UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-K


13002471

(Mark One)

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2012

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from to

Commission file number 000-51623

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

Delaware	**04-3125110**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
5 Carlisle Road Westford, MA	**01886**
(Address of principal executive offices)	**(Zip Code)**

Registrant's telephone number, including area code
(978) 256-4200

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

Title of each class	**Name of each exchange on which registered**
Class A Common Stock, $0.001 par value	**The Nasdaq Global Market**

Securities registered pursuant to Section 12(g) of the Act:
None

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

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

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

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

Indicate by check mark 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 ☒ Non-accelerated filer ☐ Smaller reporting company ☐
(Do not check if a 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 ☒

Aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant, based on the last sale price for such stock on June 30, 2012: $204,672,992.

The number of shares outstanding of the registrant's Class A common stock, as of March 1, 2013 was 16,190,071

Portions of the registrant's definitive Proxy Statement for its 2012 Annual Meeting of Stockholders are incorporated by reference into Part III of this Annual Report.

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FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K contains forward-looking statements that involve substantial risks and uncertainties. All statements, other than statements of historical facts, included in this Annual Report regarding our strategy, future operations, future financial position, future revenues, projected costs, prospects, plans, objectives of management and expected market growth are forward-looking statements. The words "anticipate," "believe," "estimate," "expect," "intend," "may," "plan," "predict," "project," "will," "would" and similar expressions are intended to identify forward-looking statements, although not all forward-looking statements contain these identifying words. These forward-looking statements include, among other things, statements about:

- our ability to identify and penetrate new markets for our products and technology;
- our strategy of growing through acquisitions;
- our ability to innovate, develop and commercialize new products;
- our ability to obtain and maintain regulatory clearances;
- our sales and marketing capabilities and strategy in the United States and internationally;
- our intellectual property portfolio; and
- our estimates regarding expenses, future revenues, capital requirements and needs for additional financing.

We may not actually achieve the plans, intentions or expectations disclosed in our forward-looking statements, and you should not place undue reliance on our forward-looking statements. Actual results or events could differ materially from the plans, intentions and expectations disclosed in the forward-looking statements we make. We have included important factors in the cautionary statements included in this Annual Report, particularly in Item 1A of this Annual Report, and in our other public filings with the Securities and Exchange Commission that could cause actual results or events to differ materially from the forward-looking statements that we make.

You should read this Annual Report and the documents that we have filed as exhibits to the Annual Report completely and with the understanding that our actual future results may be materially different from what we expect. It is routine for internal projections and expectations to change as the year or each quarter in the year progresses, and therefore it should be clearly understood that the internal projections and beliefs upon which we base our expectations are made as of the date of this Annual Report and may change prior to the end of each quarter or the year. While we may elect to update forward-looking statements at some point in the future, we do not undertake any obligation to update any forward-looking statements whether as a result of new information, future events or otherwise, except as required by law.

PART I

Item 1. *Business*

Overview

We develop and market aesthetic treatment systems that are used by physicians and other practitioners to perform non-invasive and minimally invasive procedures to remove hair, treat vascular and benign pigmented lesions, treat multi-colored tattoos, rejuvenate the skin, liquefy and remove unwanted fat through laser lipolysis, reduce cellulite and treat onychomycosis. We are also developing an aesthetic treatment product for the home use market. We sell our products through a direct sales force in North America, France, Spain, the United Kingdom, Germany, Korea, China, Japan and Mexico and through international distributors in approximately 100 other countries.

Our systems incorporate a broad range of laser and other light-based energy sources, including Alexandrite, pulse dye, Nd:Yag and diode lasers, as well as intense pulsed light. We believe that we are one of only a few companies that currently offer aesthetic treatment systems utilizing Alexandrite and pulse dye lasers, which are particularly well suited for some applications and skin types. We offer single energy source systems as well as workstations that incorporate two or more different types of lasers or pulsed light technologies. We offer multiple technologies and system alternatives at a variety of price points depending primarily on the number and type of energy sources included in the system. Our products are designed to be easily upgradeable to add additional energy sources and handpieces, which provides our customers with technological flexibility as they expand their practices.

A key element of our business strategy is to launch innovative new products and technologies for high-growth aesthetic applications through research and development. Over the past decade, we have introduced on average two new products per year. Recent key initiatives have included:

- *Establishment of Minimally Invasive Product Line.* We have expanded beyond our legacy non-invasive roots by offering new minimally invasive aesthetic treatment systems, with our *Smartlipo* and *Cellulaze* workstations as our initial flagship products. We use the term "flagship products" to refer to our leading products for a particular application.
    - The *Smartlipo* system was the first FDA-cleared laser lipolysis system for use in a minimally invasive procedure for the removal of unwanted fat. Since the launch of the *Smartlipo* system in 2006, we have introduced two new workstations: the *Smartlipo MPX* workstation in 2008, which added a second wavelength laser, and the *Smartlipo Triplex* workstation in October 2009, which added a third wavelength laser. We have further innovated in this area with the introduction of *MultiPlex* technology, which enables the energy from two lasers to be blended during delivery by quickly following a pulse of energy from one laser with a pulse of energy from another laser, and also introduced *SmartSense* and *ThermaGuide*, our proprietary intelligent delivery systems.
    - In January 2012, we received FDA clearance in the United States to sell and market our *Cellulaze* system, the world's first FDA-cleared minimally invasive aesthetic laser device for the treatment of cellulite.
- *FDA Clearance for New Home Use Device.* In July 2012, we received FDA clearance in the United States to market an at-home device for the treatment of wrinkles being developed by us in partnership with Unilever. Unilever has advised us that it expects to launch the product commercially in 2013.
- *FDA Clearance of Picosecond Technology Platform.* In November 2012 we received FDA clearance to market our *PicoSure* system, a picosecond laser technology platform, for removal of tattoos and benign pigmented lesions. We believe that our *PicoSure* system will be the first commercially available picosecond Alexandrite aesthetic laser platform. We anticipate commercialization in the first half of 2013.

We have established ourselves as a leading provider of laser and light-based energy sources used for aesthetic treatment procedures. We plan to enhance our existing product offerings and increase the leverage of our global distribution network through the opportunistic acquisition of complementary businesses, products or technologies, which may include small and substantial acquisitions, as well as joint ventures and other collaborative projects. We believe we have a disciplined acquisition strategy that focuses on complementary product offerings, integrated distribution networks, return on investment and other strategic benefits, and at any time we may be evaluating or in various stages of discussions with potential acquisition candidates. We also have a comprehensive post-acquisition strategic plan to facilitate the integration of companies and product lines that we may acquire. In February 2011, we expanded our body shaping treatment platform by acquiring substantially all of the assets of Elemé Medical, including the non-invasive *SmoothShapes XV* system. In June 2011, we acquired substantially all of the assets of HOYA ConBio's aesthetic laser business, including the *MedLite C6* and *RevLite* systems for the treatment of wrinkles, acne scars, multi-color tattoos and vascular lesions, and overall skin rejuvenation. In October 2011, we expanded into the onychomycosis market by acquiring worldwide exclusive rights from NuvoLase to distribute the *PinPointe FootLaser*, which uses laser light to kill the fungus that lies in and under the nail that causes onychomycosis without damaging the nail or the surrounding skin.

Corporate Information

We were incorporated under the laws of the State of Delaware in July 1991. Our principal executive offices are located at 5 Carlisle Road, Westford, Massachusetts 01886, and our telephone number is (978) 256-4200.

We are subject to the informational requirements of the Securities Exchange Act of 1934, as amended, and accordingly, file reports, proxy statements and other information with the Securities and Exchange Commission. Such reports, proxy statements and other information can be read and copied at the public reference facilities maintained by the Securities and Exchange Commission at the Public Reference Room, 100 F Street, NE, Room 1580, Washington, D.C. 20549. Information regarding the operation of the Public Reference Room may be obtained by calling the Securities and Exchange Commission at 1-800-SEC-0330. The Securities and Exchange Commission maintains a website (http://www.sec.gov) that contains material regarding issuers that file electronically with the Securities and Exchange Commission.

Our website address is www.cynosure.com and is included herein as an inactive textual reference only. The information on our website is not a part of this Annual Report. We make available free of charge on our website our Annual Reports 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, as amended, as soon as reasonably practicable after we electronically file such material with, or furnish it to, the Securities and Exchange Commission.

Industry

Aesthetic Market Opportunity

Medical Insight, an independent industry research and analysis firm, reported that in 2012 total sales of products in the global aesthetic market exceeded $5.7 billion and that they would expand 11.6% per year to more than $9.8 billion by 2017. Medical Insight believes that global sales of skin tightening and body shaping systems will increase 12.3% annually from $575.6 million in 2012 to $1.0 billion in 2017.

Key factors affecting growth rates in the markets for aesthetic treatment procedures and aesthetic laser equipment include:

- improvements in overall economic conditions and an expanding physician base;
- the aging population of industrialized countries and the amount of discretionary income of the "baby boomer" demographic segment;
- greater anticipated growth in Asian markets;

- the desire of many individuals to improve their appearance;
- the development of technology that allows for safe and effective aesthetic treatment procedures as well as advances in treatable conditions;
- the impact of managed care and reimbursement on physician economics, which has motivated physicians to establish or seek to expand their elective aesthetic practices with procedures that are paid for directly by patients; and
- reductions in cost per procedure, which has attracted a broader base of clients and patients for aesthetic treatment procedures.

Non-Traditional Physician Customers

Aesthetic treatment procedures that use lasers and other light-based equipment have traditionally been performed by dermatologists and plastic surgeons. Based on published membership information from professional medical organizations, there are approximately 18,000 dermatologists and plastic surgeons in the United States. A broader group of physicians in the United States, including primary care physicians, obstetricians and gynecologists, have incorporated aesthetic treatment procedures into their practices. These non-traditional physician customers are largely motivated to offer aesthetic procedures by the potential for a reliable revenue stream that is unaffected by managed care and government payor reimbursement economics. We believe that there are approximately 100,000 of these potential non-traditional physician customers in the United States and Canada, representing a significant market opportunity that is only beginning to be addressed by suppliers of lasers and other light-based aesthetic equipment. Some physicians are electing to open medical spas, often adjacent to their conventional office space, where they perform aesthetic procedures in an environment designed to feel less like a health care facility.

The Structure of Skin and Conditions that Affect Appearance

The human skin consists of several layers. The epidermis is the outer layer and contains the cells that determine pigmentation, or skin color. The dermis is a thicker inner layer that contains hair follicles and large and small blood vessels. Beneath the dermis is a layer that contains subdermal fat. The dermis is composed of mostly collagen, which provides strength and flexibility to the skin.

The appearance of the skin may change over time due to a variety of factors, including age, sun damage, circulatory changes, deterioration of collagen and the human body's diminished ability to repair and renew itself. These changes include:

- unwanted hair growth;
- uneven pigmentation;
- wrinkles;
- blood vessels and veins that are visible at the skin's surface; and
- the appearance of cellulite.

Changes to the skin caused by pigmentation are called pigmented lesions and are the result of the accumulation of excess melanin, the substance that gives skin its color. Pigmented lesions are characterized by the brown color of melanin and include freckles, solar lentigines, also known as sun spots or age spots, and café au lait birthmarks. Changes to the skin caused by abnormally large or numerous blood vessels located under the surface of the skin are called vascular lesions. Vascular lesions are characterized by blood vessels that are visible through the skin or that result in a red appearance of the skin. Vascular lesions may be superficial and shallow in the skin or deep in the skin. Shallow vascular lesions include small spider veins, port wine birthmarks, facial veins and rosacea, a chronic skin condition that causes rosy coloration and acne-like pimples on the face. Deep vascular lesions include large spider veins and leg veins.

People with undesirable skin conditions or unwanted hair growth often seek aesthetic treatments, including treatments using non-invasive laser and light-based technologies.

Laser and Light-Based Aesthetic Treatments

A laser is a device that creates and amplifies a narrow, intense beam of light. Lasers have been used for medical and aesthetic applications since the 1960s. Intense pulsed light technology was introduced in the 1990s and uses flashlamps, rather than lasers, to generate multiple wavelengths of light with varying pulse durations, or time intervals, over which the energy is delivered.

By producing intense bursts of highly focused light, lasers and other light-based technologies selectively target hair follicles, veins or collagen in or below the dermis, as well as cells responsible for pigmentation in the epidermis. When the target absorbs sufficient energy, it is destroyed. The degree to which energy is absorbed in the skin depends upon the skin structure targeted—e.g., hair follicle or blood vessel—and the skin type—e.g., light or dark. Different types of lasers and other light-based technologies are needed to effectively treat the spectrum of skin types and conditions. As a result, an active aesthetic practice may require multiple laser or other light-based systems in order to offer treatments to its entire client base.

Different types of lasers are currently used for a wide range of aesthetic treatments. Each type of laser operates at its own wavelength, measured in nanometers, which corresponds to a particular emission and color in the light spectrum. The most common lasers used for non-invasive aesthetic treatments are:

- *Pulse dye lasers*—produce a yellow light that functions at a shallow penetration depth.
- *Alexandrite lasers*—produce a near infrared invisible light that functions with high power at a deep penetration depth.
- *Diode lasers*—produce a near infrared invisible light that functions at a deep penetration depth.
- *Nd:Yag lasers*—produce a near infrared invisible light that functions over a wide range of penetration depths.

In addition to selecting the appropriate wavelength for a particular application, laser and other light-based treatments require an appropriate balance among three other parameters to optimize safety and effectiveness for aesthetic treatments:

- energy level—the amount of light emitted to heat the target;
- pulse duration—the time interval over which the energy is delivered; and
- spot size—the diameter of the energy beam.

As a result of the wide spectrum of aesthetic applications, patient skin types and users of technology, customer purchasing objectives for aesthetic treatment systems are diverse. We believe that as aesthetic spas and non-traditional physician customers play increasingly important roles as purchasers of aesthetic treatment systems, the market for these products will become even more diverse. Specifically, we expect that owners of different types of aesthetic treatment practices will place different emphases on various system attributes, such as breadth of treatment applications, return on investment, upgradeability and price. Accordingly, we believe that there is significant market opportunity for a company that tailors its product offerings to meet the needs of a wide range of market segments.

Our Solution

We offer tailored customer solutions to address the market for non-invasive and minimally invasive light-based aesthetic treatment applications. These solutions include non-invasive and minimally invasive procedures to remove hair, treat vascular and benign pigmented lesions, treat multi-colored tattoos, rejuvenate the skin,

liquefy and remove unwanted fat through laser lipolysis, reduce cellulite and treat onychomycosis. We believe our laser and other light-based systems are reliable, user friendly and easily incorporated into both physician practices and medi-spas. We complement our product offerings with comprehensive and responsive service offerings, including assistance with training, aesthetic practice development consultation and product maintenance.

We believe that the following factors enhance our market position:

- *Broad Technology Base.* Our products are based on a broad range of technologies and incorporate different types of lasers, such as Alexandrite, pulse dye, Nd:Yag and diode, as well as intense pulsed light devices. We believe we are one of a few companies that currently offer aesthetic treatment systems using Alexandrite and pulse dye lasers, which are particularly well suited for some applications and skin types. The following table provides information regarding the principal energy sources used in laser and other light-based aesthetic treatments that we offer and the primary application of each of these energy sources.

Energy Source	Type of Light/Wavelength	Principal Applications
Pulse Dye Laser	Visible light (Yellow)(585/595 nm)	Vascular lesions, including shallow and deep lesions
Alexandrite Laser	Near infrared invisible light (755 nm)	
	Long pulse (millisecond)	Hair removal, particularly for light skin types
	Short pulse (nanosecond)	Tattoo and benign pigmented lesions removal
	Ultra short pulse (picosecond)	Tattoo and benign pigmented lesions removal
Diode Laser	Near infrared invisible light (805/940/980 nm)	Hair removal, particularly for light skin types; Vascular lesions, particularly shallow lesions; Temporary reduction in the appearance of cellulite
Nd:Yag Laser	Near infrared invisible light (1064/1320/1440 nm)	Hair removal, particularly for medium and dark skin types; Vascular lesions, particularly deep lesions; Treatment of fat and cellulite Tattoo and benign pigmented lesions removal
Intense Pulsed Light	Visible/Near infrared invisible light (400-950 nm)	Hair removal, all skin types; Vascular lesions, particularly shallow lesions and benign pigmented lesions
Multiple Energy Source Workstations (incorporating two or more energy sources)	Multiple	Multiple

- *Expansive Portfolio of Aesthetic Treatment Systems.* We offer a variety of individual workstations tailored to specific high volume cosmetic applications to enable our customers to select the aesthetic

treatment system best suited to their practice, business or clinical need. Our product portfolio includes single energy source systems as well as workstations that incorporate two or more different types of lasers or light-based technologies. By offering multiple technologies and system alternatives at a variety of price points, we seek to provide customers with tailored solutions that meet the specific needs of their practices while providing significant flexibility in their level of investment.

- *Upgrade Paths Within Product Families.* We design our products to facilitate upgrading within product families. These upgrade paths provide our customers with the opportunity to add additional energy sources and handpieces, which provides our customers with technological flexibility as they expand their practices.
- *Global Presence.* We have offered our products in international markets for over 20 years, with approximately 49% of our product revenue generated from product sales outside of North America in 2012. We target international markets through a direct sales force in France, Spain, the United Kingdom, Germany, Korea, China, Japan and Mexico and through international distributors in approximately 100 other countries.
- *Strong Reputation Established Over 20-Year History.* We have been in the business of developing and marketing aesthetic treatment systems for over 20 years. As a result of this history, we believe the Cynosure brand name is associated with a tradition of technological leadership.

Our Business Strategy

Our goal is to become the worldwide leader in providing non-invasive and minimally invasive aesthetic treatment systems. The key elements of our business strategy to achieve this goal are to:

- *Launch Innovative New Products and Technologies into High-Growth Aesthetic Applications.* Our research and development team builds on our existing broad range of laser and light-based technologies to develop new solutions and products to target unmet needs in significant aesthetic treatment markets. Innovation continues to be a strong contributor to our strength. In February 2011, we expanded our body shaping treatment platform by acquiring substantially all of the assets of Elemé Medical and introducing *SmoothShapes XV.* Also in February 2011, we launched our *Cellulaze* Workstation, the world's first aesthetic laser device for the treatment of cellulite, into the European community. In January 2012, we received FDA clearance to sell and market the product in the United States. In June 2011, we expanded our product portfolio by acquiring substantially all of the assets of HOYA ConBio's aesthetic laser business (ConBio) including the *MedLite C6* and *RevLite* systems. In October 2011, we acquired worldwide exclusive rights from NuvoLase to distribute the *PinPointe FootLaser.* The *PinPointe FootLaser* is a light-based device for the treatment of onychomycosis.
- *Develop and Commercialize Picosecond Laser Technology Platform.* In November 2012 we received FDA clearance to market our *PicoSure* system, a picosecond laser technology platform, in the United States for removal of tattoos and benign pigmented lesions. We believe that our *PicoSure* system will be the first commercially available picosecond Alexandrite aesthetic laser platform. We anticipate commercialization in the first half of 2013.
- *Develop Home Use Applications for our Technology.* In 2009, we entered into a cooperative development agreement with Unilever to develop and commercialize light-based devices for the emerging home use personal care market. In July 2012, we received FDA clearance to sell and market the product in the United States. Unilever has advised us that it expects to launch the product commercially in 2013.
- *Offer a Full Range of Tailored Aesthetic Solutions.* We believe that we have one of the broadest product portfolios in the industry, with multiple product offerings incorporating a range of laser and light sources at various price points across many aesthetic applications. Our approach is designed to allow our customers to select products that best suit their client base, practice size and the types of treatments that they wish to offer. This allows us to address the needs of the traditional physician

customer market as well as the growing non-traditional physician customer market. Many of our newer products can be upgraded to systems with greater functionality as our customers' practices expand.

- *Provide Comprehensive, Ongoing Customer Service.* We support our customers with a worldwide service organization that includes 33 field service engineers in North America and 39 field service engineers outside of North America. The field service engineers install our products and respond rapidly to service calls to minimize disruption to our customers' businesses. Most of our new products are modular in design to enable quick and efficient service and support. We maintain our service infrastructure with training and inventory hubs in Europe and the Asia/Pacific region.
- *Generate Additional Revenue from Existing Customer Base.* We believe that there are opportunities for us to generate additional revenue from existing customers who are already familiar with our products.

Many of our existing traditional and non-traditional customers may be purchasers of additional aesthetic treatment systems to address increasing treatment volumes or new treatment applications. We also expect that customers purchasing our new modular products will be candidates for technology upgrades to enhance the capabilities of their systems. In addition, three of our flagship products, our *Affirm, Smartlipo* and *Cellulaze* systems, contain consumable parts, and we generate additional revenue on sales of these consumable parts to our existing customers. As we continue to grow our service organization, we are seeking to increase the percentage of our customers that enter into service contracts, which would provide additional recurring customer revenue.

Products

We offer a broad portfolio of aesthetic treatment systems that address a wide variety of applications.

The following table provides information concerning our flagship products and their applications. We use the flagship designation for our products that are our leading products for a particular application.

	Hair Removal	Vascular Lesions	Skin Rejuve-nation(1)	Benign Pigmented Lesions	Treat Cellulite	Foot Fungus	Tattoo Removal	Anti-Aging	Reduce Appearance of Cellulite	LaserBody Sculpting for the Removal of Unwanted Fat
Flagship Products:										
Elite Family	Flagship	X	X	X						
Smartlipo Family										Flagship
Cellulaze					Flagship					
Affirm / SmartSkin								Flagship		
Cynergy	X	Flagship	X	X						
Accolade / MedLite C6 / RevLite			X	X			X			
SmoothShapes XV									Flagship	
PinPointe FootLaser						Flagship				
PicoSure				Flagship			Flagship			

(1) We consider skin rejuvenation to be the treatment of shallow vascular lesions and benign pigmented lesions to rejuvenate the skin's appearance.

System Components

Each of our systems consists of a control console and one or more handpieces. Our control consoles are each comprised of a graphical user interface, a laser or other light source, control system software and high voltage electronics. The graphical user interface allows the practitioner to set the appropriate laser or flashlamp parameters to meet the requirements of a particular application and patient. The laser or other light source consists of electronics, a visible aiming beam, a focusing lens and a laser or flashlamp. Using the graphical user interface, the practitioner can independently adjust the system's power level and pulse duration to optimize the

desired treatment's safety and effectiveness. The graphical user interface on our multiple energy workstations also allows the practitioner to change energy sources with the press of a button. The graphical user interfaces on our intense pulsed light systems offer practitioners a choice between using programmed preset treatment settings that address a variety of skin types and treatment options or manually adjusting the energy level and pulse duration settings. The control system software communicates the operator's instructions from the graphical user interface to the system's components and manages system performance and calibration.

The handpieces on our laser systems deliver the laser energy through a maneuverable optical fiber to the treatment area. These handpieces weigh approximately eight ounces and are ergonomically designed to allow the practitioner to use the system with one hand without becoming fatigued. Other features of our laser system handpieces include:

- interchangeable components that permit the practitioner to easily adjust the spot size; and
- an integrated aiming beam of harmless visible light that allows the practitioner to verify the treatment area, thereby reducing the risk of unintended skin damage and potentially reducing treatment time.

The handpieces for our intense pulsed light systems consist of the flashlamp, a wavelength filter and, on some models, an integrated flashlamp cooling system. These handpieces weigh approximately two pounds and also are ergonomically designed to be operated with one hand.

The handpieces for our *SmoothShapes* platform consist of laser diodes, LEDs, a diffuser, an integrated vacuum and a roller. These handpieces weigh four pounds and eight pounds. The smaller handpiece allows greater flexibility to treat smaller cosmetic areas.

Three of our flagship products, our *Affirm*, *Smartlipo* and *Cellulaze* systems, contain consumable parts. The *Affirm* system contains a highly durable micro lens array tip, which delivers the laser energy and can treat an average of ten treatment areas. We currently offer three different micro lens array tips, which cover a variety of treatment areas. The *Smartlipo* systems contain a consumable laser fiber that delivers the laser energy directly to subcutaneous fat cells, causing them to rupture. The *Smartlipo* and *Cellulaze* systems also contain the *ThermaGuide* intelligent delivery system which allows the physician to accurately monitor temperature and determine the treatment doses that will provide safe and more effective tissue tightening through tissue coagulation and maintain an even, controlled flow of laser energy. Additionally, *Cellulaze* contains a consumable *SideLight 3D* fiber which delivers laser thermal energy and increases the elasticity and thickness of the skin.

Practitioners generally use our laser systems in combination with a cooling system. We offer our customers our *SmartCool* treatment cooling system, which we purchase from a third party supplier and sell as a private label product under the *SmartCool* brand. Our *SmartCool* product has nine variable settings and allows the practitioner to provide a continuous flow of chilled air before, during and after treatment to cool and comfort the patient's skin. The *SmartCool* handpiece, which is specially designed for use with our laser systems, interlocks with the laser handpiece. In contrast to some competitive cooling systems, there are no disposable supplies required to use our *SmartCool* system. In North America, our *SmartCool* system is generally packaged and sold with our laser aesthetic treatment systems, and nearly all of our North American customers purchase a *SmartCool* system when they purchase one of our laser aesthetic treatment systems. Outside of North America, our customers either purchase our *SmartCool* system when they purchase one of our aesthetic treatment systems or they purchase another cooling system from a third party supplier.

Applications

Practitioners use our products to perform a variety of non-invasive procedures to remove hair, treat vascular and benign pigmented lesions, rejuvenate skin through the treatment of shallow vascular lesions and benign pigmented lesions, treat wrinkles, skin texture and skin discoloration, skin tightening through tissue coagulation, reduce the appearance of cellulite and treat onychomycosis. Practitioners also use our products to perform

minimally invasive procedures for the removal of unwanted fat and the treatment of cellulite. The applications of our products are described below.

LaserBodySculpting for the Removal of Unwanted Fat. The *Smartlipo* system was the first laser lipolysis system to offer a minimally invasive procedure for the removal of unwanted fat. The *Smartlipo* LaserBodySculpting℠ procedure enables aesthetic surgeons to remove localized deposits of fat. The *Smartlipo* LaserBodySculpting procedure is performed by inserting a small cannula, or metal tube, containing a laser fiber under the skin in direct contact with the treatment area. The laser's energy causes the fat cells to rupture and melt. In addition, the laser's energy promotes collagen shrinkage and causes a tissue tightening effect. LaserBodySculpting is a minimally invasive procedure; therefore, it can be performed under local anesthesia with minimal trauma in comparison to alternative liposuction procedures. We launched the *Smartlipo* system in 2006, and in 2008, we introduced *Smartlipo MPX,* which added a second wavelength in a new platform and included our patented *MultiPlex* technology which enables the energy from two lasers to be blended during delivery by quickly following a pulse of energy from one laser with a pulse of energy from another laser, and also introduced *SmartSense* and *ThermaGuide*, our proprietary intelligent delivery systems. In 2009, we introduced *Smartlipo Triplex* which added a third wavelength to the system.

Cellulite. Cellulite is a deposit of fat that causes a dimple or other uneven appearance of the skin on women, typically around the thighs, hips and buttocks. According to published reports, an estimated 85% of women have some degree of cellulite.

Treatment of Cellulite. In February 2011, we introduced our *Cellulaze* Cellulite Laser Workstation into the European community, and in January 2012, we received FDA clearance to sell and market the product in the United States. *Cellulaze* is the world's first minimally invasive surgical device designed to reduce cellulite by restoring the normal structure of the skin and underlying connective tissue. In the *Cellulaze* procedure, which is performed under a local anesthetic, the physician inserts a small cannula under the skin. Our *SideLight 3D* side-firing technology directs controlled, laser thermal energy to the treatment zones. The laser is designed to diminish the lumpy pockets of fat, release the areas of skin depression and increase the elasticity and thickness of the skin. Patients require just one treatment. Like the *Smartlipo* systems, *Cellulaze* incorporates the *ThermaGuide* intelligent delivery system which allows the physician to accurately monitor temperature and determine the treatment doses that will provide safe and more effective tissue tightening through tissue coagulation and maintain an even, controlled flow of laser energy.

Temporary Reduction in Appearance of Cellulite. The *SmoothShapes XV* system treats cellulite through a proprietary process known as Photomology, which combines laser and light energy with mechanical manipulation (vacuum and massage) to produce tighter, smoother-looking skin. The system is FDA cleared for marketing in the United States and CE marked for sale in the European Union. The device is also marketed outside the United States for circumferential reduction.

Hair Removal. In a typical laser or pulsed light hair removal treatment the practitioner selects appropriate laser or pulsed light parameters based on the patient's skin and hair types and pre-cools the treatment area. Next, the practitioner applies the handpiece to the target area and delivers laser or pulsed light energy to the target melanin pigment of the hair follicle, destroying the hair follicle without harming the surrounding skin. In 2009, we launched the *Elite MPX* system, a multi-wavelength workstation that combines vascular treatment, hair removal and skin rejuvenation in a single system. The *Elite MPX* workstation is our flagship product for hair removal. The workstation features a built-in Zimmer *SmartCool* skin cooling system which is integrated into a single compact model saving office space and reducing treatment time. Our *Elite MPX* and *Apogee Elite* products include two energy sources in one laser system: an Alexandrite laser, which is best suited for patients with light skin types, and an Nd:Yag laser, which is best suited for hair removal for patients with medium and dark skin types or tanned skin. The practitioner can switch between these two energy sources simply by pushing a button on the system console. Our *Elite MPX* allows the practitioner to blend the two energy sources for a customized treatment protocol. The *Apogee 5500* and *Acclaim 7000* systems can also be used for hair removal.

Treatment of Tattoos and Benign Pigmented Lesions. In November 2012, we received FDA clearance to market our *PicoSure* system, a picosecond laser technology platform, in the United States for removal of tattoos and benign pigmented lesions. Picosecond lasers deliver pulses that are measured in trillionths of a second in contrast with nanosecond technology, such as our *MedLite* and *RevLite* products, which deliver pulses in billionths of a second. In clinical studies that we have conducted, the shorter pulse duration of the picosecond laser achieved increased efficiency in removing tattoo pigment, which we believe will result in fewer treatments and better overall treatment outcomes than current laser technology. We also believe this new technology is more effective in targeting blue and green pigments, more rapidly lightens other colors and improves recovery time due to less collateral injury to surrounding tissue, as compared to nanosecond technology. In a clinical study of 22 patients treated with the *PicoSure* system over a two-week period at a single center, more than 80% overall tattoo clearance and 94% clearance of blue and green ink was achieved.

Anti-Aging. We believe the marketplace has moved to a less invasive approach toward treating the indications of anti-aging, including wrinkle reduction, pigmentation, redness and overall skin rejuvenation. Anti-aging treatments were historically performed by physicians who could only target one condition and one skin layer during each treatment. Previously, patients often faced longer, more painful procedures that penetrated deep into the dermal layers and could potentially damage healthy skin. Our *Affirm* and *SmartSkin* workstations provide a non-ablative and micro-ablative treatment approach for wrinkles, skin texture, skin discoloration and skin tightening through tissue coagulation.

Treatment of Vascular Lesions. To treat vascular lesions the practitioner generally first pre-cools the target area and then applies the system handpiece to deliver laser energy to the treatment area. Depending on the size of the treatment area, procedures last between 20 and 30 minutes. In some cases, a topical anesthetic is applied to the treatment area to minimize pain. For spider veins, redness and rosacea, patients generally receive between two and four treatments spaced over two to three weeks. For port wine birthmarks, patients may receive ten or more treatments.

Our *Cynergy* system is used for the treatment of vascular lesions. The *Cynergy* system combines a pulse dye laser, which is best suited for treating shallow vascular lesions, such as port wine birthmarks, facial veins and rosacea, and an Nd:Yag laser, which is best suited for treating large or deep veins, such as leg veins. The practitioner can switch between these two energy sources simply by pressing a button on the system console. The *Cynergy* system also includes our patented MultiPlex technology that enables the energy from the two lasers to be blended during delivery by quickly following a pulse of energy from the pulse dye laser with a pulse of energy from the Nd:Yag laser. In addition to the *Cynergy* system, certain of our other systems can be used for the treatment of vascular lesions.

Treatment of Onychomycosis. Onychomycosis is a condition marked by the growth of fungus under the nail. Fungi feed on keratin, the protein that makes up the hard surface of the toenails. The infected nail often turns darker in color, and debris may accumulate under the nail. As the infection continues, the nail either may crumble gradually and fall off or thicken. Our *PinPointe FootLaser* uses laser light to kill the fungus that lives in and under the nail without causing damage to the nail or the surrounding skin. The treatment typically takes 20 minutes with no downtime. In a 12-Month Multi-Site Retrospective Study conducted on more than 250 sequential patients, 71.4% of patients experienced continuous improvement in clear nail area after a single treatment. By contrast, the current standard of care for Onychomycosis—oral drugs and topical medications—are estimated to be only between 30-50% effective in treating the indication and have the potential for significant side effects.

Sales and Marketing

We sell our aesthetic treatment systems to the traditional physician customer base of dermatologists and plastic surgeons as well as to non-traditional physician customers who are providing aesthetic services using laser and light-based technology. Non-traditional physician customers can include primary care physicians, obstetricians and gynecologists.

We target potential customers through office visits, trade shows and trade journals. We also conduct clinical workshops and webinars featuring recognized expert panelists and opinion leaders to promote existing and new treatment techniques using our products. We believe that these workshops and webinars enhance customer loyalty and provide us with new sales opportunities. We also use direct mail programs to target specific segments of the market that we seek to access, such as members of medical societies and attendees at meetings sponsored by medical societies or associations. We actively maintain a public relations program to promote coverage of our products on daytime television shows in the United States and Europe and we are active on popular social media outlets. In addition, our products are featured in several publications around the world.

We do not provide financing to our customers to purchase our products. If a potential customer requests financing, we refer the customer to third party financing sources.

Physician Sales

We sell our products to physicians in North America through a direct sales force. Outside of North America, we sell our products to physicians through a direct sales force in France, Spain, the United Kingdom, Germany, Korea, China, Japan and Mexico and through approximately 70 independent distributors in approximately 100 other countries.

We conduct our own international sales and service operations through wholly-owned subsidiaries in France, Spain, the United Kingdom, Germany, Korea, China, Japan, and Mexico. We seek distributors in international markets where we do not believe that a direct sales presence is warranted or feasible. In those markets, we select distributors that have extensive knowledge of our industry and their local markets. Our distributors sell, install and service our products. We require our distributors to invest in service training and equipment, to stock and supply maintenance and service parts for our systems, to attend exhibitions and industry meetings and, in some instances, to commit to minimum sales amounts to gain or retain exclusivity. We have written distribution agreements with most of our third party distributors. Generally, the written agreements with our distributors have terms of between one and two years.

See Note 6 to our consolidated financial statements included in this Annual Report for revenues by geographic region.

Service and Support

We support our customers with a range of services, including installation and product training, business and practice development consulting and product service and maintenance. In North America, our field service organization has 33 field service engineers. Outside of North America, we employ 39 field service engineers.

In connection with direct sales of our aesthetic treatment systems, we arrange for the installation of the system and initial product training. Generally, installation and initial training takes less than three hours. The installation is conducted by our field service engineers. We offer a service that is particularly appealing to the non-traditional physician customer and aesthetic spa segments of the market, which have less familiarity with the business aspects of laser and light-based aesthetic treatments than dermatologists and cosmetic surgeons. The cost of installation and initial training for North American purchasers are all included in the purchase price of our systems. We also offer for an additional charge a more comprehensive package of services from pre-qualified third party consultants.

We strive to respond to all service calls within 24 hours to minimize disruption of our customers' businesses. We have designed our products in a modular fashion to enable quick and efficient service and support. Specifically, we build these products with several separate components that can easily be removed and replaced when the product is being serviced. We provide initial warranties on our products to cover parts and service, and we offer extended warranty packages that vary by type of product and level of service desired. Our

base warranty covers parts and service for one year. We offer extended warranty arrangements through service plans. We believe that we have a significant opportunity to increase our recurring customer revenues by increasing the percentage of our customers that enter into service contracts for our systems.

Research and Development

Our research and development team consists of 57 employees, including three physicists, with a broad base of experience in lasers and optoelectronics. Our research and development team works closely with opinion leaders and customers, both individually and through our sponsored seminars, to understand unmet needs and emerging applications in the field of aesthetic skin treatments and to innovate and develop new products and improvements to our existing products. They also conduct and coordinate clinical trials of our products. Our research and development team builds on the significant base of patented and proprietary intellectual property that we have developed in the fields of laser and other light-based technologies since our inception in 1991. From time to time, we may enter into collaborative research and development agreements to enhance our technology and develop new products.

