SOLTA MEDICAL INC
Form 10-K
March 06, 2013
Table of Contents

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, 2012

Commission File Number: 001-33123

SOLTA MEDICAL, INC.

(Exact name of registrant as specified in its charter)

Delaware	**68-0373593**
(State or other jurisdiction of	**(I.R.S. Employer**

incorporation or organization) **Identification No.)**

25881 Industrial Boulevard,

Hayward, California 94545

(510) 782-2286

(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, Inc.**

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 than 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 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 x No ¨

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

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

Large accelerated filer ¨ Accelerated filer x Non-accelerated filer ¨ Smaller reporting company ¨

Indicate by check mark whether registrant is a shell company (as defined in Rule 12b-2 of the Exchange 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, 2012 (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 Market on that date, was approximately $174.2 million. For purposes of this disclosure, 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, 2013 was 69,494,827.

DOCUMENTS INCORPORATED BY REFERENCE

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

Table of Contents

SOLTA MEDICAL, INC.

ANNUAL REPORT ON FORM 10-K

INDEX

Table of Contents

PART I

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This 2012 Annual Report on Form 10-K includes forward-looking statements, including statements about our introduction of new procedures and associated treatment tips in the future; sales organization growth; growth in international sales and expansion into new international markets; and our belief that our cash, cash equivalents and marketable investments, along with our credit facility will satisfy our anticipated cash requirements. These forward-looking statements are based on our assumptions, expectations and projections about future events only as of the date of this report, and we make such forward-looking statements pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Many of our forward-looking statements include discussions of trends and anticipated developments under the Risk Factors and Management s Discussion and Analysis of Financial Condition and Results of Operations sections of the periodic reports that we file with the SEC. We use the words anticipate, believe, estimate, expect, intend, plan, seek, may and other similar expressior forward-looking statements that discuss our future expectations, contain projections of our results of operations or financial condition or state other forward-looking information. You also should carefully consider other cautionary statements elsewhere in this report and in other documents we file from time to time with the SEC. We do not undertake any obligation to update forward-looking statements to reflect events or circumstances occurring after the date of this report. Actual results may differ materially from what we currently expect because of many risks and uncertainties.

As used in this Annual Report, the terms Solta Medical, Solta, Company, registrant, we, us, and our mean Solta Medical, Inc. and its s unless the context indicates otherwise including those contained in Risk Factors below.

Item 1. ***Business***

Overview

We design, develop, manufacture and market energy-based medical device systems for aesthetic applications. We were incorporated in California on January 11, 1996 as Thermage, Inc. and reincorporated in Delaware on September 10, 2001. The Company commercially launched its first products in October 2002. Our systems are cleared by the U.S. Food and Drug Administration (FDA) for dermatological procedures performed in the physician led, professional assist, and personal care markets for the following applications.

Skin Resurfacing and Skin Rejuvenation. The Fraxel re:pair® system is intended for use in dermatological procedures requiring ablation, coagulation and resurfacing of soft tissue as well as for rhytides, pigmentation and dyschromia. The Fraxel® 1550, Fraxel 1927, and Fraxel DUAL 1550/1927 systems offer treatments for skin conditions such as fine lines and pigmentation. In addition, the Fraxel 1550 system offers treatments for acne and surgical scars, deeper lines and wrinkles while the Fraxel 1927 system is cleared for the treatment of actinic keratoses. The Clear + Brilliant system is a new approach to skin laser enhancement that offers a more superficial, less aggressive treatment to improve skin texture and help prevent the signs of aging skin.

Skin Tightening and Body Contouring. The Thermage CPT® system provides non-invasive treatment options using radiofrequency (RF) energy for skin tightening. The Liposonix® system utilizes high-intensity focused ultrasound (HIFU) in a non-invasive standalone treatment that permanently destroys unwanted fat cells resulting in waist circumference reduction. The VASER Lipo System, VASER Smooth, VASER Shape, PowerX, TouchView, and Origins product lines are a comprehensive collection of surgical and non-surgical body shaping products, utilizing state-of-the-art ultrasound energy to selectively remove unwanted fat

Acne. The Isolaz® system combines vacuum with broadband light and is indicated for the treatment of inflammatory acne, comedonal acne and mild to moderate inflammatory acne in all

Table of Contents

skin types. The CLARO device is a consumer handheld device that utilizes intense pulsed light (IPL) and has FDA over-the-counter clearance for the treatment of mild-to-moderate inflammatory acne.

The physician led market is represented by medical practices where patients are treated for indications using advanced technologies that require a high degree of medical education for proper administration. Additionally, patients seeking treatments in this segment may have indications that require a diagnosis or the professional discretion of a medical doctor. Procedures are typically corrective in nature and produce significant results in relatively few treatments. These procedures are usually administered by the medical doctor directly rather than ancillary staff, but may be delegated to registered nurses or nurse practitioners where permitted by law. Doctor s offices, hospitals, clinics, and medical spas closely overseen by a doctor are examples of treatment centers that address the physician led market.

The professional assist market includes medical practices and businesses that offer medical or aesthetic services by a trained professional provider. In addition to the doctor, the procedures may be administered by ancillary staff including nurses, nurse practitioners, aestheticians and laser technicians, where permitted by law. Procedures are typically preventive in nature providing some corrective benefits within a series of treatments. This business model provides the opportunity for the doctor to delegate daily operations and certain procedures to qualified ancillary staff instead of directly performing all treatments. Delegation of these procedures allows for a potentially lower price point for less corrective and more preventive treatments, thus attracting a different patient demographic. Health spas, medical spas and nail/hair salons are examples of businesses that fall into this category.

The personal care market is represented by retail products and devices that can be purchased at select retailers and used by consumers at home. This market appeals to consumers looking for a more accessible, convenient, and usually less expensive treatment option that they can do themselves in the comfort of their own home. Devices in this market may utilize a professional technology, but in a more compact, handheld, lower-power version. Results using personal care devices and products are typically more gradual, less dramatic, and require more treatments than a similar professionally administered treatment. Products in this market are sold directly to consumers in the retail space.

Each of our professional systems consists of one or more handpieces, a console that incorporates a graphical user interface, an energy source and electronics, and a disposable treatment tip. We market our systems and treatment tips in the United States to physician practices primarily through a direct sales force and internationally in over 100 countries through both a network of distributors and direct sales personnel. Our customers consist primarily of dermatologists and plastic surgeons and our expanded customer base includes other specialties such as general and family practitioners, gynecologists, ophthalmologists and others. As of December 31, 2012, we had a global installed base of over 9,300 systems.

Table of Contents

The Structure of Skin and Connective Tissue

The skin is comprised of the epidermis, dermis and the hypodermis, or subcutaneous fat layer. The top two layers of skin, the epidermis and dermis, together are known as the cutis and on most areas of the body are approximately two to three millimeters thick. The dermis contains blood vessels, hair follicles and other skin components. The deepest layer of the skin, the hypodermis, contains 50% of the body s fat cells. The hypodermis also contains collagen strands, or fibrous septae, that connect the dermis to the underlying bone and muscle. Collagen has been shown to be a very flexible and stretchable protein with high tensile strength. The following diagram illustrates the basic anatomy of the skin:

Electromagnetic radiation, specifically light and heat, applied to the different layers of the skin can have an effect on the skin s appearance. Many factors, such as advancing age, smoking, and exposure to damaging environmental factors such as the sun, can result in enlargement or swelling of blood vessels, deterioration of collagen that enables formation of wrinkles and sagging tissue, and uneven pigmentation or sun spots. Devices such as aesthetic lasers have been designed to generate light waves to deliver heat through the epidermis, into the dermis, for removal of hair, vein treatment and other aesthetic applications. Gels, coolants and other means are used to protect the epidermis from burning during this process. Delivery of heat below the dermis, into the subcutaneous fat layer, has been accomplished using other forms of energy for aesthetic effect.

Light and heat can also be used to treat acne, one of the most prevalent skin diseases today. Acne is a skin disease that affects the skin s sebaceous glands. *Acne Vulgaris*, the most common form of acne, is caused when hair follicles in the skin become plugged, usually due to hormonal changes. The condition is most common during adolescence but can occur at any age. Hormonal changes increase oil production (sebum) which conspires with dead skin cells to plug pores The sebaceous (oil) glands continue to produce more oil in the plugged pore and the area becomes a perfect breeding ground for acne. Once the pore is plugged, a common skin bacteria, *P. Acnes,* begins to proliferate and produce porphyrins, which cause even more swelling. The infection then causes pimples and other permanent scars if not properly treated. The bacteria that causes acne, *P. Acnes*, is particularly susceptible to certain wavelengths of blue and red light. Additionally, heat can also destroy these bacteria.

The Market for Aesthetic Procedures to Treat the Skin

The American Society for Aesthetic Plastic Surgery reports that in 2011, total expenditures for aesthetic procedures in the U.S. were almost $10 billion. From 1997 to 2011 the total number of aesthetic procedures increased from approximately 1.7 million to approximately 9.2 million procedures, representing approximately a 12.8% compounded annual growth rate. Non-surgical aesthetic procedures were primarily responsible for the overall increase, rising from approximately 741 thousand to approximately 7.6 million procedures over the same period, representing approximately an 18% compounded annual growth rate. We believe there are several factors that have contributed to this historical growth of non-invasive and minimally-invasive aesthetic procedures, including:

Aging of the U.S. Population. The baby boomer demographic segment, defined by the U.S. Census as those Americans born between 1946 and 1964, represented nearly 30% of the U.S.

Table of Contents

population in 2010. Baby boomers control approximately $2 trillion in spending power and 50% of all discretionary income. We believe that the size and wealth of this aging segment and the desire of many within it to retain a youthful appearance have driven the growth for aesthetic procedures.

Emergence of Non-Traditional Practitioners. The traditional providers of aesthetic procedures include dermatologists and plastic surgeons. In 2011, there were approximately 18,550 physicians within the specialties of dermatology and plastic surgery according to the American Board of Medical Specialties. Manufacturers of aesthetic systems have placed an increasingly important focus on sales to other physician groups including family practitioners, obstetricians and gynecologists, and general surgeons. Additionally, physician directed medspas and non-medical day spas have entered the aesthetics market.

Broader Range of and Accessibility to Safe and Effective Treatments. Technological developments have made non-invasive treatment alternatives increasingly safe and effective. These technological developments have also reduced the required treatment and recovery time from invasive surgical procedures, which in turn have led to greater patient demand. These factors, along with the easy-to-use and low-cost nature of these products, have attracted both traditional and non-traditional practitioners to aesthetic procedures.

Market Shift Towards Less Invasive Procedures. Market trends confirm that patients are moving away from invasive procedures towards minimally-invasive or non-invasive treatments. According to the American Society for Aesthetic Plastic Surgery, there was almost a 200% increase in the total number of minimally-invasive procedures such as injectable, skin resurfacing and laser procedures from 1997 2011. There were also more than 297,000 non-invasive tightening procedures done in 2011, a 20.3% increase from 247,000 in 2010.

Changing Practitioner Economics. Managed care and government payer reimbursement restrictions in the United States, and similar payment-related constraints outside the United States, are motivating practitioners to establish or expand their elective aesthetic practices with procedures that are paid for directly by patients. We expect this trend to continue as physicians look for ways to expand their practices.

Increasing Acceptance of Aesthetic Procedures. Mass-market television shows like *Extreme Makeover, The Doctors* and *10 Years Younger* reflect the mainstream acceptance of aesthetic procedures. Additionally, features in many popular television and print media have the effect of widely advertising the aesthetic procedures undertaken by celebrities, enhancing the glamour associated with and demand for self-improving treatments.

Similar market trends also exist outside the United States, where demand for non-invasive and minimally-invasive aesthetic procedures has also experienced strong growth. Manufacturers of these aesthetic devices typically derive one-third to one-half of their revenue from international sales.

Aesthetic Procedures for Skin and Their Limitations

Many medical treatments are available to treat wrinkles, rejuvenate the skin, improve body contours and give a patient a more youthful appearance. The most popular treatments include invasive surgical procedures, minimally-invasive needle injections and a variety of other procedures, many of which are energy-based.

Surgical Procedures

Of the various aesthetic alternatives for reducing wrinkles and rejuvenating appearance, invasive surgical procedures, such as cosmetic eyelid surgery, tummy tucks and facelifts, can create the most pronounced

Table of Contents

and long-lasting changes in appearance. They are performed by plastic surgeons with the patient under anesthesia. Compared to alternative treatments, however, invasive surgical procedures are expensive, costing thousands of dollars, and can involve weeks of post-surgical recovery and time away from work. They carry risk of infection, adverse reactions to anesthesia and hematoma, or accumulation of blood under the skin that may require removal.

Injections

Popular alternatives for temporarily improving appearance and reducing wrinkles include toxins, such as Botox®, and soft tissue fillers, such as Restylane® and Juvederm®, that are injected into the skin. These injections are typically administered by dermatologists at a cost of several hundred dollars. In most instances, they involve little or no restricted recovery time for the patients. The effects of these procedures are temporary, however, and require repeat treatment, with Botox lasting from three to four months and injectable fillers typically lasting from three to six months.

Chemical Peels and Microdermabrasion

Chemical peels use acidic solutions to peel away the epidermis and microdermabrasion generally utilizes small sand crystals to resurface the skin. These techniques can lead to stinging, redness, irritation and scabbing, and more severe complications such as changes in skin color. In addition, patients undergoing these treatments are often required to avoid sun exposure for several months following a procedure.

Laser and Light-based Procedures

Lasers and light-based skin rejuvenation procedures typically involve the process of damaging the patient s skin in a controlled manner in order to induce the skin s natural wound-healing process. The objective is to stimulate the growth of new skin, resulting in a more youthful appearance.

One approach to skin resurfacing, referred to as a bulk ablative approach, is to completely remove one or more layers of the skin in the treatment area. This procedure is often limited to patients with light skin and is rarely used off the face. Bulk CO2 laser treatments are one example of this approach. Bulk CO2 laser procedures and other bulk ablative procedures can be effective in rejuvenating the skin, however they often expose patients to substantial pain, long healing times and substantial risk of complications. Bulk ablative procedures can cause bleeding and oozing following a treatment, resulting in significant wound care and associated downtime for the patient. Adverse side effects may include infection, scarring and other possible complications such as hypopigmentation, which is a permanent or long-lasting whitening of the skin. Bulk ablative procedures are typically performed by experienced plastic surgeons and dermatologists and the number of these bulk ablative procedures performed annually has declined in recent years.

A second approach to skin rejuvenation is a bulk non-ablative approach which stimulates the skin s natural wound healing process by mildly damaging collagen in the dermis without breaking or removing one or more layers of the skin. Intense pulsed light treatments are one example of this approach. Intense pulsed light procedures and other bulk non-ablative procedures treat many of the same skin conditions as bulk ablative approaches are less invasive and associated with shorter patient downtime. Nevertheless, intense pulsed light and other bulk non-ablative approaches commonly have drawbacks such as:

Limited effectiveness. Bulk non-ablative procedures are typically less effective than bulk ablative procedures and many bulk non-ablative procedures are not typically used on areas other than the face or on patients with darker skin colors.

Adverse side effects. Possible side effects associated with bulk non-ablative procedures include temporary bruising, localized darkening and scarring of the skin as a result of the indiscriminate bulk nature of the treatment and other factors.

Table of Contents

Inconsistent results. Bulk non-ablative procedures have a narrow therapeutic window because an appropriate treatment setting that produces results for one patient may have a risk of scarring for another while settings that are consistently safe for all patients often result in minimal or no improvement.

Cold lasers and low-level energy lasers can also be used to emulsify subcutaneous fat. To prevent damage to the skin s surface, a lower energy level is used which requires multiple treatments for best results.

Acne Treatment Procedures

Acne is a common skin condition that is most prevalent during adolescence, but can affect persons of all ages. There are a variety of acne treatments available today ranging from over-the-counter medications, prescription medications and energy-based treatments.

Over-the-Counter Medications. When confronted with acne, consumers usually turn to washes and lotions to treat their acne at home. These products generally contain benzoyl peroxide or salicylic acid and can be effective for treating very mild cases of acne and occasional breakouts. Leading products in this category include ProActiv® and Clearasil®. When these treatments prove ineffective, consumers usually turn to a physician for more aggressive treatment.

Prescription Medications. Prescription medications used to treat acne include a variety of antibiotics, retinoids and higher concentrations of some over-the-counter medications. Usually, these are systemic treatments intended to provide long-term acne clearance. Prescription medications can carry side effects. Isotretinoin, for example, is very effective at treating acne, but has been linked to birth defects and psychological problems. Other prescription medications can also have undesired side effects, both short and long term.

Energy-based treatments. IPL and lasers are new options for treating acne. Using light to treat acne is gaining acceptance because of minimal side effects. It can be used on most skin types and may be effective without the need for medications or special washes and cleaners.

Other Treatment Options. In addition to the foregoing, acne can be treated with chemical peels and microdermabrasion.

Non-invasive Fat Reduction Procedures and Their Limitations

Radiofrequency (RF)

RF energy is applied superficially to the treatment area to therapeutically heat the tissue. This type of thermal injury causes an inflammatory response that causes tightening of the skin, collagen and connective tissue. It also increases blood circulation and drainage of fatty deposits through the lymphatic system and thermally induces fat cell apoptosis. However, RF energy has limited efficacy for fat reduction since the energy is highly absorbed in the dermis, making it difficult to penetrate down to the level of subcutaneous fat tissue. Typically several treatments are required when used specifically for fat/cellulite applications. Inconsistent results are common and typically involve only a temporary improvement in the appearance of cellulite rather than a true reduction of fat.

Cavitation Ultrasound

Cavitation is the rapid formation and collapse of gas bubbles in a fluid and is a common effect occurring with low-frequency ultrasound devices. These bubbles are forced to oscillate in size and shape due to the applied

Table of Contents

energy field. While cavitation effects can be used therapeutically to disrupt tissue during fat reduction procedures, cavitation is a relatively uncontrolled process, often creating unpredictable or irregular holes of varying size within and potentially outside the intended focal treatment zone. Cavitation ultrasound devices typically require multiple treatments to achieve the desired results.

Photoporation (Laser/Light) and Sonoporation (Ultrasound)

Photoporation/sonoporation is the use of laser/light or sound energy for modifying the permeability of a cell s plasma membrane. The delivered energy creates tiny pores in the walls of the fat cells, allowing the fatty contents to spill out where they are then processed as fat through the body s normal metabolic processes. Since the created pores are only temporary and the fat cells are otherwise undamaged, fat can return to the area and be restored in the treated fat cells. Photoporation/sonoporation devices typically require multiple treatments to achieve the desired results.

Cryolipolysis

Cryolipolysis exposes fat cells to controlled cooling which results in programmed cell death of subcutaneous fat tissue. The procedure takes about one hour for one application site and does not require anesthesia or recovery time. The treatment area is suctioned into the treatment applicator, so treatment sites are limited to areas that can fit the applicator shape. Following the procedure, the treated area will be cold, hard and shaped like the applicator, and must be massaged back into the patient. Post-treatment pain, bruising and long-lasting numbness have been reported by some patients. Cryolipolysis is a non-thermal process and therefore does not produce any collagen tightening effect.

The Solta Medical Solution

The Solta portfolio of products includes six major brands that are primarily designed for aesthetic applications. The Fraxel re:pair system provides ablative laser skin resurfacing while the non-ablative Fraxel platform and Clear + Brilliant systems provide treatment for skin rejuvenation. The Thermage system provides non-invasive skin tightening and the Liposonix system provides non-invasive body contouring. Isolaz and CLARO provide both professional and consumer treatment options to resolve acne.

Fraxel®

The Fraxel systems utilize fractional resurfacing , which was first introduced and commercialized by Solta. Fractional resurfacing creates thousands of microscopic treatment zones per square centimeter in the skin to stimulate repair and rejuvenation in the tissue by inducing the skin s natural wound-healing response. At the same time, fractional resurfacing spares a significant portion of the tissue in the treatment area, and stimulates the spared tissue around each microscopic treatment zone to rejuvenate and resurface the skin. We believe fractional resurfacing overcomes the safety shortfalls associated with bulk ablative procedures and the efficacy and safety limitations associated with bulk non-ablative approaches by fundamentally changing the method of treatment.

We believe our Fraxel laser systems represent a class of skin rejuvenation therapy that provides patients with effective, consistent results without significant downtime and risk of complications.

Fraxel DUAL 1550/1927 System. Launched in September 2009, the Fraxel DUAL 1550/1927 system provides superior results for large body areas during a single treatment. Prior to the non-ablative Fraxel DUAL 1550/1927 system, laser skin resurfacing procedures were largely limited to the face. Fraxel DUAL 1550/1927 system features two lasers, the first application of aesthetics of the 1927 nm Thulium wavelength and the gold standard 1550 nm laser for clearance of

Table of Contents

pigmentation, actinic keratosis (pre-cancerous lesions), acne scars, and skin texture and tone. The system offers a better safety profile than ablative fractional laser devices, treatment speed that is 25% faster than its predecessor, and cooling built into the handpiece that allows for single operator use.

Fraxel 1550 System. Our Fraxel 1550 system was launched in September 2006 as an improved next generation product to our first system launched in September 2004 and offers a fractional non-ablative treatment utilizing a fiber laser. We believe the Fraxel 1550 system provides an effective solution for skin conditions such as wrinkles, acne scars, skin texture and tone, and pigmentation. This system can be operated at a wide range of treatment levels offering the clinician the versatility to treat both superficial and deep conditions based on the patient s needs and preferences. Our targeted customer base for Fraxel 1550 systems are physicians who have experience with aesthetic lasers or otherwise have practices performing various aesthetic treatments.

Fraxel 1927 System. The Fraxel 1927 system was launched in February 2011 in order to satisfy the demand for the 1927 nm Thulium wavelength in a standalone configuration. The 1927 nm is an effective solution for shallow skin indications such as actinic keratosis. Our targeted customer base for the 1927 system are those doctors that needed a laser to treat superficial skin indications and whose business is not appropriate for a combined Fraxel DUAL 1550/1927 system.

Fraxel re:pair System. Our Fraxel re:pair system offers a fractional ablative treatment utilizing a CO_2 laser. We believe our Fraxel re:pair system produces similar effectiveness to traditional bulk ablative treatments, but with less downtime and risks and greater penetration. The Fraxel re:pair system delivers fractional deep dermal ablation, or FDDA treatment, and fractional micro dermal ablation, or FMDA treatment. It treats the above conditions as well as vascular dyschromia. This system also has the capability to be used for laser surgery or bulk ablative treatments. This system has received an FDA 510(k) clearance for indications requiring ablation, coagulation and resurfacing of soft tissue. Our targeted customer base for the Fraxel re:pair system is physician practices that have significant experience in working with aesthetic lasers and are seeking effective but safer ablative procedures with less downtime than other systems currently offered in the market. Launched in May 2012, the re:pair SST system is an extension to the Fraxel re:pair system. The re:pair SST system offers an updated software platform that introduces an expanded application of a full set of ablative handpieces, including two surgical handpieces, and also includes a single-pass treatment technique for complete, single sweep treatments.

Fraxel Laser Systems Components

Our Fraxel laser systems are comprised of a laser system and a delivery system, including the control console and handpiece. These components generate the laser energy, create individual fractional laser beams and deliver the treatment to the patient according to our optimized treatment parameters.

Fraxel 1550, Fraxel 1927, Fraxel DUAL 1550/1927 laser systems. Our non-ablative Fraxel system consoles each contain a fiber laser which generates laser pulses at 1550 nm and/or 1927 nm wavelengths. The Fraxel DUAL 1550/1927 has both wavelengths built into a single system and single handpiece. These wavelengths were specifically chosen to target water in the skin and to optimize the treatment results of each system. The fiber laser technology is specifically designed to produce a high quality beam of energy that maintains its wavelength accuracy to within a few nanometers. The fiber laser is also highly efficient, with low power requirements that can be provided by a standard wall outlet, and without the need for water cooling. Furthermore, the fiber laser is durable and robust with a long life span, and it is easy to set up and maintain, with no service requirement or need for optical alignments or adjustments.

Table of Contents

Fraxel re:pair laser system. Our Fraxel re:pair laser system utilizes an air-cooled CO_2 laser at 10600 nm. The specific water absorption characteristics of this wavelength in the skin enables the laser to ablate the tissue immediately, creating a needle-like crater and thin zones of coagulation into the dermis. The treatment is made up of deep microscopic ablated zones surrounded by undamaged tissue, rather than a thin, general ablation of the entire surface as typically achieved with traditional CO_2 lasers. By utilizing this fractional deep dermal ablation treatment, we believe treatments with the CO_2 laser can be optimized for safety and shorter patient downtime.

Control Console and Graphical User Interface. Our Fraxel laser systems feature a touch screen graphical user interface that allows the practitioner to select the energy level, treatment level and number of passes. In addition, each system has a dosage feedback system that enables the physician to accurately monitor the total energy delivered to the treatment area by utilizing measurement information obtained from our Intelligent Optical Tracking® System. The console also features a simulation mode for training and patient demonstration.

Handpiece. The laser energy is delivered to our Fraxel laser handpieces, which incorporate our high speed scanner and our Intelligent Optical Tracking System. An additional feature in the non-ablative Fraxel handpieces is an automated spot size control system. This system delivers optimum lesion penetration at each energy setting and minimizes bulk heating and discomfort. The Fraxel DUAL 1550/1927, Fraxel 1927 and Fraxel 1550 now feature integrated cooling through a Zimmer chiller designed into the system. This allows for a single operator to perform the treatment.

Treatment Tips. Our Fraxel laser systems use proprietary consumable treatment tips that attach to the handpiece. To perform a treatment, the physician attaches a treatment tip to the handpiece, which is designed to ensure the treatment is delivered consistently, safely and effectively. We offer large and small tip solutions enabling the physician to treat all areas of the body effectively. The Fraxel re:pair tips are designed to support evacuation of tissue debris from the treatment field and are intended to eliminate any risk of biohazard, due to the ablative nature of the treatment. Each treatment tip contains a proprietary internal erasable programmable read only memory (EPROM), or programmable memory chip, which stores treatment parameters and safety limits in order to optimize performance and safety in the selected treatment. The treatment tip is depleted of its useful life and must be replaced after approximately three to five treatments for the non-ablative Fraxel laser platforms and one to two treatments with the ablative Fraxel re:pair laser system.

Our Fraxel systems provide a number of benefits for physicians and patients seeking to provide or receive skin rejuvenation and resurfacing treatments:

Effective Treatments. Our Fraxel laser systems generate and deliver precise wavelengths of energy that create deep microscopic lesions to target specific skin conditions. Our technology also incorporates precise dosage control, which automatically adjusts the amount, pattern, depth and location of energy delivered into the skin to optimize treatment results and enable consistent results from patient to patient.

