

The Company entered into a Loan and Security Agreement with Silicon Valley Bank in July 2020, which provides for a four-year secured revolving loan facility in an aggregate principal amount of up to $30.0 million (the "senior credit facility"). The senior credit facility contains various restrictive covenants, including, among other things, minimum liquidity and revenue requirements, restrictions on the Company's ability to dispose of assets, make acquisitions or investments, incur debt or liens, make distributions to its stockholders, or enter into certain types of related party transactions. These restrictions may restrict the Company's current and future operations, particularly the Company's ability to respond to certain changes in its business or industry, or take future actions. Pursuant to the senior credit facility, the Company granted the parties thereto a security interest in substantially all of its assets. See Note 12 of the notes to the Company's consolidated financial statements and the section titled "Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources Loan and Security Agreement" in Part II, Item 8 of the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2021. The Company's ability to meet these restrictive covenants can be impacted by events beyond the Company's control and the Company may be unable to do so. The Company's senior credit facility provides that its breaches or failure to satisfy certain covenants constitutes an event of default. Upon the occurrence of an event of default, the Company's lenders could elect to declare all amounts outstanding under its debt agreements to be immediately due and payable. In addition, the Company's lenders would have the right to proceed against the assets the Company provided as collateral pursuant to the senior credit facility. If the debt under its senior credit facility was to be accelerated, the Company may not have sufficient cash on hand or be able to sell sufficient collateral to repay it, which would have an immediate adverse effect on the Company's business and operating results.

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

The Company's business is influenced by a range of factors that are beyond the Company's control, including:

- general macro-economic and business conditions in the Company's key markets of North America, Japan, Asia Pacific, the Middle East, Europe and Australia;
- the lack of credit financing, or an increase in the cost of borrowing, for some of the Company's potential customers due to increasing interest rates and lending requirements;
- the overall demand for the Company's products by the core market specialties of dermatologists and plastic surgeons;
- the timing and success of new product introductions by the Company or the Company's competitors or any other change in the competitive landscape of the market for non-surgical aesthetic procedures, including consolidation among the Company's competitors;
- the level of awareness of aesthetic procedures and the market adoption of the Company's products;
- changes in the Company's pricing policies or those of the Company's competitors;

- governmental budgetary constraints or shifts in government spending priorities;
- general political developments, both domestic and in the Company's 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 the Company's business, operating results, or financial condition which, in turn, could adversely affect the Company's 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 the Company's products and services or cause customers not to pay the Company or to delay paying the Company 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 the Company's results of operations and financial condition, including the Company's revenue growth and profitability.

Macroeconomic declines, negative political developments, including volatile market conditions due to investor concerns regarding inflation and potential hostilities between Russian and Ukraine, adverse market conditions and catastrophic events may cause a decline in the Company's revenue, negatively affect the Company's operating results, adversely affect the Company's cash flow and could result in a decline in the Company's stock price.

To successfully market and sell the Company's 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 the Company's growth strategy, although the Company's international operations and foreign transactions expose the Company to additional operational challenges that the Company might not otherwise face.

The Company is focused on international expansion as a key component of its growth strategy and has identified specific areas of opportunity in various international markets. Revenue from customers outside of North America is a material component of the Company's business strategy and represented 52% of its total revenue in 2021 compared to 53% of the Company's total revenue in 2020. The Company employs a direct sales force in the major markets throughout Europe as well as Canada, Japan and Australia/New Zealand while using third-party distributors to sell its products in several other country in the Middle East, Asia, and South America in particular. The Company may be unable to increase or maintain its level of international revenue due to supply chain disruptions or loss of distributor relationship.

The Company experienced significant turnover of the Company's North America sales team during the first quarter of 2020. Though these departures did not have an adverse effect on the Company's international sales, they added additional pressure on the global sales team. While the Company continues to have a direct sales and service organization in Australia, New Zealand, 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 to collaboration with its distribution 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 is essential to improve productivity in current sales territories and expand into new territories. However, direct sales productivity may not improve and distributors may not accept the Company's business or commit the necessary resources to market and sell the Company's products at the Company's expectations. If the Company is not able to increase or maintain international revenue growth, the Company's total revenue, profitability and stock price may be adversely impacted.

If the Company fails to renew any of its distribution agreements as they expire under the terms of the particular agreement, its revenues and cash flow may be adversely affected.

The Company's business may suffer if any of its distribution partners terminates or otherwise fails to renew its distribution agreement with the Company and the Company is otherwise unable to replace such agreement with a distribution agreement containing similar terms.

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

In 2021, 52% of the Company's 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 the Company's 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;
- outbreak or escalation of insurrection, armed conflict, terrorism or war; and
- supply chain disruption or the loss of distributor relationships.

Changes in the geopolitical or economic environments in the countries in which the Company operates could have a material adverse effect on the Company's 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 the Company's 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 the Company's 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.

Since January 1, 2021, the Medicines and Healthcare Products Regulatory Agency ("MHRA") has been responsible for the UK medical device market. New regulations require medical devices to be registered with the MHRA. Manufacturers based outside the UK need to appoint a UK Responsible Person to register devices with the MHRA. By July 1, 2023, in the United Kingdom, all medical devices will require a UKCA (UK Conformity Assessed) mark, but CE marks issued by EU notified bodies will remain valid until this time. However, UKCA marking alone will not be recognized in the EU.

In addition to the general risks that the Company faces outside the U.S., the Company's 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 the Company's assets; or governments may impose or increase investment barriers or other restrictions affecting the Company's business. In addition, emerging markets pose other uncertainties, including the difficulty of enforcing agreements, challenges collecting receivables, protection of the Company's intellectual property and other assets, pressure on the pricing of the Company's 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 the Company's business, financial condition and results of operations.

In addition, compliance with laws and regulations applicable to the Company's international operations increases the Company's 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 the Company's business. In many foreign countries it is common for others to engage in business practices that are prohibited by the Company's 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 the Company's employees, contractors, distributors and agents will comply with these laws and policies. Violations of laws or key control policies by the Company's 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 the Company's offerings and could have a material adverse effect on the Company's 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 the Company's available cash reserves and negatively impact the Company's 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 the Company 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* 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 the Company's 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 the Company's profitability and reducing the Company's available cash reserves.

If the Company does not make the minimum purchases required in the distribution contracts, or if the third party manufacturer revokes the Company's 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 the Company, 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 distribution partners to have its products in stock and provide its products to customers on a timely basis.

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 credit loss provision write-off charge in the Company's general and administrative expenses. If this write-off charge is material, it could negatively affect the Company's 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 the Company's 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 the Company's customers and potential customers. A significant delay in the collection of funds or a reduction of funds collected may impact the Company's liquidity or result in credit losses.

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 the Company's 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 the Company's 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 the Company's market penetration efforts. For example, the Company has encountered, and expects to continue to encounter, situations where, due to pre-existing relationships, potential customers decide to purchase additional products from the Company's competitors. Potential customers also may need to recoup the cost of products that they have already purchased from the Company's competitors and may decide not to purchase the Company's products, or to delay such purchases. If the Company is unable to increase the Company's 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, have greater resources, or have a larger installed base of customers and broader product offerings than the Company's. 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 other companies. Further, other companies could introduce new products that are in direct competition with the Company's products. The Company may also face competition from manufacturers of pharmaceutical and other products that have not yet been developed. Competition with these companies could result in reduced selling prices, reduced profit margins and loss of market share, any of which would harm the Company's business, financial condition and results of operations.

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 the Company's product prices. 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 the Company's partners and competitors could cause uncertainty and disruption to the Company's business and can cause the Company's stock price to fluctuate.

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 the Company's business strategy. Most procedures performed using the Company's products are elective procedures not reimbursable through government or private health insurance, with the costs borne by the patient. The decision to utilize the Company's 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, may be 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 the Company’s products, practitioner demand for the Company’s products could be reduced, which could have a material adverse effect on the Company’s business, financial condition, revenue and result of operations.

The Company's products and its operations are subject to extensive government regulation and oversight in the United States. If the Company fails to obtain or maintain necessary regulatory clearances or approvals for its products, or if approvals or clearances for future products are delayed or not issued, it will negatively affect its business, financial condition and results of operations.

The Company's laser products are medical devices subject to extensive regulation in the United States and elsewhere, including by the FDA and its foreign counterparts. Government regulations specific to medical devices are wide ranging and govern, among other things:

- product design, development, manufacture, and release;
- laboratory and clinical testing, labeling, packaging, storage and distribution;
- product safety and efficacy;
- pre-marketing clearance or approval;
- service operations;
- record keeping;
- product marketing, promotion and advertising, sales and distribution;
- post-marketing surveillance, including reporting of deaths or serious injuries and recalls and correction and removals;
- post-market approval studies; and
- product import and export.

The FDA classifies medical devices into one of three classes on the basis of the intended use of the device, the risk associated with the use of the device for that indication, as determined by the FDA, and on the controls deemed by the FDA to be necessary to reasonably ensure their safety and effectiveness.

Class I includes devices with the lowest risk to the patient and are those for which safety and effectiveness can be assured by adherence to the FDA’s General Controls for medical devices, which include compliance with the applicable portions of the QSR facility registration and product listing, reporting of adverse medical events, and truthful and non-misleading labeling, advertising, and promotional materials. Class II devices are subject to the FDA’s General Controls, and special controls as deemed necessary by the FDA to ensure the safety and effectiveness of the device. These special controls can include performance standards, post-market surveillance, patient registries and FDA guidance documents.

While most Class I devices are exempt from the premarket notification requirement, manufacturers of most Class II devices are required to submit to the FDA a premarket notification under Section 510(k) of the FDCA requesting permission to commercially distribute the device. The FDA’s permission to commercially distribute a device subject to a 510(k) premarket notification is generally known as 510(k) clearance. Devices deemed by the FDA to pose the greatest risks, such as life sustaining, life supporting or some implantable devices, or devices that have a new intended use, or use advanced technology that is not substantially equivalent to that of a legally marketed device, are placed in Class III, requiring approval of a PMA application. Some pre-amendment devices are unclassified, but are subject to FDA’s premarket notification and clearance process in order to be commercially distributed. The Company's currently marketed products are Class II devices subject to 510(k) clearance, which the Company has obtained from the FDA.

Before a new medical device, or a new intended use of, claim for, or significant modification to an existing device, can be marketed in the United States, a company must first submit an application for and receive either 510(k) clearance pursuant to a premarket notification submitted under Section 510(k) of the FDCA, or PMA approval from the FDA, unless an exemption applies. The 510(k), or PMA processes can be expensive, lengthy and unpredictable. The FDA’s 510(k) clearance process usually takes from three to 12 months, but can last longer. The process of obtaining a PMA approval is much more costly and uncertain than the 510(k) clearance process and generally takes from one to three years, or even longer, from the time the application is filed with the FDA. In addition, a PMA approval generally requires the performance of one or more clinical trials. Despite the time, effort and cost, a device may not be approved or cleared by the FDA. Any delay or failure to obtain necessary regulatory clearances or approvals could harm its business. Furthermore, even if the Company is granted regulatory clearances or approvals, they may include significant limitations on the indicated uses for the device, which may limit the market for the device.

The Company has obtained 510(k) clearances to market its products. The FDA or other regulators could delay, limit, or deny clearance or approval of a device for many reasons, including:

- The Company's inability to demonstrate to the satisfaction of the FDA or the applicable regulatory entity or notified body that the Company's currently marketed devices, or any other future device, and any accessories are substantially equivalent to a legally marketed predicate device or safe or effective for their proposed intended uses;
- the disagreement of the FDA with the design or implementation of any clinical trials or the interpretation of data from preclinical studies or clinical trials;
- serious and unexpected adverse device effects experienced by participants in its clinical trials;
- the insufficiency of the data from preclinical studies or clinical trials to support clearance or approval, where required;
- our inability to demonstrate that the clinical and other benefits of the device outweigh the risks;
- the failure of its manufacturing process or facilities to meet applicable requirements; and
- the potential for approval policies or regulations of the FDA or applicable foreign regulatory bodies to change significantly in a manner rendering its clinical data or regulatory filings insufficient for clearance or approval.

The regulations to which the Company is subject are complex and have tended to become more stringent over time. Regulatory changes could result in restrictions on the Company's ability to carry on or expand its operations, higher than anticipated costs or lower than anticipated sales. The FDA enforces these regulatory requirements through, among other means, periodic unannounced inspections. The Company does not know whether it will be found compliant in connection with any future regulatory inspections. Moreover, the FDA and state authorities have broad enforcement powers. Its failure to comply with applicable regulatory requirements could result in enforcement action by any such agency. If any of these events were to occur, it would negatively affect the Company's business, financial condition and results of operations.

If the Company fails to comply with applicable regulatory requirements, it could result in enforcement action by the U.S. FDA, federal and state agencies or international regulatory bodies and the Company's 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, recall or seizure of the Company's products;
- operating restrictions or partial suspension or total shutdown of production;
- refusing the Company's requests for 510(k) clearance 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 the Company's 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 the Company's 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 the Company's products to market. Either of these changes lengthen the duration to market, increase the Company's costs of doing business, adversely affect the future permitted uses of approved products, or otherwise adversely affect the market for its products.

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.

Changes in funding or disruptions at the FDA and other government agencies caused by funding shortages or global health concerns could hinder their ability to hire and retain key leadership and other personnel, or otherwise prevent new or modified products from being developed, approved or commercialized in a timely manner or at all, or otherwise prevent those agencies

from performing normal business functions on which the operation of the Company's business may rely, which could negatively impact its business.

The ability of the FDA to review and approve new products can be affected by a variety of factors, including government budget and funding levels, ability to hire and retain key personnel and accept the payment of user fees, and statutory, regulatory, and policy changes, and other events that may otherwise affect the FDA's ability to perform routine functions. Average review times at the agency have fluctuated in recent years as a result. In addition, government funding of other government agencies on which the Company's operations may rely, including those that fund research and development activities is subject to the political process, which is inherently fluid and unpredictable.

Disruptions at the FDA and other agencies may also slow the time necessary for new product applications to be reviewed and/or approved by necessary government agencies, which would adversely affect its business. For example, in response to the COVID-19 pandemic, the FDA has indicated that it will consider alternative methods for inspections and could exercise discretion on a case-by-case basis to approve products based on a desk review, if a prolonged government shutdown occurs, or if global health concerns continue to prevent the FDA or other regulatory authorities from conducting their regular inspections, reviews, or other regulatory activities, it could significantly impact the ability of the FDA to timely review and process its regulatory submissions, which could have a material adverse effect on the Company's business.

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 the Company's products. Because the Company's products involve the use of lasers, the Company's 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 inspections by the FDA, as well as audits the Company's Notified Body, and other foreign regulatory agencies, with the most recent inspection by the FDA occurring under the Medical Device Single Audit Program in January 2021. 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 the Company's 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 subject to the FDA's Bioresearch Monitoring (BIMO) program. As such, the BIMO audits the Company and the Company is also subject to FDA regulations relating to the design and conduct of clinical trials. The Company is subject to unannounced BIMO audits, with the most recent inspection by FDA completed over five years ago in August 2016. There were no significant findings and only two observations as a result of this audit. The Company's responses to these observations were accepted by the FDA. Failure to take satisfactory corrective action in response to an adverse BIMO inspection or the Company's failure to comply with Good Clinical Practices could result in the Company 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 the Company's 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 could 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 the Company's 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 could 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 the Company's 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 the Company's manufacturing and research and development departments into the Company's service department;
- changes in share-based compensation; and
- legal action.

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

The Company's products may cause or contribute to adverse medical events or be subject to failures or malfunctions that the Company is required to report to the FDA, and if the Company fails to do so, the Company would be subject to sanctions that could harm its reputation, business, financial condition and results of operations. The discovery of serious safety issues with its products, or a recall of the Company's products either voluntarily or at the direction of the FDA or another governmental authority, could have a negative impact on the Company.

The Company is subject to the FDA's medical device reporting regulations and similar foreign regulations, which require the Company to report to the FDA when the Company receives or becomes aware of information that reasonably suggests that one or more of its products may have caused or contributed to a death or serious injury or malfunctioned in a way that, if the malfunction were to recur, it could cause or contribute to a death or serious injury. The timing of its obligation to report is triggered by the date the Company becomes aware of the adverse event as well as the nature of the event. The Company may fail to report adverse events of which it becomes aware within the prescribed timeframe. The Company may also fail to recognize that it has become aware of a reportable adverse event, especially if it is not reported to the Company as an adverse event or if it is an adverse event that is unexpected or removed in time from the use of the product. If the Company fails to comply with its reporting obligations, the FDA could take action, including warning letters, untitled letters, administrative actions, criminal prosecution, imposition of civil monetary penalties, revocation of its device clearance or approval, seizure of its products or delay in clearance or approval of future products.

The FDA and foreign regulatory bodies have the authority to require the recall of commercialized products in the event of material deficiencies or defects in design or manufacture of a product or in the event that a product poses an unacceptable risk to health. The FDA's authority to require a recall must be based on a finding that there is reasonable probability that the device could cause serious injury or death. The Company may also choose to voluntarily recall a product if any material deficiency is found. A government-mandated or voluntary recall by the Company could occur as a result of an unacceptable risk to health, component failures, malfunctions, manufacturing defects, labeling or design deficiencies, packaging defects or other deficiencies or failures to comply with applicable regulations. Product defects or other errors may occur in the future.

Depending on the corrective action the Company takes to redress a product's deficiencies or defects, the FDA may require, or the Company may decide, that it will need to obtain new clearances or approvals for the device before the Company may market or distribute the corrected device. Seeking such clearances or approvals may delay its ability to replace the recalled devices in a timely manner. Moreover, if the Company does not adequately address problems associated with its devices, the Company may face additional regulatory enforcement action, including FDA warning letters, product seizure, injunctions, administrative penalties or civil or criminal fines.

Companies are required to maintain certain records of recalls and corrections, even if they are not reportable to the FDA. The Company may initiate voluntary withdrawals or corrections for its products in the future that the Company determines do not require notification of the FDA. If the FDA disagrees with its determinations, it could require the Company to report those actions as recalls and the Company may be subject to enforcement action. A future recall announcement could harm its reputation with customers, potentially lead to product liability claims against the Company and negatively affect its sales. Any corrective action, whether voluntary or involuntary, as well as defending itself in a lawsuit, will require the dedication of its time and capital, will distract management from operating its business and may harm its reputation and financial results.

Our products may in the future be subject to product recalls that could harm its reputation, business and financial results.

Medical devices can experience performance problems in the field that require review and possible corrective action. The occurrence of component failures, manufacturing errors, software errors, design defects or labeling inadequacies affecting a medical device could lead to a government-mandated or voluntary recall by the device manufacturer, in particular when such deficiencies may endanger health. The FDA requires that certain classifications of recalls be reported to the FDA within 10 working days after the recall is initiated. Companies are required to maintain certain records of recalls, even if they are not reportable to the FDA. The Company may initiate voluntary recalls involving its products in the future that the Company determines do not require notification of the FDA. If the FDA disagrees with its determinations, they could require the Company to report those actions as recalls. Product recalls may divert management attention and financial resources, expose the Company to product liability or other claims, harm its reputation with customers and adversely impact its business, financial condition and results of operations.

Clinical trials may be necessary to support future product submissions to the FDA. The clinical trial process is lengthy and expensive with uncertain outcomes, and often requires the enrollment of large numbers of patients, and suitable patients may be difficult to identify and recruit. Delays or failures in the Company's clinical trials will prevent it from commercializing any modified or new products and will adversely affect its business, operating results and prospects.

The Company has conducted clinical trials in the past and will likely conduct clinical trials in the future. Initiating and completing clinical trials necessary to support any future product candidates, will be time-consuming and expensive and the outcome, uncertain. Moreover, the results of early clinical trials are not necessarily predictive of future results, and any product the Company advances into clinical trials may not have favorable results in later clinical trials. The results of preclinical studies and clinical trials of its products conducted to date and ongoing or future studies and trials of its current, planned or future products may not be predictive of the results of later clinical trials, and interim results of a clinical trial do not necessarily predict final results. The Company's interpretation of data and results from its clinical trials do not ensure that the Company will achieve similar results in future clinical trials. In addition, preclinical and clinical data are often susceptible to various interpretations and analyses, and many companies that have believed their products performed satisfactorily in preclinical studies and earlier clinical trials have nonetheless failed to replicate results in later clinical trials. Products in later stages of clinical trials may fail to show the desired safety and efficacy despite having progressed through nonclinical studies and earlier clinical trials. Failure can occur at any stage of clinical testing. The Company's clinical studies may produce negative or inconclusive results, and it may decide, or regulators may require us, to conduct additional clinical and non-clinical testing in addition to those the Company has planned.

- the Company may be required to submit an IDE application to the FDA, which must become effective prior to commencing certain human clinical trials of medical devices, and the FDA may reject the Company's IDE application and notify the Company that it may not begin clinical trials;
- regulators and other comparable foreign regulatory authorities may disagree as to the design or implementation of its clinical trials;

- regulators and/or an IRB, or other reviewing bodies may not authorize the Company or its investigators to commence a clinical trial, or to conduct or continue a clinical trial at a prospective or specific trial site;
- the Company may not reach agreement on acceptable terms with prospective contract research organizations, or CROs, and clinical trial sites, the terms of which can be subject to extensive negotiation and may vary significantly among different CROs and trial sites;
- clinical trials may produce negative or inconclusive results, and the Company may decide, or regulators may require the Company to conduct additional clinical trials or abandon product development programs;
- the number of subjects or patients required for clinical trials may be larger than the Company anticipates, enrollment in these clinical trials may be insufficient or slower than the Company anticipates, and the number of clinical trials being conducted at any given time may be high and result in fewer available patients for any given clinical trial, or patients may drop out of these clinical trials at a higher rate than the Company anticipates;
- the Company's third-party contractors, including those manufacturing products or conducting clinical trials on the Company's behalf, may fail to comply with regulatory requirements or meet their contractual obligations to the Company in a timely manner, or at all;
- the Company might have to suspend or terminate clinical trials for various reasons, including a finding that the subjects are being exposed to unacceptable health risks;
- the Company may have to amend clinical trial protocols or conduct additional studies to reflect changes in regulatory requirements or guidance, which it may be required to submit to an IRB and/or regulatory authorities for re-examination;
- regulators, IRBs, or other parties may require or recommend that the Company or its investigators suspend or terminate clinical research for various reasons, including safety signals or noncompliance with regulatory requirements;
- the cost of clinical trials may be greater than the Company anticipates;
- clinical sites may not adhere to the clinical protocol or may drop out of a clinical trial;
- the Company may be unable to recruit a sufficient number of clinical trial sites;
- regulators, IRBs, or other reviewing bodies may fail to approve or subsequently find fault with its manufacturing processes or facilities of third-party manufacturers with which the Company enters into agreement for clinical and commercial supplies, the supply of devices or other materials necessary to conduct clinical trials may be insufficient, inadequate or not available at an acceptable cost, or the Company may experience interruptions in supply;
- approval policies or regulations of the FDA or applicable foreign regulatory agencies may change in a manner rendering the Company's clinical data insufficient for approval;
- the Company's current or future products may have undesirable side effects or other unexpected characteristics; and
- impacts of regional or global public health crises including the ongoing COVID-19 pandemic could adversely affect any clinical trials the Company is conducting or plan to conduct, including delays or difficulties in enrolling or onboarding patients, initiating clinical sites, or obtaining the requisite regulatory approvals, interruption of key clinical trial activities, or supply chain disruptions that delay or make it more difficult or costly to obtain the supplies and materials the Company needs for clinical trials.

Any of these occurrences may significantly harm the Company's business, financial condition and prospects. In addition, many of the factors that cause, or lead to, a delay in the commencement or completion of clinical trials may also ultimately lead to the denial of regulatory approval of its product candidates.

Clinical trials must be conducted in accordance with the laws and regulations of the FDA and other applicable regulatory authorities' legal requirements, regulations or guidelines, and are subject to oversight by these governmental agencies and IRBs at the medical institutions where the clinical trials are conducted. Conducting successful clinical studies will require the enrollment of large numbers of patients, and suitable patients may be difficult to identify and recruit. Patient enrollment in clinical trials and completion of patient participation and follow-up depends on many factors, including the size of the patient population, the nature of the trial protocol, the attractiveness of, or the discomforts and risks associated with, the treatments received by enrolled subjects, the availability of appropriate clinical trial investigators, support staff, and proximity of patients to clinical sites and able to comply with the eligibility and exclusion criteria for participation in the clinical trial and patient compliance. For example, patients may be discouraged from enrolling in its clinical trials if the trial protocol requires them to undergo extensive post-treatment procedures or follow-up to assess the safety and effectiveness of its products or if they determine that the treatments received under the trial protocols are not attractive or involve unacceptable risks or discomforts.

