CUTERA INC
Form 10-Q
November 05, 2012

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2012

OR

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period _____ to_____.

Commission file number: 000-50644

Cutera, Inc.
(Exact name of registrant as specified in its charter)

Delaware	77-0492262
(State or other jurisdiction of incorporation or organization)	(I.R.S. employer identification no.)

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was

required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

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

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

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

The number of shares of Registrant’s common stock issued and outstanding as of October 26, 2012 was 14,127,344.

CUTERA, INC.

FORM 10-Q

TABLE OF CONTENTS

		Page
PART I	FINANCIAL INFORMATION	
Item 1	Financial Statements (unaudited)	3
	Condensed Consolidated Balance Sheets	3
	Condensed Consolidated Statements of Operations	4
	Condensed Consolidated Statements of Comprehensive Loss	5
	Condensed Consolidated Statements of Cash Flows	6
	Notes to Condensed Consolidated Financial Statements	7
Item 2	Management's Discussion and Analysis of Financial Condition and Results of Operations	15
Item 3	Quantitative and Qualitative Disclosures About Market Risk	24
Item 4	Controls and Procedures	24
PART II	OTHER INFORMATION	
Item 1	Legal Proceedings	25
Item 1A	Risk Factors	25
Item 2	Unregistered Sales of Equity Securities and Use of Proceeds	36
Item 3	Defaults Upon Senior Securities	36
Item 4	Mine Safety Disclosures	36
Item 5	Other Information	36
Item 6	Exhibits	37
	Signature	38

Table of Contents

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

CUTERA, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands)

	September 30, 2012 (unaudited)	December 31, 2011 (audited)
Assets		
Current assets:		
Cash and cash equivalents	$ 24,334	$ 14,020
Marketable investments	55,795	74,666
Accounts receivable, net	7,845	5,193
Inventories	12,477	10,729
Deferred tax asset	49	55
Other current assets and prepaid expenses	1,443	1,432
Total current assets	101,943	106,095
Property and equipment, net	885	853
Long-term investments	1,050	3,027
Deferred tax asset, net of current portion	470	446
Intangibles, net	2,876	446
Goodwill	1,339	—
Other long-term assets	517	486
Total assets	$ 109,080	$ 111,353
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 2,297	$ 2,573
Accrued liabilities	9,486	9,262
Deferred revenue	6,299	5,185
Total current liabilities	18,082	17,020
Deferred rent	1,347	1,448
Deferred revenue, net of current portion	1,411	840
Income tax liability	471	478
Total liabilities	21,311	19,786
Commitments and Contingencies (Note 12)		
Stockholders' equity:		
Convertible preferred stock, $0.001 par value; authorized: 5,000,000 shares; none issued and outstanding	—	—
	14	14

Common stock, $0.001 par value; authorized: 50,000,000 shares; issued and outstanding: 14,127,344 and 13,948,395 shares at September 30, 2012 and December 31, 2011, respectively				
Additional paid-in capital		98,865		95,719
Accumulated deficit		(10,950)		(3,325)
Accumulated other comprehensive loss		(160)		(841)
Total stockholders' equity		87,769		91,567
Total liabilities and stockholders' equity	$	109,080	$	111,353

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

3

Table of Contents

CUTERA, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share data)

(unaudited)

	Three Months Ended September 30, 2012	Three Months Ended September 30, 2011	Nine Months Ended September 30, 2012	Nine Months Ended September 30, 2011
Net revenue:				
Products	$ 15,128	$ 12,005	$ 42,138	$ 31,599
Service	4,298	3,227	12,606	10,149
Total net revenue	19,426	15,232	54,744	41,748
Cost of revenue:				
Products	6,618	4,580	19,237	12,078
Service	2,210	2,192	6,710	6,394
Total cost of revenue	8,828	6,772	25,947	18,472
Gross profit	10,598	8,460	28,797	23,276
Operating expenses:				
Sales and marketing	7,014	6,426	21,563	18,720
Research and development	2,217	2,352	6,305	6,828
General and administrative	2,475	2,310	8,824	7,226
Total operating expenses	11,706	11,088	36,692	32,774
Loss from operations	(1,108)	(2,628)	(7,895)	(9,498)
Interest and other income, net	152	91	392	474
Loss before income taxes	(956)	(2,537)	(7,503)	(9,024)
Provision (benefit) for income taxes	(64)	326	122	150
Net loss	$ (892)	$ (2,863)	$ (7,625)	$ (9,174)
Net loss per share:				
Basic and Diluted	$ (0.06)	$ (0.21)	$ (0.54)	$ (0.67)
Weighted-average number of shares used in per share calculations:				
Basic and Diluted	14,127	13,862	14,061	13,765

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

Table of Contents

CUTERA, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(in thousands)

(unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Net loss	$ (892)	$ (2,863)	$ (7,625)	$ (9,174)
Other comprehensive income:				
Net change in unrealized gain on available-for-sale securities	267	35	804	725
Provision (benefit) for income taxes related to items of other comprehensive income	102	(262)	123	(194)
Other comprehensive income, net of tax	165	297	681	919
Comprehensive loss	$ (727)	$ (2,566)	$ (6,944)	$ (8,255)

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

Table of Contents

CUTERA, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(unaudited)