Ease of Use. The motion control technology within our Fraxel laser systems enables practitioners to deliver Fraxel laser treatments by performing a simple painting motion on the patient s skin. The motion control technology automatically delivers a consistent level and pattern of energy by compensating for how rapidly the practitioner moves the handpiece, enabling the practitioner to provide a more uniform post-treatment appearance and a reduced treatment time.

Broad Applications. We offer Fraxel laser systems that can treat multiple skin conditions on all skin colors, and can be used on all skin surfaces, while other laser technologies are often confined

Table of Contents

to facial applications. Our Fraxel laser systems have gained FDA 510(k) clearance for the treatment of multiple skin conditions and we are continually evaluating additional opportunities.

Enhanced Safety. Technologies contained in our Fraxel laser systems improve the safety profiles of our systems. One example is our Intelligent Optical Tracking System which reduces the risk of operator error, including deactivating the laser if it is not in motion on the skin. The fact that our consumable treatment tips can be removed and disinfected further enhances the safety of the non-ablative Fraxel laser systems.

System Reliability. Our non-ablative Fraxel laser systems incorporate advanced fiber laser technology that eliminates the need for optical alignment or adjustments within the laser source. These Fraxel laser systems require minimal regular maintenance and have a reduced total cost of ownership.

Clear + Brilliant

Our Clear + Brilliant® system represents a new approach to laser skin enhancement for patients who want to take control of their aging process. The Clear + Brilliant system received FDA clearance in May 2011. The treatment is non-ablative and superficial, targeting the layers of skin most compromised by early signs of aging such as uneven pigmentation, fine lines and textural changes. The Clear + Brilliant Perméa handpeice was introduced in August 2012, and is uniquely designed to enhance the skin s permeability as well as improve skin tone and radiance. The Clear + Brilliant system is safe for all skin types because it targets water, not other chromophores such as pigment. It is designed to help prevent the signs of aging skin, build on a patient s good skin care regimen, and maintain results from other treatments.

Clear + Brilliant System Components

The Clear + Brilliant system uses 1440 nm and 1927 nm diode lasers. The 1440 nm wavelength is highly absorbed by water. This wavelength is responsible for the superficial nature of the treatment and combined with the energy levels and the exclusive Intelligent Optical Tracking System handpiece provide a less aggressive, more approachable laser skin rejuvenation offering. The 1927 nm wavelength creates micropores in the skin without disrupting the stratum corneum, which has been shown in clinical studies to enhance the permeability of the skin and increase the absorption of topical solutions. The Clear + Brilliant treatment is performed in a medical office setting by, or under the supervision of, trained and qualified plastic surgeons, dermatologists, and other practitioners.

Console. The console is a revolutionary, sleek design, with a small tabletop footprint. The system is equipped with an easy-to-use interface.

Handpiece. The Clear + Brilliant handpiece is small and comfortable to hold. Operator controls are located on the handpiece along with an audible, color sensor to help ensure proper speed during operation. It utilizes our patented Intelligent Optical Tracking System for uniform energy delivery with the built-in safety feature of a laser that only fires when the handpiece is properly moving.

Perméa Handpiece. An additional handpiece is available for the Clear + Brilliant system. It utilizes a 1927 nm wavelength that is most often utilized to address minor skin tone issues or to increase skin permeability when used in conjunction with physician prescribed topical treatments. Just like the standard 1440 nm handpiece, the Permea handpiece features our patented Intelligent Optical Tracking System for uniform energy delivery with the built-in safety feature of a laser that only fires when the handpiece is properly moving.

Table of Contents

Treatment Tips. The treatment tips are easy to attach and the handpiece is equipped with light and sound sensors to help the operator maintain proper treatment speed.

Our Clear + Brilliant system provides the following benefits for physicians and patients seeking to provide or receive laser skin enhancement to prevent aging skin and maintain benefits of other procedures:

Ease of use. The Clear + Brilliant system has an easy scanning system and settings of low, medium and high. These simplified settings provide flexibility to, where permitted by law, delegate procedures to other properly trained office staff.

Established Technology. The Clear + Brilliant system is based on the same laser technology that powers the well-known Fraxel platform.

Non-threatening Approach to Lasers. The Clear + Brilliant treatment overcomes the reputation that laser treatments are for serious skin conditions or very painful with considerable downtime. Clear + Brilliant treatments can easily be customized by the operator to be very comfortable for patients.

Low Downtime and High Patient Satisfaction. The Clear + Brilliant treatment is a less aggressive treatment that targets more superficial layers of the skin and results in much shorter downtime and healing time. Many patients are able to resume their normal activities the following day with no procedural downtime and very little (if any) social downtime. The effectiveness of Clear + Brilliant is signified by feedback we have received from satisfied patients of how good their skin feels they are so pleased that they voluntarily promote Clear + Brilliant by word-of-mouth.

Fills the Gap in the Skin Care Continuum. The Clear + Brilliant system fills a gap between the low-end offerings and the high-end services at most practices. Now practices can meet the patient demand for less aggressive, more affordable laser skin treatments. Practices can offer an affordable maintenance treatment to generate continual business opportunity with existing patients.

Thermage®

The Thermage system is a monopolar, capacitively-coupled radiofrequency system that utilizes a reverse thermal gradient to help smooth, tighten and contour skin in a single non-invasive treatment with little to no downtime. Thermage heats the collagen in the skin, which causes denaturization of the collagen fibers. The shortening of collagen fibers causes an immediate skin contraction. In addition, the thermal injury produces a natural wound-healing response which results in new collagen deposition and remodeling with added tightening over time.

Collagen is found in the dermis and in fibrous septae strands in the subcutaneous fat layers of the skin. As we age, our skin loses collagen and the collagen that remains stretches, creating loose, saggy skin. Because RF energy delivery depends on tissue resistance and not on optical light absorption, it can penetrate to a much greater depth than conventional lasers down to the subcutaneous fat layer of the skin. Our monopolar RF heating technology has two mechanisms of action that impact collagen, an initial response and a secondary response. The initial response is an immediate collagen contraction, a dermal contraction for tightening and a fibrous septae contraction in the subcutaneous fat layer for contouring. A secondary wound healing response results in collagen deposition and remodeling over time, resulting in continual tightening improvement post procedure. This tissue tightening effect of the Thermage procedure is demonstrated not only by our clinical experience but corroborated with independently published affiliated scientific data. This body of data provides potential physician customers with objective evidence that they can evaluate when considering a purchase of our system.

Table of Contents

Monopolar RF delivery uses two electrodes, with one active electrode being held in the device handpiece by the physician and the second, a passive return electrode, typically attached to the patient s back. Monopolar delivery allows for precise administration of energy because the electrical current is concentrated where the active electrode touches the body and disperses quickly as it travels towards the return electrode. The monopolar RF process is distinct from bipolar RF-based technology, which is superficial in depth, relying on current passing through tissue located between two probes placed close together on the surface of the skin. We believe that monopolar technology delivers energy effectively to a greater tissue depth than bipolar technology.

The single-use treatment tip device contains our patented technology that uses monopolar RF energy as a controlled tissue heating source through the use of a non-conducting material, known as a dielectric. Capacitive coupling is the use of the dielectric to create an electric field in the area where our treatment tip touches the body. The electric field induces a current within the surrounding tissue, resulting in volumetric heating of the tissue due to the tissue s natural resistance to electrical current flow. The heating depth is based upon the size and geometry of the treatment tip and can be controlled from a few hundred microns to several millimeters in depth, depending upon the particular treatment tip selected for various treatment areas. Collagen is a more efficient conductor of electricity than fat tissue and therefore acts as a pathway for the electric current. To achieve this deep heating with simultaneous surface cooling, the surface of the treatment tip transmits RF energy to the skin while serving as a dynamic contact cooling membrane for the cryogen spray. The contact membrane continually monitors skin surface temperature to help protect the epidermis.

Since the initial launch of our original Thermage system in 2002, we have monitored and revised our procedure guidelines to safely and effectively deliver RF energy and cryogen cooling to the treatment site with minimal discomfort to the patient. An energy-based aesthetic treatment, if not used according to the manufacturer s protocol, has the potential to cause patient discomfort, irritation or surface tissue burning. We have designed our system to minimize the risk of these types of occurrences through stringent built-in safety precautions in addition to extensive user training. Our system regulates a combination of inputs to precisely and uniformly distribute RF energy over the treatment site, including temperature and pressure sensors on the treatment tip and pre-programmed power levels and times for specific treatments.

Thermage System Components

Our Thermage system consists of a RF generator with cooling capability, through the delivery of a coolant to protect the outer layer of the skin from overheating, and a handpiece that, in conjunction with a treatment tip, regulates epidermis cooling and monitors treatment data. Our system includes a variety of single-use, disposable treatment tips that attach to the handpiece and are selected by physicians based on the procedure to be performed and the size of the area to be treated. The Thermage procedure is typically performed in a medical office setting by, or under the supervision of, trained and qualified physicians, including not only plastic surgeons and dermatologists, but also physicians who do not traditionally perform cosmetic procedures, such as general and family practitioners, obstetricians and gynecologists, and general and vascular surgeons.

Our Thermage system includes three major components: the RF generator, the reusable handpiece and a single-use treatment tip, as well as several consumable accessories. Physicians attach a single-use treatment tip to the handpiece, which is connected to the RF generator. The RF generator authenticates the treatment tip and programs the system for the desired treatment without physician intervention.

Radiofrequency Generator. The RF generator produces a 6.78 MHz signal and is simple and efficient to operate. Controls are within easy reach, and important user information is clearly displayed on the built-in display, including energy delivered, tissue impedance, duration and feedback on procedure technique. Cooling is achieved through the delivery of a coolant that cools and helps to protect the epidermal surface during a Thermage procedure.

Handpiece. The reusable handpiece holds the treatment tip in place for the treatment and processes information about skin temperature and contact, treatment force against the skin, cooling

Table of Contents

system function and other important data. A precision control valve within the handpiece meters the delivery of the coolant. In addition, the hand piece also has the ability to vibrate the treatment tip at 3 levels to provide greater comfort for the patient.

Single-use Treatment Tips. The treatment tip is available in three sizes with several configurations of pulse counts, pulse durations and three heating profiles for efficient implementation of treatment guidelines, based on the size and nature of the treatment area. Physicians currently can order sterile treatment tips in sizes of 0.25 cm^2, 3.0 cm^2 and 16.0 cm^2. The tips provide uniform heating through a tip frame that has been added to the surface of the electrode. Each treatment tip contains a proprietary internal EPROM, which stores treatment parameters and safety limits in order to optimize performance and safety in the selected treatment. To enhance procedural safety, we have also programmed the EPROM for single-use treatments. Using the same treatment tip to perform multiple treatments could result in injury, as a result of the eventual breakdown of the treatment tip s electrode dielectric membrane. Therefore, the EPROM ensures that the treatment tip is not reused following a particular procedure.

Our Thermage system also includes other consumable components in addition to treatment tips. The system houses a canister of coolant that can be used for an average of three to six procedures, depending on the total skin surface area treated and the treatment tip used. Each patient procedure also requires a return pad, which is typically adhered to the patient s lower back to allow a path of travel for the RF current through the body and back to the generator. We also sell proprietary coupling fluid, an electrically conductive viscous liquid that helps ensure electrical and thermal contact with the treatment tip.

Our Thermage system provides the following benefits for physicians and patients seeking to provide or receive skin tightening treatments:

Non-Invasive, Non-Ablative Alternative to Surgery. The Thermage procedure is non-invasive, involving no surgery or injections, and offers an alternative to surgery at a lower price with little or no downtime from patients normal routines. It is also a non-ablative procedure that causes minimal temporary surface tissue damage. If desired, the Thermage procedure can be used in a complementary fashion in conjunction with invasive therapies such as liposuction and facelifts, as well as injectable fillers and other minimally-invasive and non-invasive aesthetic procedures.

Single Procedure Treatment. The Thermage procedure is normally performed in a medical office setting as a single treatment that takes from 20 minutes to an hour and a half, depending on the treatment area. Studies have shown clinical effect from a Thermage procedure that is both immediate and that can improve over a time period of six months following treatment. In addition, Thermage procedures have been used effectively on all skin types and tones and on various areas of the body.

Compelling Physician Economics. We believe the Thermage system provides a compelling return on investment for physicians. The Thermage system typically requires relatively lower capital costs than competing laser and RF systems, while providing higher average procedure fees than those of our competitors. We continue to design new treatment tips to address new applications.

Ease of Use. The Thermage system incorporates a straightforward user interface that allows a trained physician to easily perform procedures across various parts of the body. The system provides real-time feedback and can be adjusted during the procedure as needed. The handpieces are designed with a small profile for accurate placement during treatment, comfort and ease of use.

Comfort Pulse Technology. The Thermage system leverages proprietary *Comfort Pulse Technology®* to greatly improve patient comfort during treatment. This proprietary technology

Table of Contents

combines vibration and a unique energy delivery mechanism to improve the overall patient treatment experience while maintaining the same tightening and firming results that physicians and patients have come to expect from Thermage treatments.

Liposonix®

The Liposonix system, acquired in our acquisition of Medicis Technologies Corporation (Liposonix) from Medicis Pharmaceutical Corporation (Medicis) in November 2011, utilizes HIFU technology to permanently destroy subcutaneous adipose tissue, making it a revolutionary solution for people who are close to their ideal shape, but have stubborn areas of fat that are difficult to eliminate with exercise and diet alone. A Liposonix procedure involves a single treatment, typically lasting about one hour to treat anatomical areas such as the abdomen and flanks, resulting in an average waist circumference reduction of one inch the equivalent reduction of one pant or dress size in treated patients after 8-12 weeks.

Ultrasound energy generally propagates harmlessly through tissue, as demonstrated through the common use of diagnostic ultrasound. In fact, the energy source of the Liposonix system is very similar to that used by diagnostic ultrasound systems. However, Liposonix utilizes much higher energy levels than diagnostic ultrasound and focuses the energy in order to heat only targeted tissue at a specific treatment depth within the focal zone similar to how light from the sun can be focused with a magnifying glass to create heat. This heating causes a dual tissue response: cell death of targeted fat tissue and tightening of collagen within the subcutaneous tissue layer. The treated fat tissue is then removed through the body s natural healing process, leaving patients with a thinner, more contoured waistline.

Liposonix System Components

The Liposonix system consists of a console, a handpiece, and a treatment kit which contains a replaceable treatment cartridge (RTC) and treatment templates suitable for treating multiple patients. The Liposonix treatment is performed in a medical office setting by, or under the supervision of, trained and qualified plastic surgeons, dermatologists, and other practitioners.

Console: The Liposonix system console features modern device styling with an easy-to-use touchscreen user interface for adjusting and monitoring device settings during a Liposonix treatment. System settings include fluence level and desired treatment pattern for tailoring treatments to each individual patient.

Handpiece: The Liposonix handpiece is ergonomically designed for one-hand operation. It has a built-in purified water sprayer to streamline the application of coupling fluid during the procedure.

Treatment kit: The Liposonix treatment kit contains a RTC which attaches to the Liposonix handpiece and can be used to treat multiple patients. In addition, the kit contains a supply of treatment templates used for designating patient treatment areas.

The Liposonix system provides several benefits for physicians and patients seeking to provide or receive body contouring treatments.

HIFU technology: The Liposonix system has over 10 years of research and testing behind its development. In addition, more than 200 patients have been treated in clinical studies, demonstrating the safety and efficacy of the Liposonix system.

Single, fast treatment: Treatment of the abdominal area and flanks with the Liposonix system takes a single treatment that lasts approximately one hour. Both patients and practices benefit from seeing results after the time commitment of a single one-hour visit.

Table of Contents

Dual tissue response: The Liposonix system uses HIFU to create a rapid rise in local tissue temperature, resulting in irreversible cell death of fat tissue within the focal zone. This heating also causes contraction and thickening of collagen fibrils within the subcutaneous layer, thereby providing some tightening of target tissue underlying the skin.

Custom Contouring : The design and functionality of the Liposonix system allows users to tailor treatments to each patient s unique anatomy and problem areas. By selecting different treatment patterns, operators can leverage their skill and expertise to identify and target very specific areas to create body contours that meet individual patient needs.

Non-invasive with little to no downtime: Invasive fat reduction procedures, such as liposuction, typically carry certain surgical risks and are associated with significant post-treatment recovery downtime. Even newer, minimally-invasive techniques are still surgical procedures. Unlike these types of surgical fat reduction procedures, the Liposonix treatment is non-invasive and patients typically resume normal activities immediately after the procedure.

VASER®

Our acquisition of Sound Surgical Technologies was completed in February 2013. Sound Surgical Technologies manufactures market leading surgical and non-invasive body shaping products featuring the VASER Lipo®, VASER® Shape, PowerX®, TouchView®, Origins and VASERsmooth product lines.

The VASER line includes a comprehensive set of products that include non-invasive, minimally-invasive, and surgical methodologies. These solutions complement and extend the offerings in our body contouring category and expand the ability to specifically customize treatments for each patient s unique needs and goals.

VASER Lipo

VASER Lipo is an advanced body contouring procedure that selectively removes unwanted body fat. An alternative to the harsh techniques of traditional liposuction, VASER Lipo uses state-of-the-art ultrasound technology designed to gently reshape the body. What distinguishes the VASER Lipo procedure is its ability to differentiate fat from other important tissues such as nerves, blood vessels and connective tissue. Innovative VASER technology breaks up fat while preserving these other important tissues to promote smooth results and rapid healing.

VASER Lipo System Components

VASER Ultrasonic Amplifier: The VASER Lipo system features the VASER Ultrasonic Amplifier that provides precise amplitude control in pulsed or continues modes with a time recorder to track activation.

VASER Grooved Probes & Handpieces: The VASER Grooved Probes & Handpieces facilitate precise contouring in all anatomical applications and increase efficiency for fibrous, medium and soft tissues.

VentX Aspiration: The VentX system is a combined system for infiltration and aspiration during liposuction procedures. The system includes the VentX console and Precision VentX Cannulas. The system can accurately track infiltration volume using the Precision Fluid Management System, adjust speed and direction easily, and provide continuous suction throughout the area with minimal trauma to surrounding tissue.

Table of Contents

VASER Smooth

VASER Smooth is a new body sculpting tool for the VASER Lipo System, specifically designed to emulsify superficial fatty tissue and cut through hardened fibrous septae that can result in the appearance of cellulite. The handpiece facilitates the necessary side cutting action of the probes while delivering the appropriate amount of energy to the tissue. Probes are designed to selectively break apart fatty tissue while preserving nerves and blood vessels when desired. The fragmentation edge can then be used to strategically cut designated septae responsible for irregular skin appearance.

PowerX System

PowerX is a power-assisted liposuction device that utilizes a powered handpiece that causes the attached cannula to rotate based on predetermined angle and speed settings, allowing physicians to quickly debulk large areas of fat. The unique rotational motion generated by the system and multiple user settings enable optimal control during the procedure and reduce aspiration time and physician fatigue.

PowerX System Components

Control Unit: The PowerX Control Unit is a compact, table-top unit with settings to control the cannula rotation speed and angle. The control unit also has a time recorder to track activation.

Handpiece: The lightweight handpiece facilitates precise contouring. The handpiece causes the attached cannula to rotate based on predetermined angle and speed settings.

Footswitch: The footswitch for the PowerX System is attached to the system to activate/deactivate the handpiece when pressed.

VASER Shape

VASER Shape is a non-invasive treatment that combines ultrasound and massage to smooth, firm and shape the body and reduce the appearance of cellulite. VASER Shape is a two-part treatment that involves both ultrasound and massage. First the ultrasound energy warms the targeted area and treats the underlying fatty tissue causing the contents of the fat cells to leak out. Then the zonal massage helps to increase local blood circulation, open lymph nodes and encourage the body to remove excess fat. Together, these two processes smooth, firm, and shape the body and reduce the appearance of cellulite.

VASER Shape System Components

Console: The VASER Shape console features a sleek design with a 10 color touch-screen for easy usability. There are numerous preset programs for multiple applications and treatment areas.

Ultrasound Handpiece: The ultrasound handpiece is lightweight with on/off controls. It is easy to use and operate. The handpiece uses dual ultrasound transducers to deliver ultrasound frequency. The dual transducers direct a beam of ultrasound to the fat between 1 cm to 5 cm below the skin surface. The settings can be tailored to individual patient needs.

Zonal Lymphatic Massage Handpiece: The Zonal Lymphatic Massage Handpiece is a vacuum that stimulates the lymphatic system to drain excess toxins and lipids for removal from the body. In addition to stimulating the lymphatic system, the handpiece increases local blood circulation.

16

Table of Contents

TouchView

TouchView is a unique diagnostic imaging solution to image soft tissue layers before, during and after aesthetic treatments. The handheld probe is designed to fit between the fingers to allow imaging of subcutaneous structures to precisely image and measure fatty tissue and muscle layers. In addition, Power Doppler technology simplifies detection of blood vessels by color-coding blood flow on the ultrasound image.

TouchView Components

Probe: The probe is small and lightweight, allowing for interaction with the patient. The probe fits comfortably between the physicians index and middle finders. The probe allows for imaging of subcutaneous fat that is up to 9cm below the skin. The TouchView probe works with the Terason 2000+ Ultrasound Imaging System.

Terason 2000+ Ultrasound System: The Terason 2000+ Ultrasound System is a lightweight and portable laptop system. The Terason 2000+ system integrates measurement and reporting tools to allow physicians to have quick and accurate images and analysis. Data from the ultrasound system is stored, managed and can be transported easily.

Origins

Origins is a complete line of custom infiltration, re-injection and aspiration cannulas and related accessories for the traditional liposuction market.

The VASER product line provides several benefits for physicians and patients seeking to provide or receive body contouring treatments.

Ultrasound Cavitation: Microbubbles in the tumescent solution where the fat cells reside are affected by the ultrasound energy, which causes their expansion followed by collapse and makes it easier to break up fatty tissue. The VASER Lipo system is uniquely designed for selective fat removal, while preserving other important tissue.

Wide awake in-office procedures: Body contouring procedures utilizing the VASER technology can be done without general anesthesia and outside of a full OR setting, which decreases costs, allows for patient feedback during the procedure, and reduces patient recovery time.

Highly Customizable Treatments: The VASER systems are a versatile body contouring platform that offers a wide range of solution to address patient needs. The advanced technology of the VASER Lipo System allows for smooth and predictable results for small volumes of fat for precision contouring or larger volumes for rapid debulking.

Reduced Physician Fatigue: The VASER family of systems utilizes patented ultrasound technologies designed to significantly increase efficiency which maximizes fat extraction and reduce physician fatigue.

Fat Viability: Fat tissue that has been harvested from the body using VASER technologies has been clinically shown to be viable for fat grafting procedures or regenerative cell processing.

Isolaz®

Our Isolaz system, which we acquired in our acquisition of Aesthera Corporation in February 2010, integrates vacuum and broadband light to deliver effective acne treatment. This unique combination cleanses deep pores by using a vacuum to help loosen and extract blockage and excessive oil from deep inside the pores. It

17

Table of Contents

kills acne-producing bacteria with the blue light component of a broadband light while the heat generated from the rest of the spectrum shocks the oil generating glands and reduces inflammation and redness. Isolaz disposable single patient tips are specific to different skin types.

The gentle, user-adjustable vacuum is responsible for effective pore cleansing which directly extracts debris, sebum and material that clog the pores and, in addition, expose the acne producing bacteria to the intense light. The vacuum levels can be manually adjusted to provide a comfortable treatment to the patient without compromising effectiveness. The vacuum level is automatically adjusted by the system according to the size of the disposable tip used and can also be manually adjusted.

Isolaz uses intense broadband light between 400 nm and 1200 nm. This broadband light is generated by a discharge flash lamp providing intense, effective and targeted treatment for acne. The blue spectrum of the light, 400 nm to 500 nm approximately, has been proven to be the most effective at killing acne-causing bacteria by interacting with bio-products the bacteria creates. The rest of the spectrum, 500 nm to 1200 nm produces deep heat that shocks the sebaceous glands while reducing inflammation and redness producing an almost immediate effect on the overall appearance of the skin. The intensity, duration and repetition of the light is adjustable by the operator.

Isolaz also offers a unique topical delivery method by the use of a specially designed treatment called Profusion. In this modality the system uses only the vacuum component and a specially designed tip with single-use sponge cartridges. During a Profusion treatment, a topical solution is applied to the skin. When the tip is applied the skin is stretched by the vacuum and put into close contact with the sponge in the cartridge which pushes the topical deeper into the skin, enhancing the absorption of the topical.

Isolaz System Components

Our Isolaz system is comprised of two main elements: a console with an integrated handpiece and disposable single-patient tips. A cart and other accessories are also part of the system. Isolaz is typically performed in medical settings by or under the supervision of qualified physicians.

System console with handpiece. The console integrates the components responsible for the vacuum generation unit, the electric power for the lamp and the touch screen display. The handpiece is ergonomically designed and permanently attached to the console, which is where the flash lamp is housed and where the disposable single-patient tips are connected for the treatment. The user interface display consists of a touch screen where all the parameters for the treatment can be adjusted by the operator.

Disposable single-patient treatment tips. The Isolaz disposable treatment tips come in different sizes, small, medium and large, for use in different areas of the body such as nose, face and back respectively or for targeted treatment areas. The tips are classified in two groups according to the skin type they are more appropriate for. Unfiltered tips, allowing the full spectrum of broadband light to be delivered, are recommended for lighter skin types. Darker skin types are more sensitive to lower spectrum light and recommended for filtered tips which cut the low frequencies of the broadband light. The flash lamp is also replaceable and has a life span of 35,000 flashes.

Other components of the system are the system cart, designed with a modern and user-friendly approach, allowing for a comfortable access to the system controls and handpiece and mobility. Provider goggles, patient eye covers and tip cooling spray are other accessories available with the system.

Our Isolaz system provides the following benefits to patients and physicians:

Life Changing Procedure. Although acne is not a life threatening disease, it deeply affects not only the appearance of the sufferer but can have profound effect on self-esteem, confidence and overall personality. Isolaz offers an effective solution for acne patients without affecting their normal life and routine.

Table of Contents

Effective, proven and safe. Isolaz provides an effective treatment of most acne conditions and is also safe to use on virtually all skin types. The treatment is practically painless and allows the patients to return to their normal activities immediately after the procedure.

Profitable. Isolaz treatments are affordable for patients and provide a source of income for a physician s practice. Isolaz can also be combined with other therapies already used in a physician s medical practice such as topical or select oral medication to provide faster, more effective and durable results.