The Company depends on its collaborators and on medical institutions and CROs to conduct its clinical trials in compliance with good clinical practice ("GCP") requirements. To the extent its collaborators or the CROs fail to enroll participants for its clinical trials, fail to conduct the study to GCP standards or are delayed for a significant time in the execution of trials, including achieving full enrollment, the Company may be affected by increased costs, program delays or both. In addition, clinical trials that are conducted in countries outside the United States may subject the Company to further delays and expenses as a result of increased shipment costs, additional regulatory requirements and the engagement of non-U.S. CROs, as well as expose the

Company to risks associated with clinical investigators who are unknown to the FDA, and different standards of diagnosis, screening and medical care.

Development of sufficient and appropriate clinical protocols to demonstrate safety and efficacy are required and the Company may not adequately develop such protocols to support clearance and approval. Further, the FDA may require the Company to submit data on a greater number of patients than the Company originally anticipated and/or for a longer follow-up period or change the data collection requirements or data analysis applicable to the Company's clinical trials. Delays in patient enrollment or failure of patients to continue to participate in a clinical trial may cause an increase in costs and delays in the approval and attempted commercialization of its products or result in the failure of the clinical trial. In addition, despite considerable time and expense invested in its clinical trials, the FDA may not consider the Company's data adequate to demonstrate safety and efficacy. Such increased costs and delays or failures could adversely affect its business, operating results and prospects.

The results of the Company's clinical trials may not support its product candidate claims or may result in the discovery of adverse side effects.

The Company cannot be certain that the results of its future clinical trials will support its future product claims or that the FDA will agree with its conclusions regarding them. Success in pre-clinical studies and early clinical trials does not ensure that later clinical trials will be successful, and the Company cannot be sure that the later trials will replicate the results of prior trials and pre-clinical studies. The clinical trial process may fail to demonstrate that its product candidates are safe and effective for the proposed indicated uses, which could cause the Company to abandon a product candidate and may delay development of others. Any delay or termination of the Company's clinical trials will delay the filing of its product submissions and, ultimately, its ability to commercialize its product candidates and generate revenues. It is also possible that patients enrolled in clinical trials will experience adverse side effects that are not currently part of the future product's profile.

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 the Company's customers or their patients. Misusing the Company's 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 the Company's product liability insurance rates or prevent the Company 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.

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

If the Company's products are used by non-licensed or untrained practitioners, it could result in product misuse and adverse treatment outcomes, which could harm the Company's reputation and the Company's business. U.S. federal regulations allow the Company to sell the Company's products to or on the order of "licensed practitioners." The definition of "licensed practitioners" varies from state to state. As a result, the Company's 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 the Company's 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 the Company's 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 the Company's reputation and its business, and, in the event these actions result in product liability litigation, distract management and subject the Company to liability, including legal expenses.

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 the Company's products are currently manufactured by a limited number of suppliers. In addition, all of the Company's skincare products are manufactured by its sole supplier, ZO. A supply interruption or an increase in demand beyond the Company's current suppliers' capabilities could harm the Company's ability to manufacture its products until a new source of supply is identified and qualified. The Company's reliance on these suppliers subjects the Company 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 the Company's suppliers;
- inability to obtain adequate supply in a timely manner, or on reasonable terms;
- inability to redesign one or more components in the Company's systems in the event that a supplier discontinues manufacturing such components and the Company's inability to sources it from other suppliers on reasonable terms;
- difficulty locating and qualifying alternative suppliers for the Company's 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 purchases 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 the Company.

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 manufactures its goods at the Brisbane, California site, as well as dual sourcing several product platforms at contract manufacturing shops for redundancy. A few of the product platforms such as Enlighten and excel HR are only capable of being produced at the single site in Brisbane, and as such 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 sales of these sole sourced platforms.

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

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

The Company relies on patent, copyright, trade secret and trademark laws and confidentiality agreements to protect the Company's technology and products. As of January 19, 2022, the Company had 28 issued and unexpired U.S. patents, eight pending U.S. patent applications, and four pending international applications under the Patent Cooperation Treaty ("PCT"). Some of the Company's components, such as the Company's 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, the Company's. The Company may not be able to prevent the unauthorized disclosure or use of the Company's 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 the Company's 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 the Company 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 the Company's development efforts, design around the Company's 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 the Company's ability to make, use, sell or import the Company's products.

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 the Company's 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 the Company's 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 the Company's 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 has gone through sales and income tax audits in the past. Although these audits did not result in any material adjustments, the final timing and resolution of any future tax examinations are subject to significant uncertainty and could result in the Company's having to pay amounts to the applicable tax authority in order to resolve examination of its 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 the Company's 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 the Company's deferred tax assets and liabilities;
- increases in expenses not deductible for tax purposes, including write-offs 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.

Any acquisitions that the Company makes could result in operating difficulties, dilution, and other consequences that may adversely impact the Company's 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 the Company's 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 the Company's 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's failure to address these risks or other problems encountered in connection with the Company's past or future acquisitions and investments could cause the Company to fail to realize the anticipated benefits of such acquisitions or investments, incur unanticipated liabilities, and harm the Company's business and the Company's 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's 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 the Company's relationships with practitioners and thought leaders worldwide, some of whom recommend, purchase and/or use the Company's 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 the Company's 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 the Company's 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 the Company 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 the Company to government scrutiny, severe criminal or civil sanctions and other liabilities, and could negatively affect its business, reputation, operating results, and financial condition.

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

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.

The Company has identified a material weakness in its internal control over financial reporting at its Japan subsidiary, which could, if not remediated, result in material misstatements in the Company's financial statements.

The Company is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rule 13a-15(f) under the Securities Exchange Act. As disclosed in Item 9A of this Annual Report on Form 10-K, the Company identified a material weakness in its internal control over financial reporting relating to user access and segregation of duties conflicts at the Company's Japan subsidiary. A material weakness is defined as a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the Company's annual or interim financial statements will not be prevented or detected on a timely basis. As a result of this material weakness, the Company concluded that its internal control over financial reporting was not effective based on criteria set forth by the Committee of Sponsoring Organization of the Treadway Commission in Internal Control-An Integrated Framework (2013).

To implement remedial measures as disclosed in Item 9A, the Company has begun the process of designing and implementing additional controls to detect potential unauthorized entries or transactions that may arise as a result of the user access and segregation of duties conflicts at the Company's Japan subsidiary. If these remedial measures are insufficient to address the material weakness, or if additional material weaknesses or significant deficiencies in the Company's internal control over financial reporting are discovered or occur in the future, the Company's consolidated financial statements may contain material misstatements, and the Company could be required to restate its financial results. In addition, if the Company is unable to successfully remediate the material weakness and is unable to produce accurate and timely financial statements, its stock price may be adversely affected.

Risks Related to the Notes

Although the notes are referred to as convertible senior notes, they are effectively subordinated to any of the Company's secured debt and any liabilities of its subsidiaries.

The notes will be the Company's senior unsecured obligations and will rank:

- senior in right of payment to all of its indebtedness that is expressly subordinated in right of payment to the notes;
- equal in right of payment to all of its unsecured indebtedness that is not so subordinated;
- effectively junior to any of its secured indebtedness to the extent of the value of the assets securing such indebtedness, including any amount outstanding under the Company's senior credit facility; and
- structurally junior to all indebtedness and other liabilities of its current or future subsidiaries (including trade payables).

In the event of the Company's bankruptcy, liquidation reorganization or other winding up, the Company's assets that secure secured indebtedness will be available to pay obligations on the notes only after all such secured indebtedness has been repaid in full from such assets. There may not be sufficient assets remaining to pay amounts due on any or all of the notes then outstanding.

In addition the notes are the Company's obligations exclusively and are not guaranteed by any of its subsidiaries. A portion of the Company's operations are conducted through, and a portion of its consolidated assets are held by its subsidiaries. Accordingly, the Company's ability to service its debt, including the notes, depends, in part, on the results of operations of its subsidiaries and upon the ability of such subsidiaries to provide the Company with cash, whether in the form of dividends, loans or otherwise, to pay amounts due on its obligations, including the notes. The Company's subsidiaries are separate and distinct legal entities and have no obligation contingent or otherwise, to make payments on the notes or to make any funds available for that purpose. The Company's right to receive any assets of any of its subsidiaries upon such subsidiary’s bankruptcy, liquidation or reorganization and, therefore, the right of the holders of notes to participate in those assets, will be subject to prior claims of creditors of the subsidiary, including trade creditors, and such subsidiary may not have sufficient assets remaining to make any payments to the Company as a shareholder or otherwise. In addition, dividends, loans or other distributions to the Company from such subsidiaries may be subject to contractual and other restrictions and are subject to other business and tax considerations. The indenture governing the notes will not prohibit the Company from incurring additional senior debt or secured debt, nor will it prohibit any of the Company's current or future subsidiaries from incurring additional liabilities.

Regulatory actions and other events may adversely affect the trading price and liquidity of the notes.

The Company expects that many investors in, and potential purchasers of, the notes will employ or seek to employ, a convertible arbitrage strategy with respect to the notes. Investors would typically implement such a strategy by selling short the common stock underlying the notes and dynamically adjusting their short position while continuing to hold the notes. Investors may also implement this type of strategy by entering into swaps on its common stock in lieu of or in addition to short selling the common stock.

The SEC and other regulatory and self-regulatory authorities have implemented various rules and taken certain actions, and may in the future adopt additional rules and take other actions, that may impact those engaging in short selling activity involving equity securities (including its common stock). Such rules and actions include Rule 201 of SEC Regulation SHO, the adoption by the Financial Industry Regulatory Authority, Inc. and the national securities exchanges of a “Limit Up-Limit Down” program, the imposition of market-wide circuit breakers that halt trading of securities for certain periods following specific market declines, and the implementation of certain regulatory reforms required by the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010. Any governmental or regulatory action that restricts the ability of investors in or potential purchasers of, the notes to effect short sales of the Company's common stock, borrow its common stock or enter into swaps on the Company's common stock could adversely affect the trading price and the liquidity of the notes.

Volatility in the market price and trading volume of the Company's common stock could adversely impact the trading price of the notes.

The Company expects that the trading price of the notes will be significantly affected by the market price of its common stock. The stock market in recent years has experienced significant price and volume fluctuations that have often been unrelated to the operating performance of companies. The market price of the Company's common stock could fluctuate significantly for many reasons, including in response to the risks described in this section, elsewhere in this offering memorandum or the documents incorporated by reference in this offering memorandum or for reasons unrelated to its operations, many of which are beyond the Company's control, such as reports by industry analysts, investor perceptions or negative announcements by its customers, competitors or suppliers regarding their own performance, as well as industry conditions and general financial, economic and political instability. A decrease in the market price of the Company's common stock would likely adversely impact the trading

price of the notes. The market price of the Company's common stock could also be affected by possible sales of its common stock by investors who view the notes as a more attractive means of equity participation in the Company and by hedging or arbitrage trading activity that the Company expects to develop involving its common stock. This trading activity could, in turn, affect the trading price of the notes.

The Company may still incur substantially more debt or take other actions which would intensify the risks discussed above.

The Company and its subsidiaries may incur substantial additional debt in the future, subject to the restrictions contained in its existing and future debt agreements, some of which may be secured debt. The Company will not be restricted under the terms of the indenture governing the notes from incurring additional debt, securing existing or future debt, recapitalizing its debt, repurchasing its stock, pledging its assets, making investments, paying dividends, guaranteeing debt or taking a number of other actions that are not limited by the terms of the indenture governing the notes that could have the effect of diminishing the Company's ability to make payments on the notes when due.

The Company may not have the ability to raise the funds necessary to settle conversions of the notes in cash or to repurchase the notes upon a fundamental change, and its future debt may contain limitations on its ability to pay cash upon conversion or repurchase of the notes.

Holders of the notes will have the right to require the Company to repurchase all or a portion of their notes upon the occurrence of a fundamental change before the maturity date at a repurchase price equal to 100% of the principal amount of the notes to be repurchased, plus accrued and unpaid interest, if any. In addition, upon conversion of the notes, unless the Company elects to deliver solely shares of its common stock to settle such conversion (other than paying cash in lieu of delivering any fractional share), the Company will be required to settle a portion or all of its conversion obligation in respect of the notes being converted in cash. Moreover, the Company will be required to repay the notes in cash at their maturity unless earlier converted, redeemed or repurchased. However, the Company may not have enough available cash or be able to obtain financing at the time the Company is required to make repurchases of notes surrendered therefor or pay cash with respect to notes being converted or at their maturity.

In addition, the Company's ability to repurchase notes or to pay cash upon conversions of notes or at their maturity may be limited by law, regulatory authority or agreements governing its future indebtedness. The Company's failure to repurchase notes at a time when the repurchase is required by the indenture or to pay cash upon conversions of notes or at their maturity as required by the indenture would constitute a default under the indenture. A default under the indenture or the fundamental change itself could also lead to a default under agreements governing the Company's existing and future indebtedness. Moreover, the occurrence of a fundamental change under the indenture could constitute an event of default under any such agreement. If the payment of the related indebtedness were to be accelerated after any applicable notice or grace periods, the Company may not have sufficient funds to repay the indebtedness.

The conditional conversion features of the notes, if triggered, may adversely affect the Company's financial condition and operating results.

During the second and third quarters of 2021, a conversion feature related to the sale price of the Company’s common stock was triggered. No conversion requests were submitted by the holders of the notes related to these triggering events. In the event the conditional conversion features of the notes are triggered, holders of the notes will be entitled to convert their notes at any time during specified periods at their option. If one or more holders elect to convert their notes, unless the Company elects to satisfy the Company's conversion obligation by delivering solely shares of its common stock, the Company would be required to settle a portion or all of its conversion obligation in cash, which could adversely affect the company's liquidity. In addition, even if holders of notes do not elect to convert their notes, the Company could be required under applicable accounting rules to reclassify all or a portion of the outstanding principal of the notes as a current rather than long-term liability, which would result in a material reduction of its net working capital.

Holders of notes will not be entitled to any rights with respect to the Company's common stock, but they will be subject to all changes made with respect to the Company's common stock to the extent the Company satisfies its conversion obligation, in whole or in part, with shares of its common stock.

Holders of notes will not be entitled to any rights with respect to the Company's common stock (including, without limitation, voting rights and rights to receive any dividends or other distributions on its common stock) prior to the conversion date relating to such notes (if the Company has elected to settle the conversion by delivering solely shares of its common stock (other than paying cash in lieu of delivering any fractional share)) or the last trading day of the observation period (if the Company elects to pay and deliver, as the case may be, a combination of cash and shares of its common stock in respect of the relevant conversion), but holders of notes will be subject to all changes affecting the Company's common stock. For example, if an amendment is

proposed to the Company's certificate of incorporation or bylaws requiring stockholder approval and the record date for determining the stockholders of record entitled to vote on the amendment occurs prior to the conversion date related to a holder's conversion of its notes (if the Company has elected to settle the relevant conversion by delivering solely shares of its common stock (other than paying cash in lieu of delivering any fractional share)) or the last trading day of the observation period (if the Company elects to pay and deliver, as the case may be, a combination of cash and shares of its common stock in respect of the relevant conversion), such holder will not be entitled to vote on the amendment, although such holder will nevertheless be subject to any changes affecting its common stock.

The conditional conversion feature of the notes could result in holders receiving less than the value of the Company's common stock into which the notes would otherwise be convertible.

Prior to the close of business on the business day immediately preceding December 15, 2025, holders may convert their notes only if specified conditions are met. If the specific conditions for conversion are not met, holders will not be able to convert their notes, and holders may be unable to receive the value of the cash, common stock or a combination of cash and common stock, as applicable, into which their notes would otherwise be convertible.

Upon conversion of the notes, holders may receive less valuable consideration than expected because the value of the Company's common stock may decline after holders exercise their conversion right but before the Company satisfies it conversion obligation.

Under the notes, a converting holder will be exposed to fluctuations in the value of the Company's common stock during the period from the date such holder surrenders notes for conversion until the date the Company satisfies its conversion obligation.

Upon conversion of the notes, the Company will satisfy its conversion obligation by paying or delivering, as the case may be, cash, shares of its common stock, or a combination of cash and shares of its common stock, at the Company's option. If the Company satisfies its conversion obligation solely in cash or through payment and delivery, as the case may be, of a combination of cash and shares of its common stock, the amount of cash and shares of common stock, if any, due upon conversion will be based on a daily conversion value calculated on a proportionate basis for each trading day in a 40 trading day observation period. This period would be: (i) subject to clause (ii), if the relevant conversion date occurs prior to December 15, 2025, the 40 consecutive trading day period beginning on and including, the second trading day immediately succeeding such conversion date; (ii) if the relevant conversion date occurs during a redemption period, the 40 consecutive trading days beginning on and including, the 41st scheduled trading day immediately preceding the date that is specified as the redemption date in the related notice of redemption; and (iii) subject to clause (ii), if the relevant conversion date occurs on or after December 15, 2025, the 40 consecutive trading days beginning on and including, the 41st scheduled trading day immediately preceding the maturity date. Accordingly, if the price of the Company's common stock decreases during this period, the value of consideration holders receive will be adversely affected. In addition, if the market price of the Company's common stock at the end of such period is below the average of the daily volume weighted-average prices of the Company's common stock during such period, the value of any shares of the Company's common stock that holders will receive in satisfaction of its conversion obligation will be less than the value used to determine the number of shares that holders will receive.

If the Company elects to satisfy its conversion obligation solely in shares of the Company's common stock upon conversion of the notes, the Company will be required to deliver the shares of its common stock, together with cash for any fractional share, on the second business day following the relevant conversion date. Accordingly, if the price of the Company's common stock decreases during this period, the value of the shares that holders receive will be adversely affected and would be less than the conversion value of the notes on the conversion date.

The notes are not protected by restrictive covenants.

The indenture governing the notes will not contain any financial or operating covenants or restrictions on the payments of dividends, the incurrence of indebtedness or the issuance or repurchase of securities by the Company or any of its subsidiaries. The indenture will not contain any covenants or other provisions to afford protection to holders of the notes in the event of a fundamental change or other corporate transaction involving the Company subject to certain exceptions.

The increase in the conversion rate for notes converted in connection with a make-whole fundamental change or during a redemption period may not adequately compensate holders for any lost value of their notes as a result of such transaction or redemption.

If a make-whole fundamental change occurs prior to the maturity date or upon its issuance of a notice of redemption the Company will, under certain circumstances, increase the conversion rate by a number of additional shares of its common stock for notes converted in connection with such make-whole fundamental change or during the related redemption period. The increase in

the conversion rate will be determined based on the date on which the specified corporate transaction becomes effective or the redemption notice date, as applicable, and the price paid (or deemed to be paid) per share of the Company's common stock in such transaction or on such redemption notice date. The increase in the conversion rate for notes converted in connection with a make-whole fundamental change or during a redemption period may not adequately compensate holders for any lost value of their notes as a result of such transaction or redemption. Furthermore, if the Company calls only a portion of the outstanding notes for redemption, only those notes called (or deemed called) for redemption will become convertible as a result of such call for redemption and only the conversion rate of notes converted in connection with such notice of redemption will be increased. Accordingly, notes not called for redemption will not become convertible if not otherwise convertible at such time and will remain outstanding, and may have reduced liquidity and a resulting reduced trading price.

Our obligation to increase the conversion rate for notes converted in connection with a make-whole fundamental change or during a redemption period could be considered a penalty, in which case the enforceability thereof would be subject to general principles of reasonableness and equitable remedies.

The conversion rate of the notes may not be adjusted for all dilutive events.

The conversion rate of the notes is subject to adjustment for certain events, including, but not limited to, the issuance of certain stock dividends on the Company's common stock, the issuance of certain rights or warrants, subdivisions, combinations, distributions of capital stock, indebtedness, or assets, cash dividends and certain issuer tender or exchange offers. However, the conversion rate will not be adjusted for other events, such as a third-party tender or exchange offer or an issuance of the Company's common stock for cash, that may adversely affect the trading price of the notes or its common stock. An event that adversely affects the value of the notes may occur, and that event may not result in an adjustment to the conversion rate.

Provisions in the indenture governing the notes may deter or prevent a business combination that may be favorable to holders.

If a fundamental change occurs prior to the maturity date, holders of the notes will have the right, at their option, to require the Company to repurchase all or a portion of their notes. In addition, if a make-whole fundamental change occurs prior the maturity date, the Company will in some cases be required to increase the conversion rate for a holder that elects to convert its notes in connection with such make-whole fundamental change. Furthermore, the indenture governing the notes will prohibit the Company from engaging in certain mergers or acquisitions unless, among other things, the surviving entity assumes the Company's obligations under the notes. These and other provisions in the indenture could deter or prevent a third party from acquiring the Company even when the acquisition may be favorable to holders.

The capped call transactions may affect the value of the notes and the Company's common stock.

In connection with the pricing of the notes, the Company entered into capped call transactions with the counterparties. The capped call transactions cover, subject to customary adjustments, the number of shares of the Company's common stock initially underlying the notes. The capped call transactions generally reduce the potential dilution to the Company's common stock upon any conversion of the notes. If the initial purchasers exercise their option to purchase additional notes, the Company expects to enter into additional capped call transactions with the counterparties.

The Company believes that, in connection with establishing their initial hedge of the capped call transactions, the counterparties or their respective affiliates may have entered into various derivative transactions with respect to the Company's common stock and/or purchase shares of its common stock concurrently with or shortly after the pricing of the notes, including with certain investors in the notes.

The Company expects that the counterparties or their respective affiliates may modify their hedge positions by entering into or unwinding various derivatives with respect to its common stock and/or purchasing or selling the Company's common stock or other securities in secondary market transactions following the pricing of the notes and prior to the maturity of the notes and are likely to do so on each exercise date of the capped call transactions. This activity could also cause or prevent an increase or a decrease in the market price of the Company's common stock or the notes, which could affect their ability to convert the notes and, to the extent the activity occurs during any observation period related to a conversion of notes, it could affect the amount and value of the consideration that holders will receive upon conversion of the notes.

In addition, if any such capped call transactions fail to become effective, whether or not this offering of notes is completed, the counterparties (or their respective affiliates) may unwind their hedge positions with respect to the Company's common stock, which could adversely affect the price of the Company's common stock and the value of the notes.

The Company does not make any representation or prediction as to the direction or magnitude of any potential effect that the transactions described above may have on the price of the notes or the shares of the Company's common stock. In addition, the

Company does not make any representation that the counterparties will engage in these transactions or that these transactions, once commenced, will not be discontinued without notice.

The Company is subject to counterparty risk with respect to the capped call transactions.

The counterparties to the capped call transactions that the Company enter into are financial institutions, and the Company will be subject to the risk that one or more of the counterparties may default or otherwise fail to perform, or may exercise certain rights to terminate, their obligations under the capped call transactions. The Company's exposure to the credit risk of the counterparties will not be secured by any collateral.

Global economic conditions have in the past resulted in the actual or perceived failure or financial difficulties of many financial institutions. If a counterparty to one or more capped call transactions becomes subject to insolvency proceedings, the Company will become an unsecured creditor in those proceedings with a claim equal to its exposure at the time under such transaction. the Company's exposure will depend on many factors but, generally, its exposure will increase if the market price or the volatility of the Company's common stock increases. In addition, upon a default or other failure to perform, or a termination of obligations, by a counterparty, the counterparty may fail to deliver the consideration required to be delivered to the Company under the capped call transactions and it may experience more dilution than the Company currently anticipates with respect to its common stock. The Company can provide no assurances as to the financial stability or viability of the counterparties.

Some significant restructuring transactions may not constitute a fundamental change, in which case the Company would not be obligated to offer to repurchase the notes.

Upon the occurrence of a fundamental change, holders have the right to require the Company to repurchase all or a portion of their notes. However, the fundamental change provisions will not afford protection to holders of notes in the event of other transactions that could adversely affect the notes. For example, transactions such as leveraged recapitalizations, refinancings, restructurings or acquisitions initiated by the Company may not constitute a fundamental change requiring the Company to offer to repurchase the notes. In the event of any such transaction the holders would not have the right to require the Company to repurchase the notes, even though each of these transactions could increase the amount of its indebtedness, or otherwise adversely affect its capital structure or any credit ratings, thereby adversely affecting the holders of notes.

The Company has not registered the notes or the common stock issuable upon conversion, if any, which will limit their ability to resell them.

The notes and the shares of common stock issuable upon conversion of the notes, if any, have not been registered under the Securities Act or any state securities laws. Unless the notes and any shares of common stock issuable upon conversion of the notes, if any, have been registered, they may not be transferred or resold except in a transaction exempt from or not subject to the registration requirements of the Securities Act and applicable state securities laws. The Company does not intend to file a registration statement for the resale of the notes and the common stock, if any, into which the notes are convertible.