	Nine Months Ended September 30, 2012	Nine Months Ended September 30, 2011
Cash flows from operating activities:		
Net loss	$ (7,625)	$ (9,174)
Adjustments to reconcile net loss to net cash used in operating activities:		
Stock-based compensation	2,334	3,105
Tax benefit from stock-based compensation	—	21
Excess tax benefit related to stock-based compensation	—	(21)
Depreciation and amortization	1,186	483
Other	(113)	235
Changes in assets and liabilities:		
Accounts receivable	(2,698)	106
Inventories	(196)	(3,211)
Other current assets and prepaid expenses	717	1,951
Other long-term assets	(31)	(493)
Accounts payable	(276)	855
Accrued liabilities	(163)	1,086
Deferred rent	(24)	(10)
Deferred revenue	905	(698)
Income tax liability	(7)	12
Net cash used in operating activities	(5,991)	(5,753)
Cash flows from investing activities:		
Acquisition of property and equipment	(358)	(421)
Disposal of property and equipment	—	36
Business acquisition	(5,091)	—
Proceeds from sales of marketable and long-term investments	26,361	17,597
Proceeds from maturities of marketable investments	34,445	35,085
Purchase of marketable investments	(39,864)	(46,255)
Net cash provided by investing activities	15,493	6,042
Cash flows from financing activities:		
Proceeds from exercise of stock options and employee stock purchase plan	812	1,045
Excess tax benefit related to stock-based compensation	—	21
Net cash provided by financing activities	812	1,066
Net increase in cash and cash equivalents	10,314	1,355
Cash and cash equivalents at beginning of period	14,020	12,519
Cash and cash equivalents at end of period	$ 24,334	$ 13,874

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

Table of Contents

CUTERA, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies

Description of Operations and Principles of Consolidation.
Cutera, Inc. (Cutera or the Company) is a global provider of laser and light-based aesthetic systems for practitioners worldwide. The Company designs, develops, manufactures, and markets the CoolGlide, Xeo, Solera, GenesisPlus, Excel V and truSculpt product platforms for use by physicians and other qualified practitioners to allow its customers to offer safe and effective aesthetic treatments to their customers. The Xeo and Solera platforms offer multiple hand pieces and applications, which allow customers to upgrade their systems (Upgrade revenue). In addition to systems and Upgrade revenue, the Company generates revenue from the sale of post warranty service contracts, providing services for products that are out of warranty, and Titan hand piece refills. In Japan the Company also distributes third party manufactured dermal fillers, cosmeceuticals and a Q-switched laser system called myQ.

In February 2012, the Company acquired the global aesthetic business unit of IRIDEX Corporation (or Iridex), which included various laser systems (such as the VariLite and Gemini) and an installed base of customers, whose products are being serviced by the Company.

Headquartered in Brisbane, California, the Company has wholly-owned subsidiaries in Australia, Canada, and France and Japan that market, sell and service its products outside of the United States. Effective March 31, 2012, the Company decided to discontinue its direct operations in Spain and the United Kingdom and instead plans on seeking a distributor to market its products in these countries. The Condensed Consolidated Financial Statements include the accounts of the Company and its subsidiaries and all inter-company transactions and balances have been eliminated.

Unaudited Interim Financial Information
The financial information filed is unaudited. The Condensed Consolidated Financial Statements included in this report reflect all adjustments (consisting only of normal recurring adjustments) that the Company considers necessary for the fair statement of the results of operations for the interim periods covered and of the financial condition of the Company at the date of the interim balance sheet. The December 31, 2011 Condensed Consolidated Balance Sheet was derived from audited financial statements, but does not include all disclosures required by generally accepted accounting principles in the United States of America (GAAP). The results for interim periods are not necessarily indicative of the results for the entire year or any other interim period. The Condensed Consolidated Financial Statements should be read in conjunction with the Company’s financial statements and the notes thereto included in the Company’s annual report on Form 10-K for the year ended December 31, 2011 filed with the Securities and Exchange Commission, or SEC, on March 15, 2012.

Use of Estimates
The preparation of interim Condensed Consolidated Financial Statements in conformity with GAAP requires the Company’s management to make estimates and assumptions that affect the amounts reported and disclosed in the Condensed Consolidated Financial Statements and the accompanying notes. Actual results could differ materially from those estimates. On an ongoing basis, the Company evaluates these estimates, including those related to warranty obligation, sales commission, accounts receivable and sales allowances, provision for excess and obsolete inventories, fair values of marketable and long-term investments, fair values of acquired intangible assets, useful lives of intangible assets and property and equipment, recoverability of deferred tax assets, and effective income tax rates, among others. Management bases these estimates on historical experience and on various other assumptions that are believed to be reasonable, the results of which form the basis for making judgments about the carrying values of assets and liabilities.

Note 2. Cash and Cash Equivalents, Marketable Securities and Long-Term Investments

The Company considers all highly liquid investments, with an original maturity of three months or less at the time of purchase, to be cash equivalents. Investments in debt securities are accounted for as “available-for-sale” securities, carried at fair value with unrealized gains and losses reported in other comprehensive loss, held for use in current operations and classified in current assets as “Marketable investments” and in long term assets as “Long-term investments.”

Table of Contents

The following tables summarize unrealized gains and losses related to our marketable investments and long-term investments, both designated as available-for-sale (in thousands):

September 30, 2012	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Market Value
Cash and cash equivalents:				
Cash	$ 1,853	$ —	$ —	$ 1,853
Money market funds	14,577	—	—	14,577
Commercial paper	7,904	—	—	7,904
Total cash and cash equivalents	24,334	—	—	24,334
Marketable securities:				
U.S. government agencies	23,884	51	(1)	23,934
Municipal securities	6,046	32	(1)	6,077
Commercial paper	7,507	2	—	7,509
Corporate debt securities	18,215	61	(1)	18,275
Total marketable investments	55,652	146	(3)	55,795
Long-term investment in auction rate securities	1,200	—	(150)	1,050
Total cash, cash equivalents, marketable investments and long-term investments	$ 81,186	$ 146	$ (153)	$ 81,179