CLARO

We acquired the CLARO device in the acquisition of CLRS Technology Corporation (CLRS) in October 2010. The CLARO is a handheld battery-operated IPL device that is designed for use by consumers. It is the only FDA cleared over-the-counter IPL device that uses light and heat. The CLARO device is intended for spot treatment of mild to moderate inflammatory acne pimples , including pustular acne. The CLARO device uses three wavelengths of light to heat and clear acne in 24 to 48 hours. Distribution of the CLARO device is through prestige retail and associated retailer s websites, television retail networks, and our own website, and is currently only available in the United States.

The CLARO device utilizes a filtered Zenon flash lamp to produce the light wavelengths and heat that destroy acne-causing bacteria. The flash lamp produces the light in multiple flashes during its 6-second treatment cycle. The CLARO was designed for ease of use, simplicity and with integrated safety features that allow consumers to use it with no special training. The life expectancy of a CLARO unit is approximately 900 treatments and at the end of its life-cycle the unit must be replaced by the consumer.

Business Strategy

Our goal is to become a leading provider of energy-based medical devices for aesthetic applications by:

Broadening our Physician Customer Base. We intend to continue penetrating the traditional aesthetic practitioner specialties, which include dermatologists and plastic surgeons. We are also seeking to increase our penetration in non-core physician specialties and physician-directed medspas with track records of safe and successful aesthetic treatments. Additionally, we continue to devote substantial resources to increasing our market penetration and strengthening our physician relationships in international markets.

Optimizing Customer Base through Cross-selling. We began creating cross-selling opportunities when we merged together Reliant Technologies Inc. and Thermage, Inc. in 2009. In 2011, after in-house development of Clear + Brilliant, paired with additional acquisitions of Aesthera Corporation, CLRS, and Liposonix, Inc., we have built a robust product offering that creates strong cross-selling opportunity across our three vertical markets of consumer demand. The complementary nature of our product portfolio combined with our loyalty program which encompasses all our brands provides our sales force with expanded cross-selling opportunities.

Driving Treatment Tip Usage. Unlike most traditional energy-based medical device businesses, which rely solely on the sale of new capital equipment to generate revenue, our disposable treatment tip business model enables us to maintain a continuous relationship with our customer base. We work collaboratively with our customer base to increase treatment tip usage by expanding clinical applications and augmenting and facilitating the marketing efforts of our physician customers. We believe that our customers interests are closely aligned with our own, and we monitor the market to foster continued procedure growth for our customers and treatment

Table of Contents

tip sales for us. We partner with our customer base and offer loyalty programs like the Diamond Rewards Program to empower our sales force to work with physician customers to help develop profitable business opportunities utilizing our systems within their practice.

Developing New and Improving Current Applications. Our current product portfolio allows us to offer products that address the market segmentation of physician, practitioner and patient needs. By continuing to invest in research and development, we intend to expand our product offerings even further by improving our current products and commercializing products that address new clinical treatment applications.

Seeking Growth Opportunities from Complementary Products, Technologies or Businesses. We intend to continue pursuing opportunities to expand our core business by identifying opportunities to further complement our existing array of products for the aesthetics market with synergistic technologies and/or applications.

Expanding our International Presence. We believe the size and opportunity of the international market is comparable to the U.S. market, and we are focused on increasing our market penetration overseas and building global brand recognition. We intend to continue adding sales representatives and support staff to increase direct sales and strengthen physician relationships in international markets.

Leveraging our Technology in Non-Physician Market Channels. We strive to extend the reach of our technologies beyond the professional practice to build consumer adoption of our products. For example, we partnered with Philips Electronics NV to develop a lower-intensity handheld device that can be used by consumers to self-treat in the comfort of their own home. Additionally, we launched our Clear + Brilliant system, a preventive care offering within the patient care continuum targeted at those patients who do not require the restorative benefits of our Fraxel professional line.

Sales and Marketing

We sell our systems to physicians in the United States primarily through a direct sales force of trained sales consultants. As of December 31, 2012, we had a U.S. direct sales force team, including area sales directors, capital specialists, area sales representatives and clinical specialists. Outside of the United States, we primarily sell our Solta systems to physicians in over 100 countries through independent distributors. In select countries such as Canada, Australia, Hong Kong, Japan, Germany, France, Spain, Portugal and the United Kingdom, we also have direct sales organizations.

United States Sales

Our strategy to increase sales in the United States is to:

remove obstacles for purchase, including treatment discomfort, time of treatment, efficacy and cost, and increase the variety of applications we offer

continue to position our procedures as attractive alternatives to other aesthetic treatments for skin tightening, skin rejuvenation, skin resurfacing, body contouring and acne.

work closely with our physician customers to increase product usage and enhance the marketing of Solta procedures in their practices

Table of Contents

invest in consumer public relations

expand our sales efforts to reach physicians outside of the traditional specialties for aesthetic procedures

Further, we actively engage in promotional opportunities through participation in industry tradeshows, clinical workshops and company-sponsored conferences with expert panelists, as well as through trade journals, brochures and our website. We actively seek opportunities to obtain positive media exposure, and have been highlighted on such national broadcasts as *The Doctors, Dr. Oz, Good Morning America*, *The View, Rachel Ray*, *and The Today Show*, as well as numerous local news programs.

Consultative Sales Process. Through our consultative sales process, we form strong relationships with our customers through frequent interactions. Beyond performing initial system installation and on-site training and certification, which can occur within two weeks of a physician s purchase decision, our sales consultants provide consultation to physicians on how to integrate our systems into their practices and market procedures to their patients. Our sales consultants compensation structure emphasizes consumable sales and customer service over capital equipment sales, although our sales force also has incentives to generate new accounts through system sales. We require our sales consultants to invest substantial time in training and servicing our physician customers, and therefore we discourage sales to physicians who do not show the potential to drive aesthetic procedure volume.

Physician Training and Certification. We provide comprehensive training and education to each physician upon delivery of all Solta systems. We require this initial training to assist physicians in safely and effectively performing these procedures. The majority of physicians operating our installed base of systems have pursued and met the training criteria that we establish. To signify their achievement, we award a certificate of training to these physicians and identify them within the physician locator on our website. We do not list physicians within our physician locator unless they have met these training requirements.

Diamond Rewards Program. This customer loyalty program is available to our customers in the United States and other select direct markets around the world. The program, which was the first of its kind for our industry, allows physicians to lock in preferred pricing for treatment tips along with other preferred customer benefits to help physicians grow their practices and increase practice profitability.

Direct-to-Consumer Marketing (DTC). We have historically invested in consumer programs designed to build brand awareness and recognition, demonstrate our commitment to supporting our physician customers and distributors and increase demand for all our procedures. We have consumer websites targeted to consumers interested in learning more about Thermage, Fraxel, Isolaz, Clear + Brilliant, Liposonix, and CLARO treatments. Our websites include information on our underlying technology and potential treatment outcomes, as well as short films and listings of local physicians who offer these procedures. We have observed our website traffic increase significantly following national television appearances and their periodic re-broadcasts and following our DTC efforts. Due to women s interest in anti-aging treatments and procedures, our current DTC efforts are focused on public relations where we utilize public relations outreach, such as desk-side briefings and pitching of new product press releases, to consumer health and beauty publications. This effort generates billions of gross impressions and has generated a high awareness of our brands among this key target demographic.

International Sales

As of December 31, 2012, we had an international sales team including regional managing directors, regional sales representatives and clinical specialists. We support our independent distributors who market our

Table of Contents

systems in over 100 countries. We require our distributors to provide customer training, to invest in equipment and marketing, and to attend certain exhibitions and industry meetings. The percentage of our revenue from customers located outside North America was approximately 51%, 55% and 55% in 2012, 2011 and 2010, respectively.

Our strategy to grow sales outside the United States is to:

- increase penetration of our systems in international markets in which our systems are currently sold;
- increase utilization of our systems through increased treatment tips and consumable sales;
- sell direct into select international markets; and
- expand our marketing efforts to support direct sales into select international markets.

Competition

The industry is subject to intense competition for minimally-invasive and non-invasive aesthetic procedures. We compete against products and procedures using laser, light-based, RF, ultrasound, and other aesthetic energy modalities for skin resurfacing and rejuvenation, skin tightening, body contouring, and acne treatment from companies such as Alma Laser, Cutera, Cynosure, Erchonia, Lumenis, Lutronic, Palomar, MedixSysteme, Real Aesthetics, Sciton, Sybaritic, Syneron, Ulthera, Ultrashape, and Zeltiq. Our consumer device competes against companies that offer laser, LED and other aesthetic energy devices for skin rejuvenation and acne treatment such as Clarisonic, Palomar, PhotoMedex, Syneron, Tria Beauty and Zeno.

In addition, we compete against existing and emerging treatment alternatives such as cosmetic surgery, chemical peels, microdermabrasion, Botox®, dermal fillers, collagen injections and both prescription and over the counter acne medications. Some of these alternative procedures require a lower initial capital investment by a practitioner, some of these procedures may not require the purchase of a consumable treatment tip to perform a procedure and in the area of acne, consumers have a wide variety of treatment choices. Some of our competitors are also publicly-traded companies and others have longer operating histories than we do. Many of them may enjoy several competitive advantages, including:

- greater name recognition
- more extensive intellectual property protection
- established relationships with practitioners and other health care professionals
- established domestic and international distribution networks
- broader product lines and existing treatment systems, and the ability to offer rebates or bundle products to offer higher discounts or incentives

greater experience in conducting research and development, manufacturing, clinical trials, obtaining regulatory approval for products and marketing approved products

greater financial resources for product development, sales and marketing and patent litigation

Competition among providers of laser, light-based, ultrasound, and other energy devices for the aesthetic market is characterized by intensive sales and marketing activities. There are few barriers to entry that

Table of Contents

would prevent new entrants or existing competitors from developing products that could compete with ours. There are many companies, both public and private, that are developing devices that use light-based, radiofrequency-based and ultrasound technologies. Additional competitors may enter the market and we are likely to compete with new companies in the future. To compete effectively, we have to spend significantly on sales and marketing activities and differentiate our products on the basis of performance, brand name, reputation and price. We have encountered and expect to continue to encounter potential customers who, due to existing relationships with our competitors, are committed to, or prefer the products offered by these competitors.

Research and Development

The focus of our research and development team is to provide technological innovation and associated intellectual property that expands the value proposition of our technologies and product platforms. We work closely with medical thought leaders and physician entrepreneurs to understand unmet needs and emerging applications in aesthetic medicine. We focus our efforts on improving the utility of existing products as well as developing new technology platforms for emerging aesthetic applications. We have a fully-staffed, co-located aesthetic clinic and an on-site biomedical laboratory that we believe promotes the rapid conversion of concepts into products. Our primary ongoing investments are in skin tightening, non-ablative and minimally ablative skin resurfacing, body shaping and contouring. We are committed to a recurring revenue business model and our research and development team is focused on a product portfolio with both disposable/consumable and capital equipment products. Current research and development activities address both the professional and consumer markets and are focused on:

- developing new laser wavelengths, laser delivery systems and new treatment indications;
- improving the efficacy and predictability of monopolar RF treatment and developing new energy delivery technologies for the future;
- expanding opportunities in our HIFU body contouring technology
- bettering our IPL acne products
- developing algorithms, technology and devices for on-board skin diagnostics, precision dosage control and patient comfort management; and
- improving and developing state of the art security systems to ensure the safety and efficacy of our systems. These security systems also maintain integrity of our long-term recurring revenue in the form of tips, hand pieces and other consumables.

As of December 31, 2012, we had a staff of 69 technical professionals focused on product development projects and the clinical, biomedical and regulatory support of these projects. We use off-site animal testing facilities and our fully equipped, on-site biomedical lab for the early development and evaluation of product concepts and for providing support to scientific and clinical studies conducted by our co-located clinic and by off-site investigators and institutions. We use transmission electron microscopy on biopsied tissue samples to corroborate that our products induce the denaturing of collagen that leads to immediate tissue tightening. We have developed histology techniques to investigate the depth of heat in tissue and the wound healing process that we believe is responsible for long-term improvement and tightening of tissue. Our staff of laser tissue interaction specialists have amassed over 50,000 histological images in the quantification of treatment parameters. We have also created three-dimensional computer models to study tissue treatment with our products. In addition, we have also formed strategic relationships with outside contractors for assistance on specialized projects, and we work closely with experts in the medical community to supplement our internal research and development resources. Research and development expenses for 2012, 2011 and 2010 were $20.5 million, $16.1 million and $16.3 million, respectively. The technology development team includes physicists and biomedical systems engineers

Table of Contents

who create the prototype devices that enable the biomedical engineering team to explore the skin science. The biomedical engineering models the tissue interactions, and creates the databases that are utilized for the design of treatment systems. The product development team consists of experienced program managers, mechanical engineers, electrical engineers and software engineers who have the responsibility for design of ergonomic, reliable products, for documentation of those products, release to manufacturing and long-term design support.

We entered into an agreement with Philips Consumer Lifestyle B.V. (Philips) in March 2008 to develop and commercialize a home-use, laser-based device for skin rejuvenation. Philips may terminate the agreement at any time if it chooses not to continue with commercialization of the device. Philips pays us a percentage of net sales of the device and related products.

Patents and Proprietary Technology

We rely on a combination of patent, copyright, trademark and trade secret laws and confidentiality and invention assignment agreements to protect our intellectual property rights. As of December 31, 2012, we had 122 issued U.S. patents, 85 pending U.S. patent applications, 90 issued foreign patents and 114 pending foreign patent applications, some of which foreign applications preserve an opportunity to pursue patent rights in multiple countries. The issued U.S. patents have expiration dates between 2013 and 2029. Expiration may occur earlier under certain circumstances, such as if we do not continue to pay maintenance fees to the United States Patent and Trademark Office. Not all of our patents and patent applications are related to our current or future product lines, and some of our patents have been licensed to third parties. The pending foreign applications relate to similar underlying technological claims to the U.S. patents and/or patent applications. We intend to file for additional patents to strengthen our intellectual property rights.

Our patent applications may not result in issued patents, and we cannot assure you that any patents that are issued to us will protect our intellectual property rights. Third parties may challenge any patents issued to us as invalid, may independently develop similar or competing technology or may design around any of our patents. We cannot be certain that the steps we have taken will prevent the misappropriation of our intellectual property, particularly in foreign countries where the laws may not protect our proprietary rights in these foreign countries as fully as in the United States.

As a result of a settlement of litigation reached in June 2005, we and Syneron have granted each other a non-exclusive paid-up license under the patents asserted in the lawsuit and related patents under the parties control. We excluded from this license any rights to utilize monopolar RF technologies and capacitive electrical coupling, which we believe in combination allow the Thermage procedure to create a reverse thermal gradient and deep, near uniform, volumetric heating to achieve tissue tightening effects. Syneron excluded from its license any patents related to its proprietary Electro-Optical Synergy technology. Both parties admitted the validity of all patents in the litigation, but neither admitted any wrongdoing or liability.

We advised Alma Lasers Ltd. and Alma Lasers, Inc (together Alma) as early as February 2006 that Alma s Accent XL product infringed numerous Thermage patents. On April 26, 2007 Alma filed a lawsuit against us in the United States District Court for the District of Delaware requesting a declaratory judgment that Alma s Accent product does not infringe our patents and that our patents are invalid.

On June 20, 2007, we filed patent infringement counterclaims against Alma in the United States District Court for the District of Delaware asserting that that Alma s Accent XL and Harmony systems infringe ten of our U.S. patents. The counterclaims were amended on December 10, 2007 to include a claim of infringement of an eleventh patent. In addition to damages and attorney fees, we asked the Court to enjoin Alma from further infringement. During May, June and July 2008, Alma filed with the United States Patent and Trademark Office requests that all of the 11 patents asserted by us be reexamined. The United States Patent and Trademark Office has made rejections of some claims in each of these 11 patents. We believe the United States Patent and Trademark Office will reaffirm the validity of our patents. Some of the patents in reexamination have been

Table of Contents

reaffirmed, while others remain under rejection. As a result of a settlement reached on May 10, 2010, the Company and Alma granted each other a covenant not to sue under the patents asserted in the lawsuit and related patents. In addition, Alma paid the Company a non-returnable one-time amount of $2,250,000 in connection with this settlement. External legal fees incurred during year ended December 31, 2010 in connection with the settlement amounted to approximately $37,000. In connection with this settlement, the Company recorded a net gain of approximately $2,213,000 in operating expenses during the year ended December 31, 2010. We do not believe the final disposition of these reexaminations will have a material adverse effect on our financial statements and future cash flows.

Through the acquisition of Reliant in December 2008, we acquired an exclusive, royalty bearing, worldwide license, with the right to sub-license, with Massachusetts General Hospital (MGH) to patent applications relating to some of the technology used in the Fraxel laser systems. The license, ongoing royalty obligations and all rights thereunder terminated on December 31, 2010, provided however that MGH has granted a non-assert provision that applies to all of our products in the professional marketplace.

On November 10, 2008, we entered into agreements with Palomar Medical Technologies and Massachusetts General Hospital to create the Fractional Technology Open Patent Program (FTOPP). The FTOPP was designed to provide third parties the opportunity to license technology related to fractional light-based treatments in the professional field. Subject to certain conditions, we agreed to license patents that are included in the FTOPP on a non-discriminatory basis to such third parties. The FTOPP agreements require that the royalties from FTOPP licensees be allocated amongst the three parties.

The FTOPP comprises six patent families, including 11 issued and pending U.S. patents and applications, along with foreign counterparts. Included in the FTOPP are: U.S. patent numbers 6,632,219 and 6,059,820 and patent application number 11/250,139 (the Tankovich-Baranov patent family named for inventors Dr. Nikolai Tankovich and Dr. Eugene Baranov); U.S. patent application number 10/542,390 (the 1678 patent family licensed by us from MGH); and U.S. patent application number 10/367,582 (the 582 patent family). Included in the FTOPP from Palomar Medical Technologies are: U.S. patent number 6,997,923 and patent application number 11/235,697 (the 923 patent family); and U.S. patent number 6,723,090 and patent application number 11/408,272 (the Fiber Laser patent family). Also included in the FTOPP from Massachusetts General Hospital is U.S. patent number 7,331,953 and patent application number 11/931,232 (the 953 patent family).

In conjunction with the FTOPP, we and Palomar Medical Technologies entered into a cross-license agreement by which we have licensed certain patents to each other and have granted covenants not to sue with respect to each other s existing products and technologies.

On September 11, 2012, we entered into a Release and Covenant Not to Sue Agreement with BTL Industries, Inc. (BTL). The Company alleged that BTL had infringed upon certain patents. As a result of the Release and Covenant Not to Sue Agreement, we have granted BTL a covenant not to sue under certain of its skin tightening patents and patent applications for BTL s manufacture and sale of its Exilis® product, and BTL agreed that the Thermage patents in question are valid and enforceable. BTL also agreed to pay us a 5% royalty on its past and future sales of Exilis products in the U.S. U.S. royalties for past sales through June 30, 2012 are approximately $1 million and as of December 31, 2012 we have received $780,000. We expect to receive the remaining amount related to past sales through June 30, 2012 by March 31, 2013. U.S. royalties for sales after June 30, 2012 are paid within sixty days of the end of each calendar quarter and as of December 31, 2012 we have received $112,000 related to sales after June 30, 2012. Additional terms of the settlement remain confidential.

In addition, we have notified certain competitors of our belief that they may be infringing or may need a license under one or more of our issued patents. These notices may result in other patent litigation in the future. Patent litigation is very expensive and could divert management s attention from our core business. Patent

Table of Contents

litigation could also result in our patents being held invalid or narrowly construed. We have in the past and may in the future offer certain of our intellectual property rights for license to our competitors. As of December 31, 2012, we have not entered into any such licenses with our competitors other than our licenses with Syneron, Palomar and BTL. We granted Edward Knowlton, one of our founders and inventor of our original patents, an exclusive license under the original Thermage patents and related patents for certain non-cosmetic applications. We also granted Relay Technologies, Inc. an exclusive license under the Reliant intellectual property for certain non-cosmetic applications, as part of the merger transaction between Reliant and us.

Solta Medical has several registered trademarks and service marks. Our marks which include, but are not limited to, Thermage, Thermage CPT, Thermage NXT, Fraxel , Fraxel re:pair , Clear + Brilliant , Isolaz , CLARO and Liposonix are pending or registered trademarks in States and several foreign countries. As of December 31, 2012, we have 573 pending and registered trademark filings worldwide, some of which apply to multiple countries, providing coverage in 60 countries. We intend to file for additional trademarks to strengthen our trademark rights, but we cannot be certain that our trademark applications will issue or that our trademarks will be enforceable.

As part of our acquisition of CLRS, we granted Allergia, Inc., a company owned by the original CLRS shareholders, a royalty free license to use the underlying CLARO technology in certain medical applications outside of the field of aesthetics. We also have a right of first refusal to purchase any non-aesthetic medical technologies developed by Allergia, Inc. that are based on the CLARO technology platform.

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

Clinical Research

We are co-located with an aesthetic clinic managed by an independent medical director. The aesthetic clinic is funded and administratively managed by us. The staff of the clinic performs Thermage, Fraxel, Isolaz, Clear + Brilliant and Liposonix procedures, conducts clinical studies and assists in research into new therapies using our systems. These studies provide us with immediate feedback on treatment parameters and treatment protocols which enables us to develop and improve the safety and efficacy of our aesthetic treatment systems in support of obtaining additional regulatory clearances, applications development and photographic documentation. The clinic also offers us a hands-on observation and training center for potential physician and nurse customers or for those interested in advanced training in treatment protocols and system parameters to achieve optimal outcomes.

Manufacturing

Our manufacturing involves the combined utilization of our internal manufacturing resources and expertise, approved suppliers and contract manufacturers. Our internal manufacturing activities, located in Hayward, California and Bothell, Washington include the assembly, testing and packaging of the treatment tips and accessories associated with each of our brands, as well as the final integration, system testing and packaging of Thermage, Fraxel and Liposonix systems. We outsource the manufacture of components, subassemblies and certain finished products that are produced to our specifications and shipped to our facilities for final assembly or inspection, testing and certification. Finished product is stored at and distributed primarily from our Hayward facility. A small percentage of our finished product is distributed from third party logistics facilities in the US, Netherlands and Australia. Quality control, risk management, efficiency and the ability to respond quickly to changing requirements are the primary goals of our manufacturing operations.

Table of Contents

We have arrangements with our suppliers that allow us to adjust the delivery quantities of components, subassemblies and finished products, as well as delivery schedules, to match our changing requirements. The forecasts we use are based on historical trends, current utilization patterns and sales forecasts of future demand. Lead times for components, subassemblies and finished products may vary significantly depending on the size of the order, specific supplier requirements and current market demand for the components and subassemblies. Most of our suppliers have no contractual obligations to supply us with, and we are not contractually obligated to purchase from them, the components used in our devices.

We obtain programmable memory chips for our treatment tips and certain critical components of our systems, handpieces and accessories from single suppliers, for which we attempt to mitigate risks through inventory management and purchase order commitments. Other products and components come from single suppliers, but alternate suppliers have been qualified or, we believe, can be readily identified and qualified. In addition, the availability of cryogen for our Thermage brand cooling module and Isolaz brand Tip Spray, which we can source from multiple suppliers, may fluctuate due to changes in the global supply of this material. To date, we have not experienced material delays in obtaining any of our components, subassemblies or finished products, nor has the ready supply of finished product to our customers been adversely affected.

Our consumer product, the CLARO device, is entirely manufactured using approved suppliers and contract manufacturers under our supervision.

We are required to manufacture our products in compliance with the FDA s Quality System Regulation, or QSR. The QSR covers the methods and documentation of the design, testing, control, manufacturing, labeling, quality assurance, packaging, storage and shipping of our products. We maintain quality system certifications to enable us to market our products in the member states of the European Union, the European Free Trade Association and countries which have entered into Mutual Recognition Agreements with the European Union. These certifications include EN ISO 9001:2000 and CAN/CSA ISO 13485:2003 and are also required to maintain our product registration in a number of other foreign markets such as Canada.

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

Services and Support

We strive to provide highly responsive service and support for our Thermage, Fraxel, Isolaz, Clear + Brilliant and Liposonix systems, treatment tips and consumable products.

Our treatment tips and consumables are shipped from finished goods inventory typically on the day of the order. All treatment tips are identified with lot numbers and date codes that indicate the expiration date of the product and are fully warranted until the date of expiration. We maintain a staff of customer service personnel in our Hayward, California facility that is available by phone to our customers to answer questions regarding the use of our products. In the United States our direct sales force provides on-site support and training to our customers in the use of Thermage, Fraxel, Isolaz, Clear + Brilliant and Liposonix systems.

The CLARO consumer device is warehoused and shipped from our third party order fulfillment service provider. Orders for our national retail accounts are taken through an EDI system and all other sales through phone, fax, email or from our myclaro.com website. We utilize our staff of customer service personnel in Hayward to take orders, answer consumer questions and authorize product returns. The CLARO sales team provides on-site support and training to national retailers. Training for other retailers is provided by phone or video conference. Each CLARO unit has a 30-day no questions asked return policy and a one year warranty against product defects, although national retailers have different return policies that are pursuant to our vendor agreements with these retailers.

Table of Contents

In the United States, our Thermage, Fraxel, Isolaz, Clear + Brilliant, and Liposonix systems and accessory products are shipped to a customer s site for initial installation and training by one of our clinical training staff or direct sales consultants. Our clinical training group, direct sales force, customer service personnel and our product support staff provide post-installation support and service. All of our systems come with a one year factory warranty. We also offer extended service contracts to our customers at various prices which are effective after the factory warranty expires. If a customer s system is not covered by the factory warranty or an extended service contract, we charge the customer for time and materials to perform any repairs on the system. In the event of a failure of a system, our product support department arranges for the repair of that system in a way that minimizes disruption at the customer site. Resolution may involve shipment of loaner equipment to the customer for its use while the customer owned equipment is returned for repair at the Hayward facility, or dispatching a Solta Service Engineer or a certified third-party service partner to perform repair of the equipment at the customer site. Our goal in most cases is to have the customer up and running within two working days. All systems and components are serialized or lot tracked, and device history records are maintained that track service history and configuration. In markets outside of the United States, our products are serviced and supported through our independent distributors or, in our directly supported international markets, by our field service personnel and/or third party service providers.

Government Regulation

Our Thermage, Fraxel, Isolaz, CLARO, Clear + Brilliant and Liposonix systems are medical devices and are subject to extensive and rigorous regulation by the FDA, as well as other federal and state regulatory bodies in the United States and laws and regulations of health authorities in other countries. FDA regulations govern the following activities that we perform, or that are performed on our behalf, 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 assurance;
- product labeling;
- product storage;
- recordkeeping;
- premarket clearance or approval;
- advertising and promotion;
- production; and
- product sales and distribution.