The Company cannot assure holders that an active trading market will develop for the notes.

Prior to this offering, there has been no trading market for the notes, and the Company does not intend to apply to list the notes on any securities exchange or to arrange for quotation on any automated dealer quotation system. The Company has been informed by the initial purchasers that they intend to make a market in the notes after the offering is completed. However, the initial purchasers may cease their market-making at any time without notice. In addition, the liquidity of the trading market in the notes, and the market price quoted for the notes, may be adversely affected by changes in the overall market for this type of security and by changes in the Company's financial performance or prospects or in the prospects for companies in its industry generally. As a result, the Company cannot assure holders that an active trading market will develop for the notes. If an active trading market does not develop or is not maintained, the market price and liquidity of the notes may be adversely affected. In that case holders may not be able to sell their notes at a particular time or holders may not be able to sell their notes at a favorable price.

Any adverse rating of the notes may cause their trading price to fall.

The Company does not intend to seek a rating on the notes. However, if a rating service were to rate the notes and if such rating service were to lower its rating on the notes below the rating initially assigned to the notes or otherwise announces its intention to put the notes on credit watch, the trading price of the notes could decline.

Holders may be subject to tax if the Company makes or fails to make certain adjustments to the conversion rate of the notes even though holders do not receive a corresponding cash distribution.

The conversion rate of the notes is subject to adjustment in certain circumstances, including the payment of cash dividends. If the conversion rate is adjusted as a result of a distribution that is taxable to the Company's common stockholders, such as a cash dividend, holders may be deemed to have received a dividend subject to U.S. federal income tax without the receipt of any cash. In addition, a failure to adjust (or to adjust adequately) the conversion rate after an event that increases their proportionate interest in the Company could be treated as a deemed taxable dividend to holders if the failure to adjust (or to adjust adequately) is made in connection with a distribution of cash or other property to the Company's common stockholders. If a make-whole fundamental change occurs prior to the maturity date or the Company issues a notice of redemption under some circumstances, the Company will increase the conversion rate for notes converted in connection with the make-whole fundamental change or during the related redemption period. Such increase may also be treated as a distribution subject to U.S. federal income tax as a dividend. It is unclear whether any such deemed dividend would be eligible for the preferential tax treatment generally available for dividends paid by U.S. corporations to certain U.S. holders. If holders are a non-U.S. holders, any deemed dividend generally would be subject to U.S. federal withholding tax at a 30% rate, or such lower rate as may be specified by an applicable treaty, which may be set off against subsequent payments with respect to the notes (or common stock into which the notes convert). The Company do not currently expect to make distributions on its common stock, although no assurance can be given in this regard.

The Company may redeem the notes at its option, which may adversely affect their return.

The Company may not redeem the notes prior to March 20, 2024. On or after March 20, 2024 it may redeem for cash all or any portion of the notes, at its option if the last reported sale price of its common stock has been at least 130% of the conversion price then in effect for at least 20 trading days (whether or not consecutive) during any 30 consecutive trading day period (including the last trading day of such period) ending on and including, the trading day immediately preceding the date on which the Company provides notice of redemption at a redemption price equal to 100% of the principal amount of the notes to be redeemed, plus accrued and unpaid interest to, but excluding, the redemption date. If the Company calls any note for redemption, holders may convert their note called for redemption (or any portion thereof) at any time prior to the close of business on the second scheduled trading day immediately preceding the applicable redemption date. Prevailing interest rates at the time the Company redeem the notes may be lower than the interest rate on the notes. Upon such redemption or conversion, the cash comprising the redemption price, in the case of a redemption, or the applicable conversion consideration, in the case of a conversion in connection with a redemption notice, in either case, may not fully compensate holders for any future interest payments that holders would have otherwise received or for any other lost time value of their notes.

The notes will initially be held in book-entry form and, therefore, holders must rely on the procedures and the relevant clearing systems to exercise their rights and remedies.

Unless and until certificated notes are issued in exchange for book-entry interests in the notes, owners of the book-entry interests will not be considered owners or holders of notes. Instead, DTC, or its nominee, will be the sole holder of the notes. Payments of principal, interest (including any additional interest), cash amounts due upon conversion and other amounts owing on or in respect of the notes in global form will be made to the paying agent, which will make the payments to DTC. Thereafter, such payments will be credited to DTC participants' accounts that hold book-entry interests in the notes in global form and credited by such participants to indirect participants. Unlike holders of the notes themselves, owners of book-entry interests will not have the direct right to act upon the Company's solicitations for consents or requests for waivers or other actions from holders of the notes. Instead, if a holder owns a book-entry interest, such holder will be permitted to act only to the extent such holder has received appropriate proxies to do so from DTC or, if applicable, a participant. The Company cannot assure holders that the procedures implemented for the granting of such proxies will be sufficient to enable holders to vote on any requested actions on a timely basis.

Risks Related to Ownership of the Company's Common Stock

Anti-takeover provisions contained in the Company's amended and restated certificate of incorporation and amended and restated bylaws, as well as provisions of Delaware law, could impair a takeover attempt.

The Company's amended and restated certificate of incorporation, amended and restated bylaws and Delaware law contain provisions which could have the effect of rendering more difficult, delaying or preventing an acquisition deemed undesirable by the Company's board of directors. Among other things, the Company's amended and restated certificate of incorporation and amended and restated bylaws include provisions:

- authorizing a classified board of directors whose members serve staggered three-year terms;
- authorizing "blank check" preferred stock, which could be issued by the Company's board of directors without stockholder approval and may contain voting, liquidation, dividend and other rights superior to its common stock;
- limiting the liability of, and providing indemnification to, its directors and officers;
- limiting the ability of its stockholders to call and bring business before special meetings;

- requiring advance notice of stockholder proposals for business to be conducted at meetings of the Company's stockholders and for nominations of candidates for election to its board of directors; and
- controlling the procedures for the conduct and scheduling of board of directors and stockholder meetings.

These provisions, alone or together, could delay or prevent hostile takeovers and changes in control or changes in the Company's management.

As a Delaware corporation, the Company is also subject to provisions of Delaware law, including Section 203 of the Delaware General Corporation Law (the "DGCL"), which prevents certain stockholders holding more than 15% of its outstanding capital stock from engaging in certain business combinations without approval of the holders of at least two-thirds of the Company's outstanding common stock not held by such stockholder.

Any provision of the Company's amended and restated certificate of incorporation, amended and restated bylaws or Delaware law that has the effect of delaying, preventing or deterring a change in control could limit the opportunity for its stockholders to receive a premium for their shares of the Company's capital stock, and could also affect the price that some investors are willing to pay for its common stock.

The Company's business could be negatively affected by activist shareholders.

Responding to actions by activist shareholders could be costly and time-consuming, disrupt the Company's operations and divert the attention of management and its employees. Additionally, perceived uncertainties as to the Company's future direction as a result of shareholder activism or changes to the composition of its board of directors may lead to the perception of a change in the direction of its business or other instability, which may be exploited by its competitors, cause concern to the Company's current or potential customers, and make it more difficult to attract and retain qualified personnel. If customers choose to delay, defer or reduce transactions with the Company or do business with its competitors instead of the Company, then the Company's business, financial condition and operating results would be adversely affected. In addition, the share price of its common stock and the trading price of the notes could experience periods of increased volatility as a result of shareholder activism.

If securities or industry analysts do not publish or cease publishing research or reports about the Company, its business, its market or its competitors, or if they adversely change their recommendations regarding the Company's common stock, the market price and trading volume of its notes and common stock could decline.

The trading market for the Company's notes and common stock will be influenced, to some extent, by the research and reports that securities or industry analysts publish about the Company, its business, its market or its competitors. If any of the analysts who cover the Company adversely change their recommendations regarding its common stock or provide more favorable recommendations about its competitors, the market price of the Company's notes and common stock would likely decline. If any of the analysts who cover the Company cease coverage of the company or fail to regularly publish reports on it, the Company could lose visibility in the financial markets, which in turn could cause the market price and trading volume of its notes and common stock to decline.

The Company does not expect to declare any dividends on its common stock in the foreseeable future.

The Company does not anticipate declaring any cash dividends to holders of its common stock in the foreseeable future. Consequently, investors may need to rely on sales of its common stock after price appreciation, which may never occur, as the only way to realize any future gains on their investment. Investors seeking cash dividends should not purchase shares of its common stock.

If the Company raises additional capital through the sale of shares of the Company's common stock, convertible securities or debt in the future, its stockholders' ownership in the Company could be diluted and restrictions could be imposed on the Company's business.

The Company may issue shares of its common stock or securities convertible into its common stock to raise additional capital in the future. To the extent the Company issues such securities, its stockholders may experience substantial dilution and the trading price of the Company's common stock could decline. If the Company obtains funds through a credit facility or through the issuance of debt or preferred securities, such debt or preferred securities could have rights senior to the existing stockholders' rights as a common shareholder, which could impair the value of the Company's common stock.

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, 2028. 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 to January 31, 2023 and a Third Amendment on July 9, 2020 that extended the term of the lease to January 31, 2028. The amendment provides for the following: a) the extension of the lease term, with the extended term to begin on February 1, 2023 and continue until January 31, 2028; b) the abatement of the monthly base rent for the four month period beginning September 1, 2020 and ending December 31, 2020; c) the amendment of monthly base rent during the extension term to approximately $0.2 million for January 2021 with annual increases of 3.5% thereafter; and d) the waiver by the Company of its early termination right in the lease. Pursuant to the terms of the Third Amendment to the Lease Agreement, the Company has the option to extend the term of the lease by an additional 60 months.

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: The first lease expires in March 2024 and the second lease expires in December 2023.
France	Approximately 2,239	One lease, which expires in June 2024.
Spain	Approximately 3,584	One lease, which expires in January 2023.
Belgium	Approximately 151	One lease, which expires in November 2023.

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, 2021, please see Note 11 to the Company's consolidated financial statements entitled "Commitments and Contingencies," Part II 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 February 22, 2022, the closing sale price of its common stock was $33.45 per share.

Common Stockholders

The Company had five stockholders of record as of February 22, 2022. The Company believes the actual number of stockholders is greater than this number of record holders and includes stockholders who are beneficial owners, but whose shares are held in "street" name by brokers and other nominees. This number of holders of record also does not include stockholders whose shares may be held in trust by other entities.

Issuer Purchases of Equity Securities

There were no repurchases of the Company's common stock in 2021 under the Company's Stock Repurchase Program.

Sales of Unregistered Securities

The Company issued $138.3 million aggregate principal amount of convertible notes in a private placement offering on March 5, 2021. The notes bear interest at a rate of 2.25% per year. In connection with issuance of the notes, the Company entered into capped call transactions with certain option counterparties. The capped call transactions are generally expected to reduce the potential dilution of the Company's common stock upon any conversion of the notes. The capped calls were purchased for $16.1 million.

Dividends

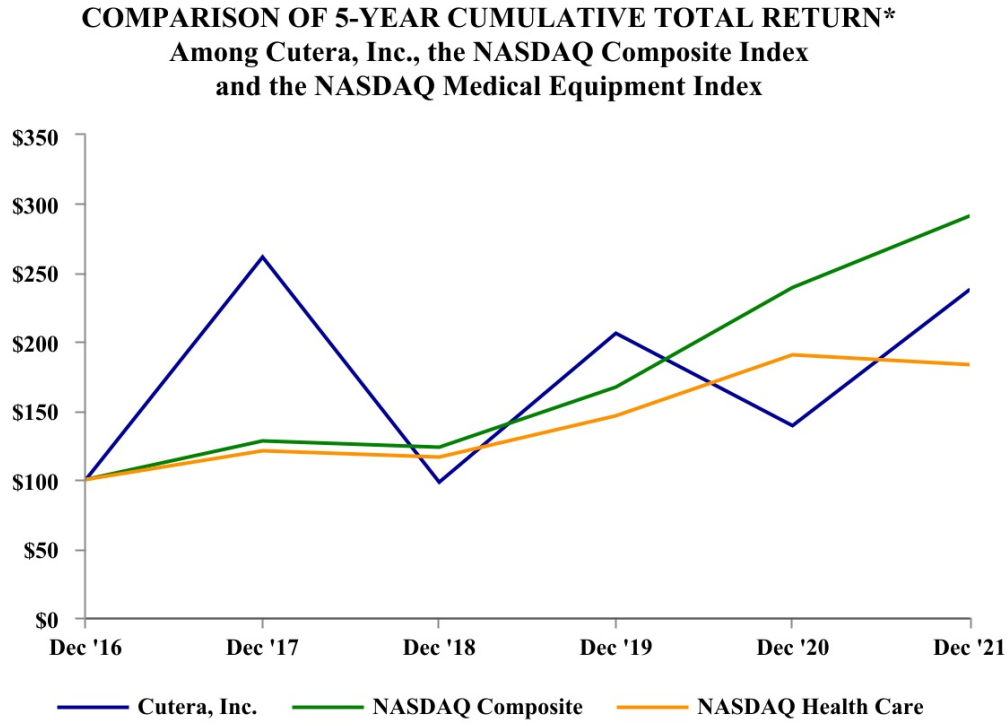
For a discussion regarding the Company's intentions with respect to dividends, see the section titled "Stock-based Compensation Expense" set forth in Part II Item 7 of this Annual Report on Form 10-K.

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 below compares Cutera, Inc.'s cumulative 5-Year total shareholder return on common stock with the cumulative total returns of the NASDAQ Composite index and the NASDAQ Health Care index. The graph tracks the performance of a $100 investment in the Company's common stock and in each index (with the reinvestment of all dividends) from December 31, 2016 to December 31, 2021.



*$100 invested on December 31, 2016 in stock or index, including reinvestment of dividends.

In accordance with SEC rules, the information contained under "Performance Graph" shall not be deemed to be "soliciting material," or to be "filed" with the SEC or subject to the SEC's Regulation 14A or 14C, other than as provided under Item 201(e) of Regulation S-K, or to the liabilities of Section 18 of the Securities Exchange Act of 1934, as amended, except to the extent that the Company specifically request that the information be treated as soliciting material or specifically incorporate it by reference into a document filed under the Securities Act, or the Securities Exchange Act of 1934, as amended.

ITEM 6. [Reserved]

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with the Company's audited financial statements and notes thereto for the fiscal year ended December 31, 2021. 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 the Company's current expectations, estimates and projections and that reflect the Company's beliefs and assumptions based upon information available to the Company at the date of this Report. In some cases, you can identify these statements by words such as "may," "might," "could," "will," "should," "expects," "plans," "anticipates," "likely," "believes," "estimates," "intends," "forecasts," "foresees," "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 the Company's future financial performance, the ability to grow the Company's business, increase the Company's revenue, manage expenses, generate additional cash, achieve and maintain profitability, develop and commercialize existing and new products and applications, improve the performance of the Company's 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 the Company's 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 the Company's filings with the SEC.

Introduction

The Management's Discussion and Analysis ("MD&A") is organized as follows:

- *Executive Summary.* This section provides a general description and history of the Company's business, a brief discussion of the Company's product lines and the opportunities, trends, challenges and risks the Company focuses on in the operation of the Company's 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 the Company's analysis and outlook for the significant line items on the Company's Consolidated Statements of Operations.
- *Liquidity and Capital Resources*. This section provides an analysis of the Company's liquidity and cash flows, as well as a discussion of the Company's commitments that existed as of December 31, 2021.

We have omitted discussion of 2019 results where it would be redundant to the discussion previously included in Management's Discussion and Analysis of Financial Condition and Results of Operations on Form 10-K for the year ended December 31, 2020, which has been filed with the SEC.

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 the Company's 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, and toenail fungus. 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. 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 *Secret RF*, a fractional RF microneedling device for skin revitalization, in January 2018, *enlighten SR* in April 2018, *truSculpt iD* in July 2018, *excel V+* in February 2019 *truSculpt flex* in June 2019, Secret PRO in July 2020 and excel V+III during the fourth quarter of 2020. In 2021, the Company introduced *truSculpt flex+*, a treatment mode that decreased the treatment time from approximately 45 minutes to 15 minutes.

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, the Netherlands, Spain, Switzerland and the United Kingdom. Sales and Services outside of these direct markets are made through a worldwide distributor network in over 42 countries.

Products and Services

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

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

Skincare revenue relates to the distribution of ZO's skincare products in Japan. The skincare products are purchased from a third-party manufacturer and sold to medical offices and licensed physicians. The Company acts as the principal in this arrangement, as the Company determines the price to charge customers for the skincare products and controls the products before they are transferred to the customer.

Service includes prepaid service contracts, and labor, time and material on out-of-warranty products.

Significant Business Trends

The Company believes that the ability to grow revenue will be primarily impacted by the following:

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

Critical accounting policies, significant judgments and use of estimates

The preparation of the Company's audited consolidated financial statements and related notes requires the Company to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. The Company has based its estimates on historical experience and on various other assumptions that the Company believes to be reasonable under the circumstances. The Company periodically reviews its

estimates and makes adjustments when facts and circumstances dictate. To the extent that there are material differences between these estimates and actual results, its financial condition or results of operations will be affected.

An accounting policy is considered to be critical if it requires an accounting estimate to be made based on assumptions about matters that are highly uncertain at the time the estimate is made, and if different estimates that reasonably could have been used, or changes in the accounting estimates that are reasonably likely to occur periodically, could materially impact the consolidated financial statements. The Company believes that its critical accounting policies reflect the more significant estimates and assumptions used in the preparation of its audited consolidated financial statements. The critical accounting policies, judgments and estimates should be read in conjunction with the Company's audited consolidated financial statements and the notes thereto and other disclosures included in this report.

For an analysis of the Company's Critical Accounting Policies and Estimates please refer to Note 1 "Summary of significant accounting policies" to the Company's audited consolidated financial statements included in Part II, Item 8 of this report.

The Company believes the following critical accounting policies, estimates and assumptions may have a material impact on reported financial condition and operating performance and may involve significant levels of judgment to account for highly uncertain matters or are susceptible to significant change:

Revenue Recognition

See "Part II, Item 8. Revenue Recognition, Note 1" to the consolidated financial statements for the year ended December 31, 2021, included in this Annual Report on Form 10-K for additional information about the Company's revenue recognition policy, significant judgement and criteria for recognizing revenue.

The Company enters into contracts with multiple performance obligations where customers purchase a combination of systems and services. Determining whether systems and services are considered distinct performance obligations that should be accounted for separately requires judgment. The Company determines the transaction price for a contract based on the consideration it expects to receive in exchange for the transferred goods or services. To the extent the transaction price includes variable consideration, such as expected price adjustments for returns, the Company applies judgment when estimating variable consideration and when estimating the extent to which the transaction price is subject to the constraint on variable consideration. The Company evaluates constraints based on its historical and projected experience with similar customer contracts.

The Company allocates revenue to each performance obligation in proportion to the relative standalone selling prices ("SSP") and recognizes revenue when control of the related goods or services is transferred for each performance obligation.

The Company utilizes the observable standalone selling price when available, which represents the price charged for the performance obligation when sold separately. When standalone selling prices for systems or services are not directly observable, the Company determines the standalone selling prices using relevant information available and applies suitable estimation methods including, but not limited to, the cost plus a margin approach.

The Company determines the SSP for systems based on directly observable sales in similar circumstances to similar customers. The SSPs for extended service contracts are based on observable prices when sold on a standalone basis.

Incremental costs of obtaining a contract, including sales commissions, are allocated to the distinct goods and services to which they relate based on the relative stand-alone selling prices. Incremental costs related to obligations delivered at inception are recognized at contract inception. Those related to obligations delivered over time are capitalized and amortized on a straight-line basis over the expected period of benefit 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.

Leases

Lessee

The Company is a party to certain operating and finance leases for vehicles, office space and storages. The Company's material operating leases consist of office space, as well as storage facilities. The Company's leases generally have remaining terms of one to ten years, some of which include options to renew the leases for up to five years.

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

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

Valuation of 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 the Company's business, less reasonably predictable costs 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 cost basis of the Company's inventory is reduced for any products that are considered excess or obsolete based upon assumptions about future demand and market conditions. The Company provides for excess and obsolete inventories when conditions indicate that the inventory cost is not recoverable due to physical deterioration, forecast 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.

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.

See "Part II, Item 8. Financial Statements, Note 1" in the accompanying Notes to consolidated financial statements for more information.

Income Taxes

The provision for income taxes is determined using the asset and liability approach of accounting for income taxes. Under this approach, deferred taxes represent the estimated future tax effects of temporary differences between book and tax treatment of assets and liabilities and carryforwards to the extent they are realizable.

The Company is subject to taxes on earnings in both the U.S. and various foreign jurisdictions. On a quarterly basis, the Company assesses the realizability of its deferred tax assets. For those jurisdictions where tax carryforwards are likely to expire unused or the projected operating results indicate that realization is not more likely than not, a valuation allowance is recorded to offset the deferred tax asset within that jurisdiction. In assessing the need for a valuation allowance, the Company considers future taxable income and ongoing prudent and feasible tax planning strategies. In the event that the Company determines that it would be able to realize its deferred tax assets in the future in excess of the net recorded amount, a reduction of the valuation allowance would increase income in the period such determination was made. Likewise, should the Company determine that it would not be able to realize all or part of its net deferred tax asset in the future, a reduction to the deferred tax asset would be charged to income in the period such determination was made.

The Company's net taxable temporary differences and tax carryforwards are recorded using the enacted tax rates expected to apply to taxable income in the periods in which the deferred tax liability or asset is expected to be settled or realized. Should the expected applicable tax rates change in the future, an adjustment to the Company's deferred taxes would be credited or charged, as appropriate, to income in the period such determination was made.

The Company's effective tax rates differ 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. 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 applied to its U.S. deferred tax assets. In addition, the Company is subject to the examination of the Company's 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 the Company's provision for income taxes.

Undistributed earnings of the Company's foreign subsidiaries as of December 31, 2021 are considered to be indefinitely reinvested and, accordingly, no provision for 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.

On March 27, 2020, the U.S. federal government enacted the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act"). The CARES Act changed several of the existing U.S. corporate income tax laws by, among other things, increasing the amount of deductible interest, allowing companies to carry back certain Net Operating Losses ("NOLs") and increasing the amount of NOLs that corporations can use to offset income. Further, in December 2020, the Consolidated Appropriations Act, 2021 was signed into law. It clarified that gross income does not include any amount that would otherwise arise from the forgiveness of a PPP loan. The CARES Act did not have a material impact on the Company's income tax provision, deferred tax assets and liabilities, and related taxes payable.

The Company periodically assesses its exposures related to its global provision for income taxes and believe that it has appropriately accrued taxes for contingencies. Any reduction of these contingent liabilities or additional assessment would increase or decrease income, respectively, in the period such determination was made.

The Company records a liability for uncertain tax positions that do not meet the more likely than not standard as prescribed by the authoritative guidance for income tax accounting. The Company records tax benefits for only those positions that it believes will more likely than not be sustained. For positions that the Company believes that it is more likely than not that it will prevail, the Company records a benefit considering the amounts and probabilities that could be realized upon ultimate settlement. If the Company judgment as to the likely resolution of the uncertainty changes, if the uncertainty is ultimately settled or if the statute of limitation related to the uncertainty expires, the effects of the change would be recognized in the period in which the change, resolution or expiration occurs. The Company has provided for unrecognized tax benefits of $2.7 million and $1.9 million as of December 31, 2021 and December 31, 2020, respectively. See "Part II, Item 8. Financial Statements, Note 7. Income Taxes" in the accompanying Notes to consolidated financial statements for more information.

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. The Company's 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, 2021, the Company was not involved in any unconsolidated transactions.

Recent Accounting Pronouncement

In addition to the impacts from new accounting pronouncements included above 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. for a complete discussion of recent accounting pronouncements adopted and not adopted.

Results of Operations

The following table sets forth selected consolidated financial data expressed as a percentage of net revenue.

