CUTERA INC
Form 10-K
March 16, 2015
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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, 2014

Commission file number: 000-50644

Cutera, Inc.

(Exact name of registrant as specified in its charter)

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

3240 Bayshore Blvd.

Brisbane, California 94005

(415) 657-5500

(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

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

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

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

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

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

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

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

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

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

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

reporting company)

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

The aggregate market value of the registrant's common stock, held by non-affiliates of the registrant as of June 30, 2014 (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, 2014, was approximately $85 million. For purposes of this disclosure, shares of common stock held by entities and individuals who own 5% or more of the outstanding common stock and shares of common stock held by each officer and director have been excluded in that such persons may be deemed to be "affiliates" as that term is defined under the Rules and Regulations of the Securities Exchange Act of 1934. This determination of affiliate status is not necessarily conclusive.

The number of shares of Registrant's common stock issued and outstanding as of February 28, 2015 was 14,685,960.

DOCUMENTS INCORPORATED BY REFERENCE

Part III incorporates by reference certain information from the registrant's definitive proxy statement for the 2015 Annual Meeting of Stockholders.

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PART I

ITEM 1. BUSINESS

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

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

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

xeo- In 2003, we introduced the *xeo* platform, which can combine pulsed light and laser applications in a single system. The *xeo* is a multi-application platform on which a customer can purchase hand piece applications for the removal of unwanted hair, treatment of vascular lesions, and skin rejuvenation by treating discoloration, improving texture, reducing pore size, and treating fine lines and laxity. This multi-application platform represents the largest contributor to our Product revenue.

Genesis Plus- In 2010, we introduced the *Genesis Plus* platform, which is a dedicated laser system for performing aesthetic skin procedures and for the temporary increase of clear nail in patients with onychomycosis, or toenail fungus. This system features a hand piece that includes real time temperature monitoring of the treatment area, as well as a non-contact distance gauge using dual aiming beams that enhances ease of use. In addition, this system can be used to treat patients with skin concerns such as fine wrinkles, diffuse redness and rosacea.

excel V- In February 2011, we introduced our *excel V* platform, a high-performance, vascular platform designed specifically for the core-market of Dermatologists and Plastic Surgeons. This platform provides a combination of the 532 nanometer, or "nm" green laser with Cutera®'s award-winning 1064 nm Nd:YAG technology, to provide a single,

compact and efficient system that treats the entire range of cosmetic vascular conditions, without the need for costly consumables.

truSculpt- In August 2012, we commenced shipments of our *truSculpt* platform with a 25cm^2 hand piece. *truSculpt* is a high-powered radio frequency ("RF") platform designed for the non-invasive body contouring market. This system is designed to treat all body areas and with its unique electrode design is able to achieve comfortable, uniform heating of the subcutaneous fat. In the fourth quarter of 2012, we commenced shipping a larger 40cm^2 hand piece that enables faster treatments of larger areas. In the third quarter of 2013, we commenced shipping a smaller 16 cm^2 hand piece.

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

enlighten- In December 2014, we introduced our *enlighten* platform, a dual wavelength (1064 nm + 532 nm) and dual pulse duration (750 picosecond, or "ps," and 2 nanosecond, or "ns") laser system for tattoo removal and the treatment of benign pigmented lesions.

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

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

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

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The Structure of Skin and Conditions that Affect Appearance

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

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

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

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

The Market for Non-Surgical Aesthetic Procedures

The market for non-surgical aesthetic procedures has grown significantly over the past several years. The American Society of Plastic Surgeons estimates that in 2013 there were over 13.4 million minimally-invasive aesthetic procedures performed in North America, a 3% increase over 2012 and a 144% increase over 2000.

We believe there are several factors contributing to the growth of these aesthetic procedures:

Aging of the U.S. Population- The "baby boomer" demographic segment ages 50 to 68 in 2014 represented approximately 76 million people, or nearly 25%, of the U.S. population in 2014. The size and wealth of this aging segment, and its desire to retain a youthful appearance, has contributed to the growth in demand for aesthetic procedures.