FDA s Premarket Clearance and Approval Requirements

Unless an exemption applies, each medical device we wish to commercially distribute in the United States will require either prior 510(k) clearance or premarket 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,

Table of Contents

which requires the manufacturer to submit to the FDA a premarket notification requesting clearance to commercially distribute the device. This process is generally known as 510(k) clearance. Some low risk devices are exempted from this requirement. Devices deemed by the FDA to pose the greatest risk, such as life-sustaining, life-supporting or implantable devices, or devices deemed not substantially equivalent to a previously cleared 510(k) device, are placed in class III, requiring premarket approval. All of our current products are class II devices.

510(k) Clearance Pathway

When a 510(k) clearance is required, we must submit a premarket notification to the FDA demonstrating that our proposed device is substantially equivalent to a previously cleared and legally marketed 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 premarket approval applications (PMA). By regulation, the FDA is required to clear or deny a 510(k) premarket notification within 90 days of submission of the application. As a practical matter, clearance often takes significantly longer. The FDA may require further information, including clinical data, to make a determination regarding substantial equivalence. If the FDA determines that the device, or its intended use, is not substantially equivalent to a previously cleared device or use, the FDA will place the device, or the particular use, into class III, requiring premarket approval.

Radiofrequency devices used for aesthetic procedures, such as wrinkle reduction, are generally regulated as Class II medical devices and are qualified for clearance under 510(k) procedures. We have received 510(k) clearances for the Thermage system for multiple indications. We initially received FDA clearance to market our Thermage system for the treatment of periorbital wrinkles and rhytides in November 2002 and for treatment of facial wrinkles and rhytides in June 2004. In December 2005, we received FDA clearance to market our Thermage system for full body treatment of wrinkles. In October 2006, we received FDA clearance to market the Thermage system, for the temporary improvement in the appearance of cellulite. In June 2007, we received clearance to market our Thermage system for treatment of wrinkles and rhytides for the upper and lower eyelids. In June 2009, we received FDA clearance to market our latest Thermage system and handpiece configuration for wrinkles, rhytides and for the temporary improvement in the appearance of cellulite.

Laser devices used for aesthetic procedures, such as skin resurfacing, are also generally regulated as Class II medical devices, requiring 510(k) clearance. The FDA has granted 510(k) clearances for four Fraxel devices relating to multiple indications for use. We initially received FDA clearance to market our first generation Fraxel SR750 system for coagulation of soft tissue in November 2003 and subsequently for treatment of periorbital wrinkles (June 2004), pigmented lesions (June 2004), melasma (July 2005), skin resurfacing procedures (July 2005) and acne and surgical scars (March 2006). In March 2006, we received FDA clearance to market our Fraxel re:store system for soft tissue coagulation and for treatment of periorbital wrinkles, pigmented lesions, melasma and skin resurfacing. We subsequently received FDA clearance for the Fraxel re:store for treatment of acne and surgical scars in January 2007 and for actinic keratoses in May 2007. In April and May 2007, we received FDA clearance to market the Fraxel re:fine system for soft tissue coagulation and for treatment of periorbital wrinkles, pigmented lesions, melasma, skin resurfacing, acne scars and surgical scars. The Fraxel re:pair system was cleared for ablation, coagulation and resurfacing of soft tissue in April 2007 and for treatment of wrinkles, pigmentation, textural irregularities and vascular dyschromia in November 2007. We received FDA clearance for two additional Fraxel re:pair handpieces in July 2008, which deliver ablative and incisional treatments for surgical applications. We received FDA clearance for the Fraxel re:store DUAL Laser System in October 2009, which offer the 1550 nm and 1927 nm wavelengths. As of January 2011 the 1927 nm laser from the DUAL System became available as a stand-alone laser product. In May 2011, the new Clear + Brilliant Laser System received FDA clearance for general skin resurfacing procedures.

We have two IPL products: Isolaz (prescription use) and CLARO (consumer use). Both are regulated as Class II medical devices. Prior to our acquisition of Aesthera Corporation, it had already obtained 510(k)

Table of Contents

clearance for Isolaz. Prior to our acquisition of CLRS, it had obtained 510(k) clearance for CLARO; first for prescription use, followed by over-the-counter 510(k) clearance in April 2010 for the treatment of individual pimples in persons with mild to moderate inflammatory acne.

Our new HIFU product, Liposonix, is also regulated as a Class II medical device. Prior to our acquisition of Liposonix, it had already obtained 510(k) clearance in August 2011 for the Liposonix System Model 1 and in October 2011 for the Liposonix System Model 2, both of which are indicated for non-invasive waist circumference reduction.

Premarket Approval Pathway

A Premarket Approval Pathway (PMA) must be submitted to the FDA if the device cannot be cleared through the 510(k) process. A PMA must be supported by extensive data, including but not limited to, technical, preclinical, clinical, manufacturing and labeling, to demonstrate to the FDA s satisfaction the safety and effectiveness of the device.

Upon submission, the FDA determines if the PMA application is sufficiently complete to permit a substantive review, and, if so, the application is accepted for filing. The FDA then commences an in-depth review of the PMA application, which typically takes one to three years, but may last longer. An advisory panel of experts from outside the FDA is typically convened to review and evaluate the PMA applications and provide recommendations to the FDA as to the approval of the device. As part of the PMA review, the FDA will typically inspect the manufacturer s facilities for compliance with the QSR requirements, which impose specific testing, control, documentation and other quality assurance procedures.

To date, no device that we have developed has required premarket approval, nor do any of the devices currently in development require premarket approval.

Product Modifications

After a device receives 510(k) clearance, any product modification that could significantly affect its safety or effectiveness, or that would constitute a major change in its intended use, requires a new 510(k) clearance or could require a PMA approval. The FDA requires each manufacturer to make this determination initially, but the FDA can review any decision and disagree with a manufacturer s determination not to file a new 510(k) or PMA. If the FDA disagrees with our determination, the FDA may retroactively require us to seek 510(k) clearance or premarket approval. The FDA could also require us to cease marketing and distribution and/or recall the modified device until 510(k) clearance or premarket approval is obtained. Also, in these circumstances, we may be subject to significant regulatory fines or penalties. We have modified aspects of our Thermage, Fraxel, Isolaz and CLARO systems and accessories since receiving regulatory clearance, and we have made additional 510(k) filings when we deem it necessary. Decisions and rationale not to file a 510(k) for device modifications are documented in accordance with FDA s guidance documents.

Clinical Trials

Clinical trials are almost always required to support an FDA premarket application and are sometimes required for 510(k) clearance. In the United States, these trials generally require submission of an application for an Investigational Device Exemption (IDE) to the FDA. The IDE application must be supported by appropriate data, such as animal and laboratory testing results, showing that it is safe to test the device in humans and that the testing protocol is scientifically sound. The IDE must be approved in advance by the FDA for a specific number of patients unless the product is deemed a non-significant risk device eligible for more abbreviated IDE requirements. Clinical trials for significant risk devices may not begin until the IDE application is approved by the FDA and the appropriate institutional review boards (IRB) at the clinical trial sites.

Table of Contents

Our clinical trials are conducted under the oversight of an IRB, as required by FDA regulations at the relevant clinical trial sites and in accordance with FDA regulations, including but not limited to those relating to good clinical practices. We are also required to obtain patients informed consent in compliance with both FDA requirements and state and federal privacy regulations. We, the FDA or the IRB at each site at which a clinical trial is being performed, may suspend a clinical trial at any time for various reasons, including a belief that the risks to study subjects outweigh the benefits. Even if a trial is completed, the results of clinical testing may not demonstrate the safety and efficacy of the device, may be equivocal, or may otherwise not be sufficient to obtain clearance or approval of the product. Similarly, in Europe, clinical studies must be approved by the local ethics committee and in some cases, including studies with high-risk devices, by the Ministry of Health in the applicable country.

Pervasive and Continuing Regulation

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

- The QSR 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 uncleared, unapproved or off-label uses;
- medical device reporting regulations, which require that manufacturers report to the FDA if their device may have caused or contributed to a death or serious injury or malfunctioned in a way that would likely cause or contribute to a death or serious injury if the malfunction were to recur; and
- post-market surveillance regulations, which apply when necessary to protect the public health or to provide additional safety and effectiveness data for the device.

The FDA has broad post-market and regulatory enforcement powers. We are subject to unannounced inspections by the FDA and the Food and Drug Branch of the California Department of Health Services, or CDHS, to determine compliance with the QSR and other regulations.

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, refunds, recall or seizure of our products;
- operating restrictions, partial suspension or total shutdown of production;
- refusing our requests for 510(k) clearance or premarket approval of new products or new intended uses;
- withdrawing 510(k) clearance or premarket approvals that are already granted; and
- criminal prosecution.

If any of these events were to occur, they could have a material adverse effect on our business.

Table of Contents

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

International

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

Employees

As of December 31, 2012, we had 371 employees and full-time equivalent consultants, with 142 in sales and marketing, 25 in technical services, 86 in manufacturing operations, 69 in research and development including clinical, regulatory and certain quality functions, 37 in general and administrative, and 12 in facilities and information technology services. We believe that our future success will depend in part on our continued ability to attract, hire and retain qualified personnel. None of our employees is represented by a labor union, and we believe our employee relations are good.

Available Information

You may find on our website at http://www.solta.com electronic copies of our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934. Such filings are placed on our website as soon as reasonably possible after they are filed with the SEC. Our most recent charter for our Audit Compensation and Nominating and Corporate Governance Committees and our Code of Ethics are available on our website as well. Any waiver of our Code of Ethics may be made only by our Board of Directors. Any waiver of our Code of Ethics for any of our directors or executive officers must be disclosed on a Current Report on Form 8-K within four business days, or such shorter period as may be required under applicable regulation.

You can read our SEC filings over the Internet at the SEC s web site at www.sec.gov. You may also read and copy any document we file with the SEC at its public reference facilities at 100 F Street, N.E., Room 1580, Washington, D.C. 20549. You may also obtain copies of the documents at prescribed rates by writing to the Public Reference Section of the SEC at 100 F Street, N.E., Room 1580, Washington, D.C. 20549. Please call the SEC at (202) 551-8090 or (800) 732-0330 for further information on the operation of the public reference facilities.

Table of Contents

Item 1A. ***Risk Factors***

Risks Related to Our Business

Economic uncertainty has reduced and may continue to reduce patient demand for our products; if there is not sufficient patient demand for the procedures for which our products are used, practitioner demand for these systems could drop, resulting in unfavorable operating results.

The aesthetic industry in which we operate is particularly vulnerable to economic trends. The decision to undergo a procedure from one our systems is driven by consumer demand. Most procedures performed using our systems are elective procedures, the cost of which must be borne by the patient, and are not reimbursable through government or private health insurance. In times of economic uncertainty or recession, individuals often reduce the amount of money that they spend on discretionary items, including aesthetic procedures. The general economic difficulties being experienced by our customers and the lack of availability of consumer credit for some of our customers are adversely affecting the market in which we operate.

If the economic hardships our customers face continue or worsen, our business would be negatively impacted and our financial performance would be materially harmed in the event that any of the above factors discourage patients from seeking the procedures for which our products are used.

We are totally dependent upon the success of our systems, which have a limited commercial history. If our products fail to achieve sufficient market acceptance, our business will suffer.

We expect that sales of our systems, including our treatment tips, will account for substantially all of our revenue for the foreseeable future. We expect to continue to expand our line of systems and treatment tips. This may not occur when expected, or at all, which would negatively affect our anticipated revenue. Our systems may not significantly penetrate current or new markets. If demand for our systems does not increase as we anticipate, or declines, our business, financial condition and results of operations will be harmed.

Our financial results may fluctuate unpredictably, making it difficult to forecast future performance.

Our limited operating history makes it difficult for us to predict future performance. Historically, the demand for our systems has varied from quarter to quarter. A number of factors, over which we have limited or no control, may contribute to fluctuations in our financial results, such as:

- delays in receipt of anticipated purchase orders;
- seasonal variations in patient demand for aesthetic procedures;
- the impact of general economic conditions on the demand for aesthetic procedures;
- performance of our independent distributors;
- the lack of credit available to physicians to finance capital equipment purchases;
- positive or negative media coverage of our products or products of our competitors or our industry;
- our ability to obtain further regulatory clearances or approvals;

delays in, or failure of, product and component deliveries by our subcontractors and suppliers;

Table of Contents

changes in the length of the sales process;

the costs of litigation claims or adverse outcomes from legal proceedings;

customer response to the introduction of new product offerings;

fluctuations in foreign currency; and

excess or obsolete inventory charges.

Our success depends on growing physician adoption of our systems and continued use of our treatment tips.

Our target physician customers typically already own one or more aesthetic device products. Our ability to grow our business and convince physicians to purchase our systems and products depends on the success of our clinical and sales and marketing efforts. Our business model involves both a capital equipment purchase of our systems and continued purchases by our customers of our treatment tips. This may be a novel business model for many potential customers who may be used to competing products that are either exclusively capital equipment, such as many laser-based systems, or that are exclusively single-use products, such as Botox or dermal fillers. In addition, the lack of credit available to physicians to finance the purchase of systems may also impact the adoption of these systems. We must be able to demonstrate that the cost of our systems and the revenue that the physician can derive from performing procedures using our products are compelling when compared to the cost and revenue associated with alternative products. When marketing to plastic surgeons, we must also, in some cases, overcome a bias against non-invasive or minimally invasive aesthetic procedures. If we are unable to increase physician adoption of our systems and use of our treatment tips, our financial performance will be adversely affected.

We may not be able to achieve or sustain profitability even if we are able to generate significant revenue.

We incurred a loss of $38.0 million and $1.3 million for the years ended December 31, 2012 and 2011, respectively, despite revenue growth during these two years. In the past, we have expanded our business and increased our expenses in order to grow revenue. We will have to increase our revenue while effectively managing our expenses in order to achieve sustained profitability. Our failure to achieve or sustain profitability could negatively impact the market price of our common stock.

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

As a result of recent fluctuations in currency markets, our products priced in U.S. Dollars may be more expensive relative to products of our foreign competitors, which could result in lower revenue and profit margins. We do not actively hedge our exposure to currency rate fluctuations. While we transact business primarily in U.S. dollars, and a significant proportion of our revenue is denominated in U.S. Dollars, a growing proportion of our revenue and costs is denominated in other currencies, such as the Australian Dollar, Euro, Japanese Yen, and British Pound Sterling. In addition, the functional currency of the Company s foreign subsidiaries is the U.S. Dollar. As a result, our financial performance could be adversely affected by changes in the exchange rates of these currencies to the U.S. Dollar.

We may not be successful in selling and marketing our new products.

The commercial success of the products and technologies we develop will depend upon the acceptance of these products by physicians and their patients. It is difficult for us to predict how successful recently

Table of Contents

introduced products and procedures or products we are currently developing, will be over the long term. If the products we develop do not gain market acceptance, our revenues and operating results will suffer. In addition, we expect to face significant competition, in some cases from companies that are more established, market more widely known products and have greater resources than we do. We may not be able to differentiate our new products sufficiently from our competitors products to achieve significant market penetration. As a result of these factors, we may incur significant sales and marketing expenses for our new products without achieving commercial success, which could harm our business and our competitive position.

In addition, as new or enhanced products are introduced, we must successfully manage the transition from older products in order to minimize disruption in customers ordering patterns, avoid excessive levels of older product inventories, and ensure that enough supplies of new products can be delivered to meet customer demand.

The failure of our systems to meet patient expectations or the occurrence of unpleasant side effects from the procedures for which our products are used could impair our financial performance.

Our future success depends upon patients having a positive experience with the procedures for which our products are used in order to increase physician demand for our products, as a result of both individual patients repeat business and as a result of word-of-mouth referrals. We believe that patients may be dissatisfied with these procedures if they find them to be too painful. Furthermore, patients may experience temporary swelling or reddening of the skin as a procedural side effect. In rare instances, patients may receive burns, blisters, skin discoloration or skin depressions. Experiencing excessive pain or any of these side effects or adverse events could discourage a patient from having one of the procedures for which our products are used or discourage a patient from having additional procedures or referring these procedures to others. In order to generate repeat and referral business, we also believe that patients must be satisfied with the effectiveness of the procedures. Results obtained from the procedures for which our products are used are subjective and may be subtle. A product treatment may produce results that may not meet patients expectations. If patients are not satisfied with the procedure or feel that it is too expensive for the results obtained, our reputation and future sales will suffer.

The conditions of our secured term loan contain certain financial covenants with respect to our performance and other covenants that restrict our activities. If we are unable to comply with these covenants, we would have to negotiate an amendment to the loan agreement or the lender could accelerate the repayment of our indebtedness.

Our secured term loan contains certain financial covenants which require us to maintain a certain liquidity ratios and specified levels of EBITDA (as defined in the loan agreement) each fiscal quarter. We are also subject to restrictive covenants, including among others covenants that restrict our ability to incur additional indebtedness, to dispose of assets, to effect certain corporate transactions, including specified mergers or acquisitions, and to pay dividends. The loan agreement generally provides for customary events of default, including among others non-payment defaults, covenant defaults, and a default in the event a material adverse change occurs. There is no assurance that we will be able to comply with our financial covenants. Upon the occurrence of an event of default under the term loan, the lender will be entitled to acceleration of all obligations under the loan agreement and an obligation to repay all obligations in full and such event of default could result in an increase to the applicable interest rate of 5.00%. Any acceleration in the repayment of our indebtedness could adversely affect our business and financial condition.

We may face problems with our acquisition of Sound Surgical Technologies

In February 2013, we completed our acquisition of Sound Surgical Technologies (Sound Surgical), a developer, manufacturer and marketer of surgical and non-invasive body shaping products utilizing ultrasound technology.

Table of Contents

We cannot be certain that this acquisition will be successful or that we will realize the anticipated benefits of the acquisition. In particular, we may not be able to realize the strategic and operational benefits and objectives we had anticipated, including greater revenue and market opportunities, maintaining industry leadership and consistent profitability. In addition, the demand for our combined product offerings may fluctuate and we may face increased competition in the markets for our products. Any of the following factors, as well as the inability to realize the long-term anticipated efficiencies and synergies of the acquisition of Sound Surgical, may have a material adverse effect on our business, operating results and financial condition. These factors may include:

- the potential disruption of the combined company s ongoing business and diversion of management resources;
- the difficulty of incorporating acquired products, technology and rights into the combined company s products and services;
- the inability to scale up the manufacturing of recently introduced products rapidly enough to satisfy demand;
- unanticipated expenses related to integration of operations;
- the possibility that we are unsuccessful in marketing the acquired products;
- the impairment of relationships with customers as a result of any integration of new personnel;
- potential settlement of product liability litigation and claims that exceed available insurance coverage;
- the impairment of relationships with key suppliers and their ability to meet our demand;
- potential unknown liabilities associated with the acquired business and technology;
- potential periodic impairment of goodwill and intangible assets acquired; and
- potential inability to retain, integrate and motivate key personnel.

We have grown, and may continue to grow, through acquisitions, which gives rise to risks and challenges that could adversely affect our future financial results.

We have in the past acquired, and we expect to acquire in the future, other businesses, business units, and technologies. Acquisitions can involve a number of special risks and challenges, including:

- complexity, time, and costs associated with the integration of acquired business operations, workforce, products, and technologies;

diversion of management time and attention;

loss or termination of employees, including costs associated with the termination or replacement of those employees;

assumption of liabilities of the acquired business, including litigation related to the acquired business;

addition of acquisition-related debt as well as increased expenses and working capital requirements;

Table of Contents

dilution of stock ownership of existing stockholders; and

substantial accounting charges for restructuring and related expenses, write-off of in-process research and development, amortization of intangible assets, and stock-based compensation expense.

If integration of our acquired businesses is not successful, we may not realize the potential benefits of an acquisition or may suffer other adverse effects. To integrate acquired businesses, we must implement our technology systems in the acquired operations and integrate and manage the personnel of the acquired operations. We also must effectively integrate the different cultures of acquired business organizations into our own in a way that aligns various interests, and may need to enter new markets in which we have no or limited experience and where competitors in such markets have stronger market positions.

We have substantial amounts of goodwill and purchased intangible assets from prior acquisitions. We test goodwill for impairment at least annually and more frequently if events or changes in circumstances indicate that this asset may be impaired and we review purchased intangible assets for impairment whenever events or changes in business circumstances indicate that the carrying amount of the assets may not be fully recoverable. We may be required to record impairment charges in the future with respect to these assets recorded from past or future acquisitions.

Any of the foregoing, and other factors, could harm our ability to achieve anticipated levels of profitability from acquired businesses or to realize other anticipated benefits of acquisitions.

As a result of the acquisition of Medicis Technologies Corporation, we may be required to make additional cash payments for attainment of certain targets. We recorded a liability for the contingent consideration payments with a fair value of $59.9 million at December 31, 2012 based upon a discounted cash flow model that uses significant estimates and assumptions. Any changes to these estimates and assumptions could significantly impact the fair values recorded for this liability resulting in significant charges to our condensed consolidated statements of operations.

We may incur goodwill impairment charges that would adversely affect our operating results.

We review goodwill for impairment annually and more frequently if events and circumstances indicate that impairment possibly exists. Factors we would consider important that could trigger an impairment review include, but are not limited to, a significant decline in our stock price for a sustained period and decreases in our market capitalization below the recorded amount of our net assets for a sustained period. Our stock price is highly volatile and has experienced significant declines in the past. We performed our annual review of goodwill as of December 31, 2012 and we determined that an impairment charge was not required. If we have indicators of impairment and assess that the fair value of the company is below the carrying value, an impairment of goodwill may result. The balance of goodwill was $96.6 million as of December 31, 2012, which amount did not give effect to the additional goodwill that will be recorded in respect of the Sound Surgical acquisition. There can be no assurance that future goodwill impairments will not occur.

We may fail to effectively build and manage our sales force or to market and distribute our products.

We rely on a direct sales force to sell our products in the United States and in certain international regions. As the Company grows, we expect to grow or realign our sales organization to meet our anticipated sales objectives. There are significant risks involved in building and managing our sales organization, including risks related to our ability to:

hire qualified individuals as needed;

provide adequate training for the effective sale of our products; and

Table of Contents

retain and motivate our sales employees.

In addition, sales to non-traditional practitioners of aesthetic procedures are a key element of our growth strategy. However, our sales force historically has sold primarily to dermatologists and plastic surgeons. Also, our systems compete with products that are well-established in the market. Accordingly, it is difficult for us to predict how well our sales force will perform. Our failure to adequately address these risks could have a material adverse effect on our ability to sell our products, causing our revenue to be lower than expected and harming our results of operations.

We may be required to raise additional capital and/or debt financing on unfavorable terms.

We substantially increased our outstanding indebtedness, and reduced our available cash balances, with our acquisition of Liposonix, and we expect to make substantial future cash payments in respect of that transaction. During the year ended December 31, 2012, we substantially increased our estimate of the future cash payments due to Medicis. In addition, we borrowed $10 million under a new subordinated debt facility in August 2012 and must commence the repayment of this facility and related fees over a period from June 1, 2013 to April 1, 2015. Further, if we fail to achieve sustained profitability and positive cash flow or if unanticipated expenses or other uses of cash arise, our liquidity needs may exceed our cash and cash equivalents and available credit facilities. In order to meet our liquidity needs, we may be required to seek additional equity and/or debt financing such as the sale of our common stock in the public offering that we completed in August 2012. Additional financing may not be available on a timely basis on terms acceptable to us, or at all, particularly in the short-term due to the current credit and equity market funding environments. The availability of financing will depend, in part, on market conditions, and the outlook for our company. Any future equity financing would result in substantial dilution to our stockholders. If we raise additional funds by issuing debt, we may not be able to obtain such debt with favorable terms, and we may be subject to limitations on our operations, through debt covenants or other restrictions. If adequate funds are not available with favorable terms, we may have to delay development of new products or reduce marketing, customer support or other resources devoted to our products. In addition, if we are unable to obtain financing as needed, we may come into breach of our outstanding loan covenants. Any of these factors could harm our business and financial condition.

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

Litigation related to infringement and other intellectual property claims, with or without merit, is unpredictable, can be expensive and time-consuming and could divert management s attention from our core business. If we lose this kind of litigation, a court could require us to pay substantial damages, and prohibit us from using technologies essential to our products, any of which would have a material adverse effect on our business, results of operations and financial condition. We do not know whether necessary licenses would be available to us on satisfactory terms, or whether we could redesign our products or processes to avoid infringement.

Our industry has been characterized by frequent intellectual property litigation. Our competitors or other patent holders may assert that our products and the methods we employ are covered by their patents, and we have, from time to time, received notices of potential infringement by us of other parties patents. If our products or methods are found to infringe, we could be prevented from marketing them. In addition, we do not know whether our competitors or potential competitors have applied for, or will apply for or obtain, patents that will prevent, limit or interfere with our ability to make, use, sell, import or export our products. Competing products may also appear in other countries in which our patent coverage might not exist or be as strong. If we lose a foreign patent lawsuit, we could be prevented from marketing our products in one or more countries.

In addition, we may hereafter become involved in litigation to protect our trademark rights associated with our company name or the names used with our products. Names used with our products and procedures may

Table of Contents

be claimed to infringe names held by others or to be ineligible for proprietary protection. If we have to change the name of our company or products, we may experience a loss in goodwill associated with our brand name, customer confusion and a loss of sales.

We are involved in litigation relating to our acquisition of Reliant Technologies, Inc., which could be costly and time consuming.

On December 21, 2009, a complaint was filed in the Santa Clara County Superior Court by three former stockholders of Reliant Technologies, Inc (Reliant) against Reliant and certain former officers and directors of Reliant in connection with the Company s acquisition of Reliant, which closed on December 23, 2008. The complaint purports to be brought on behalf of the former common stockholders of Reliant. As a result of the acquisition, a successor entity to Reliant, Reliant Technologies, LLC, became our wholly-owned subsidiary. One member of our Board of Directors and our former Chief Technology Officer and former member of the our Board of Directors are among the defendants named in the complaint. The principal claim, among others, is that Reliant violated the California Corporations Code by failing to obtain the vote from a majority of holders of Reliant s common stock prior to the consummation of the acquisition. The complaint also purports to challenge disclosures made by Reliant in connection with its entry into the acquisition and alleges that the defendants failed to maximize the value of Reliant for the benefits of Reliant s common stockholders. On August 2, 2010, defendants filed a motion to dismiss or stay the entire action based on a mandatory forum selection clause in the merger agreement which requires that claims related to the merger be litigated in Delaware. On September 28, 2010, the Court granted the defendants motion to dismiss or stay, and stayed the action indefinitely. On January 20, 2012, the Court dismissed plaintiffs case without prejudice. Plaintiffs have appealed. To date, the plaintiffs have not filed a complaint against the defendants in Delaware. We believe that this suit is without merit, and we intend to vigorously defend it. Although we do not expect that the final disposition of this litigation will have a material effect on its financial results, we expect to devote certain personnel and resources to resolve this litigation.