Our research and development expenses were approximately $13.0 million in 2012, $10.1 million in 2011 and $7.3 million in 2010. We expect our research and development expenditures to increase in absolute dollars in 2013, but decrease as a percentage of revenue.

Manufacturing and Raw Materials

We manufacture all of our products, other than the *Smartlipo MPX* and *SmartSkin* systems, which are manufactured by El.En. and which we sell and market under our distribution agreement with El.En. We also sell and market the *PinPointe FootLaser* system under our distribution agreement with NuvoLase. We manufacture our products with components and subassemblies purchased from third party suppliers. Accordingly, our manufacturing operations consist principally of assembly and testing of our systems and integration of our proprietary optics and software.

We design our products so that they are built in a modular fashion using fewer components. This approach enables us to manufacture our products more efficiently. We purchase many of our components and subassemblies from third party manufacturers on an outsourced basis. We use one third party to assemble and test many of the components and subassemblies for our *Elite, Affirm, Accolade* and *Cynergy* product families, as well as complete manufacturing and test our *SmoothShapes XV* products. We depend exclusively on sole source suppliers for Alexandrite rods, which we use in the manufacturing of our *Elite* and *PicoSure* products, and for our *SmartCool* treatment cooling systems. We also depend on sole source suppliers for Nd:Yag rods, gaussian mirrors and polarizers for the manufacturing of the *RevLite / MedLite C6* product lines.

We do not have long-term contracts with our third party manufacturers or sole source suppliers. We generally purchase components and subassemblies as well as our other supplies on a purchase order basis. If for any reason, our third party manufacturers or sole source suppliers are not willing or able to provide us with components, subassemblies or supplies in a timely fashion, or at all, our ability to manufacture and sell many of our products could be impaired. To date, we have been able to obtain adequate outsourced manufacturing services and supplies of Alexandrite rods and air cooling systems from our third party manufacturers and suppliers in a timely manner. We believe that over time alternative component and subassembly manufacturers and suppliers can be identified if our current third party manufacturers and suppliers fail to fulfill our requirements.

El.En. Commercial Relationship

The *Smartlipo MPX* system sold by us was jointly developed with El.En., and associated intellectual property rights are owned by El.En. El.En. manufactures, and we distribute, these products pursuant to our distribution agreement with El.En.

In October 2012, we entered into a new exclusive distribution agreement with El.En., which replaced our prior distribution agreements with El.En. Under this new agreement, we purchase from El.En. its *SmartLipo MPX* system and its proprietary *SLT II* laser system. The *SLT II* laser system is an essential component of our

SmartLipo Triplex and *Cellulaze* systems, which also incorporate our proprietary software and delivery systems. We have exclusive worldwide rights under this agreement to sell the *SmartLipo MPX* system and our products containing the *SLT II* laser system. The price at which we purchase the *SLT II* laser system from El.En. is specified in the agreement; however, it may be changed by El.En. at its discretion upon 30 days' notice. El.En. is required to provide us with training for the products we distribute under this agreement, as well as marketing and other sales support for such products as we and El.En. may agree. We are required to use commercially reasonable efforts to sell and promote our systems containing the *SLT II* laser system, and we are responsible for obtaining and maintaining regulatory approvals for systems containing the *SLT II* laser system.

The new distribution agreement has an initial term that expires in October 2019, and will automatically renew for additional one-year terms unless either party provides notice of termination at least six months prior to the expiration of the initial term or any subsequent renewal term. We or El.En. may terminate the agreement at any time based upon material uncured breaches by, or the insolvency of, the other party. In addition, El.En. may terminate the agreement if we do not meet annual minimum purchase obligations specified in the agreement and we may terminate if El.En. rejects a purchase order that is in line with our forecast.

Patents, Proprietary Technology and Trademarks

Our success depends in part on our ability to obtain and maintain proprietary protection for our products, technology and know-how, to operate without infringing the proprietary rights of others and to prevent others from infringing our proprietary rights. Our policy is to seek to protect our proprietary position by, among other methods, filing United States and foreign patent applications related to our proprietary technology, inventions and improvements that are important to the development of our business. We also rely on trade secrets, know-how, continuing technological innovation and in-licensing opportunities to develop and maintain our proprietary position.

As of December 31, 2012, we owned a total of 47 United States patents, as well as foreign counterparts to eight of these patents. Our patent portfolio includes patents and patent applications with claims directed to:

- the design and method of use and operation of our pulse dye laser systems;
- the design and method of use and operation of our Alexandrite laser systems for hair removal;
- our Multiplex energy delivery system for our pulse dye lasers;
- the design and method of use of endoscopic laser and light delivery systems;
- the design and method of use of microcap lens arrays for energy delivery; and
- the design and method of use of our picosecond laser system.

The expiration dates for our issued United States patents and patent application range from 2014 to 2033. We do not consider any single patent or patent application that we hold to be material to our business.

The patent positions of companies like ours are generally uncertain and involve complex legal and factual questions. Our ability to maintain and solidify our proprietary position for our technology will depend on our success in obtaining effective patent claims and enforcing those claims once granted.

We do not know whether any of our patent applications or those patent applications that we license will result in the issuance of any patents. Our issued patents and those that may be issued in the future, or those licensed to us, may be challenged, invalidated or circumvented, which could limit our ability to stop competitors from marketing related products or shorten the term of patent protection that we may have for our products. In addition, the rights granted under any issued patents may not provide us with competitive advantages against competitors with similar technology. Furthermore, our competitors may independently develop similar technologies or duplicate any technology developed by us. Because of the extensive time required for

development, testing and regulatory review of a potential product, it is possible that, before any of our products under development can be commercialized, any related patent may expire or remain in force for only a short period following commercialization, thereby reducing any advantage of the patent.

In 2006, we entered into a patent cross-license agreement with Palomar Medical Technologies, which we refer to as Palomar. Under the cross-license agreement, we obtained a non-exclusive license to integrate into our products for certain hair removal technology covered by specified U.S. and foreign patents held by Palomar, and Palomar obtained a non-exclusive license under certain U.S. and foreign patents held by us. In connection with this agreement, we agreed to pay royalties to Palomar on future sales of certain hair removal-only products. The royalty rate for sales of hair removal products ranges from 3.75% to 7.5% of net sales, depending upon product configuration and the number of energy sources. Our revenues from systems that do not include hair removal capabilities and revenues from service are not subject to any past or future royalties under this agreement.

We rely, in some circumstances, on trade secrets to protect our technology. Trade secrets, however, are difficult to protect. We seek to protect our proprietary technology and processes, in part, by confidentiality agreements with our employees, consultants, scientific advisors and other contractors. These agreements may be breached, and we may not have adequate remedies for any breach. In addition, our trade secrets may otherwise become known or be independently discovered by competitors. To the extent that our employees, consultants or contractors use intellectual property owned by others in their work for us, disputes may arise as to the rights in related or resulting know-how and inventions.

We use trademarks on nearly all of our products and believe that having distinctive marks is an important factor in marketing our products. *Acclaim®, Accolade™, Affirm®, Apogee®, Cellulaze™, Cynosure®, Elite™, Elite MPX™, Medlite®, PicoSure™, Pressure Wave™, RevLite®, SideLaze™, SideLight 3D™, SmartCool®, Smartlipo®, Smartlipo MPX™, Smartlipo TriPlex™, SmartSense®, SmartSkin®, SmoothShapes®, ThermaGuide™,* and *V Star®* are our trademarks and registered trademarks. We have also registered some of our marks in a number of foreign countries. In addition, El.En. has registered the *Smartlipo®* mark in the United States. Although we have a foreign trademark registration program for selected marks, we may not be able to register or use such marks in each foreign country in which we seek registration.

Competition

Our industry is subject to intense competition. Our products compete against laser and other energy-based products offered by public companies, such as Cutera, Palomar, Solta Medical, Syneron Medical and ZELTIQ Aesthetics, as well as several smaller specialized private companies, such as Alma Lasers. Some of these competitors have greater financial and human resources than we do and have established reputations, as well as worldwide distribution channels and sales and marketing capabilities that are larger and more established than ours. Additional competitors may enter the market, and we are likely to compete with new companies in the future. Our products also compete against non-light-based medical products, such as BOTOX® and collagen injections, and surgical and non-surgical aesthetic procedures, such as face lifts, chemical peels, abdominoplasty, liposuction, microdermabrasion, sclerotherapy and electrolysis.

Competition among providers of aesthetic laser and other light-based products is characterized by significant research and development efforts and rapid technological progress. There are few barriers that would prevent new entrants or existing competitors from developing products that would compete directly with ours. There are many companies, both public and private, that are developing innovative devices that use both light-based and alternative technologies for aesthetic and medical applications. Accordingly, our success depends in part on developing and commercializing new and innovative applications of laser and other light-based technology and identifying new markets for and applications of existing products and technology.

To compete effectively, we have to demonstrate that our products are attractive alternatives to other devices and treatments by differentiating our products on the basis of performance, reputation, quality of customer support and price. Breadth of product offering is also important. We believe that we perform favorably with

respect to each of these factors. However, we have encountered and expect to continue to encounter potential customers who, due to pre-existing relationships with our competitors, are committed to, or prefer the products offered by these competitors. Potential customers also may decide not to purchase our products, or to delay such purchases, based on a decision to recoup the cost of expensive products that they may have already purchased from our competitors. In addition, we expect that competitive pressures may result in price reductions and reduced margins over time for our products.

Government Regulation

Our products are medical devices subject to extensive and rigorous regulation by the U.S. Food and Drug Administration, or FDA, as well as other regulatory bodies. The FDA and other U.S. and foreign governmental agencies regulate, among other things, the following activities associated with medical devices: design, development and manufacturing; testing and clinical trials; labeling; product safety; marketing, sales and distribution; pre-market clearance and approval; recordkeeping; advertising and promotion; registration and listing; recalls and field safety corrective actions; post-market surveillance and medical device reporting; post-market approval studies; and import and export.

FDA's Regulation of Manufacturing

The FDA requires that we manufacture our products in accordance with its 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. The FDA enforces the QSR through periodic announced and unannounced inspections. Our last such inspection was in April 2012.

Our failure to maintain compliance with the QSR requirements could result in, among other things, the shutdown of, or restrictions on, our manufacturing operations and the recall or seizure of our products, which would have a material adverse effect on our business. In the event that one of our suppliers fails to maintain compliance with our quality requirements, we may have to qualify a new supplier and could experience manufacturing delays as a result.

We maintain quality assurance and quality management certifications to enable us to market our products in the member states of the European Union, the European Free Trade Association and some countries that have entered into Mutual Recognition Agreements with the European Union. In October 2003, we received our certification for ISO 13485, which replaced our EN 46001 certification.

FDA's Premarket Clearance and Approval Requirements

Unless an exemption applies, each medical device we wish to distribute commercially in the United States requires 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, which requires the manufacturer to submit to the FDA a premarket notification requesting permission to distribute the device commercially. This process is generally known as 510(k) clearance. The FDA exempts some low risk devices from premarket notification requirements and the requirement of compliance with certain provisions of the QSR. Devices deemed to pose the greatest risk, such as certain life sustaining, life-supporting or implantable devices, or devices deemed not substantially equivalent to a legally marketed device, are categorized in class III. Class III devices generally cannot be commercially marketed in the United States without prior approval of a premarket approval application, or PMA, although there is a small category of class III devices that are eligible for 510(k) clearance. In rare cases, devices that are not eligible for 510(k) clearance but nevertheless do not pose significant risks may be classified as class I or class II and proceed to market via the FDA's *de novo* classification process, which is an alternative to 510(k) clearance or PMA approval. All of our current products are class II devices. Both premarket notifications and premarket approval applications when submitted to the FDA must be accompanied by a user fee, unless exempt.

510(k) Clearance

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 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, or premarket approval or a device that otherwise has been classified or reclassified into class I or II. By statute, the FDA must 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.

Historically, all of our products have qualified for clearance under 510(k) procedures.

Premarket Approval

If a device cannot be cleared through the 510(k) process or otherwise classified into class I or class II, the sponsor must submit a premarket approval application, which is known as a PMA. The sponsor must support the PMA with extensive data, including but not limited to, technical, preclinical, clinical trials, manufacturing and labeling to demonstrate to the FDA's satisfaction the safety and effectiveness of the device. No device that we have developed has required premarket approval, nor do we currently expect that any future device or indication will require premarket approval.

Product Modifications

After a device receives 510(k) clearance, any modification that could significantly affect its safety or effectiveness, or that would constitute a major change in its intended use, will require a new clearance or approval. The FDA requires each manufacturer to make this determination initially, but the FDA can review any such decision and can disagree with a manufacturer's determination. We have modified aspects of various products since receiving regulatory clearance and believe that new 510(k) clearances are not required for these modifications. The FDA's position on when a device modification triggers the need to submit a new 510(k) has been evolving in recent years, and it is therefore difficult to predict whether the FDA will disagree with us. If the FDA disagrees with our determination not to seek a new 510(k) clearance, the FDA may retroactively require us to seek 510(k) clearance or premarket approval. The FDA could also require us, among other things, to cease marketing and distributing the modified device, and to recall any sold devices, until 510(k) clearance or premarket approval is obtained. Also, in these circumstances, we may be subject to significant regulatory fines or penalties.

Clinical Trials

We perform clinical trials to provide data to support the FDA clearance process for our products and for use in our sales and marketing efforts. Human clinical studies are generally required in connection with approval of class III devices and may be required for clearance of class I and II devices. When FDA clearance or approval of a device requires human clinical trials, and if the device presents a "significant risk," as defined by the FDA, to human health, the FDA requires the device sponsor to file an investigational device exemption, or IDE, application with the FDA and obtain IDE approval prior to commencing the human clinical trials. The sponsor must support the IDE application with 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. Clinical trials, including clinical trials that do not require prior IDE approval, must be conducted in accordance with the FDA's IDE and other regulations, including, among other things, informed consent, monitoring and recordkeeping requirements. The sponsor also must obtain approval from the institutional review board overseeing the clinical trial.

While we believe that a majority of our devices present only "non-significant" risks and, therefore, do not require IDE submission to the FDA, we have sought an IDE approval for the study protocol for the *Cellulaze* laser workstation, for an at-home device for the treatment of wrinkles developed by us in partnership with Unilever and for the *PicoSure* system. We received approval for the *Cellulaze* laser workstation in January 2012,

for the at-home device for the treatment of wrinkles in July 2012 and for the *PicoSure* system in November 2012. Future clinical trials of our products may require that we submit and obtain approval of an IDE from the FDA prior to commencing clinical trials. The FDA, and the institutional review board at each institution at which a clinical trial is being performed, may suspend or terminate a clinical trial at any time for various reasons, including a belief that the subjects are being exposed to an unacceptable health risk.

Our clinical trials may not generate favorable data to support any PMA or 510(k) clearance, and we may not be able to obtain such approvals or clearances on a timely basis, or at all. Delays in receipt of or failure to receive such approvals or clearances or failure to comply with existing or future regulatory requirements would have a material adverse effect on our business, financial condition and results of operations. Even if granted, the approvals or clearances may include significant limitations on the intended use and indications for use for which our products may be marketed.

Clinical studies conducted on 510(k) cleared devices, when used or investigated in accordance with the labeling reviewed by the FDA, are exempt from most of the FDA's IDE requirements.

Pervasive and Continuing Regulation

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

- establishment registration and device listing;
- the quality system regulation, which requires 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, and other requirements related to promotional activities;
- 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;
- corrections and removal reporting regulations, which require that manufacturers report to the FDA field corrections and product recalls or removals if undertaken to reduce a risk to health posed by the device or to remedy a violation of the Federal Food, Drug, and Cosmetic Act that may present a risk to health; 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 may require us to maintain a system for tracking our products through the chain of distribution to the patient level. The FDA has broad post-market and regulatory enforcement powers. We are subject to unannounced inspections by the FDA to determine our compliance with the QSR and other regulations. These inspections may include the manufacturing facilities of our subcontractors. Thus, we must continue to spend time, money and effort to maintain compliance. The FDA inspected our Westford, Massachusetts manufacturing facility in April 2012, and we believe that we are in substantial compliance with the QSR.

We are also regulated under the Radiation Control for Health and Safety Act, which requires laser products to comply with performance standards, including design and operation requirements. The law also requires manufacturers to certify in product labeling and in reports to the FDA that their products comply with all such standards. The law and applicable federal regulations also require laser manufacturers to file new product and annual reports, maintain manufacturing, testing and sales records, and report product defects. Various warning labels must be affixed and certain protective devices installed, depending on the class of the product.

Failure to comply with applicable regulatory requirements can result in enforcement action by the FDA, which may include any of the following sanctions:

- untitled letters, 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 or delaying 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.

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

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.

In 2013, most of the products and systems that we sell became subject to a new excise tax on sales of certain medical devices in the United States after December 31, 2012 by the manufacturer, producer or importer in an amount equal to 2.3% of the sale price. Under the law, additional charges, including warranties, may be deemed to be included in the sale price for purposes of determining the amount of the excise tax. We believe this excise tax could harm our sales and reduce our profitability.

International

International sales of medical devices are subject to foreign governmental regulations, which vary substantially from country to country. The time required to obtain clearance or approval by a foreign country may be longer or shorter than that required for FDA clearance or approval, and the requirements may be different.

The primary regulatory environment in Europe is that of the European Union, which consists of 27 countries encompassing most of the major countries in Europe. The European Union has adopted numerous directives, and European Standardization Committees have promulgated voluntary standards, regulating the design, manufacture, clinical trials, labeling and adverse event reporting for medical devices. Devices that comply with the requirements of a relevant directive will be entitled to bear CE conformity marking, indicating that the device conforms to the essential requirements of the applicable directives and, accordingly, can be commercially distributed throughout the member states of the European Union and the member states of the European Free Trade Association, including Switzerland.

The method of assessing conformity varies depending on the type and class of the product, but normally involves a combination of self-assessment by the manufacturer and a third party assessment by a Notified Body, an independent and neutral institution appointed by a country to conduct the conformity assessment. This third party assessment may consist of an audit of the manufacturer's quality system and specific testing of the manufacturer's device. An assessment by a Notified Body in one member state of the European Union or the European Free Trade Association is required in order for a manufacturer to distribute the product commercially throughout these countries. ISO 9001 and ISO 13845 certification are voluntary harmonized standards. Compliance establishes the presumption of conformity with the quality management system and compliance with the requirements of the Medical Device Directive permits our Notified Body to issue the CE mark for our products. In October 2003, we received our certification for ISO 13485, which replaced our EN 46001 certification.

Employees

As of December 31, 2012, we had 378 employees, including 125 employees in sales and marketing functions, 57 employees in research, development and engineering functions, 145 employees in manufacturing and service functions and 51 employees in general and administrative functions. 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 are represented by a labor union, and we believe our employee relations are good.

ITEM 1A. *Risk Factors.*

The following important factors, among others, could cause our business, financial condition, results of operations and cash flows to be materially adversely affected. This section contains forward-looking statements. You should refer to the explanation of the qualifications and limitations on forward-looking statements beginning on page 3.

Risks Related to Our Business and Industry

We have a history of net losses, and we may not be able to maintain our profitability.

We incurred net losses of approximately $2.9 million in 2011 and $5.5 million in 2010. Although we were profitable in 2012, we may not be able to maintain this profitability in 2013, or thereafter. If we are unable to maintain profitability, the market value of our stock may decline, and an investor could lose all or a part of their investment.

If there is not sufficient consumer demand for the procedures performed with our products, practitioner demand for our products could decline, which would adversely affect our operating results.

The aesthetic laser and light-based treatment system industry in which we operate is particularly vulnerable to economic trends. Most procedures performed using our aesthetic treatment systems are elective procedures that are not reimbursable through government or private health insurance. The cost of these elective procedures must be borne by the patient. As a result, the decision to undergo a procedure that utilizes our products may be influenced by the cost.

Consumer demand, and therefore our business, is sensitive to a number of factors that affect consumer spending, including political and macroeconomic conditions, health of credit markets, disposable consumer income levels, consumer debt levels, interest rates and consumer confidence. If there is not sufficient consumer demand for the procedures performed with our products, practitioner demand for our products would decline, and our business would suffer.

Consumer demand for these procedures, and practitioner demand for our products, decreased dramatically during 2009, which contributed to a decrease in our total product revenues from $123.2 million in 2008 to $55.9 million in 2009. However, demand has increased from 2010 through 2012. We believe that consumer demand for discretionary aesthetic laser treatments remains uncertain and may continue to adversely affect our operating results.

Our financial results may fluctuate from quarter to quarter, which makes our results difficult to predict and could cause our results to fall short of expectations.

Our financial results may fluctuate as a result of a number of factors, many of which are outside of our control. For these reasons, comparing our financial results on a period-to-period basis may not be meaningful, and you should not rely on our past results as an indication of our future performance. Our future quarterly and annual expenses as a percentage of our revenues may be significantly different from those we have recorded in the past or which we expect for the future. Our financial results in some quarters may fall below our expectations or the expectations of market analysts or investors. Any of these events could cause our stock price to fall. Each of the risk factors listed in this "Risk Factors" section, and the following factors, may adversely affect our financial results:

- our inability to introduce new products to the market in a timely fashion, or at all;
- continued availability of attractive equipment leasing terms for our customers, which may be negatively influenced by interest rate increases or lack of available credit;
- increases in the length of our sales cycle; and
- reductions in the efficiency of our manufacturing processes.

In addition, we may be subject to seasonal fluctuations in our results of operations, because our customers may be more likely to make equipment purchasing decisions near year-end, and because practitioners may be less likely to make purchasing decisions in the summer months.

Our competitors may prevent us from achieving further market penetration or improving operating results.

Competition in the aesthetic device industry is intense. Our products compete against products offered by public companies, such as Cutera, Palomar, Solta Medical, Syneron Medical and ZELTIQ Aesthetics, as well as several smaller specialized private companies, such as Alma Lasers. Some of these competitors have greater financial and human resources than we do and have established reputations, as well as worldwide distribution channels and sales and marketing capabilities that are larger and more established than ours. Additional competitors may enter the market, and we are likely to compete with new companies in the future.

We also face competition against non-light-based medical products, such as BOTOX® and collagen injections, and surgical and non-surgical aesthetic procedures, such as face lifts, chemical peels, abdominoplasty, liposuction, microdermabrasion, sclerotherapy and electrolysis. We may also face competition from manufacturers of pharmaceutical and other products that have not yet been developed. As a result of competition with these companies, products and procedures, we could experience loss of market share and decreasing revenue as well as reduced prices and profit margins, any of which would harm our business and operating results.

As a result of competition with our competitor companies, products and procedures, we could experience loss of market share and decreasing revenue as well as reduced prices and profit margins, any of which would harm our business and operating results.

Our ability to compete effectively depends upon our ability to distinguish our company and our products from our competitors and their products. Factors affecting our competitive position include:

- product performance and design;
- ability to sell products tailored to meet the applications needs of clients and patients;
- quality of customer support;
- product pricing;
- product safety;
- sales, marketing and distribution capabilities;
- success and timing of new product development and introductions; and
- intellectual property protection.

We may be exposed to credit risk of customers that have been adversely affected by weakened markets.

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

We plan to grow through acquisitions, which exposes us to a variety of operational and financial risks.

The acquisition of complementary businesses, products or technologies is an important part of our growth strategy. At any given point, we are likely to be evaluating, and may be in discussions with third parties

regarding both small and substantial acquisitions, as well as joint ventures and other collaborative projects. Growth through acquisitions exposes us to a variety of operational and financial risks, including those related to:

- challenges associated with the integration of acquisitions into our existing operations;
- the failure to realize anticipated acquisition-related benefits;
- the assumption of unknown liabilities; and
- the costs of acquisitions.

Integration Risks. We may encounter difficulties assimilating or integrating into our operations acquired businesses, technologies, products, personnel or operations of acquired companies, and in retaining and motivating key personnel from these businesses. Integration can be expensive and time-consuming and could disrupt our ongoing business, adversely affect cash flow and distract management and other key personnel from day-to-day operations. If we fail to successfully complete acquisition integration, we may never fully realize the potential benefits of our acquisitions.

Benefits May Not Materialize. When evaluating potential acquisition targets, we identify potential synergies and cost savings that we expect to realize upon the successful completion of the acquisition and the integration of the related operations. We cannot assure you that our completed acquisitions, or any future acquisitions that we may make, will result in such benefits or will enhance our products or strengthen our competitive position. Businesses we may acquire may be unprofitable or only marginally profitable. If we do not achieve the expected benefits of our acquisitions, our results of operations could be adversely affected.

Assumption of Unknown Liabilities. Businesses that we acquire may have unknown or contingent liabilities. We cannot assure you that we have identified, or will be able to identify, all material adverse issues related to acquisitions that we may make, such as liabilities for failure to comply with healthcare laws and regulations or significant defects in the internal control policies of acquired companies. Although we typically attempt to exclude significant liabilities from our acquisition transactions and seek indemnification from the sellers of such business for at least a portion of these matters, we may not be successful in doing so, we may experience difficulty enforcing those obligations or we may incur material liabilities for the past activities of acquired businesses. Such liabilities and related legal or other costs, or resulting damage to our reputation, could adversely affect our business.

Acquisition Costs. We face competition for acquisitions, and some of our competitors have greater resources than we do. As a result, we may pay more to acquire a target business or may agree to less favorable deal terms than we would have otherwise. Any acquisition we pursue could diminish cash available to us for other uses or be dilutive to our stockholders.

If we do not continue to develop and commercialize new products and identify new markets for our products and technology, we may not remain competitive, and our revenues and operating results could suffer.

The aesthetic laser and light-based treatment system industry is subject to continuous technological development and product innovation. During 2012, 39% of our product revenues were attributable to the sale of systems that we have introduced to the market since the beginning of 2010. If we do not continue to innovate and develop new products and applications, our competitive position will likely deteriorate as other companies successfully design and commercialize new products and applications. Accordingly, our success depends in part on developing or acquiring new and innovative applications of laser and other light-based technology and identifying new markets for and applications of existing products and technology. If we are unable to develop and commercialize new products, identify and acquire complementary businesses, products or technologies, and identify new markets for our products and technology, our product and technology offerings could become obsolete and our revenues and operating results could be adversely affected.

To remain competitive, we must:

- develop or acquire new technologies that either add to or significantly improve our current products;
- convince our target practitioner customers that our new products or product upgrades would be attractive revenue-generating additions to their practices;
- sell our products to non-traditional customers, including primary care physicians, gynecologists and other specialists;
- identify new markets and emerging technological trends in our target markets and react effectively to technological changes; and
- maintain effective sales and marketing strategies.

If our new products do not gain market acceptance, our revenues and operating results could suffer, and our newer generation product sales could cause earlier generation product sales to suffer.

The commercial success of the products and technology we develop will depend upon the acceptance of these products by providers of aesthetic procedures and their patients and clients, and in the case of our home-use system, consumers. It is difficult for us to predict how successful recently introduced products, 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 could suffer.

We expect that many of the products we develop will be based upon new technologies or new applications of existing technologies. It may be difficult for us to achieve market acceptance of some of our products, particularly the first products that we introduce to the market based on new technologies or new applications of existing technologies.

For example, we plan to launch in 2013 our *PicoSure* laser system for the removal of tattoos and benign pigmented lesions. The *PicoSure* system, which is based on several years of research and development effort and expense, would be the first commercially available picosecond Alexandrite aesthetic laser system on the market. This system has been cleared by the FDA for marketing in the United States for removal of tattoos and benign pigmented lesions. We are also developing in conjunction with Unilever a laser treatment system for the home-use market. This system has been cleared by the FDA for marketing in the United States for the treatment of wrinkles. Unilever holds exclusive rights to sell this product, and Unilever has advised us that it expects to launch this product commercially in 2013. However, because competitors have already introduced home-use laser systems to the market, this home-use system may not gain anticipated levels of market acceptance. If these products or others that we introduce do not gain market acceptance, our business would suffer.

As we introduce new technologies to the market, our earlier generation product sales could suffer, which may result in write-offs of those earlier generation products. For example, in 2009, we recorded a $2.1 million charge to cost of product revenues related to the write-down of an earlier generation product. The write-down resulted, in part, from customers adopting our newer generation products more quickly than we anticipated, coupled with the downturn in the overall aesthetic laser market.

If demand for our aesthetic treatment systems by physician customers does not increase, or if our home-use product does not achieve market acceptance, our revenues will suffer and our business will be harmed.

We market our aesthetic treatment systems to physicians and other practitioners. In addition, through our development agreement with Unilever, we plan to begin to address the home-use aesthetic laser market beginning in 2013. We believe, and our growth expectations assume, that we and other companies selling lasers and other light-based aesthetic treatment systems have not fully penetrated these markets and that we will continue to receive a significant percentage of our revenues from selling to these markets. If our expectations as to the size of these markets and our ability to sell our products to participants in these markets are not correct, our revenues will suffer and our business will be harmed.

We sell our products and services through subsidiaries and distributors in numerous international markets. Our operating results may suffer if we are unable to manage our international operations effectively.

We sell our products and services through subsidiaries and distributors in approximately 100 foreign countries, and we therefore are subject to risks associated with having international operations. We derived 49%, 56% and 55% of our product revenues from sales outside North America for the years ended December 31, 2012, 2011 and 2010, respectively. Our gross margin has decreased from periods prior to 2009 as a result of a higher percentage of laser revenue from our international markets, where our products tend to have lower average selling prices than in North America.

Our international sales are subject to a number of risks, including:

- foreign certification and regulatory requirements;
- difficulties in staffing and managing our foreign operations;
- import and export controls; and
- political and economic instability.

If we are unsuccessful at managing these risks, our results of operations may be adversely affected.

We may incur foreign currency translation charges as a result of changes in currency exchange rates, which could cause our operating results to suffer.

The U.S. dollar is our functional currency. Although we sell our products and services through subsidiaries and distributors in approximately 100 foreign countries, approximately 50% of our revenues outside of North America for the year ended December 31, 2012, and 44% of our revenues outside of North America for the year ended December 31, 2011, were denominated in or linked to the U.S. dollar. Substantially all of our remaining revenues and all of our operating costs outside of North America are recognized in euros, British pounds, Japanese yen, Chinese yuan and South Korean won. We have not historically engaged in hedging activities relating to our non-U.S. dollar operations. Fluctuations in exchange rates between the currencies in which such revenues are realized or costs are incurred and the dollar may have a material adverse effect on our results of operations and financial condition.

We may not receive revenues from our current research and development efforts for several years, if at all.

Investment in product development often involves a long payback cycle. For example, our *PicoSure* laser system, which we expect to launch in 2013, has been in development by us for several years. We have made and expect to continue making significant investments in research and development and related product opportunities. Accelerated product introductions and short product life cycles require high levels of expenditures for research and development that could adversely affect our operating results if not offset by revenue increases. We believe that we must continue to dedicate a significant amount of resources to our research and development efforts to maintain our competitive position. However, we may not generate anticipated revenues from these investments for several years, if at all.

Because we do not require training for users of our non-invasive products, and we sell these products to non-physicians, there exists an increased potential for misuse of these products, which could harm our reputation and our business.

Federal regulations allow us to sell our products to or on the order of practitioners licensed by law to use or order the use of a prescription device. The definition of "licensed practitioners" varies from state to state. As a result, our products may be purchased or operated by physicians with varying levels of training and, in many states, by non-physicians, including nurse practitioners, chiropractors and technicians. Outside the United States, many jurisdictions do not require specific qualifications or training for purchasers or operators of our products. We do not

supervise the procedures performed with our non-invasive products or require that direct medical supervision occur. We and our distributors offer product training sessions, but neither we nor our distributors require purchasers or operators of our non-invasive products to attend training sessions. The lack of required training and the purchase and use of our non-invasive products by non-physicians may result in product misuse and adverse treatment outcomes, which could harm our reputation and expose us to costly product liability litigation.

We may be unable to attract and retain management and other personnel we need to succeed.

Our success depends on the services of our senior management and other key research and development, manufacturing, sales and marketing employees. The loss of the services of one or more of these employees could have a material adverse effect on our business. We consider retaining Michael R. Davin, our president and chief executive officer, to be key to our efforts to develop, sell and market our products and remain competitive. We have entered into an employment agreement with Mr. Davin; however, the employment agreement is terminable by him on short notice and may not ensure his continued service with our company. Our future success will depend in large part upon our ability to attract, retain and motivate highly skilled employees. We cannot be certain that we will be able to do so.

Our stock price has fluctuated substantially, and we expect it will continue to do so.

Our Class A common stock price has fluctuated substantially since our initial public offering in 2005. From January 1, 2011 through March 1, 2013, our Class A common stock has traded as high as $29.61 per share and as low as $8.84 per share. The stock market in general has experienced extreme volatility that has often been unrelated to the operating performance of particular companies. The market price for our Class A common stock may be influenced by many factors, including:

- the success of competitive products or technologies;
- regulatory developments in the United States and foreign countries;
- developments or disputes concerning patents or other proprietary rights;
- the recruitment or departure of key personnel;
- variations in our financial results or those of companies that are perceived to be similar to us;
- market conditions in our industry and issuance of new or changed securities analysts' reports or recommendations; and
- general economic, industry and market conditions.

In addition, if the stock market in general experiences a loss of investor confidence, the trading price of our Class A common stock could decline for reasons unrelated to our business, financial condition or results of operations. A decline in our stock price could result in the loss of all or a part of our stockholders' investments.

Risks Related to Our Reliance on Third Parties

If we fail to obtain key components of our products from our sole source or limited source suppliers or service providers, our ability to manufacture and sell our products would be impaired and our business could be materially harmed.

We depend on sole or limited suppliers of certain components and systems that are critical to the products that we manufacture and sell, and to which the significant majority of our revenues are attributable. We depend on El.En. for the *SmartLipo MPX* system and the *SLT II* laser system that we integrate with our own proprietary software and delivery systems into our *Smartlipo Triplex* and *Cellulaze* systems. We use Alexandrite rods to manufacture the lasers for our *Elite* and *PicoSure* products and Nd:Yag rods to manufacture the lasers for our *RevLite / MedLite C6* products. We depend exclusively on Northrop Grumman SYNOPTICS to supply both the Alexandrite and Nd:Yag rods to us, and we are aware of no alternative supplier of Alexandrite rods meeting our

quality standards. We use gaussian mirrors and polarizers to manufacture our *RevLite / MedLite C6* product lines, for which we depend exclusively on Channel Islands Opto-Mechanical Engineering and JDS Uniphase Corporation, respectively. We offer our *SmartCool* treatment cooling systems for use with our laser aesthetic treatment systems, and we depend exclusively on Zimmer Elektromedizin GmbH to supply *SmartCool* systems to us. In addition, one third party supplier assembles and tests many of the components and subassemblies for our *Elite, Cynergy, SmoothShapes XV, Affirm* and *Accolade* product families.

In October 2012, we entered into a new exclusive distribution agreement with El.En., which replaced our prior distribution agreements with El.En, and pursuant to which we purchase from it the *SmartLipo MPX* system and the *SLT II* laser system. We have exclusive worldwide rights under this agreement to sell the *SmartLipo MPX* systems and products containing the *SLT II* laser system. The price at which we purchase the *SLT II* laser system from El.En. is specified in the agreement; however, it may be changed by El.En. at its discretion upon 30 days' notice. We are required to use commercially reasonable efforts to sell and promote our systems containing the *SLT II* laser system, and we are responsible for obtaining and maintaining regulatory approvals for systems containing the *SLT II* laser system. The new distribution agreement has an initial term that expires in October 2019, and it will automatically renew for additional one-year terms unless either party provides notice of termination at least six months prior to the expiration of the initial term or any subsequent renewal term. We or El.En. may terminate the agreement at any time based upon material uncured breaches by, or the insolvency of, the other party. In addition, El.En. may terminate the agreement if we do not meet annual minimum purchase obligations specified in the agreement and we may terminate if El.En. rejects a purchase order that is in line with our forecast.

Other than with El.En., we do not have long-term arrangements with any of our suppliers for the supply of these components or systems or with the assembly and test service provider referenced above, but instead purchase from them on a purchase order basis. Northrop Grumman SYNOPTICS, Channel Islands Opto-Mechanical Engineering, JDS Uniphase Corporation and Zimmer Elektromedizin are not required, and may not be able or willing, to meet our future requirements at current prices, or at all.