December 31, 2011	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Market Value
Cash and cash equivalents:				
Cash	$ 2,153	$ —	$ —	$ 2,153
Money market funds	7,318	—	—	7,318
Commercial paper	4,549	—	—	4,549
Total cash and cash equivalents	14,020	—	—	14,020
Marketable securities:				
U.S. government notes	3,655	10	—	3,665
U.S. government agencies	41,535	44	(14)	41,565
Municipal securities	6,091	44	(1)	6,134
Commercial paper	4,747	1	(1)	4,747
Corporate debt securities	18,574	15	(34)	18,555
Total marketable investments	74,602	114	(50)	74,666
Long-term investment in auction rate securities	3,900	—	(873)	3,027
Total cash, cash equivalents, marketable investments and long-term investments	$ 92,522	$ 114	$ (923)	$ 91,713

As of September 30, 2012 and December 31, 2011, the total gross unrealized losses were $153,000 and $923,000 respectively and were primarily related to long-term investments in auction rate securities (ARS), which were in an unrealized loss position for 12 months or greater. No other securities were in unrealized loss positions for more than 12 months. The unrealized losses in the ARS securities are not attributed to changes in credit risk and the Company

does not intend to sell the investments and it is not more likely than not that the Company will be required to sell the investments before recovery of their amortized cost bases, which may be maturity.

Since February 2008, uncertainties in the credit markets affected the majority of ARS investments and auctions for the Company's investments in these securities have failed to settle on their respective settlement dates. However, since 2009 $12.2 million of ARS were redeemed at full par value. The maturity date for the one remaining ARS investment in the Company's portfolio is 2041.

Table of Contents

The following table summarizes the estimated fair value of our securities available-for-sale and classified as cash and cash equivalents, marketable investments and long-term investments classified by the contractual maturity date of the security as of September 30, 2012 (in thousands):

	Amount
Due in less than one year	$ 35,073
Due in 1 to 5 years	28,626
Due in 5 to 10 years	—
Due in greater than 10 years	1,050
	$ 64,749

Note 3. Fair Value of Financial Instruments

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value hierarchy distinguishes between (1) market participant assumptions developed based on market data obtained from independent sources (observable inputs) and (2) an entity's own assumptions about market participant assumptions developed based on the best information available in the circumstances (unobservable inputs). The fair value hierarchy consists of three broad levels, which gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy are described below:

Level 1: Quoted prices (unadjusted) in active markets that are accessible at the measurement date for assets or liabilities.

Level 2: Directly or indirectly observable inputs as of the reporting date through correlation with market data, including quoted prices for similar assets and liabilities in active markets and quoted prices in markets that are not active. Level 2 also includes assets and liabilities that are valued using models or other pricing methodologies that do not require significant judgment since the input assumptions used in the models, such as interest rates and volatility factors, are corroborated by readily observable data from actively quoted markets for substantially the full term of the financial instrument.

Level 3: Unobservable inputs that are supported by little or no market activity and reflect the use of significant management judgment. These values are generally determined using pricing models for which the assumptions utilize management's estimates of market participant assumptions.

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

As of September 30, 2012, financial assets measured and recognized at fair value on a recurring basis and classified under the appropriate level of the fair value hierarchy as described above was as follows (in thousands):

September 30, 2012	Level 1	Level 2	Level 3	Total
Cash equivalents:				
Money market funds	$ 14,577	—	—	$ 14,577
Commercial paper	—	7,904	—	7,904
Short-term marketable investments:				
U.S. government agencies	—	23,934	—	23,934
Municipal securities	—	6,077	—	6,077
Commercial paper	—	7,509	—	7,509
Corporate debt securities	—	18,275	—	18,275

Long-term investments:								
Available-for-sale auction rate securities		—		—		1,050		1,050
Total assets at fair value	$	14,577	$	63,699	$	1,050	$	79,326

9

Table of Contents

As of December 31, 2011, financial assets measured and recognized at fair value on a recurring basis and classified under the appropriate level of the fair value hierarchy as described above was as follows (in thousands):

December 31, 2011	Level 1	Level 2	Level 3	Total
Cash equivalents:				
Money market funds	$ 7,318	—	—	$ 7,318
Commercial paper	—	4,549	—	4,549
Short-term marketable investments:				
U.S. government notes	—	3,665	—	3,665
U.S. government agencies	—	41,565	—	41,565
Municipal securities	—	6,134	—	6,134
Commercial paper	—	4,747	—	4,747
Corporate debt securities	—	18,555	—	18,555
Long-term investments:				
Available-for-sale auction rate securities	—	—	3,027	3,027
Total assets at fair value	$ 7,318	$ 79,215	$ 3,027	$ 89,560

The Company's Level 2 investments include U.S. government-backed securities and corporate securities that are valued based upon observable inputs that may include benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers and reference data including market research publications. The average remaining maturity of the Company's Level 2 investments as of September 30, 2012 is less than 36 months and all of these investments are rated by S&P and Moody's at A or better.

At September 30, 2012, observable market information was not available to determine the fair value of the Company's ARS investments. Therefore, the fair value was based on broker-provided valuation models that relied on Level 3 inputs including those that are based on expected cash flow streams and collateral values, assessments of counterparty credit quality, default risk underlying the security, market discount rates and overall capital market liquidity. The expected future cash flows of the ARS were discounted using a risk adjusted discount rate that compensated for the illiquidity. Projected future cash flows over the economic life of the ARS (of approximately 12.5 years) were modeled based on the contractual penalty rates for the security added to a tax adjusted LIBOR interest rate curve. The discount rates that were applied to the cash flows were based on a premium over the projected yield curve and included an adjustment for credit, illiquidity, and other risk factors. The valuation of the Company's ARS investment is subject to uncertainties that are difficult to predict. Factors that may impact the valuation in the future include changes to credit ratings of the security, as well as to the underlying assets supporting that security, rates of default of the underlying assets, underlying collateral value, discount rates, counterparty risk and ongoing strength and quality of market credit and liquidity. This financial instrument is classified within Level 3 of the fair value hierarchy.