	Year Ended December 31,		
	2021	**2020**	**2019**
Net revenue	100 %	100 %	100 %
Cost of revenue	42 %	49 %	46 %
Gross margin	58 %	51 %	54 %
Operating expenses:			
Sales and marketing	33 %	36 %	39 %
Research and development	9 %	10 %	8 %
General and administrative	14 %	20 %	13 %
Total operating expenses	57 %	65 %	61 %
Income/(Loss) from operations	1 %	(15)%	(7)%
Amortization of debt issuance costs	— %	— %	— %
Interest on convertible notes	(1)%	— %	— %
Gain on extinguishment of PPP loan	3 %	— %	— %
Other income (expense), net	(1)%	— %	— %
Income (loss) before income taxes	1 %	(16)%	(7)%
Income tax expense	1 %	— %	— %
Net income (loss)	1 %	(16)%	(7)%

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, 2021	% Change	2020	% Change	2019
Revenue mix by geography:					
North America	$ 111,621	*61 %*	$ 69,455	*(41)%*	$ 116,933
Japan	70,235	*62 %*	43,265	*79 %*	24,143
Rest of World	49,414	*41 %*	34,963	*(14)%*	40,636
Consolidated total revenue	$ 231,270	*57 %*	$ 147,683	*(19)%*	$ 181,712
North America as a percentage of total revenue	*48 %*		*47 %*		*65 %*
Japan as a percentage of total revenue	*31 %*		*29 %*		*13 %*
Rest of World as a percentage of total revenue	*21 %*		*24 %*		*22 %*
Revenue mix by product category:					
Systems - North America	$ 86,100	*70 %*	$ 50,721	*(48)%*	$ 96,718
Systems - Rest of World (including Japan)	53,533	*34 %*	40,045	*(8)%*	43,760
Total Systems	139,633	*54 %*	90,766	*(35)%*	140,478
Consumables	16,401	*77 %*	9,286	*(4)%*	9,648
Skincare	49,669	*98 %*	25,061	*194 %*	8,512
Total Products	205,703	*64 %*	125,113	*(21)%*	158,638
Service	25,567	*13 %*	22,570	*(2)%*	23,074
Total Net revenue	$ 231,270	*57 %*	$ 147,683	*(19)%*	$ 181,712

Total Net Revenue

The Company’s total revenue increased by $83.6 million, or 57%, for the year ended December 31, 2021, compared to 2020, due primarily to a significant recovery in sales in the North America market as the U.S. economic outlook improved in 2021 and increase in Skincare products sales in Japan. The increase was driven mainly by increase in volume.

Revenue by Geography

The Company’s North America revenue increased by $42.2 million, or 61%, for the year ended December 31, 2021, compared to the same period in 2020, driven primary by a recovery in sales following an improvement in conditions related to the COVID-19 pandemic.

The Company's revenue in Japan increased $27.0 million, or 62%, for the year ended December 31, 2021, compared to 2020. The increase was due primarily to a significant increase in sales of Skincare products.

The Company’s Rest of World revenue increased $14.5 million, or 41%, for the year ended December 31, 2021, compared to the same period in 2020, driven primarily by a recovery in sales following an improvement in conditions related to the COVID-19 pandemic.

Revenue by Product Type

Systems Revenue

Systems revenue in North America increased by $35.4 million, or 70%, for the year ended December 31, 2021, compared to the same period in 2020, mainly due to the recovery from the business disruptions caused by the COVID-19 pandemic. The Rest of the World systems revenue increased by $13.5 million, or 34%, compared to the same period in 2020. The increase in Rest of the World revenue was primarily due to increased sales in the Company’s direct businesses in Australia and Europe, partially offset by decreased sales from distributors in the Middle East and Asian regions.

Consumables Revenue

Consumables revenue increased $7.1 million, or 77%, for the year ended December 31, 2021, compared to the same period in 2020. The increase in consumables revenue was primarily due to the increasing installed base of truSculpt iD, Secret RF, truSculpt 3D and truSculpt flex, each of which have a consumable element.

Skincare Revenue

The Company's revenue from Skincare products in Japan increased $24.6 million, or 98%, for the year ended December 31, 2021, compared to the same period in 2020. This increase was due primarily to increased marketing and promotional efforts, as well as changes in customers behavior due to the COVID-19 pandemic, as some consumers opted to purchase skincare products rather than go to a doctor's office for treatment, a trend which began in 2020.

Service Revenue

The Company's Service revenue increased $3.0 million, or 13%, for the year ended December 31, 2021, compared to the same period in 2020. This increase was due primarily to increased sales of service contracts, as well as support and maintenance services provided on a time and materials basis to the Company's network of international distributors.

Gross Profit

	Year Ended December 31,				
(Dollars in thousands)	**2021**	**Change**	**2020**	**Change**	**2019**
Gross profit	$ 133,105	$ 57,333	$ 75,772	$ (22,391)	$ 98,163
As a percentage of total net revenue	57.6 %	6.2 %	51.3 %	(2.7)%	54.0 %

Gross profit as a percentage of revenue for the year ended December 31, 2021, increased from 51.3% to 57.6%, compared to the same period in 2020. The increase in gross profit as a percentage of revenue was primarily driven by an increase in volumes as a result of the economic recovery. The increase in sales volume improved the Company's leveraging of fixed costs, which improved the Company's gross margin.

Sales and Marketing

	Year Ended December 31,				
(Dollars in thousands)	**2021**	**Change**	**2020**	**Change**	**2019**
Sales and marketing	$ 76,762	$ 23,996	$ 52,766	$ (18,343)	$ 71,109
As a percentage of total net revenue	33.2 %	(2.5)%	35.7 %	(3.4)%	39.1 %

Sales and marketing expenses consist primarily of personnel expenses, expenses associated with customer-attended workshops and trade shows, post-marketing studies, advertising, and training. Sales and marketing expenses for the year ended December 31, 2021 increased $24.0 million, or 45%, compared to the same period in 2020. This increase reflected headcount growth and an $11.3 million increase in commission costs due to higher revenue. Also contributing to the increase in sales and marketing expenses was a $4.0 million increase in consulting and outside professional services, a $3.5 million increase in marketing costs related to new business, trade shows and other promotions, and a $2.4 million increase due to resumption in travel activities.

Research and Development ("R&D")

	Year Ended December 31,				
(Dollars in thousands)	**2021**	**Change**	**2020**	**Change**	**2019**
Research and development	$ 21,568	$ 7,246	$ 14,322	$ (763)	$ 15,085
As a percentage of total net revenue	9.3 %	(0.4)%	9.7 %	1.4 %	8.3 %

R&D expenses consist primarily of personnel expenses, clinical research, regulatory and material costs. R&D expenses increased by $7.2, or 51%, for the year ended December 31, 2021, compared to the same period in 2020. The increase in

expense was due primarily to a $4.7 million increase in salaries and benefits, a $1.4 million increase in outside services, and a $0.7 million increase in material and equipment costs used for research and development activities.

General and Administrative ("G&A")

	Year Ended December 31,				
(Dollars in thousands)	2021	Change	2020	Change	2019
General and administrative	$ 32,945	$ 1,433	$ 31,512	$ 7,479	$ 24,033
As a percentage of total net revenue	14.2 %	(5.8)%	20.0 %	6.8 %	13.2 %

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 $1.4 million, or 5%, for the year ended December 31, 2021, compared to the same period in 2020. The increase in expenses was due primarily to a $6.2 million increase in labor-related expenses driven by an increase in headcount, partially offset by a $2.1 million decrease in professional fees, consulting services and legal fees, and a $2.1 million decrease in credit loss expense.

Interest and Other Income (Expense), Net

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

	Year Ended December 31,				
(Dollars in thousands)	2021	Change	2020	Change	2019
Interest and other income (expense), net	$ 1,555	$ 2,134	$ (579)	$ (380)	$ (199)

Interest and other income (expense), net, increased $2.1 million for the year ended December 31, 2021, compared to 2020, due to a $7.2 million gain resulting from the forgiveness of the PPP loan and accrued interest. This gain was partially offset by interest expense of $2.5 million related to the convertible notes issued in March 2021, and $1.8 million due to foreign exchange fluctuations.

Income Tax Provision

	Year Ended December 31,				
(Dollars in thousands)	2021	Change	2020	Change	2019
Income tax provision	$ 1,323	$ 853	$ 470	$ 385	$ 85

Income tax provision increased $0.9 million, or 181%, for the year ended December 31, 2021, compared to the same period in 2020. This increase reflects higher net earnings from the Company's foreign subsidiaries.

Liquidity and Capital Resources

Sources and Uses of Cash

The Company's principal source of liquidity is cash generated from the issuance of convertible notes and 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 is 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, 2021 and December 31, 2020, the Company had $175.8 million and $51.9 million of working capital, respectively. Cash and cash equivalents increased by $117.1 million to $164.2 million as of December 31, 2021, from $47.0 million as of December 31, 2020, primarily due to net proceeds from the issuance of the convertible notes, partially offset by $16.1 million in premiums paid for separate capped call transactions related to the issuance of the convertible notes.

Cash, Cash Equivalents and Restricted Cash

The following table summarizes the Company's cash, cash equivalents and restricted cash (in thousands):

	Year ended December 31,		
(Dollars in thousands)	**2021**	**2020**	**Change**
Cash and cash equivalents	$ 164,164	$ 47,047	$ 117,117
Restricted cash	700	—	700
Cash and cash equivalents	$ 164,864	$ 47,047	$ 117,817

Consolidated Cash Flow Data

In summary, the Company's cash flows were as follows:

	Year ended December 31,		
(Dollars in thousands)	**2021**	**2020**	**2019**
Cash flows provided by (used in):			
Operating activities	$ 1,235	$ (16,934)	$ (2,217)
Investing activities	(944)	6,389	1,067
Financing activities	117,526	31,276	1,414
Net increase in cash and cash equivalents	$ 117,817	$ 20,731	$ 264

Cash Flows from Operating Activities

Net cash provided by operating activities for the year ended December 31, 2021, was $1.2 million, which reflected net income, adjusted for non-cash items of $14.4 million, offset by changes in assets and liabilities of $13.2 million.

Cash Flows from Investing Activities

Net cash used in investing activities for the year ended December 31, 2021, was $0.9 million, which was primarily due to purchases of property, equipment and software.

Cash Flows from Financing Activities

Net cash provided by financing activities for the year ended December 31, 2021 was $117.5 million, which was primarily due to the proceeds from the issuance of convertible notes, net of issuance costs, and cash used for the purchase of capped calls of $117.4 million

Adequacy of Cash Resources to Meet Future Needs

The Company had cash and cash equivalents of $164.2 million as of December 31, 2021. For fiscal year 2021, the Company's principal source of liquidity was $133.5 million of net proceeds from the issuance of the convertible notes, partially offset by $16.1 million in premiums paid concurrently for a separate capped call transaction. The Company believes that the existing cash resources are sufficient to meet the Company's anticipated cash needs for working capital and capital expenditures through at least the next 12 months from the date the financial statements are issued, but there can be no assurances.

Debt

In March 2021, the Company issued $138.3 million aggregate principal amount of convertible notes due on March 15, 2026 in a private placement offering. The convertible notes bear interest at a rate of 2.25% per year payable semiannually in arrears on March 15 and September 15 of each year. The convertible notes are presented as long-term debt, net of debt discount. Proceeds from the offering were $133.5 million, net of issuance costs, including underwriters' fees, which were recorded in the consolidated balance sheet.

On July 9, 2020, the Company terminated its undrawn revolving line of credit with Wells Fargo and subsequently entered into a Loan and Security Agreement with Silicon Valley Bank. The agreement provides for a four-year secured revolving loan facility ("SVB Revolving Line of Credit") in an aggregate principal amount of up to $30.0 million. See Note 12 – Debt in the accompanying notes to consolidated financial statements for more information.

The Loan and Security Agreement with Silicon Valley Bank contains customary affirmative covenants, such as financial statement reporting requirements and delivery of borrowing base certificates, as well as customary covenants that restrict the Company's ability to, among other things, incur additional indebtedness, sell certain assets, guarantee obligations of third parties, declare dividends, or make certain distributions, and undergo a merger or consolidation or certain other transactions. The Loan and Security Agreement also contains certain financial condition covenants.

On March 4, 2021, the Loan and Security Agreement dated July 9, 2020 was amended to (i) permit the Company to issue the convertible notes, and (ii) to permit the capped call transactions.

On or about May 28, 2021, the Loan and Security Agreement was amended. The amendment removed the quarterly minimum revenue requirement but kept the in place the other financial covenants.

As of December 31, 2021, the Company had not drawn on the SVB Revolving Line of Credit and the Company is in compliance with all financial covenants of the SVB Revolving Line of Credit.

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 an agreed-upon period. Such time periods can vary among different suppliers. The Company believes it has adequate funds to fulfill any such commitments in the future using the sources discussed in this Item 7 – Management's Discussion & Analysis of Financial Condition and Results of Operations.

Other

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 the Company's directors and executive officers. The Company's 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

The conditional conversion feature of the convertible notes, if triggered, may adversely affect our financial condition and operating results.

Holders may convert their Notes at their option prior to the close of business on the business day immediately preceding December 15, 2025, in multiples of $1,000 principal amount, only under the following circumstances:

- During any fiscal quarter commencing after the fiscal quarter ended on June 30, 2021 (and only during such fiscal quarter), if the last reported sale price of the common stock for at least 20 trading days (whether or not consecutive) during a period of 30 consecutive trading days ending on and including, the last trading day of the immediately preceding fiscal quarter, is greater than or equal to 130% of the conversion price for the convertible notes on each applicable trading day;
- During the five-business day period after any five consecutive trading day period (the “measurement period”) in which the “trading price” per $1,000 principal amount of convertible notes for each trading day of the measurement period was less than 98% of the product of the last reported sale price of the Company's common stock and the conversion rate on each such trading day;
- The Company calls such convertible notes for redemption, at any time prior to the close of business on the second scheduled trading day immediately preceding the redemption date; or
- Upon the occurrence of specified corporate events.

On or after December 15, 2025, and until the close of business on the second scheduled trading day immediately preceding the maturity date, holders may convert all or any portion of their Notes, in multiples of $1,000 principal amount, at the option of the holder regardless of the foregoing circumstances.

The circumstances described in the first bullet of the paragraph above were met during the second and third quarters of 2021 as the Company's stock traded at a price in excess of the conversion price for the required number of days during each of those quarters. These circumstances were not met during the fourth quarter of 2021. As a result, holders of the Notes had the right to convert their Notes beginning July 1, 2021 and ending on December 31, 2021. As of December 31, 2021, the Notes are not convertible and this condition will remain until March 31, 2022. The Notes may become convertible in future periods.

If one or more holders elect to convert their convertible notes, unless the Company elects to satisfy its conversion obligation by delivering solely shares of its common stock, the Company would be required to settle a portion or all of its conversion obligation through the payment of cash, which could adversely affect the Company’s liquidity.

Interest Rate and Market Risk

As of December 31, 2021 the Company had not drawn on the SVB Revolving 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 greater of either 1.75% above the Prime Rate or 5%. The Prime Rate was 3.25% as of December 31, 2021, and accordingly the Company may incur additional expenses if the Company has an outstanding balance on the line of credit and the Prime Rate increases in future periods.

Inflation

Certain production-related costs, including freight expense and components costs, were subject to inflationary pressure in 2021. During the year ended December 31, 2021, we were generally able to offset the inflationary impact by managing our sales mix and leveraging our fixed cost base. If the Company’s costs were to become subject to significant inflationary pressures, the Company might not be able to fully mitigate such higher costs. 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. The Company’s skincare revenue, which was $49.7 million in 2021, is denominated in Japanese Yen and the related product costs to the Company denominated in U.S. dollars. Additionally, approximately 14% of expenses, 15% of assets and 7% of liabilities are denominated in non-U.S. dollar currencies. Therefore, fluctuations in these currencies against the U.S. dollar could materially and adversely affect the Company’s results of operations upon translation of the Company’s revenue denominated in these currencies, as well as the re-measurement of the Company’s international subsidiaries’ financial

statements into U.S. dollars. The Company has historically not engaged in hedging activities relating to the Company's foreign currency denominated transactions.

ITEM 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

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

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of Cutera, Inc. (the "Company") as of December 31, 2021 and 2020, 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, 2021, and the related notes and schedule (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 at December 31, 2021 and 2020, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2021**,** 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, 2021, 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 1, 2022 expressed an adverse opinion thereon.

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.

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current period audit of the consolidated financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the consolidated financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of a critical audit matter does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing separate opinions on the critical audit matter or on the accounts or disclosures to which it relates.

The Company recognized total net revenue of approximately $231.3 million for the year ended December 31, 2021. As described in Note 1 to the consolidated financial statements, the Company recognizes revenue in a manner that best depicts the transfer of control of promised products or services to the customer, in an amount that reflects the consideration to which the Company expects to be entitled. The Company's contracts with customers may include, individually, or in combination, systems, extended service contracts, training, marketing support and accessories. Certain of the Company's contracts, which include some with international distributors, can include non-standard payment and other sales terms that can impact management's conclusions as to whether it is probable at contract inception that the Company will collect substantially all of the consideration to which it will be entitled or whether control has transferred to the customer. Management applies significant effort and judgment in evaluating the impact of these non-standard payment and sales terms on revenue recognition.

We identified the evaluation of non-standard payment and other sales terms in the Company's contracts with international distributors as a critical audit matter. Auditing the impact of non-standard payment and other sales terms on management's conclusions of whether the transfer of control has occurred requires significant auditor effort and increased auditor judgment in performing procedures to evaluate management's judgment.

The primary procedures we performed to address this critical audit matter included:

- Examining certain international distributor contracts, including any amendments or modifications, for non-standard payment terms and, where such terms are present, evaluating management's assessment of whether collection is probable, based on a consideration of indicators of the international distributor's liquidity and of the collection and credit memo history with the international distributor and with similar international distributors with similar payment terms.
- Examining certain international distributor contracts, including any amendments or modifications, for non-standard terms governing transfer of control and, where such terms are present, evaluating management's conclusions regarding the transfer of control based on an assessment of considerations including whether the international distributor has physical possession and legal title to the product, whether the Company has a present right to payment, and other factors relevant to the determination of whether the international distributor has the ability to direct the use of and obtain substantially all of the remaining benefit from the product.

/s/ BDO USA, LLP
We have served as the Company's auditor since 2014.
San Francisco, California
March 1, 2022

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

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, 2021, 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 did not maintain, in all material respects, effective internal control over financial reporting as of December 31, 2021, based on the COSO criteria. We do not express an opinion or any other form of assurance on management's statements referring to any corrective actions taken by the Company after the date of management's assessment.

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 as of December 31, 2021 and 2020, 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, 2021, and the related notes and schedule (collectively referred to as the "financial statements") and our report dated March 1, 2022 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 Item 9A, Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We 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.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected on a timely basis. A material weakness regarding ineffective information technology general controls ("ITGCs") in the areas of user access and segregation of duties related to certain information technology ("IT") systems that support the Company's financial reporting process at its Japan subsidiary has been identified and described in management's assessment. This material weakness was considered in determining the nature, timing, and extent of audit tests applied in our audit of the 2021 financial statements, and this report does not affect our report dated March 1, 2022 on those financial statements.

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 Francisco, California
March 1, 2022

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

	December 31,	
	2021	**2020**
Assets		
Current assets:		
Cash and cash equivalents	$ 164,164	$ 47,047
Accounts receivable, net of allowance for credit losses of $899 and $1,598, respectively	31,449	21,962
Inventories	39,503	28,508
Other current assets and prepaid expenses	14,545	8,779
Total current assets	249,661	106,296
Property and equipment, net	3,019	2,299
Deferred tax assets	778	643
Operating lease right-of-use assets	14,627	17,076
Goodwill	1,339	1,339
Other long-term assets	10,169	5,080
Restricted cash	700	—
Total assets	$ 280,293	$ 132,733
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 7,891	$ 6,684
Accrued liabilities	54,100	32,295
Operating lease liabilities	2,419	2,260
PPP loan payable	—	3,630
Deferred revenue	9,490	9,489
Total current liabilities	73,900	54,358
Deferred revenue, net of current portion	1,335	1,748
Operating lease liabilities, net of current portion	13,483	15,950
PPP loan payable, net of current portion	—	3,555
Convertible notes, net of unamortized debt issuance costs of $4,007	134,243	—
Other long-term liabilities	763	242
Total liabilities	223,724	75,853
Commitments and contingencies (Note 11).		
Stockholders' equity:		
Common stock, $0.001 par value: Authorized: 50,000,000 shares; Issued and outstanding: 17,995,344 and 17,679,232 shares at December 31, 2021 and 2020, respectively	18	18
Additional paid-in capital	114,724	117,097
Accumulated deficit	(58,173)	(60,235)
Total stockholders' equity	56,569	56,880
Total liabilities and stockholders' equity	$ 280,293	$ 132,733

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,		
	2021	**2020**	**2019**
Net revenue:			
Products	$ 205,703	$ 125,113	$ 158,638
Service	25,567	22,570	23,074
Total net revenue	231,270	147,683	181,712
Cost of revenue:			
Products	83,048	58,325	64,693
Service	15,117	13,586	18,856
Total cost of revenue	98,165	71,911	83,549
Gross profit	133,105	75,772	98,163
Operating expenses:			
Sales and marketing	76,762	52,766	71,109
Research and development	21,568	14,322	15,085
General and administrative	32,945	31,512	24,033
Total operating expenses	131,275	98,600	110,227
Income (loss) from operations	1,830	(22,828)	(12,064)
Interest and other income (expense), net:			
Amortization of debt issuance costs	(710)	—	—
Interest on convertible notes	(2,514)	—	—
Gain on extinguishment of PPP loan	7,185	—	—
Other expense, net	(2,406)	(579)	(199)
Total interest and other income (expense), net	1,555	(579)	(199)
Income (loss) before income taxes	3,385	(23,407)	(12,263)
Income tax provision	1,323	470	85
Net income (loss)	$ 2,062	$ (23,877)	$ (12,348)
Net income (loss) per share:			
Basic	$ 0.12	$ (1.43)	$ (0.88)
Diluted	$ 0.11	$ (1.43)	$ (0.88)
Weighted-average number of shares used in per share calculations:			
Basic	17,891	16,691	14,096
Diluted	18,362	16,691	14,096

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,		
	2021	**2020**	**2019**
Net income (loss)	$ 2,062	$ (23,877)	$ (12,348)
Other comprehensive income (loss):			
Available-for-sale investments			
Net change in unrealized gain (loss) on available-for-sale investments	—	(3)	9
Less: Reclassification adjustment for net losses on investments recognized during the year	—	63	—
Total change in unrealized gain (loss) on available-for-sale investments	—	60	9
Other comprehensive income, net of tax	—	60	9
Comprehensive income (loss)	$ 2,062	$ (23,817)	$ (12,339)

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, 2018	13,968,852	$ 14	$ 70,451	$ (24,010)	$ (69)	$ 46,386
Issuance of common stock for employee purchase plan	82,810	—	1,281	—	—	1,281
Exercise of stock options	160,798	—	1,613	—	—	1,613
Issuance of common stock in settlement of restricted and performance stock units, net of shares withheld for employee taxes	103,126	—	(831)	—	—	(831)
Stock-based compensation expense	—	—	9,832	—	—	9,832
Net loss	—	—	—	(12,348)	—	(12,348)
Net change in unrealized gain on available-for-sale investments	—	—	—	—	9	9
Balance at December 31, 2019	14,315,586	$ 14	$ 82,346	$ (36,358)	$ (60)	$ 45,942
Issuance of common stock for employee purchase plan	56,751	—	632	—	—	632
Exercise of stock options	73,227		947	—	—	947
Issuance of common stock in connection with public offering, net of issuance costs of $2,303	2,742,750	3	26,492	—	—	26,495
Issuance of common stock in settlement of restricted and performance stock units, net of shares withheld for employee taxes	490,918	1	(3,429)	—	—	(3,428)
Stock-based compensation expense	—	—	10,109	—	—	10,109
Net loss	—	—	—	(23,877)	—	(23,877)
Net change in unrealized gain on available-for-sale investments	—	—	—	—	60	60
Balance at December 31, 2020	17,679,232	$ 18	$ 117,097	$ (60,235)	$ —	$ 56,880
Issuance of common stock for employee purchase plan	59,635	—	1,184	—	—	1,184
Exercise of stock options	71,798		1,581	—	—	1,581
Purchase of capped call	—	—	(16,134)	—	—	(16,134)
Issuance of common stock in settlement of restricted and performance stock units, net of shares withheld for employee taxes	184,679	—	(2,176)	—	—	(2,176)
Stock-based compensation expense	—	—	13,172	—	—	13,172
Net income	—	—	—	2,062	—	2,062
Balance at December 31, 2021	17,995,344	$ 18	$ 114,724	$ (58,173)	$ —	$ 56,569

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,		
	2021	2020	2019
Cash flows from operating activities:			
Net income (loss)	$ 2,062	$ (23,877)	$ (12,348)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Stock-based compensation	13,172	10,109	9,832
Depreciation and amortization	1,344	1,394	1,548
Amortization of contract acquisition costs	1,857	2,593	2,915
Amortization of debt issuance costs	710	—	—
Impairment of capitalized cloud computing costs	182	805	—
Change in deferred tax assets	(135)	(220)	34
Provision for credit losses	87	2,144	590
Gain on extinguishment of PPP loan	(7,185)	—	—
Change in right-of-use asset	2,292	2,522	2,502
Other	1	513	(83)
Changes in assets and liabilities:			
Accounts receivable	(9,574)	(2,550)	(2,509)
Inventories	(10,936)	5,413	(5,907)
Other current assets and prepaid expenses	(5,766)	(3,164)	(1,762)
Other long-term assets	(7,128)	(2,067)	(3,355)
Accounts payable	1,207	(6,034)	1,406
Accrued liabilities	21,608	161	5,997
Other long-term liabilities	—	—	(140)
Operating lease liabilities	(2,151)	(1,598)	(2,292)
Deferred revenue	(412)	(2,985)	1,656
Income tax liability	—	(93)	(301)
Net cash provided by (used in) operating activities	1,235	(16,934)	(2,217)
Cash flows from investing activities:			
Acquisition of property and equipment	(1,015)	(1,279)	(991)
Disposal of property and equipment	71	30	45
Proceeds from sales of marketable investments	—	5,648	—
Proceeds from maturities of marketable investments	—	28,050	14,700
Purchase of marketable investments	—	(26,060)	(12,687)
Net cash provided by (used in) investing activities	(944)	6,389	1,067
Cash flows from financing activities:			
Proceeds from exercise of stock options and employee stock purchase plan	2,765	1,579	2,894
Purchase of capped call	(16,134)	—	—
Proceeds from PPP loan	—	7,167	—
Proceeds from issuance of convertible notes	138,250	—	—
Payment of issuance costs of convertible notes	(4,717)	—	—
Gross proceeds from equity offering	—	28,798	—
Issuance costs on the public offering	—	(2,303)	—
Taxes paid related to net share settlement of equity awards	(2,176)	(3,428)	(831)
Payments on capital lease obligation	(462)	(537)	(649)
Net cash provided by financing activities	117,526	31,276	1,414
Net increase in cash, cash equivalents, and restricted cash	117,817	20,731	264
Cash, cash equivalents, and restricted cash at beginning of year	47,047	26,316	26,052
Cash, cash equivalents, and restricted cash at end of year	$ 164,864	$ 47,047	$ 26,316
Supplemental disclosure of cash flow information:			
Cash paid for interest	$ 1,663	$ 63	$ 81
Cash paid (refunded) for income taxes, net of (refunds) payments	$ 891	$ (1)	$ 59
Supplemental non-cash investing and financing activities:			
Assets acquired under finance lease	$ 828	$ 43	$ 738
Assets acquired under operating lease	$ 123	$ 11,735	$ —
Gain on extinguishment of PPP loan	$ 7,185	$ —	$ —

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

CUTERA, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Operations and Principles of Consolidation

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

The Company's corporate headquarters and U.S. operations are located in Brisbane, California, where the Company conducts manufacturing, warehousing, research and development, regulatory, sales and marketing, service, and administrative activities. The Company also maintains regional distribution centers ("RDCs") in selection locations across the U.S. These RDCs serve as forward warehousing for systems and service parts in various geographies. 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, the Netherlands, Spain, Switzerland, and the United Kingdom. Sales and services outside of these direct markets are made through a worldwide distributor network in over 42 countries. The consolidated financial statements include the accounts of the Company and its subsidiaries. All inter-company transactions and balances have been eliminated.