Broader Range of Safe and Effective Treatments- Technical developments have led to safe, effective, easy-to-use and low-cost treatments with fewer side effects, resulting in broader adoption of aesthetic procedures by practitioners. In addition, technical developments have enabled practitioners to offer a broader range of treatments. These technical developments have reduced the required treatment and recovery times, which in turn have led to greater patient demand.

Broader Base of Customers- Managed care and government payer reimbursement restrictions in the U.S., and similar payment related constraints outside the U.S., may help motivate qualified practitioners from differing specialties to establish or expand their elective aesthetic practices with procedures that are paid for directly by patients. As a result, in addition to the core users such as dermatologists and plastic surgeons, many other non-core practitioners, such as gynecologists, family practitioners, primary care physicians, physicians offering aesthetic treatments in non-medical offices, and other qualified practitioners are offering aesthetic procedures.

Wide acceptance of aesthetic procedures and increased focus on body image and appearance- According to an ASAPS survey in 2010, 51% of Americans (including 53% of women and 49% of men) approved of cosmetic surgery, and 67% of Americans responded that they would not be embarrassed if their friends or family knew they had undergone a cosmetic procedure. Broader social acceptance of aesthetic treatments, and reduced average cost of treatments resulting from competition, have also driven the growth in aesthetic procedures.

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

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

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

Leg and Facial Veins- Current aesthetic treatment methods for leg and facial veins include sclerotherapy and laser and other energy-based treatments. With these treatments, patients seek to eliminate visible veins and improve overall skin appearance. Sclerotherapy requires a skilled practitioner to inject a saline or detergent-based solution into the target vein, which breaks down the vessel causing it to collapse and be absorbed into the body. The need to correctly position the needle on the inside of the vein makes it difficult to treat smaller veins, which limits the treatment of facial vessels and small leg veins. The American Society of Plastic Surgeons estimates that approximately 321,000 sclerotherapy procedures were performed in 2013.

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

Some skin rejuvenation treatments, such as chemical peels and microdermabrasion, can have undesirable side effects. Chemical peels use acidic or caustic solutions to peel away the epidermis, and microdermabrasion generally utilizes sand crystals to resurface the skin. These techniques can lead to stinging, redness, irritation and scabbing. In addition, more serious complications, such as changes in skin color, can result from deeper chemical peels. Patients that undergo these deep chemical peels are also advised to avoid exposure to the sun for several months following the procedure. The American Society of Plastic Surgeons estimates that in 2013, approximately 6.3 million injections of Botulinum Toxin and 2.24 million injections of collagen and other soft-tissue fillers were administered; and 1.16 million chemical peels and 970,000 microdermabrasion procedures were performed.

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

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

Laser and Other Energy-Based Aesthetic Treatments

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

Ablative skin resurfacing is a method of improving the appearance of the skin by removing the outer layers of the skin. Ablative skin resurfacing procedures are considered invasive or minimally invasive, depending on how much of the epidermis is removed during a treatment. Non-ablative skin resurfacing is a method of improving the appearance of the skin by treating the underlying structure of the skin without damaging the outer layers of the skin. Practitioners

can use laser and other energy-based technologies to selectively target hair follicles, veins or collagen in the dermis, as well as cells responsible for pigmentation in the epidermis, without damaging surrounding tissue. Practitioners can also use these technologies to safely remove portions of the epidermis and deliver heat to the dermis as a means of generating new collagen growth.

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

Energy Level- the amount of light or radio frequency emitted to heat a target;
Pulse Duration- the time interval over which the energy is delivered;
Spot Size or Electrode Size- the diameter of the energy beam, which affects treatment depth and area; and
Wavelength or Frequency- the position in the electromagnetic spectrum which impacts the absorption and therefore the effective depth of the energy delivered.

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

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Technology and Design of Our Systems

Our unique *xeo*, *Genesis Plus*, *excel V*, *truSculpt, excel HR* and *enlighten* platforms provide the long-lasting benefits of laser and other energy-based aesthetic treatments. Our technology allows for a combination of a wide variety of applications available in a single system. Key features of our solutions include:

Multiple Applications Available in a Single System- Our platforms feature multiple-applications that enable practitioners to perform a variety of aesthetic procedures using a single device. These procedures include hair removal, vascular treatments and skin rejuvenation including the treatment of discoloration, laxity, fine lines, pore size reduction, and uneven texture. Because practitioners can use our systems for multiple indications, the cost of a unit may be spread across a potentially greater number of patients and procedures and therefore may be more rapidly recovered.