The table presented below summarizes the change in carrying value associated with Level 3 financial assets, which represents the Company's investment in long term ARS, for the nine months ended September 30, 2012 (in thousands):

	Amount
Balance at December 31, 2011	$3,027
Total gains and losses included in other comprehensive loss	723
Settlements	(2,700)
Balance at September 30, 2012	$1,050

Note 4. Inventories

Inventories consist of the following (in thousands):

	September 30, 2012	December 31, 2011
Raw materials	$ 8,077	$ 6,587
Finished goods	4,400	4,142
Total	$ 12,477	$ 10,729

Table of Contents

Note 5. Acquisition

On February 2, 2012, Cutera acquired certain assets and liabilities of Iridex's global aesthetics business unit for $5.1 million in cash. This business is engaged in developing, manufacturing, marketing and servicing laser-based medical systems and delivery devices. The business purpose of this transaction was to acquire access to an expanded installed base of customers, add to Cutera's product offerings and acquire a recurring stream of service revenue. This acquisition was considered a business combination for accounting purposes, and as such, in addition to valuing all the assets, the Company recorded goodwill associated with the expected synergies from leveraging the customer relationships and integrating new product offerings into the Company's business.

The fair values of the assets acquired were determined to be $4.8 million of net tangible and intangible assets and $1.3 million of goodwill. The customer relationship intangible assets are being amortized over 5 years on a straight-line basis. Other intangible assets are being amortized over 11 months to 5 years from the date of acquisition on a straight-line basis.

The recorded purchase price amounts are preliminary and subject to change as the Company is awaiting additional information related to inventory.

The following table summarizes the fair value as of February 2, 2012 of the net assets acquired (in thousands):

Purchase price paid	$ 5,091
Assets (liabilities acquired)	
Inventory	1,552
Customer relationship intangible assets	2,510
Other identified intangible assets	780
Goodwill	1,339
Deferred service revenue	(780)
Accrued warranty liability	(310)
Total	$ 5,091

Disclosure of the amounts of revenue and earnings of the asset and liabilities of the acquired Iridex aesthetics business is not practicable because the acquired business was immediately integrated into Cutera's operations.

Note 6. Goodwill and Other Intangible Assets

Goodwill and other intangible assets comprise a patent sublicense acquired from Palomar in 2006; a technology sublicense acquired in 2002; and, intangible assets and goodwill related to the acquisition of Iridex's aesthetic business unit. The components of intangible assets were as follows (in thousands):

	September 30, 2012		
	Gross Carrying Amount	Accumulated Amortization Amount	Net Carrying Amount
Patent sublicense	$ 1,218	$ 896	$ 322
Technology sublicense	538	538	—
Customer relationship intangible related to acquisition	2,510	335	2,175
Other identified intangible assets related to acquisition	780	401	379
Goodwill	1,339	—	1,339

Total	$ 6,385	$ 2,170	$ 4,215

11

Table of Contents

	December 31, 2011		
	Gross Carrying Amount	Accumulated Amortization Amount	Net Carrying Amount
Patent sublicense	$ 1,218	$ 793	$ 425
Technology sublicense	538	517	21
Total	$ 1,756	$ 1,310	$ 446

Amortization expense for intangible assets was $860,000 and $144,000 for the nine-month periods ended September 30, 2012 and 2011 respectively.

Based on intangible assets recorded at September 30, 2012, and assuming no subsequent additions to, or impairment of the underlying assets, the remaining estimated annual amortization expense is expected to be as follows (in thousands):

Fiscal Year Ending December 31,	Amount
2012 (remainder)	$ 310
2013	696
2014	696
2015	569
2016	558
Thereafter	47
Total	$ 2,876

Note 7. Warranty

The Company provides a standard one-year warranty on all systems. Warranty coverage provided is for labor and parts necessary to repair the systems during the warranty period. The Company accounts for the estimated warranty cost of the standard warranty coverage as a charge to costs of revenue when revenue is recognized. The estimated warranty cost is based on historical product performance. To determine the estimated warranty reserve, the Company utilizes actual service records to calculate the average service expense per system and applies this to the equivalent number of units exposed under warranty. The Company updates these estimated charges every quarter.

The following table provides the changes in the product warranty accrual for the nine-month period ended September 30, 2012 (in thousands):

	Amount
Beginning Balance – December 31, 2011	$1,121
Add: Accruals for warranties issued during the period	2,414
Add: Warranties assumed with business acquisition	310
Less: Settlements made during the period	(2,599)
Ending Balance –September 30, 2012	$1,246

Note 8. Deferred Service Contract Revenue

Service contract revenue is recognized on a straight-line basis over the period of the applicable extended warranty contract.

12

Table of Contents

The following table provides changes in deferred service contract revenue for the nine-month period ended September 30, 2012 and 2011 (in thousands):

		September 30	
		2012	2011
Beginning Balance		$ 5,838	$ 6,765
Add:	Payments received	9,335	6,332
Add:	Contract revenue assumed with business acquisition	780	—
Less:	Revenue recognized	(8,359)	(7,024)
Ending Balance		$ 7,594	$ 6,073

Costs incurred under service contracts were $5.4 million for the nine-month period ended September 30, 2012 and $3.1 million for the nine-month period ended September 30, 2011 which are recognized as incurred.

Note 9. Stock-based Compensation Expense

Stock-based compensation expense by department recognized during the three and nine-month periods ended September 30, 2012 and 2011 was as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Cost of revenue	$ 169	$ 179	$ 480	$ 505
Sales and marketing	177	210	476	625
Research and development	126	184	419	524
General and administrative	337	321	959	1,451
Total stock-based compensation expense	$ 809	$ 894	$ 2,334	$ 3,105

Under the 2004 Equity Incentive Plan, the Company issued 178,949 shares of common stock during the nine-month period ended September 30, 2012, in conjunction with stock options exercised, restricted stock units released and purchases associated with the Employee Stock Purchase Plan.