Basis of Presentation

The Consolidated Financial Statements have been prepared in conformity with generally accepted accounting principles in the United States of America ("U.S. GAAP"). Certain prior period amounts have been reclassified to conform to the 2021 presentation.

Use of Estimates

The preparation of consolidated financial statements in conformity with GAAP requires the Company's management to make estimates and assumptions that affect the amounts reported of assets and liabilities and disclosure of contingent assets and liabilities at the date of the 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 commissions, allowance for credit losses, sales allowances, valuation of inventories, fair value of goodwill, useful lives of property and equipment, impairment testing for long-lived-assets, assumptions regarding variables used in calculating the fair value of the Company's equity awards, expected achievement of performance based vesting criteria, management performance bonuses, the standalone selling price of the Company's products and services, the period of benefit used to capitalize and amortize contract acquisition costs, variable consideration, contingent liabilities, recoverability of deferred tax assets, assumptions used in operating and sales-type lease classification, implicit and incremental borrowing rates related to the Company's leases, residual value of leased equipment, lease term and effective income tax rates. Management bases estimates on historical experience and on various other assumptions that are believed to be reasonable, the results of which form the basis for making judgments about the carrying values of assets and liabilities.

Risks and Uncertainties

The Company's future results of operations involve a number of risks and uncertainties. Factors that could affect the Company's future operating results and cause actual results to vary materially from expectations include, but are not limited to, rapid technological change, continued acceptance of the Company's products, stability of global financial markets, cybersecurity breaches and other disruptions that could compromise the Company's information or results, business disruptions that are

caused by natural disasters or pandemic events, 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, the successful execution of new product launches, strategic relationships and dependence on key individuals.

In March 2020, the World Health Organization declared the COVID-19 outbreak a pandemic. The COVID-19 outbreak, and lately the Delta and Omicron variants, has negatively affected the United States and global economies. The spread of the coronavirus, which caused a broad impact in 2020 globally, including restrictions on travel, shifting work force to work remotely and quarantine policies put into place by businesses and governments, had a material economic effect on the Company’s business during the year ended December 31, 2020. Notably, healthcare facilities in many countries effectively banned elective procedures. Many of the Company’s products are used in aesthetic elective procedures and as such, the bans on elective procedures substantially reduced the Company’s sales and marketing efforts in the early months of the pandemic and led the Company to implement cost control measures. Although the Company’s operation and results of operations have significantly improved as the economic outlook due to the COVID-19 pandemic improved in 2021, the COVID-19 outbreak continues to be fluid and the aftermath of the business and economic disruptions due to the COVID-19 is still uncertain, making it difficult to forecast the final impact it could have on the Company’s future operations, including disruptions in the Company's supply chain and contract manufacturing operations. The Company cannot presently predict the scope and severity of any impacts in future periods from the business shutdowns or disruptions due to the COVID-19 pandemic, but the impact on economic activity including the possibility of recession or financial market instability could have a material adverse effect on the Company’s business, revenue, operating results, cash flows and financial condition.

The Company continues to assess whether any impairment of its goodwill or its long-lived assets has occurred, and has determined that no charges were necessary during the years ended December 31, 2021, and 2020, other than an impairment loss of $0.2 million and $0.8 million on capitalized implementation costs of cloud-based CRM software, respectively. The Company’s assumptions about future conditions important to its assessment of potential impairment of its long-lived assets, and goodwill, including the impacts of the COVID-19 pandemic and other ongoing impacts to its business, are subject to uncertainty, and the Company will continue to monitor these conditions in future periods as new information becomes available.

Recently Adopted Accounting Pronouncements

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

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

The Company establishes an allowance for credit losses on trade receivables based on the credit quality of clients, current economic conditions, the age of the accounts receivable balances, historical loss information, and current conditions and forecasted information, and write-off amounts against the allowance when they are deemed uncollectible.

In August 2018, the FASB issued ASU No. 2018-13, “Fair Value Measurement (Topic 820): Disclosure Framework- Changes to the Disclosure Requirements for Fair Value Measurement”, to improve the fair value measurement reporting of financial instruments. The amendments in this update require, among other things, added disclosure of the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements. The amendments in this update eliminate, among other things, disclosure of the reasons for and amounts of transfers between Level 1 and Level 2 for assets and liabilities that are measured at fair value on a recurring basis and an entity's valuation processes for Level 3 fair value measurements. The amendments in this update became effective for the Company beginning with fiscal year 2020. Retrospective application is required for all amendments in this update except the added disclosures, which should be applied prospectively. The adoption

of the amendments in this update did not have a material impact on the Company's consolidated financial position and results of operations.

In December 2019, the FASB issued ASU *No. 2019-12* "*Income Taxes (Topic 740)-Simplifying the Accounting for Income Taxes*," to remove certain exceptions and improve consistency of application, including, among other things, requiring that an entity reflect the effect of an enacted change in tax laws or rates in the annual effective tax rate computation in the interim period that includes the enactment date. The Company adopted this guidance starting January 1, 2021. The adoption of this guidance did not have a material impact on the Company's consolidated financial position and results of operations.

In August 2020, the FASB issued ASU No. 2020-6, *Debt – Debt with Conversion and Other Options (Topic 470) and Derivatives and Hedging – Contracts in Entity's Own Equity (Topic 815)*, to simplify the accounting for convertible debt instruments by removing the beneficial conversion and cash conversion separation models for convertible instruments. Under the amendment, the embedded conversion features are no longer separated from the host contract for convertible instruments with conversion features that are not required to be accounted for as derivatives or that do not result in substantial premiums accounted for as paid-in capital. The update also amends the accounting for certain contracts in an entity's own equity that are currently accounted for as derivatives because of specific settlement provisions. In addition, the new guidance modifies how particular convertible instruments and certain contracts that may be settled in cash or shares impact the computation of diluted earnings per share. The Company early adopted the guidance on a prospective basis effective January 1, 2021. See section Computation of Net Income (Loss) per Share.

Recently Issued Accounting Pronouncements Not Yet Adopted by the Company

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

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. Revenue from performance obligations that are transferred to customers over time accounted for approximately 11%, 15% and 13%, respectively, of the Company's total revenue for the years ended December 31, 2021, 2020 and 2019.

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

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

Nature of Products and Services

Systems

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

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

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

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

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

Skincare products

The Company sells third-party manufactured skincare products in Japan. The skincare products are purchased from a third-party manufacturer and sold to medical offices and licensed physicians. The Company warrants that the skincare products are free of significant defects in workmanship and materials for 90 days from shipment. The Company acts as the principal in this arrangement, as the Company determines the price to charge customers for the skincare products and controls the products before they are transferred to the customer. The Company recognizes revenue for skincare products at a point in time upon shipment.

Consumables and other accessories

The Company classifies its customers' purchases of replacement cycles for *truSculpt iD* and *truSculpt flex*, as well as replacement hand pieces, *Titan* and *truSculpt 3D* hand pieces, and single use disposable tips applicable to *Secret PRO*, and *Secret RF*, as Consumable revenue, which provides the Company with a source of recurring revenue from existing customers. The *Secret RF* products' single use disposable tips must be replaced after every treatment. Sales of these consumable tips further enhance the Company's recurring revenue. The Company's systems offer multiple hand pieces and applications, which allow customers to upgrade their systems.

Equipment leasing

The Company leases equipment to customers through membership programs and receives a fixed monthly fee over the term of the arrangement. The Company classifies its lease income as product revenue. The Company recognizes lease income over the term of the lease if the lease is classified as an operating lease. For agreements that grant customers the right to purchase the leased system, the Company typically classifies the lease as a sales-type lease as the Company has determined it is reasonably certain that the customer will exercise the purchase option. On the commencement of sales-type leases, the Company recognizes revenue upfront in product revenue and the corresponding receivables recorded in Other current assets and prepaid expenses on the consolidated balance sheets (Notes 1 and 11). Revenue from equipment leases was not material in the years ended December 31, 2021 and 2020.

Extended service contract

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

Training

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

Significant Judgments

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

While the Company's purchase agreements do *not* provide customers with a contractual right of return, the Company maintains a sales allowance to account for potential returns or refunds as a reduction in transaction price at the time of sale.

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

- Systems: The SSPs for systems are based on directly observable sales in similar circumstances to similar customers.
- Extended service contracts: SSP is based on observable price when sold on a standalone basis to similar customers.

Loyalty Program

The Company launched a customer loyalty program during the third quarter of 2018 for qualified customers located in the U.S. and Canada. Under the loyalty program, customers accumulate points based on their purchasing levels which can be redeemed for such rewards as the right to attend the Company's advanced training event for a product, or a ticket for the Company's annual forum. A customer's account must be in good standing to receive the benefits of the rewards program. Rewards are earned on a quarterly basis and must be used in the following quarter. All unused rewards are forfeited. The fair value of the reward earned by loyalty program members is included in accrued liabilities and recorded as a reduction. of net revenue at the time the reward is earned. As of December 31, 2021, and December 31, 2020, the accrual for the loyalty program included in accrued liabilities was $0.5 million, and $0.3 million, respectively.

Deferred Sales Commissions

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

Total capitalized costs for the year ended December 31, 2021 and December 31, 2020 were $4.2 million and $3.4 million, respectively, and are included in Other long-term assets in the Company's consolidated balance sheet. Amortization expenses for these assets were $1.9 million, $2.6 million and $2.9 million, respectively, during the years ended December 31, 2021, 2020 and 2019 and were included in sales and marketing expense in the Company's consolidated statement of operations.

Cash and Cash Equivalents

The Company invests its cash primarily in money market funds. 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 short term operating expenses.

Fair Value of Financial Instruments

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

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

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

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

Allowance for Sales Returns and Credit Losses

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.

The allowance for credit losses on trade receivables is based on the credit quality of clients, current economic conditions, the age of the accounts receivable balances, historical loss information, and current conditions and forecasted information. The Company writes off amounts against the allowance when they are deemed uncollectible.

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 the Company's operating results.

The Company is also subject to risks related to changes in the value of the Company's significant balance of financial instruments. Financial instruments that potentially subject the Company to concentrations of risk consist principally of cash, cash equivalents, 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 federally insured limits or any other 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.

Accounts receivable are recorded net of an allowance for credit losses 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 an allowance for potential credit losses. As of December 31, 2021, and 2020, no customer represented more than 10% of the Company's net accounts receivable. During the years ended December 31, 2021, 2020, and 2019, domestic revenue accounted for 42%, 41% and 58%, respectively, of total revenue, while international revenue accounted for 58%, 59% and 42%, respectively, of total revenue. No single customer represented more than 10% of total revenue for any of the years ended December 31, 2021, 2020 and 2019.

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. The Company relies on one supplier for its Secret and Secret PRO products and one supplier for its skincare products.

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 the Company's 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 product cost of revenue. As of December 31, 2021 and 2020, demonstration inventories, net of accumulated depreciation, included in finished goods inventory was $3.7 million and $3.6 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
Equipment leasing	4.5
Office equipment and furniture	3
Machinery and equipment	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 2021, 2020 and 2019, was $1.3 million, $1.4 million, and $1.5 million, respectively. Amortization expense for vehicles leased under capital leases is included in depreciation expense. Amortization expense related to equipment leasing accounted for as sales type is included in cost of revenue and was immaterial as of December 31, 2021 and 2020.

Capitalized Cloud Computing Set-up Cost

The Company capitalizes certain set-up costs for the Company's cloud computing arrangements. The capitalized implementation costs are then amortized over the term of the cloud computing arrangement inclusive of expected contract renewals, which are generally three years to ten years. As of December 31, 2021, the Company had capitalized cloud computing set-up costs with a carrying amount of $0.4 million in Other current assets and prepaid expenses and $3.5 million in Other long-term assets. As of and during the year ended December 31, 2021 there was no accumulated amortization and amortization expense recorded. The Company periodically assesses the capitalized asset for impairment and, when required, will record an associated impairment loss. During the year ended December 31, 2021, the Company recognized in general and administrative expense an impairment loss of $0.2 million for capitalized cloud computing costs related to a cloud-based enterprise resource planning software.

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 quarter of the Company's fiscal year, 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, 2021, there has been no impairment of goodwill. All acquired intangible assets have been fully amortized as of December 31, 2021.

Warranty Obligations

The Company provides a 12-month warranty for direct sales to customers. For sales to distributors, the Company generally provides a 14-month warranty for parts only, with labor being provided to the end customer by the distributor.

After the original warranty period, maintenance and support are offered on an extended service contract basis or on a time and materials basis.

Leases

Effective January 1, 2019, the Company adopted ASC 842, which established a right-of-use ("ROU") model requiring lessees to record a right-of-use asset ("ROU asset") and lease obligations on the balance sheet for all leases with terms longer than 12 months. The Company determines if an arrangement is a lease at inception. Where an arrangement is a lease the Company determines if it is an operating lease or a finance lease. At lease commencement, the Company records a lease liability and corresponding ROU asset. Lease liabilities represent the present value of the Company's future lease payments over the

expected lease term which includes options to extend or terminate the lease when it is reasonably certain those options will be exercised. The present value of the Company's lease liability is determined using its incremental collateralized borrowing rate at lease inception. ROU assets represent its right to control the use of the leased asset during the lease and are recognized in an amount equal to the lease liability for leases with an initial term greater than 12 months. Over the lease term (operating leases only), the Company uses the effective interest rate method to account for the lease liability as lease payments are made and the ROU asset is amortized to consolidated statement of operations in a manner that results in straight-line expense recognition. The Company does not apply lease recognition requirements for short-term leases. Instead, the Company recognizes payments related to these arrangements in the consolidated statement of operations as lease costs on a straight-line basis over the lease term.

Accounting for Leases as a Lessor

The Company leases equipment to customers through membership programs and receives a fixed monthly fee over the term of the arrangement. The Company classifies its lease income as product revenue. The Company recognizes lease income over the term of the lease if the lease is classified as an operating lease. For agreements that grant customers the right to purchase the leased system, the Company typically classifies the lease as a sales-type lease as the Company has determined it is reasonably certain that the customer will exercise the purchase option. On the commencement of sales-type leases, the Company recognizes revenue upfront in product revenue and the corresponding receivables is classified in Other current assets and prepaid expenses on the condensed consolidated balance sheets.

See Note 11 to the consolidated financial statements for more information regarding leasing arrangements.

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 equipment leasing, 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 service 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 2021, 2020 and 2019 were $2.1 million, $1.2 million and $2.8 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.

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: For the underlying stock price volatility of the Company's stock, the Company estimates volatility solely based on the Company's historical volatility of its stock price.

Forfeitures: The amount of stock-based compensation recognized during a period is based on the value of the portion of the awards that are ultimately expected to vest. Under ASC 718, the Company has made an accounting policy to estimate forfeitures at the time awards are granted and revises, if necessary, in subsequent periods if actual forfeitures differ from those estimates.

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 using the closing price of the Company's common shares 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 award issued on the day of the grant.

The fair value of restricted stock units (“RSUs”) granted are measured on the grant date. The quantity of the RSUs units granted is calculated by dividing a fixed award amount determined by the Board on the grant date by the average closing price of the Company’s common stock over the 50-day period ending on the day of the grant.

The fair value of Performance Stock Units (“PSUs”) that have operational measurement goals are measured on the grant date using the closing price of the Company’s common shares on the grant date. The quantity of the PSUs granted is calculated by dividing a fixed award amount determined by the Board on the grant date by the average closing price of the Company’s common stock over the 50-day period ending on the day of the grant.

See Note 6 - "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 income taxes in the United States and several foreign jurisdictions. Significant judgment is required in determining the Company’s provision (benefit) for income taxes and income tax assets and liabilities, including evaluating uncertainties in the application of accounting principles and complex tax laws.

The Company records a provision (benefit) for income taxes for the anticipated tax consequences of the reported results of operations using the asset and liability method. Under this method, the Company recognizes deferred income tax assets and liabilities for the expected future tax consequences of temporary differences between the financial reporting and tax bases of assets and liabilities, as well as for loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using the tax rates that are expected to apply to taxable income for the years in which those tax assets and liabilities are expected to be realized or settled. The Company recognizes the deferred income tax effects of a change in tax rates in the period of enactment. The Company records a valuation allowance to reduce the Company’s deferred tax assets to the net amount that the Company believes is more likely than *not* to be realized.

The Company recognizes tax benefits from uncertain tax positions if the Company believes that it is more likely than not that the tax position will be sustained upon examination by the taxing authorities based on the technical merits of the position. Although the Company believes it has adequately reserved for the Company’s uncertain tax positions (including net interest and penalties), the Company can provide no assurance that the final tax outcome of these matters will not be different. The Company makes adjustments to these reserves in accordance with income tax accounting guidance when facts and circumstances change, such as the closing of a tax audit. To the extent that the final tax outcome of these matters is different from the amounts recorded, such differences may impact the provision (benefit) for income taxes in the period in which such determination is made. The Company records interest and penalties related to the Company’s uncertain tax positions in the Company’s provision (benefit) for income taxes.

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 the Company's 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 the Company's provision for income taxes.

Undistributed earnings of the Company's foreign subsidiaries at December 31, 2021 are considered to be indefinitely reinvested and, accordingly, no provision for 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.

On March 27, 2020, the U.S. federal government enacted the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act"). The CARES Act changed several of the existing U.S. corporate income tax laws by, among other things, increasing the amount of deductible interest, allowing companies to carry back certain Net Operating Losses ("NOLs") and increasing the amount of NOLs that corporations can use to offset income. The CARES Act did not have a material impact on the Company's income tax provision, deferred tax assets and liabilities, and related taxes payable. The Company is currently assessing the future implications of these provisions within the CARES Act on the Company's consolidated financial statements but does not expect the impact to be material.

Computation of Net Income (Loss) per Share

Basic net income (loss) per share is computed by dividing net income (loss) by the weighted average number of common shares outstanding during the period. Diluted net income per share is computed based on the weighted average number of shares of common stock plus the effect of dilutive potential common shares outstanding during the period using the treasury stock method and the if-converted method. Dilutive potential common shares include outstanding stock options, restricted stock units, performance stock units, employee stock purchase plan (ESPP) shares and conversion shares under the convertible notes. On January 1, 2021, the Company adopted the accounting standard update to simplify the accounting for convertible debt instruments. The Company now uses the if-converted method for its convertible notes in calculating the diluted net income (loss) per share, and includes the effect of potential share settlement for the convertible notes, if the effect is dilutive. The diluted net income per share is computed with the assumption that the Company will settle the convertible debt in shares, rather than cash.

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.

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 financial statements of the Company's foreign subsidiaries are translated in accordance with ASC 830, Foreign Currency Matters. The U.S. Dollar is the functional currency of the Company's subsidiaries and the Company's reporting currency. 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) are $1.8 million in the year ended December 31, 2021 and were insignificant for each of the two years ended December 31, 2020. The effect of exchange rate changes on cash and cash equivalents was insignificant for each of the three years ended December 31, 2021.

Segments

The Company operates in one segment and reports segment information in accordance with ASC 280, Segment Reporting. Management uses one measurement of profitability and does not segregate its business for internal reporting. As of December 31, 2021 and 2020, 99.0% and 98.0% 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 10 – "Segment Information and Revenue by Geography and Products" for details relating to revenue by geography.

NOTE 2-CASH, CASH EQUIVALENTS AND RESTRICTED CASH

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

	December 31,	
	2021	2020
Cash and cash equivalents	$ 164,164	$ 47,047
Non-current restricted cash	700	—
Cash equivalents and restricted cash as reported within the Consolidated Statement of Cash Flows	$ 164,864	$ 47,047

The Company had no marketable securities as of December 31, 2021 and December 31, 2020. The cash is restricted to support an outstanding letter of credit for $0.7 million provided to a supplier.

NOTE 3—BALANCE SHEET DETAIL

Inventories

Valuation adjustments for excess and obsolete inventory, reflected as a reduction of inventory at December 31, 2021 and 2020, were $4.9 million and $3.9 million, respectively. Inventories, net of these adjustments, consist of the following (in thousands):

	December 31,	
	2021	2020
Raw materials	$ 24,035	$ 14,874
Work in process	2,124	1,030
Finished goods	13,344	12,604
Total	$ 39,503	$ 28,508

Property and Equipment, net

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

	December 31,	
	2021	2020
Leasehold improvements	$ 826	$ 1,051
Equipment leasing	107	186
Office equipment and furniture	1,527	3,407
Machinery and equipment	3,983	7,683
	6,443	12,327
Less: Accumulated depreciation	(3,424)	(10,028)
Property and equipment, net	$ 3,019	$ 2,299

Included in machinery and equipment are financed vehicles used by the Company's sales employees. As of December 31, 2021 and 2020, the gross capitalized value of the leased vehicles was $2.6 million and $1.8 million, respectively, and the related accumulated depreciation was $1.5 million and $1.4 million at December 31, 2021 and 2020, respectively. Included in Property and equipment as of December 31, 2021 and 2020 is construction in progress of $0.8 million and $0.4 million, respectively, which is yet to be depreciated.

Goodwill

Goodwill is related to the acquisition of Iridex's aesthetic business unit, and customer relationships in the Benelux countries acquired from a former distributor in 2013. Goodwill was $1.3 million as of December 31, 2021 and 2020. There were no impairments or additions to goodwill during the years ended December 31, 2021 or 2020.