Technology and Design Leadership- We offer innovative laser and other energy-based solutions for the aesthetic market. Our laser technology combines long wavelength, adjustable energy levels, variable spot sizes and a wide range of pulse durations, allowing practitioners to customize treatments for each patient and condition. Our proprietary pulsed light hand pieces for the treatment of discoloration, hair removal and vascular treatments optimize the wavelength used for treatments and incorporate a monitoring system to increase safety. Our *Titan* hand pieces utilize a novel light source that had not been previously used for aesthetic treatments. Our *Pearl* and *Pearl Fractional* hand pieces, with proprietary YSGG technology, represent the first application of the 2790 nm wavelength for minimally-invasive cosmetic dermatology. Further, our *Genesis Plus* platform performs aesthetic skin procedures and temporarily increases clear nail in patients with onychomycosis. The *Genesis Plus* platform contains a hand piece that includes real time temperature monitoring of the treatment area, as well as a non-contact distance gauge using dual aiming beams, for improving the clinical result of the treatment. *excel V* is a stand-alone laser device that combines a new high power green laser with Cutera's award winning Nd:YAG technology, to provide a system that treats the entire range of cosmetic vascular conditions, without the need for costly consumables. *truSculpt* is a mono-polar radio frequency platform and has a unique electrode design that delivers high-powered energy at 1 MHz for the deep and uniform heating of the subcutaneous fat tissues at sustained therapeutic temperatures. This system includes real-time skin temperature sensing and a large 40cm^2 surface area for faster treatments over large areas of the body.

Upgradeable Platform- We have designed some of our products to allow our customers to cost-effectively upgrade to our multi-application systems (*solera* and *xeo*), which provide our customers with the option to add additional applications to their existing systems and provides us with a source of incremental revenue. We believe that product upgradeability allows our customers to take advantage of our latest product offerings and provide additional treatment options to their patients, thereby expanding the opportunities for their aesthetic practices.

Treatments for Broad Range of Skin Types and Conditions- Our products remove hair safely and effectively on patients of all skin types, including harder-to-treat patients with dark or tanned skin. In addition, the wide parameter range of our systems allows practitioners to effectively treat patients with both fine and coarse hair. Practitioners may use our products to treat spider and reticular veins (unsightly small veins in the leg) and small facial veins; perform skin rejuvenation procedures for discoloration, texture, pore size, fine lines, and laxity on any type of skin; and treat toenail fungus. The ability to customize treatment parameters enables practitioners to offer safe and effective therapies to a broad base of their patients.

Ease of Use- We design our products to be easy to use. Our proprietary hand pieces are lightweight and ergonomic, minimizing user fatigue, and allow for clear views of the treatment area, reducing the possibility of unintended damage and increasing the speed of application. Our control console contains a universal graphical user interface with three simple, independently adjustable controls from which to select a wide range of treatment parameters to suit each patient's profile. The clinical navigation user interface on the *xeo* platform provides recommended clinical treatment parameter ranges based on patient criteria entered. And our *Pearl* and *Pearl Fractional* hand pieces include a scanner with multiple scan patterns to allow simple and fast treatments of the face. Risks involved in the use of our products include risks common to other laser and other energy-based aesthetic procedures, including the risk of burns, blistering and skin discoloration.

Strategy

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

Continue to Expand our Product Offering- Though we believe that our current portfolio of products is comprehensive, our research and development group has a pipeline of potential products under development that we expect to commercialize in the future. We launched *GenesisPlus* in 2010, *excel V* in 2011, *truSculpt* in 2012, the *ProWave LX* and *truSculpt* 16 cm^2 hand pieces in 2013 and *excel HR* and *enlighten* in 2014. Such products will allow us to leverage our existing customer call points and provide us with new customer call points which will enhance the productivity of our distribution channels.