During the nine-month period ended September 30, 2012, the following number of equity awards of the Company's common stock was granted (in thousands):

	Shares	
Stock options	898	
Restricted stock Units	148	
Performance stock units	42	*
Total	1,088	

* In the third quarter of 2012, the Company granted its executive officers 42,250 Performance Stock Units, or PSUs that shall vest on June 1, 2013, subject to the recipient's continued service through that date. At the vest date, the Company shall issue fully-paid up common stock based on the actual revenue achievement as a percentage of three revenue based performance goals. If the revenue achievement is below 50% for a performance goal, then zero (0) common stock shall be issued for that goal; and for achievement of greater than 50% the number of common stock to be issued shall be prorated but capped at 200% of the target.

As of September 30, 2012, there was $4.2 million of unrecognized compensation expense, net of projected forfeitures related to non-vested stock awards. The expense is expected to be recognized over the remaining weighted-average

period of 2.7 years.

Note 10. Net Loss Per Share

Basic net loss per share is calculated by dividing net loss by the weighted-average number of common shares outstanding during the year. Diluted net loss per common share is the same as basic net loss per common share, as the effect of the potential common stock equivalents is anti-dilutive and as such is excluded from the calculations of the diluted net loss per share.

Table of Contents

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Options to purchase common stock	3,910	3,990	3,680	3,619
Restricted stock units	132	56	79	62
Performance stock units	16	—	14	—
Employee stock purchase plan shares	30	30	52	51
Total	4,088	4,076	3,825	3,732

Note 11. Income Taxes

For the three months ended September 30, 2012 and 2011, the Company's tax benefit was $64,000 and tax expense was $326,000, respectively. For the nine months ended September 30, 2012 and 2011, the Company's income tax expense was $122,000 and $150,000, respectively. The Company's income tax expense (benefit) was primarily attributable to income taxes of the Company's international operations, offset by benefits for income taxes related to gains and losses on marketable and long term investments recorded in other comprehensive loss.

Included in the $326,000 expense for the three months ended September 30, 2011, was a discrete charge of $262,000 for the clearing of disproportionate tax effects in accumulated other comprehensive loss related to unrealized gains and losses on marketable and long term investments. Included in the $150,000 expense for the nine months ended September 30, 2011 was a discrete net charge of $194,000 for the clearing of disproportionate tax effects in other comprehensive income related to unrealized gains and losses on marketable investments, offset by a discrete tax benefit of $246,000 resulting from the carry-back of fiscal year 2010 federal losses to obtain a refund of alternative minimum taxes paid for fiscal year 2008.

The Company utilizes the asset and liability method of accounting for income taxes, under which deferred taxes are determined based on the temporary differences between the financial statement and tax basis of assets and liabilities using tax rates expected to be in effect during the years in which the basis differences reverse. A valuation allowance is recorded when it is more likely than not that some of the deferred tax assets will not be realized. As of September 30, 2012 and December 31, 2011, the Company had a 100% valuation allowance against its U.S. deferred tax assets. Significant management judgment is required in determining any valuation allowance recorded against deferred tax assets. In evaluating the ability to recover deferred tax assets, the Company considered available positive and negative evidence giving greater weight to its recent cumulative losses and its ability to carry-back losses against prior taxable income and lesser weight to its projected financial results due to the challenges of forecasting future periods. The Company also considered, commensurate with its objective verifiability, the forecast of future taxable income including the reversal of temporary differences and the implementation of feasible and prudent tax planning strategies.

As of September 30, 2012, there were no material changes to either the nature or the amounts of the uncertain tax positions previously determined and disclosed pursuant to FASB ASC Topic 740 as of December 31, 2011.

Note 12. Commitments and Contingencies

Purchase Commitments
The Company maintains certain open inventory purchase commitments with its suppliers to ensure a smooth and continuous supply for key components. The Company's liability in these purchase commitments is generally restricted

to a forecasted time-horizon as agreed between the parties. These forecasted time-horizons can vary among different suppliers. The Company's open inventory purchase commitments with its suppliers were not significant at September 30, 2012.

Litigation and Litigation Settlements

The Company is named from time to time as a party to product liability and contractual lawsuits in the normal course of business. The Company routinely assesses the likelihood of any adverse judgments or outcomes related to legal matters and claims, as well as ranges of probable losses. A determination of the amount of the reserves required, if any, for these contingencies is made after analysis of each known issue, historical experience, whether it is more likely than not that the Company shall incur a loss, and whether the loss is estimable. As of September 30, 2012, the Company had accrued $296,000 related to pending product liability and contractual lawsuits.

Table of Contents

ITEM 2.MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Caution Regarding Forward-Looking Statements

The following discussion should be read in conjunction with the attached condensed consolidated financial statements and notes thereto, and with our audited consolidated financial statements and notes thereto for the fiscal year ended December 31, 2011 as contained in our annual report on Form 10-K filed with the SEC on March 15, 2012. This quarterly report, including the following sections, contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Throughout this report, and particularly in this Item 2, the forward-looking statements are based upon our current expectations, estimates and projections and reflect our beliefs and assumptions based upon information available to us at the date of this report. In some cases, you can identify these statements by words such as "may," "might," "will," "should," "expects," "plans," "anticipates," "believes," "estimates," "potential" or "continue," and other similar terms. These forward-looking statements are not guarantees of future performance and are subject to risks, uncertainties, and assumptions that are difficult to predict. Our actual results, performance or achievements could differ materially from those expressed or implied by the forward-looking statements. These forward-looking statements include, but are not limited to, statements relating to our future financial performance, the ability to grow our business, increase our revenue, manage expenses, generate additional cash, achieve and maintain profitability, develop and commercialize existing and new products and applications, and improve the performance of our worldwide sales and distribution network, and the outlook regarding long term prospects. These forward-looking statements involve risks and uncertainties. The cautionary statements set forth below and those contained in Part II, Item 1A – "Risk Factors" commencing on page 25, identify important factors that could cause actual results to differ materially from those predicted in any such forward-looking statements. We caution you to not place undue reliance on these forward-looking statements, which reflect management's analysis and expectations only as of the date of this report. We undertake no obligation to update forward-looking statements to reflect events or circumstances occurring after the date of this Form 10-Q.