From time to time we are a party to lawsuits, which often require significant management time and attention and result in significant legal expenses, and which could, if not determined favorably, negatively impact our business, financial condition, results of operations, and cash flows.

From time to time, including at the present time, we are a party to litigation with respect to the conduct of our business, including the conduct of business by companies we have acquired. The expense of defending such litigation may be costly and divert management s attention from the day-to-day operations of our business, which could adversely affect our business, results of operations, and cash flows. In addition, an unfavorable outcome in such litigation could result in significant monetary damages or injunctive relief that could negatively impact our ability to conduct our business, results of operations, and cash flows.

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

We rely on a combination of patent, copyright, trademark and trade secret laws and confidentiality and invention assignment agreements to protect our intellectual property rights. As of December 31, 2012, we had 122 issued U.S. patents, 85 pending U.S. patent applications, 90 issued foreign patents and 114 pending foreign patent applications, some of which foreign applications preserve an opportunity to pursue patent rights in multiple countries. Some of our system components are not, and in the future may not be, protected by patents. Additionally, our patent applications may not issue as patents or, if issued, may not issue in a form that will be advantageous to us. Any patents we obtain may be challenged, invalidated or legally circumvented by third parties. Consequently, competitors could market products and use manufacturing processes that are substantially similar to, or superior to, ours. We may not be able to prevent the unauthorized disclosure or use of our technical knowledge or other trade secrets by consultants, vendors, former employees or current employees, despite the

Table of Contents

existence generally of confidentiality agreements and other contractual restrictions. Monitoring unauthorized uses and disclosures of our intellectual property is difficult, and we do not know whether the steps we have taken to protect our intellectual property will be effective. Moreover, we do not have patent rights in all foreign countries in which a market may exist, and where we have applied for foreign patent rights, the laws of many foreign countries will not protect our intellectual property rights to the same extent as the laws of the United States.

In addition, competitors could purchase our systems and attempt to replicate some or all of the competitive advantages we derive from our development efforts, willfully infringe our intellectual property rights, design around our protected technology or develop their own competitive technologies that fall outside of our intellectual property rights. If our intellectual property is not adequately protected so as to protect our market against competitors products and methods, our competitive position could be adversely affected, as could our business.

Performing clinical studies on, and collecting data from the procedures for which our products are used is inherently subjective, and we have limited data regarding the efficacy of our systems. If future data is not positive or consistent with our prior experience, rates of physician adoption will likely be harmed.

We believe that in order to significantly grow our business, we will need to conduct future clinical studies of the effectiveness of our systems. Clinical studies of aesthetic treatments are subject to a number of limitations. First, these studies do not involve well-established objective standards for measuring the effectiveness of treatment. Subjective, before and after, evaluation of the extent of change in the patient s appearance, performed by a medical professional or by the patient, is the most common method of evaluating effectiveness. A clinical study may conclude that a treatment is effective even if the change in appearance is subtle and not long-lasting. Second, as with other non-invasive or minimally invasive energy-based devices, the effects of the procedures for which our products are used vary from patient to patient and can be influenced by a number of factors, including the area of the body being treated, the age and skin laxity of the patient and operator technique.

We have not conducted any head-to-head clinical studies that compare results from treatment with our systems to surgery or treatment with other aesthetic devices. Without head-to-head studies against competing alternative treatments, potential customers may not find clinical studies of our technology sufficiently compelling to purchase our systems. If we decide to pursue additional studies in the future, they could be expensive and time consuming, and the data collected may not produce favorable or compelling results. If the results of such studies do not meet physicians expectations, our systems may not become widely adopted, physicians may recommend alternative treatments for their patients, and our business may be harmed.

To successfully market and sell our systems internationally, we must address many issues with which we have limited experience.

Sales outside of North America accounted for 51%, 55% and 55% of our revenue for the years ended December 31, 2012, 2011 and 2010. We believe that a significant portion of our business will continue to come from international sales through increased penetration in countries where we currently sell our products, combined with expansion into new international markets. However, international sales are subject to a number of risks, including:

- difficulties in staffing and managing our international operations;
- difficulties in penetrating markets in which our competitors products are more established;
- reduced or no protection for intellectual property rights in some countries;

Table of Contents

export restrictions, trade regulations and foreign tax laws;

regulation of the sale of the hydroflurocarbon used with our Thermage and Isolaz systems;

fluctuating foreign currency exchange rates;

foreign certification and regulatory clearance or approval requirements;

difficulties in developing effective marketing campaigns for unfamiliar, foreign countries;

dependence on third-party distributors in some territories;

customs clearance and shipping delays;

political and economic instability;

natural disasters (such as earthquakes, hurricanes, tsunamis, floods or storms);

preference for locally produced products;

business interruption resulting from transitioning to direct sales from international distributors in certain international regions; and

difficulties in getting distributors to relinquish regulatory documentation.

If one or more of these risks were realized, it could require us to dedicate significant resources to remedy the situation, and if we are unable to find a solution, our revenue may decline.

To market and sell our products internationally, we depend on distributors, and they may not be successful.

We currently depend primarily on third-party distributors to sell and service our products internationally and to train our international customers, and if these distributors terminate their relationships with us or under-perform we may be unable to maintain or increase our level of international revenue. We will also need to engage additional international distributors to grow our business and expand the territories in which we sell our systems. Distributors may not commit the necessary resources to market, sell and service our products to the level of our expectations. If current or future distributors do not perform adequately, or if we are unable to engage distributors in particular geographic areas, our revenue from international operations will be adversely affected. In addition, from time to time, legal disputes arise when we wish to discontinue a distributor relationship in a given territory or otherwise feel a distributor is not performing adequately. Such disputes have led to legal proceedings that are costly to litigate and that could result in outcomes that are not favorable to us.

We face significant uncertainty in the industry due to government healthcare reform.

Political, economic and regulatory influences are subjecting the healthcare industry to fundamental changes. The Patient Protection and Affordable Care Act (the Healthcare Act) signed into law in March 2010 enacted sweeping reforms to the U.S. healthcare industry, including

mandatory health insurance, reforms to Medicare and Medicaid, the creation of large insurance purchasing groups, new taxes on medical equipment manufacturers and other significant modifications to the healthcare delivery system. Due to uncertainties regarding the ultimate features of the new federal legislation and its implementation, we cannot predict what impact the Healthcare Act may have on us, our customers or our industry. A material amount of our sales are

Table of Contents

subject to the medical device excise tax included in the Healthcare Act, which is a 2.3% tax to be levied on a significant portion of our total domestic sales of medical devices. The tax is calculated using sales price, irrespective of a company s profitability. The excise tax provisions went into effect January 1, 2013.

We compete against companies that have more established products, longer operating histories and greater resources, which may prevent us from achieving significant market penetration or increased operating results.

The aesthetics market is highly competitive and dynamic, and is marked by rapid and substantial technological development and product innovations. Demand for our products could be diminished by equivalent or superior products and technologies offered by competitors. Specifically, our products compete against a variety of offerings in the aesthetics market, including laser and other light-based medical devices, pharmaceutical products such as Botox, filler injections, chemical peels, microdermabrasion, liposuction, cosmetic surgical procedures and less invasive surgical solutions such as implanted sutures. We compete against products and procedures using laser, light-based, RF, ultrasound, and other aesthetic energy modalities for skin resurfacing and rejuvenation, skin tightening, body contouring, and acne treatment from companies such as Alma Laser, Cutera, Cynosure, Erchonia, Lumenis, Lutronic, Palomar, MedixSysteme, Real Aesthetics, Sciton, Sybaritic, Syneron, Ulthera, Ultrashape, and Zeltiq. Our consumer device competes against companies that offer laser, LED and other aesthetic energy devices for skin rejuvenation and acne treatment such as Clarisonic, Palomar, PhotoMedex, Syneron, Tria Beauty and Zeno.

Competition in the aesthetics market could result in price-cutting, reduced profit margins and loss of market share, any of which would harm our business, financial condition and results of operations. Our ability to compete effectively depends upon our ability to distinguish our company and our products from our competitors and their products, and on such factors as:

- safety and effectiveness;
- product pricing;
- success of our marketing initiatives;
- compelling clinical data;
- intellectual property protection;
- quality of customer support; and
- development of successful distribution channels, both domestically and internationally.

Some of our competitors have more established products and customer relationships than we do, which could inhibit our market penetration efforts. For example, we have encountered, and expect to continue to encounter, situations where, due to pre-existing relationships, potential customers decided to purchase additional products from our competitors. Potential customers also may need to recoup the cost of expensive products that they have already purchased from our competitors and thus may decide not to purchase our products, or to delay such purchase. If we are unable to achieve continued market penetration, we will be unable to compete effectively and our business will be harmed.

In addition, some of our current and potential competitors have significantly greater financial, research and development, manufacturing, and sales and marketing resources than we have. Our competitors could utilize their greater financial resources to acquire other companies to gain enhanced name recognition and market share, as well as new technologies or products that could effectively compete with our existing product lines. Given the relatively few competitors currently in the market, any business combination could exacerbate any existing competitive pressures, which could harm our business.

42

Table of Contents

Competition among providers of devices for the aesthetics market is characterized by rapid innovation, and we must continuously develop new products or our revenue may decline.

While we attempt to protect our products through patents and other intellectual property rights, there are few barriers to entry that would prevent new entrants or existing competitors from developing products that compete directly with ours. If we continue to create market demand for non-surgical, non-invasive or minimally invasive treatments, competitors will enter the market with other products making similar or superior claims. We expect that any competitive advantage we may enjoy from our current and future innovations may diminish over time, as companies successfully respond to our, or create their own, innovations. Consequently, we believe that we will have to continuously innovate and improve our products and technology to compete successfully. If we are unable to innovate successfully, our systems could become obsolete and our revenue will decline as our customers purchase competing products.

Our products may have undetected and unforeseen design flaws, and may experience failures particularly when first introduced, or at any time during their lifecycle. Any product recall as a result of flaws or failures could result in the loss of or delays in market acceptance of our products and adversely affect our business and reputation. Correcting defects can be time consuming. Any significant returns or warranty claims could result in significant additional costs to us and could adversely affect our results of operations.

Negative publicity regarding our current or future products and procedures could harm demand, which would adversely affect sales and our financial performance.

We have in the past experienced, and expect that in the future we will experience, negative media exposure. Such publicity may present negative individual physician or patient experience regarding the safety or effectiveness of our procedures. Competitors could attempt to use such publicity to harm our reputation and disrupt current or potential future customer relationships. While, to date, we have not observed a material impact on our quarterly financial results of operations from negative publicity, future results could be negatively impacted. Additionally, while we believe that obtaining positive publicity is important to our success, and it is an important component of our marketing efforts, we have also not observed a material impact on our quarterly financial results of operations from positive publicity.

Our reputation and competitive position may be harmed not only by negative media exposure, but also by other publicly-available information suggesting that our procedures are not safe. For example, we file reports with the FDA that are publicly available on the FDA s website if our products may have caused or contributed to a serious injury or malfunctioned in a way that would likely cause or contribute to a serious injury if it were to recur. Competitors may attempt to harm our reputation by pointing to isolated injuries that have been reported or publicized, or by claiming that their product is superior because they have not filed as many reports with the FDA. Such negative publicity and competitor behavior could harm our reputation and our future sales.

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

Several components and materials that comprise our products are currently manufactured by a single supplier or a limited number of suppliers. In many of these cases, we have not yet qualified alternate suppliers and rely upon purchase orders, rather than long-term supply agreements. A supply interruption or an increase in demand beyond our current suppliers capabilities could harm our ability to manufacture our products until new sources of supply are identified and qualified. Our reliance on these suppliers subjects us to a number of risks that could harm our business, including:

- interruption of supply resulting from modifications to or discontinuation of a supplier s operations;
- delays in product shipments resulting from uncorrected defects, reliability issues or a supplier s variation in a component;

Table of Contents

- a lack of long-term supply arrangements for key components with our suppliers;
- inability to obtain adequate supply in a timely manner, or to obtain adequate supply on commercially reasonable terms;
- difficulty locating and qualifying alternative suppliers for our components in a timely manner;
- production delays related to the evaluation and testing of products from alternative suppliers, and corresponding regulatory qualifications;
- delay in delivery due to our suppliers prioritizing other customer orders over ours;
- damage to our brand reputation caused by defective components produced by our suppliers;
- interruption or delay of supply due to a natural disaster affecting supplier s operations;
- increased cost of our warranty program due to product repair or replacement based upon defects in components produced by our suppliers; and
- fluctuation in delivery by our suppliers due to changes in demand from us or their other customers.

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

If, in the future, we decide to perform additional manufacturing functions internally that we currently outsource, our business could be harmed by our limited manufacturing experience and related capabilities.

We currently perform certain value-added and proprietary manufacturing processes internally at our principal facility, and we outsource the manufacture of components, subassemblies and certain finished products to a limited number of third parties. For financial or operational purposes, we may elect to perform additional component or system manufacturing functions internally. In that event, we may face a number of challenges beyond those that we currently address in our internal assembly, inspection, testing and certification activities. Implementing complex or specialized manufacturing processes could lead to difficulties in producing sufficient quantities of manufactured items that meet our quality standards and that comply with applicable regulatory requirements in a timely and cost-effective manner. In addition, if we experience these types of internal manufacturing difficulties, it may be expensive and time consuming to engage a new or previous subcontractor or supplier to fulfill our replacement manufacturing needs. The occurrence of any of these events could harm our business.

Problems in our manufacturing processes, or those of our manufacturing subcontractors, that lead to an actual or possible malfunction in our products, may require us to recall products from customers and could disrupt our operations. Our results of operations, our reputation and market acceptance of our products could be harmed if we encounter difficulties in manufacturing that result in a recall or patient injury, and delays in our ability to fill customer orders.

We outsource the repair of key elements of some products to sole-source service subcontractors.

We outsource the repair of certain key elements of our systems to sole source contract service providers. If the operations of those service subcontractors are interrupted, we may be limited in our ability to repair

44

Table of Contents

equipment. Our service subcontractors are dependent on trained technical labor to effectively repair our products. In addition, our service subcontractors may be operating as medical device manufacturers and as such are required to demonstrate and maintain compliance with the Quality System Review (QSR). If our service subcontractors fail to comply with the QSR, repair operations could be affected and our ability to repair certain systems may be impaired.

We may not be able to develop an alternative cooling system that will be in compliance with changing environmental regulations in a timely or cost-effective manner.

The cooling capability of our Thermage and Isolaz systems relies upon a hydroflurocarbon, or HFC, called R134a, to protect the outer layer of the skin from over-heating while our device delivers RF energy to the subcutaneous tissue. New environmental regulations phasing out certain HFCs over the next decade have been adopted or are under consideration in a number of countries, and recent European Union directives require the phase-out of certain HFCs. We have also put in place a solution for the European Union import restrictions. If we are unable to develop an alternative cooling system for our device which is not dependent on R134a in a timely or cost-effective manner, our Thermage and Isolaz systems may not be in compliance with environmental regulations, which could result in fines, civil penalties and the inability to sell our products in certain major international markets.

We forecast sales to determine requirements for components and materials used in our systems, and if our forecasts are incorrect, we may experience delays in shipments or increased inventory costs.

We keep limited materials, components and finished product on hand. To manage our manufacturing operations with our suppliers, we forecast anticipated product orders and material requirements to predict our inventory needs up to six months in advance and enter into purchase orders on the basis of these requirements. Our limited historical experience may not provide us with enough data to accurately predict future demand. If our business expands, our demand for components and materials would increase and our suppliers may be unable to meet our demand. If we overestimate our component and material requirements, we will have excess inventory, which would increase our expenses. If we underestimate our component and material requirements, we may have inadequate inventory, which could interrupt, delay or prevent delivery of systems to our customers. Any of these occurrences would negatively affect our financial performance and the level of satisfaction our customers have with our business.

Even though we require training for users of our professional systems, there exists a potential for misuse, which could harm our reputation and our business.

U.S. federal regulations allow us to sell our professional systems to licensed practitioners. The definition of licensed practitioners varies from state to state. As a result, our professional systems may be operated by licensed practitioners with varying levels of training, and in many states by non-physicians, including physician assistants, registered nurses and nurse practitioners. Thus, in some states, the definition of licensed practitioner may result in the legal use of our professional products by non-physicians. Outside the United States, our independent distributors sell in many jurisdictions that do not require specific qualifications or training for purchasers or operators of products. We do not supervise the procedures performed with our professional systems, nor can we be assured that direct physician supervision of our equipment occurs according to our recommendations. We, and our distributors, require purchasers of our professional products to undergo an initial training session as a condition of purchase, but do not require ongoing training. In addition, we prohibit the sale of our professional systems to companies that rent our systems to third parties without our approval, but cannot prevent an otherwise qualified physician from contracting with a rental company in violation of their purchase agreement with us. The use of our professional systems by non-physicians, as well as noncompliance with the operating guidelines set forth in our training programs, may result in product misuse and adverse treatment outcomes, which could harm our reputation and expose us to costly product liability litigation.

Table of Contents

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

If our products are defectively designed, manufactured or labeled, contain defective components or are misused, we may become subject to substantial and costly litigation by our customers or their patients. For example, as described under Legal Proceedings, one such litigation matter is currently pending. Misusing our products or failing to adhere to operating guidelines could cause significant skin damage and underlying tissue damage. In addition, if our operating guidelines or product design are found to be inadequate, we may be subject to liability. We have been, continue to be and may, in the future, be involved in litigation related to the use of our products. Product liability claims could divert management s attention from our core business, be expensive to defend and result in sizable damage awards against us. We may not have sufficient insurance coverage for all future claims. We may not be able to obtain insurance in amounts or scope sufficient to provide us with adequate coverage against all potential liabilities. Any product liability claim brought against us, with or without merit, could increase our product liability insurance rates or prevent us from securing continuing coverage, could harm our reputation in the industry and reduce product sales. Product liability claims in excess of our insurance coverage would be paid out of cash reserves, harming our financial condition and reducing our operating results.

After-market modifications to our treatment tips by third parties and the development of counterfeit treatment tips could reduce our sales, expose us to product liability litigation and dilute our brand quality.

Third parties have introduced adulterated after-market modifications to our treatment tips which have enabled re-use of our treatment tips in multiple procedures. Because our treatment tips are designed to withstand a finite number of firings, modifications intended to increase the number of firings could result in patient injuries caused by the use of worn-out or damaged treatment tips. In addition, third parties may seek to develop counterfeit treatment tips that are compatible with our systems and available to practitioners at lower prices than our own. If security features incorporated into the design of our systems are unable to prevent after-market modifications to our treatment tips or the introduction of counterfeit treatment tips, we could be subject to reduced treatment tip sales, product liability lawsuits resulting from the use of damaged or defective goods and damage to our reputation for providing a quality product.

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

Our success largely depends on the skills, experience and efforts of our officers and other key employees. Many of our officers and key employees do not have employment contracts with us and can terminate their employment at any time. The loss of any of our senior management team members could weaken our management expertise and harm our business.

Our ability to retain our skilled labor force and our success in attracting and hiring new skilled employees will be a critical factor in determining whether we will be successful in the future. We may not be able to meet our future hiring needs or retain existing personnel. We will face particularly significant challenges and risks in hiring, training, managing and retaining engineering and sales and marketing employees, as well as independent distributors, most of whom are geographically dispersed and must be trained in the use and benefits of our products. Failure to attract and retain personnel, particularly technical and sales and marketing personnel, would materially harm our ability to compete effectively and grow our business.

Table of Contents

Risks Related to Regulatory Matters

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

Our systems are medical devices that are subject to extensive regulation in the United States by the FDA for manufacturing, labeling, sale, promotion, distribution and shipping. Before a new medical device, or a new use of or claim for an existing product, can be marketed in the United States, it must first receive either 510(k) clearance or premarket approval from the FDA, unless an exemption applies. Either process can be expensive and lengthy. The FDA s 510(k) clearance process usually takes from three to six months from the time the application is filed with the FDA, but it can take significantly longer. The process of obtaining premarket approval is much more costly and uncertain than the 510(k) clearance process, and it generally takes from one to three years, or even longer, from the time the application is filed with the FDA.

Medical devices may be marketed only for the indications for which they are approved or cleared. We have obtained 510(k) clearance for various indications for our Thermage and Fraxel systems. In addition, 510(k) clearance has been obtained for various indications of our recently acquired Isolaz systems, CLARO products and Liposonix systems. However, our clearances can be revoked if safety or effectiveness problems develop. We are also subject to Medical Device Reporting regulations, which require us to report to the FDA if our product causes or contributes to a death or serious injury, or malfunctions in a way that would likely cause or contribute to a death or serious injury if the malfunction were to recur. Our products are also subject to state regulations which are, in many instances, in flux. Changes in state regulations may impede sales. For example, federal regulations allow our systems to be sold to, or on the order of, licensed practitioners, as determined on a state-by-state basis. As a result, in some states, non-physicians may legally purchase and operate our systems. However, a state could change its regulations at any time, disallowing sales to particular types of end users. We cannot predict the impact or effect of future legislation or regulations at the federal or state levels.

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

- warning letters, fines, injunctions, consent decrees and civil penalties;
- repair, replacement, refunds, recall or seizure of our products;
- operating restrictions or partial suspension or total shutdown of production;
- refusing our requests for 510(k) clearance or premarket approval of new products, new intended uses or modifications to our existing products;
- withdrawing 510(k) clearance or premarket approvals that have already been granted; and
- criminal prosecution.

If any of these events were to occur, our business could be harmed.

If we modify our FDA-cleared devices, we may need to seek and obtain new clearances, which, if not granted, would prevent us from selling our modified product or require us to redesign our product.

Any modification to an FDA-cleared device that would significantly affect its safety or effectiveness or that would constitute a change in its intended use would require a new 510(k) clearance or possibly a premarket

47

Table of Contents

approval. We may not be able to obtain additional 510(k) clearances or premarket approvals for new products or for modifications to, or additional indications for, our existing products in a timely fashion, or at all. Delays in obtaining future clearances would adversely affect our ability to introduce new or enhanced products in a timely manner, which in turn would harm our revenue and potential future profitability. We have made modifications to our devices in the past and may make additional modifications in the future that we believe do not or will not require additional clearances or approvals. If the FDA disagrees, and requires new clearances or approvals for the modifications, we may be required to recall and to stop marketing the modified devices, which could harm our operating results and require us to redesign our products.

If we or our suppliers and subcontractors fail to comply with the QSR, our business would suffer.

We and our suppliers and subcontractors are required to demonstrate and maintain compliance with the QSR. The QSR is a complex regulatory scheme that covers the methods and documentation of the design, testing, control, manufacturing, labeling, quality assurance, packaging, storage and shipping of our products. The FDA enforces the QSR through periodic inspections. We and our suppliers have been, and we anticipate that we and our suppliers will in the future be, subject to such inspections. In addition, certain of our suppliers have, from time to time, received warning letters from the FDA regarding potential non-compliance. Our failure, or the failure of our suppliers and subcontractors, to take satisfactory corrective action in response to an adverse QSR inspection could result in enforcement actions, including a public warning letter, a shutdown of our manufacturing operations, a recall of our products, civil or criminal penalties or other sanctions, which would cause our sales and business to suffer.

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

To support the marketing of our products outside the United States, we must comply with and be certified to the ISO 13485: 2003 Quality Management System Standard. Failure to adequately maintain our ISO 13485: 2003 certifications may adversely impact or prevent the marketing of our products internationally. In markets where we sell through distributors, we primarily rely upon distributors to obtain all regulatory licenses, registrations and approvals required in countries outside of the United States, and these distributors may be unable to obtain or maintain such licenses, registrations and approvals. Our distributors may also incur significant costs in attempting to obtain and in maintaining regulatory licenses, registrations and approvals, which could increase the difficulty of attracting and retaining qualified distributors. If our distributors experience delays in receiving necessary licenses, registrations or approvals to market our products outside the United States, or if they fail to receive those licenses, registrations or approvals, we may be unable to market our products or product enhancements in international markets effectively, or at all.

Risks Related to Our Internal Control over Financial Reporting

While we believe we currently have adequate internal control over financial reporting, we are required to assess our internal control over financial reporting on an annual basis and any future adverse results from such assessment could result in a loss of investor confidence in our financial reports and have an adverse effect on our stock.

Pursuant to the Sarbanes-Oxley Act of 2002 and the rules and regulations promulgated by the SEC, we are required to maintain disclosure controls and procedures and adequate internal control over financial reporting. Under such requirements we must furnish in our Form 10-K a report by our management regarding the effectiveness of our internal control over financial reporting. The report includes, among other things, an assessment of the effectiveness of our internal control over financial reporting as of the end of our fiscal year, including a statement as to whether or not our internal control over financial reporting is effective. This

Table of Contents

assessment must include disclosure of any material weaknesses in our internal control over financial reporting identified by management. While we currently believe our internal control over financial reporting is effective, the effectiveness of our internal controls in future periods is subject to the risk that our controls may become inadequate because of changes in conditions. The effectiveness of our controls and procedures may in the future be limited by a variety of factors, including:

- faulty human judgment and simple errors, omissions or mistakes;
- fraudulent action of an individual or collusion of two or more people;
- inappropriate management override of procedures; and
- the possibility that any enhancements to controls and procedures may still not be adequate to assure timely and accurate financial information.

If we are unable to assert that our internal control over financial reporting is effective in any future period, or if and when applicable, our auditors are unable to express an opinion on the effectiveness of our internal controls, or conclude that our internal controls are ineffective, or if we fail to maintain adequate and effective internal control over financial reporting, we could lose investor confidence in the accuracy and completeness of our financial reports, which could have an adverse effect on our stock price.

Risks Related to Our Common Stock

We expect that the price of our common stock will fluctuate substantially.

The market price of our common stock has historically been, and is likely to continue to be, highly volatile and may fluctuate substantially due to many factors, including:

- fluctuations in our operating results and the operating results of our competitors;
- changes in earnings estimates or recommendations regarding us or our competitors by securities analysts;
- volume and timing of sales of our products;
- conditions and trends in our industry and the markets we serve;
- the introduction and market acceptance of new products or product enhancements by us or our competitors;
- our ability to develop, obtain regulatory clearance or approval for and market new and enhanced products on a timely basis;
- changes in our pricing policies or the pricing policies of our competitors;

announcements of significant new contracts, acquisitions or strategic alliances by us or our competitors;

our ability to successfully integrate acquired companies or technologies;

disputes or other developments with respect to our intellectual property rights or the intellectual property rights of others;

product liability claims or other litigation;

Table of Contents

changes in accounting principles or changes in interpretations of existing principles, which could affect our financial results;

sales of large blocks of our common stock, including sales by our executive officers and directors;

media exposure of our products or products of our competitors;

changes in legislation and governmental regulations or in the status of our regulatory approvals or applications; and

general market conditions and other factors, including factors unrelated to our operating performance or the operating performance of our competitors.