Accrued Liabilities

Accrued liabilities consist of the following (in thousands):

	December 31,	
	2021	2020
Bonus and payroll-related accruals	$ 21,649	$ 12,197
Sales and marketing accruals	4,808	2,352
Accrued inventory in transit	4,265	2,476
Product warranty	3,947	4,124
Accrued sales tax	9,110	5,343
Other accrued liabilities	10,321	5,803
Total	$ 54,100	$ 32,295

NOTE 4— PRODUCT WARRANTY

The Company has a direct field service organization in North America (including Canada). Internationally, the Company provides direct service support in Australia, Austria, Belgium, France, Germany, Hong Kong, Japan, the Netherlands, 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 the estimated cost to repair or replace products under standard warranty at the time of sale. Costs in connection with extended service contracts are recognized at the time when costs are incurred. The following table provides the changes in the product standard warranty accrual for the years ended December 31, 2021 and 2020 (in thousands):

	December 31,	
	2021	2020
Balance at beginning of year	$ 4,124	$ 6,400
Add: Accruals for warranties issued during the period	5,135	4,475
Less: Settlements made during the period	(5,312)	(6,751)
Balance at end of year	$ 3,947	$ 4,124

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 to three-year terms. Deferred revenue also includes payments for training. Approximately 86% of the Company's deferred revenue balance of $10.8 million as of December 31, 2021, 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, 2021 and 2020 (in thousands):

	December 31,	
	2021	2020
Balance at beginning of year	$ 11,237	$ 14,222
Add: Payments received	17,139	14,131
Less: Revenue recognized from current period sales	(7,006)	(6,337)
Less: Revenue recognized from beginning balance	(10,545)	(10,779)
Balance at end of year	$ 10,825	$ 11,237

Costs for extended service contracts were $8.3 million, $8.2 million and $9.3 million, respectively, for the years ended December 31, 2021, 2020 and 2019.

NOTE 6—STOCKHOLDERS' EQUITY, STOCK PLANS AND STOCK-BASED COMPENSATION EXPENSE

As of December 31, 2021, the Company had one class of issued common stock with a par value of $0.001. Authorized capital stock consists of 55,000,000 shares comprised of two classes: (i) 50,000,000 shares of Common Stock, of which 17,995,344 shares are issued and outstanding as of December 31, 2021, and (ii) 5,000,000 shares of preferred stock, par value $0.001 per share ("Preferred Stock"), of which no shares are issued and outstanding.

Issuances of Common Stock

On April 21, 2020, the Company issued and sold an aggregate of 2,742,750 shares of the Company's common stock, par value $0.001 per share at a price to the public of $10.50 per share. The shares include the full exercise of the underwriter's option to purchase an additional 357,750 shares of common stock. The Company received net proceeds from the offering of approximately $26.5 million, after deducting underwriting discounts, commissions and offering expenses of $2.3 million.

As of December 31, 2021, the Company had the following stock-based employee compensation plans:

2004 Equity Incentive 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 ("the Board") 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.

2019 Equity Incentive Plan

At the Company's Annual Meeting of Stockholders on June 14, 2019, the Company's stockholders approved the 2019 Equity Incentive Plan, which is an amendment and restatement of the 2004 Equity Incentive Plan. The 2004 Equity Incentive Plan was amended to: (i) increase the number of shares available for future grant by 700,000 (in addition to the 9,701,192 shares provided under the 2004 Equity Incentive Plan; (ii) extend the term of the 2004 Equity Incentive Plan to the date of the Annual Meeting of the Company's stockholders in 2029; (iii) amend the 2004 Equity Incentive 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 in accordance with the 2004 Equity Incentive Plan; (iv) amend the 2004 Equity Incentive 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; (v) amend the 2004 Equity Incentive Plan to remove certain provisions relating to the "performance based compensation" exception under Section 162(m) of the Internal Revenue Code of 1986, as amended; (vi) include a minimum one-year vesting period with respect to awards granted under the 2004 Equity Incentive Plan.

On June 11, 2019, the Board also approved, amended and restated the Company's Stock Ownership Guidelines adopted on July 28, 2017 in their entirety, to require all officers (as defined by Rule 16a-1(f) of the Securities Exchange Act of 1934, as amended) to hold at least 50% of any shares received pursuant to stock options, stock appreciation rights, vested restricted stock awards ("RSAs"), restricted stock units ("RSUs"), or performance stock units ("PSUs") (net of taxes) for a minimum of one year following vesting and delivery.

On June 11, 2019, the Board also adopted a clawback policy to permit recovery of certain compensation paid to Named Executive Officers (as defined in Item 402 of Regulation S-K) of the Company if the Compensation Committee of the Board determines that a Named Executive Officer (i) has violated law, the Company's Code of Business Conduct and Ethics, or any significant ethics or compliance policies, and (ii) such conduct results in material financial or reputational harm, or results in a need for a restatement of the Company's consolidated financial statements. The Amended and Restated Plan provides for the grant of incentive stock options, non-statutory stock options, RSAs, RSUs, stock appreciation rights, PSUs, and other stock or cash awards.

In June 2020, stockholders approved an amendment and restatement of the 2019 Equity Incentive Plan (the "Prior Plan") as the Amended and Restated 2019 Equity Incentive Plan (the "Restated Plan") and approved an additional 600,000 shares, available for future grants. The Restated Plan provides for the grant of incentive stock options, non-statutory stock options, RSAs, RSUs, stock appreciation rights, PSUs, and other stock or cash awards.

The Company's non-employee directors are granted $60,000 of RSUs annually on the date of the Company's Annual Meeting of stockholders. These RSUs cliff-vest on the one-year anniversary of the grant date. In the years ended December 31, 2021, 2020 and 2019, the Company issued 41,301, 35,735 and 42,236 RSUs, respectively, to its non-employee directors.

In the years ended December 31, 2021, 2020 and 2019, the Company's Board of Directors granted 219,686, 405,248 and 475,166 RSUs, respectively, to its executive officers, directors and certain members of the Company's management related to annual grants and new hire grants. The annual grant RSUs vest quarterly on each of the first four anniversaries of the vest date and the new hire RSUs vest one quarter on the first anniversary and monthly thereafter for 36 months. 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 common stock, net of stock withheld to settle the recipient's minimum statutory tax liability. In addition to the 2020 annual RSU grants, on April 1, 2020, the Company issued RSUs to settle bonuses owed to management under the 2019 Management Bonus Program. In the past, the Company has paid these bonuses with cash. However, due to the economic conditions resulting from COVID-19, fully vested shares were issued in lieu of cash. The Company issued 209,981 shares related to this bonus payment to management and recognized $2.6 million in stock-based compensation expense. The Company also recorded an equivalent reduction in bonus expense as a result of the settlement of the bonus in shares.

In the years ended December 31, 2021, 2020 and 2019 the Company's Board of Directors granted its executive officers and certain senior management employees 178,222, 76,157, and 319,275 PSUs, respectively, related to its annual grants. The 2019 and 2020 grants vested on the first anniversary subject to the achievement of pre-established performance goals. The 2021 grant quantity vested one half on the first anniversary subject to the achievement of pre-established performance goals and the remaining half vested on the second anniversary subject to the recipient's continued service. In addition to the 2021 annual PSU grants, in July 2021, the Company granted 265,002 PSUs to certain employees. This grant consists of four separate vesting tranches that will vest from April 2023 through June 2024 upon the achievement of operational milestones associated with each tranche and continued service.

In July 2019, the Board awarded its new CEO, David H. Mowry, 67,897 PSUs, which are scheduled to vest over four years from 2019 through 2022. These PSUs are subject to certain performance-based criteria related to achieving financial metrics in the Board approved annual budgets.

In August 2020, the Board awarded its new CFO, Rohan Seth, 60,000 stock options, which vests over five years, and 22,423 PSUs, which vests over 2.5 years and is subject to performance-based criteria relating to the achievement of certain department and financial goals.

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 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:

- 600,000 shares;
- 2.0% of the outstanding shares of common stock on such date; or
- an amount as determined by the Board of Directors.

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 the six-month offering period. In the years ended December 31, 2021, 2020, and 2019, under the 2004 ESPP, the Company issued 59,635, 56,751, and 82,810 shares, respectively. At December 31, 2021, 645,319 shares remained available for future issuance.

Option and Award Activity

Activity under the 2004 Plan and 2019 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, 2018	1,141,305	507,705	$ 20.52	3.52	$ 2.00
Additional shares reserved[2]	700,000				
Options exercised	—	(160,798)	$ 10.03		
Options cancelled (expired or forfeited)	51,208	(51,208)	$ 24.61		
Stock awards granted	(1,538,128)	—	—		
Stock awards cancelled (expired or forfeited)	407,320	—	—		
Balances as of December 31, 2019	761,705	295,699	$ 25.52	3.19	$ 3.04
Additional shares reserved[2]	600,000				
Options granted	(71,088)	71,088	$ 14.85		
Options exercised	—	(73,227)	$ 12.91		
Options cancelled (expired or forfeited)	76,553	(76,553)	$ 36.65		
Stock awards granted	(804,949)	—	—		
Stock awards cancelled (expired or forfeited)	522,949	—	—		
Balances as of December 31, 2020	1,085,170	217,007	$ 22.35	3.75	$ 1.47
Additional shares reserved[2]	450,000				
Options granted	(172,139)	172,139	$ 30.71		
Options exercised	—	(71,798)	$ 22.02		
Options cancelled (expired or forfeited)	30,173	(30,173)	$ 37.14		
Stock awards granted	(744,949)	—	—		
Stock awards cancelled (expired or forfeited)	299,092	—	—		
Balances as of December 31, 2021	947,347	287,175	$ 25.89	4.92	$ 4.46
Exercisable as of December 31, 2021		83,855	$ 24.14	2.86	$ 1.47
Vested and expected to vest as of December 31, 2021		287,175	$ 25.89	4.92	$ 4.46

(1) Based on the closing stock price of $41.32 of the Company's stock on December 31, 2021, $24.11 on December 31, 2020, $35.81 on December 31, 2019 and $17.02 on December 31, 2018.

(2) Approved by the board of directors and stockholders in 2021, 2020 and 2019.

The aggregate intrinsic value in the table above represents the total pre-tax intrinsic value and is 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. The aggregate intrinsic amount changes based on the fair market value of the Company's common stock. Total intrinsic value of options exercised in 2021, 2020 and 2019 was $1.3 million, $0.4 million, and $1.0 million, respectively. The options outstanding and exercisable at December 31, 2021 were in the following exercise price ranges:

Exercise Prices			Number Outstanding	Contractual Life (in years)	Number Exercisable
$10.79	—	$14.04	25,480	1.97	25,480
$14.10			60,000	3.59	16,000
$15.32			2,396	0.56	2,396
$18.55			1,000	2.07	1,000
$18.93			11,088	8.83	3,234
$25.70			6,000	2.59	6,000
$29.28			93,844	6.32	—
$32.87			57,622	6.12	—
$39.30			25,000	2.83	25,000
$47.40			4,745	2.96	4,745
$10.79	**—**	**$47.40**	**287,175**	**4.92**	**83,855**

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, 2018	474,291	$ 38.44		$ 8,072
Granted	963,814	$ 18.68		
Vested[3]	(172,281)	$ 33.66	$ 6,169 [4]	
Forfeited	(161,022)	$ 37.91		
Outstanding at December 31, 2019	1,104,802	$ 22.10		$ 37,442
Granted	667,694	$ 20.66		
Vested[3]	(684,491)	$ 17.82	$ 12,036 [5]	
Forfeited	(308,248)	$ 23.24		
Outstanding at December 31, 2020	779,757	$ 23.96		$ 18,800
Granted	744,949	$ 40.16		
Vested[3]	(254,946)	$ 22.94	$ 8,287 [6]	
Forfeited	(236,856)	$ 27.33		
Outstanding at December 31, 2021	1,032,904	$ 35.00		$ 42,680

(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 $41.32 on December 31, 2021, $24.11 on December 31, 2020, $35.81 on December 31, 2019, and $17.02 on December 31, 2018.
(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 $5.9 million.
(5) On the grant date, the fair value for these vested awards was $12.2 million.
(6) On the grant date, the fair value for these vested awards was $5.8 million.

Stock-Based Compensation

Stock-based compensation expense for the years ended December 31, 2021, 2020 and 2019 was as follows (in thousands):

	Year Ended December 31,		
	2021	2020	2019
Stock options	$ 782	$ 370	$ 622
RSUs	5,305	8,849	4,786
PSUs	6,591	666	3,948
ESPP	494	224	476
Total stock-based compensation expense	$ 13,172	$ 10,109	$ 9,832

Total stock-based compensation expense recognized during the year ended December 31, 2021, 2020 and 2019 was recorded in the Consolidated Statement of Operations as follows (in thousands):

	Year Ended December 31,		
	2021	2020	2019
Cost of revenue	$ 1,408	$ 1,665	$ 1,572
Sales and marketing	3,160	3,385	4,510
Research and development	2,784	1,669	1,536
General and administrative	5,820	3,390	2,214
Total stock-based compensation expense	$ 13,172	$ 10,109	$ 9,832

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 weighted average estimated fair values of the employee stock options and rights granted under the employee stock purchase plan and the weighted average assumptions used to calculate the grant date fair values, are as follows:

	Stock Options			Stock Purchase Plan (ESPP)		
	2021	2020	2019	2021	2020	2019
Expected term (in years)[1]	3.97	4.84	3.65	0.50	0.50	0.50
Risk-free interest rate[2]	0.48 %	0.15 %	1.64 %	0.14 %	0.11 %	2.49 %
Volatility[3]	66 %	63 %	54 %	36 %	76 %	70 %
Dividend yield[4]	— %	— %	— %	— %	— %	— %
Weighted average estimated fair value at grant date	$ 15.09	$ 7.63	$ 14.83	$ 9.64	$ 6.13	$ 9.60

(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 or ESPP participation right as of the date of grant.
(3) Estimated volatility is based on historical volatility. The Company estimates volatility based on the Company's historical volatility of its stock price.
(4) The Company has not paid dividends since its inception.

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,		
	2021	2020	2019
U.S.	$ (356)	$ (25,793)	$ (13,037)
Foreign	3,741	2,386	774
Income (loss) before income taxes	$ 3,385	$ (23,407)	$ (12,263)

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

	Year Ended December 31,		
	2021	2020	2019
Current:			
Federal	$ —	$ —	$ —
State	(87)	(53)	101
Foreign	1,512	747	(76)
Total Current	1,425	694	25
Deferred:			
Federal	2	2	2
State	1	1	1
Foreign	(105)	(227)	57
Total Deferred	(102)	(224)	60
Tax provision	$ 1,323	$ 470	$ 85

The Company's net deferred tax assets consist of the following (in thousands):

	December 31,	
	2021	2020
Net operating loss carryforwards	$ 18,274	$ 18,270
Stock-based compensation	3,160	869
Other accruals and reserves	2,863	3,670
Credits	13,634	12,653
Accrued warranty	939	976
Depreciation and amortization	2,226	2,191
Other	977	979
Operating lease liability	3,784	4,311
Deferred tax asset before valuation allowance	45,857	43,919
Valuation allowance	(40,485)	(38,321)
Deferred tax asset after valuation allowance	5,372	5,598
Deferred contract acquisition costs	(990)	(803)
Goodwill	(124)	(110)
Right of use asset	(3,480)	(4,042)
Net deferred tax asset (liability)	$ 778	$ 643

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,		
	2021	2020	2019
U.S. federal statutory income tax rate	21.00 %	21.00 %	21.00 %
State tax rate	(2.55)	2.77	2.82
Meals and entertainment	9.28	(0.65)	(2.83)
Permanent differences	1.11	(2.87)	(2.58)
Stock-based compensation	(13.08)	(1.07)	3.78
Extinguishment of PPP loan	(44.59)	—	—
Excess compensation	7.88	—	—
Foreign rate differential	17.03	(1.05)	(0.34)
Other	(0.08)	0.15	(0.33)
General business credit	(17.95)	2.74	8.14
Valuation allowance	72.82	(25.51)	(38.60)
Change in prior year reserves	—	0.40	2.53
Deferred true-up	(11.76)	2.08	5.71
Effective tax rate	39.11 %	(2.01)%	(0.70)%

As of December 31, 2021, the Company recorded a valuation allowance of $40.5 million for the portion of the deferred tax asset that it does not expect to be realized. The valuation allowance on the Company's net deferred taxes increased by $2.2 million and $6.0 million during the years ended December 31, 2021 and 2020, respectively. The changes in valuation allowance are primarily due to additional U.S. deferred tax assets and liabilities incurred in the respective year. The Company has $0.8 million of net deferred tax assets in foreign jurisdictions, which management believes are more-likely-than-not to be realized given the expectation of future earnings in these jurisdictions. The Company continues to monitor the realizability of the U.S. deferred tax assets taking into account multiple factors, including the results of operations and magnitude of excess tax deductions for stock-based compensation. The Company intends to continue maintaining a full valuation allowance on its U.S. deferred tax assets until there is sufficient evidence to support the reversal of all or some portion of these allowances. Release of all, or a portion, of the valuation allowance would result in the recognition of certain deferred tax assets and a decrease to income tax expense for the period the release is recorded.

At December 31, 2021, the Company had approximately $75.9 million and $39.3 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 2039. Approximately $35.4 million of total federal net operating loss carryforwards were generated post December 31, 2017 and have no expiration. At December 31, 2021, the Company had research and development tax credits available to offset federal and California tax liabilities in the amount of $6.9 million and $8.5 million, respectively. Federal credits will begin to expire in 2024 and California state tax credits have no expiration.

Federal and state laws can impose substantial restrictions on the utilization of net operating loss and tax credit carryforwards in the event of an "ownership change," as defined in Section 382 of the Internal Revenue Code. The Company has determined that no significant limitation would be placed on the utilization of the Company's net operating loss and tax credit carryforwards due to prior ownership changes.

No deferred tax liabilities have been recorded relating to the earnings of the Company's foreign subsidiaries since all such earnings are intended to be indefinitely reinvested. The amount of the unrecognized deferred tax liability associated with these earnings is immaterial.

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. Tax years after 2006 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, tax years after 2016 remain subject to examination by their respective tax authorities.

The following table summarizes the activity related to the Company's gross unrecognized tax benefits, excluding related interest and penalties, in December 31, 2019 to December 31, 2021 (in thousands):

	Year Ended December 31,		
	2021	**2020**	**2019**
Balance at beginning of year	$ 1,864	$ 1,426	$ 1,563
Decreases related to prior year tax positions	(37)	(32)	(291)
Increases related to prior year tax positions	—	—	*25*
Increases related to current year tax positions	919	470	129
Balance at end of year	$ 2,746	$ 1,864	$ 1,426

NOTE 8—NET INCOME (LOSS) PER SHARE

As of December 31, 2021, the Company's convertible notes were potentially convertible into 4,167,232 shares of common stock. The Company used the if-converted method to calculate the potential dilutive effect of the conversion spread on diluted net income per share for the year ended December 31, 2021.

The denominator for diluted net income (loss) per share does not include any effect from the capped call transactions the Company entered into concurrently with the issuance of the convertible notes, as this effect would be anti-dilutive. In the event of conversion of a convertible note, shares delivered to the Company under the capped call will offset the dilutive effect of the shares that the Company would issue under the convertible notes.

For the years ended December 31, 2020 and 2019, basic loss per common share and diluted loss per common share are the same in each respective period, as the inclusion of any potentially issuable shares would be anti-dilutive.

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

	Year Ended December 31,		
	2021	2020	2019
Numerator:			
Net income (loss)	$ 2,062	$ (23,877)	$ (12,348)
Denominator:			
Weighted average shares of common stock outstanding used in computing net income (loss) per share, basic	17,891	16,691	14,096
Dilutive effect of incremental shares and share equivalents:			
Options	68	—	—
RSUs	294	—	—
PSUs	104	—	—
ESPP	5	—	—
Weighted average shares of common stock outstanding used in computing net income (loss) per share, diluted	18,362	16,691	14,096
Net income (loss) per share:			
Net income (loss) per share, basic	$ 0.12	$ (1.43)	$ (0.88)
Net income (loss) per share, diluted	$ 0.11	$ (1.43)	$ (0.88)

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

	Year Ended December 31,		
	2021	2020	2019
Capped call	4,167	—	—
Convertible debt	4,167	—	—
Options to purchase common stock	166	244	417
Restricted stock units	32	724	559
Employee stock purchase plan shares	—	87	111
Performance stock units	120	68	178
Total	8,652	1,123	1,265

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 2021, 2020 and 2019, the Company made discretionary contributions under the 401(k) Plan of $0.3 million, $0.2 million and $0.4 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, 2021, 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 makers ("CODM") are its Chief Executive Officer ("CEO") and Chief Financial Officer (“CFO”), who make decisions on allocating resources and in assessing performance. The CEO and CFO review the Company's consolidated results as one operating segment. In making operating decisions, the CODM 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. 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, 2021, 2020 and 2019 (in thousands):

	Year Ended December 31,		
	2021	2020	2019
Revenue mix by geography:			
United States	$ 96,629	$ 61,238	$ 106,372
Japan	70,235	43,265	24,143
Asia, excluding Japan	12,649	10,707	14,414
Europe	19,444	11,185	11,937
Rest of the world, other than United States, Asia and Europe	32,313	21,288	24,846
Total consolidated revenue	$ 231,270	$ 147,683	$ 181,712
Revenue mix by product category:			
Systems	$ 139,633	$ 90,765	$ 140,478
Consumables	16,401	9,287	9,648
Skincare	49,669	25,061	8,512
Total product revenue	205,703	125,113	158,638
Service	25,567	22,570	23,074
Total consolidated revenue	$ 231,270	$ 147,683	$ 181,712

NOTE 11– COMMITMENTS AND CONTINGENCIES

LEASES

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

In February 2016, the FASB issued ASU 2016-2, "Leases," (also known as ASC Topic 842) which requires, among other items, lease accounting to recognize most leases as assets and liabilities on the balance sheet. Qualitative and quantitative disclosures are enhanced to better present the amount, timing and uncertainty of cash flows arising from leases.

The Company adopted ASU 2016-2, as of January 1, 2019, using the modified retrospective method, to all leases existing at the date of initial application. The comparative period information has not been restated and continues to be reported under the accounting standards in effect for the period presented. The new standard provides a number of optional practical expedients in transition. The Company elected the package of practical expedients permitted under the transition guidance within the new standard, which allowed the Company to carry forward the Company's historical conclusions about lease identification, lease classification and initial direct costs. The Company also elected the practical expedient related to land easements, allowing the Company to carry forward the Company's accounting treatment for land easements on existing agreements. The Company did not elect the practical expedient to use hindsight in determining the lease term.

The adoption of the new standard resulted in the recording of additional lease assets and lease liabilities of $10.2 million and $10.1 million, respectively, as of January 1, 2019, based on the present value of the remaining minimum rental payments under current leasing standards for existing operating leases. The difference between the additional lease assets and lease liabilities resulted from rent-free periods which were previously recorded as deferred rent. The Company's accounting for finance leases remained substantially unchanged. The standard had no material impact on the Company's consolidated net earnings, results of operations, comprehensive loss, statements of changes in equity, and cash flows.

Effect of Adoption of the New Lease Standard (ASC Topic *842*) on Consolidated Financial Statements

The following table summarizes the effects of adopting Topic 842 on the Company's consolidated balance sheet as of January 1, 2019 (in thousands):

	As reported under Topic 842	Adjustments	Balances under Prior GAAP
Operating lease right-of-use assets	$ 10,049	$ (10,049)	$ —
Operating lease liabilities	(2,430)	2,430	—
Other long-term liabilities*	—	140	140
Operating lease liabilities, net of current portion	(7,759)	7,759	—

**Deferred rent included in other long-term liabilities*

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

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

Below is supplemental balance sheet information related to leases (in thousands):

		Year Ended December 31,	
		2021	**2020**
Assets	***Classification***		
Right-of-use assets	Operating lease right-of-use assets	$ 14,627	$ 17,076
Finance lease	Property and equipment, net	392	467
Total leased assets		$ 15,019	$ 17,543

		Year Ended December 31,	
		2021	**2020**
Liabilities	**Classification**		
Operating lease liabilities			
Operating lease liabilities, current	Operating lease liabilities	$ 2,419	$ 2,260
Operating lease liabilities , non-current	Operating lease liabilities, net of current portion	13,483	15,950
Total Operating lease liabilities		$ 15,902	$ 18,210

		Year Ended December 31,	
	Classification	**2021**	**2020**
Finance lease liabilities			
Finance lease liabilities, current	Accrued liabilities	$ 554	$ 370
Finance lease liabilities, non-current	Other long-term liabilities	730	241
Total Finance lease liabilities		$ 1,284	$ 611

Lease costs during the twelve months ended December 31, 2021 and December 31, 2020 (in thousands):

		Year Ended December 31,		
		2021	2020	2019
Finance lease cost	Amortization expense	$ 484	$ 431	$ 704
Finance lease cost	Interest for finance lease	$ 59	$ 63	$ 88
Operating lease cost	Operating lease expense	$ 3,542	$ 3,275	$ 2,892

Cash paid for amounts included in the measurement of lease liabilities during the twelve months ended December 31, 2021 and December 31, 2020 were as follows (in thousands):

		Year Ended December 31,		
		2021	2020	2019
Operating cash flow	Finance lease	$ 56	$ 63	$ 88
Financing cash flow	Finance lease	$ 462	$ 537	$ 649
Operating cash flow	Operating lease	$ 3,092	$ 2,139	$ 2,820

Maturities of lease liabilities

Maturities of operating lease liabilities were as follows as of December 31, 2021 (in thousands):

	Amount
2022	$ 3,121
2023	3,160
2024	2,874
2025	2,875
2026	2,970
Thereafter	3,338
Total lease payments	18,338
Less: imputed interest	(2,436)
Present value of lease liabilities	$ 15,902

Vehicle Leases

As of December 31, 2021, the Company was committed to minimum lease payments for vehicles leased under long-term non-cancelable finance leases as follows (in thousands):

	Amount
2022	$ 601
2023	347
2024	409
2025	22
Total lease payments	1,379
Less: imputed interest	(95)
Present value of lease liabilities	$ 1,284

Weighted-average remaining lease term and discount rate, as of December 31, 2021, were as follows:

Lease Term and Discount Rate	
Weighted-average remaining lease term (years)	
Operating leases	5.8
Finance leases	2.1
Weighted-average discount rate	
Operating leases	4.8 %
Finance leases	6.7 %

Lessor Information related to the Company's system leasing

During fiscal year ended December 31, 2020, the Company entered into leasing transactions, in which the Company is the lessor, offered through the Company's membership program. The Company's leases for equipment rentals were all accounted for as operating leases during the second and third quarters of 2020.