Under our agreement with El.En. and our purchase order arrangements with our other suppliers and service providers, we are vulnerable to supply shortages and cessations and price fluctuations with respect to these critical components and systems and services. Such shortages or cessations could occur either as a result of breach by El.En. or us of our new distribution agreement, or as a result of other types of business decisions made by El.En. or other suppliers and service providers. Any extended interruption in our supplies of these components or systems or in the assembly and test services could materially harm our business.

We rely on third party distributors to market, sell and service a significant portion of our products. If these distributors do not commit the necessary resources to effectively market, sell and service our products or if our relationships with these distributors are disrupted, our business and operating results may be harmed.

In North America, France, Spain, the United Kingdom, Germany, Korea, China, Japan and Mexico, we sell our products through our internal sales organization. Outside of these markets, we sell our products through third party distributors. Our home-use laser system for the treatment of wrinkles, which we expect to be launched in the United States in 2013, will be sold by Unilever. Our sales and marketing success in these other markets depends on these distributors, in particular their sales and service expertise and relationships with the customers in the marketplace. Sales of our aesthetic treatment systems by third party distributors represented 25% of our product revenue in 2012, 25% of our product revenue in 2011 and 18% of our product revenue in 2010. The increases in 2012 and 2011 primarily related to sales of our ConBio products, which are generally sold through distributors.

We do not control our distributors or Unilever, and these parties may not be successful in marketing our products. These parties may terminate their relationships with us, or fail to commit the necessary resources to market and sell our products to the level of our expectations. Currently, we have written distributor agreements in place with most of our third party distributors. The third party distributors with which we do not have written distributor agreements may terminate their relationships with us and stop selling and servicing our products with little or no notice. If current or future third party distributors or other parties that sell our products do not perform

adequately, or if we fail to maintain our existing relationships with these parties or fail to recruit and retain distributors in particular geographic areas, our revenue from international sales may be adversely affected and our operating results could suffer.

Risks Related to Our Relationship with El.En. and Our Corporate Structure

El.En. and its subsidiaries market and sell products that compete with our products, and any increased competition from El.En. could have a material adverse effect on our business.

El.En. is a leading laser manufacturer in Europe and a leading light-based medical device manufacturer worldwide. El.En. and its subsidiaries develop and produce laser systems with scientific, industrial, commercial and medical applications. In October 2012 we entered into a new seven-year exclusive distribution agreement with El.En., which replaced our prior distribution agreements with El.En. Under this new agreement, we will purchase from El.En. its proprietary *SmartLipo MPX* system and its *SLT II* laser system. The *SLT II* laser system is an essential component of our *SmartLipo Triplex* and *Cellulaze* systems, which also incorporate our proprietary software and delivery systems.

El.En. markets, sells, promotes and licenses other products that compete with our products, both in North America and elsewhere throughout the world, and our agreement with El.En. does not prevent El.En. from competing with us by selling products that we purchased in the past from El.En., including earlier generation *SmartLipo* systems. In the event that our distribution agreement with El.En. terminates, El.En. would be able to compete with us worldwide with the *SmartLipo MPX* system and with products containing the *SLT II* laser system. Our business could be materially and adversely affected by increased competition from El.En.

Conflicts of interest may arise between us and El.En., and these conflicts might ultimately be resolved in a manner unfavorable to us.

One of our directors, Andrea Cangioli, is also an officer and or director of El.En., and certain of El.En.'s subsidiaries and affiliates compete with us in the worldwide market. Mr. Cangioli owns or has an interest in substantial amounts of El.En. stock. Ownership interests of our directors in El.En. stock, or service as a director of our company while at the same time serving as, or being the spouse of, a director or officer of El.En., could give rise to conflicts of interest when a director or officer is faced with a decision that could have different implications for the two companies.

Conflicts may arise with respect to possible future distribution and research and development arrangements with El.En. or another El.En. affiliated company in which the terms and conditions of the arrangements are subject to negotiation between us and El.En. or such other El.En. affiliated company. These potential conflicts could also arise, for example, over matters such as:

- the nature, timing, marketing, distribution and price of our products and El.En.'s products that compete with each other;
- intellectual property matters; and
- business opportunities that may be attractive to both El.En. and us.

Conflicts between us and El.En. might ultimately be resolved in a manner unfavorable to us, which could harm our business.

In order to address potential conflicts of interest between us and El.En., our restated certificate of incorporation contains provisions regulating and defining the conduct of our affairs as they may involve El.En. and El.En. affiliated companies and El.En.'s officers and directors who serve as our directors. These provisions recognize that we and El.En. and El.En. affiliated companies have engaged and may continue to engage in the same or similar business activities and lines of business and will continue to have contractual and business relations with each other. These provisions expressly permit El.En. and its affiliated companies to compete

against us and narrowly limit corporate opportunities that El.En. or its directors or officers who serve as our directors must make available to us. These provisions have the effect of limiting our ability, and the ability of our stockholders, to make claims against El. En. relating to conflicts of interest.

El.En. and our executive officers and directors have substantial control over us.

El.En. beneficially owns approximately 13% of our outstanding common stock, and our executive officers and directors who are not affiliates of El.En. in the aggregate beneficially own 4.13% of our outstanding common stock. As a result, if these stockholders were to act together, they would be able to exercise substantial influence over matters submitted to our stockholders for approval. This concentration of voting power could delay or prevent an acquisition of our company on terms that other stockholders may desire.

Provisions in our corporate charter documents and under Delaware law may delay or prevent attempts by our stockholders to change our management and hinder efforts to acquire a controlling interest in us.

Provisions of our certificate of incorporation and bylaws may discourage, delay or prevent a merger, acquisition or other change in control that stockholders may consider favorable, including transactions in which you might otherwise receive a premium for your shares. These provisions may also prevent or frustrate attempts by our stockholders to replace or remove our management. These provisions include:

- the classification of the members of our board of directors;
- limitations on the removal of our directors;
- advance notice requirements for stockholder proposals and nominations;
- the inability of stockholders to act by written consent or to call special meetings; and
- the ability of our board of directors to designate the terms of and issue new series of preferred stock without stockholder approval, which could be used to institute a "poison pill" that would work to dilute the stock ownership of a potential hostile acquirer, effectively preventing acquisitions that have not been approved by our board of directors.

The affirmative vote of the holders of at least 75% of our shares of capital stock entitled to vote is necessary to amend or repeal the above provisions of our certificate of incorporation. In addition, absent approval of our board of directors, our bylaws may only be amended or repealed by the affirmative vote of the holders of at least 75% of the voting power of our shares of capital stock entitled to vote. In addition, Section 203 of the Delaware General Corporation Law prohibits a publicly held Delaware corporation from engaging in a business combination with an interested stockholder, generally a person which together with its affiliates owns or within the last three years has owned 15% of our voting stock, for a period of three years after the date of the transaction in which the person became an interested stockholder, unless the business combination is approved in a prescribed manner. Accordingly, Section 203 may discourage, delay or prevent a change in control of our company.

The price of our common stock may decline because of future sales of our shares by El.En.

El.En. may sell all or part of the shares of our common stock that it owns. El.En. is not subject to any contractual obligation to maintain its ownership position in our shares, and, consequently, El.En. may not maintain its ownership of our common stock. Sales by El.En. of substantial amounts of our common stock in the public market could adversely affect prevailing market prices for our common stock. The shelf registration statement on Form S-3 that was declared effective on October 26, 2012, which we refer to as the shelf registration statement, permits us and El.En. to offer and sell shares of our common stock in one or more offerings.

If El.En. sells the shares of our stock held by it, our commercial relationship with El.En. may be adversely affected.

El.En. is not subject to any contractual obligation to maintain an ownership position in our shares. The shelf registration statement permits us and El.En. to offer and sell shares of our common stock in one or more

offerings. If El.En. does not have a continuing interest or reduced interest in our financial success, it may be more inclined to compete with us in North America and in other markets, not to enter into future commercial agreements with us or to terminate or not renew our existing distribution agreement. If any of these events were to occur, it could harm our business.

Risks Related to Intellectual Property

If we infringe or are alleged to infringe intellectual property rights of third parties, our business could be adversely affected.

Our products may infringe or be claimed to infringe patents or patent applications under which we do not hold licenses or other rights. Third parties may own or control these patents and patent applications in the United States and abroad. These third parties could bring claims against us that would cause us to incur substantial expenses and, if successfully asserted against us, could cause us to pay substantial damages. Further, if a patent infringement suit were brought against us, we could be forced to stop or delay manufacturing or sales of the product that is the subject of the suit.

As a result of patent infringement claims, or in order to avoid potential claims, we may choose or be required to seek a license from the third party and be required to pay license fees or royalties or both, as we did in a 2006 patent license agreement with Palomar. Such licenses may not be available on acceptable terms, or at all. Even if we were able to obtain a license, the rights may be nonexclusive, which could result in our competitors gaining access to the same intellectual property. Ultimately, we could be forced to cease some aspect of our business operations if, as a result of actual or threatened patent infringement claims, we are unable to enter into licenses on acceptable terms. This could harm our business significantly.

There has been substantial litigation and other proceedings regarding patent and other intellectual property rights in our industry. In addition to infringement claims against us, we may become a party to other types of patent litigation and other proceedings, including reexamination proceedings or interference proceedings declared by the U.S. Patent and Trademark Office and opposition proceedings in the European Patent Office, regarding intellectual property rights with respect to our products and technology. The cost to us of any patent litigation or other proceeding, even if resolved in our favor, could be substantial. Some of our competitors may be able to sustain the costs of such litigation or proceedings more effectively than we can because of their greater financial resources. Uncertainties resulting from the initiation and continuation of patent litigation or other proceedings could have a material adverse effect on our ability to compete in the marketplace. Patent litigation and other proceedings may also absorb significant management time.

If we are unable to obtain or maintain intellectual property rights relating to our technology and products, the commercial value of our technology and products will be adversely affected and our competitive position could be harmed.

Our success and ability to compete depends in part upon our ability to obtain protection in the United States and other countries for our products by establishing and maintaining intellectual property rights relating to or incorporated into our technology and products. We own numerous patents and patent applications in the United States and corresponding patents and patent applications in many foreign jurisdictions. We do not know how successful we would be in any instance in which we asserted our patents against suspected infringers. Our pending and future patent applications may not issue as patents or, if issued, may not issue in a form that would be advantageous to us. Even if issued, our patents may be challenged, narrowed, invalidated or circumvented, which could limit our ability to stop competitors from marketing similar products or limit the length of term of patent protection we may have for our products. Changes in either patent laws or in interpretations of patent laws in the United States and other countries may diminish the value of our intellectual property or narrow the scope of our patent protection.

If we are unable to protect the confidentiality of our proprietary information and know-how, the value of our technology and products could be adversely affected.

In addition to patented technology, we rely upon unpatented proprietary technology, processes and know-how, particularly with respect to our Alexandrite and pulse dye lasers. We generally seek to protect this information in part by confidentiality agreements with our employees, consultants and third parties. These agreements may be breached, and we may not have adequate remedies for any such breach. In addition, our trade secrets may otherwise become known or be independently developed by competitors.

Risks Related to Government Regulation

If we fail to obtain and maintain necessary U.S. Food and Drug Administration clearances for our products and indications or if clearances for future products and indications are delayed or not issued, our business would be harmed.

Our products are classified as medical devices and are subject to extensive regulation by the FDA and other federal, state and local authorities. These regulations relate to manufacturing, labeling, sale, promotion, distribution, importing and exporting and shipping of our products. In the United States, before we can market a new medical device, or a new use of, or claim for, an existing product, we must first receive either 510(k) clearance or premarket approval from the FDA, unless an exemption applies. Both of these processes can be expensive and lengthy and entail significant user fees, unless exempt. The FDA's 510(k) clearance process usually takes from three to 12 months, but it can last longer. The process of obtaining premarket approval is much more costly and uncertain than the 510(k) clearance process. It generally takes from one to three years, or even longer, from the time the premarket approval application is submitted to the FDA until an approval is obtained.

In order to obtain premarket approval and, in some cases, a 510(k) clearance, a product sponsor must conduct well controlled clinical trials designed to test the safety and effectiveness of the product. Conducting clinical trials generally entails a long, expensive and uncertain process that is subject to delays and failure at any stage. The data obtained from clinical trials may be inadequate to support approval or clearance of a submission. In addition, the occurrence of unexpected findings in connection with clinical trials may prevent or delay obtaining approval or clearance. If we conduct clinical trials, they may be delayed or halted, or be inadequate to support approval or clearance, for numerous reasons, including:

- the FDA, other regulatory authorities or an institutional review board may place a clinical trial on hold;
- patients may not enroll in clinical trials, or patient follow-up may not occur, at the rate we expect;
- patients may not comply with trial protocols;
- institutional review boards and third party clinical investigators may delay or reject our trial protocol;
- third party clinical investigators may decline to participate in a trial or may not perform a trial on our anticipated schedule or consistent with the clinical trial protocol, good clinical practices, or other FDA requirements;
- third party organizations may not perform data collection and analysis in a timely or accurate manner;
- regulatory inspections of our clinical trials or manufacturing facilities may, among other things, require us to undertake corrective action or suspend or terminate our clinical trials, or invalidate our clinical trials;
- changes in governmental regulations or administrative actions; and
- the interim or final results of the clinical trials may be inconclusive or unfavorable as to safety or effectiveness.

Medical devices may be marketed only for the indications for which they are approved or cleared. The FDA may not approve or clear indications that are necessary or desirable for successful commercialization. Indeed, the FDA may refuse our requests for 510(k) clearance or premarket approval of new products, new intended uses or modifications to existing products. Our clearances can be revoked if safety or effectiveness problems develop.

After clearance or approval of our products, we are subject to continuing regulation by the FDA, and if we fail to comply with FDA regulations, our business could suffer.

Even after clearance or approval of a product, we are subject to continuing regulation by the FDA, including the requirements that our facility be registered and our devices listed with the agency. We are subject to Medical Device Reporting regulations, which require us to report to the FDA if our products may have caused or contributed to a death or serious injury or malfunction in a way that would likely cause or contribute to a death or serious injury if the malfunction were to recur. We must report corrections and removals to the FDA where the correction or removal was initiated to reduce a risk to health posed by the device or to remedy a violation of the Federal Food, Drug, and Cosmetic Act caused by the device that may present a risk to health, and maintain records of other corrections or removals. The FDA closely regulates promotion and advertising and our promotional and advertising activities could come under scrutiny. If the FDA objects to our promotional and advertising activities or finds that we failed to submit reports under the Medical Device Reporting regulations, for example, the FDA may allege our activities resulted in violations.

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:

- untitled letters, 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 or delaying our requests for 510(k) clearance or premarket approval of new products or new intended uses;
- withdrawing 510(k) clearance or premarket approvals that have already been granted; and
- criminal prosecution.

If any of these events were to occur, they could harm our business.

Federal regulatory reforms may adversely affect our ability to sell our products profitably.

From time to time, legislation is drafted and introduced in Congress that could significantly change the statutory provisions governing the clearance or approval, manufacture and marketing of a device. In addition, FDA regulations and guidance are often revised or reinterpreted by the agency in ways that may significantly affect our business and our products. For example, the FDA recently proposed changing its standards for determining when a medical device modification must receive premarket clearance or approval. Although Congress objected to these revised standards, it is possible that the FDA will seek to implement these or similar changes in the future.

In addition, in 2013, most of the products and systems that we sell became subject to a new excise tax on sales of certain medical devices in the United States after December 31, 2012 by the manufacturer, producer or importer in an amount equal to 2.3% of the sale price. Under the law, additional charges, including warranties, may be deemed to be included in the sale price for purposes of determining the amount of the excise tax. We believe this excise tax could harm our sales and reduce our profitability. In August 2012, the SEC adopted a final rule that will require public companies to make disclosures about the use of certain "conflicts minerals" in the products that they manufacture. The rule requires annual disclosures by public companies for which conflicts

minerals (regardless of the place of origin of such minerals) are necessary to the functionality or production of products that they manufacture. Such companies must conduct inquiries into the country of origin of their necessary conflict minerals and disclose the results of such inquiries. If, based on its country of origin, a company determines that its conflicts minerals originated in the Democratic Republic of Congo, or adjacent nations, and did not come from recycled or scrap sources, or has reason to believe that such conflict minerals may have originated in the covered countries and may not have come from recycled or scrap sources, then it must (i) exercise due diligence on the source and chain of custody of such conflict minerals and (ii) prepare an independently audited Conflict Minerals Report that, among other things, describes its due diligence efforts and identifies products containing conflict minerals that directly or indirectly finance or benefit designated armed groups perpetrating serious human rights abuses in the covered countries. The rules include an exception from the audit requirement for two years where the company is unable to determine if the minerals are "DRC conflict free." All companies providing disclosures under the final rule must do so on a new Form SD, to be filed annually with the SEC on or before May 31 of each year. Information on Form SD will cover a company's conflict minerals disclosure for the prior calendar year, regardless of the company's fiscal year end. The first Form SDs will be due on or before May 31, 2014 and will cover conflict minerals disclosures for calendar year 2013. Because certain materials used in the manufacturing of our products are considered conflicts minerals, we anticipate that we will file a Form SD before May 31, 2014 for conflicts minerals disclosures for calendar year 2013. We believe our efforts to comply with these requirements will be costly and time consuming.

It is impossible to predict whether other legislative changes will be enacted or government regulations, guidance or interpretations changed, and what the impact of such changes, if any, may be.

We have modified some of our products without FDA clearance. The FDA could retroactively determine that the modifications were improper and require us to stop marketing and recall the modified products.

Any modifications to one of our FDA-cleared devices 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 a premarket approval. We may be required to submit extensive pre-clinical and clinical data depending on the nature of the changes. We may not be able to obtain additional 510(k) clearances or premarket approvals for modifications to, or additional indications for, our existing products in a timely fashion, or at all. Delays in obtaining future clearances or approvals would adversely affect our ability to introduce new or enhanced products in a timely manner, which in turn would harm our revenue and operating results. 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, among other things, our products.

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

We are currently required to demonstrate and maintain compliance with the FDA's QSR. The QSR is a complex regulatory scheme that covers the methods and documentation of the design, testing, control, manufacturing, labeling, quality assurance, packaging, storage and shipping of our products. Because our products involve the use of lasers, our products also are covered by a performance standard for lasers set forth in FDA regulations. The laser performance standard imposes specific record keeping, reporting, product testing and product labeling requirements. These requirements include affixing warning labels to laser products as well as incorporating certain safety features in the design of laser products. The FDA enforces the QSR and laser performance standards through periodic unannounced inspections. We have been, and anticipate in the future being, subject to such inspections. Our failure to comply with the QSR or to take satisfactory corrective action in response to an adverse QSR inspection or our failure to comply with applicable laser performance standards could result in enforcement actions, including a public warning letter, a shutdown of or restrictions on our manufacturing operations, delays in approving or clearing a product, refusal to permit the import or export of our products, a recall or seizure of our

products, fines, injunctions, civil or criminal penalties, or other sanctions, such as those described in the preceding paragraphs, any of which could cause our business and operating results to suffer.

If we fail to comply with state laws and regulations, or if state laws or regulations change, our business could suffer.

In addition to FDA regulations, most of our products are also subject to state regulations relating to their sale and use. These regulations are complex and vary from state to state, which complicates monitoring compliance. In addition, these regulations are in many instances in flux. For example, federal regulations allow our prescription products to be sold to or on the order of "licensed practitioners," that is, practitioners licensed by law to use or order the use of a prescription device. Licensed practitioners are defined on a state-by-state basis. As a result, some states permit non-physicians to purchase and operate our products, while other states do not. Additionally, a state could change its regulations at any time to prohibit sales to particular types of customers. We believe that, to date, we have sold our prescription products only to licensed practitioners. However, our failure to comply with state laws or regulations and changes in state laws or regulations may adversely affect our business.

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

Sales of our products outside the United States are subject to foreign regulatory requirements that vary widely from country to country. In many countries, our third party distributors are responsible for obtaining and maintaining regulatory approvals for our products. We do not control our third party distributors, and they may not be successful in obtaining or maintaining these regulatory approvals. In addition, the FDA regulates exports of medical devices from the United States.

Complying with international regulatory requirements can be an expensive and time consuming process, and approval is not certain. The time required to obtain foreign clearances or approvals may be longer than that required for FDA clearance or approval, and requirements for such clearances or approvals may differ significantly from FDA requirements. Foreign regulatory authorities may not clear or approve our products for the same indications cleared or approved by the FDA. The foreign regulatory approval process may include all of the risks associated with obtaining FDA clearance or approval in addition to other risks. Although we or our distributors have obtained regulatory approvals in the European Union and other countries outside the United States for many of our products, we or our distributors may be unable to maintain regulatory qualifications, clearances or approvals in these countries or obtain qualifications, clearances or approvals in other countries. For example, we are in the process of seeking regulatory approvals from the Japanese Ministry of Health, Labour and Welfare for the direct sale of our products into that country. If we are not successful in doing so, our business will be harmed. We may also incur significant costs in attempting to obtain and in maintaining foreign regulatory clearances, approvals or qualifications. Foreign regulatory agencies, as well as the FDA, periodically inspect manufacturing facilities both in the United States and abroad. If we experience delays in receiving necessary qualifications, clearances or approvals to market our products outside the United States, or if we fail to receive those qualifications, clearances or approvals, or if we fail to comply with other foreign regulatory requirements, we and our distributors may be unable to market our products or enhancements in international markets effectively, or at all. Additionally, the imposition of new requirements may significantly affect our business and our products. We may not be able to adjust to such new requirements.

New regulations may limit our ability to sell to non-physicians, which could harm our business.

Currently, we sell our products primarily to physicians and, outside the United States, to aestheticians. In addition, we also market our products to the growing aesthetic spa market, where non-physicians under physician supervision perform aesthetic procedures at dedicated facilities. However, federal, state and international regulations could change at any time, disallowing sales of our products to aestheticians, and limiting the ability

of aestheticians and non-physicians to operate our products. Any limitations on our ability to sell our products to non-physicians or on the ability of aestheticians and non-physicians to operate our products could cause our business and operating results to suffer.

Risks Related to Litigation

Product liability suits could be brought against us due to defective design, material or workmanship or due to misuse of our products. These lawsuits could be expensive and time consuming and result in substantial damages to us and increases 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 or clients. Misusing our products or failing to adhere to operating guidelines for our products can cause severe burns or other damage to the eyes, skin or other tissue. We are routinely involved in claims 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. Our current insurance coverage may not be sufficient to cover these claims, and the coverage we have is subject to deductibles for which we are responsible. Moreover, in the future, we may not be able to obtain insurance in amount or scope sufficient to provide us with adequate coverage against potential liabilities. Any product liability claims 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. We would need to pay any product losses in excess of our insurance coverage out of cash reserves, harming our financial condition and adversely affecting our operating results.

We may incur substantial expenses if our past practices are shown to have violated the Telephone Consumer Protection Act.

We previously used facsimiles to disseminate information about our clinical workshops to large numbers of customers and potential customers. These facsimiles were transmitted by third parties retained by us, and were sent to recipients whose facsimile numbers were supplied by us as well as other recipients whose facsimile numbers we purchased from other sources. In May 2005, we stopped sending unsolicited facsimiles to customers and potential customers.

Under the federal Telephone Consumer Protection Act, or TCPA, recipients of unsolicited facsimile "advertisements" may be entitled to damages of up to $500 per facsimile for inadvertent violations and up to $1,500 per facsimile for knowing or willful violations. Recipients of unsolicited facsimile advertisements may seek enforcement of the TCPA in state courts. The TCPA also permits states to initiate a civil action in a federal district court to enforce the TCPA against a party who engages in a pattern or practice of violations of the TCPA. In addition, complaints may be filed with the Federal Communications Commission, which has the power to assess penalties against parties for violations of the TCPA.

In 2005, a plaintiff, individually and as putative representative of a purported class, filed a complaint against us under the TCPA in Massachusetts Superior Court in Middlesex County seeking monetary damages, injunctive relief, costs and attorneys' fees. The complaint alleged that we violated the TCPA by sending unsolicited advertisements by facsimile to the plaintiff and other recipients without the prior express invitation or permission of the recipients. In January 2012, the Court denied the class certification motion. In November 2012, the Court issued the final judgment and awarded the plaintiff $6,000 in damages and awarded us $3,495 in costs. The plaintiff has appealed this decision. In addition, in July 2012, the plaintiff filed a new purported class action, based on the same operative facts and asserting the same claims as in the Massachusetts action, in federal court in the Eastern District of New York. In February 2013, that court granted our motion to dismiss the plaintiff's claims.

We are vigorously defending these lawsuits. However, litigation is subject to numerous uncertainties and we are unable to predict the ultimate outcome of this or any other matter. Moreover, the amount of any potential liability in connection with this lawsuit will depend, to a large extent, on whether a class in a class action lawsuit is certified and, if one is certified, on the scope of the class, neither of which we can predict at this time.

These and any future lawsuits that we may face regarding these issues could materially and adversely affect our results of operations, cash flows and financial condition, cause us to incur significant expenses and divert the attention of our management and key personnel from our business operations.

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

None.

Item 2. ***Properties***

We lease a 67,500 square foot facility in Westford, Massachusetts which houses our executive offices and our manufacturing, research and development and warehouse operations. The lease on this facility expires in June 2018. We lease a 19,300 square foot facility in Freemont, California which houses a manufacturing and engineering facility. The lease on this facility expires in November 2013. In addition, we lease an aggregate of approximately 30,700 square feet of space at eight other locations in Europe and the Asia/Pacific region that we use for sales and service purposes.

Item 3. ***Legal Proceedings***

In 2005, a plaintiff, individually and as putative representative of a purported class, filed a complaint against us under the federal Telephone Consumer Protection Act, or the TCPA in Massachusetts Superior Court in Middlesex County seeking monetary damages, injunctive relief, costs and attorneys fees. The complaint alleges that we violated the TCPA by sending unsolicited advertisements by facsimile to the plaintiff and other recipients without the prior express invitation or permission of the recipients. Under the TCPA, recipients of unsolicited facsimile advertisements are entitled to damages of up to $500 per facsimile for inadvertent violations and up to $1,500 per facsimile for knowing or willful violations. In January 2012, the Court denied the class certification motion. In November 2012, the Court issued the final judgment and awarded the plaintiff $6,000 in damages and awarded us $3,495 in costs. The plaintiff has appealed this decision. In addition, in July 2012, the plaintiff filed a new purported class action, based on the same operative facts and asserting the same claims as in the Massachusetts action, in federal court in the Eastern District of New York. In February 2013, that court granted our motion to dismiss the plaintiff's claims.

In addition to the matters discussed above, from time to time, we are subject to various claims, lawsuits, disputes with third parties, investigations and pending actions involving various allegations against us incident to the operation of its business, principally product liability. Each of these other matters is subject to various uncertainties, and it is possible that some of these other matters may be resolved unfavorably to us. We establish accruals for losses that management deems to be probable and subject to reasonable estimate. We believe that the ultimate outcome of these matters will not have a material adverse impact on our consolidated financial position, results of operations or cash flows.

Item 4. ***Mine Safety Disclosure***

None.

PART II

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

Market Price of and Dividends on Our Common Stock and Related Stockholder Matters.

Our Class A common stock trades on The Nasdaq Global Market under the symbol "CYNO." The following table sets forth, for the periods indicated, the high and low sales prices of our Class A common stock on The Nasdaq Global Market.

	High	Low
Fiscal Year Ended December 31, 2011		
First quarter	$14.50	$10.26
Second quarter	$15.21	$10.90
Third quarter	$13.47	$ 8.84
Fourth quarter	$13.41	$ 9.63
Fiscal Year Ended December 31, 2012		
First quarter	$19.50	$11.64
Second quarter	$23.00	$17.53
Third quarter	$28.00	$20.59
Fourth quarter	$27.64	$21.14

On March 1, 2013, the closing price per share of our Class A common stock was $28.59, as reported on The Nasdaq Global Market. The number of record holders of our Class A common stock as of March 1, 2013 was eleven.

In July 2009, our Board of Directors authorized the repurchase of up to $10 million of our Class A common stock, from time to time, on the open market or in privately negotiated transactions under a stock repurchase program. The program will terminate upon the purchase of $10 million in common stock, unless our Board of Directors discontinues it sooner. During the year ended December 31, 2012, we did not repurchase any shares of our common stock under this program. As of December 31, 2012, we have repurchased an aggregate of 196,970 shares under this program at an aggregate cost of $1.9 million.

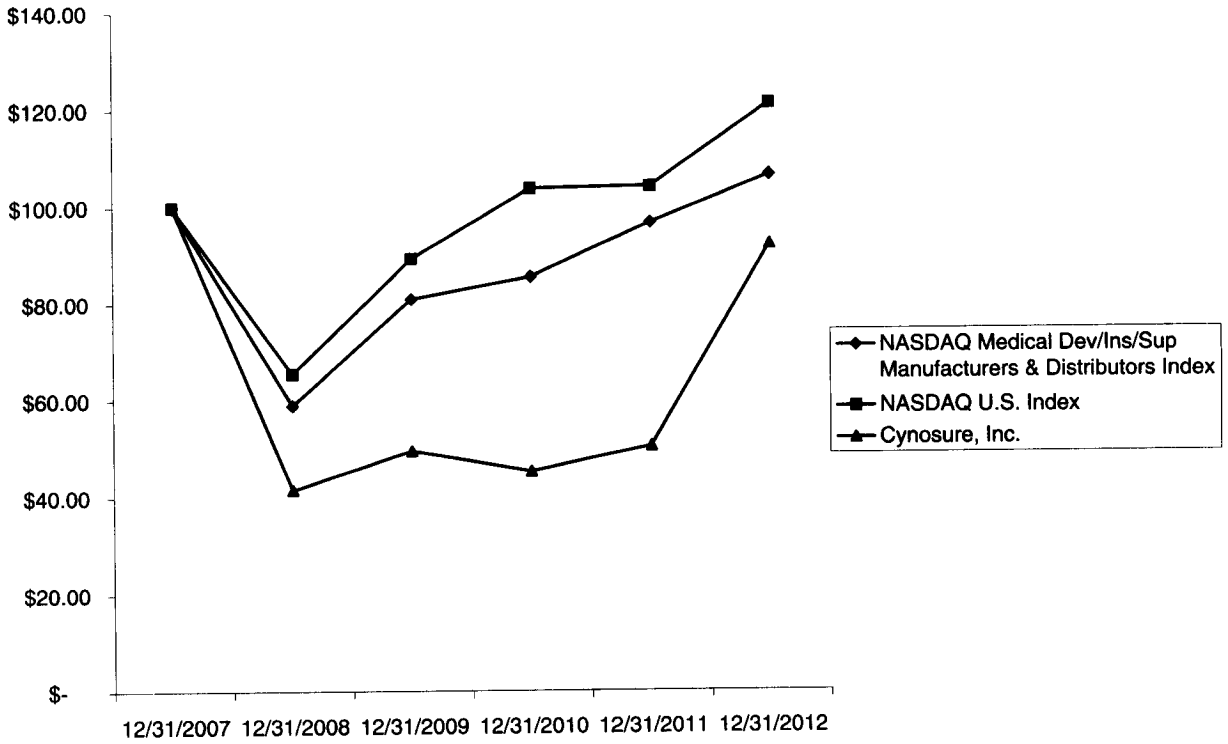
On November 21, 2012, we completed a public offering pursuant to which we issued and sold 2,840,000 shares of our Class A common stock, and El.En. sold 840,000 shares of our Class A common stock. In connection with the closing of the offering, all of our outstanding shares of Class B common stock converted on a one-for-one basis into shares of Class A common stock. As a result, there are no longer any shares of our Class B common stock issued or outstanding, and we may not issue shares of Class B common stock in the future. We received aggregate net proceeds, after deducting underwriting discounts and commissions and other offering expenses, of approximately $55.3 million from the offering.

We have never paid or declared any cash dividends on our common stock. We currently intend to retain our earnings, if any, to finance the growth and development of our business. Payment of future dividends, if any, will be at the discretion of our board of directors.

At December 31, 2012, our total cash, cash equivalents and short and long-term marketable securities balance was $146.7 million. We did not sell any unregistered securities during the period covered by this Annual Report filed on Form 10-K.

The graph below shows the cumulative total stockholder return of an investment of $100 (and the reinvestment of any dividends thereafter) on December 31, 2007 (the last trading day for the year ended December 31, 2007) in our Class A common stock, the Nasdaq U.S. Index and the Nasdaq Medical Devices, Instruments, Supplies, Manufacturers and Distributors Index. Our stock price performance shown in the graph below is not indicative of future stock price performance.

Comparison of 5 Year Cumulative Total Return
Among Cynosure, Inc., NASDAQ U.S. Index and
the NASDAQ Medical Dev/Ins/Sup Manufacturers & Distributors Index



Name	12/31/2007	12/31/2008	12/31/2009	12/31/2010	12/31/2011	12/31/2012
NASDAQ Medical Dev/Ins/Sup Manufacturers & Distributors Index	$100.00	$53.85	$78.53	$ 83.75	$ 96.21	$107.11
NASDAQ U.S. Index	100.00	61.17	87.93	104.13	104.69	123.85
Cynosure, Inc.	100.00	34.50	43.42	38.66	44.44	91.12

Item 6. *Selected Consolidated Financial Data*

The following selected consolidated financial data should be read in conjunction with our consolidated financial statements and the related notes which are included elsewhere in this Annual Report and the "Management's Discussion and Analysis of Financial Condition and Results of Operations" section of this Annual Report. The consolidated statement of operations data for the years ended December 31, 2012, 2011 and 2010 and the consolidated balance sheet data as of December 31, 2012 and 2011 are derived from our audited consolidated financial statements, which are included elsewhere in this Annual Report. The consolidated statement of operations data for the years ended December 31, 2009 and 2008 and the consolidated balance sheet data as of December 31, 2010, 2009 and 2008 are derived from our audited consolidated financial statements, which are not included in this Annual Report. Our historical results for any prior period are not necessarily indicative of results to be expected for any future period.

	Year Ended December 31,				
	2012	2011	2010	2009	2008
	(In thousands, except per share data)				
Consolidated Statement of Operations Data:					
Revenues	$153,493	$110,602	$ 81,775	$ 72,825	$139,662
Cost of revenues	64,567	48,294	35,388	32,808	48,705
Gross profit	88,926	62,308	46,387	40,017	90,957
Operating expenses:					
Sales and marketing	47,543	39,142	32,818	39,098	53,062
Research and development	12,972	10,079	7,300	6,679	7,497
Amortization of intangible assets acquired	1,368	854	—	—	—
General and administrative	14,910	14,255	11,312	14,556	17,837
Total operating expenses	76,793	64,330	51,430	60,333	78,396
Income (loss) from operations	12,133	(2,022)	(5,043)	(20,316)	12,561
Interest income, net	60	126	163	523	2,498
Other income (expense), net	532	(202)	(224)	694	(89)
Income (loss) before provision for income taxes	12,725	(2,098)	(5,104)	(19,099)	14,970
Provision for income taxes	1,764	807	442	3,659	4,771
Net income (loss)	$ 10,961	$ (2,905)	$ (5,546)	$(22,758)	$ 10,199
Basic net income (loss) per share	$ 0.83	$ (0.23)	$ (0.44)	$ (1.79)	$ 0.81
Diluted net income (loss) per share	$ 0.79	$ (0.23)	$ (0.44)	$ (1.79)	$ 0.80
Basic weighted average common shares outstanding	13,189	12,585	12,666	12,709	12,581
Diluted weighted average common shares outstanding	13,792	12,585	12,666	12,709	12,806

	2012	2011	2010	2009	2008
Consolidated Balance Sheet Data:					
Cash, cash equivalents, marketable securities, investments and related financial instruments	$146,745	$ 73,668	$ 96,826	$ 91,967	$ 95,451
Working capital	149,398	82,638	99,687	106,908	109,495
Total assets	234,569	151,580	141,812	145,201	173,122
Capital lease obligation, net of current portion	432	494	40	171	436
Retained earnings (accumulated deficit)	10,283	(678)	2,227	7,773	30,531
Total stockholders' equity	197,507	119,627	120,300	123,830	140,354

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

You should read the following discussion and analysis of our financial condition and results of operations together with our financial statements and the related notes and other financial data included elsewhere in this Annual Report. Some of the information contained in this discussion and analysis or set forth elsewhere in this Annual Report, including information with respect to our plans and strategy for our business, includes forward-looking statements that involve risks and uncertainties. You should review Item 1A of this Annual Report for a discussion of important factors that could cause actual results to differ materially from the results described in or implied by the forward-looking statements contained in the following discussion and analysis.