These and other factors may make the price of our stock volatile and subject to unexpected fluctuation.

A sale of a substantial number of shares of our common stock may cause the price of our common stock to decline.

As of December 31, 2012, we had 68.8 million shares of our common stock outstanding and in March 2013 we plan to issue approximately 9.7 million additional shares as part of the closing payment in the Sound Surgical acquisition. We may be required to issue up to 3.6 million additional shares in 2014 as contingent consideration in the Sound Surgical acquisition. If our stockholders sell substantial amounts of our common stock in the public market, for example, liquidation of shares held by our principal stockholders, including shares issued upon the exercise of outstanding options, the market price of our common stock could decline. These sales also might make it more difficult for us to sell equity or equity-related securities in the future at a time and price that we deem appropriate.

If our stockholders sell substantial amounts of our common stock in the public market, for example, liquidation of shares held by our principal stockholders, including shares issued upon the exercise of outstanding options, the market price of our common stock could decline. These sales also might make it more difficult for us to sell equity or equity-related securities in the future at a time and price that we deem reasonable or appropriate.

Our directors, officers and principal stockholders have significant voting power and may take actions that may not be in the best interests of our other stockholders.

Our officers, directors and principal stockholders, some holding more than 5% of our common stock, collectively control approximately 45% of our outstanding common stock. As a result, these stockholders, if they act together, will be able to significantly influence the management and affairs of our company and most matters requiring stockholder approval, including the election of directors and approval of significant corporate transactions. This concentration of ownership may have the effect of delaying or preventing a change in control and might adversely affect the market price of our common stock. This concentration of ownership may not be in the best interests of our other stockholders.

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

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

a classified board of directors;

advance notice requirements to stockholders for matters to be brought at stockholder meetings;

Table of Contents

a supermajority stockholder vote requirement for amending certain provisions of our Amended and Restated Certificate of Incorporation and Bylaws;

limitations on stockholder actions by written consent; and

the right to issue preferred stock without stockholder approval, which could be used to dilute the stock ownership of a potential hostile acquirer.

These provisions might discourage, delay or prevent a change in control of our company or a change in our management. The existence of these provisions could adversely affect the voting power of holders of common stock and limit the price that investors might be willing to pay in the future for shares of our common stock.

We have not paid dividends in the past and do not expect to pay dividends in the future, and any return on investment may be limited to the value of our stock.

We have never paid cash dividends on our common stock and do not anticipate paying cash dividends on our common stock in the foreseeable future. The payment of dividends on our common stock will depend on our earnings, financial condition and other business and economic factors affecting us at such time as our board of directors may consider relevant. If we do not pay dividends, our stock may be less valuable because a return on your investment will only occur if our stock price appreciates.

If our public guidance or our future operating performance does not meet investor expectations, our stock price could decline.

We provide guidance to the investing community regarding our anticipated future operating performance. Our business typically has a short sales cycle, so that we do not have significant backlog of orders at the start of a quarter, and our ability to sell our products successfully is subject to many uncertainties, including those discussed in the foregoing risk factors. In light of these factors, and the uncertainty as a result of the general economic situation, it is difficult for us to estimate with accuracy our future results. Our expectations regarding these results will be subject to numerous risks and uncertainties that could make actual results differ materially from those anticipated. If our actual results do not meet our public guidance or our guidance or actual results do not meet the expectations of third-party financial analysts, our stock price could decline significantly.

If equity research analysts do not publish research or reports about our business or if they issue unfavorable commentary or downgrade our common stock, the price of our common stock could decline.

The trading market for our common stock relies in part on the research and reports that equity research analysts publish about us and our business. We do not control these analysts. The price of our common stock could decline if one or more equity analysts downgrade our common stock or if analysts issue other unfavorable commentary or cease publishing reports about us or our business.

Item 1B. ***Unresolved Staff Comments***

None.

Item 2. ***Properties***

Our corporate headquarters currently occupies a 88,000 square foot facility in Hayward, California, under a lease that expires on March 31, 2016, with an option to extend for an additional three years. In addition,

Table of Contents

we occupy a 25,000 square foot facility in Bothell, Washington, under a lease that expires in January 2015. Also, through acquisition we occupy a 16,000 square foot facility in Louisville, Colorado, under a lease that expires in August 2017, with an option to extend for an additional three years. Worldwide, we lease facilities that expire at various times ranging from 2013 to 2017. One of our primary international facilities is in Japan under a lease that ends in March 2016, with no renewal option and another is in Hong Kong under a lease that ends in December 2013, with an option to extend for an additional two years. We believe our facilities are adequate for our current and future needs for at least the next 12 months.

Item 3. ***Legal Proceedings***

On December 21, 2009, a complaint was filed in the Santa Clara County Superior Court by three former stockholders of Reliant against Reliant and certain former officers and directors of Reliant in connection with our acquisition of Reliant, which closed on December 23, 2008. The complaint purports to be brought on behalf of the former common stockholders of Reliant. As a result of the acquisition, a successor entity to Reliant, Reliant Technologies, LLC, became the Company s wholly-owned subsidiary. One member of our Board of Directors and our former Chief Technology Officer and former member of our Board of Directors are among the defendants named in the complaint. The principal claim, among others, is that Reliant violated the California Corporations Code by failing to obtain the vote from a majority of holders of Reliant s common stock prior to the consummation of the acquisition. The complaint also purports to challenge disclosures made by Reliant in connection with its entry into the acquisition and alleges that the defendants failed to maximize the value of Reliant for the benefits of Reliant s common stockholders. On August 2, 2010, defendants filed a motion to dismiss or stay the entire action based on a mandatory forum selection clause in the merger agreement which requires that claims related to the merger be litigated in Delaware. On September 28, 2010, the Court granted the defendants motion to dismiss or stay, and stayed the action indefinitely. On January 20, 2012, the Court dismissed plaintiffs case without prejudice. Plaintiffs have appealed. To date, the plaintiffs have not filed a complaint against the defendants in Delaware. We believe that this suit is without merit, and we intend to vigorously defend it. Although we do not expect that the final disposition of this litigation will have a material effect on its financial results, we expect to devote certain personnel and resources to resolve this litigation.

On December 4, 2009, Aesthera was served with a class action complaint filed in the United States District Court for the District of Connecticut alleging that Aesthera caused unsolicited fax advertisements to be sent to the plaintiffs in violation of the Telephone Consumer Protection Act, or TCPA, and Connecticut state law. The complaint purports to be filed on behalf of a class, and it alleges that Aesthera caused unsolicited fax advertisements to be sent from August 1, 2006 through the present. Plaintiffs seek statutory damages under the TCPA and Connecticut state law, attorneys fees and costs of the action, and an injunction to prevent any future violations. In May 2010, Aesthera reached an agreement in principle to settle the matter on a class-wide basis by consenting to certification of a settlement class to receive payment out of a settlement fund. On November 5, 2010, the plaintiffs filed an unopposed motion for certification of a settlement class and for preliminary approval of the parties settlement. On April 15, 2011, the Court denied plaintiffs motion without prejudice on the grounds that the proposed means of giving notice to the class i.e., via fax was not adequate. The Court directed the plaintiffs to revise their motion to provide for notice to the class via United States mail. The Court further directed that the cost of this notice should be borne by Aesthera without reduction to the amount of the settlement fund. On August 22, 2011, the plaintiffs filed a renewed unopposed motion for certification of a settlement class and for preliminary approval of the parties settlement. This renewed motion provides for notice to the class via United States mail. Pursuant to the Class Action Fairness Act (see 28 U.S.C. § 1715), on August 30, 2011, Aesthera gave the Attorney General of the United States and each of the state attorneys general notice of the proposed settlement. On September 29, 2011, the Court entered an Order stating that it would grant plaintiffs renewed motion upon submission of a revised notice to the class providing that the claim form will be a fillable PDF that will enable perspective class members to complete and submit the form electronically. On October 12, 2011, the parties jointly submitted revised long-form and summary versions of the Notice to the Class providing that the Proof of Claim will be a fillable PDF that will enable perspective class members, if they

Table of Contents

so choose, to complete and submit the form electronically without need to print it. On October 14, 2011, the Court granted Plaintiffs renewed Motion to Certify Class for Preliminary Approval of Class Settlement. Notice was sent by the claim s administrator to potential members of the class. A fairness hearing was held on March 27, 2012 at which the Court approved the settlement subject to certain conditions, which have since been fulfilled. On May 5, 2012, the Court ordered the Plaintiffs to submit an amended settlement agreement and final approval order. Plaintiffs filed the required papers on June 15, 2012. On August 3, 2012, the Court approved the final settlement, and the claims administrator has paid out the settlement funds. The settlement did not have a material impact on our financial results.

In January 2008, a product design complaint was filed against the Company in Federal District Court in Maryland. The individual plaintiff sought monetary damages, attorney s fees and costs of the action. Trial commenced on September 11, 2011. On September 29, 2011 a jury reached a verdict which was in favor of the plaintiff and awarded to the plaintiff an amount of total damages that is within the Company s insurance limits. In response to the verdict, the Company filed a motion for judgment notwithstanding the verdict and alternatively, a motion for a new trial. Those motions were denied by the court on August 2, 2012. The Company had meritorious reasons to contest the judgment, and it filed an appeal to the Circuit Court of Appeals. On February 20, 2013 the parties entered into a Confidential Settlement Agreement and General Release. In light of the Settlement Agreement, the Company will dismiss its appeal.

On May 3, 2012, Solta and Reliant, which we acquired in December 2008, were served with a class action complaint filed in the United States District Court for the Northern District of California alleging that Reliant caused unsolicited fax advertisements to be sent to the plaintiff in 2008, in violation of the TCPA. Plaintiff, on behalf of itself and the putative class, seeks the greater of actual damages or statutory damages in the amount of $500 per violation, treble damages for any willful violations, and injunctive relief. The parties have exchanged initial disclosures and discovery has commenced. On January 24, 2013, the Court granted the parties stipulated request to continue upcoming case deadlines in light of the parties agreement to participate in private mediation scheduled for March 2013. We are unable to reasonably estimate a range of loss at this time and intends to vigorously defend this action.

On December 7, 2012, Richard Clement (plaintiff), as putative representative for the shareholders of CLRS Technology Company (CLRS), filed suit against us in the Superior Court of the State of California for the County of Alameda. Plaintiff alleges that we breached our October 15, 2010 merger agreement with CLRS, and in particular alleges that the Company was required, but failed, to use its best efforts to market CLARO during the earnout period. We deny these allegations. Plaintiff asserts three causes of action: breach of contract, breach of the implied covenant of good faith and fair dealing, and violation of California Business and Professions Code §§ 17200 et seq. We believe that the claims are without merit and intend to defend the action vigorously.

In addition, from time to time, we are involved in litigation relating to claims arising from the ordinary course of business. We routinely assesses the likelihood of judgments or outcomes related to legal matters and claims, including those involving its intellectual property protection, as well as ranges of probable losses. A determination of the amount of the reserves required, if any, for these contingencies is made after thoughtful analysis of each known issue and an analysis of historical experience. In the cases where we believe that a reasonably possible loss exists, we disclose the facts and circumstances of the litigation, including an estimated range, if possible. We do not believe the final disposition of these matters will have a material effect on our financial statements and future cash flows. All legal expenses, including those related to intellectual property protection, are expensed as they are incurred.

Item 4. ***Mine Safety Disclosures***

Not applicable.

Table of Contents

PART II

Item 5. ***Market for Registrant s Common Equity, Related Stockholder Matters, and Issuer Purchases of Equity Securities***

Stock Exchange Listing

Our common stock trades on the Nasdaq Global Market under the symbol SLTM . On February 28, 2013, the closing sale price of our common stock was $2.28 per share.

Common Stockholders

As of February 28, 2013, there were approximately 126 stockholders of record of our common stock, one of whom was CEDE & Co, a large clearing house that holds shares in its name for banks, brokers and institutions, in order to expedite the sale and transfer of stock. Since many stockholders shares are listed under their brokerage firm s name, we believe the actual number of stockholders is approximately 4,740.

Stock Prices

The following table sets forth quarterly high and low closing sales prices of our common stock for the indicated periods:

	High	Low
Year Ended December 31, 2011		
First Quarter	$ 3.68	$ 2.60
Second Quarter	3.63	2.45
Third Quarter	2.80	1.23
Fourth Quarter	3.25	1.23
Year Ended December 31, 2012		
First Quarter	$ 3.25	$ 2.34
Second Quarter	3.25	2.50
Third Quarter	3.48	2.71
Fourth Quarter	3.16	2.32

Dividend Policy

We have never paid a cash dividend and have no present intention to pay cash dividends in the foreseeable future. The board of directors currently intends to retain any future earnings for use in our business. Pursuant to our loan agreement with Silicon Valley Bank, we are prohibited from making any cash payments for dividends or purchasing or redeeming any of our equity securities, returning any capital to any holder of our equity securities.

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.

Table of Contents

Stock Performance Graph

The following graph compares the cumulative total stockholder return on our common stock with the cumulative total return of the Nasdaq Composite Index and the Nasdaq Medical Equipment Index for the period beginning on November 10, 2006, our first day of trading after our initial public offering, and ending on December 31, 2012.

COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN*

Among Solta Medical, Inc, the NASDAQ Composite Index,

and the NASDAQ Medical Equipment Index

* $100 invested on 12/31/07 in stock or index, including reinvestment of dividends. Fiscal year ending December 31.

The graph assumes that $100 was invested on November 10, 2006 in our common stock, or on October 31, 2006 in the Nasdaq Composite Index and the Nasdaq Medical Equipment Index, and that all dividends were reinvested. No dividends have been declared or paid on our common stock. Stock performance shown in the above chart for the common stock is historical and should not be considered indicative of future price performance. This graph was prepared by Research Data Group, Inc.

Table of Contents

Item 6. ***Selected Financial Data***

The following table presents certain financial data for each of the last five fiscal years. You should read the 2012 through 2010 financial information together with the information under Management s Discussion and Analysis of Financial Condition and Results of Operations and our financial statements and related notes included in this Form 10-K.

Consolidated Statement of Operations Data

	Years Ended December 31,				
(in thousands of dollars, except share and per share data)	**2012**	**2011 (1)**	**2010 (2)**	**2009**	**2008 (3)**
Net revenue	$ 144,545	$ 115,984	$ 110,932	$ 98,818	$ 56,681
Cost of revenue	55,368	42,364	41,400	40,565	15,066
Gross margin	89,177	73,620	69,532	58,253	41,615
Operating expenses					
Sales and marketing	53,665	46,761	42,665	38,931	27,001
Research and development	20,549	16,124	16,324	16,246	9,502
General and administrative	18,637	17,443	14,907	14,659	13,662
Remeasurement of contingent consideration liability	32,100	322	(280)		
Litigation settlement gain			(2,213)		
Acquired in-process research and development					9,060
Total operating expenses	124,951	80,650	71,403	69,836	59,225
Loss from operations	(35,774)	(7,030)	(1,871)	(11,583)	(17,610)
Interest income	14	59	55	269	2,340
Interest expense	(2,014)	(209)	(190)	(294)	(15)
Other income and expense, net	(24)	(309)	208	93	(6)
Gain (loss) on investments				224	(1,088)
Loss before income taxes	(37,798)	(7,489)	(1,798)	(11,291)	(16,379)
Income tax (benefit) provision	210	(6,160)	222	(99)	14
Net loss	$ (38,008)	$ (1,329)	$ (2,020)	$ (11,192)	$ (16,393)
Net loss per share basic and diluted:					
Net loss per share basic	$ (0.59)	$ (0.02)	$ (0.03)	$ (0.23)	$ (0.67)
Net loss per share diluted	$ (0.59)	$ (0.02)	$ (0.03)	$ (0.23)	$ (0.67)
Weighted average shares outstanding used in calculating net loss per common share:					
Basic	64,437,427	60,573,428	58,908,611	47,848,258	24,506,673
Diluted	64,437,427	60,573,428	58,908,611	47,848,258	24,506,673

(1) Includes the effect of the acquisition of Medicis Technologies Corporation on November 1, 2011 and the results of operations of Medicis Technologies Corporation from November 1, 2011 to December 31, 2011.

(2) Includes the effect of the acquisition of Aesthera Corporation on February 26, 2010 and the results of operations of Aesthera Corporation from February 26, 2010 to December 31, 2010, and the effect of the acquisition of CLRS Technology Corporation on October 15, 2010

and the results of operations of CLRS Technology Corporation from October 15, 2010 to December 31, 2010.

Table of Contents

(3) Includes the effect of the acquisition of Reliant Technologies, Inc. on December 23, 2008 and the results of operations of Reliant Technologies, Inc from December 23, 2008 to December 31, 2008.

Consolidated Balance Sheet Data

	As of December 31,				
(in thousands of dollars)	**2012**	**2011**	**2010**	**2009**	**2008**
Cash and cash equivalents	$ 38,097	$ 17,417	$ 36,898	$ 14,744	$ 7,556
Marketable investments					17,870
Working capital	24,761	21,384	33,994	14,462	13,864
Total assets	229,723	209,298	158,545	136,149	149,168
Short and long-term borrowings	26,408	24,400	9,626	11,058	12,399
Total stockholders equity	110,107	126,183	122,144	100,237	107,824

Table of Contents

Item 7. ***Management s Discussion and Analysis of Financial Condition and Results of Operations***

The following discussion should be read in conjunction with the attached financial statements and notes thereto. This Annual Report on Form 10-K, including the following sections, contains forward-looking statements within the meaning of the federal securities laws. These statements include, but are not limited to, introduction of new procedures and associated treatment tips in the future; sales organization growth; growth in international sales and expansion into new international markets; and our belief that our cash and cash equivalents, along with our credit facility will satisfy our anticipated cash requirements. These statements are subject to risks and uncertainties that could cause actual results and events to differ materially from those expressed or implied by such forward-looking statements. For a detailed discussion of these risks and uncertainties, see Risk Factors section in Item 1A of this Annual Report on Form 10-K. We caution the reader not to place undue reliance of these forward-looking statements, which reflect management s analysis only as of the date of this Form 10-K. We undertake no obligation to update forward-looking statements, which reflect events or circumstances occurring after the date of this Form 10-K.

Overview

We design, develop, manufacture and market aesthetic energy devices to address a range of issues, including skin resurfacing and skin rejuvenation, body tightening and body contouring, and acne reduction. Our products are patented and generally require Food and Drug Administration (FDA) clearance in the United States and CE Mark approval in Europe prior to marketing. The product technologies we use include radio frequency (RF) energy, to heat and shrink collagen and tighten tissue while simultaneously cooling and protecting the surface of the skin; lasers for skin resurfacing and the treatment of actinic keratosis; intense pulsed light (IPL) for the treatment of mild to moderate acne and other dermatologic conditions; and high-intensity ultrasound for the destruction of subcutaneous adipose tissue for the purpose of waist circumference reduction.

We were incorporated in 1996 and received FDA clearance for our first Thermage RF system in 2002. Through a number of acquisitions, we added the Fraxel laser systems from our acquisition of Reliant Technologies, Inc. in December 2008; the Isolaz (IPL) system from our acquisition of Aesthera Corporation in February 2010; the CLARO (IPL) personal care acne treatment device from our acquisition of CLRS Technology Corporation in October 2010, and the Liposonix system from our acquisition of Medicis Technologies Corporation in November 2011. Our latest product introduction is the Clear + Brilliant laser system, for which we received the first FDA clearance in May 2011. In addition, FDA clearance for the second generation Liposonix system which we acquired from Medicis Pharmaceutical Corporation (Medicis) was received in October 2011.

As of December 31, 2012, we had a global installed base of over 9,300 systems.

Net revenue for the year ended December 31, 2012 increased 25% or $28.6 million, to $144.5 million, from $116.0 million in 2011, due to the sale of Liposonix products generating $31.6 million in revenue (Liposonix was acquired in November 2011) and, to a lesser extent, the sale of Clear + Brilliant products (Clear + Brilliant launched in April 2011). Our business continued to be impacted by the weakness in global economic conditions and tight credit markets, which we believe have continued to contribute to a slowdown in customer purchase decisions. The tight credit markets limited the ability of some of our customers to obtain financing for the purchase of our products. In response to the continuing difficulties in the economy, we have implemented a number of initiatives in response to the tight worldwide credit market, including working with financing companies to identify attractive leasing or borrowing options for our customers as well as offering incentives to doctors who buy more than one of our brands.

Acquisition of Liposonix

On September 12, 2011, we entered into a stock purchase agreement (Purchase Agreement) with Medicis pursuant to which we agreed to acquire from Medicis all the outstanding shares of Medicis Technologies Corporation, subject to the terms and conditions of the Purchase Agreement. In connection with the acquisition, a

Table of Contents

separate subsidiary of Medicis agreed to transfer certain assets and assign certain agreements related to Liposonix (collectively, the Transaction). As a result of the acquisition, we have expanded our product offerings by providing a nonsurgical fat ablation treatment to our customers through our direct sales and distribution networks worldwide.

We closed the Transaction on November 1, 2011. At the closing of the Transaction, we paid to Medicis $15.5 million in cash, which consisted of an upfront $15 million payment and $0.5 million of preliminary working capital adjustments. Also on November 17, 2011, we paid a one-time payment of $20 million to Medicis with respect to the clearance by the FDA of the second generation Liposonix product which was received on October 24, 2011.

In addition, we have agreed to pay to Medicis additional cash payments, which will expire after approximately seven years, based upon, among other things, the achievement of year-to-year increases and specified targets in the adjusted net sales and adjusted gross profits of the Liposonix products, subject to the terms and conditions of the Purchase Agreement. Also, upon the closing of the Transaction, we assumed the contingent payment obligations of Medicis with respect to the former shareholders of Liposonix pursuant to the Agreement and Plan of Merger among Medicis, Liposonix and the other parties thereto dated as of June 16, 2008. The fair value of the total contingent consideration recognized on the acquisition date of $26.6 million was estimated by applying a probability weighted discounted cash-flow approach using a discount rate of 30%. Also, we assumed the Liposonix Bothell, Washington, facility lease, and expect to maintain this facility through January 2015, the expiration of the lease.

As of December 31, 2012, the fair value of this contingent consideration liability has been increased to $59.9 million to reflect the updated fair value estimate of the liability and accordingly a $32.1 million and $1.2 million charge was recognized as an expense in our condensed consolidated statement of operations during the years ended December 31, 2012 and 2011, respectively. The increase in the updated fair value of the contingent consideration is due primarily to our estimate of higher achievement in specified net sales and adjusted gross profit targets over the seven-year earnout period and accretion of the liability. If our actual results differ from those estimates, the contingent consideration liability will be adjusted accordingly.

Of the total original purchase price of $62.1 million, $17.4 million was allocated to amortizable intangible assets, which are being amortized using a straight-line method over their respective estimated useful lives of four to nine years. The valuation of identified intangible assets acquired was based on management s estimates, currently available information and reasonable and supportable assumptions. The allocation was based on the fair value of these assets determined using the income approach and the cost method approach. The income approach uses a discounted cash flow model. We calculated the present value of the expected future cash flows attributable to the acquired intangibles using a 21.0% discount rate. With respect to intangible assets, there are several methods available under the income approach to quantify fair value. We used two methods to quantify fair value of the acquired intangibles at the acquisition date. The excess earnings method was used for customer relationships and the relief from royalties method was used for the developed technology and trade name intangibles with royalty rates of 9.8% and 0.7%, respectively.

We allocated the residual value of $47.1 million to goodwill. Goodwill represents the excess of the purchase price over the fair value of the net tangible and intangible assets acquired. Goodwill is not expected to be deductible for tax purposes. The factors that contributed to a premium in the purchase price and the resulting recognition of goodwill were:

- the expansion of the Company s recurring revenue model allowing for increased treatment tip usage as well as expanding clinical applications for our physician customers;
- access to an expanded base of industry knowledge and expertise;
- opportunity to complement our existing products for the aesthetic market with a synergistic technology and new clinical treatment applications; and

Table of Contents

expansion of our global presence thereby increasing our market penetration.

Acquisition of CLRS Technology Corporation

On October 15, 2010, we acquired 100% of the common stock of CLRS Technology Corporation (CLRS), a privately held company for consideration consisting of the payment of approximately $1.0 million of debt at the closing of the acquisition.

In connection with this transaction, we entered into a contingent consideration arrangement which would have required payments if certain milestones related to revenue from the sale of CLRS products and operating income of CLRS were achieved during 2011. The fair value of the contingent consideration recognized on the acquisition date of $0.9 million was estimated by applying a probability weighted discounted cash-flow approach. Key assumptions include (i) a discount rate of 2.1% and 25.6% percent and (ii) probability of milestone achievement ranging from 0%-100%. As of December 31, 2011, the fair value of this contingent consideration liability had been reduced to zero as the revenue and operating income milestones were not achieved and accordingly a $0.9 million gain was recognized in general and administrative expense in our consolidated statement of operations during the year ended December 31, 2011.

As a result of the acquisition, we expanded our product offerings by providing a consumer based treatment of acne to our customers through a retail channel.

Of the total original purchase price of $1.9 million, $1.1 million was allocated to amortizable intangible assets, which are being amortized using a straight-line method over their respective estimated useful lives of four to six years. The valuation of identified intangible assets acquired was based on management s estimates, currently available information and reasonable and supportable assumptions. The allocation was based on the fair value of these assets determined using the income approach and the cost method approach. The income approach uses a discounted cash flow model. We calculated the present value of the expected future cash flows attributable to the acquired intangibles using a 25.6% discount rate. With respect to intangible assets, there are several methods available under the income approach to quantify fair value. We used the following methods to quantify fair value of the acquired intangibles at the acquisition date. The excess earnings method was used for customer relationships and the relief from royalties method was used for the trade name intangibles with a royalty rate of 0.3%. We used the cost method approach to quantify the fair value of the product technology intangible, by using cumulative inflation rates ranging from 0% to 5.5%.

We allocated the residual value of $0.8 million to goodwill. Goodwill arising from the acquisition is attributable to the workforce of the acquired business and the significant synergies expected to arise. Goodwill is not expected to be deductible for tax purposes.