Increasing Revenue and Improving Productivity- We believe that the market for aesthetic systems will continue to offer growth opportunities. We continue to build brand recognition, add additional products to our international distribution channel, and are focused on enhancing our global distribution network, all of which we expect will increase our revenue.

Increasing Focus on Practitioners with Established Medical Offices- We believe there is growth opportunity in targeting our products to a broad customer base. However, in response to the 2009 to 2010 global recession, we shifted our focus to core practitioners and physicians with established medical offices. We believe that our customers' success is largely dependent upon having an existing medical practice, in which our systems provide incremental revenue sources to augment their practice revenue. The success of our *excel V* platform has resulted from strong adoption by core customers in dermatology and plastic and reconstructive surgery.

Leveraging our Installed Base - With the introduction of *excel V*, *truSculpt,* and now *excel HR* and *enlighten,* we are able to effectively offer additional platforms into our existing installed base. In addition, each of these platforms allows for potential future upgrades to offer additional indications or capabilities. We believe this program aligns our interest in generating revenue with our customers' interest in improving the return on their investment by expanding the range of applications that can be performed in their practice.

Generating Revenue from Services and Refillable Hand Pieces- Our *Titan* and pulsed-light hand pieces are refillable products, which provide us with a source of recurring revenue from our existing customers. We offer post-warranty services to our customers either through extended service contracts to cover preventive maintenance or through direct billing for parts and labor. These post-warranty services serve as additional sources of recurring revenue.

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Products

Our *CoolGlide*, *xeo*, *solera*, *Genesis Plus*, *excel V*, *truSculpt*, *myQ*, *excel HR* and *enlighten* platforms allow for the delivery of multiple laser and energy-based aesthetic applications from a single system. With our *xeo* and *solera* platforms, practitioners can purchase customized systems with a variety of our multi-technology applications.

The following table lists our currently offered products and each checked box represents the applications that were included in the product in the years noted. In the fourth quarter of 2014, we discontinued the manufacture and sale of the *VariLite* product, but continue to provide services for this product to our existing installed base of customers.

Applications:				**Hair**	**Vascular**	**Skin Rejuvenation**				**Non I**
System Platforms:	**Products:**	**Year:**	**Energy Source:**	**Removal:**	**Lesions:**	**Dyschromia:**	**Texture, Lines and Wrinkles:**	**Skin Laxity:**	**Melasma &Tattoo Removal:**	**Body Conto**
CoolGlide	*CV*	2000	a	x						
	Excel	2001	a	x	x					
	Vantage	2002	a	x	x		x			
xeo	*Nd:YAG*	2003	a	x	x		x			
	OPS600	2003	b			x				
	LP560	2004	b			x				
	Titan S	2004	c					x		
	ProWave 770	2005	b	x						
	AcuTip 500	2005	b		x					
	Titan V/XL	2006	c					x		
	LimeLight	2006	b			x				
	Pearl	2007	d			x	x			
	Pearl Fractional	2008	d				x			
	ProWave LX	2013	b	x						
solera	*Titan S*	2004	c					x		
	ProWave 770	2005	b	x						
	OPS 600	2005	b			x				
	LP560	2005	b			x				
	AcuTip 500	2005	b		x					
	Titan V/XL	2006	c					x		
	LimeLight	2006	b			x				
GenesisPlus		2010	a				x			
excel V		2011	e		x	x	x			

myQ	2011	e			x	
truSculpt	2012	g				x
excel HR	2014	h	x			
enlighten	2014	e			x	

Energy Source: a. 1064nm Nd:YAG laser; b. flashlamp; c. Infrared laser; d. 2790 nm YSGG laser; e. combined frequency-doubled 532 nm and 1064 nm Nd:YAG laser; f. Combined frequency-doubled 532 nm and 940 nm diode laser; g. Radio frequency at 1 MHz; h. combined frequency 755 nm Alexandrite laser and 1064 nm Nd:YAG laser