During the fourth quarter ended December 31, 2020, certain of the membership program agreements were amended, granting the customers the exclusive right and option to purchase the leased system from the Company, at any time during the period of twelve months from signing the amended agreement. For contracts signed under the amended membership agreement, the Company classified and accounted for the arrangements as sales-type leases as of December 31, 2020, as the Company determined it is reasonably certain that the customer will exercise the purchase option.

For the sales-type leases, the net investment of the Company's lease receivable is measured at the commencement date and is included in the consolidated balance sheets as a component of Other current assets and prepaid expenses. As of December 31, 2020, the Company recorded $0.7 million of revenue for the sales-type leases in the consolidated statement of operations and the related lease receivable in other current assets of the consolidated balance sheet. There was no revenue recognized from the sales-type lease arrangement in fiscal year 2021. During fiscal year 2021 the company received a full payment of $0.4 million from customers who exercised the purchase option. As of December 31, 2021, the lease receivable balance included in Other current assets of the consolidated balance sheet was $0.3 million.

The revenue related to non-lease components, which comprise service contracts and consumables, are deferred and recognized either over time or at the point of delivery. The non-lease component revenue amount as of December 31, 2021 was immaterial.

Equipment lease revenue for operating lease agreements is recognized over the life of the lease. The following table summarizes the amount of operating lease income included in product revenue in the accompanying consolidated statements of operations (in thousands):

	Year Ended December 31, 2021	Year Ended December 31, 2020
Operating lease income from equipment rentals	$ 149	$ 367

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 an agreed-upon period. These periods 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.

Indemnifications

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

In November 2019, the Company's former Executive Vice President and CFO Sandra A. Gardiner announced her resignation from the Company. On November 7, 2019, Ms. Gardiner filed an arbitration demand against the Company in connection with the terms of her employment and resignation. The Company settled this matter with Ms. Gardiner during the second quarter of 2020 with a cash payment of $0.4 million and issuance of 15,408 shares of common stock.

As of December 31, 2021 and 2020, the Company had accrued $0.7 million and $0.4 million, 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.

On January 31, 2020, Cutera filed a lawsuit against Lutronic Aesthetics in the United States District Court for the Eastern District of California. Lutronic employs numerous former Cutera employees. The complaint against Lutronic generally alleges claims for (1) misappropriation of trade secrets in violation of state and federal law; (2) violation of the Racketeer Influenced and Corrupt Organizations Act (RICO); (3) interference with contractual relations; (4) interference with prospective economic advantage; (5) unfair competition; and (6) aiding and abetting. On March 13, 2020, the court entered a temporary restraining order against Lutronic generally prohibiting it from using or disseminating Cutera confidential, proprietary, or trade secret information. The order also prohibits Lutronic, for 2 years, from using such information for the purpose of soliciting, or conducting business with, certain specified customers. At the parties' request, the Court subsequently entered a preliminary injunction providing for the same restrictions in the restraining order. On February 9, 2022, Cutera filed a motion seeking leave from the court to file a second amended complaint. In addition to the above-referenced claims against Lutronic Aesthetics, the proposed amended complaint alleges additional claims against it, including (1) violation of the Lanham Act; (2) unlawful business practices; (3) false advertising; and (4) trademark infringement. The proposed amended complaint also seeks to add Lutronic Corporation (the Korean parent company of Lutronic Aesthetics) as an additional defendant, and also alleges against it the above-described claims for misappropriation of trade secrets, violation of RICO, interference with contractual relations and prospective economic advantage, unfair competition, and aiding and abetting. Discovery is ongoing. No trial date has been scheduled.

NOTE 12—DEBT

Convertible notes, net of unamortized debt issuance costs

In March 2021, the Company issued $138.3 million aggregate principal amount of convertible senior notes ("convertible notes") due on March 15, 2026 in a private placement offering. The convertible notes bear interest at a rate of 2.25% per year payable semiannually in arrears on March 15 and September 15 of each year, beginning on September 15, 2021. Upon conversion, the convertible notes will be convertible into cash, shares of the Company's common stock or a combination thereof, at the Company's election. The convertible notes are presented as convertible notes, net of unamortized debt issuance costs, on the consolidated balance sheet. Proceeds from the offering were $133.6 million, net of issuance costs, including initial purchasers fees.

Initially, each $1,000 principal amount of Notes was convertible into 30.1427 shares of the Company's common stock at a conversion price of $33.18 per share. The conversion rate for the convertible notes is subject to adjustment for certain events as set forth in the Indenture governing the convertible notes. The convertible notes will mature on March 15, 2026, unless earlier converted, redeemed, or repurchased in accordance with the terms of the convertible notes. No sinking fund is provided for the Notes. As of December 31, 2021, the net carrying amount of the Company's convertible notes was $134.2 million and the unamortized debt issuance costs were $4.0 million.

Holders may convert their Notes at their option prior to the close of business on the business day immediately preceding December 15, 2025, in multiples of $1,000 principal amount, only under the following circumstances:

- During any fiscal quarter commencing after the fiscal quarter ended on June 30, 2021 (and only during such fiscal quarter), if the last reported sale price of the common stock for at least 20 trading days (whether or not consecutive) during a period of 30 consecutive trading days ending on and including, the last trading day of the immediately preceding fiscal quarter, is greater than or equal to 130% of the conversion price for the convertible notes on each applicable trading day;
- During the five-business day period after any five consecutive trading day period (the “measurement period”) in which the “trading price” per $1,000 principal amount of convertible notes for each trading day of the measurement period was less than 98% of the product of the last reported sale price of the Company's common stock and the conversion rate on each such trading day;
- The Company calls such convertible notes for redemption, at any time prior to the close of business on the second scheduled trading day immediately preceding the redemption date; or
- Upon the occurrence of specified corporate events.

On or after December 15, 2025, and until the close of business on the second scheduled trading day immediately preceding the maturity date, holders may convert all or any portion of their Notes, in multiples of $1,000 principal amount, at the option of the holder regardless of the foregoing circumstances.

The circumstances described in the first bullet of the paragraph above were met during the second and third quarters of 2021 as the Company's stock traded at a price in excess of the conversion price for the required number of days during each of those quarters. These circumstances were not met during the fourth quarter of 2021. As a result, holders of the Notes had the right to convert their Notes beginning July 1, 2021 and ending on December 31, 2021. As of December 31, 2021, the Notes are not convertible and this condition will remain until March 31, 2022. The Notes may become convertible in future periods. Upon any conversion requests of the convertible notes, the Company would be required to pay or deliver, as the case may be, cash, shares of its common stock, or a combination of cash and shares of its common stock, at the Company’s election with respect to such conversion requests. To the extent there are any conversion requests in the year ending December 31, 2022, the Company intends to settle such conversion requests in shares of common stock. Therefore, as of December 31, 2021, the convertible notes have been included as Long-term debt on the consolidated balance sheet.

The Company may not redeem the convertible notes prior to March 20, 2024. On or after March 20, 2024, the Company may redeem for cash all or any portion of the Notes, at the Company’s option, if the last reported sale price of the Company’s common stock has been at least 130% of the conversion price then in effect for at least 20 trading days (whether or not consecutive) during any 30 consecutive trading day period (including the last trading day of such period) ending on, and including, the trading day immediately preceding the date on which the Company provides notice of redemption at a redemption price equal to 100% of the principal amount of the Notes to be redeemed, plus accrued and unpaid interest to, but excluding, the redemption date. If the Company elects to redeem fewer than all of the outstanding Notes, at least $50.0 million aggregate principal amount of Notes must be outstanding and not subject to redemption as of the relevant redemption notice date.

If a fundamental change occurs, note holders have the option to require the Company to repurchase any portion or all of their convertible notes in $1,000 principal increments for cash. The price for such repurchase is calculated as 100% of the principal amounts of Notes, plus accrued and unpaid interest to the day immediately preceding the Fundamental Change repurchase date. Additionally, holders of the Notes who convert in connection with a fundamental change are, under certain circumstances, entitled to an increase in conversion rate.

The convertible notes are general senior unsecured obligations that rank senior to any of the Company’s indebtedness that is explicitly subordinated to the Notes. The Notes have equal rank in right of payment with all existing and future unsecured indebtedness that is not subordinated to the Notes. The Notes will be junior to any of the Company’s secured indebtedness to the extent of the value of the assets securing such indebtedness. The Notes do not contain any financial or operating covenants or any restrictions on the payment of dividends, the issuance of other indebtedness or the issuance or repurchase of securities by the Company.

The estimated fair value of the convertible notes was approximately $201.0 million as of December 31, 2021. The fair value is based on observable market prices for this debt, which is traded in active markets and therefore is classified as a Level 2 fair value measurement, as defined in Note 1.

The following table presents the outstanding principal amount and carrying value of the convertible notes (in thousands):

	December 31, 2021
Outstanding principal amount	$ 138,250
Unamortized debt issuance costs	(4,007)
Carrying Value	$ 134,243

In connection with issuance of the convertible notes, the Company entered into capped call transactions with certain option counterparties. The capped call transactions are generally intended to reduce the potential dilution of the Company's common stock upon any conversion or settlement of the Notes or to offset any cash payment the Company is required to make in excess of the principal amount upon conversion of the Notes, as the case may be, with such reduction or offset subject to a cap based on the cap price. If the market price per share of the Company's common stock exceeds the cap price of the capped calls transaction, then the Company's stock would experience some dilution and/or the capped call would not fully offset the potential cash payments, in each case to the extent the then-market price per share of its common stock exceeds the cap price. Under the capped call transactions, the Company purchased from the option counterparties capped call options that in the aggregate relate to the total number of shares of the Company's common stock underlying the convertible notes, with a strike price equal to the conversion price of the convertible notes and with an initial cap price equal to $45.5350, which represents a 75% premium over the last reported sale price of the Company's common stock of $26.02 per share on March 4, 2021, with certain adjustments to the settlement terms that reflect standard anti-dilution provisions. The capped call transactions expire over 40 consecutive scheduled trading days ended on March 12, 2026. The capped calls were purchased for $16.1 million. The Company evaluated the capped call transaction under authoritative accounting guidance and determined that it should be accounted for as a separate transaction and classified as a net reduction to Additional paid-in capital within stockholders' equity with no recurring fair value measurement recorded.

The Company early adopted ASU 2020-6, Debt—Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging— Contracts in Entity's Own Equity (Subtopic 815-40). In accordance with Subtopic 470-20 and 815-40, as revised by ASU 2020-6, the Company records the convertible notes in long-term debt with no separation between the Notes and the conversion option. Each reporting period, the Company will determine whether any criteria is met for the note holders to have the option to redeem the Notes early, which could result in a change in the classification of the Notes to current liabilities.

Debt Issuance Cost

The issuance costs related to the convertible notes are presented in the consolidated balance sheet as a direct deduction from the carrying amount of the convertible notes. During the year ended December 31, 2021, the Company incurred direct costs associated with the issuance of convertible notes of $4.7 million.

The issuance costs are amortized using an effective interest method basis over the term of the convertible notes and accordingly the Company recorded approximately $0.7 million of amortization of debt issuance costs during the year ended December 31, 2021.

The effective interest rate on the convertible notes is 2.97%. Interest expense for the year ended December 31, 2021, including the amortization of debt issuance cost, totaled approximately $3.2 million.

Loan and Security Agreement

On July 9, 2020, the Company entered into a Loan and Security Agreement with Silicon Valley Bank for a four-year secured revolving loan facility ("SVB Revolving Line of Credit") in an aggregate principal amount of up to $30.0 million. The SVB Revolving Line of Credit matures on July 9, 2024.

In order to draw on the full amount of the SVB Revolving Line of Credit, the Company must satisfy certain liquidity ratios. If the Company is unable to meet these liquidity ratios, then availability under the revolving line is calculated as 80% of the Company's qualifying accounts receivable. The proceeds of the revolving loans may be used for general corporate purposes. The Company's obligations under the Loan and Security Agreement with Silicon Valley Bank are secured by substantially all of the assets of the Company. Interest on principal amount outstanding under the revolving line shall accrue at a floating per annum rate equal to the greater of either 1.75% above the Prime Rate or five percent (5.0%). The Company paid a non-refundable revolving line commitment fee of $0.3 million, on the effective date of the Loan and Security Agreement with Silicon Valley Bank of July 9, 2020, and the Company is required to pay an anniversary fee of $0.3 million on each twelve-month anniversary of the effective date of the Loan and Security Agreement.

The Loan and Security Agreement with Silicon Valley Bank contains customary affirmative covenants, such as financial statement reporting requirements and delivery of borrowing base certificates, as well as customary covenants that restrict the Company's ability to, among other things, incur additional indebtedness, sell certain assets, guarantee obligations of third parties, declare dividends, or make certain distributions, and undergo a merger or consolidation or certain other transactions. The Loan and Security Agreement also contains certain financial covenants, including maintaining a quarterly minimum revenue of $90.0 million, determined in accordance with GAAP on a trailing twelve-month basis, but which is only applicable if the Company has an outstanding balance under the loan facility.

On March 4, 2021, the Loan and Security Agreement dated July 9, 2020 was amended to (i) permit the Company to issue the Convertible notes and perform its obligations in connection therewith, and (ii) permit the Capped Call transactions.

On or about May 28, 2021, the Loan and Security Agreement was amended. The amendment removed the quarterly minimum revenue requirement but kept in place the other financial covenants.

As of December 31, 2021, the Company had not drawn on the SVB Revolving Line of Credit and the Company is in compliance with all financial covenants of the SVB Revolving Line of Credit.

The Paycheck Protection Program (PPP) Loan

On April 22, 2020, the Company received loan proceeds of $7.2 million pursuant to the Paycheck Protection Program (the "PPP") under the CARES Act. The loan, which was in the form of a promissory note dated April 21, 2020, between the Company and Silicon Valley Bank as the lender, originally matured on April 21, 2022 and bore interest at a fixed rate of 1.00% per annum, payable monthly commencing September 2021. There was no prepayment penalty. Under the terms of the PPP, all or a portion of the principal may be forgiven if the loan proceeds were used for qualifying expenses as described in the CARES Act, such as payroll costs, benefits, rent, and utilities.

The PPP loan and related accrued interest were forgiven in June 2021 under the provisions of the CARES Act, and a $7.2 million Gain on extinguishment of PPP loan was recorded in the consolidated statement of operations.

NOTE 13—SUBSEQUENT EVENTS

The Company has evaluated subsequent events through the date the financial statements were issued, and determined that there have been no events that have occurred that would require adjustments to our disclosures in the consolidated financial statements.

SCHEDULE II CUTERA, INC.
VALUATION AND QUALIFYING ACCOUNTS
(in thousands)
For the Years Ended December 31, 2021, 2020 and 2019

	Balance at Beginning of Year	Additions	Deductions	Balance at End of Year
Deferred tax assets valuation allowance				
Year ended December 31, 2021	$ 38,321	$ 7,503	$ 5,337	$ 40,487
Year ended December 31, 2020	$ 32,350	$ 7,986	$ 2,015	$ 38,321
Year ended December 31, 2019	$ 27,865	$ 7,396	$ 2,911	$ 32,350

	Balance at Beginning of Year	Additions	Deductions	Balance at End of Year
Allowance for credit losses, accounts receivable				
Year ended December 31, 2021	$ 1,598	$ 271	$ 970	$ 899
Year ended December 31, 2020	$ 1,354	$ 2,144	$ 1,900	$ 1,598
Year ended December 31, 2019	$ 1,257	$ 1,361	$ 1,264	$ 1,354

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 the Company's 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 the Company's management, including the Company's 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 the Company's management, including the Company's principal executive officer and principal financial officer, of the effectiveness of the design and operation of the Company's 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 Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") concluded that the Company's disclosure controls and procedures were not effective at the reasonable assurance level as a result of the material weakness disclosed below. Notwithstanding the material weakness, the Company's management, including the CEO and CFO, has concluded that the consolidated financial statements, included in the 2021 Annual Report on Form 10-K, fairly present, in all material respects, our financial condition, results of operations and cash-flows for the periods presented in conformity with generally accepted accounting principles.

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

The Company's 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. The Company's 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 the Company's assets;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP, and that the Company's receipts and expenditures are being made only in accordance with authorizations of the Company's management and directors; and
- 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.

Management, including the Company's CEO and CFO, does not expect that the Company's 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 defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) to provide reasonable assurance regarding the reliability

of the Company’s financial reporting and the preparation of Consolidated Financial Statements for external purposes in accordance with U.S. GAAP.

Management, including Company’s CEO and CFO, assessed the Company’s internal control over financial reporting as of December 31, 2021. Management based its assessment on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework). Management’s assessment included evaluation of elements such as the design and operating effectiveness of key financial reporting controls, process documentation, accounting policies, and the Company's overall control environment. A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the Company’s annual or interim financial statements will not be prevented or detected on a timely basis.

Based on this assessment, management identified a material weakness in the Company’s internal control over financial reporting. This material weakness is related to ineffective information technology general controls (“ITGCs”) in the areas of user access and segregation of duties related to certain information technology (“IT”) systems that support the Company’s financial reporting process at its Japan subsidiary. Although this material weakness did not result in any material misstatement of the Company's consolidated financial statements for the periods presented, it could lead to a material misstatement of account balances or disclosures. Accordingly, management has concluded that this deficiency constitutes a material weakness.

The Company has begun the process of designing and implementing effective internal control measures to improve its internal controls over financial reporting and remediate this material weakness. The Company's efforts include implementing additional controls designed to detect potential material misstatements that may arise as a result of user access and segregation of duties conflicts at the Company's Japan subsidiary.

The effectiveness of the Company’s internal control over financial reporting as of December 31, 2021, 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 during the quarter ended December 31, 2021 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

None

ITEM 9C. DISCLOSURE REGARDING FOREIGN JURISDICTIONS THAT PREVENT INSPECTIONS

Not Applicable.

PART III

Certain information required by Part III is omitted from this report on Form 10-K and is incorporated herein by reference to the Company’s definitive Proxy Statement for the Company’s next Annual Meeting of Stockholders (the “Proxy Statement”), which the Company intends to file pursuant to Regulation 14A of the Securities Exchange Act of 1934, as amended, within 120 days after December 31, 2021.

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by this item is set forth under the following captions in the Company’s Proxy Statement, all of which is incorporated herein by reference: “Proposal No. 1 – Election of Class I Directors”, “Board and Committee Information”, “Executive Officers” and “Additional Information – Stockholder Proposals to be Presented at Next Annual Meeting.”

ITEM 11. EXECUTIVE COMPENSATION

The information required by this item set forth under the following captions in the Proxy Statement, all of which is incorporated herein by reference: “Executive Compensation.”

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by this item is set forth under the following captions in the Proxy Statement, all of which is incorporated herein by reference: “Security Ownership of Certain Beneficial Owners and Management.”

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required by this item is set forth under the following captions in the Proxy Statement, all of which is incorporated herein by reference: “Certain Relationships and Related-Party Transactions.”

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information required by this item is set forth under the following captions in the Proxy Statement, which is incorporated by reference herein by reference: “Proposal No. 2, Ratification of Independent Registered Public Accounting Firm.”

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a) The following documents are filed in Part II of the Annual Report on the Original 10-K:

1. Financial Statements: Financial Statements: See "Index to Consolidated Financial Statements" within the Consolidated Financial Statements.

2. Financial Statement Schedules: Financial Statement Schedules; not applicable or the required information is otherwise included in the Consolidated Financial Statements and accompanying notes.

3. Exhibits: The exhibits listed in the accompanying index to exhibits are filed, furnished, or incorporated by reference as part of this Form 10-K. The following is a list of such Exhibits:

Exhibit Index

Exhibit No.	Description
3.1	Amended and Restated Certificate of Incorporation of the Registrant (filed as Exhibit 3.5 to the Company's 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 the Company's 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 the Company's Annual Report on Form 10-K filed on March 25, 2005 and incorporated herein by reference)
4.2	Description of the Registrant's Securities (filed as Exhibit 4.2 to the Company's Annual Report on Form 10-K filed on March 16, 2020 and incorporated herein by reference)
10.1*	Form of Indemnification Agreement for directors and executive officers (filed as Exhibit 10.1 to the Company's 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 the Company's 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 the Company's 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 the Company's 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 the Company's 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 the Company's 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 the Company's Quarterly Report on Form 10-Q filed on November 14, 2005 and incorporated herein by reference)
10.8*	2019 Equity Incentive Plan (filed as Appendix A to the Company's definitive proxy statement on Form 14A filed on April 30, 2019 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 the Company's 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 the Company's 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 the Company's 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 the Company's 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 the Company's 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 the Company's 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 the Company's Quarterly Report on Form 10-Q filed on August 7, 2017 and incorporated herein by reference)
10.16	First Amendment and Wavier to the Loan and Security Agreement dated November 2, 2018 by and between the Company and Wells Fargo Bank, N.A. (filed as Exhibit 10.20 to the Company's Annual Report on Form 10-K filed on March 16, 2020 and incorporated herein by reference)
10.17	Second Amendment and Waiver to the Loan and Security Agreement dated March 11, 2019 by and between the Company and Wells Fargo Bank N.A. (filed as Exhibit 10.21 to the Company's Annual Report on Form 10-K filed on March 16, 2020 and incorporated herein by reference)
10.18*	Employment Offer Letter dated June 22, 2019 by and between Cutera, Inc. and David Mowry (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed on July 10, 2019 and incorporated herein by reference)
10.19*	Change of Control and Severance Agreement dated July 8, 2019 by and between Cutera, Inc. and David Mowry (filed as Exhibit 10.2 to the Company's Current Report on Form 8-K filed on July 10, 2019 and incorporated herein by reference)
10.20*	Consulting Agreement between Cutera, Inc. and FLG Partners, effective November 11, 2019 (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed on November 18, 2019 and incorporated herein by reference)
10.21	Purchase Agreement, dated April 16, 2020, by and between Cutera, Inc., and Piper Sandler & Co. (filed as Exhibit 1.1 to the Company's Current Report on Form 8-K filed on April 21, 2020 and incorporated herein by reference)
10.22	Opinion of Wilson Sonsini Goodrich & Rosati, Professional Corporation (filed as Exhibit 5.1 to the Company's Current Report on Form 8-K filed on April 21, 2020 and incorporated herein by reference)
10.23	Promissory Note dated April 21, 2020, between Cutera, Inc. and Silicon Valley Bank (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed on April 24, 2020 and incorporated herein by reference)
10.24	Cutera, Inc. 2019 Equity Incentive Plan (amended and restated as of June 15, 2020) (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed on June 17, 2020 and incorporated herein by reference)
10.25	Loan and Security Agreement, dated as of July 9, 2020, by and among Cutera, Inc., as borrower, and Silicon Valley Bank, as lender (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed on July 13, 2020 and incorporated herein by reference)
10.26	Third Amendment to Lease by and between Cutera, Inc. and BMR-Bayshore Boulevard LP, successor-in-interest Gal-Brisbane, L.P. (filed as Exhibit 10.2 to the Company's Current Report on Form 8-K filed on July 13, 2020 and incorporated herein by reference)
10.27*	Employment Offer Letter dated July 29, 2020 by and between Cutera, Inc. and Rohan Seth (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed on August 7, 2020 and incorporated herein by reference)
10.28*	Change of Control and Severance Agreement dated July 29, 2020 by and between Cutera, Inc. and Rohan Seth (filed as Exhibit 10.2 to the Company's Current Report on Form 8-K filed on August 7, 2020 and incorporated herein by reference)

10.29	Indenture, dated as of March 9, 2021, between Cutera, Inc. and U.S. Bank National Association, as trustee (filed as Exhibit 4.1 to the Company's Current Report on Form 8-K filed on March 9, 2021 and incorporated herein by reference)
10.30	Purchase Agreement, dated March 4, 2021, between Cutera, Inc. and Stifel, Nicolaus & Company, Incorporated, as representative of the several initial purchasers named in Schedule I thereto (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed on March 9, 2021 and incorporated herein by reference)
10.31	Form of Capped Call Transaction Confirmation (filed as Exhibit 10.2 to the Company's Current Report on Form 8-K filed on March 9, 2021 and incorporated herein by reference)
10.32	Amendment No. 1, dated March 4, 2021, to the Loan and Security Agreement, dated July 9, 2020 by and between Cutera, Inc., and Silicon Valley Bank ((filed as Exhibit 10.3 to the Company's Current Report on Form 8-K filed on March 9, 2021 and incorporated herein by reference))
10.33*	Separation and Release Agreement by and between Cutera, Inc. and Jason Richey (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed on May 12, 2021 and incorporated herein by reference)
10.34*	Employment Offer Letter dated May 19, 2021 by and between Cutera, Inc. and J. Daniel Plants (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed on May 25, 2021 and incorporated herein by reference)
10.35*	Change of Control and Severance Agreement dated May 19, 2021 by and between Cutera, Inc. and J. Daniel Plants (filed as Exhibit 10.2 to the Company's Current Report on Form 8-K filed on May 25, 2021 and incorporated herein by reference)
10.36	Cutera, Inc. 2019 Equity Incentive Plan (amended and restated as of June 15, 2021) (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed on June 21, 2021 and incorporated herein by reference)
10.37	ZO Medical and Cutera Agreement 5 Aug 2013 (filed as Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q filed on August 6, 2021 and incorporated herein by reference)
10.38	ZO Skin Health Amendment 21 Aug 2013 (filed as Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q filed on August 6, 2021 and incorporated herein by reference)
10.39	ZO Skin Health Amendment 25 Jan 2021 (filed as Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q filed on August 6, 2021 and incorporated herein by reference)
10.40	ZO Skin Health Amendment 14 Jun 2021 (filed as Exhibit 10.4 to the Company's Quarterly Report on Form 10-Q filed on August 6, 2021 and incorporated herein by reference)
10.41	Amendment, effective January 1, 2022, to Distribution Agreement dated August 5, 2013, between Cutera Inc., and ZO Skin Health, Inc.