Acquisition of Aesthera Corporation

On February 26, 2010, we acquired 100% of the common stock of Aesthera Corporation (Aesthera), a privately held company for consideration including $0.5 million in cash and $4.8 million of shares of our common stock. The number of shares of our common stock issued of 2,435,897 was determined based on the volume-weighted average closing market price of $1.95 per share during the five trading days preceding the acquisition date.

In connection with this transaction, we entered into a contingent consideration arrangement which would have required payments ranging from $0 to $10.75 million in shares of our common stock if certain revenue milestones had been achieved related to the sale of Aesthera products and if certain acquired Aesthera receivables are collected. The fair value of the contingent consideration recognized on the acquisition date of $0.3 million was estimated by applying a probability weighted discounted cash-flow approach. Key assumptions include (i) a discount rate of 4.05% percent and (ii) probability of milestone achievement ranging from 0%-50%.

Table of Contents

The revenue milestones were not achieved during 2010 and accordingly a $0.3 million gain was recognized in general and administrative expense in our consolidated statement of operations during the year ended December 31, 2010.

As a result of the acquisition, we have expanded our product offerings by providing treatment of acne to our customers through our direct sales and distribution network worldwide.

Our consolidated financial statements include the results of operations of Aesthera from the date of acquisition through December 31, 2011.

Of the total original purchase price of $5.5 million, $3.7 million was allocated to amortizable intangible assets, which are being amortized using a straight-line method over their respective estimated useful lives of five to six years. The valuation of identified intangible assets acquired was based on management s estimates, currently available information and reasonable and supportable assumptions. The allocation was based on the fair value of these assets determined using the income approach. The income approach uses a discounted cash flow model. We calculated the present value of the expected future cash flows attributable to the acquired intangibles using an 18% to 19% discount rate. With respect to intangible assets, there are several methods available under the income approach to quantify fair value. We used the following methods to quantify fair value of the acquired intangibles at the acquisition date. The excess earnings method was used for product technology and customer relationships. The relief from royalties method was used for the trade name intangibles with a royalty rate of 1%.

We allocated the residual value of $1.4 million to goodwill at February 26, 2010. Goodwill arising from the acquisition is attributable to the workforce of the acquired business and the significant synergies expected to arise after. Goodwill is not expected to be deductible for tax purposes.

Acquisition of Sound Surgical

We completed the acquisition of Sound Surgical in February 2013. See Note 14 of the Notes to Consolidated Financial Statements. The operating results of Sound Surgical will be included in our consolidated financial statements from the date of the acquisition and, accordingly, we expect that our revenue and operating expenses will increase.

Significant Business Trends

We derive revenue primarily from the sale of systems, treatment tips and consumables. For the years ended December 31, 2012, 2011 and 2010 we derived 49%, 55% and 51% respectively, of our revenue from treatment tips and consumable sales, and 46%, 40% and 42% respectively, of our revenue from system sales. The balance of our revenue is derived from service, research and development, shipping and royalty revenue.

Table of Contents

We market our products in North America to physicians, primarily dermatologists and plastic surgeons, through a direct sales force and internationally through a network of independent distributors and our direct sales force in certain countries. In the years ended December 31, 2012, 2011 and 2010, we derived 49%, 45% and 45%, respectively, of our revenue from sales of our products and services within North America, and 51%, 55% and 55%, respectively, of our total sales outside of North America. We believe that a significant portion of our business will continue to come from international sales through increased penetration in countries where we currently sell our products, combined with expansion into new international markets. The percentages of our revenue by region are presented in the table below:

	Years Ended December 31,		
	2012	2011	2010
North America	49%	45%	45%
Asia Pacific	36%	35%	31%
Europe/Middle East	12%	16%	19%
Rest of the world	3%	4%	5%
Total net revenue	100%	100%	100%

Future operating results are difficult to predict accurately. We anticipate that our quarterly results of operations may fluctuate for the foreseeable future due to several factors, including prevailing economic conditions and our customers access to credit, the timing of introduction and the degree of acceptance of future product offerings, unexpected interruptions and expenses related to our manufacturing operations, and the performance of our direct sales force and international distributors.

As new or enhanced products are introduced, we must successfully manage the transition from older products in order to minimize disruption in customers ordering patterns, avoid excessive levels of older product inventories, and ensure that enough supplies of new products can be delivered to meet customer demand.

Significant Industry Factors

The success of our business is subject to the impact of economic conditions on the growth of the industry and to our ability to continue to develop new products, applications and innovative technologies, obtain and maintain regulatory clearances for our products, protect our proprietary technology, and successfully market and distribute our products. Our industry is characterized by seasonally lower demand during the third calendar quarter of the year, when both physicians and prospective patients take summer vacations. Additionally, our industry is highly competitive and our success depends on our ability to compete successfully. Our business is sensitive to a number of factors that influence the levels of consumer spending, including political and economic conditions such as recessionary environments, the level of disposable consumer income, consumer debt, interest rates and consumer confidence. Declines in consumer spending on aesthetic procedures could have an adverse effect on our operating results. A detailed discussion of these and other factors that impact our business is provided in the Risk Factors section in this Annual Report on Form 10-K.

Critical Accounting Policies and Estimates

Our discussion and analysis of our financial condition and results of operations is based upon our financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of financial statements requires management to make estimates and judgments that affect the reported amounts of assets and liabilities, revenue and expenses, and disclosures at the date of the financial statements. On a periodic basis, we evaluate our estimates, including those described below. We use authoritative pronouncements, historical experience and other assumptions as the basis for making estimates. Actual results could differ from those estimates.

Table of Contents

We believe that the following critical accounting policies are affected by our more significant judgments and estimates used in the preparation of our financial statements.

Revenue Recognition

Product revenue is recognized when delivery has occurred, persuasive evidence of an arrangement exists, the price is fixed or determinable and collectability is reasonably assured. Delivery is deemed to have occurred when title and risks and rewards of ownership have transferred to the customer and remaining obligations are considered perfunctory. For most of our product sales, transfer of title and risks and rewards of ownership occurs when the product is shipped. Revenue is recorded net of customer and distributor discounts and rebates. For sales transactions in which collectability is not reasonably assured, we recognize revenue upon receipt of cash payment.

We sell to end-users in the United States and to distributors and end-users outside of the United States. Sales to end-users and distributors on all products except for the Claro product do not include return rights. For the Claro product, we estimate a returns reserve. We typically recognize revenue upon shipment for sales through independent, third party distributors as we have no continuing obligations subsequent to shipment, other than replacement parts. The distributors are responsible for all marketing, sales, installation, training and warranty services for our products, as well as obtaining regulatory clearances and approvals outside of the United States. While the regulatory approval process varies greatly by country and we may assist the distributor in the regulatory approval process, the responsibility belongs mainly to the distributor. We determine whether our remaining obligation in the sale is perfunctory prior to recording revenue. We do not provide price protection or stock rotation rights to any of our distributors. In addition, our distributor agreements do not allow the distributor to return or exchange products and the distributor is obligated to pay us for the sale regardless of whether the distributor is able to resell the product.

We also offer customers extended warranty service contracts. Revenue from the sale of extended service contracts is recognized on a straight-line basis over the period of the applicable extended contract. We also earn service revenue from customers outside of their warranty term or extended service contracts. Such service revenue is recognized as the services are provided.

In conjunction with the Reliant acquisition, we assumed an agreement with an external party to collaborate on a joint development and the worldwide commercialization of devices and accessories that incorporate Fraxel technology. Under the terms of this arrangement, the external party made advance quarterly payments for the costs incurred in performing activities under the arrangement. All payments have been received by us on this agreement.

Revenue Recognition for Arrangements with Multiple Deliverables

We evaluate each deliverable in an arrangement to determine whether it represents a separate unit of accounting. A deliverable is considered a separate unit of accounting when it has stand-alone value to the customers and if the arrangement includes a customer refund or return right relative to the delivered item, the delivery and performance of the undelivered item is considered probable and substantially in our control. In arrangements where the aforementioned criteria are not met, the deliverable is combined with the undelivered item(s) and revenue recognition is determined as one single unit.

Our multi-element arrangements generally consist of the sale of systems and post-sale obligations like training or installation. These obligations are fulfilled after product shipment. For multi-element arrangements like these, we allocate revenue to all deliverables based on their relative selling prices since the deliverables qualify as separate units of accounting. In such circumstances, we use the following to determine the relative selling price to be used for allocating revenue to deliverables: (i) vendor-specific objective evidence of fair value

Table of Contents

(VSOE), (ii) third-party evidence of selling price (TPE), and (iii) best estimate of the selling price (BESP). VSOE generally exists only when we sell the deliverable separately and if there is a price that is actually charged by us for that deliverable. BESP reflects our best estimate of what the selling price of that element would be if it was sold regularly on a stand-alone basis, considering factors relevant to our pricing practices such as standalone sales prices of similar products, customer type, and geography. The Company generally determines the relative selling price by applying VSOE to the allocated deliverables and then in situations when VSOE does not exist, the Company applies BESP to the respective deliverables. Amounts allocated to the deliverables are recognized as revenue upon delivery, provided all other revenue recognition criteria have been satisfied.

Allowance for Doubtful Accounts

Accounts receivable are typically unsecured and derived from revenues earned from customers. We maintain an allowance for doubtful accounts for estimated losses resulting from the inability of our customers to make required payments. We estimate appropriate allowances based upon any specific customer collection issues, our history of losses, economic conditions and age of customer balances. Our assessment of the ability of our customers to pay generally includes direct contact with the customer, a review of their financial status, as well as consideration of their payment history with us.

Warranty Reserve

We provide for the estimated cost of product warranties at the time revenue is recognized. As we sell new products to our customers, we must exercise considerable judgment in estimating the expected failure rates and repair costs. Should actual product failure rates, material usage or service delivery costs differ from our estimates, revisions to the estimated warranty liability would be required. We offer a one year warranty for systems sold to all direct customers and a one year replacement parts warranty for systems sold to distributors outside of the United States. We also provide a warranty for our consumable products.

Inventory Valuation

We state our inventories at the lower of cost or market value, cost being determined on a standard cost basis (which approximates actual cost on a first-in, first-out basis) and market value being determined as the lower of replacement cost or net realizable value. Standard costs are monitored on a monthly basis and updated quarterly and as necessary to reflect changes in raw material costs and labor and overhead rates. Inventory reserves are established when conditions indicate that the selling price could be less than cost due to physical deterioration, usage, obsolescence, reductions in estimated future demand and reductions in selling prices. Inventory reserves are charged to cost of revenue and establish a lower cost basis for the inventory. We balance the need to maintain strategic inventory levels with the risk of obsolescence due to changing technology and customer demand levels. Unfavorable changes in market conditions may result in a need for additional inventory reserves that could adversely impact our gross margins. Conversely, favorable changes in demand could result in higher gross margins.

Impairment of Goodwill

Goodwill represents the excess of the purchase price over the fair value of the net tangible and intangible assets acquired. Our goodwill is not amortized but is tested for impairment on an annual basis or when events and circumstances indicate that the carrying amount of goodwill may not be recoverable. The annual impairment review involves a two-step process as follows:

Step 1 We compare our enterprise fair value to our enterprise carrying value including goodwill. If the carrying value including goodwill exceeds its fair value, we move on to step 2. If the fair value exceeds the carrying value, no further work is performed and no impairment charge is necessary. To date, our fair value has exceeded our carrying value and thus no goodwill impairment charge has been recorded.

Table of Contents

We use a combination of our market capitalization and the discounted cash flow methodology to determine the fair value of our single reporting unit. The discounted cash flow methodology is based on the present value of the cash flows that our single reporting unit is expected to generate in the future. Key assumptions include projections of future cash flows, growth rates, and discount rates. For the discount rate, we use a rate which reflects our weighted average cost of capital determined based on our industry and size risk premiums based on our market capitalization.

Step 2 We perform an allocation of the fair value to our identifiable tangible and intangible assets (other than goodwill) and liabilities. This allows us to derive an implied fair value of goodwill. We then compare the implied fair value of goodwill to the carrying value of goodwill. If the carrying amount of goodwill is greater than the implied fair value of goodwill, an impairment change would be recognized for the excess.

We test goodwill for impairment at least annually or more frequently if events or changes in circumstances indicate that this asset may be impaired. The goodwill test is based on our single operating segment and reporting unit structure. No goodwill impairment was identified through December 31, 2012. There can be no assurance that future goodwill impairments will not occur.

Impairment of Long-Lived Assets

We review long-lived assets, including property and equipment and finite lived intangibles, for impairment whenever events or changes in business circumstances indicate that the carrying amount of the assets may not be fully recoverable. An impairment loss would be recognized when estimated undiscounted future cash flows expected to result from the use of the asset and its eventual disposition is less than its carrying amount. Impairment, if any, is measured as the amount by which the carrying amount of a long-lived asset exceeds its fair value. Through December 31, 2012, there have been no such impairments.

Litigation and Claims

From time to time, we are involved in litigation relating to claims arising from the ordinary course of business. We routinely assess the likelihood of any adverse judgments or outcomes related to legal matters and claims, including those involving intellectual property protection, as well as ranges of probable losses. A determination of the amount of the reserves required, if any, for these contingencies is made after thoughtful analysis of each known issue and an analysis of historical experience. In the cases where we believe that a reasonably possible loss exists, we disclose the facts and circumstances of the litigation, including an estimate range, if possible. All legal expenses, including those related to intellectual property protection, are expensed as they are incurred. Also, we do not record any gain contingencies.

Income Taxes

We make certain estimates and judgments in determining income tax expense for financial statement purposes. These estimates and judgments occur in the calculation of tax liabilities, tax credits, benefits and deductions, and in the calculation of certain deferred tax assets and liabilities, which arise from differences in the timing of revenue and expense for tax and financial statement purposes.

We record a valuation allowance to reduce our deferred tax assets to an amount that more-likely-than-not will be realized. While we have considered future taxable income and ongoing prudent and feasible tax planning strategies in assessing the need for the valuation allowance, in the event we were to determine that we would be able to realize our deferred tax assets in the future in excess of our net recorded amount, an adjustment to the allowance for the deferred tax asset would increase income in the period such determination was made.

We believe we have provided adequate reserves for uncertain tax positions for anticipated audit adjustments by U.S. federal, state and local, as well as foreign tax authorities based on our estimate of whether,

Table of Contents

and the extent to which, additional taxes, interest and penalties may be due. If events occur which indicate payment of these amounts is unnecessary, the reversal of the liabilities would result in tax benefits being recognized in the period when we determine the accrued liabilities are no longer warranted. If our estimate of tax liabilities is less than the ultimate assessment, a further charge to expense would result.

Valuation of Stock-Based Awards

Stock-based compensation expense is measured at the grant date based on the value of the award and is recognized as expense over the vesting period. Determining the fair value of option awards at the grant date requires judgment, including estimating the expected term of stock options, the expected volatility of our stock, expected forfeitures and expected dividends. The computation of the expected volatility assumption used in the Black-Scholes option pricing model for option grants incorporates our historical volatility and volatility of similar public entities in the aesthetics market due to a lack of historical information regarding the volatility of our stock price. When establishing the expected term assumption, we review annual historical employee exercise behavior of option grants with similar vesting periods. In addition, judgment is also required in estimating the amount of share-based awards that are expected to be forfeited. If actual forfeitures differ significantly from these estimates, share-based compensation expense and our results of operations could be materially affected. The fair value of restricted stock awards is based on the closing stock market price on the award date. The fair value of market-based stock units at the issuance date was estimated using the Monte-Carlo simulation model which is a probabilistic approach for calculating the fair value of the awards. The Monte-Carlo simulation is a statistical technique used, in this instance, to simulate future stock prices of the Company and the Russell Microcap Index by using assumptions such as, expected volatility of our stock, correlation coefficients, risk-free interest rates, and contractual life.

Results of Operations

Years Ended December 31, 2012 and December 31, 2011

Net Revenue. Revenue is derived from the sales of systems, treatment tips and other consumables, and service and other revenue. Net revenue was $144.5 million for the year ended December 31, 2012, an increase of $28.6 million, or 25%, compared to $116.0 million for the year ended December 31, 2011. The increase in revenue was due to an increase in new system sales including contributions from the sale of the new Liposonix products that launched in December 2011 which generated $31.6 million in revenue and, to a lesser extent, from the Clear + Brilliant products that launched in April 2011. We also received royalty revenue from an agreement entered into in September 2012 and there was no corresponding royalty revenue in 2011. The increase was partially offset by a decrease in existing system sales and system upgrades. Total system sales for the year ended December 31, 2012 was $66.4 million, an increase of $19.7 million, or 42%, compared to $46.7 million for the same period in 2011. Sales of treatment tips and other consumables was $70.6 million for the year ended December 31, 2012, an increase of $7.3 million, or 11%, compared to $63.4 million for the same period in 2011.

Cost of Revenue. Our cost of revenue consists primarily of material, labor and manufacturing overhead expenses. Gross margin was 62% and 63% of revenue for the years ended December 31, 2012 and 2011, respectively. The slight decrease in gross margin when compared to the prior year period was primarily due to an increase to amortization expense from intangibles acquired in the Liposonix acquisition, a lower mix of tips sales, higher warranty expense due to an increase in our warranty base for Clear + Brilliant and Liposonix products, and increased expenses related to higher manufacturing scrap material, partially offset by a higher mix of high-margin system sales.

Sales and Marketing. Sales and marketing expenses consist primarily of personnel related costs in our sales, marketing, clinical training, and customer service departments, customer-attended workshops, trade shows, advertising, public relations, marketing sponsorship programs, and marketing materials. Sales and marketing expenses in the year ended December 31, 2012 were $53.7 million, an increase of $6.9 million, or 15%,

Table of Contents

compared to $46.8 million for the same period in 2011. The increase was primarily attributable to an increase of $2.5 million in employee payroll, commissions and related travel and entertainment expenses, incurred to drive revenue growth, an increase of $2.3 million in advertising and marketing program expenses for launching our products in new markets, an increase of $1.1 million in professional outside services, an increase of $0.7 million in depreciation and allocated information technology and facility expenses, and an increase of $0.3 million in amortization of intangibles acquired in the Liposonix acquisition.

Research and Development. Research and development expenses consist primarily of personnel costs, clinical and regulatory costs, material costs and quality assurance costs not directly related to the manufacturing of our products. Research and development expenses in the year ended December 31, 2012 were $20.5 million, an increase of $4.4 million, or 27%, compared to $16.1 million for the same period in 2011. Compared to prior year employee payroll and related expenses increased by $4.5 million, which was mainly due to increased headcount resulting from research and development personnel acquired in our Liposonix acquisition. In addition, there was an increase of $0.5 million in clinical studies and other research and development projects, an increase of $0.1 million in amortization of intangibles acquired in the Liposonix acquisition, and an increase of $0.1 million in depreciation and allocated information technology and facility expenses, partially offset by a decrease of $0.8 million in professional outside services.

General and Administrative. General and administrative expenses consist primarily of personnel costs, legal and accounting fees, human resources costs and other general operating expenses. General and administrative expenses in the year ended December 31, 2012 were $18.6 million, an increase of $1.2 million, or 7%, compared with $17.4 million for the same period in 2011. The increase from the prior year period was due to an increase of $1.8 million in employee payroll and related expenses primarily resulting from higher stock-based compensation charges during 2012, an increase of $1.3 million in professional outside services, mostly legal services, an increase of $0.5 million in bad debt expense, and an increase of $0.1 million in depreciation and allocated information technology and facility expenses, partially offset by a decrease of $2.4 million in acquisition related expense due to the acquisition of Liposonix in 2011 and a decrease of $0.1 million in product liability claims.

Remeasurement of contingent consideration liability. Remeasurement of the contingent consideration liability is the quarterly fair value adjustment of the contingent consideration liability associated with certain acquisitions. Adjustments can arise due to accretion of the liability as the Company approaches payment or for any changes to the assumptions used to measure the liability. For the year ended December 31, 2012, the contingent consideration fair value adjustment was $32.1 million, associated with the acquisition of Liposonix, and for the year ended December 31, 2011, the fair value adjustment was $0.3 million, due to the fair value adjustment of $1.2 million associated with the acquisition of Liposonix, partially offset by the reversal of the contingent consideration associated with the acquisition of CLRS of $0.9 million. The increases to the contingent consideration liability recorded in the years ended December 31, 2012 and 2011 are due primarily to our estimate of higher achievement in specified net sales and adjusted gross profit targets over the seven-year earnout period. The acquisition of Liposonix closed in the fourth quarter of 2011 and the acquisition of CLRS closed in the fourth quarter of 2010.

Interest Income. Interest income consists primarily of interest income generated from our cash and cash equivalents. Interest income decreased $45,000, or 76%, to $14,000 for the year ended December 31, 2012 from $59,000 for the same period in 2011. The increase is primarily due to lower average cash and cash equivalent balances during 2012.

Interest Expense. Interest expense consists primarily of interest expense resulting from borrowings on the line of credit and term loans. Interest expense increased by $1.8 million, to $2.0 million for the year ended December 31, 2012 from $0.2 million for the same period in 2011. The increase is primarily a result of the additional term loans entered into during the fourth quarter of 2011 in connection with the Liposonix acquisition and borrowings under the new subordinated debt facility we entered into in August 2012.

Table of Contents

Other Income and Expense, net. Net other income and expense consists primarily of activity resulting from foreign exchange gains and losses and activity from our equity investment. Net other income and expense was a net expense of $24,000 and a net expense of $309,000 in the year ended December 31, 2012 and 2011, respectively. The net expense decrease during 2012 is primarily due to less foreign exchange losses from currency fluctuations when compared to the prior year.

Income Tax Provision. There was an income tax provision of $0.2 million and a tax benefit of $6.2 million for the years ended December 31, 2012 and 2011, respectively. The provision for income taxes for the year ended December 31, 2012, primarily represents taxes in foreign and state jurisdictions and tax reserves for uncertain tax positions. The benefit for income taxes for the year ended December 31, 2011 primarily represents a release of valuation allowance of $6.4 million to offset deferred tax liabilities generated from acquiring Liposonix and was reduced by state tax liabilities, foreign tax liabilities, and tax reserves for uncertain tax positions.

Years Ended December 31, 2011 and December 31, 2010

Net Revenue. Net revenue was $116.0 million for the year ended December 31, 2011, an increase of $5.1 million, or 5%, compared to $110.9 million for the year ended December 31, 2010. The increase was mainly from higher tip revenue and the contributions from the sale of the new CLEAR + BRILLIANT products which launched in April 2011, and the Liposonix products launched in December 2011, partially offset by a decline in system upgrades, a decrease in system sales excluding CLEAR + BRILIANT and Liposonix, a decrease in handpiece sales, a decrease in research and development revenue related to a research contract that ended in 2010, and a decrease in service contract amortization. System sales for the year ended December 31, 2011 was $46.7 million, an increase of $0.3 million, or 0.8%, compared to $46.4 million for the same period in 2010. Sales of treatment tips and other consumables was $63.4 million for the year ended December 31, 2011, an increase of $6.8 million, or 12%, compared to $56.6 million for the same period in 2010.

Cost of Revenue. Gross margin was 63% of revenue for the years ended December 31, 2011 and 2010. Gross margin as a percent of revenue stayed constant year over year, as the favorable impact of a higher mix of tip sales, lower manufacturing spend costs net of absorption, lower product excess and obsolescence costs and favorable standard cost changes during 2011, were offset by an increase in purchase price related adjustments to cost of sales that resulted from the acquisition of Liposonix in November 2011, an increase in amortization expense from intangibles acquired in the Liposonix and CLRS acquisitions, and slightly higher warranty expenses.

Sales and Marketing. Sales and marketing expenses in the year ended December 31, 2011 was $46.8 million, an increase of $4.1 million, or 10%, compared to $42.7 million for the same period in 2010. The increase was primarily attributable to increased headcount, employee payroll and related travel and entertainment expenses of $3.5 million, an increase of $1.2 million in professional outside services, and an increase of $0.1 million in amortization of intangibles acquired in the Liposonix and CLRS acquisitions, partially offset by a decrease of $0.4 million in discretionary marketing expenses and a decrease of $0.3 million in telecommunication, depreciation and allocated information technology and facility expenses.

Research and Development. Research and development expenses in the year ended December 31, 2011 was $16.1 million, a decrease of $0.2 million, or 1%, compared to $16.3 million for the same period in 2010 due to lower professional outside services decrease of $0.7 million and amortization of intangibles decrease of $0.6 million, partially offset by an increase of $0.5 million in employee payroll and related expenses, an increase of $0.5 million in clinical studies and other research and development projects, and an increase of $0.1 million in supplies, telecommunication, depreciation and allocated information technology and facility expenses.

General and Administrative. General and administrative expenses in the year ended December 31, 2011 were $17.4 million, an increase of $2.5 million, or 17%, compared with $14.9 million for the same period

Table of Contents

in 2010. The increase from the prior year was due to an increase of $1.2 million in acquisition related expenses, an increase of $0.5 million in accounting and legal services, an increase of $0.3 million in business insurance, an increase of $0.4 million in depreciation and allocated information technology and facility expenses and an increase of $0.3 million in excise and sales tax related expenses, partially offset by a decrease of $0.2 million in bad debt expense.

Remeasurement of contingent consideration liability. For the year ended December 31, 2011, the contingent consideration fair value adjustment was $0.3 million, due to the fair value adjustment of $1.2 million associated with the acquisition of Liposonix, partially offset by the reversal of the contingent consideration associated with the acquisition of CLRS of $0.9 million, and for the year ended December 31, 2010, the fair value adjustment was a credit of $0.3 million resulting from the reversal of the of the contingent consideration associated with the acquisition of Aesthera. The acquisition of Liposonix closed in the fourth quarter of 2011, CLRS closed in the fourth quarter of 2010, and Aesthera closed in the first quarter of 2010.

Litigation Settlement. In May 2010, we reached an agreement with Alma that settled patent-related claims of the parties against each other. Under this agreement, the parties granted each other a covenant not to sue under the patents in the suit and related patents. We received a one-time payment of $2.3 million and incurred external legal expenses of $37,000 for the year ended December 31, 2010. This resulted in a net litigation settlement gain of $2.2 million for the year ended December 31, 2010.

Interest Income. Interest income increased $4,000, or 7%, to $59,000 for the year ended December 31, 2011 from $55,000 for the same period in 2010. The increase is primarily due to higher average cash and cash equivalent balances during the first three quarters of 2011.

Interest Expense. Interest expense increased by $19,000, or 10%, to $209,000 for the year ended December 31, 2011 from $190,000 for the same period in 2010. The increase is primarily a result of the additional term loans entered into during the fourth quarter of 2011 totaling $20 million.