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

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Control Console

Our control console includes a universal graphical user interface, control system software and high voltage electronics. All *CoolGlide* systems, *Genesis Plus*, *excel V* and some models of the *xeo* platform, include our laser module which consists of electronics, a visible aiming beam, a focusing lens, and an Nd:YAG and/or flashlamp laser that functions at wavelengths that permit penetration over a wide range of depths and is effective across all skin types. The interface allows the practitioner to set the appropriate laser or flashlamp parameters for each procedure through a user-friendly format. The control system software ensures that the operator's instructions are properly communicated from the graphic user interface to the other components within the system. Our high voltage electronics produce over 10,000 watts of peak laser energy, which permits therapeutic effects at short pulse durations. Our *solera* console platform comes in two configurations—*Opus* and *Titan*—both of which include a universal graphical user interface, control system software and high voltage electronics. The *solera Opus* console is designed specifically to drive our flashlamp hand pieces while the *solera Titan* console is designed specifically to drive the *Titan* hand pieces. The control system software is designed to ensure that the operator's instructions are properly communicated from the graphical user interface to the other components within the system and includes real-time calibration to control the output energy as the pulse is delivered during the treatment. Our *truSculpt* control console includes a high-powered, mono-polar RF generator at 1MHz capable of delivering up to 300 watts of energy. The truSculpt system dynamically adjusts current, voltage and power during treatment as needed to reach and maintain the appropriate treatment levels.

Hand Pieces

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

excel V Hand Piece- The *excel V* system introduced in February 2011 delivers 1064 nm and 532 nm laser energy to the treatment area for vascular treatments. The *excel V* system supports two hand pieces, both consisting of an energy-delivery component housing an optical fiber and lens. One hand piece includes a sapphire window cooling plate with temperature monitoring. The second hand piece does not have a cooling plate and includes a non-contact temperature sensor to monitor the treatment area temperature. In addition, this second hand piece includes dual aiming beams that facilitate consistent treatments by maintaining the correct distance of the hand piece to the skin. Both hand

pieces offer a spot size range from 1.5 to 12 mm in 0.1 mm increments. Each hand piece is capable of delivering either the 1064 nm or 532 nm laser energy.

Genesis Plus Hand Piece- Our *Genesis Plus* system launched in 2010 delivers 1064 nm laser energy to the treatment area for the temporary increase of clear nail in patients with onychomycosis and for the treatment of fine wrinkles, diffuse redness and rosacea. This lightweight 1064nm Nd:YAG hand piece consists of an energy-delivery component, housing an optical fiber and lens. The hand piece includes a non-contact temperature sensor to monitor the treatment area temperature. In addition, the hand piece includes dual, coaxial aiming beams that facilitate consistent treatments by maintaining the correct distance of the hand piece to the skin. This hand piece offers a single 5 mm spot size.

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

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

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

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

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

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

truSculpt Hand Pieces- The *truSculpt* product introduced in August 2012 is used for the non-invasive heating of subcutaneous fat tissue. We sold three different *truSculpt* hand pieces in 2013. The original 25cm^2 hand piece (now discontinued), 40 cm^2 for larger body parts and the 16cm^2 for smaller parts of the body. Each of the *truSculpt* hand pieces is light weight and ergonomically designed for operator comfort, which allows for the uniform heat distribution delivered by the hand pieces. In addition, the hand pieces have a built-in, real time, temperature sensing system to monitor the temperature during the treatment.

excel HR Hand Piece- The dual wavelength *excel HR* system introduced in June 2014 delivers 1064 nm and 755 nm laser energy to the treatment area for hair removal. *excel HR's* single hand piece consists of an energy-delivery component housing an optical fiber and lens. The hand piece features a sapphire window and peripheral cooling plate with temperature monitoring. The sapphire window allows for 30 watts of temperature regulation with user selectable settings ranging from 4 to 20 degrees centigrade and provides cooling of the skin before, during, and immediately after each laser pulse. This "pre, parallel, and post" cooling provides an anesthetic benefit that makes treatments more comfortable than systems without contact cooling, and also increases the safety profile of treatments by reducing the chances of burning skin. The hand piece has a wide spot-size range between 3 to 18 mm (5 to 18 mm, alexandrite mode), and is adjustable in 1 mm increments.

enlighten Hand Piece- The dual wavelength and dual pulse mode *enlighten* system introduced in December 2014 delivers 532 nm and 1064 nm laser energy to treat benign pigmented lesions as well as the removal of multi-color tattoos. *enlighten's* single hand piece consists of an energy-delivery component housing a motorized focus lens assembly connected to an articulated arm. The hand piece features spot size adjustability from 2 to 8mm, adjustable in 1 mm increments. As with all Cutera laser and light-based systems, the hand piece does not require manual power calibration through a separate calibration port. The power calibration is automatic and built into the laser system.