Company Overview

We develop and market aesthetic treatment systems that are used by physicians and other practitioners to perform non-invasive and minimally invasive procedures to remove hair, treat vascular and benign pigmented lesions, treat multi-colored tattoos, rejuvenate the skin, liquefy and remove unwanted fat through laser lipolysis, reduce cellulite and treat onychomycosis. We are also developing in conjunction with our development agreement with Unilever a laser treatment system for the home use market.

We were incorporated in July 1991. In 2002, El.En. S.p.A., an Italian company that itself and through subsidiaries develops and markets laser systems for medical and industrial applications, acquired a majority of our capital stock. In 2005, we completed our initial public offering of our Class A common stock. Following the closing of our initial public offering, El.En. owned approximately 38% of our outstanding capital stock.

On November 21, 2012, we completed a public offering pursuant to which we issued and sold 2,840,000 shares of our Class A common stock, and El.En. sold 840,000 shares of our Class A common stock. In connection with the closing of the offering, all of our outstanding shares of Class B common stock converted on a one-for-one basis into shares of Class A common stock. As a result, there are no longer any shares of our Class B common stock issued or outstanding, and we may not issue shares of Class B common stock in the future. We received aggregate net proceeds, after deducting underwriting discounts and commissions, of approximately $55.3 million in the offering.

Prior to our public offering of common stock, El. En. beneficially owned approximately 22% of our outstanding common stock. Immediately following the closing of the public offering and as of December 31, 2012, El.En. beneficially owned approximately 13% of our outstanding common stock.

We focus our development and marketing efforts on offering leading, or flagship, products for the following high volume applications:

- our *Elite* product line for hair removal and treatment of facial and leg veins and pigmentations;
- our *Smartlipo* product line for LaserBodySculpting℠ for the removal of unwanted fat;
- our *Cellulaze* product line for the treatment of cellulite;
- our *SmoothShapes XV* product line for the temporary reduction in the appearance of cellulite;
- our *Affirm/SmartSkin* product line for anti-aging applications, including treatments for wrinkles, skin texture, skin discoloration and skin tightening;
- our *Cynergy* product line for the treatment of vascular lesions; and
- our *Accolade, MedLite C6* and *RevLite* product lines for the removal of benign pigmented lesions, as well as multi-colored tattoos.

A key element of our business strategy is to launch innovative new products and technologies into high-growth aesthetic applications. Our research and development team builds on our existing broad range of laser and light-based technologies to develop new solutions and products to target unmet needs in significant aesthetic

treatment markets. Innovation continues to be a strong contributor to our strength. For the year ended December 31, 2012, 39% of our product revenues were attributable to the sale of systems that we have introduced to the market since the beginning of 2010.

In January 2012, we received FDA clearance in the United States to sell and market *Cellulaze*, the world's first FDA-cleared minimally-invasive aesthetic laser device for the treatment of cellulite, which we launched in February 2012. In July 2012, we received FDA clearance in the United States to market an at home device for the treatment of wrinkles that we are developing in partnership with Unilever. Unilever has advised us that it expects to launch the product commercially in 2013. We are also developing our picosecond laser technology platform, which we believe will be the first commercially available picosecond Alexandrite aesthetic laser platform. We expect that our *PicoSure* system, which we are developing for multiple applications, including tattoo removal and treatment of benign pigmented lesions, will be our first product based on this technology platform. Picosecond lasers deliver pulses that are measured in trillionths of a second, in contrast with nanosecond technology, such as our *MedLite* and *RevLite* products, which deliver pulses in billionths of a second. In November 2012, we received FDA clearance in the United States to market *PicoSure*, and anticipate commercialization in the first half of 2013.

Revenues

We generate revenues primarily from sales of our products and parts and accessories and from services, including product warranty revenues. During the year ended December 31, 2012, we derived approximately 84% of our revenues from sales of our products and 16% of our revenues from parts, accessories and service revenues. During the year ended December 31, 2011, we derived approximately 80% of our revenues from the sale of products and 20% of our revenues from parts, accessories and service revenues. Generally, we recognize revenues from the sales of our products upon delivery to our customers, revenues from service contracts and extended product warranties ratably over the coverage period and revenues from service other than under service contracts and extended product warranties in the period in which the service occurs.

We sell our products through a direct sales force in North America, France, Spain, the United Kingdom, Germany, Korea, China, Japan and Mexico, and use distributors to sell our products in other countries where we do not have a direct presence. During the year ended December 31, 2012 and 2011, we derived 51% and 56% of our total revenues, respectively, from sales outside North America. As of December 31, 2012, we had 46 sales employees covering North America, 40 sales employees in France, Spain, the United Kingdom, Germany, Korea, China, Japan and Mexico and 67 distributors covering approximately 100 countries.

The following table provides revenue data by geographical region for the years ended December 31, 2012, 2011 and 2010:

	Percentage of Revenues Year Ended December 31,		
	2012	2011	2010
Region			
North America	49%	44%	41%
Europe	19	25	29
Asia/Pacific	26	25	24
Other	6	6	6
Total	100%	100%	100%

See Note 6 to our consolidated financial statements included in this Annual Report for revenues and asset data by geographic region.

Cost of Revenues

Our cost of revenues consists primarily of material, labor and manufacturing overhead expenses and includes the cost of components and subassemblies supplied by third party suppliers. Cost of revenues also includes royalties incurred on certain products sold, service and warranty expenses, as well as salaries and personnel-related expenses, including stock-based compensation, for our operations management team, purchasing and quality control.

Sales and Marketing Expenses

Our sales and marketing expenses consist primarily of salaries, commissions and other personnel-related expenses, including stock-based compensation, for employees engaged in sales, marketing and support of our products, trade show, promotional and public relations expenses and management and administration expenses in support of sales and marketing. We expect our sales and marketing expenses to increase in absolute dollars but decrease as a percentage of revenues in 2013.

Research and Development Expenses

Our research and development expenses consist of salaries and other personnel-related expenses, including stock-based compensation, for employees primarily engaged in research, development and engineering activities, materials used and other overhead expenses incurred in connection with the design and development of our products and, from time to time, expenses associated with collaborative research and development agreements that we may enter into. We expense all of our research and development costs as incurred. We expect our research and development expenditures to increase in absolute dollars but decrease as a percentage of revenues in 2013.

General and Administrative Expenses

Our general and administrative expenses consist primarily of salaries and other personnel-related expenses, including stock-based compensation for executives, accounting and administrative personnel, acquisition related expenses, professional fees and other general corporate expenses. We expect our general and administrative expenses to increase in absolute dollars but decrease as a percentage of revenues in 2013.

Interest Income, net

Interest income consists primarily of interest earned on our short and long-term marketable securities consisting of state and municipal bonds and U.S. government agencies and treasuries.

Other Income (Expense), net

Other income (expense), net consists primarily of foreign currency remeasurement gains or losses and other miscellaneous income and expense items.

Provision for Income Taxes

As of December 31, 2012, we maintain a full valuation allowance on the net deferred tax assets in the United States, Japan and Mexico.

Valuation allowances are provided if, based on the weight of available evidence, it is more-likely-than-not that some or all of the deferred tax assets will not be realized. We will continue to monitor the need for valuation allowances in each jurisdiction, and may adjust our positions in the future based on actual results.

Results of Operations

Year Ended December 31, 2012 and 2011

The following table contains selected statement of operations data, which serves as the basis of the discussion of our results of operations for the years ended December 31, 2012 and 2011:

	Year Ended December 31, 2012		Year Ended December 31, 2011		Change 2011 to 2012	
	Amount	As a % of Total Revenues	Amount	As a % of Total Revenues	$ Change	% Change
	(Dollars in thousands)					
Product revenues	$128,513	84%	$ 88,361	80%	$40,152	45%
Parts, accessories and service revenues	24,980	16	22,241	20	2,739	12
Total revenues	153,493	100	110,602	100	42,891	39
Cost of revenues	64,567	42	48,294	44	16,273	34
Gross profit	88,926	58	62,308	56	26,618	43
Operating expenses:						
Sales and marketing	47,543	31	39,142	35	8,401	21
Research and development	12,972	8	10,079	9	2,893	29
Amortization of intangible assets acquired	1,368	1	854	1	514	60
General and administrative	14,910	10	14,255	13	655	5
Total operating expenses	76,793	50	64,330	58	12,463	19
Income (loss) from operations	12,133	8	(2,022)	(2)	14,155	700
Interest income, net	60	—	126	—	(66)	(52)
Other income (expense), net	532	—	(202)	—	734	363
Income (loss) before provision for income taxes	12,725	8	(2,098)	(2)	14,823	707
Provision for income taxes	1,764	1	807	1	957	119
Net income (loss)	$ 10,961	7%	$ (2,905)	(3)%	$13,866	477%

Revenues

Total revenue for the year ended December 31, 2012 increased by $42.9 million, or 39%, to $153.5 million, as compared to the year ended December 31, 2011 revenues of $110.6 million (in thousands, except for percentages):

	Year Ended December 31,			
	2012	2011	$ Change	% Change
Product sales in North America	$ 64,910	$ 39,182	$25,728	66%
Product sales outside North America	63,603	49,179	14,424	29
Parts, accessories and service sales	24,980	22,241	2,739	12
Total Revenues	$153,493	$110,602	$42,891	39%

- Revenues from the sale of products in North America increased by approximately $25.7 million, or 66%, from the 2011 period primarily as a result of the increased number of units sold following our February 2012 launch of *Cellulaze* and sales of our ConBio and *PinPointe FootLaser* product lines, which we acquired during 2011.
- Revenues from the sales of products outside of North America increased by approximately $14.4 million, or 29%, from the 2011 period primarily due to an increase in the number of units sold through our *SmoothShapes*, ConBio and *PinPointe FootLaser* product lines, which we acquired during 2011.

- Revenues from the sale of parts, accessories and services increased by approximately $2.7 million, or 12%, from the 2011 period primarily due to an increase in revenues generated from our extended service contracts and revenues generated from performing service on laser systems.

Cost of Revenues

	Year Ended December 31,			
	2012	2011	$ Change	% Change
Cost of revenues (in thousands)	$64,567	$48,294	$16,273	34%
Cost of revenues (as a percentage of total revenues)	42%	44%		

Total cost of revenues increased $16.3 million, or 34%, to $64.6 million in 2012, as compared to $48.3 million in 2011. The increase was primarily associated with the 39% increase in total revenues. Our total cost of revenues decreased as a percentage of total revenues to 42% for the year ended December 31, 2012, from 44% for the year ended December 31, 2011, primarily due to a higher percentage of laser revenue from our North American distribution, where average selling prices tend to be higher.

Sales and Marketing

	Year Ended December 31,			
	2012	2011	$ Change	% Change
Sales and marketing (in thousands)	$47,543	$39,142	$8,401	21%
Sales and marketing (as a percentage of total revenues)	31%	35%		

Sales and marketing expenses increased $8.4 million, or 21% for the year ended December 31, 2012, as compared with the year ended December 31, 2011. The increase was primarily due to a $3.5 million increase in commission expense due to the 45% increase in product revenues. Personnel and travel expenses increased $3.1 million, primarily as a result of efforts related to the launch of *Cellulaze* and an increase in the number of our sales employees. Sales and marketing costs increased $1.5 million, primarily due to an increased number of workshops, trade shows and other promotional efforts, including those related to the launch of *Cellulaze*. Lastly, professional services expenses increased $0.3 million. Sales and marketing expenses for the year ended December 31, 2012 decreased as a percentage of total revenues to 31%, primarily due to the 39% increase in total revenues.

Research and Development

	Year Ended December 31,			
	2012	2011	$ Change	% Change
Research and development (in thousands)	$12,972	$10,079	$2,893	29%
Research and development (as a percentage of total revenues)	8%	9%		

Research and development expenses increased $2.9 million, or 29% for the year ended December 31, 2012 as compared with the year ended December 31, 2011. This increase was primarily due to a $1.8 million increase in personnel and administrative costs associated with the development of new products and the integration of our ConBio research and development team. Professional services expenses increased by $0.6 million and expenses related to project materials expenses increased $0.5 million. Research and development expenses for the year ended December 31, 2012 decreased as a percentage of total revenues to 8%, primarily due to the 39% increase in total revenues.

Amortization of Intangible Assets Acquired

	Year Ended December 31,			
	2012	2011	$ Change	% Change
Amortization of intangible assets acquired (in thousands)	$1,368	$854	$514	60%
Amortization of intangible assets acquired (as a percentage of total revenues)	1%	1%		

For the year ending December 31, 2012, we recognized amortization expense of $1.4 million relating to certain intangible assets acquired through our 2011 acquisitions of Elemé Medical and ConBio's aesthetic business.

General and Administrative

	Year Ended December 31,			
	2012	2011	$ Change	% Change
General and administrative (in thousands)	$14,910	$14,255	$655	5%
General and administrative (as a percentage of total revenues)	10%	13%		

General and administrative expenses increased $0.7 million, or 5%, for the year ended December 31, 2012, as compared to the year ended December 31, 2011. The increase reflects increased personnel and legal costs in 2012. General and administrative expenses for the year ended December 31, 2012 decreased as a percentage of total revenues to 10%, primarily due to the 39% increase in total revenues.

Interest Income, net

	Year Ended December 31,			
	2012	2011	$ Change	% Change
Interest income, net (in thousands)	$60	$126	$(66)	(52)%

The decrease in interest income, net was primarily due to less cash invested in interest-bearing securities throughout 2012 when compared to 2011, due to cash used for acquisitions in June 2011.

Other Income (Expense), net

	Year Ended December 31,			
	2012	2011	$ Change	% Change
Other income (expense), net (in thousands)	$532	$(202)	$734	363%

The change in other income (expense), net was primarily a result of net foreign currency remeasurement gains in the year ended December 31, 2012, as compared to net foreign currency remeasurement losses in the year ended December 31, 2011 due to the strengthening of the euro against the U.S. dollar.

Provision for Income Taxes

	Year Ended December 31,			
	2012	2011	$ Change	% Change
Provision for income taxes (in thousands)	$1,764	$807	$957	119%
Provision as a percentage of income (loss) before provision for income taxes	14%	38%		

The provision for income taxes results from a combination of the activities of our U.S. entities and foreign subsidiaries. In 2012, we recorded an income tax provision of $1.8 million, representing an effective tax rate of 14%. The decrease to our effective tax rate was primarily due to changes in the jurisdictional mix of earnings. We were profitable in the U.S. in 2012 and recorded tax at a lower effective rate than the statutory tax rate of 35% due to the release of the valuation allowance against attributes which could be utilized to offset a portion of the current year earnings. In addition, we recorded a $0.6 million tax benefit associated with the release of valuation allowance against the net deferred tax asset of our German subsidiary during the fourth quarter of 2012. Our German subsidiary is in a cumulative pre-tax book income position over the previous three-year period and our German net operating loss carryforwards are not subject to expiration. We continue to maintain a valuation allowance against our net domestic deferred tax assets as well as the deferred tax assets of our Japanese and Mexican subsidiaries at December 31, 2012.

Year Ended December 31, 2011 and 2010

The following table contains selected statement of operations data, which serves as the basis of the discussion of our results of operations for the years ended December 31, 2011 and 2010:

	Year Ended December 31, 2011		Year Ended December 31, 2010		Change 2010 to 2011	
	Amount	As a % of Total Revenues	Amount	As a % of Total Revenues	$ Change	% Change
	(Dollars in thousands)					
Product revenues	$ 88,361	80%	$62,357	76%	$26,004	42%
Parts, accessories and service revenues	22,241	20	19,418	24	2,823	15
Total revenues	110,602	100	81,775	100	28,827	35
Cost of revenues	48,294	44	35,388	43	12,906	36
Gross profit	62,308	56	46,387	57	15,921	34
Operating expenses:						
Sales and marketing	39,142	35	32,818	40	6,324	19
Research and development	10,079	9	7,300	9	2,779	38
Amortization of intangible assets acquired	854	1	—	—	854	—
General and administrative	14,255	13	11,312	14	2,943	26
Total operating expenses	64,330	58	51,430	63	12,900	25
Loss from operations	(2,022)	(2)	(5,043)	(6)	3,021	60
Interest income, net	126	—	163	—	(37)	(23)
Other expense, net	(202)	—	(224)	—	22	10
Loss before provision for income taxes	(2,098)	(2)	(5,104)	(6)	3,006	59
Provision for income taxes	807	1	442	1	365	83
Net loss	$ (2,905)	(3)%	$ (5,546)	(7)%	$ 2,641	48%

Revenues

Total revenue for the year ended December 31, 2011 increased by $28.8 million, or 35%, to $110.6 million, as compared to the year ended December 31, 2010 revenues of $81.8 million (in thousands, except for percentages):

	Year Ended December 31,			
	2011	2010	$ Change	% Change
Product sales in North America	$ 39,182	$27,788	$11,394	41%
Product sales outside North America	49,179	34,569	14,610	42
Parts, accessories and service sales	22,241	19,418	2,823	15
Total Revenues	$110,602	$81,775	$28,827	35%

- Revenues from the sale of products in North America increased 41% from the 2010 period, primarily attributable to our newly acquired ConBio, *SmoothShapes XV* and *PinPointe FootLaser* product lines which contributed $7.7 million. On an organic basis, within North America, our core, non-acquisition related, product sales grew $3.7 million, or 13%, due to an increased number of units sold.
- Revenues from the sales of products outside of North America increased by approximately $14.6 million, or 42%, from the 2010 period primarily attributable to our newly acquired ConBio, *SmoothShapes XV* and *PinPointe FootLaser* product lines, which contributed $10.4 million. On an organic basis, outside of North America, our core product sales grew $4.3 million, or 12%, due to an increased number of units sold.
- Revenues from the sale of parts, accessories and services increased by approximately $2.8 million, or 15%, from the 2010 period, primarily due to an increase in revenues generated from the sale of our service contracts as well as sales of certain parts and accessories and includes $1.5 million of service revenue through our newly acquired ConBio product line.

Cost of Revenues

	Year Ended December 31,			
	2011	2010	$ Change	% Change
Cost of revenues (in thousands)	$48,294	$35,388	$12,906	36%
Cost of revenues (as a percentage of total revenues)	44%	43%		

Total cost of revenues increased $12.9 million, or 36%, to $48.3 million in 2011, as compared to $35.4 million in 2010. The increase was primarily associated with a 35% increase in total revenues. Our total cost of revenues increased as a percentage of total revenues to 44% for the year ended December 31, 2011, from 43% for the year ended December 31, 2010 due to a higher percentage of laser revenue from our international distribution where our products tend to have lower average selling prices than in North America.

Sales and Marketing

	Year Ended December 31,			
	2011	2010	$ Change	% Change
Sales and marketing (in thousands)	$39,142	$32,818	$6,324	19%
Sales and marketing (as a percentage of total revenues)	35%	40%		

Sales and marketing expenses increased $6.3 million, or 19%. The increase is attributed to an increase in commission expense of $3.3 million due to the 42% increase in product revenues. Our personnel, administrative costs and travel expenses increased $1.9 million as a result of efforts to integrate our ConBio and Elemé Medical

product lines. Promotional costs increased $1.1 million, primarily due to an increased number of workshops, trade shows and other promotional efforts including the launch of *Cellulaze* in international markets. Our sales and marketing expenses for the year ended December 31, 2011 decreased as a percentage of revenue to 35% primarily due to the 35% increase in total revenues as compared to the year ended December 31, 2010.

Research and Development

	Year Ended December 31,			
	2011	2010	$ Change	% Change
Research and development (in thousands)	$10,079	$7,300	$2,779	38%
Research and development (as a percentage of total revenues)	9%	9%		

Research and development expenses increased $2.8 million, or 38% for the year ended December 31, 2011 when compared with the year ended December 31, 2010. This is primarily due to a $1.8 million increase in personnel and administrative costs associated with the integration of our ConBio research and development team. Professional fees and project materials expenses increased $1.0 million related to increased clinical studies and other research and development efforts.

Amortization of Intangible Assets Acquired

	Year Ended December 31,			
	2011	2010	$ Change	% Change
Amortization of intangible assets acquired (in thousands)	$854	—	$854	—
Amortization of intangible assets acquired (as a percentage of total revenues)	1%	—		

For the year ending December 31, 2011, we recognized amortization expense of $0.9 million in our operating expenses relating to intangible assets acquired through our recent acquisitions of Elemé Medical and ConBio. We expect our amortization expense associated with these intangible assets that will be recognized in our operating expenses over the next five years and beyond to be $1.4 million for 2012, $0.9 million for 2013, $0.6 million for 2014, $0.4 million for 2015 and $1.8 million for 2016 and beyond.

General and Administrative

	Year Ended December 31,			
	2011	2010	$ Change	% Change
General and administrative (in thousands)	$14,255	$11,312	$2,943	26%
General and administrative (as a percentage of total revenues)	13%	14%		

General and administrative expenses increased $2.9 million, or 26%, for the year ended December 31, 2011, as compared to the year ended December 31, 2010. The increase is primarily due to acquisition related costs of $1.7 million in accounting, legal expenses and investment banking fees associated with the acquisitions of ConBio and Elemé Medical. The remainder of the increase was associated with increased personnel and administrative costs.

Interest Income, net

	Year Ended December 31,			
	2011	2010	$ Change	% Change
Interest income, net (in thousands)	$126	$163	$(37)	(23)%

The decrease in interest income, net is primarily due to less cash invested in 2011 when compared to 2010 after using approximately $27.0 million for our ConBio and Elemé Medical acquisitions, as well as increased interest payments associated with our increase in capital leases.

Other Expense, net

	Year Ended December 31,			
	2011	2010	$ Change	% Change
Other expense, net (in thousands)	$(202)	$(224)	$22	10%

The decrease in other expense, net is primarily a result of gains from proceeds on the disposition of certain fixed assets in 2011 as compared to 2010 offset by more net foreign currency remeasurement losses in 2011 than in 2010 and valuing Auction Rate Securities (ARS) in prior periods. Our ARS were successfully called in June 2010.

Provision for Income Taxes

	Year Ended December 31,			
	2011	2010	$ Change	% Change
Provision for income taxes (in thousands)	$807	$442	$365	83%
Provision as a percentage of loss before provision for income taxes	38%	9%		

The provision for income taxes results from a combination of the activities of our domestic and foreign subsidiaries. In 2011, we recorded an income tax provision of $0.8 million, representing an effective tax rate of 38%. We continue to maintain a valuation allowance against our net domestic deferred tax assets as well as the deferred tax assets of the Germany, Japan and Mexico subsidiaries at December 31, 2011. In 2010, we recorded an income tax provision of $0.4 million, representing an effective tax rate of 9%. Our 2011 effective tax rate increased from 2010 primarily due to changes in jurisdictional mix of earning as well as having no carryback capacity for 2011 U.S. losses. During the year ended December 31, 2010 we recorded a $0.5 million benefit for a U.S. federal carryback claim.

Liquidity and Capital Resources

We require cash to pay our operating expenses, make capital expenditures and pay our long-term liabilities. Since our inception, we have funded our operations through our 2005 initial public offering, private placements of equity securities, short-term borrowings and funds generated from our operations.

Our cash, cash equivalents and marketable securities balance increased by $73.1 million from December 31, 2011 to December 31, 2012 primarily due to the $55.3 million in proceeds from our November 2012 public offering of common stock, along with profitability maintained throughout 2012. At December 31, 2012, our cash, cash equivalents and short and long-term marketable securities were $146.7 million. Our cash and cash equivalents of $86.1 million are highly liquid investments with maturities of 90 days or less at date of purchase and consist of cash in operating accounts, investments in money market funds, various state and municipal governments and U.S. government agencies. Our short-term marketable securities of $40.6 million consist of investments in various state and municipal governments, U.S. government agencies and treasuries, all of which mature by December 1, 2013. Our long-term marketable securities of $20.1 million consist of investments in various state and municipal governments, U.S. government agencies and treasuries, all of which mature by November 15, 2014.

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 and supporting our products and continued progress of our research and development of new products. We expect capital expenditures during the

next 12 months to remain consistent as compared to 2012. Our inventory balance increased $3.3 million due to increased purchases to meet increased revenue requirements and with the launch of new products. During the year ended December 31, 2012 and 2011, respectively, we transferred $3.0 million and $3.2 million of demonstration equipment to fixed assets.

In March 2012, we commenced an option exchange program in which we offered eligible option holders the opportunity to voluntarily exchange certain "underwater" stock options for a lesser number of new stock options with a lower exercise price. Our U.S. employees were eligible to participate in the exchange program, and our directors and executive officers were not eligible to participate. The exchange ratios for the exchange program were determined by using the Black-Scholes option pricing model to approximate a "value-for-value" exchange, meaning that the value of the eligible stock options was equal to the value of the new stock options. The exchange program, which was subject to Rule 13e-4 under the Securities Exchange Act of 1934, as amended, was completed on April 13, 2012.

In the exchange program, 90 eligible option holders tendered eligible options with exercise prices of $20.00 or greater to purchase an aggregate of 325,946 shares of Class A common stock, representing 96% of the total shares of Class A common stock underlying options eligible for exchange. New stock options were granted to purchase an aggregate of 280,771 shares of Class A common stock in exchange for the cancellation of the tendered eligible options. The exercise price per share of each new option granted in the exchange program is $19.78, which was the closing price of our Class A common stock as reported by The Nasdaq Global Market on April 13, 2012. All eligible stock options were fully vested as of April 13, 2012, when the exchange program was completed. Because the fair value of the eligible stock options was equal to the fair value of the new stock options calculated using the Black-Scholes option pricing model, we did not recognize any incremental stock-based compensation expense as a result of the exchange program.

In July 2009, our Board of Directors authorized the repurchase of up to $10 million of our Class A common stock, from time to time, on the open market or in privately negotiated transactions under a stock repurchase program. The program will terminate upon the purchase of $10 million in common stock, unless our Board of Directors discontinues it sooner. During the year ended December 31, 2012, we did not repurchase any shares of our common stock under this program. As of December 31, 2012, we have repurchased an aggregate of 196,970 shares under this program at an aggregate cost of $1.9 million.

Effective November 21, 2012, we completed a public offering pursuant to which we issued and sold 2,840,000 shares of our Class A common stock, and El.En. sold 840,000 shares of our Class A common stock. In connection with the closing of the offering, all of our outstanding shares of Class B common stock converted on a one-for-one basis into shares of Class A common stock. As a result, there are no longer any shares of our Class B common stock issued or outstanding, and we may not issue shares of Class B common stock in the future. We received aggregate net proceeds, after deducting underwriting discounts and commissions and other offering expenses, of approximately $55.3 million in the offering.

We believe that our current cash, cash equivalents and short and long-term marketable securities, as well as cash generated from operations, will be sufficient to meet our anticipated cash needs for working capital and capital expenditures for the foreseeable future.

Cash Flows

Net cash provided by operating activities was $14.6 million for the year ended December 31, 2012, and resulted primarily from the net income for the period of $11.0 million, increased by approximately $9.7 million in depreciation and amortization and stock-based compensation expense and by approximately $1.1 million in net accretion of marketable securities and changes in deferred income taxes. Net changes in working capital items decreased cash from operating activities by approximately $7.2 million primarily related to increases in inventory and accounts receivable. Net cash used in investing activities was $27.5 million for the year ended

December 31, 2012, which consisted primarily of $69.9 million in purchases of marketable securities and $3.1 million in fixed asset purchases, offset by $45.4 million in proceeds from the sale and maturities of securities and a $0.1 million decrease in other assets. Net cash provided by financing activities during the year ended December 31, 2012 was $63.3 million, primarily relating to $55.3 million in net proceeds to us from our November 2012 public offering, along with $7.2 million in proceeds from stock option exercises.

Net cash provided by operating activities was $6.2 million for the year ended December 31, 2011, and resulted primarily from the net loss for the period of $2.9 million, increased by approximately $9.5 million in depreciation and amortization and stock-based compensation expense and by approximately $1.1 million in accretion of discounts on marketable securities. Net changes in working capital items decreased cash from operating activities by approximately $1.5 million primarily related to an increase in inventory of $10.3 million associated with increased purchases to meet the increased revenue requirements. These increases were offset by increases in accrued expenses of $3.3 million, accounts payable of $2.2 million, deferred revenue of $2.4 million and the sale of demonstration equipment of $1.0 million. Net cash provided by investing activities was $2.4 million for the year ended December 31, 2011, which consisted primarily of $27.0 million used to acquire Elemé Medical and ConBio, $0.9 million used for fixed asset purchases, offset by net proceeds of marketable securities of $30.3 million. Net cash used in financing activities during the year ended December 31, 2011 was $0.3 million, principally relating to $0.5 million in the repurchase of our common stock and $0.1 million for payments on capital lease obligations, partially offset by $0.2 million of proceeds from stock option exercises during the year ended December 31, 2011.

Net cash provided by operating activities was $7.8 million for the year ended December 31, 2010. This resulted primarily from net loss for the period of $5.5 million, increased by approximately $9.3 million in depreciation and amortization and stock-based compensation expense and approximately $0.9 million in accretion of discounts on marketable securities. Net changes in working capital items increased cash from operating activities by approximately $3.4 million principally related to a decrease in prepaid expenses and other assets of $2.5 million associated with our income tax refund, a decrease in accounts receivable of $0.9 million due to increased collection efforts, and an increase in amounts due to related parties and accrued expenses of $1.6 million. This was offset by an increase in inventory of $2.0 million net of demonstration inventory transfers of $4.8 million. Net cash used in investing activities was $23.7 million for the year ended December 31, 2010, which consisted primarily of the net purchases of $23.1 million of marketable securities and $0.7 million used for fixed asset purchases. Net cash used in financing activities during the year ended December 31, 2010 was $1.5 million, principally relating to $1.4 million in the repurchase of our common stock and $0.2 million for payments on capital lease obligations.

Contractual Obligations

Our significant outstanding contractual obligations relate to our capital leases from equipment financings and our facilities leases. Our facility leases are non-cancellable and typically contain renewal options. Certain leases contain rent escalation clauses for which we recognize the expense on a straight-line basis. We have summarized in the table below our fixed contractual cash obligations as of December 31, 2012.

	Total	Less Than One Year	One to Three Years	Three to Five Years	More than Five Years
			(In thousands)		
Capital lease obligations, including interest	$ 770	$ 332	$ 417	$ 21	$ —
Operating leases	7,961	1,862	2,673	2,734	692
Total contractual obligations	$8,731	$2,194	$3,090	$2,755	$ 692

Off Balance Sheet Arrangements

Since inception, we have not engaged in any off balance sheet financing activities.

Critical Accounting Policies and Estimates

The discussion and analysis of our financial condition and results of operations set forth above are based on our financial statements, which have been prepared in accordance with U.S. generally accepted accounting principles, or GAAP. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses. On an ongoing basis, we evaluate our estimates and judgments, including those described below. We base our estimates on historical experience and on various assumptions that we believe to be reasonable under the circumstances. These estimates and assumptions form the basis for making judgments about the carrying values of assets and liabilities, and the reported amounts of revenues and expenses, that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

We believe the following critical accounting policies require significant judgment and estimates by us in the preparation of our financial statements.

Revenue Recognition and Deferred Revenue

In accordance with the *Revenue Recognition Topic* ASC 605-10-S99, we recognize revenue from sales of aesthetic treatment systems and parts and accessories when each of the following four criteria are met:

- delivery has occurred;
- there is persuasive evidence of an agreement;
- the fee is fixed or determinable; and
- collection is reasonably assured.

Revenue from the sale of service contracts is deferred and recognized on a straight-line basis over the contract period as services are provided.

We defer, until earned, payments that we receive in advance of product delivery or performance of services. When we enter into arrangements with multiple elements, which may include sales of products together with service contracts and warranties, we allocate revenue among the elements based on each element's relative fair value in accordance with the principles of Accounting Standards Update ("ASU") 2009-13, *Revenue Recognition Topic—Multiple Element Arrangements.* This allocation requires us to make estimates of fair value for each element. We adopted ASU 2009-13 during the second quarter of 2010 and applied it retrospectively beginning January 1, 2010.

Accounts Receivable and Concentration of Credit Risk

Our accounts receivable balance, net of allowance for doubtful accounts, was $18.0 million as of December 31, 2012, compared with $12.9 million as of December 31, 2011. The allowance for doubtful accounts as of December 31, 2012 was $2.0 million and as of December 31, 2011 was $1.9 million. We maintain an allowance for doubtful accounts based upon the aging of our receivable balances, known collectability issues and our historical experience with losses. We work to mitigate bad debt exposure through our credit evaluation policies, reasonably short payment terms and geographical dispersion of sales. Our revenues include export sales to foreign companies located principally in Europe, the Asia/Pacific region and the Middle East. We obtain letters of credit for foreign sales that we consider to be at risk.

Inventories and Allowance for Excess and Obsolescence

We state all inventories at the lower of cost or market value, determined on a first-in, first-out method. We monitor standard costs on a monthly basis and update them annually and as necessary to reflect changes in raw material costs and labor and overhead rates. Our inventory balance was $32.9 million as of December 31, 2012 compared to $29.6 million as of December 31, 2011. The increase in inventory relates to increased purchases to meet increased revenue requirements with the launch of new products.

We provide inventory allowances 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. 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 when we sell products. Our inventory allowance as of December 31, 2012 was $2.9 million and as of December 31, 2011 was $2.7 million.

Intangible Assets

We capitalize and include in intangible assets the costs of developed technology and patents, customer relationships, trade names and business licenses. Intangible assets are recorded at fair value and stated net of accumulated amortization and impairments. We amortize our intangible assets that have finite lives using either the straight-line or accelerated method, based on the useful life of the asset over which it is expected to be consumed utilizing expected undiscounted future cash flows. Amortization is recorded over the estimated useful lives ranging from 5 to 20 years. We evaluate the realizability of our definite lived intangible assets whenever events or changes in circumstances or business conditions indicate that the carrying value of these assets may not be recoverable based on expectations of future undiscounted cash flows for each asset group. If the carrying value of an asset or asset group exceeds its undiscounted cash flows, we estimate the fair value of the assets, generally utilizing a discounted cash flow analysis based on the present value of estimated future cash flows to be generated by the assets using a risk-adjusted discount rate. To estimate the fair value of the assets, we use market participant assumptions pursuant to ASC 820, *Fair Value Measurements*. If the estimate of an intangible asset's remaining useful life is changed, we will amortize the remaining carrying value of the intangible asset prospectively over the revised useful life.

Goodwill

Goodwill represents the excess of the purchase price over the fair value of assets acquired and liabilities assumed in a business combination. We do not amortize our goodwill, but instead test for impairment at least annually and more frequently whenever events or changes in circumstances indicate that the fair value of the asset may be less than its carrying value of the asset. Our annual test for impairment occurs on the first day of our fourth quarter.

We have adopted ASU 2011-08 *Intangibles—Goodwill and Other,* an amendment to ASC 350, which updates how an entity will evaluate its goodwill for impairment. The guidance provides entities an option to perform a "qualitative" assessment to determine whether further impairment testing is necessary. If further testing is required, the test for impairment continues with the two step process. The first step compares the carrying amount of the reporting unit to its estimated fair value (Step 1). To the extent that the carrying value of the reporting unit exceeds its estimated fair value, a second step is performed, wherein the reporting unit's carrying value is compared to the implied fair value (Step 2). To the extent that the carrying value exceeds the implied fair value, impairment exists and must be recognized.

We have concluded that Cynosure, Inc. represents one reporting unit for goodwill impairment testing and we have performed a qualitative assessment on that reporting unit. As a result of our assessment, we determined that goodwill is not impaired as of December 31, 2012.

Product Warranty Costs and Provisions

We typically provide a one-year parts and labor warranty on end-user sales of our aesthetic treatment systems. Distributor sales generally include a warranty on parts only. We estimate and provide for future costs for initial product warranties at the time revenue is recognized. We base product warranty costs on related material costs, technical support labor costs and overhead. We provide for the estimated cost of product warranties by considering historical material, labor and overhead expenses and applying the experience rates to

the outstanding warranty period for products sold. As we sell new products to our customers, we must exercise considerable judgment in estimating the expected failure rates and warranty costs. If actual product failure rates, material usage, service delivery costs or overhead costs differ from our estimates, we would be required to revise our estimated warranty liability.