Other Income and Expense, net. Net other income and expense was a net expense of $309,000 and net income of $208,000 in the year ended December 31, 2011 and 2010, respectively. The net expense increase during 2011 when compared to the prior year is primarily due to foreign exchange losses resulting from currency fluctuations during the year ended December 31, 2011.

Income Tax (Benefit) Provision. There was an income tax benefit of $6.2 million and a tax provision of $0.2 million for the years ended December 31, 2011 and 2010, respectively. The benefit for income taxes for the year ended December 31, 2011 primarily represents a release of valuation allowance of $6.4 million to offset deferred tax liabilities generated from acquiring Liposonix and was reduced by state tax liabilities, foreign tax liabilities, and tax reserves for uncertain tax positions. The provision for income taxes for the year ended December 31, 2010 primarily represented additions to alternative minimum taxes and additions to reserves for uncertain tax positions.

Table of Contents

Stock-Based Compensation

For the years ended December 31, 2012, 2011 and 2010, employee and non-employee stock-based compensation expense were allocated as follows (in thousands):

	Years Ended December 31,		
	2012	2011	2010
Cost of revenue	$ 499	$ 442	$ 270
Sales and marketing	968	820	741
Research and development	562	436	303
General and administrative	2,534	1,599	1,188
Total stock-based compensation expense	$ 4,563	$ 3,297	$ 2,502

At December 31, 2012, the total compensation cost related to stock-based awards granted or modified to employees and directors but not yet recognized was approximately $6.6 million, net of estimated forfeitures. We will amortize this cost on a straight-line basis over the remaining weighted average period of approximately 1.84 years.

Stock-based compensation expense related to stock options granted to non-employees is recognized on a straight-line basis. The options generally vest ratably over four years. The values attributable to these options are amortized over the service period and the unvested portion of these options is remeasured as the services are provided and the options are earned. The stock-based compensation expense will fluctuate as the deemed fair value of the common stock fluctuates. In connection with the grant of stock options to non-employees, we recorded stock-based compensation expense of $0, $0 and $98,000 for the years ended December 31, 2012, 2011 and 2010, respectively.

Reconciliation of GAAP to Non-GAAP Financial Measures

The following presentation includes non-GAAP measures. Our non-GAAP measures are not meant to be considered in isolation or as a substitute for comparable GAAP measures. The Company believes that non-GAAP measures have limitations in that they do not reflect all of the amounts associated with the Company s results of operation as determined in accordance with GAAP and that these measures should only be used to evaluate the Company s results of operations in conjunction with the corresponding GAAP measures.

The non-GAAP financial measures presented are non-GAAP gross margin, non-GAAP gross margin as a percentage of sales, non-GAAP operating income, non-GAAP adjusted EBITDA, non-GAAP net income and non-GAAP net income per share. These non-GAAP financial measures, as defined by us, are adjusted to exclude one or more of the following items: in process research and development, amortization of acquired intangibles and other non-cash acquisition-related charges, severance expense, acquisition-related expenses, loss on investments and stock-based compensation expense.

We use non-GAAP financial measures as performance measures to supplement the financial information we present on a GAAP basis. We believe these non-GAAP financial measures provide useful information to investors and management for the reasons stated below.

Non-GAAP gross margin and non-GAAP gross margin as a % of sales provide useful information to investors regarding our gross margin by excluding from cost of sales non-cash items like amortization of acquisition related intangibles and stock-based compensation expenses. These costs are generally fixed at the time of acquisition or when the stock-based award is granted, are then expensed or amortized over several years and generally cannot be changed or influenced by management after acquisition or once granted. We further believe that excluding these charges can provide useful information to investors for the reasons stated in the footnotes to these respective items in the presentation that follows.

Table of Contents

Non-GAAP operating income reflects our ongoing business in a manner that allows for meaningful period-to-period comparison and analysis of trends in our business, as it excludes expenses that may not be regarded as reflective of ongoing operating results like severance expenses and acquisition related in-process research and development expenses, as well as those discussed in non-GAAP gross margin above. We further believe that excluding the identified expenses can provide useful information to investors for the reasons stated in the footnotes to these respective items in the presentation that follows.

Non-GAAP Adjusted EBITDA enables investors to assess our compliance with financial covenants under its debt instruments. Our credit facility loans have financial covenants that use non-GAAP adjusted EBITDA as part of the measure.

Non-GAAP net income and non-GAAP net income per share, by excluding non-cash and one-time expenses like those discussed in non-GAAP gross margin and non-GAAP operating income measures above, provide useful information to investors and others in understanding and evaluating our financial results and future prospects in the same manner as management and in comparing financial results across accounting periods.

Table of Contents

For a detailed explanation of the adjustments made to comparable GAAP measures and the reasons why management uses these adjustments, see items (1) (7) below.

(in thousands of dollars, except share and per share data)	Years Ended December 31, 2012	2011	2010
GAAP Gross margin	$ 89,177	$ 73,620	$ 69,532
GAAP gross margin as % of sales	62%	63%	63%
Non-GAAP adjustments to gross margin:			
GAAP Gross margin	$ 89,177	$ 73,620	$ 69,532
Amortization and other non-cash acquisition related charges *(1)*	5,782	3,951	3,825
Stock-based compensation *(4)*	499	442	270
Non-GAAP gross margin	$ 95,458	$ 78,013	$ 73,627
Non-GAAP gross margin as % of sales	66%	67%	66%
GAAP loss from operations	$ (35,774)	$ (7,030)	$ (1,871)
Non-GAAP adjustments to net loss from operations:			
Amortization and other non-cash acquisition related charges *(1)*	7,205	5,075	5,437
Remeasurement of contingent consideration liability *(2)*	32,100	322	(280)
Acquisition-related expenses *(3)*	268	2,355	1,087
Severance expenses *(4)*	1	260	55
Stock-based compensation *(5)*	4,563	3,297	2,502
Non-GAAP income from operations	$ 8,363	$ 4,279	$ 6,930
Depreciation expenses *(6)*	3,665	3,269	2,926
Non-GAAP Adjusted EBITDA	$ 12,028	$ 7,548	$ 9,856
GAAP net loss	$ (38,008)	$ (1,329)	$ (2,020)
Non-GAAP adjustments to net loss:			
Amortization and other non-cash acquisition related charges *(1)*	7,205	5,075	5,437
Remeasurement of contingent consideration liability *(2)*	32,100	322	(280)
Acquisition-related expenses *(3)*	268	2,355	1,087
Severance expenses *(4)*	1	260	55
Stock-based compensation *(5)*	4,563	3,297	2,502
Acquisition-related income tax benefit *(7)*		(6,411)	
Non-GAAP net income	$ 6,129	$ 3,569	$ 6,781
GAAP basic net loss per share	$ (0.59)	$ (0.02)	$ (0.03)
Non-GAAP adjustments to basic net loss per share:			
Amortization and other non-cash acquisition related charges *(1)*	$ 0.11	$ 0.08	$ 0.09
Remeasurement of contingent consideration liability *(2)*	$ 0.51	$ 0.01	
Acquisition-related expenses *(3)*	$ 0.00	$ 0.05	$ 0.02
Severance expenses *(4)*	$ 0.00		
Stock-based compensation *(5)*	$ 0.07	$ 0.05	$ 0.04
Acquisition-related income tax benefit *(7)*		($ 0.11)	
Non-GAAP basic net income per share	$ 0.10	$ 0.06	$ 0.12

Non-GAAP diluted net income per share	$ 0.09	$ 0.06	$ 0.11
GAAP weighted average shares outstanding used in calculating basic net loss per share	64,437,427	60,573,428	58,908,611
GAAP weighted average shares outstanding used in calculating diluted net loss per share	64,437,427	60,573,428	58,908,611
Adjustments for dilutive potential common stock	5,170,881	3,555,057	2,056,496
Weighted average shares outstanding used in calculating non-GAAP diluted net income per share	69,608,308	64,128,485	60,965,107

Table of Contents

(1) *Amortization and other non-cash acquisition-related charges* are non-cash charges, such as amortization of acquired intangibles that can be impacted by the timing and magnitude of our acquisitions. We consider our operating results without these charges when evaluating our ongoing performance and/or predicting our earnings trends, and therefore exclude such charges when presenting non-GAAP financial measures. We believe the assessment of our operations excluding these costs is relevant to our assessment of internal operations and comparisons to the performance of other companies in our industry.

(2) *Remeasurement of contingent consideration liability* is a non-cash charge relating to the fair value adjustment, at the end of the reporting period, of the contingent consideration liability associated with certain acquisitions. We consider our operating results without these charges when evaluating our ongoing performance and/or predicting our earnings trends, and therefore exclude such charges when presenting non-GAAP financial measures. We believe the assessment of our operations excluding these costs is relevant to our assessment of internal operations and comparisons to the performance of other companies in our industry.

(3) *Acquisition-related expenses* include direct costs of the acquisition and expenses related to acquisition integration activities. Examples of costs directly related to an acquisition include transaction fees, due diligence costs and certain legal costs related to acquired litigation which are included in general and administrative expenses in our statement of operations. These expenses vary significantly in size and amount and are disregarded by our management when evaluating and predicting earnings trends because these charges are unique to specific acquisitions, and are therefore excluded by us when presenting non-GAAP financial measures.

(4) *Severance expenses (credits)* include acquisition related severance expenses (credits) and are disregarded by our management when evaluating and predicting earnings trends because these charges are unique to specific acquisitions, and are therefore excluded by us when presenting non-GAAP financial measures.

(5) *Stock-based compensation expense* consist of expense relating to stock-based awards issued to employees, outside directors and non employees including stock options, restricted stock units, restricted stock units with performance-based vesting and our Employee Stock Purchase Plan. Because of varying available valuation methodologies, subjective assumptions and the variety of award types, we believe that the exclusion of stock-based compensation expense allows for more accurate comparisons of our operating results to our peer companies, and for a more accurate comparison of our financial results to previous periods. In addition, we believe it is useful to investors to understand the specific impact of stock-based compensation expenses on our operating results.

(6) *Depreciation expense* includes depreciation and amortization of leasehold improvements, furniture and fixtures, machinery and equipment, software and computers and equipment. Our management excludes this charge from operating income (loss) to compute non-GAAP earnings before income taxes, depreciation and amortization.

(7) *Acquisition-related income tax benefit* primarily relates to the one-time release of valuation allowance to offset deferred tax liabilities generated from acquiring Liposonix. This income tax benefit is disregarded by our management when evaluating and predicting earnings trends because this benefit is unique to a specific acquisition, and are therefore excluded by us when presenting non-GAAP financial measures.

Liquidity and Capital Resources

On December 31, 2012, we had working capital of $24.8 million, which included $38.1 million of cash and cash equivalents. In 2011, we substantially increased our outstanding indebtedness, and reduced our available cash balances, with our acquisition of Liposonix, and we expect to be required to make substantial future cash payments in respect of that transaction.

In March 2009, we entered into a Loan and Security Agreement (the Loan Agreement) with Silicon Valley Bank for a $6.0 million secured revolving loan facility and a $3.0 million secured term loan. We drew down $3.8 million on the revolving loan facility and $3.0 million as a term loan in March 2009, and repaid the revolving loan in full in April 2009. On June 30, 2009, we entered into an amendment to the Loan Agreement which provides for an increase of the secured revolving loan facility to $8.0 million and an additional $1.0 million secured term loan.

In January 2010, we entered into securities purchase agreements in connection with a private placement of our securities to certain institutional and other accredited investors pursuant to which we agreed to sell and issue (i) an aggregate of 8,529,704 newly issued shares of our common stock, and (ii) warrants to purchase an aggregate of 4,264,852 shares of our common stock. The sale of securities resulted in aggregate gross proceeds

Table of Contents

of approximately $17.2 million. The net proceeds, after deducting offering expenses were approximately $15.8 million.

On March 31, 2010, we entered into a third amendment to the Loan Agreement which provides for an increase of the commitment under the loan facility by adding a $10.0 million secured term loan facility, amended certain financial covenants and extended the term of the existing revolving loan facility. On October 15, 2010, we entered into a fourth amendment to the Loan Agreement, which authorized us to consummate the acquisition of CLRS on October 15, 2010.

On April 20, 2011, we entered into a fifth amendment to the Loan Agreement, which extended the borrowing period for term loans borrowed under the secured term loan facility from March 31, 2011 to March 31, 2012, and extended the maturity date of such borrowings for term loans borrowed under the secured term loan facility from December 31, 2013 to December 31, 2014. On September 12, 2011, we entered into a sixth amendment to the Loan Agreement, which authorized us to enter into a material definitive agreement with Medicis to acquire one of its subsidiaries, Liposonix. On October 25, 2011, we entered into a seventh amendment to our Loan Agreement. The seventh amendment provides for, among other things, (i) an increase of the secured term loan facility from $10 million to $20 million, (ii) amendments to the financial covenants, including changes to the liquidity ratio, the fixed charge coverage ratio and the leverage ratio, (iii) an extension of the draw period for term loans borrowed under the secured term loan facility from March 31, 2012 to June 30, 2012 and an extension to the maturity date of such borrowings from December 31, 2014 to September 1, 2015, (iv) an amendment of the interest rate per annum on such borrowings from the greater of (a) 4.44% or (b) the three-year U.S. treasury note yield rate on the funding date plus 3.00% to 3.75% and (v) an amendment to the final payment fee on such borrowings from 3.5% to 6.00%. Other terms of the Loan and Security Agreement remain unchanged. Also, in connection with the seventh amendment, the Company issued warrants to Silicon Valley Bank to purchase 101,995 and 32,244 shares of common stock, with an exercise price of $2.206 and $2.326 per share, respectively. The warrants are exercisable immediately after issuance and expire in 10 years.

On October 31, 2011, we drew down $15 million on the $20 million secured term loan facility to help fund the upfront payment of $15.5 million to Medicis. The $15.5 million upfront payment was made on November 1, 2011, upon the close of the LipoSonix acquisition. On November 17, 2011, we drew down the remaining $5 million on the $20 million secured term loan facility to help fund the one-time payment of $20 million with respect to the clearance from the FDA on the second generation LipoSonix product received on October 24, 2011. The $20.0 million one-time payment was paid to Medicis on November 17, 2011.

On August 7, 2012, we sold an aggregate of 6,555,000 newly issued shares of our common stock in a firmly underwritten public offering. The sale of the securities resulted in net proceeds, after deducting offering expenses, of approximately $16.1 million.

On August 29, 2012, we entered into a Loan and Security Agreement with Silicon Valley Bank for a $10 million subordinated debt facility (the Subordinated Debt Facility). This Subordinated Debt Facility is in addition to the facilities available under the Loan Agreement. Borrowings under the Subordinated Debt Facility bear interest at a 7% fixed rate and is payable in equal monthly payments of principal and interest beginning on June 1, 2013 and ending on April 1, 2015, when the final two payments are due along with a final payment fee of $1 million and the bank s expenses. All obligations under the Subordinated Debt Facility are secured by substantially all of our personal property. The Subordinated Debt Facility does not contain any financial covenants. In connection with us committing to enter into the Subordinated Debt Facility, the Company issued a warrant to Silicon Valley Bank on July 26, 2012 for the purchase of 307,692 shares of the Company s common stock with an exercise price of $2.65 per share.

On August 31, 2012, we drew down $10 million under the Subordinated Debt Facility to fund our ongoing operations and this amount remained outstanding at September 30, 2012.

At December 31, 2012, $0 was outstanding on the revolving loan facility, and an aggregate of $27.1 million was outstanding as secured term loans under the credit facility and Subordinated Debt Facility. As of

Table of Contents

December 31, 2012, the Loan Agreement contains financial covenants requiring the Company to maintain a minimum liquidity, a maximum leverage ratio and a minimum fixed charge coverage ratio. The Company was in compliance with these covenants as of December 31, 2012.

Our future capital requirements depend on a number of factors, including the rate of market acceptance of our current and future products, the resources we devote to developing new products and supporting existing products, the required ramp-up of inventory for new products and contingent payments owed to Medicis from the Liposonix acquisition based on achievement against specified revenue and profit targets.

We expect to increase capital expenditures consistent with our anticipated growth in manufacturing, infrastructure and personnel. We also may increase our capital expenditures as we expand our product lines or invest to address new markets.

We believe that our current cash and cash equivalent balances and cash generated from operations, along with our existing revolving loan facility will meet our anticipated cash needs for working capital and capital expenditures for at least the next 12 months. Our future liquidity requirements may increase beyond currently expected levels if we fail to maintain compliance with covenants in our bank loan agreements or if unanticipated expenses or other uses of our cash arise. In addition, we achieved higher sales of the Liposonix products in the year ended December 31, 2012 than we had anticipated, and as a result, the 2013 contingent payment obligation to Medicis is approximately $21.4 million. If sales of Liposonix products are higher than expected during the remainder of the seven-year earn-out period, our contingent payment obligation to Medicis and our working capital requirements will grow beyond our current expectations. In such event we may need to secure additional financing beyond any cash generated from operations and cash available under our current credit facilities. Further, we have consummated acquisitions of other businesses in the past and continue to evaluate potential strategic acquisitions of complementary businesses, products or technologies. If we elect to complete additional acquisitions in the future our cash needs are likely to exceed the amount of cash we currently expect to have to fund our operations. In order to meet our future liquidity needs or to fund acquisitions, we may seek additional equity and/or debt financing. Additional financing may not be available on a timely basis on terms acceptable to us, or at all. Any future equity financing would result in dilution to our stockholders and future debt financing may subject us to restrictions on the operation of our business and on our ability to pursue business development opportunities. The availability of financing or merger opportunities will depend, in part, on market conditions, and the outlook for our company.

Contractual Obligations

The following table discloses aggregate information about our contractual obligations and the periods in which payments are due as of December 31, 2012 (in thousands):

		Payments Due by Period	
	Total	Less than 1 Year	1-3 Years
Term loans (principal only)	$ 27,082	$ 8,777	$ 18,305
Operating leases	5,591	1,990	3,601
Purchase commitments	17,687	17,687	
Contingent Consideration obligations	59,900	21,400	38,500
Total contractual obligations	$ 110,260	$ 49,854	$ 60,406

The current and non-current portions of the contingent consideration payment obligations are discussed earlier in this Management, Discussion and Analysis section under Acquisition of Liposonix .

As of December 31, 2012, we had approximately $0.6 million of long-term tax liabilities, including interest, related to uncertain tax positions. Because of the high degree of uncertainty regarding the settlement of these liabilities, we are unable to estimate the years in which future cash outflows may occur and therefore, this liability is not included in the table above.

Table of Contents

Cash Flows for the Years Ended December 31, 2012, December 31, 2011 and December 31, 2010

Net Cash Provided By Operating Activities. Net cash provided by operating activities was $4.5 million in the year ended December 31, 2012, compared to net cash provided by operating activities of $0.7 million and $10.2 million in the years ended December 31, 2011 and 2010, respectively. During 2012, cash was provided by a $1.5 million increase in accounts payable a $0.8 million increase in accrued liabilities, a $0.3 million decrease in prepaid expenses, other current assets and current assets, and $11.6 million in net cash provided from net loss after adjusting for non-cash items. These were partially offset by an increase of $7.7 million in accounts receivable, a $1.2 million increase in inventory, and a $0.7 million decrease in deferred revenue.

During 2011, cash was provided from a $0.5 million increase in accrued liabilities, a $0.7 million increase in deferred revenue, a decrease of $0.8 million in prepaid expenses, other current assets and other assets, and $4.0 million in net cash provided from net loss after adjusting for non-cash items. These were partially offset by a $4.0 million increase in inventory attributable to ramp-up of inventory for our new Clear + Brilliant and Liposonix products, a $0.8 million increase in accounts receivable and a $0.7 million decrease in accounts payable. During the year ended December 31, 2010, cash was provided by a $3.0 million decrease in inventory, primarily due to higher sales during the period and tighter management of inventory purchases, a $0.6 million decrease in accounts receivable, due to successful collection efforts at the end of the period, and $9.2 million in net cash provided from net loss after adjusting for non-cash items. These were partially offset by a $1.1 million increase in prepaid expenses and other current assets and a $1.1 million decrease in deferred revenue.

Net Cash Used in Investing Activities. Net cash used in investing activities was $3.0 million for the year ended December 31, 2012. Net cash used in investing activities was $37.0 million and $3.3 million for the years ended December 31, 2011 and December 31, 2010, respectively. During 2012, net cash of $3.0 million was used for payments to acquire property and equipment.

During 2011, net cash of $35.5 million was used for the acquisition of Liposonix and net cash of $1.5 million was used for payments to acquire property and equipment. During 2010, net cash of $2.0 million was used for payments to acquire property and equipment and $1.2 million was used for the acquisition of Aesthera Corporation and CLRS, net of cash received.

Net Cash Provided by Financing Activities. Net cash provided by financing activities was $19.1 million for the year ended December 31, 2012. Net cash provided by financing activities was $16.8 million and $15.2 million for the years ended December 31, 2011 and 2010, respectively. During 2012, we completed a public offering of our common stock which resulted in net proceeds of $16.1 million in cash. We also drew down $10 million on our Subordinated Debt Facility, $3.5 million on our revolving loan facility, and received $1.1 million in proceeds from exercise of stock options and purchases under the employee stock purchase plan. These were offset partially by net payments of $11.0 million on our term and revolving loans and $0.5 million to settle tax obligations on behalf of our employees for the issuance of restricted stock units.

During 2011, we drew down $20 million on our secured term loan facility and received $1.9 million in proceeds from exercise of stock options and the employee stock purchase plan, partially offset by net payments of $5.0 million on our term and revolving loans. During 2010, we completed a private placement of units consisting of our common stock and warrants to purchase our common stock which resulted in net proceeds of $15.8 million in cash and we also received $1.0 million in proceeds from exercise of stock options and participation in our Employee Stock Purchase Plan, offset by net payments of $1.4 million on our term and revolving loans and $0.1 million to settle tax obligations on behalf of our employees for the issuance of restricted stock units.

Off-Balance Sheet Arrangements

We do not have any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, which would have been established for the

Table of Contents

purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. In addition, we do not have any undisclosed borrowings or debt, and we have not entered into any synthetic leases. We are, therefore, not materially exposed to any financing, liquidity, market or credit risk that could arise if we engaged in such relationships.

Item 7A. ***Quantitative and Qualitative Disclosures about Market Risk***

Foreign Currency Risk

Currently, most of our sales and purchases are denominated in U.S. Dollars though the amount of foreign-currency denominated revenue and expenses has been growing due to the expansion of our direct sales to end-users in foreign countries. Future fluctuations in the value of the U.S. Dollar may affect the price competitiveness of our products as well as cause variability in our revenue, expenses, interest and other income (expense). We do not believe, however, that we currently have significant direct foreign currency exchange rate risk and have not hedged exposures denominated in foreign currencies.

Interest Rate Risk

Changes in interest rates will impact our interest sensitive credit agreement and accordingly may impact interest expense. We have determined that if interest rates were to instantaneously increase (decrease) by 100 basis points, there would be no material impact to interest expense over a one-year period.

Table of Contents

Item 8. ***Financial Statements and Supplementary Data***

SOLTA MEDICAL, INC.

ANNUAL REPORT ON FORM 10-K

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

The following Financial Statement Schedule of the registrant for the years ended December 31, 2012, 2011 and 2010 is filed as part of this Report as required to be included in Item 8 and should be read in conjunction with the Consolidated Financial Statements of the registrant:

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.

Table of Contents

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of Solta Medical, Inc.:

We have audited the accompanying consolidated balance sheets of Solta Medical, Inc. and subsidiaries (the Company) as of December 31, 2012 and 2011, and the related consolidated statements of operations, stockholders equity, and cash flows for each of the three years in the period ended December 31, 2012. Our audits also included the consolidated financial statement schedule listed in the Index at Item 15(a)2. We also have audited the Company s internal control over financial reporting as of December 31, 2012, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company s management is responsible for these consolidated financial statements and financial statement schedule, 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 Managements Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedule and an opinion on the Company s internal control over financial reporting based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company s internal control over financial reporting is a process designed by, or under the supervision of, the company s principal executive and principal financial officers, or persons performing similar functions, and effected by the company s board of directors, management, and other personnel 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 the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Solta Medical, Inc. and subsidiaries as of December 31, 2012 and 2011, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2012,

Table of Contents

in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such consolidated financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein. Also, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2012, based on the criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

/s/ Deloitte & Touche LLP

San Francisco, California

March 6, 2013

Table of Contents

Solta Medical, Inc.

CONSOLIDATED BALANCE SHEETS

(in thousands of dollars, except share and per share data)	December 31, 2012	2011
ASSETS		
Current assets:		
Cash and cash equivalents	$ 38,097	$ 17,417
Accounts receivable, net of allowance for doubtful accounts in 2012 and 2011 of $653 and $226, respectively	20,570	13,282
Inventories	16,611	16,524
Prepaid expenses and other current assets	8,476	8,626
Total current assets	83,754	55,849
Property and equipment, net	6,401	6,818
Purchased intangible assets, net	42,428	49,352
Goodwill	96,620	96,620
Other assets	520	659
Total assets	$ 229,723	$ 209,298
LIABILITIES AND STOCKHOLDERS EQUITY		
Liabilities:		
Accounts payable	$ 7,283	$ 5,767
Accrued liabilities	17,343	16,126
Current portion of contingent consideration liability	21,400	
Current portion of deferred revenue	3,985	4,521
Short-term borrowings	8,345	7,441
Customer deposits	637	610
Total current liabilities	58,993	34,465
Deferred revenue, net of current portion	683	824
Term loan, net of current portion	18,063	16,959
Non-current tax liabilities	2,478	2,975
Contingent consideration liability	38,500	27,800
Other liabilities	899	92
Total liabilities	119,616	83,115
Commitments and contingencies (Note 7)		
Stockholders equity:		
Preferred stock, $0.001 par value:		
Authorized: 10,000,000 shares at December 31, 2012 and 2011 Issued and outstanding: none at December 31, 2012 and 2011		
Common stock, $0.001 par value:		
Authorized: 100,000,000 shares at December 31, 2012 and 2011 Issued and outstanding: 68,795,987 and 61,130,740 shares at December 31, 2012 and 2011, respectively	69	61
Additional paid-in capital	220,489	198,565
Accumulated deficit	(110,451)	(72,443)
Total stockholders equity	110,107	126,183
Total liabilities and stockholders equity	$ 229,723	$ 209,298

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

Table of Contents

Solta Medical, Inc.

CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands of dollars, except share and per share data)	Years Ended December 31, 2012	2011	2010
Net revenue	$ 144,545	$ 115,984	$ 110,932
Cost of revenue	55,368	42,364	41,400
Gross margin	89,177	73,620	69,532
Operating expenses			
Sales and marketing	53,665	46,761	42,665
Research and development	20,549	16,124	16,324