Introduction

The Management's Discussion and Analysis, or MD&A, is organized as follows:

- Executive Summary. This section provides a general description and history of our business, a brief discussion of our product lines and the opportunities, trends, challenges and risks we focus on in the operation of our business.
- Critical Accounting Policies and Estimates. This section describes the key accounting policies that are affected by critical accounting estimates.
- Results of Operations. This section provides our analysis and outlook for the significant line items on our Consolidated Statements of Operations.
- Liquidity and Capital Resources. This section provides an analysis of our liquidity and cash flows, as well as a discussion of our commitments.

Executive Summary

Company Description.

We are a global medical device company specializing in the design, development, manufacture, marketing and servicing of laser and light-based aesthetics systems for practitioners worldwide. We offer easy-to-use products based on seven platforms — CoolGlide®, Xeo®, Solera®, GenesisPlusTM, Excel VTM, myQTM, and truSculptTM, each of which enables physicians and other qualified practitioners to perform safe and effective aesthetic procedures for their customers. The Xeo and Solera platforms offer multiple hand pieces and applications, which allow customers to

upgrade their systems, which we treat as Upgrade revenue. In addition to systems and Upgrade revenue, we generate revenue from the sale of post warranty service contracts, providing services for products that are out of warranty; Titan hand piece refills; and third party manufactured dermal fillers and cosmeceutical products.

In February 2012, we acquired the global aesthetic business unit of Iridex Inc., which included various laser systems (such as the VariLite and Gemini) and an installed base of customers, whose products are serviced by us.

Our corporate headquarters and U.S. operations are located in Brisbane, California, from where we conduct our manufacturing, warehousing, research and development, regulatory, sales and marketing, service, and administrative activities. In the United States, we market, sell and service our products through direct sales and service employees, and a distribution relationship with PSS World Medical Shared Services, Inc. (“PSS”), a wholly owned subsidiary of PSS World Medical which has over 700 sales representatives serving physician offices throughout the United States. We also sell certain items such as our Titan hand piece refills and marketing brochures online.

Table of Contents

International sales are generally made through direct sales employees and a worldwide distributor network in over 40 countries. Outside of the United States, we have a direct sales presence in Australia, Canada, France and Japan. Effective March 31, 2012, we decided to discontinue our direct operations in Spain and the United Kingdom and instead plan on seeking a distributor to market our products in these countries.

Products

Our revenue is derived from the sale of Products, Upgrades, Service, Titan hand piece refills, and Dermal fillers and cosmeceutical products. Product revenue represents the sale of a system. A system consists of a console that incorporates a universal graphic user interface, a laser and/or light-based module, control system software and high voltage electronics; as well as one or more hand pieces. However, depending on the application, the laser or light-based module is sometimes contained in the hand piece, such as with our Pearl and Pearl Fractional applications, instead of within the console.

We offer our customers the ability to select the system that best fits their practice at the time of purchase and then to cost-effectively add applications to their system as their practice grows. This provides customers the flexibility to upgrade their systems whenever they want and provides us with a source of recurring revenue which we classify as Upgrade revenue. Service revenue relates to amortization of prepaid service contracts, direct billings for detachable hand piece replacements and revenue for parts and labor on out-of-warranty products. Titan hand piece refill revenue is associated with our Titan hand piece which requires replacement of the optical source after a set number of pulses have been used. In Japan, we distribute Merz Pharma GmbH's (Merz) Radiesse® dermal filler product; and Obagi Medical Products, Inc.'s (Obagi) cosmeceutical products.

Significant Business Trends

We believe that our ability to grow revenue will be primarily dependent on the following:

- Continuing to expand our product offerings both through internal development and sourcing from other vendors.
- Ongoing investment in our global sales and marketing infrastructure.
- Use of clinical results to support new aesthetic products and applications.
- Enhanced luminary development and reference selling efforts (to develop a location where our products can be displayed and used to assist in selling efforts).
- Customer demand for our products.
- Consumer demand for the application of our products.
- Marketing to physicians in the core dermatology and plastic surgeon specialties, as well as outside those specialties.
- Generating ongoing revenue from our growing installed base of customers through the sale of Service, Upgrade, Titan hand piece refills, and Dermal fillers and cosmeceutical products.

Geographical Revenue

Our U.S. revenue increased by $1.8 million, or 29%, in the three-month period ended September 30, 2012, and by $6.0 million or 38%, in the nine-month period ended September 30, 3012, compared to the same periods in 2011. This increase was due primarily to our recent new product introductions (Excel V and truSculpt), acquisition of Iridex's aesthetic business in February 2012, increased promotional activities and improvements in the U.S. macroeconomic environment.

For the three and nine months ended September 30, 2012, our international revenue increased by $2.4 million, or 26%, and by $7.0 million, or 27%, respectively, compared to the same periods in 2011. Recently, we have decided to shift from a direct sales model to a distributor model in Spain, U.K. and Switzerland. In addition to France, where we continue to have a direct sales and service team, our European revenue is sourced from distributors. These changes

have not negatively impacted our European sourced revenue in the three and nine months ended September 30, 2012, compared to the same periods in the prior year.

Upgrade Revenue

In the past, we introduced new products that allowed existing customers to upgrade their previously purchased systems to obtain benefits from the additional capabilities, which drove our Upgrade revenue. However, since 2008 we have not introduced any new products that our customers could purchase as an upgrade to their previously purchased system. Instead, we have launched new stand alone products (GenesisPlus, Excel V, myQ, truSculpt). As a result, our Upgrade revenue has declined since 2009.