Fair Value of Financial Instruments

ASC 820, *Fair Value Measurements Topic*, defines fair value, establishes a framework for measuring fair value under U.S. GAAP and enhances disclosures about fair value measurements. Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Valuation techniques used to measure fair value must maximize the use of observable inputs and minimize the use of unobservable inputs. The standard describes the following fair value hierarchy based on three levels of inputs, of which the first two are considered observable and the last unobservable, that may be used to measure fair value:

- Level 1—Quoted prices in active markets for identical assets or liabilities.
- Level 2—Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable markets data for substantially the full term of the assets or liabilities.
- Level 3—Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Stock-Based Compensation

We follow the fair value recognition provisions of ASC 718, *Stock Compensation Topic* (ASC 718). ASC 718 requires companies to utilize an estimated forfeiture rate when calculating the expense for the period. Accordingly, we review our actual forfeiture rates periodically and align our stock compensation expense with the options that are vesting.

The fair value of each stock option we granted is estimated using the Black-Scholes option pricing model. This option-pricing model requires the input of various subjective assumptions, including the option's expected life and the price volatility of the underlying stock. Our estimated expected stock price volatility is based on our own historic volatility for 2012, 2011 and 2010 and based on a weighted average of our own historical volatility and of the average volatilities of other guideline companies in the same industry for 2009. We believe this is more reflective and a better indicator of the expected future volatility, than using an average of a comparable market index or of a comparable company in the same industry. Our expected term of options granted since adoption of ASC 718 was derived from the short-cut method described in SEC's Staff ASC 718. The risk-free rate for the expected term of the option is based on the U.S. Treasury yield curve in effect at the time of grant. The dividend yield of zero is based on the fact that we have never paid cash dividends and have no present intention to pay cash dividends.

We account for transactions in which services are received from non-employees in exchange for equity instruments based on the fair value of such services received or of the equity instruments issued, whichever is more reliably measured, in accordance with ASC 718 and the *Equity Topic*, ASC 505.

Income Taxes

We provide for income taxes in accordance with ASC 740, *Accounting for Income Taxes*. ASC 740 recognizes tax assets and liabilities for the cumulative effect of all temporary differences between the financial statement carrying amounts and the tax basis of assets and liabilities, and are measured using the enacted tax

rates that will be in effect when these differences are expected to reverse. Valuation allowances are provided if, based on the weight of available evidence, it is more likely than not that some or all of the deferred tax assets will not be realized.

We account for uncertain tax positions following the provisions of ASC 740. ASC 740 clarifies the accounting for income taxes, by prescribing a minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. ASC 740 also provides guidance on derecognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure and transition.

Recent Accounting Pronouncements

In June 2011, the Financial Accounting Standards Board, or FASB, issued new accounting guidance that requires companies to present the components of net income and other comprehensive income either as one continuous statement or as two consecutive statements and eliminates the option to present components of other comprehensive income as part of the statement of changes in stockholders' equity. The guidance does not change the items which must be reported in other comprehensive income, how such items are measured or when they must be reclassified to net income. We adopted this new accounting guidance effective January 1, 2012. The adoption of this guidance had no material effect on our financial condition, results of operations or cash flows.

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

The following discussion about our market risk disclosures involves forward-looking statements. Actual results could differ materially from those projected in the forward-looking statements. We are exposed to market risk related to changes in interest rates and foreign currency exchange rates. We do not use derivative financial instruments.

Interest Rate Sensitivity. We maintain an investment portfolio consisting mainly of money market funds, state and municipal government obligations, U.S. government agencies and treasuries. The securities, other than money market funds, are classified as available-for-sale and consequently are recorded on the balance sheet at fair value with unrealized gains and losses reported as a separate component of accumulated other comprehensive loss. All investments mature by November 15, 2014. These available-for-sale securities are subject to interest rate risk and will fall in value if market interest rates increase, which could result in a realized loss if we are forced to sell an investment before its scheduled maturity. We currently have the ability to hold our fixed income investments until maturity. We do not utilize derivative financial instruments to manage our interest rate risks.

The following table provides information about our investment portfolio in available-for-sale debt securities. For investment securities, the table presents principal cash flows (in thousands) and weighted average interest rates by expected maturity dates.

	December 31, 2012	2013	2014
Investments (at fair value)	$66,084	$46,013	$20,071
Weighted average interest rate	0.27%	0.26%	0.29%

Foreign Currency Exchange. A significant portion of our operations is conducted through operations in countries other than the United States. Revenues from our international operations that were recorded in U.S. dollars represented approximately 50% of our total international revenues during the year ended December 31, 2012. Substantially all of the remaining 50% were sales in euros, British pounds, Japanese yen, Chinese yuan and South Korean won. Since we conduct our business in U.S. dollars, our main exposure, if any, results from changes in the exchange rate between these currencies and the U.S. dollar. Our functional currency is the U.S. dollar. Our policy is to reduce exposure to exchange rate fluctuations by having most of our assets and liabilities, as well as most of our revenues and expenditures, in U.S. dollars, or U.S. dollar linked. We have not historically engaged in hedging activities relating to our non-U.S. dollar operations. We sell inventory to our subsidiaries in

U.S. dollars. These amounts are recorded at our local subsidiaries in local currency rates in effect on the transaction date. Therefore, we may be exposed to exchange rate fluctuations that occur while the debt is outstanding which we recognize as unrealized gains and losses in our statements of operations. Upon settlement of these debts, we may record realized foreign exchange gains and losses in our statements of operations. We may incur negative foreign currency translation charges as a result of changes in currency exchange rates.

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

All financial statements and schedules required to be filed hereunder are included beginning on page F-1 and are incorporated in this report by reference.

Item 9. ***Changes in and Disagreements with Accountants on Accounting and Financial Disclosure***

None.

Item 9A. ***Controls and Procedures***

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our chief executive officer and chief financial officer, evaluated the effectiveness of our disclosure controls and procedures as of December 31, 2012. The term "disclosure controls and procedures," as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company's management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on the evaluation of our disclosure controls and procedures as of December 31, 2012, our chief executive officer and chief financial officer concluded that, as of such date, our disclosure controls and procedures were effective at the reasonable assurance level.

Changes in Internal Control over Financial Reporting

No change in our internal control over financial reporting occurred during the fiscal quarter ended December 31, 2012 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Management's Annual Report on Internal Control over Financial Reporting

Management is responsible for establishing and maintaining adequate control over financial reporting as defined in Rule 13(a)-15(f) and 15(d)-15(f) under the Exchange Act. Internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP. 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 GAAP, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and 3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, a system of internal control over financial reporting can provide only reasonable assurance and may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. Management assessed the effectiveness of our internal control over financial reporting as of December 31, 2012. In making its assessment, management used the criteria set forth in *Internal Control–Integrated Framework* issued by the Committee of Sponsoring Organizations ("COSO") of the Treadway Commission. A "material weakness" is a control deficiency (within the meaning of Public Company Accounting Oversight Board Auditing Standard No. 5), or combination of control deficiencies, that result in there being more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected on a timely basis by employees in the normal course of their assigned functions. Based on management's assessment, management determined that the Company maintained effective internal control over financial reporting as of December 31, 2012 based on the COSO criteria.

Our internal control over financial reporting as of December 31, 2012 has been audited by Ernst & Young, LLP, an independent registered public accounting firm, as stated in its report below.

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders of
Cynosure, Inc.:

We have audited Cynosure Inc.'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 COSO criteria). Cynosure, Inc.'s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Annual Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit 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 effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Cynosure, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2012, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets as of December 31, 2012 and 2011, and the related consolidated statements of operations, stockholders' equity and comprehensive loss and cash flows for each of the three years in the period ended December 31, 2012 of Cynosure, Inc. and our report dated March 8, 2013 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Boston, Massachusetts
March 8, 2013

Item 9B. ***Other Information***

None.

PART III

Item 10. *Directors, Executive Officers and Corporate Governance*

The information required by this item with respect to our directors and executive officers will be contained in our 2013 Proxy Statement under the caption "INFORMATION ABOUT OUR DIRECTORS, OFFICERS AND 5% STOCKHOLDERS" and is incorporated in this report by reference.

The information required by this item with respect to Section 16(a) beneficial ownership reporting compliance will be contained in our 2013 Proxy Statement under the caption "SECTION 16(A) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE" and is incorporated in this report by reference.

The information required by this item with respect to corporate governance matters will be contained in our 2013 Proxy Statement under the caption "CORPORATE GOVERNANCE" and is incorporated in this report by reference.

Code of Ethics

We have adopted a code of business conduct and ethics that applies to our directors and officers (including our principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions) as well as our employees. Copies of our code of conduct are available without charge upon written request directed to Corporate Secretary, Cynosure, Inc., 5 Carlisle Road, Westford, Massachusetts 01886.

Item 11. *Executive Compensation*

The information required by this item will be contained in our 2013 Proxy Statement under the captions "DIRECTOR COMPENSATION," "COMPENSATION DISCUSSION AND ANALYSIS" and "EXECUTIVE COMPENSATION" and is incorporated in this report by reference.

Item 12. *Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters*

The information required by this item with regard to security ownership of certain beneficial owners and management will be contained in our 2013 Proxy Statement under the caption "INFORMATION ABOUT OUR DIRECTORS, OFFICERS AND 5% STOCKHOLDERS—Security Ownership of Certain Beneficial Owners and Management" and is incorporated in this report by reference.

The information required by this item with regard to securities authorized for issuance under equity compensation plans will be contained in our 2013 Proxy Statement under the caption "EXECUTIVE COMPENSATION—Securities Authorized for Issuance under our Equity Compensation Plans" and is incorporated in this report by reference.

Item 13. *Certain Relationships and Related Transactions, and Director Independence*

The information required by this item will be contained in our 2013 Proxy Statement under the captions "RELATED-PARTY TRANSACTIONS" and "CORPORATE GOVERNANCE" and is incorporated in this report by reference.

Item 14. *Principal Accountant Fees and Services*

The information required by this item will be contained in our 2013 Proxy Statement under the caption "PROPOSAL 3—RATIFICATION OF THE SELECTION OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM" and is incorporated in this report by reference.

PART IV

Item 15. ***Exhibits and Financial Statement Schedules***

(a) 1. Financial Statements. The financial statements and notes thereto annexed to this report begin on page F-1.

2. *Financial Statement Schedules. All other supplemental schedules are omitted because of the absence of conditions under which they are required or because the required information is given in the financial statements or notes thereto.*

3. *Exhibits. The Exhibit Index annexed to this report, and immediately preceding the exhibits, is incorporated by reference.*

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

CYNOSURE, INC.

By: /s/ MICHAEL R. DAVIN

Michael R. Davin
President, Chief Executive Officer and Chairman of the Board of Directors

Date: March 8, 2013

Pursuant to the requirements of the Securities Act of 1934, this report has been signed by the following persons on behalf of the registrant in the capacities and on the dates indicated.

Signature	Title	Date
/s/ MICHAEL R. DAVIN **Michael R. Davin**	President, Chief Executive Officer and Chairman of the Board of Directors (Principal Executive Officer)	March 8, 2013
/s/ TIMOTHY W. BAKER **Timothy W. Baker**	Executive Vice President and Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)	March 8, 2013
/s/ BRIAN M. BAREFOOT **Brian M. Barefoot**	Director	March 8, 2013
/s/ ETTORE V. BIAGIONI **Ettore V. Biagioni**	Director	March 8, 2013
/s/ ANDREA CANGIOLI **Andrea Cangioli**	Director	March 8, 2013
/s/ MARINA HATSOPOULOS **Marina Hatsopoulos**	Director	March 8, 2013
/s/ THOMAS H. ROBINSON **Thomas H. Robinson**	Director	March 8, 2013

CYNOSURE, INC.

INDEX TO FINANCIAL STATEMENTS

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders
Cynosure, Inc.:

We have audited the accompanying consolidated balance sheets of Cynosure, Inc. as of December 31, 2012 and 2011, and the related consolidated statements of operations, comprehensive income (loss), stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2012. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements 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. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Cynosure, Inc. at December 31, 2012 and 2011, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2012, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Cynosure, Inc.'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 and our report dated March 8, 2013 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Boston, Massachusetts
March 8, 2013

CYNOSURE, INC.

CONSOLIDATED BALANCE SHEETS
(In thousands, except per share data)

	December 31, 2012	December 31, 2011
ASSETS		
Current assets:		
Cash and cash equivalents	$ 86,057	$ 35,694
Short-term marketable securities	40,617	31,379
Accounts receivable, net of allowance of $2,043 and $1,872 in 2012 and 2011, respectively	17,970	12,853
Inventories	32,906	29,568
Prepaid expenses and other current assets	5,149	3,038
Deferred income taxes	783	701
Total current assets	183,482	113,233
Property and equipment, net	8,207	7,705
Long-term marketable securities	20,071	6,595
Goodwill and intangibles, net	21,748	23,486
Other assets	1,061	561
Total assets	$234,569	$151,580
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 8,346	$ 8,474
Amounts due to related party	1,896	1,550
Accrued expenses	17,201	13,944
Deferred revenue	6,319	6,388
Capital lease obligations	322	239
Total current liabilities	34,084	30,595
Capital lease obligations, net of current portion	432	494
Deferred revenue, net of current portion	281	367
Other noncurrent liabilities	2,265	497
Commitments and Contingencies		
Stockholders' equity:		
Preferred stock, $0.001 par value Authorized—5,000 shares as of December 31, 2012 and 2011 Issued—no shares as of December 31, 2012 and 2011	—	—
Class A and Class B common stock, $0.001 par value Authorized—70,000 shares as of December 31, 2012 and 2011		
Issued—16,402 Class A shares at December 31, 2012; Issued—9,828 Class A shares and 2,975 Class B shares at December 31, 2011	17	13
Additional paid-in capital	190,979	124,506
Retained Earnings (accumulated deficit)	10,283	(678)
Accumulated other comprehensive loss	(1,599)	(2,041)
Treasury stock, 233 Class A shares, at cost, at December 31, 2012; 197 Class A and 36 Class B shares, at cost, at December 31, 2011	(2,173)	(2,173)
Total stockholders' equity	197,507	119,627
Total liabilities and stockholders' equity	$234,569	$151,580

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

CYNOSURE, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share data)

	Year Ended December 31,		
	2012	2011	2010
Product revenues	$128,513	$ 88,361	$62,357
Parts, accessories and service revenues	24,980	22,241	19,418
Total revenues	153,493	110,602	81,775
Cost of revenues	64,567	48,294	35,388
Gross profit	88,926	62,308	46,387
Operating expenses:			
Sales and marketing	47,543	39,142	32,818
Research and development	12,972	10,079	7,300
Amortization of intangible assets acquired	1,368	854	—
General and administrative	14,910	14,255	11,312
Total operating expenses	76,793	64,330	51,430
Income (loss) from operations	12,133	(2,022)	(5,043)
Interest income, net	60	126	163
Other income (expense), net	532	(202)	(224)
Income (loss) before provision for income taxes	12,725	(2,098)	(5,104)
Provision for income taxes	1,764	807	442
Net income (loss)	$ 10,961	$ (2,905)	$ (5,546)
Basic net income (loss) per share	$ 0.83	$ (0.23)	$ (0.44)
Diluted net income (loss) per share	$ 0.79	$ (0.23)	$ (0.44)
Basic weighted average common shares outstanding	13,189	12,585	12,666
Diluted weighted average common shares outstanding	13,792	12,585	12,666

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

CYNOSURE, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(In thousands)

	Year Ended December 31,		
	2012	2011	2010
Net income (loss)	$10,961	$(2,905)	$(5,546)
Other comprehensive income (loss) components:			
Cumulative translation adjustment	452	(97)	(510)
Unrealized (loss) gain on marketable securities	(10)	(6)	23
Total other comprehensive income (loss)	442	(103)	(487)
Comprehensive income (loss)	$11,403	$(3,008)	$(6,033)

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

CYNOSURE, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(In thousands)

	Class A and B Common Stock		Additional Paid-In Capital	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Loss	Class A and B Treasury Stock		Total Stockholders' Equity
	Shares	$0.001 Par Value				Shares	Cost	
Balance at December 31, 2009 ..	12,750	$ 13	$117,814	$ 7,773	$(1,451)	(39)	$ (319)	$123,830
Stock-based compensation expense	—	—	3,807	—	—	—	—	3,807
Exercise of stock options	11	—	85	—	—	—	—	85
Repurchase of common stock	—	—	—	—	—	(146)	(1,389)	(1,389)
Net loss	—	—		(5,546)	—	—	—	(5,546)
Cumulative translation adjustment	—	—	—	—	(510)	—	—	(510)
Unrealized gain on marketable securities, net of tax provision	—	—	—	—	23	—	—	23
Balance at December 31, 2010 ..	12,761	$ 13	$121,706	$ 2,227	$(1,938)	(185)	$(1,708)	$120,300
Stock-based compensation expense	—	—	2,559	—	—	—	—	2,559
Exercise of stock options	42	—	241	—	—	—	—	241
Repurchase of common stock	—	—		—	—	(48)	(465)	(465)
Net loss	—	—	—	(2,905)	—	—	—	(2,905)
Cumulative translation adjustment	—	—	—	—	(97)	—	—	(97)
Unrealized loss on marketable securities, net of tax provision	—	—	—	—	(6)	—	—	(6)
Balance at December 31, 2011 ..	12,803	$ 13	$124,506	$ (678)	$(2,041)	(233)	$(2,173)	$119,627
Stock-based compensation expense	—	—	2,913	—	—	—	—	2,913
Exercise of stock options	759	1	7,157	—	—	—	—	7,158
Tax benefit from stock-based compensation expense in excess of book deductions	—	—	1,153	—	—	—	—	1,153
Public offering of common stock	2,840	3	55,250	—	—	—	—	55,253
Net income	—	—	—	10,961	—	—	—	10,961
Cumulative translation adjustment	—	—	—	—	452	—	—	452
Unrealized loss on marketable securities, net of tax provision	—	—	—	—	(10)	—	—	(10)
Balance at December 31, 2012 ..	16,402	$ 17	$190,979	$10,283	$(1,599)	(233)	$(2,173)	$197,507

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

CYNOSURE, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	Year Ended December 31,		
	2012	2011	2010
Operating activities:			
Net income (loss)	$ 10,961	$ (2,905)	$ (5,546)
Reconciliation of net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	6,870	6,894	5,431
Gain on investments	—	—	(21)
Stock-based compensation	2,910	2,561	3,843
Deferred income taxes	(352)	(46)	(221)
(Gain) loss on disposal of fixed assets	(19)	(55)	62
Net accretion of marketable securities	1,480	1,086	877
Changes in operating assets and liabilities:			
Accounts receivable	(4,861)	(469)	883
Inventories	(6,183)	(10,343)	(1,988)
Net book value of demonstration inventory sold	884	999	1,244
Prepaid expenses and other current assets	(980)	908	2,480
Accounts payable	(151)	2,168	71
Due to related party	347	(238)	448
Tax benefit from stock option exercises	(1,178)	(33)	(2)
Accrued expenses	4,704	3,254	1,116
Deferred revenue	(135)	2,395	(883)
Other noncurrent liabilities	319	2	—
Net cash provided by operating activities	14,616	6,178	7,794
Investing activities:			
Purchases of property and equipment	(3,116)	(903)	(663)
Proceeds from the sales and maturities of securities	45,400	84,820	72,718
Purchases of marketable securities	(69,878)	(54,488)	(95,768)
Acquisitions	—	(26,970)	—
Decrease (increase) in other assets	110	(34)	—
Net cash (used in) provided by investing activities	(27,484)	2,425	(23,713)
Financing activities:			
Excess tax benefit on options exercised	1,178	33	2
Repurchases of common stock	—	(465)	(1,389)
Proceeds from public offering of common stock	55,253	—	—
Proceeds from stock option exercises	7,158	241	85
Payments on capital lease obligation	(305)	(102)	(235)
Net cash provided by (used in) financing activities	63,284	(293)	(1,537)
Effect of exchange rate changes on cash and cash equivalents	(53)	(50)	93
Net increase (decrease) in cash and cash equivalents	50,363	8,260	(17,363)
Cash and cash equivalents, beginning of year	35,694	27,434	44,797
Cash and cash equivalents, end of year	$ 86,057	$ 35,694	$ 27,434
Supplemental cash flow information:			
Cash paid for interest	$ 42	$ 32	$ 57
Cash paid for income taxes	$ 1,767	$ 1,160	$ 1,021
Supplemental noncash investing and financing activities:			
Transfer of demonstration equipment from inventory to fixed assets	$ 2,988	$ 3,205	$ 4,802
Assets acquired under capital lease	$ 351	$ 695	$ —

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

1. Nature of the Business

Cynosure, Inc. (Cynosure or the Company) develops and markets aesthetic treatment systems that are used by physicians and other practitioners to perform non-invasive and minimally invasive procedures to remove hair, treat vascular and benign pigmented lesions, treat multi-colored tattoos, rejuvenate the skin, liquefy and remove unwanted fat through laser lipolysis, reduce cellulite and treat onychomycosis. Cynosure sells its products through a direct sales force in North America, France, Spain, the United Kingdom, Germany, Korea, China, Japan and Mexico and through international distributors in approximately 100 other countries. Cynosure markets and sells its products primarily to the dermatology, plastic surgery and general medical markets, both domestically and internationally. Cynosure is a Delaware corporation, incorporated on July 10, 1991, located in Westford, Massachusetts.

2. Summary of Significant Accounting Policies

Significant accounting policies followed in the preparation of these consolidated financial statements are as follows:

Management Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and the related disclosures at the date of the financial statements and during the reporting period. Components particularly subject to estimation include the allowance for doubtful accounts, inventory reserves, impairment analysis of goodwill and intangibles, deferred tax assets, liabilities and valuation allowances, fair value of stock options and investments and accrued warranties. On an ongoing basis, management evaluates its estimates. Actual results could differ from these estimates.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of Cynosure, Inc. and its wholly owned subsidiaries: Cynosure GmbH, Cynosure S.A.R.L., Cynosure UK Limited, Cynosure Spain, S.L., Cynosure KK, Suzhou Cynosure Medical Devices, Co., Cynosure Mexico and Cynosure Korea Limited. All significant intercompany balances and transactions have been eliminated.

Reclassifications

Certain amounts in the prior year's financial statements have been reclassified to conform to the current year's presentation within the consolidated statements of operations.

Cash, Cash Equivalents, Short and Long-Term Marketable Securities

Cynosure considers all short-term, highly liquid investments with original maturities at the time of purchase of 90 days or less to be cash equivalents. Cynosure accounts for short and long-term marketable securities as available-for-sale in accordance with Accounting Standards Codification (ASC) 320, *Investments—Debt and Equity Securities Topic*. Under ASC 320, securities purchased to be held for indefinite periods of time and not intended at the time of purchase to be held until maturity are classified as available-for-sale securities. ASC 320 requires Cynosure to recognize all marketable securities on the consolidated balance sheets at fair value. Cynosure's marketable securities are stated at fair value based on quoted market prices. Adjustments to the fair value of marketable securities that are classified as available-for-sale are recorded as increases or decreases, net of income taxes, within accumulated other comprehensive loss in shareholders' equity. The amortized cost of

marketable debt securities is adjusted for amortization of premiums and discounts to maturity computed under the effective interest method. The cost of securities sold is determined by the specific identification method. Cynosure continually evaluates whether any marketable investments have been impaired and, if so, whether such impairment is temporary or other than temporary.

Fair Value of Financial Instruments

Cynosure's financial instruments consist of cash, cash equivalents, short and long-term marketable securities, accounts receivable and capital leases. Cynosure's estimate of fair value for financial instruments, other than marketable securities, approximates their carrying value at December 31, 2012 and 2011.

ASC 820, *Fair Value Measurement Topic*, applies to all financial assets and financial liabilities that are being measured and reported on a fair value basis, establishes a framework for measuring fair value of assets and liabilities and expands disclosures about fair value measurements.

Accounts Receivable and Concentration of Credit Risk

Cynosure's accounts receivable balance, net of allowance for doubtful accounts, was $18.0 million as of December 31, 2012, compared with $12.9 million as of December 31, 2011. The allowance for doubtful accounts as of December 31, 2012 was $2.0 million and as of December 31, 2011 was $1.9 million. Cynosure maintains an allowance for doubtful accounts based upon the aging of its receivable balances, known collectibility issues and Cynosure's historical experience with losses. Cynosure works to mitigate bad debt exposure through its credit evaluation policies, reasonably short payment terms and geographical dispersion of sales. Cynosure's revenue includes export sales to foreign companies located principally in Europe, the Asia/Pacific region and the Middle East. Cynosure obtains letters of credit for foreign sales that the Company considers to be at risk.

No customer accounted for 10% or greater of revenue during 2012, 2011 or 2010. No customer accounted for 10% or greater of accounts receivable as of December 31, 2012 or 2011. Accounts receivable allowance activity consisted of the following for the years ended December 31:

	2012	2011	2010
		(In thousands)	
Balance at beginning of year	$1,872	$2,207	$ 2,983
Additions	591	167	933
Deductions	(420)	(502)	(1,709)
Balance at end of year	$2,043	$1,872	$ 2,207

Inventory

Cynosure states all inventories at the lower of cost or market, determined on a first-in, first-out method. Inventory includes material, labor and overhead and consists of the following:

	December 31,	
	2012	2011
	(In thousands)	
Raw materials	$ 9,076	$ 7,645
Work in process	1,134	1,437
Finished goods	22,696	20,486
	$32,906	$29,568

Included in finished goods are lasers used for demonstration purposes. Cynosure's policy is to include demonstration lasers as inventory for a period of up to one year after being used by the sales force at which time

the demonstration lasers are either sold or transferred to fixed assets at the lower of cost or market and depreciated over their estimated useful life of three years. Similar to any other finished goods in inventory, Cynosure accounts for such demonstration inventory in accordance with the policy for excess and obsolescence review of Cynosure's entire inventory.

Cynosure's excess and obsolescence reserve policy is to establish inventory reserves when conditions exist that suggest that inventory may be in excess of anticipated demand or is obsolete based upon assumptions about future demand for products and market conditions. Cynosure regularly evaluates the ability to realize the value of inventory based on a combination of factors including the following: historical usage rates, forecasted sales or usage, product end of life dates, estimated current and future market values and new product introductions. Assumptions used in determining management's estimates of future product demand may prove to be incorrect, in which case the provision required for excess and obsolete inventory would have to be adjusted in the future. If inventory is determined to be overvalued, Cynosure recognizes such costs as cost of goods sold at the time of such determination. Although Cynosure performs a detailed review of its forecasts of future product demand, any significant unanticipated changes in demand could have a significant impact on the value of Cynosure's inventory and reported operating results.

Cynosure purchases raw material components as well as certain finished goods from sole source suppliers. A delay in the production capabilities of these vendors could cause a delay in Cynosure's manufacturing, and a possible loss of revenues, which would adversely affect operating results.

Property and Equipment

Property and equipment are recorded at cost less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Assets under capital leases and leasehold improvements are amortized using the straight-line method over the shorter of the estimated useful life of the asset or the respective lease term. Included in property and equipment are certain lasers that are used for demonstration purposes. Maintenance and repairs are charged to expense as incurred. Cynosure continually evaluates whether events or circumstances have occurred that indicate that the estimated remaining useful life of its long-lived assets may warrant revision or that the carrying value of these assets may be impaired. Cynosure evaluates the realizability of its long-lived assets based on profitability and cash flow expectations for the related asset. Any write-downs are treated as permanent reductions in the carrying amount of the assets. Based on this evaluation, Cynosure believes that, as of each of the balance sheet dates presented, none of Cynosure's long-lived assets were impaired.

Intangible Assets

Cynosure capitalizes and includes in intangible assets the costs of developed technology and patents, customer relationships, trade names and business licenses. Intangible assets are recorded at fair value and stated net of accumulated amortization and impairments. Cynosure amortizes its intangible assets that have finite lives using either the straight-line or accelerated method, based on the useful life of the asset over which it is expected to be consumed utilizing expected undiscounted future cash flows. Amortization is recorded over the estimated useful lives ranging from 5 to 20 years. Cynosure evaluates the realizability of its definite lived intangible assets whenever events or changes in circumstances or business conditions indicate that the carrying value of these assets may not be recoverable based on expectations of future undiscounted cash flows for each asset group. If the carrying value of an asset or asset group exceeds its undiscounted cash flows, Cynosure estimates the fair value of the assets, generally utilizing a discounted cash flow analysis based on the present value of estimated future cash flows to be generated by the assets using a risk-adjusted discount rate. To estimate the fair value of the assets, Cynosure uses market participant assumptions pursuant to ASC 820, *Fair Value Measurements*. If the estimate of an intangible asset's remaining useful life is changed, Cynosure will amortize the remaining carrying value of the intangible asset prospectively over the revised useful life.

Goodwill

Goodwill represents the excess of the purchase price over the fair value of assets acquired and liabilities assumed in a business combination. Cynosure does not amortize its goodwill, but instead tests for impairment at least annually and more frequently whenever events or changes in circumstances indicate that the fair value of the asset may be less than its carrying value of the asset. Cynosure's annual test for impairment occurs on the first day of its fourth quarter.

Cynosure has adopted ASU 2011-08 *Intangibles—Goodwill and Other,* an amendment to ASC 350, which updates how an entity will evaluate its goodwill for impairment. The guidance provides entities an option to perform a "qualitative" assessment to determine whether further impairment testing is necessary. If further testing is required, the test for impairment continues with the two step process. The first step compares the carrying amount of the reporting unit to its estimated fair value (Step 1). To the extent that the carrying value of the reporting unit exceeds its estimated fair value, a second step is performed, wherein the reporting unit's carrying value is compared to the implied fair value (Step 2). To the extent that the carrying value exceeds the implied fair value, impairment exists and must be recognized.

Cynosure has one reporting unit for goodwill impairment testing and has performed a qualitative assessment on that reporting unit. As a result of this assessment, the Company determined that goodwill is not impaired as of December 31, 2012.

Revenue Recognition and Deferred Revenue

Cynosure generates revenue from the sale of aesthetic treatment systems that are used by physicians and other practitioners to perform various non-invasive and minimally invasive aesthetic procedures. These systems incorporate a broad range of laser and other light-based energy sources. Cynosure offers service and warranty contracts in connection with these sales.

Cynosure recognizes revenue from sales of aesthetic treatment systems and parts and accessories in accordance with the *Revenue Recognition Topic* ASC 605-10-S99. Cynosure recognizes revenue from sales of its treatment systems and parts and accessories upon delivery, provided there are no uncertainties regarding customer acceptance, there is persuasive evidence of an arrangement, the fee is fixed or determinable, and collectibility of the related receivable is reasonably assured. Revenues from the sales of service and warranty contracts are deferred and recognized on a straight-line basis over the contract period as services are provided. Payments received by Cynosure in advance of product delivery or performance of services are deferred until earned.

Multiple-element arrangements are evaluated in accordance with the principles of Accounting Standards Update ("ASU") 2009-13, *Revenue Recognition Topic—Multiple Element Arrangements* and Cynosure allocates revenue among the elements based upon each element's relative fair value.

In accordance with the provisions of ASC 605-45, *Revenue Recognitions Topic—Principal Agent Considerations*, Cynosure records shipping and handling costs billed to its customers as a component of revenue, and the underlying expense as a component of cost of revenue. Shipping and handling costs included as a component of revenue totaled approximately $0.4 million, $0.4 million, and $0.3 million for the years ended December 31, 2012, 2011 and 2010, respectively. Shipping and handling costs included as a component of cost of revenue totaled $0.5 million, $0.5 million and $0.3 million for the years ended December 31, 2012, 2011 and 2010, respectively.

Cynosure collects sales tax from its customers on product sales for which the customer is not tax exempt and remits such taxes to the appropriate governmental authorities. Cynosure presents its sales taxes on a net basis; therefore, these taxes are excluded from revenues.

Product Warranty Costs

Cynosure typically provides a one-year parts and labor warranty on end-user sales of lasers. Distributor sales generally include a one-year warranty on parts only. Estimated future costs for initial product warranties are provided for at the time of revenue recognition. The following table sets forth activity in the accrued warranty account, which is a component of accrued expenses in the consolidated balance sheets:

	Years Ended December 31,		
	2012	2011	2010
		(In thousands)	
Balance at beginning of year	$ 3,171	$ 2,112	$ 2,440
Warranty provision related to new sales	4,641	4,729	3,550
Warranty provision assumed from acquisitions	—	342	—
Costs incurred	(4,397)	(4,012)	(3,878)
Balance at end of year	$ 3,415	$ 3,171	$ 2,112

Royalty Costs

Under a cross-license agreement with Palomar Medical Technologies, Inc. ("Palomar"), Cynosure has a non-exclusive license to integrate its products for certain hair removal technology covered by specified U.S. and foreign patents held by Palomar, and Palomar has a non-exclusive license under certain U.S. and foreign patents held by Cynosure. In connection with this agreement, Cynosure has agreed to pay royalties to Palomar on future sales of certain hair removal-only products. The royalty rate for sales of hair removal products ranges from 3.75% to 7.5% of net sales, depending upon product configuration and the number of energy sources. These expenses are recorded as a component of cost of revenues in the consolidated statement of operations. Cynosure's revenues from systems that do not include hair removal capabilities and revenues from service are not subject to any royalties under this agreement.

Research and Development

Research and development costs consist of salaries and other personnel-related expenses, including stock-based compensation, of employees primarily engaged in research, development and engineering activities and materials used and other overhead expenses incurred in connection with the design and development of Cynosure's products and from time to time expenses associated with collaborative research agreements that the Company may enter into. These costs are expensed as incurred.

In June 2009, Cynosure entered into a cooperative development agreement ("Agreement") with Unilever Ltd. ("Unilever") to develop and commercialize light-based devices for the emerging home use personal care market. Under the terms of this Agreement, Cynosure performs certain research and development activities to assist in the advancement of the commercialization of these devices, the cost of which is partially funded by Unilever. Cynosure incurred $4.1 million, $1.8 million, and $0.9 million of research and development costs in connection with this Agreement during fiscal 2012, 2011 and 2010, respectively, and recorded $3.3 million, $1.7 million, and $0.7 million of reimbursements from Unilever as a reduction to research and development expenses in the respective fiscal periods. In July 2012, Cynosure received FDA clearance in the United States to market the product in the United States. Unilever expects to launch the product commercially in 2013. Once the product is commercialized, Cynosure will be entitled to future royalty payments from Unilever.

Advertising Costs

Cynosure expenses advertising costs as incurred. Advertising costs totaled $0.6 million, $0.5 million and $0.4 million for the years ended December 31, 2012, 2011 and 2010, respectively.

Foreign Currency Translation

The financial statements of Cynosure's foreign subsidiaries are translated from local currency into U.S. dollars using the current exchange rate at the balance sheet date for assets and liabilities, and the average exchange rate

prevailing during the period for revenue and expenses. The functional currency for Cynosure's foreign subsidiaries is considered to be the local currency for each entity and, accordingly, translation adjustments for these subsidiaries are included in accumulated other comprehensive loss within stockholders' equity. Certain intercompany and third party foreign currency-denominated transactions generated foreign currency remeasurement gains (losses) of approximately $360,000, $(318,000) and $(274,000) during 2012, 2011 and 2010, respectively, which are included in other income (expense), net, in the consolidated statements of operations.

Accumulated Other Comprehensive Loss

Changes to accumulated other comprehensive loss during the year ended December 31, 2012 were as follows (in thousands):

	Unrealized Gain (Loss) on Marketable Securities, net of taxes	Translation Adjustment	Accumulated Other Comprehensive Loss
Balance—December 31, 2011	$ 23	$(2,064)	$(2,041)
Current period other comprehensive (loss) gain	(10)	452	442
Balance—December 31, 2012	$ 13	$(1,612)	$(1,599)

Stock-Based Compensation

Cynosure follows the fair value recognition provisions of ASC 718, *Stock Compensation Topic* (ASC 718). Cynosure expenses the fair value of stock options over the service period. ASC 718 requires companies to utilize an estimated forfeiture rate when calculating the expense for the period. Accordingly, Cynosure reviews its actual forfeiture rates and periodically aligns its stock compensation expense with the options that are vesting.

Cynosure recorded stock-based compensation expense of $2.9 million, $2.6 million and $3.8 million for the years ended December 31, 2012, 2011 and 2010, respectively. Cynosure capitalized $18,000 and $15,000, respectively, of stock-based compensation expense as a part of inventory as of December 31, 2012 and 2011.

Total stock-based compensation expense was recorded to cost of revenues and operating expenses based upon the functional responsibilities of the individual holding the respective options, as follows:

	Years Ended December 31,		
	2012	2011	2010
	(In thousands)		
Cost of revenues	$ 127	$ 134	$ 289
Sales and marketing	857	829	1,715
Research and development	495	446	538
General and administrative	1,431	1,152	1,301
Total stock-based compensation expense	$2,910	$2,561	$3,843

As of December 31, 2012, there was $4.5 million of unrecognized compensation expense related to non-vested share awards that is expected to be recognized on a straight-line basis over a weighted average period of 1.66 years. Cash received from option exercises was $7.2 million, $0.2 million and $0.1 million during the years ended December 31, 2012, 2011 and 2010, respectively.