Upgrades

Our *solera* and *xeo* platforms are multi-application products that are designed to allow our customers to cost-effectively upgrade to our newest technologies, which provide our customers the option to add applications to their system and provides us with a source of recurring revenue.

Service

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

Titan and truSculpt Hand Piece Refills

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

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Fillers and Cosmeceuticals

We distribute ZO Skin Health, Inc.'s ("ZO") physician-dispensed, topical skin health systems (or 'cosmeceuticals') and through the second quarter of 2014, we also distributed Merz's *Radiesse®* dermal filler product to physicians in the Japanese market. Since the first quarter of 2010 we had been distributing Obagi Medical Products, Inc.'s ("Obagi") cosmeceuticals. As of December 31, 2013 we stopped distributing the Obagi cosmeceuticals and have fully transitioned to the ZO product line.

Our Applications and Procedures

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

Hair Removal- Our laser technology allows our customers to treat all skin types and hair thicknesses. Our 1064 nm Nd:YAG and 755 nm Alexandrite lasers permits energy to safely penetrate through the epidermis of any skin type and into the dermis where the hair follicle is located. Using the universal graphic user interface on our control console, the practitioner sets parameters to deliver therapeutic energy with a large spot size and variable pulse durations, allowing the practitioner to treat fine or coarse hair. Our 1064nm Nd:YAG and 755 nm Alexandrite hand pieces allows our customers to treat all skin types, while our *ProWave 770* and *ProWave LX* hand pieces, with pulsed light technology, treat the majority of skin types quickly and effectively.

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

Vascular Lesions- Our laser technology allows our customers to treat the widest range of aesthetic vein conditions, including spider and reticular veins and small facial veins. Our *CoolGlide* and *xeo* 1064nm Nd:YAG hand piece's

adjustable spot size of 3, 5, 7 or 10 millimeters; the *excel V* 1064 nm and 532 nm hand piece with adjustable spot sizes from 1.5 to 12 mm; and the *excel HR* 1064 nm and 755 nm hand pieces with adjustable spot sizes from 3 mm to 18 mm, allows the practitioner to control treatment depth to target different sized veins. Selection of the appropriate energy level and pulse duration ensures effective treatment of the intended target. Our *AcuTip 500* hand piece, with its 6 millimeter spot size, uses pulsed-light technology and is designed for the treatment of facial vessels.

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

Skin Rejuvenation- Our Nd:YAG laser and other energy based technologies allow our customers to perform non-invasive and minimally-invasive treatments that reduce redness, pore size, fine lines and laxity, improve skin texture, and treat other aesthetic conditions.

Tattoo Removal- Our *enlighten* dual wavelength, dual pulse duration system featuring picosecond technology and our *myQ* Q-switched laser can be used for tattoo removal, for the treatment of benign pigmented lesions, and for skin rejuvenation and laser skin toning.

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

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

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

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

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

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

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

The 532 nm wavelength green laser option on the *excel V* and the 755 nm infrared wavelength of the *excel HR* can also be used to treat pigmented lesions in substantially the same way as described above with the pulsed light devices.

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

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

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

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

Non-Invasive Body Contouring- our *truSculpt* technology allows physicians to apply a hand piece directly to the skin and deliver high-powered RF energy that results in the deep and uniform heating of the subcutaneous fat tissue at sustained therapeutic temperatures. This heating can cause selective destruction of fat cells, which are eliminated from the treatment area through the body’s natural wound healing processes. The treatment takes approximately 45 minutes and two or more treatments may be required to obtain the desired aesthetic results.

Our CE Mark allows us to market the truSculpt in the European Union, and certain other countries outside the U.S. for fat reduction, body shaping and body contouring. In the U.S. we have 510(k) clearance for the purpose of 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.