Table of Contents

Iridex Aesthetic Business Acquisition
We acquired Iridex's aesthetic business unit in February 2012. This acquisition was the primary driver of the $1.1 million increase in our Service revenue in the three-month period ended September 30, 2012, and the $2.5 million increase in the nine-month period ended September 30, 2012, compared to the respective periods in 2011. For the three and nine-months ended September 30, 2012, we generated $491,000 and $1.1 million, respectively of Iridex product revenue, primarily from the sale of VariLite and Gemini systems. The VariLite is a small compact vascular product that complements our Excel V and other vascular products. We believe that our Product revenue will have a favorable impact from this acquisition for the remainder of 2012.

Factors that May Impact Future Performance.

Our industry is impacted by numerous competitive, regulatory, macroeconomic and other significant factors. Our industry is highly competitive and our future performance depends on our ability to compete successfully. Additionally, our future performance is dependent upon our ability to continue to expand our product offerings, develop innovative technologies, obtain regulatory clearances for our products, protect the proprietary technology of our products and our manufacturing processes, manufacture our products cost-effectively, and successfully market and distribute our products in a profitable manner. If we fail to execute on the aforementioned initiatives, our business would be adversely affected. A detailed discussion of these and other factors that could impact our future performance are provided in Part II, Item 1A "Risk Factors" section below.

Critical Accounting Policies and Estimates.

The preparation of our Condensed Consolidated Financial Statements and related disclosures in conformity with generally accepted accounting principles in the United States, or GAAP, requires us to make estimates, judgments and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses. These estimates, judgments and assumptions are based on historical experience and on various other factors that we believe are reasonable under the circumstances. We periodically review our estimates and make adjustments when facts and circumstances dictate. To the extent that there are material differences between these estimates and actual results, our financial condition or results of operations will be affected.

Critical accounting estimates, as defined by the Securities and Exchange Commission (SEC), are those that are most important to the portrayal of our financial condition and results of operations and require our management's most difficult and subjective judgments and estimates of matters that are inherently uncertain. The accounting policies and estimates that we consider to be critical, subjective, and requiring judgment in their application are summarized in "Item 7—Management's Discussion and Analysis of Financial Condition and Results of Operations" in our Annual Report on Form 10-K for the year ended December 31, 2011 filed with the SEC on March 15, 2012. There have been no significant changes to the accounting policies and estimates disclosed in our Form 10-K, except for the following:

Long-Lived Assets Impairment:
In February 2012, we acquired the global aesthetic business unit of IRIDEX Corporation, which included various laser systems (such as the VariLite and Gemini) and an installed base of customers, whose products are being serviced by us. This acquisition was considered a business combination for accounting purposes, and as such, in addition to valuing all the assets, we recorded goodwill associated with the expected synergies from leveraging the customer relationships and integrating new product offerings into our business. The fair values of the assets acquired were determined to be $4.8 million of net tangible and intangible assets and $1.3 million of goodwill. Long-lived assets, such as property and equipment, intangible assets and goodwill, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not ultimately be recoverable. Determination of recoverability is based on an estimate of undiscounted future cash flows resulting from the use of the asset and its ultimate disposition. If the sum of the expected future cash flows is less than the carrying amount of those

assets, we recognize an impairment loss based on the excess of the carrying amount over the fair value of the assets. Through September 30, 2012, there have been no such impairments.

Results of Operations

The following table sets forth selected consolidated financial data for the periods indicated, expressed as a percentage of total revenue, net. Percentages in this table and throughout our discussion and analysis of financial condition and results of operations may reflect rounding adjustments.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Net revenue	100%	100%	100%	100%
Cost of revenue	45%	44%	47%	44%
Gross margin	55%	56%	53%	56%
Operating expenses:				
Sales and marketing	36%	42%	39%	45%
Research and development	11%	16%	12%	17%
General and administrative	13%	15%	16%	17%
Total operating expenses	60%	73%	67%	79%
Loss from operations	(5)%	(17)%	(14)%	(23)%
Interest and other income, net	—	—	—	1%
Loss before income taxes	(5)%	(17)%	(14)%	(22)%
Provision for income taxes	—	(2)%	—	—
Net loss	(5)%	(19)%	(14)%	(22)%

Total Net Revenue

	Three Months Ended September 30,			Nine Months Ended September 30,		
(Dollars in thousands)	2012	% Change	2011	2012	% Change	2011
Revenue mix by geography:						
United States	$7,796	29%	$6,037	$21,941	38%	$15,941
International	11,630	26%	9,195	32,803	27%	25,807
Consolidated total revenue	$19,426	28%	$15,232	$54,744	31%	$41,748
United States as a percentage of total revenue	40%		40%	40%		38%
International as a percentage of total revenue	60%		60%	60%		62%
Revenue mix by product category:						
Products	$12,047	34%	$8,975	$32,170	43%	$22,462
Upgrades	487	(29%)	687	2,109	(11%)	2,364
Service	4,298	33%	3,227	12,606	24%	10,149
Titan hand piece refills	1,226	19%	1,031	3,572	7%	3,336
Dermal fillers and cosmeceuticals	1,368	4%	1,312	4,287	25%	3,437
Consolidated total revenue	$19,426	28%	$15,232	$54,744	31%	$41,748

Discussion of Revenue by Product Type:

Product Revenue

As explained in more detail in the Products section of the Executive Summary above, some of our products consist of a configurable system platform that includes a console and one or more hand pieces. Each product is configured to give our customers the ability to select the combination of platform and hand pieces that provides the applications that best fit their practice.

Product revenue increased by $3.1 million or 34% in the three-month period ended September 30, 2012, compared to the same period in 2011, and by $9.7 million or 43% in the nine-month period ended September 30, 2012, compared to the same period in 2011. These increases in revenue were due primarily to Excel V shipments which began in the second quarter of 2011, the commencement of truSculpt shipments in August of 2012, incremental revenue from the Iridex aesthetic acquisition in February 2012 and improvement in the U.S. macroeconomic environment.