Cynosure granted 405,790, 411,104 and 440,711 stock options during the years ended December 31, 2012, 2011 and 2010, respectively. Cynosure uses the Black-Scholes option pricing model to determine the weighted

average fair value of options. The weighted average fair value of the options granted during the years ended December 31, 2012, 2011 and 2010 was $9.23, $7.26 and $5.79, respectively, using the following assumptions:

	Years Ended December 31,		
	2012	2011	2010
Risk-free interest rate	0.61% - 0.86%	0.87% - 2.37%	1.49% - 2.50%
Expected dividend yield	—	—	—
Expected term	5.8 years	5.8 years	5.8 years
Expected volatility	56% - 57%	55% - 57%	57% - 59%

Option-pricing models require the input of various subjective assumptions, including the option's expected life and the price volatility of the underlying stock. Cynosure's estimated expected stock price volatility is based on its own historical volatility for the 2012, 2011 and 2010 periods. Cynosure's expected term of options granted during the years ended December 31, 2012, 2011 and 2010 was derived from the simplified method described in ASC 718-10-S99. The risk-free rate for the expected term of the option is based on the U.S. Treasury yield curve in effect at the time of grant. The dividend yield of zero is based on the fact that Cynosure has never paid cash dividends and has no present intention to pay cash dividends.

In March 2012, Cynosure commenced an option exchange program in which it offered eligible option holders the opportunity to voluntarily exchange certain "underwater" stock options for a lesser number of new stock options with a lower exercise price. Cynosure's U.S. employees were eligible to participate in the exchange program, and Cynosure's directors and executive officers were not eligible to participate. The exchange ratios for the exchange program were determined by using the Black-Scholes option pricing model to approximate a "value-for-value" exchange, meaning that the fair value of the eligible stock options was equal to the fair value of the new stock options. The exchange program, which was subject to Rule 13e-4 under the Securities Exchange Act of 1934, as amended, was completed on April 13, 2012.

In the exchange program, 90 eligible option holders tendered eligible options with exercise prices of $20.00 or greater to purchase an aggregate of 325,946 shares of Class A common stock, representing 96% of the total shares of Class A common stock underlying options eligible for exchange. New stock options were granted to purchase an aggregate of 280,771 shares of Class A common stock in exchange for the cancellation of the tendered eligible options. The exercise price per share of each new option granted in the exchange program is $19.78, which was the closing price of Cynosure's Class A common stock as reported by The Nasdaq Global Market on April 13, 2012. All eligible stock options were fully vested as of April 13, 2012, when the exchange program was completed. Because the fair value of the eligible stock options was equal to the fair value of the new stock options calculated using the Black-Scholes option pricing model, Cynosure did not recognize any incremental stock-based compensation expense as a result of the exchange program.

Cynosure accounts for transactions in which services are received from non-employees in exchange for equity instruments based on the fair value of such services received or of the equity instruments issued, whichever is more reliably measured, in accordance with ASC 718 and the *Equity Topic*, ASC 505.

Income Taxes

Cynosure provides for income taxes in accordance with ASC 740, *Accounting for Income Taxes* (ASC 740). ASC 740 recognizes tax assets and liabilities for the cumulative effect of all temporary differences between the financial statement carrying amounts and the tax basis of assets and liabilities, and are measured using the enacted tax rates that will be in effect when these differences are expected to reverse. Valuation allowances are provided if, based on the weight of available evidence, it is more likely than not that some or all of the deferred tax assets will not be realized.

Cynosure accounts for uncertain tax positions following the provisions of ASC 740. ASC 740 clarifies the accounting for income taxes, by prescribing a minimum recognition threshold a tax position is required to meet

before being recognized in the financial statements. ASC 740 also provides guidance on derecognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure and transition.

Net Income (loss) per Common Share

Basic net income (loss) per share is determined by dividing net income (loss) by the weighted average common shares outstanding during the period. Diluted net income (loss) per share is determined by dividing net income (loss) by the diluted weighted average shares outstanding during the period. Diluted weighted average shares reflect the dilutive effect, if any, of common stock options based on the treasury stock method. For the years ended December 31, 2011 and 2010, common shares outstanding include both Class A and Class B as each share participated equally in earnings. Class B shares were convertible at any time into shares of Class A on a one-for-one basis at the option of the holder.

The reconciliation of basic and diluted weighted average shares outstanding for the years ended December 31, 2012, 2011 and 2010 is as follows:

	Years Ended December 31,		
	2012	2011	2010
Net income (loss)	$10,961	$(2,905)	$(5,546)
Basic weighted average common shares outstanding	13,189	12,585	12,666
Weighted average common stock equivalents	603	—	—
Diluted weighted average common shares outstanding	13,792	12,585	12,666
Basic net income (loss) per share	$ 0.83	$ (0.23)	$ (0.44)
Diluted net income (loss) per share	$ 0.79	$ (0.23)	$ (0.44)

For the year ended December 31, 2012, options to purchase approximately 0.7 million shares of Cynosure's Class A common stock were excluded from the calculation of diluted weighted average common shares outstanding as their effect was antidilutive.

For the years ended December 31, 2011 and 2010 the number of basic and diluted weighted average shares outstanding was the same because any increase in the number of shares of common stock equivalents for those periods would be antidilutive based on the net loss for the period. During the years ended December 31, 2011 and 2010, respectively, outstanding options to purchase 2.0 million and 1.6 million shares were excluded from the computation of diluted earnings per share because their inclusion would have been antidilutive.

Recent Accounting Pronouncements

In June 2011, the Financial Accounting Standards Board, or FASB, issued accounting guidance that requires companies to present the components of net income and other comprehensive income either as one continuous statement or as two consecutive statements and eliminates the option to present the components of other comprehensive income as part of the statement of changes in stockholders' equity only. The guidance does not change the items which must be reported in other comprehensive income, how such items are measured or when they must be reclassified to net income. Cynosure adopted this new accounting guidance effective January 1, 2012. The adoption of this guidance had no material effect on Cynosure's financial condition, results of operations or cash flows.

3. Fair Value

U.S. GAAP establishes a framework for measuring fair value under generally accepted accounting principles and enhances disclosures about fair value measurements. Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Valuation techniques used to measure fair value must maximize the use of observable inputs and minimize the use of unobservable inputs. The standard describes the following fair value hierarchy based on

three levels of inputs, of which the first two are considered observable and the last unobservable, that may be used to measure fair value:

- Level 1 – Quoted prices in active markets for identical assets or liabilities.
- Level 2 – Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable markets data for substantially the full term of the assets or liabilities.
- Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The following table represents Cynosure's fair value hierarchy for its financial assets (cash equivalents and marketable securities) measured at fair value as of December 31, 2012 (in thousands):

	Level 1	Level 2	Level 3	Total
Money market funds(1)	$5,655	$ —	$ —	$ 5,655
State and municipal bonds(2)	—	55,713	—	55,713
Treasuries and government agencies(3)	—	10,371	—	10,371
Equity securities	21	—	—	21
Total	$5,676	$66,084	$ —	$71,760

(1) Included in cash and cash equivalents at December 31, 2012.
(2) $4.4 million included in cash and cash equivalents at December 31, 2012.
(3) $1.0 million included in cash and cash equivalents at December 31, 2012.

4. Short and Long-Term Marketable Securities

Cynosure's available-for-sale securities at December 31, 2012 consist of approximately $66.1 million of investments in debt securities consisting of state and municipal bonds, treasuries and government agencies and approximately $21,000 in equity securities. All investments in available-for-sale securities are recorded at fair market value, with any unrealized gains and losses reported as a separate component of accumulated other comprehensive loss. As of December 31, 2012, Cynosure's marketable securities consist of the following (in thousands):

	Market Value	Amortized Cost	Unrealized Gains	Unrealized Losses
Available-for-Sale Securities:				
Cash equivalents:				
State and municipal bonds	$ 4,417	$ 4,417	$ —	$ —
Government agencies	1,000	1,000	—	—
Total cash equivalents	$ 5,417	$ 5,417	$ —	$ —
Short-term marketable securities:				
State and municipal bonds	$33,250	$33,251	$ 6	$ (7)
Treasuries and government agencies	7,346	7,345	1	—
Equity securities	21	6	15	—
Total short-term marketable securities	$40,617	$40,602	$ 22	$ (7)
Long-term marketable securities:				
State and municipal bonds	$18,046	$18,052	$ 2	$ (8)
Treasuries and government agencies	2,025	2,021	4	—
Total long-term marketable securities	$20,071	$20,073	$ 6	$ (8)
Total available-for-sale securities	$66,105	$66,092	$ 28	$ (15)
Total marketable securities	$60,688			

As of December 31, 2011, Cynosure's marketable securities consist of the following (in thousands):

	Market Value	Amortized Cost	Unrealized Gains	Unrealized Losses
Available-for-sale Securities:				
Cash equivalents:				
State and municipal bonds	$ 3,264	$ 3,263	$ 1	$ 0
Total cash equivalents	$ 3,264	$ 3,263	$ 1	$ 0
Short-term marketable securities:				
State and municipal bonds	$18,868	$18,858	$12	$(2)
Treasuries and government agencies	12,505	12,499	6	0
Equity securities	6	5	1	0
Total short-term marketable securities	$31,379	$31,362	$19	$(2)
Long-term marketable securities:				
State and municipal bonds	$ 4,719	$ 4,713	$ 6	$ 0
Treasuries and government agencies	1,876	1,875	1	0
Total long-term marketable securities	$ 6,595	$ 6,588	$ 7	$ 0
Total available-for-sale securities	$41,238	$41,213	$27	$(2)
Total marketable securities	$37,974			

As of December 31, 2012, Cynosure's available-for-sale debt securities mature as follows (in thousands):

		Maturities		
	Total	Less Than One Year	One to Five Years	More than five years
State and municipal bonds	$55,713	$37,667	$18,046	$ —
Treasuries and government agencies	10,371	8,346	2,025	—
Total available-for-sale debt securities	$66,084	$46,013	$20,071	$ —

5. Goodwill and Other Intangible Assets

Changes to goodwill during the year ended December 31, 2012 were as follows (in thousands):

	Total
Balance—December 31, 2011	$15,712
Translation adjustment	99
Balance—December 31, 2012	$15,811

Other intangible assets consist of the following at December 31, 2012 and December 31, 2011 (in thousands):

	Developed Technology & Patents	Business Licenses	Customer Relationships	Trade Names	Other	Total
December 31, 2012						
Cost	$ 3,250	$ 384	$ 3,323	$2,650	$48	$ 9,655
Translation adjustment	—	38	24	—	3	65
Accumulated amortization	(1,292)	(195)	(2,019)	(272)	(5)	(3,783)
Balance, December 31, 2012	$ 1,958	$ 227	$ 1,328	$2,378	$46	$ 5,937
December 31, 2011						
Cost	$ 3,250	$ 384	$ 3,323	$2,650	$48	$ 9,655
Translation adjustment	—	27	20	—	2	49
Accumulated amortization	(874)	(147)	(812)	(93)	(4)	(1,930)
Balance, December 31, 2011	$ 2,376	$ 264	$ 2,531	$2,557	$46	$ 7,774

Amortization expense related to developed technology and patents is classified as a component of cost of revenues in the Consolidated Statements of Operations. Amortization expense related to customer relationships and trade names is classified as a component of amortization of intangible assets acquired in the Consolidated Statements of Operations. Amortization expense related to business licenses and other is classified as a component of general and administrative expenses in the Consolidated Statements of Operations.

Amortization expense for the years ended December 31, 2012, 2011 and 2010 was $1.9 million, $1.2 million and $0.1 million, respectively. Cynosure has approximately $41,000 of indefinite-life intangible assets that are included in other intangible assets in the table above. As of December 31, 2012, amortization expense on existing intangible assets for the next five years and beyond is as follows (table in thousands):

2013	$ 1,303
2014	950
2015	765
2016	380
2017	344
2018 and Thereafter	2,154
Total	$ 5,896

The table above includes $0.9 million for 2013, $0.6 million for 2014, $0.4 million for 2015, $0.2 million for 2016, $0.2 million for 2017 and $1.5 million for 2018 and thereafter, to be recognized within operating expenses related to the amortization expense of intangible assets acquired through the Elemé Medical and ConBio acquisitions.

6. Segment and Geographic Information

In accordance with ASC 280, *Segment Reporting Topic,* operating segments are identified as components of an enterprise about which separate discrete financial information is available for evaluation by the chief operating decision maker, or decision-making group, in making decisions how to allocate resources and assess performance. Cynosure's chief decision-maker, as defined under ASC 280, is a combination of the Chief Executive Officer and the Chief Financial Officer. Cynosure views its operations and manages its business as one segment, aesthetic treatment products and services.

The following table represents total revenue by geographic destination:

	Year Ended December 31,		
	2012	2011	2010
	(In thousands)		
United States	$ 72,704	$ 43,903	$29,292
Europe	28,808	27,918	24,201
Asia/Pacific	39,991	27,357	19,373
Other	11,990	11,424	8,909
	$153,493	$110,602	$81,775

Total assets by geographic area are as follows:

	December 31,	
	2012	2011
	(In thousands)	
United States	$210,596	$132,041
Europe	15,623	12,688
Asia/Pacific	11,038	8,855
Eliminations	(2,688)	(2,004)
	$234,569	$151,580

Long-lived assets by geographic area are as follows:

	December 31,	
	2012	2011
	(In thousands)	
United States	$7,266	$6,461
Europe	1,570	1,344
Asia/Pacific	432	461
	$9,268	$8,266

No individual country within Europe or Asia/Pacific represented greater than 10% of total revenue, total assets or total long-lived assets for any period presented.

7. Balance Sheet Accounts

Property and Equipment

Property and equipment consists of the following at December 31:

	Estimated Useful Life (Years)	2012 Cost	2011 Cost
		(In thousands)	
Equipment	3-5	$ 5,098	$ 4,217
Furniture and fixtures	3-5	1,982	2,027
Computer equipment and software	3	3,796	3,489
Leased Equipment	3-4	1,774	2,199
Leasehold improvements	5	2,504	1,589
Demonstration equipment	3	20,095	20,200
Construction in-progress		571	—
		35,820	33,721
Less: Accumulated depreciation and amortization		(27,613)	(26,016)
		$ 8,207	$ 7,705

Depreciation expense relating to property and equipment was $5.0 million, $5.7 million and $5.3 million for the years ended December 31, 2012, 2011 and 2010, respectively. As of December 31, 2012 and 2011, the cost of assets recorded under capitalized leases was approximately $1.8 million and $2.2 million, respectively, and the related accumulated amortization was approximately $0.9 million and $1.4 million, respectively. Amortization expense of assets recorded under capitalized leases is included as a component of depreciation expense.

Accrued Expenses

Accrued expenses consist of the following at December 31:

	2012	2011
	(In thousands)	
Accrued payroll and taxes	$ 3,039	$ 2,309
Accrued employee benefits	1,149	938
Accrued warranty costs	3,415	3,171
Accrued commissions	2,620	2,295
Accrued other	6,978	5,231
	$17,201	$13,944

Other Noncurrent Liabilities

Other noncurrent liabilities consist of the following at December 31:

	2012	2011
	(In thousands)	
Noncurrent deferred rent	$1,473	$339
Noncurrent deferred tax liability	473	158
Noncurrent income tax reserve	319	—
	$2,265	$497

8. Related Party Transactions

Prior to Cynosure's November 2012 public offering of common stock, El. En. S.p.A, ("El.En.") beneficially owned approximately 22% of Cynosure's outstanding common stock. Immediately following the closing of the public offering and as of December 31, 2012, El.En. beneficially owned 2,098,628 shares, or approximately 13%, of Cynosure's outstanding common stock. Purchases of inventory from El.En. during the years ended December 31, 2012, 2011 and 2010 were approximately $5.8 million, $7.8 million and $5.2 million, respectively. As of December 31, 2012 and 2011, amounts due to related party for these purchases were approximately $1.9 million and $1.5 million, respectively. There were no amounts due from El.En. as of December 31, 2012 or 2011.

9. Stockholders' Equity

Common Stock Authorized

Cynosure has a dual-class capital structure consisting of $0.001 par value Class A common stock and Class B common stock. Cynosure has authorized 61,500,000 shares of $0.001 par value Class A common stock and 8,500,000 shares of $0.001 par value Class B common stock.

On November 21, 2012, Cynosure completed a public offering pursuant to which Cynosure issued and sold 2,840,000 shares of its Class A common stock, and El.En. sold 840,000 shares of its Class A common stock. In connection with the closing of the offering, all outstanding shares of Class B common stock converted on a one-for-one basis into shares of Class A common stock. As a result, there are no longer any shares of Cynosure's

Class B common stock issued or outstanding, and Cynosure may not issue shares of Class B common stock in the future. Cynosure received aggregate net proceeds, after deducting underwriting discounts and commissions and other offering expenses, of approximately $55.3 million in the offering.

As of December 31, 2012, there were 16,402,041 shares of Class A common stock and no shares of Class B common stock issued.

The rights, preferences and privileges of Class A common stock are as follows:

Voting Rights

The holders of Class A common stock will be entitled to one vote per share with respect to each matter presented to Cynosure stockholders on which the holders of common stock are entitled to vote.

Conversion

Cynosure's Class A common stock is not convertible into any other shares of Cynosure's capital stock.

Dividends

Subject to preferences that may apply to any shares of preferred stock outstanding at the time, the holders of Class A common stock shall be entitled to share equally, on a per share basis, in any dividends that Cynosure's board of directors may determine to issue from time to time.

Liquidation Rights

In the event of Cynosure's liquidation or dissolution, the holders of Class A common stock shall be entitled to share equally, on a per share basis, in all assets remaining after the payment of all debts and other liabilities and subject to the prior rights of any outstanding preferred stock.

Preferred Stock

Cynosure has authorized 5,000,000 shares of $0.001 par value preferred stock. The Board of Directors has full authority to issue this stock and to fix the voting powers, preference rights, qualifications, limitations, or restrictions thereof, including dividend rights, conversion rights, redemption privileges and liquidation preferences and the number of shares constituting any series or designation of such series.

Treasury Stock

In July 2009, Cynosure's Board of Directors authorized the repurchase of up to $10 million of its Class A common stock, from time to time, on the open market or in privately negotiated transactions under a stock repurchase program. The program will terminate upon the purchase of $10 million in common stock, unless Cynosure's Board of Directors discontinues it sooner. During the year ended December 31, 2012, Cynosure did not repurchase any of its common stock under this program. As of December 31, 2012, Cynosure has repurchased an aggregate of 196,970 shares under this program at an aggregate cost of $1.9 million.

10. Stock-Based Compensation

2004 Stock Option Plan

In October 2004, the Board of Directors adopted and the stockholders approved the 2004 Stock Option Plan (the 2004 Plan). The 2004 Plan provided for the grant of ISOs, as well as nonstatutory options. The Board of Directors administers the 2004 Plan and had sole discretion to grant options to purchase shares of Cynosure's common stock.

The Board of Directors determines the term of each option, option price, number of shares for which each option is granted, whether restrictions would be imposed on the shares subject to options and the rate at which each option is exercisable. The exercise price for options granted is determined by the Board of Directors, except that for ISOs, the exercise price could not be less than the fair market value per share of the underlying common stock on the date granted (110% of fair market value for ISOs granted to holders of more than 10% of the voting stock of Cynosure). The term of the options is set forth in the applicable option agreement, except that in the case of ISOs, the option term cannot exceed ten years. Options granted under the Plan vested either (i) over a 48-month period at the rate of 25% after the first year and 6.25% each quarter thereafter until fully vested or (ii) over a vesting period determined by the Board of Directors. As of December 31, 2012, there were no shares available for future grant under the 2004 Plan.

2005 Stock Incentive Plan

In August 2005, the Board of Directors adopted the 2005 Stock Incentive Plan (the 2005 Plan), which was approved by Cynosure's stockholders in December 2005. The 2005 Plan provided for the grant of ISOs, as well as nonstatutory options. The Board of Directors administers the 2005 Plan and has sole discretion to grant options to purchase shares of Cynosure's common stock.

The Board of Directors determines the term of each option, option price, number of shares for which each option is granted, whether restrictions would be imposed on the shares subject to options and the rate at which each option is exercisable. The exercise price for options granted is determined by the Board of Directors, except that for ISOs, the exercise price could not be less than the fair market value per share of the underlying common stock on the date granted (110% of fair market value for ISOs granted to holders of more than 10% of the voting stock of Cynosure). The term of the options is set forth in the applicable option agreement, except that in the case of ISOs, the option term cannot exceed ten years. At December 31, 2012 the number of shares of Class A common stock reserved for issuance under the 2005 Plan is 2,788,369 shares. Options granted under the Plan vest either (i) over a 36-month period at the rate of 8.33% each quarter until fully vested or (ii) over a vesting period determined by the Board of Directors. As of December 31, 2012, there are 31,517 shares available for future grant under the 2005 Plan. In February 2013, the number of shares of Class A common stock reserved for issuance under the 2005 Plan increased by 300,000 shares in accordance with the terms of the plan.

Stock option activity under the 2004 Plan and the 2005 Plan is as follows:

	Number of Options	Exercise Price Range	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life	Aggregate Intrinsic Value (in thousands)
Vested	1,829,238	$3.00 - $36.94	$15.47		$ 3,584
Unvested	546,265	5.07 - 14.04	11.97		498
Outstanding, December 31, 2011	2,375,503	3.00 - 36.94	14.66	6.67 years	4,082
Granted	686,561	11.76 - 24.99	18.65		3,771
Exercised	(759,353)	3.00 - 21.73	9.43		11,811
Forfeited	(350,100)	6.78 - 36.94	25.33		527
Outstanding, December 31, 2012	1,952,611	$3.00 - $36.94	$16.18	6.49 years	$16,114
Vested	1,424,788	3.00 - 36.94	16.20	5.63 years	11,890
Unvested	527,823	9.56 - 24.99	16.15	8.78 years	4,224
Vested or expected to vest, December 31, 2012	1,943,755	$3.00 - $36.94	$16.20	6.48 years	$16,019
Exercisable, December 31, 2012	1,424,788	$3.00 - $36.94	$16.20	5.63 years	$11,890

11. Income Taxes

Income (loss) before income tax provision consists of the following:

	2012	2011	2010
		(In thousands)	
Domestic	$10,344	$(2,710)	$(7,455)
Foreign	2,381	612	2,351
Total	$12,725	$(2,098)	$(5,104)

The provision for income taxes consists of:

	2012	2011	2010
		(In thousands)	
Current:			
Federal	$1,382	$241	$(368)
State	128	179	46
Foreign	606	433	985
Total current	2,116	853	663
Deferred:			
Federal	152	—	—
State	—	—	—
Foreign	(504)	(46)	(221)
Total deferred	(352)	(46)	(221)
	$1,764	$807	$ 442

A reconciliation of the federal statutory rate to Cynosure's effective tax rate is as follows for the years ended December 31:

	2012	2011	2010
Income tax provision at federal statutory rate:	35.0%	35.0%	35.0%
Increase (decrease) in tax resulting from -			
State taxes, net of federal benefit	0.7	(8.9)	0.8
Nondeductible expenses	2.1	(12.1)	(3.5)
Tax-exempt interest income	(0.3)	1.4	0.7
Effect of foreign taxes	(1.8)	3.6	6.9
Stock-based compensation	(0.9)	(0.6)	(2.3)
Research and development credit	—	23.9	4.3
Change in uncertain tax positions	2.5	—	—
Change in valuation allowance	(20.5)	(81.5)	(54.3)
Other	(2.9)	0.7	3.7
Effective income tax rate	13.9%	(38.5)%	(8.7)%

Significant components of Cynosure's net deferred tax assets and liabilities as of December 31, 2012 and 2011 are as follows:

	2012	2011
	(In thousands)	
Short-term deferred tax assets:		
Reserves and allowances	$ 2,741	$ 2,474
Other temporary differences	1,190	1,320
Valuation allowance	(3,148)	(3,093)
Net short-term deferred tax assets	$ 783	$ 701
Long-term deferred tax assets (liabilities):		
Domestic net operating loss and tax credit carryovers	$ 1,692	$ 4,468
Foreign net operating loss carryforwards	682	739
Depreciation	(387)	(318)
Stock-based compensation	5,620	6,326
Intangible assets	520	181
Other long-term differences	664	293
Valuation allowance	(8,656)	(11,847)
Net long-term deferred tax assets (liabilities)	$ 135	$ (158)
Net deferred tax assets	$ 918	$ 543

In 2012, the Company recorded an income tax provision of $1.8 million, representing an effective tax rate of 13.9%. The difference between the statutory tax rate and the effective tax rate was primarily due to the impact of foreign operations and the release of valuation allowance against domestic tax attributes which could be utilized to offset current year domestic income. During the fourth quarter of 2009, Cynosure determined that its net domestic deferred tax assets were no longer more-likely-than-not realizable. At December 31, 2012, Cynosure's domestic tax group is in a cumulative three-year pre-tax book loss. Cynosure maintains a full valuation allowance against its net domestic deferred tax assets, due to the uncertainty surrounding the future realization of these deferred tax assets. At December 31, 2012, Cynosure has no additional U.S. carryback capacity. At December 31, 2012, Cynosure has domestic federal net operating loss carryforwards of approximately $0.9 million, state net operating loss carryforwards of $4.7 million and federal tax credit carryforwards of $1.9 million that are available to reduce future taxable income. The entire federal net operating loss carryforward, $2.6 million of the state net operating loss carryforwards and $1.1 million of the federal tax credit carryforwards relate to excess stock based compensation tax deductions for which the benefit will be recorded to additional paid-in capital when recognized. The federal and state net operating losses begin to expire in 2030 and 2014, respectively. The federal tax credits begin to expire in 2025.

At December 31, 2012, Cynosure has foreign net operating losses of approximately $2.4 million in Germany and Mexico that are available to reduce future income. Foreign net operating losses in Germany do not expire. Mexican net operating losses will begin to expire in 2019. During the fourth quarter of 2012, Cynosure released the valuation allowance provided against Germany's net deferred tax assets, as the jurisdiction is in a three year cumulative pre-tax book income position and is forecasting to be profitable in the future. The German net operating loss carryforwards have an unlimited carryforward. A discrete tax benefit of $0.6 million was recorded in the fourth quarter of 2012 for the release of Germany's valuation allowance. As of December 31, 2012, Cynosure continues to maintain a full valuation allowance on its net deferred tax assets in Japan and Mexico due to the uncertainty surrounding the future realization of the deferred tax assets in these jurisdictions. The income tax valuation allowance decreased by $3.1 million during 2012.

Income taxes have not been provided on certain undistributed earnings of foreign subsidiaries of approximately $11.7 million, because such earnings are considered to be indefinitely reinvested in the business. The accumulated earnings in the foreign subsidiaries are primarily utilized to fund working capital requirements

as Cynosure's subsidiaries continue to expand their operations, to service existing debt obligations and to fund future foreign acquisitions. Cynosure does not believe it is practicable to estimate the amount of income taxes payable on the earnings that are indefinitely reinvested in foreign operations.

ASC 740, Accounting for Income Taxes, clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements by prescribing a minimum recognition threshold and measurement of a tax position taken or expected to be taken in a tax return.

The aggregate changes in gross unrecognized tax benefits during the years ended December 31, 2012 and 2011 were as follows (in thousands):

	2012	2011	2010
Balance at beginning of year	$—	$—	$—
Increases for tax positions taken during current period	398	—	—
Increases for tax positions taken in prior periods	188	—	—
Decreases for tax settlements and lapse in statutes	—	—	—
Balance at end of year	$586	$—	$—

At December 31, 2012, Cynosure had gross tax-effected unrecognized tax benefits of $0.6 million, of which $0.3 million, if recognized, would favorably impact the effective tax rate. Cynosure classifies interest and penalties related to income taxes as a component of its provision for income taxes, and the amount of interest and penalties recorded as of December 31, 2012 and 2011 in the statements of operations and balance sheet was immaterial. It is reasonably possible that the amount of unrecognized tax benefits will decrease by $0.2 million in the next 12 months, due to a lapse in the statute of limitations.

Cynosure files income tax returns in the U.S. federal jurisdiction, and in various state and foreign jurisdictions. With few exceptions, Cynosure is no longer subject to U.S. federal, state and local income tax examinations by tax authorities for years before 2008. Additionally, certain non-U.S. jurisdictions are no longer subject for income tax examinations by tax authorities for years before 2008.

12. 401(k) Plan

Cynosure sponsors the Cynosure 401(k) defined contribution plan. Participation in the plan is available to all employees of Cynosure who meet certain eligibility requirements. The Plan is qualified under Section 401(k) of the Internal Revenue Code, and is subject to contribution limitations as set annually by the Internal Revenue Service. Employer matching contributions are at Cynosure's discretion. Cynosure's contributions to this plan totaled approximately $419,000, $357,000 and $265,000 for the years ended December 31, 2012, 2011 and 2010, respectively.

13. Commitments and Contingencies

Lease Commitments

Cynosure leases its U.S. operating facility and certain foreign facilities under noncancelable operating lease agreements expiring through June 2018. These leases are non-cancellable and typically contain renewal options. Certain leases contain rent escalation clauses for which Cynosure recognizes the expense on a straight-line basis. Rent expense for the years ended December 31, 2012, 2011 and 2010 was approximately $2.1 million, $1.8 million and $1.7 million, respectively.

Cynosure leases certain equipment and vehicles under operating and capital lease agreements with payments due through June 2018. Commitments under Cynosure's lease arrangements are as follows, in thousands:

	Operating Leases	Capital Leases
2013	$1,862	$332
2014	1,324	306
2015	1,349	111
2016	1,368	16
2017	1,366	5
Thereafter	692	—
Total minimum lease payments	$7,961	$770
Less amount representing interest		(16)
Present value of obligations under capital leases		$754
Current portion of capital lease obligations		322
Capital lease obligations, net of current portion		$432

Litigation

In 2005, a plaintiff, individually and as putative representative of a purported class, filed a complaint against Cynosure under the federal Telephone Consumer Protection Act ("the TCPA") in Massachusetts Superior Court in Middlesex County seeking monetary damages, injunctive relief, costs and attorneys fees. The complaint alleges that Cynosure violated the TCPA by sending unsolicited advertisements by facsimile to the plaintiff and other recipients without the prior express invitation or permission of the recipients. Under TCPA, recipients of unsolicited facsimile advertisements are entitled to damages of up to $500 per facsimile for inadvertent violations and up to $1,500 per facsimile for knowing or willful violations. In January 2012, the Court denied the class certification motion. In November 2012, the Court issued the final judgment and awarded the plaintiff $6,000 in damages and awarded Cynosure $3,495 in costs. The plaintiff has appealed this decision. In addition, in July 2012, the plaintiff filed a new purported class action, based on the same operative facts and asserting the same claims as in the Massachusetts action, in federal court in the Eastern District of New York. In February 2013, that court granted Cynosure's motion to dismiss the plaintiff's claims.

In addition to the matter discussed above, from time to time, Cynosure is subject to various claims, lawsuits, disputes with third parties, investigations and pending actions involving various allegations against Cynosure incident to the operation of its business, principally product liability. Each of these other matters is subject to various uncertainties, and it is possible that some of these other matters may be resolved unfavorably to Cynosure. Cynosure establishes accruals for losses that management deems to be probable and subject to reasonable estimate. Cynosure believes that the ultimate outcome of these matters will not have a material adverse impact on its consolidated financial position, results of operations or cash flows.

14. Summary Selected Quarterly Financial Data (Unaudited)

The following table sets forth certain unaudited consolidated quarterly statement of operations data for the eight quarters ended December 31, 2012. This information is unaudited, but in the opinion of management, it has been prepared on the same basis as the audited consolidated financial statements and all necessary adjustments, consisting only of normal recurring adjustments, have been included in the amounts stated below to state fairly the unaudited consolidated quarterly results of operations. The results of operations for any quarter are not necessarily indicative of the results of operations for any future period.

	Quarter Ended			
	March 31, 2012	June 30, 2012	Sept. 30, 2012	Dec. 31, 2012
	(In thousands, except per share data)			
Revenues	$34,168	$39,573	$37,083	$42,669
Gross profit	$19,508	$23,040	$21,587	$24,791
Income from operations	$ 858	$ 3,693	$ 3,343	$ 4,239
Net income	$ 819	$ 2,680	$ 3,423	$ 4,039
Basic net income per share	$ 0.07	$ 0.21	$ 0.26	$ 0.28
Diluted net income per share	$ 0.06	$ 0.20	$ 0.25	$ 0.27

	Quarter Ended			
	March 31, 2011	June 30, 2011	Sept. 30, 2011	Dec. 31, 2011
	(In thousands, except per share data)			
Revenues	$21,884	$26,339	$28,277	$34,102
Gross profit	$12,081	$15,066	$15,974	$19,187
Loss (income) from operations	$(1,866)	$(1,196)	$ (387)	$ 1,427
Net (loss) income	$(1,894)	$(1,300)	$ (792)	$ 1,081
Basic net (loss) income per share	$ (0.15)	$ (0.10)	$ (0.06)	$ 0.08
Diluted net (loss) income per share	$ (0.15)	$ (0.10)	$ (0.06)	$ 0.08

EXHIBIT INDEX

Exhibit Number	Description
3.1	Restated Certificate of Incorporation of the Company (Incorporated by reference to the exhibits to the Company's Registration Statement on Form S-1 filed August 11, 2005 (333-127463))
3.2	Amended and Restated Bylaws of the Company (Incorporated by reference to the exhibits to the Company's Registration Statement on Form S-1 filed August 11, 2005 (333-127463))
4.1	Specimen certificate evidencing shares of Class A common stock (Incorporated by reference to the exhibits to Amendment No. 1 of the Company's Registration Statement on Form S-1 filed November 3, 2005 (333-127463))
10.1*	1992 Stock Option Plan (Incorporated by reference to the exhibits to the Company's Registration Statement on Form S-1 filed August 11, 2005 (333-127463))
10.2*	2004 Stock Option Plan, as amended (Incorporated by reference to the exhibits to the Company's Registration Statement on Form S-1 filed August 11, 2005 (333-127463))
10.3*	2005 Stock Incentive Plan, as amended (Incorporated by reference to the exhibits to the Company's Registration Statement on Form S-8 filed February 2, 2013 (333-186398))
10.4*	Employment Agreement, dated December 15, 2008, between the Company and Michael Davin (Incorporated by reference to the exhibits to the Company's Current Report on Form 8-K filed December 19, 2008)
10.5*	First Amendment to Employment Agreement, dated December 20, 2010, between the Company and Michael Davin (Incorporated by reference to the exhibits to the Company's Current Report on Form 8-K filed December 21, 2010)
10.6*	Employment Agreement, dated December 15, 2008, between the Company and Douglas Delaney (Incorporated by reference to the exhibits to the Company's Current Report on Form 8-K filed December 19, 2008)
10.7†	Distribution Agreement, effective as of October 26, 2012, between the Company and El.En. S.p.A.
10.8	Lease, dated January 31, 2005, between Glenborough Fund V, Limited Partnership and the Company, as amended (Incorporated by reference to the exhibits to the Company's Annual Report on Form 10-K filed March 7, 2012)
10.9	Non-Exclusive Patent License, dated November 6, 2006, between Palomar Medical Technologies, Inc. and the Company (Incorporated by reference to the exhibits to the Company's Current Report on Form 8-K filed November 7, 2006)
10.10*	Employment Agreement, dated December 15, 2008, between the Company and Timothy W. Baker (Incorporated by reference to the exhibits to the Company's Current Report on Form 8-K filed December 19, 2008)
21.1	Subsidiaries of the Company
23.1	Consent of Ernst & Young LLP
31.1	Certification of the Principal Executive Officer
31.2	Certification of the Principal Financial Officer
32.1	Certification of the Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of the Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

Exhibit Number	Description
101**	The following materials from the Cynosure, Inc. Annual Report on Form 10-K for the year ended December 30, 2012, formatted in XBRL (eXtensible Business Reporting Language): (i) Consolidated Statements of Operations for the year ended December 31, 2012, 2011 and 2010, (ii) Consolidated Balance Sheets at December 31, 2012 and December 31, 2011, (iii) Consolidated Statements of Stockholders' Equity for the year ended December 31, 2012, 2011 and 2010, (iv) Consolidated Statements of Comprehensive Income (Loss) for the year ended December 31, 2012, 2011 and 2010, (v) Consolidated Statements of Cash Flows for the year ended December 31, 2012, 2011 and 2010, and (vi) Notes to Consolidated Financial Statements.