Exhibit No.	Description
23.1+	Consent of Independent Registered Public Accounting Firm
24.1	Power of Attorney
31.3+	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.4+	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	Inline XBRL Instance Document
101.SCH	Inline XBRL Taxonomy Extension Schema Document
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	Inline XBRL Taxonomy Extension Definition Document
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

* Management contract or compensatory plan
\+ Filed herewith

ITEM 16. FORM 10-K SUMMARY

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 the 1th day of March, 2022.

CUTERA, INC.

By: /s/ *DAVID H. MOWRY*
David H. Mowry
Chief Executive Officer

Power of Attorney

KNOW ALL MEN AND WOMEN BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints David H. Mowry, and Rohan Seth, 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/ DAVID H. MOWRY David H. Mowry	Chief Executive Officer and Director (Principal Executive Officer)	March 01, 2022
/s/ ROHAN SETH Rohan Seth	Chief Financial Officer (Principal Financial and Accounting Officer)	March 1, 2022
/s/ J. DANIEL PLANTS J. Daniel Plants	Executive Chairman of the Board of Directors	March 1, 2022
/s/ GREGORY A. BARRETT Gregory A. Barrett	Director	March 1, 2022
/s/ JOSEPH E. WHITTERS Joseph E. Whitters	Director	March 1, 2022
/s/ TIM J. O'SHEA Tim J. O'Shea	Director	March 1, 2022
/s/ KATHERINE S. ZANOTTI Katherine S. Zanotti	Director	March 1, 2022
/s/ SHEILA A. HOPKINS Sheila A. Hopkins	Director	March 1, 2022
/s/ JANET L. WIDMAN Janet L. Widman	Director	March 1, 2022
/s/ JULIANE T. PARK Juliane T. Park	Director	March 1, 2022

CERTAIN IDENTIFIED INFORMATION HAS BEEN OMITTED FROM THIS DOCUMENT BECAUSE IT IS NOT MATERIAL AND (I) WOULD BE COMPETITIVELY HARMFUL TO THE REGISTRANT IF PUBLICLY DISCLOSED OR (II) IS INFORMATION THAT THE REGISTRANT TREATS AS PRIVATE OR CONFIDENTIAL. SUCH INFORMATION HAS BEEN MARKED WITH "[***]" TO INDICATE WHERE OMISSIONS HAVE BEEN MADE.

AMENDMENT TO DISTRIBUTION AGREEMENT

This Amendment (this "**Amendment**") to the Existing Agreement (as hereinafter defined), is made by and between ZO Skin Health, Inc., a California corporation, having its principal place of business at 9685 Research Drive, Irvine, CA 92618 ("**ZO SKIN HEALTH**"), and Cutera, Inc., a Delaware corporation, having its principal place of business at 3240 Bayshore Blvd., Brisbane, CA 94005 ("**Distributor**," and together with ZO SKIN HEALTH, the "**Parties,**" and each, a "**Party**"), effective as of January 1, 2022 ("**Amendment Effective Date**").

WHEREAS, the Parties have entered into a Distribution Agreement, dated August 5, 2013 (the "**Agreement**"), as amended by an amendment effective August 21, 2013 (the "**August 2013 Amendment**"), an amendment effective January 25, 2021 (the "**January 2021 Amendment**"), and an amendment effective June 14, 2021 (the "**June 2021 Amendment**"). The Agreement as amended by the August 2013 Amendment, the January 2021 Amendment and the June 2021 Amendment are collectively referred to herein as the "**Existing Agreement**".

WHEREAS, the Parties hereto desire to amend the Existing Agreement on the terms and subject to the conditions set forth herein.

NOW, THEREFORE, in consideration of the foregoing and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Parties agree as follows:

1. Definitions. Capitalized terms used and not defined in this Amendment have the respective meanings assigned to them in the Existing Agreement.

2. Amendments to the Existing Agreement. As of the Amendment Effective Date, the Existing Agreement is hereby amended and modified as follows:

(a) Section 4.1. of the Existing Agreement is hereby modified by adding the following as Section 4.4(e):

"(e) 2022 Minimum Sales Requirement. For calendar year 2022, Distributor must achieve in-Territory sales of Products and Related Products of at least [***]% of Distributor's actual in-Territory sales of Products and Related Products for the 2021 calendar year (the "**2022 Minimum Sales Requirement**"). Should Distributor fail to achieve the 2022 Minimum Sales Requirement, the Parties shall follow the procedures set forth in Section 4.1(c) of the Existing Agreement as if Distributor failed to achieve a Minimum Purchase Requirement, and the Parties shall have the same rights and obligations as set forth therein in connection with such failure to achieve the 2022 Minimum Sales Requirement."

(b) Section 4.4. of the Existing Agreement is hereby deleted in its entirety and replaced with the following:

"4.4. Business Plan and Reporting.

(a) Business Plan. By March 1, 2022, Distributor shall provide to ZO SKIN HEALTH a business plan ("**Business Plan**") for the promotion, marketing, distribution and sale of Products and Related Products in the Territory during the calendar year of this Amendment. A Business Plan for each subsequent year shall be provided to ZO by October 1st of the preceding year. The Business Plan shall include, at a minimum, those items set forth in Exhibit E, which may be modified unilaterally by ZO SKIN HEALTH upon written notice to Distributor.

(b) Reporting. Not later than the tenth business day of each calendar month, Distributor shall provide ZO SKIN HEALTH with updated in-market activity containing sales by account and sales by Product/SKU data for the prior calendar month. Following the end of each calendar year during the term of this Agreement, but no later than February 15th of the following year, Distributor shall send to ZO SKIN HEALTH a report containing sell in and sell through data by country, to be approved by ZO SKIN HEALTH."

(c) Section 4.8. of the Existing Agreement is hereby deleted in its entirety and replaced with the following:

"4.8. Quarterly Notices, Reports and Forecasts. Distributor shall provide ZO SKIN HEALTH with at least three (3) months' prior notice of all in-market Product and Related Product campaigns and shall provide ZO SKIN HEALTH with such reports of its other activities, competitor activities, and other information regarding the Products and Related Products and the markets for them in the Territory in such detail and with such frequency as ZO SKIN HEALTH shall reasonably require from time to time. In order to help ZO SKIN HEALTH provide inventory on a timely and consistent basis to Distributor, Distributor agrees to provide to ZO SKIN HEALTH on a quarterly basis, a binding three (3) month rolling forward minimum unit-based shipping forecast, as well as an estimated twelve (12) month rolling forecast of Distributor's projected purchase orders on the form attached hereto as Exhibit B, which form, including the information to be contained therein, may be amended by ZO from time to time. Distributor's provision of the above-mentioned estimated forecast shall not be interpreted as a commitment from Distributor to buy any Products or Related Products in excess of Distributor's Minimum Purchase Requirement, unless otherwise agreed to in writing by the Parties; provided, that, ZO may refuse to ship Products to Distributor, in ZO's sole discretion, in the event they exceed any forecast in order to ensure availability of Products to other territories, including the United States."

(d) Section 4.10. of the Existing Agreement is hereby deleted in its entirety and replaced with the following:

"4.10. Free Goods and Discounts. During the term of this Agreement, ZO SKIN HEALTH will provide to Distributor: (a) [redacted]% of Net Sales worth as Free Goods and Related Products and collaterals; and (b) a [redacted]% discount on the Distributor Purchase Prices of Products and Related Products set forth in Exhibit A-1. Free Goods allowances and discounts will be calculated on each order and shall not roll-over from one order to the next, or form one year to the next.

In addition to the foregoing, for calendar year 2022 only, ZO SKIN HEALTH will provide Distributor with a one-time, incremental discount in the aggregate of $[redacted], which shall be calculated as an incremental [redacted]% discount on Distributor's first $[redacted] of purchases made in 2022 for ZO SKIN HEALTH Products and Related Products."

(e) Exhibit A of the Existing Agreement is hereby deleted in its entirety and replaced with Exhibit A as attached hereto.

3. Date of Effectiveness; Limited Effect. This Amendment will become effective as of the Amendment Effective Date. Except as expressly provided in this Amendment, all of the terms and provisions of the Existing Agreement are and will remain in full force and effect and are hereby ratified and confirmed by the Parties. Without limiting the generality of the foregoing, the amendments contained

herein will not be construed as an amendment to or waiver of any other provision of the Existing Agreement or as a waiver of or consent to any further or future action on the part of either Party that would require the waiver or consent of the other Party. On and after the Amendment Effective Date, each reference in the Existing Agreement to "this Agreement," "the Agreement," "hereunder," "hereof," "herein," or words of like import, and each reference to the Existing Agreement in any other agreements, documents, or instruments executed and delivered pursuant to, or in connection with, the Existing Agreement, will mean and be a reference to the Existing Agreement as amended by this Amendment.

4. Miscellaneous.

(a) This Amendment is governed by and construed in accordance with, the laws of the State of California, without regard to the conflict of laws provisions of such State.

(b) This Amendment shall inure to the benefit of and be binding upon each of the Parties and each of their respective permitted successors and permitted assigns.

(c) The headings in this Amendment are for reference only and do not affect the interpretation of this Amendment.

(d) This Amendment may be executed in counterparts, each of which is deemed an original, but all of which constitute one and the same agreement. Delivery of an executed counterpart of this Amendment electronically or by facsimile shall be effective as delivery of an original executed counterpart of this Amendment.

(e) This Amendment constitutes the sole and entire agreement between the Parties with respect to the subject matter contained herein, and supersedes all prior and contemporaneous understandings, agreements, representations, and warranties, both written and oral, with respect to such subject matter.

[REMAINDER OF THIS SECTION SHALL REMAIN BLANK]

IN WITNESS WHEREOF, the Parties have executed this Amendment on the date first written above.

ZO SKIN HEALTH, INC.

ZO SKIN HEALTH, INC.

By: DocuSigned by: Mark Williams 623A80D6F320487...

Name: Mark Williams

Title: President & CEO

CUTERA, INC.

CUTERA, INC.

By: DocuSigned by: Dave Mowry 2C0C61177B4E4E7...

Name: Dave H. Mowry

Title: CEO

EXHIBIT A

PRODUCTS, TERRITORY, MINIMUMS

A. Products. Attached hereto as Exhibit A-1 shall be a list of the ZO Skin Health products subject to this Distribution Agreement. This product list is non-exhaustive and is subject to modification and change at the sole discretion of ZO at any time pursuant to the terms of this Agreement; further, travel size versions of the foregoing may be available at pricing to be provided by ZO from time to time. Additionally, pricing specified in Exhibit A-1 will be then current pricing at the time the list is provided to Distributor. Pricing is subject to change at ZO's sole discretion pursuant to the terms of this Agreement.

B. Territory. The territory shall be Japan and any other territory designated by ZO in writing and agreed to by distributor for the exercise of Distributor's rights and obligations in the Distributor Agreement.

C. Distributor Minimum Purchase Requirements. Distributor Minimum Purchase Requirements of Products within the Territory shall be:

Year	Minimum Purchase Requirement
2021	$[redacted]
2022	$[redacted]
2023 and beyond	$[redacted]

ZO's remedies for Distributor's failure to meet the Minimum Purchase Requirements of Products and Related Products are set forth in Section 4.1 of this Agreement. The above dollar amounts refer to United States Currency.

EXHIBIT A-1

PRODUCT LIST

ITEM NO.	PRODUCT DESCRIPTION	SIZE	Suggested Retail Price	Suggested Price to Customers	DISTRIBUTOR PRICE
GETTING SKIN READY®					
962000	Exfoliating Cleanser *Normal to Oily*	200 mL / 6.7 Fl. Oz.	$[redacted]	$[redacted]	$[redacted]
965000	Hydrating Cleanser *Normal to Dry*	200 mL / 6.7 Fl. Oz.	$[redacted]	$[redacted]	$[redacted]
900300	Gentle Cleanser *All Skin Types*	200 mL / 6.7 Fl. Oz.	$[redacted]	$[redacted]	$[redacted]
900400	Exfoliating Polish	65 g / 2.3 Oz.	$[redacted]	$[redacted]	$[redacted]
900500	Dual Action Scrub	116 g / 4 Oz	$[redacted]	$[redacted]	$[redacted]
928000	Complexion Renewal Pads	60 Pads	$[redacted]	$[redacted]	$[redacted]
900800	Oil Control Pads	60 Pads	$[redacted]	$[redacted]	$[redacted]
920500	Calming Toner *pH Balancer*	180 mL / 6 Fl. Oz.	$[redacted]	$[redacted]	$[redacted]
PREVENT + CORRECT					
905400	Pigment Control Crème (4% HQ)	80 mL / 2.7 Fl. Oz.	$[redacted]	$[redacted]	$[redacted]
906000	Pigment Control + Brightening Crème (4% HQ + 20% Vit C)	81 mL / 2.8 Fl. Oz.	$[redacted]	$[redacted]	$[redacted]
905700	Pigment Control & Blending Crème (4% HQ)	80 mL / 2.7 Fl. Oz.	$[redacted]	$[redacted]	$[redacted]
904200	Daily Power Defense	50 mL / 1.7 Fl. Oz.	$[redacted]	$[redacted]	$[redacted]
904400	Growth Factor Serum	30 mL / 1 Fl. Oz.	$[redacted]	$[redacted]	$[redacted]
912700	Firming Serum	47 mL / 1.6 Fl. Oz.	$[redacted]	$[redacted]	$[redacted]
918400	Wrinkle + Texture Repair	50 mL / 1.7 FL. Oz	$[redacted]	$[redacted]	$[redacted]

904000	Radical Night Repair	60 mL / 2 Fl. Oz.	$[redacted]	$[redacted]	$[redacted]
904000	10% Vitamin C	50 mL / 1.7 Oz.	$[redacted]	$[redacted]	$[redacted]
905200	Exfoliation Accelerator	50 mL /1.7 FL. Oz	$[redacted]	$[redacted]	$[redacted]
941800	Instant Pore Refiner	29 g / 1 Oz.	$[redacted]	$[redacted]	$[redacted]
905100	Enzymatic Peel	50 mL / 1.7 Oz.	$[redacted]	$[redacted]	$[redacted]
940700	Brightalive®	50 mL / 1.7 Oz.	$[redacted]	$[redacted]	$[redacted]
950500	Retinol Skin Brightener (1%)	50 mL /1.7 FL. Oz	$[redacted]	$[redacted]	$[redacted]
950300	Retinol Skin Brightener (0.5%)	50 mL /1.7 FL. Oz	$[redacted]	$[redacted]	$[redacted]
950400	Retinol Skin Brightener (0.25%)	50 mL /1.7 FL. Oz	$[redacted]	$[redacted]	$[redacted]
907000	Acne Control	60 mL / 2 Fl. Oz.	$[redacted]	$[redacted]	$[redacted]
930700	Complexion Clearing Masque	85 g / 3 Oz.	$[redacted]	$[redacted]	$[redacted]
907100	Correct & Conceal Acne Treatment - Light	2.3 g / .09 Oz	$[redacted]	$[redacted]	$[redacted]
907200	Correct & Conceal Acne Treatment - Medium	2.3 g / .09 Oz	$[redacted]	$[redacted]	$[redacted]
907400	Rozatrol®	50 mL / 1.7 Oz.	$[redacted]	$[redacted]	$[redacted]
PROTECT					
919300	Sunscreen + Primer SPF 30	30 mL / 1 Fl. Oz.	$[redacted]	$[redacted]	$[redacted]
902700	Smart Tone Broad Spectrum SPF 50	45 mL / 1.5 Fl. Oz.	$[redacted]	$[redacted]	$[redacted]
902400	Daily Sheer Broad Spectrum SPF 50	45 mL / 1.5 Fl. Oz.	$[redacted]	$[redacted]	$[redacted]
903400	Broad Spectrum Sunscreen SPF 50	118 g / 4 Fl. Oz.	$[redacted]	$[redacted]	$[redacted]
972400	Sunscreen + Powder SPF 30 - Light	2.7 g / 0.09 Oz.	$[redacted]	$[redacted]	$[redacted]
972500	Sunscreen + Powder SPF 30 - Medium	2.7 g / 0.09 Oz.	$[redacted]	$[redacted]	$[redacted]

972600	Sunscreen + Powder SPF 30 – Deep	2.7 g / 0.09 Oz.	$[redacted]	$[redacted]	$[redacted]
SUPPLEMENTARY					
950200	Renewal Crème	50 mL / 1.7 Fl. Oz.	$[redacted]	$[redacted]	$[redacted]
950100	Recovery Crème	50 mL / 1.7 Fl. Oz.	$[redacted]	$[redacted]	$[redacted]
915300	Hydrating Crème	113 g / 4 Oz.	$[redacted]	$[redacted]	$[redacted]
907700	Cellulite Control	150 g / 5.3 Oz.	$[redacted]	$[redacted]	$[redacted]
907600	Body Emulsion	240 mL / 8 Fl Oz.	$[redacted]	$[redacted]	$[redacted]
907900	Intense Eye Repair	15 mL / 0.5 Fl. Oz.	$[redacted]	$[redacted]	$[redacted]
918300	Eye Brightening Crème	15 g / 0.5 Oz.	$[redacted]	$[redacted]	$[redacted]
940300	Growth Factor Eye Serum	15 mL / 0.5 Fl. Oz.	$[redacted]	$[redacted]	$[redacted]
PROGRAMS + KITS					
912100	Daily Skincare Program	4 Product Regimen	$[redacted]	$[redacted]	$[redacted]
926400	Anti-Aging Program	5 Product Regimen	$[redacted]	$[redacted]	$[redacted]
926300	Aggressive Anti-Aging Program	6 Product Regimen	$[redacted]	$[redacted]	$[redacted]
909400	Skin Normalizing System	5 Product Regimen	$[redacted]	$[redacted]	$[redacted]
926500	Complexion Clearing Program	5 Product Regimen	$[redacted]	$[redacted]	$[redacted]
969000	Skin Brightening Program	5 Product Regimen	$[redacted]	$[redacted]	$[redacted]
973330	Skin Brightening Program + Texture	4 Product Regimen	$[redacted]	$[redacted]	$[redacted]
913100	3 Step Peel	6 peels	$[redacted]	$[redacted]	$[redacted]
910500	ZO® Controlled Depth Peel® Kit	12 peels	$[redacted]	$[redacted]	$[redacted]

* This product list is non-exhaustive and is subject to modification and change at the sole discretion of ZO.

EXHIBIT B

PURCHASE ORDER AND ROLLING FORECAST FORM

[To be provided by ZO SKIN HEALTH from time to time.]

* Note: Forms are subject to change.

EXHIBIT E

BUSINESS PLAN GUIDELINES

1. Distributor Mission Statement

2. ZO Brand Positioning in the market and in the Distributors product line, including all Distributor product and service offerings, whether by Distributor or its affiliates

3. Currently Targeted Sales Channels – [redacted]

4. Financial Summary
    - Including without limitation [redacted]

5. Strategy
    - [redacted]

6. Market Analysis
    - [redacted]
    - Current number of [redacted]
    - Distributor estimation of [redacted]

7. Business Expansion Strategy
    - [redacted]

8. Operations
    - Distribution Center and all information pertaining to operations

9. Management Structure

10. Organizational Structure
    - [redacted]

If the Distributor's Territory includes more than one country, the above information shall be provided separately for each country.

* ZO may update these Business Plan Guidelines from time to time.

EXHIBIT G

MONTHLY REPORTING GUIDELINES

** sales should reflect actual net shipments vs. orders*
*** we do not need account names, however, please ensure the unique identifiers for the account can be tracked historically for analysis purposes*
****either names of reps or if there are territory numbers assigned those are fine as well, as long as they can be tracked for analysis purposes*

				2020 Net Sales*											
Account Name or Number**	**Account Type**	**Country**	**Sales Rep or Territory*****	**Jan**	**Feb**	**Mar**	**Apr**	**May**	**Jun**	**Jul**	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**
123456	Plastic Surgeon		Sales Rep 1												

	2020						2021			
	November	December	January	February	March	April	May	June	July	August
BOM Inventory		$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
Shipments										
Receipts										
EOM Inventory	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0

please fill in the yellow items for prior month - ie for December reporting, please fill in your inventory level on November 1st, your net shipments to your accounts and what inventory you received from ZO® during the month of November. IN January you will fill in the information for December and so on

	2020						2021			
Country 1	November	December	January	February	March	April	May	June	July	August
Existing Accounts										
Lost Accounts										
New Accounts										
Total Accounts	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Country 2	November	December	January	February	March	April	May	June	July	August
Existing Accounts										
Lost Accounts										
New Accounts										
Total Accounts	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Country 3	November	December	January	February	March	April	May	June	July	August
Existing Accounts										
Lost Accounts										
New Accounts										
Total Accounts	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Country 4	November	December	January	February	March	April	May	June	July	August
Existing Accounts										
Lost Accounts										
New Accounts										
Total Accounts	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**

fill in for prior month

* This list is non-exhaustive and may be updated by ZO from time to time.

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-3 (No. 333-237552) and Form S-8 (No. 333-114149, 333-123495, 333-132583, 333-141376, 333-149703, 333-158160, 333-187502, 333-206864, 333-221542, and 333-258283) of Cutera, Inc. of our reports dated March 1, 2022, relating to the consolidated financial statements and 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 Francisco, California

March 1, 2022

Exhibit 31.3

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, David H. Mowry, 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 the Company's supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to the Company 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 the Company's 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 the Company's 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 the Company's 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 1, 2022

/s/ DAVID H. MOWRY

David H. Mowry
Chief Executive Officer (Principal Executive Officer)

Exhibit 31.4

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, Rohan Seth, 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 the Company's supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to the Company 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 the Company's 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 the Company's 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 the Company's 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 1, 2022

/s/ ROHAN SETH

Rohan Seth
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, 2021, as filed with the Securities and Exchange Commission, each of the undersigned officers of Cutera, Inc. certifies pursuant to section 1350 of chapter 63 of title 18 of the United States Code, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to his respective knowledge:

(1) the annual report of Cutera, Inc. on Form 10-K for the period ended December 31, 2021, 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 1, 2022

/s/ DAVID H. MOWRY

David H. Mowry
Chief Executive Officer (Principal Executive Officer)

Date: March 1, 2022

/s/ ROHAN SETH

Rohan Seth
Chief Financial Officer (Principal Financial and Accounting Officer)