Upgrade Revenue

As explained in more detail in the Products section of the Executive Summary above, our configurable system platforms allow customers to add applications to their existing systems to meet the changing needs of their practices. In some cases, when certain applications are desired that are only available on a platform other than the one owned by the customer, the Upgrade revenue will include a platform exchange and additional hand pieces.

Table of Contents

Upgrade revenue decreased by $200,000, or 29%, in the three-month period ended September 30, 2012, and by $255,000, or 11%, in the nine-month period ended September 30, 2012, compared to the same periods in 2011. In the past, we introduced new products that allowed existing customers to upgrade their previously purchased systems to take advantage of the additional capabilities, which drove our Upgrade revenue. However, recently we have launched stand alone products (GenesisPlus, Excel V, myQ and truSculpt) versus products that can be an upgrade to an existing system, which has resulted in a decline of our upgrade revenue.

Service Revenue
Our worldwide Service revenue increased by $1.1 million, or 33%, in the three-month period ended September 30, 2012, compared to the same period in 2011, and by $2.5 million, or 24%, in the nine-month period ended September 30, 2012, compared to the same period in 2011. This increase was primarily the result of Service revenue from the Iridex business acquisition.

Titan Hand Piece Refill Revenue
Our Titan hand piece refill revenue increased by $195,000 or 19% in the three-month period ended September 30, 2012, and by $236,000, or 7%, in the nine-month period ended September 30, 2012, compared to the same periods in 2011. This increase was due primarily to the continued growth in Titan refill revenue in Japan and improvements in the U.S.

Dermal Filler and Cosmeceuticals Revenue
Our dermal filler and cosmeceuticals revenue increased by $56,000 or 4%, in the three-month period ended September 30, 2012 and by $850,000, or 25%, in the nine-month period ended September 30, 2012, compared to the same periods in 2011. This increase was due primarily to the higher number of customers purchasing Obagi and Merz distributed products in Japan, and due to the expansion of product lines being distributed.

Discussion of Revenue by Geography:

U.S. Revenue
Our U.S. revenue increased by $1.8 million, or 29%, in the three-month period ended September 30, 2012, and by $6.0 million or 38%, in the nine-month period ended September 30, 3012, compared to the same periods in 2011. This increase was primarily attributable to an increase in Product revenue due to the:

- Continued growth of Excel V shipments, which began shipping in the second quarter of 2011;
- Commencement of truSculpt shipments in August 2012;
- Incremental revenue from the Iridex aesthetic acquisition in February 2012; and
- Improvements in the U.S. macroeconomic environment.

International Revenue
International revenue increased by $2.4 million, or 26%, in the three-month period ended September 30, 2012, compared to the same period in 2011, and by $7.0 million, or 27%, in the nine-month period ended September 30, 2012, compared to the same period in 2011. This increase was primarily attributable to:

- Higher Product revenue from Canada, France, Japan and many distributor countries in our Asia Pacific region; and
- An increase in our Dermal filler and cosmeceuticals revenue in Japan, due primarily to additional Obagi and Merz product lines being added and a higher number of customers purchasing such products from Cutera.

Gross Profit

	Three Months Ended September 30,			Nine Months Ended September 30,		
(Dollars in thousands)	2012	% Change	2011	2012	% Change	2011

Gross profit	$	10,598	25%	$	8,460	$	28,797	24%	$	23,276
As a percentage of total net revenue		55%			56%		53%			56%

Our cost of revenue consists primarily of material, personnel expenses, royalty expense, warranty, amortization of intangibles and manufacturing overhead expenses.

Gross margin (which is gross profit divided by net revenue) was 55% in the three-month period ended September 30, 2012, compared to 56% for the same period in 2011. Gross margin was 53% in the nine-month period ended September 30, 2012, compared to 56% for the same period in 2011. This decline was due primarily to:

A product mix shift towards lower margin products; and
An increase in sales through our distributors, which typically have a lower margin than our direct revenue.

Table of Contents

Sales and Marketing

(Dollars in thousands)	Three Months Ended September 30, 2012	% Change	2011	Nine Months Ended September 30, 2012	% Change	2011
Sales and marketing	$7,014	9 %	$6,426	$21,563	15 %	$18,720
As a percentage of total net revenue	36 %		42 %	39 %		45 %

Sales and marketing expenses consist primarily of personnel expenses, expenses associated with customer-attended workshops and trade shows, post-marketing studies, and advertising. Sales and marketing expenses increased $588,000, and represented 36% of total net revenue, in the three-month period ended September 30, 2012, compared to 42% in the same period in 2011. The $588,000 increase was due primarily to:

$618,000 of higher personnel expenses attributable primarily to higher headcount and sales commission expenses associated with the higher revenue;
$187,000 of higher product demonstration related expenses; offset by
$81,000 of decreased travel, entertainment and sales meeting expenses; and
$71,000 of decreased promotional spending.

Sales and marketing expenses increased $2.8 million, and represented 39% of total net revenue, in the nine-month period ended September 30, 2012, compared to 45% in the same period in 2011. The $2.8 million increase was due primarily to:

$1.6 million of higher personnel expenses attributable primarily to higher headcount and sales commission expenses associated with the higher revenue;
$751,000 of higher product demonstration related expenses;
$344,000 of increased travel, entertainment and sales meeting expenses due to higher headcount; and
$208,000 of increased promotional and marketing expenses.

Research and Development (R&D)

(Dollars in thousands)	Three Months Ended September 30, 2012	% Change	2011	Nine Months Ended September 30, 2012	% Change	2011
Research and development	$ 2,217	(6%)	$ 2,352	$ 6,305	(8%)	$ 6,828
As a percentage of total net revenue	11%		16%	12%		