* Management contract or compensation plan or arrangement required to be filed as an exhibit pursuant to Item 15(b) of Form 10-K.

† Confidential treatment requested as to certain portions, which portions have been omitted and filed separately with the Securities and Exchange Commission.

** Pursuant to Rule 406T of Regulation S-T, the Interactive Data Files on Exhibit 101 hereto are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Securities and Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections.

Exhibit 31.1

CERTIFICATIONS

I, Michael R. Davin, certify that:

1. I have reviewed this Annual Report on Form 10-K of Cynosure, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ MICHAEL R. DAVIN

Michael R. Davin
Chairman, President and Chief Executive Officer

Date: March 8, 2013

Exhibit 31.2

CERTIFICATIONS

I, Timothy W. Baker, certify that:

1. I have reviewed this Annual Report on Form 10-K of Cynosure, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ TIMOTHY W. BAKER

Timothy W. Baker
Executive Vice President,
Chief Financial Officer and Treasurer

Date: March 8, 2013

Exhibit 32.1

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report on Form 10-K of Cynosure, Inc. (the "Company") for the period ended December 31, 2012 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, Michael R. Davin, Chairman, President and Chief Executive Officer of the Company, hereby certifies, pursuant to 18 U.S.C. Section 1350, that to his knowledge:

(1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ MICHAEL R. DAVIN

Michael R. Davin
Chairman, President and Chief Executive Officer

Date: March 8, 2013

Exhibit 32.2

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report on Form 10-K of Cynosure, Inc. (the "Company") for the period ended December 31, 2012 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, Timothy W. Baker, Executive Vice President, Chief Financial Officer and Treasurer of the Company, hereby certifies, pursuant to 18 U.S.C. Section 1350, that to his knowledge:

(1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ TIMOTHY W. BAKER

Timothy W. Baker
Executive Vice President,
Chief Financial Officer and Treasurer

Date: March 8, 2013

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-K/A
(Amendment No. 1)

(Mark One)

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2012

OR

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

For the transition period from _____ to _____

Commission file number 000-51623

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

Delaware	**04-3125110**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
5 Carlisle Road Westford, MA	**01886**
(Address of principal executive offices)	**(Zip Code)**

Registrant's telephone number, including area code
(978) 256-4200

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

Title of each class	**Name of each exchange on which registered**
Class A Common Stock, $0.001 par value	**The Nasdaq Global Market**

Securities registered pursuant to Section 12(g) of the Act:
None

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

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the 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 ☒

Non-accelerated filer ☐ (Do not check if a smaller reporting company) 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 ☒

Aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant, based on the last sale price for such stock on June 29, 2012: $204,672,992.

The number of shares outstanding of the registrant's Class A common stock, as of April 25, 2013 was 16,210,071

EXPLANATORY NOTE

Cynosure, Inc. (the "Company", "we", "us", or "our") is filing this Amendment No. 1 on Form 10-K/A (this "Amendment") to its Annual Report on Form 10-K for the fiscal year ended December 31, 2012 (the "Original Form 10-K Filing"), which was originally filed with the Securities and Exchange Commission (the "SEC") on March 8, 2013, solely to set forth information required by Items 10, 11, 12, 13 and 14 of Part III of Form 10-K. This Amendment amends and restates in its entirety Items 10, 11, 12, 13 and 14 of Part III. In addition, in accordance with Rule 12b-15 under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), Item 15 of Part IV of the Original Form 10-K Filing has been amended and restated solely to include as exhibits new certifications by our principal executive officer and principal financial officer.

Except as expressly set forth herein, this Amendment does not reflect events occurring after the date of the Original Form 10-K Filing or modify or update any of the other disclosures contained therein in any way other than as required to reflect the amendments discussed above. Accordingly, this Amendment should be read in conjunction with the Original Form 10-K Filing and the Company's other filings with the SEC.

The references in this Amendment to the Company's corporate website are not intended to, and do not, incorporate by reference into this Amendment any materials contained on such website.

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PART III

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PART III

Item 10. *Directors, Executive Officers and Corporate Governance*

Our Board of Directors

Set forth below is information about each member of our board of directors. This information includes each director or nominee's age as of April 5, 2013 and length of service as a director of the Company, his or her principal occupation and business experience for at least the past five years and the names of other publicly held companies of which he or she serves as a director. There are no family relationships among any of our directors, nominees for director and executive officers.

Classified Directors

Directors Whose Terms Expire in 2013 (Class II Classified Directors)

Andrea Cangioli. Age 45. Mr. Cangioli has been a director since 2002. Mr. Cangioli has served as a director and the general manager of El.En. since 1992. Mr. Cangioli also serves on the boards of other El.En. affiliated companies. We believe Mr. Cangioli's qualifications to sit on our board of directors include his almost 20 years of experience with a global technology company in the light-based technology industry, as well as his executive leadership and management experience. Mr. Cangioli's term will expire at our 2013 annual meeting. Our board of directors and management extend their gratitude to Mr. Cangioli for his many years of contributions to Cynosure.

Marina Hatsopoulos. Age 47. Ms. Hatsopoulos has been a director since November 2008. Ms. Hatsopoulos has been a private investor since 2007. From August 2005 to September 2007, she was a director of Contex Holdings, a leading manufacturer of large-format scanners. From December 1994 to August 2005, she served as chief executive officer and director of Z Corporation, a leader in the 3D printing market, which was sold to Contex Scanning Technology in 2005. From 2005 through 2010, Ms. Hatsopoulos served as a director of the GSI Group Inc., a supplier of precision technology to the global medical, electronics and industrial markets and semiconductor systems. From 2007 until its sale to Sara Lee in 2011, Ms. Hatsopoulos was a director of Tea Forte, a supplier of luxury tea products. Since 2012, she has served as the chairperson of the board of directors of Levitronix Technologies, the worldwide leader in magnetically levitated bearingless motor technology, and as a director of Dear Kate, a women's apparel company. Ms. Hatsopoulos has experience serving as a director and advisor for both public and private companies, which enhances her contributions to the board of directors. Her leadership skills and executive experience enable her to be an effective board member.

Directors Whose Terms Expire in 2014 (Class III Classified Directors)

Michael R. Davin. Age 55. Mr. Davin has been our president and chief executive officer and a director since September 2003, and became the chairman of our board of directors in October 2004. Mr. Davin has over 25 years of experience in the light-based technology field. From 1998 to 2003, Mr. Davin served as co-founder and vice president of worldwide sales and strategic development of Cutera, Inc., a provider of laser and other light-based aesthetic treatment systems. Prior to co-founding Cutera, Mr. Davin spent 11 years at Coherent Medical, a manufacturer of laser, optics and related equipment, in senior management positions in sales, marketing and clinical development. We believe Mr. Davin's qualifications to serve on our board of directors include his two decades of experience in the light-based technology industry, including nearly 10 years as our president and chief executive officer.

Ettore V. Biagioni. Age 54. Mr. Biagioni has been a director since 2005. Since 2004, Mr. Biagioni has been a managing partner of Alothon Group LLC, a private equity firm which he co-founded. From 1998 to 2004, Mr. Biagioni served as head of the Latin America Private Equity Group of Deutsche Bank/Bankers Trust Company. Mr. Biagioni serves on the boards of directors of several private companies. We believe Mr. Biagioni's qualifications to serve on our board of directors include his experience serving as a director for other companies, which enhances his contributions to our board. In addition, his leadership skills and financial experience enable him to be an effective board member.

Directors Whose Terms Expire in 2015 (Class I Classified Directors)

Thomas H. Robinson. Age 54. Mr. Robinson has been a director since 2005. Since September 2011, Mr. Robinson has served as a partner with RobinsonButler, an executive search firm. During 2010, Mr. Robinson served as managing director at Russell Reynolds Associates. From 1998 to 2010, Mr. Robinson served as managing partner of the North American medical technology practice, which includes the medical device, hospital supply/distribution and medical software areas, of Spencer Stuart, Inc., a global executive search firm. From 2002 to 2010, Mr. Robinson had been a member of Spencer Stuart's board services practice, which assists corporations to identify and recruit outside directors. From 1998 to 2000, Mr. Robinson headed Spencer Stuart's North American biotechnology specialty practice. From 1993 to 1997, Mr. Robinson served as president of the emerging markets business at Boston Scientific Corporation, a global medical devices manufacturer. From 1991 to 1993, Mr. Robinson served as president and chief operating officer of Brunswick Biomedical, a cardiology medical device company. In 2009, Mr. Robinson became a director of SANUWAVE Health, a publicly-traded regenerative medicine company. Mr. Robinson's qualifications to serve on our board of directors include his experience in and knowledge of the medical technology industry, combined with his operational and corporate governance experience.

Brian M. Barefoot. Age 70. Mr. Barefoot has been a director since 2011. From 2001 to 2008, Mr. Barefoot served as Babson College president. From 1996 to 2001, Mr. Barefoot served as chairman of the board of trustees of Babson College. Mr. Barefoot serves on the boards of directors of Blue Cross Blue Shield of Massachusetts, where he is Chair of the Finance and Business Performance Committee and a member of the audit committee. Mr. Barefoot serves as a director of Array Health Solutions, Inc., a health care technology and services company, and of Big Belly Solar, a renewable energy-focused waste collection company, and he is a senior advisor to Carl Marks Advisory Group LLC, a New York-based middle market merchant bank. Mr. Barefoot's qualifications to serve on our board of directors include his corporate governance experience combined with his leadership skills and experience derived from more than three decades in financial services.

Nominee for Classified Director With Term Expiring in 2016 (Class II Classified Director)

William O. Flannery. Age 67. Mr. Flannery has served as our Secretary since 2004, and is expected to resign as Secretary effective immediately prior to our annual meeting. Since 1993, Mr. Flannery has maintained his own legal practice focusing on the representation of technology-based companies. Since 1993, he has also served as of counsel to Goulston & Storrs P.C., a law firm, of which he was a partner from 1992 to 1993. From 1985 to 1992, Mr. Flannery served as the general counsel of Thermo Electron Corporation, and as its vice president—administration from 1990 to 1992. He served on the board of directors of the Massachusetts Municipal Wholesale Electric Company, a state charted association of municipal utilities, including as chairman from 1997 to 1998. From 2000 to 2006, Mr. Flannery served as counsel to and a director of Cyterra Corporation, a supplier of mine detection systems. From 2001 to 2005, he served as counsel to and a director of Z Corporation. From 1994 to 2001, he served as counsel to and a director of True Technology, a medical device company. From 2002 to 2005, he served as counsel to and a director of Loea Corporation, a communications company. From 1995 to 2000, he served as a director of Boston Marine Consulting, a nautical testing and design software company. We believe that Mr. Flannery's decades of experience as a corporate and securities lawyer representing technology-based companies, and his years of experience both advising and serving on the boards of technology companies, qualify him to serve on our board of directors.

Our Executive Officers

Our executive officers and their respective ages and positions as of April 5, 2013 are described below. Our officers serve until they resign or the board terminates their position. There are no family relationships among any of our directors, nominees for director and executive officers.

Michael R. Davin. Age 55. *President, Chief Executive Officer and Chairman of the Board of Directors.* For more information, see "Our Board of Directors" above.

Timothy W. Baker. Age 52. *Executive Vice President, Chief Financial Officer and Treasurer.* Mr. Baker has been our executive vice president, chief financial officer and treasurer since March 2004. From July 2003 to February 2004, Mr. Baker served as vice president, finance of Stryker Biotech, a division of Stryker Corporation, a medical products and services provider. From July 2000 to June 2003, Mr. Baker served as president and chief financial officer of Photoelectron Corp., a provider of miniature x-ray systems for radiation therapy. From January 1996 to July 2000, Mr. Baker served as the chief financial officer and vice president of operations of Radionics, Inc., a provider of surgical devices. Mr. Baker is a certified public accountant and holds an M.B.A. in operations management.

Douglas J. Delaney. Age 46. *Executive Vice President, Sales.* Mr. Delaney has been our executive vice president, sales since February 2005 and has worked in medical laser sales for more than 16 years. From May 2004 until February 2005, Mr. Delaney was our vice president, North American sales, and from September 2003 until May 2004, he was our director of North American sales. From September 1999 to September 2003, Mr. Delaney served as national sales manager of Cutera.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Exchange Act requires our directors, executive officers and the holders of more than 10% of our common stock to file with the SEC initial reports of ownership of our common stock and other equity securities on a Form 3 and reports of changes in such ownership on a Form 4 or Form 5. Our officers, directors and 10% stockholders are required by SEC regulations to furnish us with copies of all Section 16(a) forms they file. To our knowledge, based solely on a review of the records and written representations by the persons required to file these reports, during the year ended December 31, 2012, the reporting persons complied with all Section 16(a) filing requirements.

CODE OF BUSINESS CONDUCT AND ETHICS

We have adopted a written Code of Business Conduct and Ethics that applies to our directors, officers and employees, including our principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions. We have posted a current copy of the code on the "Corporate Governance" section of the "Investor Relations" page of our website, www.cynosure.com. In addition, we intend to post on our website all disclosures that are required by law or NASDAQ listing requirements concerning any amendments to, or waivers from, any provision of the code.

AUDIT COMMITTEE

Our board of directors maintains a standing audit committee. The members of our audit committee are Messrs. Barefoot (Chairman) and Biagioni and Ms. Hatsopoulos. The board of directors has determined that Mr. Barefoot and Ms. Hatsopoulos are "audit committee financial experts" as defined by applicable SEC rules. Each member of the audit committee is independent as defined under applicable NASDAQ rules, including, in the case of all members of the audit committee, the independence requirements contemplated by Rule 10A-3 under the Exchange Act. The audit committee met nine times during 2012.

Item 11. ***Executive Compensation***

DIRECTOR COMPENSATION

We pay each of our directors who is not an employee of, or a spouse of an employee of, us or El.En. S.p.A., whom we refer to as non-employee directors, an annual retainer as well as a fee for attendance at board committee meetings for each day that a non-employee director attends board committee meetings in person or by telephone or video conference. Our committee chairmen receive an additional annual retainer. Each of these committee chairmen is a non-employee director. We reimburse each non-employee member of the board of directors for out-of-pocket expenses incurred in connection with attending our board and committee meetings.

The compensation committee engaged Connell & Partners, a division of Gallagher Benefit Services, Inc., in 2011 as independent outside compensation consultants to assess the competitiveness of our director compensation and to provide recommendations with respect to both the levels and structure of compensation for our directors. Connell assessed the competitiveness of director compensation through comparisons with peer groups and survey sources. In July 2011, based on the recommendations of Connell, the compensation committee adopted a new director compensation plan and made adjustments to annual retainers and meeting fees for our non-employee directors, effective July 1, 2011. These amounts remained unchanged for 2012, as set forth below.

Non-Employee Director Fee Type	2012 Amount
Annual Retainer	$40,000
Audit Committee Chair Retainer	$12,000
Compensation Committee Chair Retainer	$ 7,000
Governance Committee Chair Retainer	$ 7,000
Committee Meeting Fee	$ 1,500

Each new non-employee director receives an option to purchase 8,000 shares of our Class A common stock upon his or her appointment to the board of directors. These options will vest annually in three equal installments subject to the non-employee director's continued service as a director. Thereafter, each non-employee director receives an annual grant of an option to purchase 8,000 shares of our Class A common stock at each year's annual meeting after which he or she will continue to serve as a director, provided each such non-employee director has served on the board of directors for at least six months. These options vest in full on the first anniversary of the grant date, subject to the non-employee director's continued service as a director. Each non-employee director stock option will have such terms as the board of directors may specify in the applicable option agreement, provided that no option will be granted to a non-employee director for a term in excess of 10 years. The exercise price of all of these options will equal the fair market value of our Class A common stock on the date of grant.

Compensation for our directors, including cash and equity compensation, is determined and subject to adjustment by the board of directors.

2012 Director Compensation

The following table contains information regarding compensation for the non-employee members of our board of directors during the fiscal year ended December 31, 2012.

Name	Fees Earned or Paid in Cash	Option Awards(1)	Total
Brian M. Barefoot	$64,000	$87,394	$151,394
Ettore V. Biagioni	$60,500	$87,394	$147,894
Marina Hatsopoulos	$58,000	$87,394	$145,394
Thomas Robinson	$50,000	$87,394	$137,394

(1) With the exception of ignoring the impact of the forfeiture rate, these amounts represent the aggregate grant date fair value of option awards to each listed director in fiscal 2012. These amounts do not represent the actual amounts paid to or realized by the directors during fiscal 2012. The value as of the grant date for stock options is recognized over the number of days of service required for the stock option to vest in full.

The aggregate number of shares subject to option awards held by each of our non-employee directors (representing unexercised option awards—both exercisable and unexercisable) at December 31, 2012 is as follows:

Name	Number of Shares Subject to Options Awards Held as of December 31, 2012
Brian M. Barefoot	13,000
Ettore V. Biagioni	49,000
Marina Hatsopoulos	33,000
Thomas Robinson	49,000

The following table includes the assumptions used to calculate the fiscal 2012 grant date fair value on a grant by grant basis for the directors.

Name	Grant Date	Option Awards: Number of Securities Underlying Options	Exercise Price ($/Sh)	Volatility (%)	Expected Life (years)	Risk-Free Interest Rate (%)	Dividend Yield (%)	Grant Date Fair Value Per Share ($)
Brian M. Barefoot	5/9/12	8,000	$21.16	57	5.81	0.77	—	$10.9242
Ettore V. Biagioni	5/9/12	8,000	$21.16	57	5.81	0.77	—	$10.9242
Marina Hatsopoulos	5/9/12	8,000	$21.16	57	5.81	0.77	—	$10.9242
Thomas Robinson	5/9/12	8,000	$21.16	57	5.81	0.77	—	$10.9242

For a more detailed description of the assumptions used for purposes of determining grant date fair value, see Note 2 to our audited consolidated financial statements for the year ended December 31, 2012 included in the Original Form 10-K Filing.

Executive and Director Compensation Processes

The compensation committee has implemented an annual performance review program for our executives under which annual performance goals are determined early in each calendar year for each of our executive officers. These goals include both corporate goals and individual goals that facilitate the achievement of the corporate goals. Recommendations relating to the goals for the executive officers are developed by our chief executive officer and chief financial officer, and are presented by the chief executive officer to the compensation committee. The compensation committee then establishes the goals, and annual bonuses are tied to the achievement of these corporate and individual performance goals.

During the first calendar quarter of each year, we evaluate individual and corporate performance against the goals for the recently completed year. Our chief executive officer presents to the compensation committee an evaluation of each of the other executive officers, as well as a recommendation by the chief executive officer for annual stock-based awards and bonuses, if any. These evaluations and recommendations are then discussed by the compensation committee, which approves bonuses and any other awards for the executives. In addition, during the fourth quarter of each year the chief executive officer makes recommendations to the

compensation committee relating to annual base salary increases for the following year. These recommendations are discussed by the compensation committee, which approves the base salary of our executive officers. Annual base salary increases approved during the fourth quarter, if any, are generally effective as of January 1 of the following year.

The compensation committee has the authority, without approval of the board of directors, to retain and terminate any independent, third-party compensation consultant and to obtain independent advice and assistance from internal and external legal, accounting and other advisors.

COMPENSATION DISCUSSION AND ANALYSIS

The compensation committee oversees our executive compensation program. In this role, the compensation committee reviews and approves annually all compensation decisions relating to our executive officers.

Objectives and Philosophy of Our Executive Compensation Program

The fundamental objectives of our compensation policies are to attract, reward and retain high quality executives, to accomplish short- and long-term goals and, as a result, to enhance stockholder value. In order to achieve these goals, the compensation committee seeks to provide compensation opportunities that are competitive in the marketplace, both in terms of the overall levels of compensation and the individual components of compensation. We provide a portion of our executive compensation in the form of stock options that vest over time, which we believe helps to retain our executive officers and aligns their interests with those of stockholders by allowing them to participate in the longer term success of the company as reflected in stock price appreciation. The compensation committee intends that if an officer as an individual and the company as a whole achieve the individual and company performance goals determined by the compensation committee, then the officer should have an opportunity to receive compensation that is competitive with industry norms. In addition, the compensation committee intends that the compensation of each of our executive officers is commensurate with his or her position and responsibilities and equitable in comparison with the compensation of our other executive officers.

Roles of Executives in Establishing Executive Compensation. Michael Davin, our chief executive officer, and Timothy Baker, our chief financial officer, are actively involved in the executive compensation process. Mr. Davin reviews the performance of each of the executive officers (other than his own performance) and recommends to the compensation committee base salary increases and bonus and long-term incentive awards for such individuals. He provides the compensation committee with both short- and long-term recommended financial and non-financial performance goals for the company that are used in our cash incentive plans to link pay with performance. Mr. Davin also provides his views to the compensation committee with respect to the executive compensation program's ability to attract, retain and motivate the level of executive talent necessary to achieve our goals. Mr. Baker works with Mr. Davin to develop the recommended base salary increases, bonus levels and long-term incentive awards, and provides analysis on the ability of the executive compensation program to attract, retain, and motivate the executive team. Mr. Davin and Mr. Baker report their findings to the compensation committee, but do not participate in the compensation committee's executive sessions.

Effect of 2012 Stockholder Advisory Vote. At our 2012 annual meeting of stockholders, holders of approximately 77% of our common stock voting on the matter approved, on an advisory basis, the compensation of our named executive officers. Based on this approval, the compensation committee established our 2012 executive compensation policies in a manner consistent with past practice.

Role of Compensation Consultant. Prior to 2013, the compensation committee had not engaged an independent outside compensation consultant since 2007 for the purpose of reviewing executive compensation. On March 17, 2013, we entered into an Agreement and Plan of Merger (the "Merger Agreement") with Palomar

Medical Technologies, Inc., a Delaware corporation ("Palomar"), and Commander Acquisition Corp., a Delaware corporation and a wholly-owned subsidiary of Cynosure, pursuant to which Palomar will become a wholly-owned subsidiary of Cynosure. Following execution of the Merger Agreement, in April 2013, the compensation committee engaged Connell & Partners to assess the competitiveness of our executive compensation and to provide recommendations with respect to both the levels and structure of compensation for our executives. The compensation committee has begun, and expects to continue in the coming months and following the merger, to evaluate the need for revisions or modifications to all elements of our executive compensation program to ensure the program remains competitive with the companies with which we compete for executive talent.

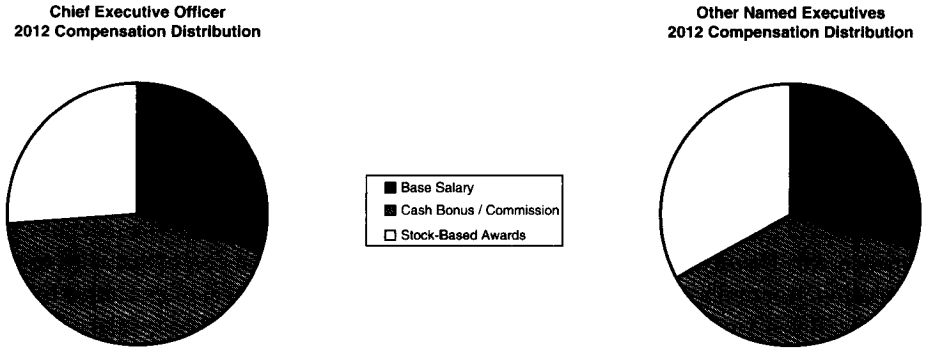
Risk Considerations in Our Compensation Program

We believe that risks arising from our compensation policies and practices for our employees are not reasonably likely to have a material adverse effect on our business. In addition, the compensation committee believes that the mix and design of the components of executive compensation do not encourage management to assume excessive risks.

Components of Our Executive Compensation Program

The compensation committee considers the total compensation of each executive officer when making decisions about compensation.

The compensation committee's goal is to determine an appropriate mix between cash payments and equity incentive awards to meet short-, intermediate- and long-term goals and objectives. We do not have any formal or informal policy or target for allocating compensation by type of compensation. Instead, we have determined subjectively on a case-by-case basis the appropriate level and mix of the various compensation components designed to reward recent results and drive long-term company performance. The following charts illustrate the fiscal 2012 mix of compensation elements for our chief executive officer and our other executive officers on average, respectively.



	Chief Executive Officer 2012 Compensation Distribution	Other Named Executives 2012 Compensation Distribution
Base Salary	29%	29%
Cash Bonus/ Commission	44%	38%
Stock-Based Awards	26%	33%

Our executive compensation generally includes three components:

- base salary;
- cash bonuses and commissions; and
- stock-based awards.

Base salary. The compensation committee seeks to establish base salaries for each position and level of responsibility that are competitive with those of executive officers in similar positions at other comparable companies. Base salaries are reviewed at least annually by the compensation committee, and are adjusted from time to time to realign salaries with market levels after taking into account individual responsibilities, performance and experience.

Salary increases are based on individual performance, market conditions and company performance. To gauge market conditions, the compensation committee evaluates market data compiled by Connell & Partners, an independent compensation consultant. Base salaries are set upon review of market data provided to the compensation committee upon consideration of the executive officer's experience, tenure, performance and potential. The compensation committee typically reviews officer salaries annually at the end of the fiscal year. In December 2007, with the assistance of Connell, the compensation committee reviewed the salaries of our named executive officers and repositioned their base salaries to align with individual performance, market condition and company performance. No changes have been made to this structure since that date. The base salaries of our named executive officers are subject to adjustment upon annual review by the board of directors, but in no event will we pay our named executive officers an annual base salary that is less than 105% of the annual base salary in effect for the immediately preceding year during the term of their employment agreements. The 2012 annual base salary for Mr. Davin was $655,923; the annual base salary for Mr. Baker was $379,209; and the annual base salary for Mr. Delaney was $298,394.

Cash Bonuses and Commissions. The compensation committee believes that cash bonuses and commissions are important to motivate and reward our executive officers. Pursuant to the terms of his employment agreement, Mr. Davin, our chief executive officer, is eligible to receive a discretionary bonus payment targeted at 75% of his annual base salary based upon individual performance goals set by the compensation committee. For 2012, Mr. Davin received a bonus payment of $1,000,000 which was determined at the discretion of the compensation committee. Mr. Baker, our chief financial officer, is eligible to receive a discretionary bonus payment targeted at 75% of his annual base salary based upon individual performance goals set by the compensation committee. For 2012, Mr. Baker received a bonus payment of $530,000 which was determined at the discretion of the compensation committee. For 2012 Messrs. Davin and Baker received actual bonus payments that were greater than their targeted bonus payments, because we out-performed our 2012 operational plan. Mr. Delaney, our executive vice president, sales, is entitled to receive commissions based on our sales, and for 2012, he received commission payments of $340,033.

Stock-based awards. The compensation committee uses stock-based awards to help align the interests of our executive officers with those of our stockholders and to encourage our executive officers to contribute to our long-term market performance. Traditionally, the compensation committee has granted stock-based awards to our executive officers in the form of stock options that vest in installments over three years, with an exercise price equal to the closing market price of our Class A common stock on the date of grant, so that the officer will earn no compensation from his or her options unless the market price of our Class A common stock increases beyond the exercise price. In determining the size of stock-based awards to our executive officers, the compensation committee considers the company-level performance, the applicable executive officer's performance, the amount of equity previously awarded to the executive officer, the vesting of such awards and the recommendations of management.

The compensation committee recommends the annual long-term equity incentive grants to our executive officers at the first board meeting of each fiscal year, with the grant date being the second day of

trading after the annual results of operations are announced, consistent with our insider trading policy. An exception to this policy would be with respect to the new hire of an executive officer, with the grant date being the hiring date. The exercise price and grant price of stock options, respectively, are the closing market price of our Class A common stock on the Nasdaq Global Market on the grant date. We do not time the grant of equity awards in coordination with the release of material non-public information. In certain circumstances, the compensation committee may also consider discretionary long-term equity incentive awards for officers' individual performance.

In reviewing the grant recommendations made by management, the compensation committee considered:

- each officer's performance and contribution during the fiscal year;
- competitive practices; and
- the proportion of options granted to each named executive officer, and the named executive officers in aggregate, as a percentage of total options granted during the fiscal year.

In February 2012, we granted the following stock options to our named executive officers, each with an exercise price equal to the closing market price of our Class A common stock on the date of grant: Mr. Davin—70,000; Mr. Baker—45,000; and Mr. Delaney—45,000.

We maintain broad-based benefits that are provided to all employees, including health and dental insurance, life and disability insurance and a 401(k) plan. Executives are eligible to participate in all of our employee benefit plans, in each case on the same basis as other employees. The 401(k) plan includes a matching component where we will match an employee's contribution, on a dollar for dollar basis, up to a maximum of six percent of their wages, not to exceed the maximum company match of $2,500 for the year ended December 31, 2012. The employee contributions are subject to the maximum limitations as set forth in the Internal Revenue Code of 1986, as amended.

During 2012, our aggregate matching contributions to the named executive officers was $7,500.

Tax Considerations

Section 162(m) of the Internal Revenue Code of 1986, as amended, generally prohibits public companies from taking a tax deduction for compensation over $1,000,000 paid to its chief executive officer and each such other officer whose compensation is required to be reported to stockholders pursuant to the Exchange Act by reason of being among the most highly compensated executive officers, unless certain requirements are met. In general, the compensation committee seeks to structure the stock-based compensation granted to our executive officers to allow the company to deduct such officers' compensation; however, it is possible that compensation from such executive officers' stock-based compensation may not be exempted from Section 162(m). In addition, the compensation committee may choose from time to time to authorize executive compensation that is not exempt from the $1,000,000 limit if the compensation committee believes the compensation is appropriate and in the best interests of our company and our stockholders, after taking into consideration general business conditions and the performance of our executives. For example, the salary and cash bonuses we pay to our named executive officers do not qualify for the deduction under Section 162(m), but the compensation committee believes that the consequences derived from that compensation outweigh any tax benefit to us.

EXECUTIVE COMPENSATION

Compensation Summary

The following table contains information with respect to the compensation for the periods indicated of our chief executive officer, chief financial officer and the other most highly compensated executive officer serving as an executive officer at the end of the last completed fiscal year other than the chief executive officer and chief financial officer. We refer to the executive officers identified in this table as the "named executive officers."

SUMMARY COMPENSATION TABLE

Name and Principal Position	Year	Salary	Bonus	Option Awards(1)	All Other Compensation(2)	Total
Michael R. Davin	2012	$655,923	$1,000,000	$596,099	$2,500	$2,254,522
President and Chief Executive	2011	$624,422	$ 625,260	$601,680	$2,500	$1,853,862
Officer	2010	$580,039	$ 250,000	$549,101	$2,500	$1,381,640
Timothy W. Baker	2012	$379,209	$ 530,000	$383,207	$2,500	$1,294,916
Executive Vice President, Chief						
Financial Officer and	2011	$360,997	$ 361,482	$376,050	$2,500	$1,101,029
Treasurer	2010	$336,016	$ 252,197	$366,067	$2,500	$ 956,780
Douglas J. Delaney	2012	$298,394	$ 340,033	$383,207	$2,500	$1,024,134
Executive Vice President, Sales	2011	$284,064	$ 241,000	$376,050	$2,500	$ 903,614
	2010	$264,406	$ 100,000	$295,670	$2,500	$ 662,576

(1) With the exception of ignoring the impact of the forfeiture rate, these amounts represent the aggregate grant date fair value of option awards for fiscal 2012, fiscal 2011 and fiscal 2010, respectively. These amounts do not represent the actual amounts paid to or realized by the named executive officers for these awards during fiscal 2012, 2011 or 2010. The value as of the grant date for stock options is recognized over the number of days of service required for the stock option to vest in full.

All stock options were granted under our 2005 Stock Incentive Plan. The stock options vest over three years at the rate of 8.33% every three months subsequent to the date of grant. Vested stock options terminate upon the earlier of thirty-days following termination of employment, subject to certain exceptions, or ten years from the date of grant.

The following table includes the assumptions used to calculate the grant date fair value reported for fiscal years 2012, 2011 and 2010, on a grant by grant basis.

				Assumptions				
Name	Grant Date	Option Awards: Number of Securities Underlying Options (#)	Exercise Price ($/Sh)	Volatility (%)	Expected Life (years)	Risk-Free Interest Rate (%)	Dividend Yield (%)	Grant Date Fair Value Per Share
Michael R. Davin	2/15/12	70,000	16.46	57	5.81	0.81	—	$8.5157
	2/16/11	80,000	14.04	56	5.81	2.37	—	$7.5210
	2/10/10	97,500	10.16	59	5.81	2.33	—	$5.6318
Timothy W. Baker	2/15/12	45,000	16.46	57	5.81	0.81	—	$8.5157
	2/16/11	50,000	14.04	56	5.81	2.37	—	$7.5210
	2/10/10	65,000	10.16	59	5.81	2.33	—	$5.6318
Douglas J. Delaney	2/15/12	45,000	16.46	57	5.81	0.81	—	$8.5157
	2/16/11	50,000	14.04	56	5.81	2.37	—	$7.5210
	2/10/10	52,500	10.16	59	5.81	2.33	—	$5.6318

For a more detailed description of the assumptions used for purposes of determining grant date fair value, see Note 2 to our audited consolidated financial statements for the year ended December 31, 2012 included in the Original Form 10-K Filing.

(2) The amounts shown in this column reflect the amounts we contributed to the 401(k) plan for the named executive officers.

Grants of Plan-Based Awards

The following table shows information concerning grants of plan-based awards made during 2012 to the named executive officers.

2012 GRANTS OF PLAN-BASED AWARDS

Name	Grant Date	Option Awards: Number of Securities Underlying Options(#)	Exercise or Base Price of Option Awards($/Sh)(1)	Aggregate Grant Date Fair Value of Option Awards($)(2)
Michael R. Davin	2/15/12	70,000	$16.46	$596,099
Timothy W. Baker	2/15/12	45,000	$16.46	$383,207
Douglas J. Delaney	2/15/12	45,000	$16.46	$383,207

(1) Based on the fair market value of our Class A common stock on the date of grant.

(2) The grant date fair value of each of these options was $8.5157 per share and was computed using a Black-Scholes valuation methodology. We estimated the full grant date fair value of these options using the following assumptions: 0.81% risk free interest rate; 0% dividend yield; 57% expected volatility; and a 5.81-year expected life. The grant date fair value is generally the amount that we would expense in our financial statements over the award's service period, but does not include a reduction for forfeitures.

Outstanding Equity Awards at Fiscal Year-End

The following table shows information regarding unexercised stock options held by the named executive officers as of December 31, 2012. The named executive officers did not hold any stock awards as of December 31, 2012.

	Option Awards			
Name	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Option Exercise Price ($)	Option Expiration Date
Michael R. Davin	25,001	—	$17.45	5/8/2016(1)
	26,667	—	$17.61	11/20/2016(1)
	60,000	—	$22.65	2/14/2017(1)
	20,000	—	$28.34	8/8/2017(1)
	31,000	—	$23.97	2/13/2018(1)
	44,655	8,126	$10.16	2/10/2020(1)
	46,666	33,334	$14.04	2/16/2021(1)
	17,499	52,501	$16.46	2/15/2022(1)
Timothy W. Baker	15,001	—	$17.45	5/8/2016(1)
	13,334	—	$17.61	11/20/2016(1)
	30,000	—	$22.65	2/14/2017(1)
	10,000	—	$28.34	8/8/2017(1)
	19,000	—	$23.97	2/13/2018(1)
	14,341	5,417	$10.16	2/10/2020(1)
	29,166	20,834	$14.04	2/16/2021(1)
	11,249	33,751	$16.46	2/15/2022(1)
Douglas J. Delaney	15,001	—	$17.45	5/8/2016(1)
	13,334	—	$17.61	11/20/2016(1)
	30,000	—	$22.65	2/14/2017(1)
	10,000	—	$28.34	8/8/2017(1)
	19,000	—	$23.97	2/13/2018(1)
	4,374	4,376	$10.16	2/10/2020(1)
	29,166	20,834	$14.04	2/16/2021(1)
	11,249	33,751	$16.46	2/15/2022(1)

(1) The stock options were granted under our 2005 Stock Incentive Plan and vest 8.33% on the first day of each calendar quarter subsequent to the date of grant. The grant date of each option is listed in the table below by expiration date.

Expiration Date	Grant Date
5/8/2016	5/8/2006
11/20/2016	11/20/2006
2/14/2017	2/14/2007
8/8/2017	8/8/2007
2/13/2018	2/13/2008
2/10/2020	2/10/2010
2/16/2021	2/16/2011
2/15/2022	2/15/2012

Option Exercises and Stock Vested

The following table sets forth information regarding the exercise of stock options by the named executive officers during 2012. Our named executive officers did not hold any shares of restricted stock during 2012, so no restricted stock held by the named executive officers vested in 2012.

2012 OPTION EXERCISES

Name	Number of Shares Acquired on Exercise (#)	Value Realized on Exercise(1)
Michael R. Davin	171,595	$3,004,167
Timothy W. Baker	118,681	$2,065,507
Douglas J. Delaney ...	117,189	$2,040,084

(1) Represents the difference between the exercise price and the fair market value of our Class A common stock on the date of exercise.

Potential Payments upon Termination or Change in Control

The table below shows the estimated incremental value transfer to each named executive officer under various scenarios relating to a termination of employment. The tables below assume that such termination occurred on December 31, 2012. The actual amounts that would be paid to any named executive officer can only be determined at the time of an actual termination of employment and would vary from those listed below. The estimated amounts listed below are in addition to any retirement, welfare and other benefits that are available to our full-time employees generally.

	Retirement, Resignation or Termination for Cause	Termination without Cause	Resignation for Good Reason	Termination Following Change-in-Control
Michael R. Davin				
Severance Payment(1)	—	$3,079,000	$3,079,000	$3,079,000
Value of Accelerated Vesting of Equity Compensation(2)	—	$ 851,000	$ 851,000	$ 851,000
Total	**—**	**$3,930,000**	**$3,930,000**	**$3,930,000**
Timothy W. Baker				
Severance Payment(1)	—	$1,749,000	$1,749,000	$1,749,000
Value of Accelerated Vesting of Equity Compensation(2)	—	$ 544,000	$ 544,000	$ 544,000
Total	**—**	**$2,293,000**	**$2,293,000**	**$2,293,000**
Douglas J. Delaney				
Severance Payment(1)	—	$1,266,000	$1,266,000	$1,266,000
Value of Accelerated Vesting of Equity Compensation(2)	—	$ 529,000	$ 529,000	$ 529,000
Total	**—**	**$1,795,000**	**$1,795,000**	**$1,795,000**

(1) Pursuant to the terms of the employment agreements we have entered into with each executive officer, these amounts include the following: (1) base salary at December 31, 2012 for an additional 24 months;

(2) calendar year 2012 annual performance bonus or commissions bonus; (3) 110% of calendar year 2011 bonus or commissions paid; (4) health and welfare benefits, assuming the executive's cost for continuing COBRA for 18 months; and (5) unused vacation time, to be paid on or before the first anniversary of the effective date of termination. The calculation excludes any tax gross-up for excise taxes as defined within each executive officer's employment agreement. The 2012 bonus for Mr. Davin was $1,000,000. The 2012 bonus for Mr. Baker was $530,000. The 2012 commission bonus for Mr. Delaney was $340,033.

(2) All outstanding stock options or stock rights granted to Messrs. Davin, Baker and Delaney will become immediately exercisable in full if the option or right holder is terminated without cause, resigns for good reason, or resigns for good reason within 18 months of the change in control. The value of the accelerated vesting of equity compensation was calculated by multiplying the number of shares underlying the portion of stock options that would accelerate upon a termination following a change in control, and that have exercise prices less than the closing market price of our Class A common stock on December 31, 2012, by $24.11, the closing market price of our Class A common stock on December 31, 2012, and then deducting the aggregate exercise price for those options.

Employment Agreements

Michael R. Davin. Pursuant to an employment agreement entered into in December 2008 and further amended in December 2010 and July 2011, we employ Mr. Davin as our president, chief executive officer and chairman of the board of directors. Under this agreement, Mr. Davin is entitled to an annual base salary that is subject to adjustment upon annual review by the board of directors, but in no event will we pay Mr. Davin an annual base salary that is less than 105% of the annual base salary in effect for the immediately preceding year during the term of the employment agreement. Mr. Davin's annual base salary has been adjusted by the board of directors and is currently $725,000. The agreement provides for an annual performance bonus of an amount as determined in the discretion of the compensation committee.

Mr. Davin's employment agreement has an initial term of three years and will automatically renew for additional periods of two years each until either party gives written notice of termination to the other party no later than twelve months prior to the end of the initial or extended term. Upon the termination of his employment without cause or following a change in control, or if he terminates his employment for good reason, Mr. Davin has the right to receive his base salary and other compensation and benefits under his employment agreement for 24 months. He is also entitled to receive the full amount of his annual performance bonus for the calendar year of such termination or resignation, as well as an amount equal to 110% of the bonus paid to him in the year of such termination or resignation, to be paid on or before the first anniversary of the effective date of his termination or resignation. Mr. Davin is not entitled to severance payments if we terminate him for cause or if he resigns without good reason. Pursuant to this agreement, except as provided in the following sentence, Mr. Davin is prohibited from competing with us and soliciting our customers, prospective customers or employees for a period of twelve months if we terminate him for any reason. This non-competition period does not apply if Mr. Davin is terminated without cause, resigns for good reason or is terminated because we failed to obtain the agreement of any successor to the company to assume Mr. Davin's employment agreement as required by the employment agreement. The employment agreement with Mr. Davin also contains a tax gross-up provision whereby if Mr. Davin incurs an excise tax pursuant to Section 4999 of the Internal Revenue Code of 1986, as amended, which we refer to as the "Code," by reason of his receipt of a payment that is contingent on a change in our ownership or control and constitutes an excess parachute payment as defined in Section 280G of the Code, Mr. Davin will receive a gross-up payment in an amount that generally will place him in the same after-tax position that he would have been in if no excise tax had applied and no gross-up payment was made.

Timothy W. Baker. Pursuant to an employment agreement entered into in December 2008, we employ Mr. Baker as our executive vice president, chief financial officer and treasurer. Under this agreement, Mr. Baker is entitled to an annual base salary that is subject to adjustment upon annual review by the board of directors, but in no event will we pay Mr. Baker an annual base salary that is less than 105% of the annual base salary in effect for the immediately preceding year during the term of the employment agreement. Mr. Baker's annual base

salary has been adjusted by the board of directors and is currently $425,000. Mr. Baker is also eligible to earn an annual target performance bonus based on target performance goals set by the board of directors for each calendar year. Mr. Baker's employment agreement has an initial term of three years and will automatically renew for additional periods of two years each until either party gives written notice of termination to the other party no later than twelve months prior to the end of the initial or extended term. Upon the termination of his employment without cause or following a change in control, or if he terminates his employment for good reason, Mr. Baker has the right to receive his base salary and other compensation and benefits under his employment agreement for 24 months. He is also entitled to receive the full amount of his annual performance bonus for the calendar year of such termination or resignation, as well as an amount equal to 110% of the bonus paid to him in the year of such termination or resignation, to be paid on or before the first anniversary of the effective date of his termination or resignation. Mr. Baker is not entitled to severance payments if we terminate him for cause or if he resigns without good reason. Pursuant to this agreement, except as provided in the following sentence, Mr. Baker is prohibited from competing with us and soliciting our customers, prospective customers or employees for a period of twelve months if we terminate him for any reason. This non-competition period does not apply if Mr. Baker is terminated without cause, resigns for good reason or is terminated because we failed to obtain the agreement of any successor to the company to assume Mr. Baker's employment agreement as required by the employment agreement. The employment agreement with Mr. Baker also contains a tax gross-up provision whereby if Mr. Baker incurs an excise tax pursuant to Section 4999 of the Code by reason of his receipt of a payment that is contingent on a change in our ownership or control and constitutes an excess parachute payment as defined in Section 280G of the Code, Mr. Baker will receive a gross-up payment in an amount that generally will place him in the same after-tax position that he would have been in if no excise tax had applied and no gross-up payment was made.

Douglas J. Delaney. Pursuant to an employment agreement entered into in December 2008, we employ Mr. Delaney as our executive vice president, sales. Under this agreement, Mr. Delaney is entitled to an annual base salary that is subject to adjustment upon annual review by the board of directors, but in no event will we pay Mr. Delaney an annual base salary that is less than 105% of the annual base salary in effect for the immediately preceding year during the term of the employment agreement. Mr. Delaney's annual base salary has been adjusted by the board of directors and is currently $325,000. Mr. Delaney is also eligible to earn an annual target commission bonus based on target performance goals set by the board of directors and Mr. Delaney for each calendar year. Mr. Delaney's employment agreement has an initial term of three years and will automatically renew for additional periods of two years each until either party gives written notice of termination to the other party no later than twelve months prior to the end of the initial or extended term. Upon the termination of his employment without cause or following a change in control, or if he terminates his employment for good reason, Mr. Delaney has the right to receive his base salary and other compensation and benefits under his employment agreement for 24 months. He is also entitled to receive the full amount of his annual performance bonus for the calendar year of such termination or resignation, as well as an amount equal to 110% of the bonus paid to him in the year of such termination or resignation, to be paid on or before the first anniversary of the effective date of his termination or resignation. Mr. Delaney is not entitled to severance payments if we terminate him for cause or if he resigns without good reason. Pursuant to this agreement, except as provided in the following sentence, Mr. Delaney is prohibited from competing with us and soliciting our customers, prospective customers or employees for a period of twelve months if we terminate him for any reason. This non-competition period does not apply if Mr. Delaney is terminated without cause, resigns for good reason or is terminated because we failed to obtain the agreement of any successor to the company to assume Mr. Delaney's employment agreement as required by the employment agreement. The employment agreement with Mr. Delaney also contains a tax gross-up provision whereby if Mr. Delaney incurs an excise tax pursuant to Section 4999 of the Code by reason of his receipt of a payment that is contingent on a change in our ownership or control and constitutes an excess parachute payment as defined in Section 280G of the Code, Mr. Delaney will receive a gross-up payment in an amount that generally will place him in the same after-tax position that he would have been in if no excise tax had applied and no gross-up payment was made.

In each of the employment agreements with our named executive officers, "cause" is defined as:

- acts or omissions constituting gross negligence or willful misconduct on the part of the named executive officer with respect to the named executive officer's obligations to us or otherwise relating to our business, in each case as determined in good faith by us;
- the named executive officer's material breach of his employment agreement or our Executive Innovations and Proprietary Rights Agreement;
- the named executive officer's conviction or entry of a plea of nolo contendere for fraud, misappropriation or embezzlement, or any felony or crime of moral turpitude or fiduciary duty in connection with the performance of his obligations to us;
- the named executive officer's willful neglect of duties as determined in the good faith by us;
- the named executive officer's failure to perform the essential functions of his position, with reasonable accommodation, due to a mental or physical disability; or
- the named executive officer's knowingly withholding material information (in his area of responsibility) from the board of directors.

In each of the employment agreements with our named executive officers, "good reason" means the occurrence, without the named executive officer's written consent, of any of the following:

- the assignment to the named executive officer of duties inconsistent in any material respect with the named executive officer's position (including status, offices, titles and reporting requirements), authority or responsibilities;
- a reduction in the named executive officer's annual base salary;
- our failure to (i) continue in effect any material compensation or benefit plan or program in which the named executive officer participates or which is applicable to the named executive officer, unless an equitable arrangement has been made with respect to such plan or program, (ii) continue the named executive officer's participation therein (or in such substitute or alternative plan) on a basis not materially less favorable than the basis existing immediately prior to the effective date of the employment agreement, or (iii) award cash bonuses to the named executive officer in amounts and in a manner substantially consistent with past practice in light of our financial performance;
- a significant change by us in the location at which the named executive officer performs his principal duties for us, or a requirement by us that the named executive officer travel on company business to a substantially greater extent than required immediately prior to the effective date of the employment agreement;
- our failure to obtain the agreement from any successor to the company to assume and agree to perform under the employment agreement;
- our failure to pay or provide to the named executive officer any portion of his compensation or benefits due under any benefit plan within seven days of the date such compensation or benefits are due; or
- any material breach by us of the employment agreement with the named executive officer.

In each of the employment agreements with our named executive officers, "change in control" means the occurrence of any of the following:

- the acquisition by an individual, entity or group other than El.En. of beneficial ownership of any of our capital stock if, after such acquisition, the acquiring entity beneficially owns more than 50% of the then-outstanding shares of our common stock; provided, however, that for

purposes of this provision, the following acquisitions shall not constitute a change in control: (i) any acquisition directly from us (excluding an acquisition pursuant to the exercise, conversion or exchange of any security exercisable for, convertible into or exchangeable for common stock or voting securities of our company), (ii) any acquisition by us, or (iii) any acquisition by any employee benefit plan (or related trust) sponsored or maintained by us or any corporation controlled by us;

- at such time that the members of the board of directors (i) who were members of the board of directors on the date of the execution of the executive's agreement or (ii) who were nominated or elected subsequent to such date by at least a majority of the directors who were members of the board of directors on the date of the execution of the executive's agreement do not constitute a majority of the board; provided, however, that there shall be excluded from this clause (ii) any individual whose initial assumption of office occurred as a result of an actual or threatened election contest with respect to the election or removal of directors or other actual or threatened solicitation of proxies or consents, by or on behalf of a person other than the board of directors;
- the consummation of a merger, consolidation, reorganization, recapitalization or statutory share exchange involving our capital stock or a sale or other disposition of all or substantially all of the assets of our company (each, a "business combination") following which the beneficial owners of outstanding shares of our common stock prior to such business combination own less than 50% of the then outstanding shares of our common stock immediately following such business combination; or
- approval by our stockholders of a complete liquidation or dissolution of our company.

Compensation Committee Interlocks and Insider Participation

During 2012, the compensation committee consisted of Messrs. Robinson (Chairman) and Barefoot and Ms. Hatsopoulos. Neither of Messrs. Robinson (Chairman) or Barefoot nor Ms. Hatsopoulos has ever been an officer or employee of us. No member of the compensation committee had any relationship with us during fiscal 2012 requiring disclosure under Item 404 of Regulation S-K under the Exchange Act.

None of our executive officers serves as a member of the board of directors or compensation committee, or other committee serving an equivalent function, of any entity that has one or more executive officers who serve as members of our board of directors or our compensation committee.

Compensation Committee Report

The compensation committee has reviewed and discussed the Compensation Discussion and Analysis included in this Amendment with the company's management. Based on such review and discussion with management, the compensation committee recommended to the board of directors that the Compensation Discussion and Analysis be included in this Amendment.

By the Compensation Committee of the Board of Directors of Cynosure, Inc.

Thomas H. Robinson, Chairman
Brian Barefoot
Marina Hatsopoulos

Item 12. ***Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters***

INFORMATION ABOUT OUR DIRECTORS, OFFICERS AND 5% STOCKHOLDERS

Security Ownership of Certain Beneficial Owners and Management

The following table contains information as of April 5, 2013 about the beneficial ownership of shares of our Class A common stock by:

- each person, or group of affiliated persons, who is known by us to beneficially own more than 5% of our Class A common stock;
- each of our directors and nominees for director;
- each of our named executive officers; and
- all of our directors and executive officers as a group.

For purposes of the table below, and in accordance with the rules of the SEC, we deem shares of Class A common stock subject to options that are currently exercisable or exercisable within 60 days of April 5, 2013 to be outstanding and beneficially owned by the person holding the options for the purpose of computing the percentage ownership of that person, but does not treat them as outstanding for the purpose of computing the percentage ownership of any other person. As of April 5, 2013, there were 16,210,590 shares of our Class A common stock outstanding. Except as otherwise noted, the persons or entities in this table have sole voting and investment power with respect to all of the shares of Class A common stock beneficially owned by them, subject to community property laws, where applicable. Except as otherwise set forth below, the street address of the beneficial owner is c/o Cynosure, Inc., 5 Carlisle Road, Westford, Massachusetts 01886. The table below does not include Palomar, which, by virtue of the agreements entered into with our directors, executive officers and their affiliates in connection with the Merger Agreement, has shared voting power with respect to the shares of Class A common stock held by all executive officers and directors as a group. Palomar disclaims beneficial ownership of all such shares. Palomar's address is 15 Network Drive, Burlington, Massachusetts 01803.

	Class A Common Stock Beneficially Owned	
Name	**Shares(1)**	**Percentage**
5% Stockholders		
El.En. S.p.A.(2)	2,098,628	12.9
Next Century Growth Investors, LLC(3)	1,132,386	7.0
T. Row Price Associates, Inc.(4)	980,000	6.0
Directors, Nominees for Director and Officers		
Michael R. Davin(5)	315,447	1.9
Timothy W. Baker(6)	172,090	1.1
Douglas J. Delaney(7)	156,082	1.0
Brian M. Barefoot(7)	11,333	*
Ettore V. Biagioni(7)	49,000	*
Andrea Cangioli(2)	2,098,628	12.9
William O. Flannery(8)	7,500	*
Marina Hatsopoulos(7)	33,000	*
Thomas H. Robinson(9)	62,000	*
All executive officers and directors as a group (8 persons)(10)	2,897,580	17.1

* Less than 1%

(1) Includes shares issuable upon the exercise of stock options within 60 days of April 5, 2013.

(2) Consists of shares of our Class A common stock owned by El.En. S.p.A., or El.En. The El.En. board of directors has voting and investment power for the shares held by El.En. The El.En. board of directors consists of eight persons, including Andrea Cangioli. The address of El.En. is Via Baldanzese 17, Calenzano, 50041 Florence, Italy.

(3) According to a Schedule 13G filed with the SEC on February 14, 2013, Next Century Growth Investors, LLC or certain of its affiliates beneficially owns 1,132,386 shares of our Class A common stock. The address of Next Century Growth Investors, LLC is 5500 Wayzata Blvd., Suite 1275, Minneapolis, Minnesota.

(4) According to a Schedule 13G filed with the SEC on February 13, 2013, T. Rowe Price Associates, Inc. or certain of its affiliates beneficially owns 980,000 shares of our Class A common stock. The address of T. Rowe Price Associates, Inc. is 100 East Pratt Street, Baltimore, Maryland.

(5) Consists of 310,447 shares issuable upon exercise of stock options exercisable within 60 days of April 5, 2013 and 5,000 shares of our Class A common stock held in a family trust.

(6) Consists of 167,090 shares issuable upon exercise of stock options exercisable within 60 days of April 5, 2013 and 5,000 shares of our Class A common stock held in a family trust.

(7) Consists of shares issuable upon exercise of stock options exercisable within 60 days of April 5, 2013.

(8) Includes 2,500 shares issuable upon exercise of stock options exercisable within 60 days of April 5, 2013.

(9) Includes 49,000 shares issuable upon exercise of stock options exercisable within 60 days of April 5, 2013.

(10) Includes 2,098,628 shares owned by El.En. and 775,952 shares issuable upon exercise of stock options held by directors and executive officers and exercisable within 60 days of April 5, 2013.

Securities Authorized for Issuance under Our Equity Compensation Plans

The following table contains information about our equity compensation plans as of December 31, 2012. Our 2005 Stock Incentive Plan was adopted by the board of directors on August 8, 2005 and approved by stockholders on December 8, 2005. We will grant no further awards under the 1992 Stock Option Plan or the 2004 Stock Option Plan.

EQUITY COMPENSATION PLAN INFORMATION

Plan Category	Number of Shares to be Issued upon Exercise of Outstanding Options(1)	Weighted Average Exercise Price of Outstanding Options	Number of Shares Remaining Available for Future Issuance under Equity Compensation Plans(2)
Equity compensation plans that have been approved by our stockholders	1,952,611	$16.18	331,517
Equity compensation plans that have not been approved by our stockholders	—	—	—
Total	1,952,611	$16.18	331,517

(1) Consists of the 1992 Stock Option Plan, the 2004 Stock Option Plan and the 2005 Stock Incentive Plan.

(2) In addition to being available for future issuance upon exercise of options that may be granted after December 31, 2012, all of the shares available for grant under the 2005 Stock Incentive Plan may instead be issued in the form of restricted stock, unrestricted stock, stock appreciation rights, performance shares or other equity-based awards.

Item 13. ***Certain Relationships and Related Transactions, and Director Independence***

RELATED-PERSON TRANSACTIONS

Policies and Procedures for Related Person Transactions

The board has adopted written policies and procedures for the review of any transaction, arrangement or relationship in which we are a participant, the amount involved exceeds $120,000, and one of our executive officers, directors, director nominees or 5% stockholders (or their immediate family members), each of whom is referred to as a "related person," has a direct or indirect material interest.

If a related person proposes to enter into such a transaction, arrangement or relationship, which is referred to as a "related person transaction," the related person must report the proposed related person transaction to our chief financial officer. The policy calls for the proposed related person transaction to be reviewed and, if deemed appropriate, approved by our audit committee. Whenever practicable, the reporting, review and approval will occur prior to entry into the transaction. If advance review and approval is not practicable, the committee will review, and, in its discretion, may ratify the related person transaction. The policy also permits the chairman of the committee to review and, if deemed appropriate, approve proposed related person transactions that arise between committee meetings, subject to ratification by the committee at its next meeting. Any related person transactions that are ongoing in nature will be reviewed annually.

A related person transaction reviewed under the policy will be considered approved or ratified if it is authorized by the committee after full disclosure of the related person's interest in the transaction. As appropriate for the circumstances, the committee will review and consider:

- the related person's interest in the related person transaction;
- the approximate dollar value of the amount involved in the related person transaction;
- the approximate dollar value of the amount of the related person's interest in the transaction without regard to the amount of any profit or loss;
- whether the transaction was undertaken in the ordinary course of our business;
- whether the terms of the transaction are no less favorable to us than terms that could have been reached with an unrelated third party;
- the purpose of, and the potential benefits to us of, the transaction; and
- any other information regarding the related person transaction or the related person in the context of the proposed transaction that would be material to investors in light of the circumstances of the particular transaction.

The committee may approve or ratify the transaction only if the committee determines that, under all of the circumstances, the transaction is in, or is not inconsistent with, our best interests. The committee may impose any conditions on the related person transaction that it deems appropriate.

In addition to the transactions that are excluded by the instructions to the SEC's related person transaction disclosure rule, the board has determined that the following transactions do not create a material direct or indirect interest on behalf of related persons and, therefore, are not related person transactions for purposes of this policy:

- interests arising solely from the related person's position as an executive officer of another entity (whether or not the person is also a director of such entity), that is a participant in the transaction, where (a) the related person and all other related persons own in the aggregate less than a 10%

equity interest in such entity, (b) the related person and his or her immediate family members are not involved in the negotiation of the terms of the transaction and do not receive any special benefits as a result of the transaction and (c) the amount involved in the transaction equals less than the greater of $200,000 or 5% of the annual gross revenues of the company receiving payment under the transaction; and

- a transaction that is specifically contemplated by provisions of our charter or by-laws.

The policy provides that transactions involving compensation of our executive officers shall be reviewed and approved by the compensation committee in the manner specified in its charter.

Since January 1, 2012, we have engaged in the following transactions with our directors, executive officers and holders of more than 5% of our voting securities, and affiliates of our directors, executive officers and 5% stockholders:

Arrangements with El.En.

Distribution Relationship. Since 2002, we have distributed products that are developed and manufactured by El.En., which as of April 5, 2013 owned approximately 12.9% of our outstanding Class A common stock. The following table sets forth our payments and indebtedness to El.En. pursuant to these distribution arrangements during the 2012 fiscal year:

	Payments to El.En. During Period	Trade Payables at Period End
Fiscal year ended December 31, 2012	$5,705,841	$1,896,486

Indemnification Agreement. In connection with our public offering in 2012, we and El.En. agreed to indemnify the underwriters for the offering, and their controlling persons, against certain liabilities, including liabilities under the Securities Act of 1933, as amended, or contribute to payments the underwriters may be required to make because of any of those liabilities. We and El.En. entered into an agreement prior to the closing of the offering providing that:

- we and El.En. will give prompt notice to the other party of any claim for indemnification under the underwriting agreements;
- we will have the right to assume the defense of any action for which indemnification is sought from us or El.En., and El.En. will not settle or compromise any such action without our prior written consent; and
- subject to El.En.'s compliance with the obligations listed above, in the event and to the extent El.En. is required to make any indemnity payments to the underwriters pursuant to the underwriting agreements, and such indemnity payments relate to matters as to which El.En. had no knowledge after reasonable inquiry, we will reimburse El.En. for such indemnity payments actually paid to the underwriters.

This agreement does not affect the respective liability of us and El.En. to the underwriters pursuant to the underwriting agreement related to the offering.

DIRECTOR INDEPENDENCE

Under applicable NASDAQ rules, a director of our company will only qualify as an "independent director" if, in the opinion of our board of directors, that person does not have a relationship which would interfere with the exercise of independent judgment in carrying out the responsibilities of a director. Our board of

directors has determined that none of Messrs. Barefoot, Biagioni or Robinson or Ms. Hatsopoulos, and if elected, Mr. Flannery, has a relationship which would interfere with the exercise of independent judgment in carrying out the responsibilities of a director and that each of these directors is, and Mr. Flannery would be, an "independent director" as defined under NASDAQ Listing Rule 5605(a)(2). Our board of directors has determined that all of the members of each of our board's three standing committees—audit, compensation, and nominating and corporate governance—are independent as defined under applicable NASDAQ rules, including, in the case of all members of our audit committee, the independence requirements contemplated by Rule 10A-3 under the Exchange Act.

Item 14. *Principal Accountant Fees and Services*

Ernst & Young LLP billed to us a total of $784,105 for professional services rendered for the year ended December 31, 2012 and $1,100,299 for professional services rendered for the year ended December 31, 2011. The following table provides information about these fees.

Fee Category	Fiscal 2012	Fiscal 2011
Audit Fees	$610,305	$ 564,679
Audit-Related Fees	$ 99,805	$ 425,925
Tax Fees	$ 72,000	$ 107,700
All Other Fees	$ 1,995	$ 1,995
Total Fees	$784,105	$1,100,299

Audit Fees. Audit fees consisted of fees for the audit of our annual financial statements, the review of the interim financial statements, the review of financial information included in our filings with the SEC and other professional services provided in connection with statutory and regulatory filings or engagements.

Audit-Related Fees. Audit-related fees consisted of fees for assurance and related services including due diligence, accounting consultations, audits in connection with mergers and acquisitions and the review of our financial statements which are not reported under "Audit Fees."

Tax Fees. Tax fees consisted of fees for tax compliance. Tax compliance services relate to the preparation of original and amended tax returns, claims for refunds and tax payment-planning services.

All Other Fees. Other fees for fiscal 2012 and 2011 consisted of fees for using the on-line accounting research tools of Ernst & Young LLP.

The audit committee of the board of directors believes that the non-audit services described above did not compromise Ernst & Young LLP's independence. The audit committee's charter, which you can find in the "Corporate Governance" section of the "Investor Relations" page of our website, www.cynosure.com, requires that all proposals to engage Ernst & Young LLP for services, and all proposed fees for these services, be submitted to the audit committee for approval before Ernst & Young LLP may provide the services. None of the above fees were approved using the "de minimis exception" under SEC rules.

Pre-Approval of Audit and Non-Audit Services

The audit committee has adopted policies and procedures relating to the approval of all audit and non-audit services that are to be performed by our registered public accounting firm. This policy generally provides that we will not engage our registered public accounting firm to render audit or non-audit services unless the service is specifically approved in advance by the audit committee or the engagement is entered into pursuant to one of the pre-approval procedures described below.

From time to time, the audit committee may pre-approve specified types of services that are expected to be provided to us by our registered public accounting firm during the next 12 months. Any such pre-approval is detailed as to the particular service or type of services to be provided and is also generally subject to a maximum dollar amount.

The audit committee has also delegated to its chairman the authority to approve any audit or non-audit services to be provided to us by our registered public accounting firm. Any approval of services by the chairman of the audit committee pursuant to this delegated authority is reported to the audit committee at its next regularly scheduled meeting.

PART IV

Item 15. *Exhibits and Financial Statement Schedules*

(a) *Financial Statements and Schedules*

The Consolidated Financial Statements and notes thereto, and schedules, required to be filed in our Annual Report on Form 10-K are included in the Original Form 10-K Filing.

(b) *Exhibits*

The Exhibit Index annexed to this report, and immediately preceding the exhibits, is incorporated by reference.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

CYNOSURE, INC.

By: /s/ MICHAEL R. DAVIN

Michael R. Davin
President, Chief Executive Officer and
Chairman of the Board of Directors

Date: April 29, 2013

EXHIBIT INDEX

Exhibit Number	Description
3.1	Restated Certificate of Incorporation of the Company (Incorporated by reference to the exhibits to the Company's Registration Statement on Form S-1 filed August 11, 2005 (333-127463))
3.2	Amended and Restated Bylaws of the Company (Incorporated by reference to the exhibits to the Company's Registration Statement on Form S-1 filed August 11, 2005 (333-127463))
4.1	Specimen certificate evidencing shares of Class A common stock (Incorporated by reference to the exhibits to Amendment No. 1 of the Company's Registration Statement on Form S-1 filed November 3, 2005 (333-127463))
10.1*	1992 Stock Option Plan (Incorporated by reference to the exhibits to the Company's Registration Statement on Form S-1 filed August 11, 2005 (333-127463))
10.2*	2004 Stock Option Plan, as amended (Incorporated by reference to the exhibits to the Company's Registration Statement on Form S-1 filed August 11, 2005 (333-127463))
10.3*	2005 Stock Incentive Plan, as amended (Incorporated by reference to the exhibits to the Company's Registration Statement on Form S-8 filed February 2, 2013 (333-186398))
10.4*	Employment Agreement, dated December 15, 2008, between the Company and Michael Davin (Incorporated by reference to the exhibits to the Company's Current Report on Form 8-K filed December 19, 2008)
10.5*	First Amendment to Employment Agreement, dated December 20, 2010, between the Company and Michael Davin (Incorporated by reference to the exhibits to the Company's Current Report on Form 8-K filed December 21, 2010)
10.6*	Employment Agreement, dated December 15, 2008, between the Company and Douglas Delaney (Incorporated by reference to the exhibits to the Company's Current Report on Form 8-K filed December 19, 2008)
10.7†	Distribution Agreement, effective as of October 26, 2012, between the Company and El.En. S.p.A. (Incorporated by reference to the exhibits to the Company's Annual Report on Form 10-K filed March 8, 2013)
10.8	Lease, dated January 31, 2005, between Glenborough Fund V, Limited Partnership and the Company, as amended (Incorporated by reference to the exhibits to the Company's Annual Report on Form 10-K filed March 7, 2012)
10.9	Non-Exclusive Patent License, dated November 6, 2006, between Palomar Medical Technologies, Inc. and the Company (Incorporated by reference to the exhibits to the Company's Current Report on Form 8-K filed November 7, 2006)
10.10*	Employment Agreement, dated December 15, 2008, between the Company and Timothy W. Baker (Incorporated by reference to the exhibits to the Company's Current Report on Form 8-K filed December 19, 2008)
21.1	Subsidiaries of the Company (Incorporated by reference to the exhibits to the Company's Annual Report on Form 10-K filed March 8, 2013)
23.1	Consent of Ernst & Young LLP (Incorporated by reference to the exhibits to the Company's Annual Report on Form 10-K filed March 8, 2013)
31.1	Certification of the Principal Executive Officer (Incorporated by reference to the exhibits to the Company's Annual Report on Form 10-K filed March 8, 2013)

Exhibit Number	Description
31.2	Certification of the Principal Financial Officer (Incorporated by reference to the exhibits to the Company's Annual Report on Form 10-K filed March 8, 2013)
31.3	Certification of the Principal Executive Officer
31.4	Certification of the Principal Financial Officer
32.1	Certification of the Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Incorporated by reference to the exhibits to the Company's Annual Report on Form 10-K filed March 8, 2013)
32.2	Certification of the Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Incorporated by reference to the exhibits to the Company's Annual Report on Form 10-K filed March 8, 2013)
101**	The following materials from the Cynosure, Inc. Annual Report on Form 10-K for the year ended December 31, 2012, formatted in XBRL (eXtensible Business Reporting Language): (i) Consolidated Statements of Operations for the year ended December 31, 2012, 2011 and 2010, (ii) Consolidated Balance Sheets at December 31, 2012 and December 31, 2011, (iii) Consolidated Statements of Stockholders' Equity for the year ended December 31, 2012, 2011 and 2010, (iv) Consolidated Statements of Comprehensive Income (Loss) for the year ended December 31, 2012, 2011 and 2010, (v) Consolidated Statements of Cash Flows for the year ended December 31, 2012, 2011 and 2010, and (vi) Notes to Consolidated Financial Statements (Incorporated by reference to the exhibits to the Company's Annual Report on Form 10-K filed March 8, 2013)

* Management contract or compensation plan or arrangement required to be filed as an exhibit pursuant to Item 15(b) of Form 10-K.

† Confidential treatment granted as to certain portions, which portions have been omitted and filed separately with the Securities and Exchange Commission.

** Pursuant to Rule 406T of Regulation S-T, the Interactive Data Files on Exhibit 101 hereto are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Securities and Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections.

Exhibit 31.3

CERTIFICATIONS

I, Michael R. Davin, certify that:

1. I have reviewed this Amendment No. 1 to the Annual Report on Form 10-K of Cynosure, Inc.; and

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report.

/s/ MICHAEL R. DAVIN

Michael R. Davin
Chairman, President and Chief Executive Officer

Date: April 29, 2013

Exhibit 31.4

CERTIFICATIONS

I, Timothy W. Baker, certify that:

1. I have reviewed this Amendment No. 1 to the Annual Report on Form 10-K of Cynosure, Inc.; and

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report.

/S/ TIMOTHY W. BAKER

Timothy W. Baker
Executive Vice President,
Chief Financial Officer and Treasurer

Date: April 29, 2013

Cynosure, Inc. Corporate and Stockholder Information

BOARD OF DIRECTORS

rian M. Barefoot[1,2,3]
resident Emeritus, Babson College
hairman, Audit Committee

ttore Biagioni[1,3]
lanaging Partner,
lothon Group LLC
hairman, Nominating and
orporate Governance
ommittee

ndrea Cangioli
irector and General
lanager, El.En.

lichael Davin
esident and Chief
xecutive Officer,
ynosure, Inc.
hairman of the Board

larina Hatsopoulos[1,2,3]
esident, Windy Street Inc.

homas Robinson[2,3]
artner, Robinson Butler
hairman, Compensation
ommittee

[1] Audit Committee member
[2] Compensation Committee member
[3] Nominating and Corporate Governance Committee member

MANAGEMENT

Michael Davin
President, Chief Executive Officer and Chairman

Timothy Baker
Executive Vice President, Chief Financial Officer and Treasurer

Douglas Delaney
Executive Vice President, Sales

David Mackie
Executive Vice President, Operations

Rafael Sierra
Chief Technical Officer

James Boll
Senior Vice President, Product Development

Marina Kamenakis
Senior Vice President, Clinical Development

Ben Kaplan
Senior Vice President and General Counsel

William Kelley
Senior Vice President, International Sales

Eric Brown
Vice President, Product Engineering

Paul Cardarelli
Vice President, Business Development

Christopher Geberth
Vice President, Finance

Irina Kulinets
Vice President of Regulatory Affairs and Quality Systems

Travis Lee
Vice President, Global Marketing

John Neu
Vice President, Operations

James Palastra
Vice President, Customer Service

Maureen Tarca
Vice President of Human Resources

Shaun Welches
Vice President, Engineering

CORPORATE INFORMATION

Transfer Agent and Registrar
American Stock Transfer & Trust Company
6201 15th Avenue
Brooklyn, NY 11219 (800) 937-5449

2013 Annual Meeting of Stockholders
Monday, June 24, 2013;
11:00 a.m.
Wilmer Cutler Pickering Hale and Dorr LLP
60 State Street
Boston, Massachusetts 02109

Corporate Counsel
Wilmer Cutler Pickering Hale and Dorr LLP
60 State Street
Boston, Massachusetts 02109
(617) 526-6000

Independent Registered Public Accounting Firm
Ernst & Young LLP
200 Clarendon Street
Boston, Massachusetts 02116
(617) 266-2000

Stock Trading Information
The Nasdaq Global Market
Symbol: CYNO

Investor Contact
Financial results, corporate news, SEC filings and Company information is available on Cynosure's website at www.cynosure.com.

For additional information, please contact:
Cynosure, Inc.
5 Carlisle Road
Westford, MA 01886
978.256.4200
Email: investor@cynosure.com

CYNOSURE®
Be transformed

www.cynosure.com

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despacho 602
Colonia San Jerónimo Aculco
Delegación Magdalena Contr
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Tel: 56.81.38.43