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

Form 10-K

(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, 2011

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 ☐ (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 30, 2011: $116,528,094.

The number of shares outstanding of each of the registrant's classes of common stock, as of March 1, 2012:

Class	Number of Shares
Class A Common Stock, $0.001 par value	9,646,114
Class B Common Stock, $0.001 par value	2,939,161

Portions of the registrant's definitive Proxy Statement for its 2011 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 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 rejuvenate the skin through the treatment of vascular and pigmented lesions, remove multi-colored tattoos, liquefy and remove unwanted fat through laser lypolysis, reduce cellulite and treat onychomycosis. We are also developing in conjunction with our development agreement with Unilever Ltd., (Unilever) a laser treatment system for the home use market. 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 newer 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. As the aesthetic treatment market evolves to include new customers, such as aesthetic spas and additional physician specialties, we believe that our broad technology base and tailored solutions will provide us with a competitive advantage.

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

- the *Elite* product line for hair removal, treatment of facial and leg veins and pigmentations;
- the *Smartlipo* product line for LaserBodySculpting℠ for the removal of unwanted fat;
- the *Cellulaze* product line for the reduction of cellulite;
- the *SmoothShapes XV* and *TriActive* product line for the temporary reduction in the appearance of cellulite;
- the *Affirm/SmartSkin* product line for anti-aging applications, including treatments for wrinkles, skin texture, skin discoloration and skin tightening;
- the *Cynergy* product line for the treatment of vascular lesions; and
- the *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. Innovation continues to be a strong contributor to our strength. Since 2002, we have introduced 24 new products.

- In February 2011, we launched *Cellulaze*, the world's first aesthetic laser device for the reduction of cellulite;
- Also in February 2011, we expanded our body shaping treatment platform by acquiring substantially all of the assets of Eleme Medical, including Eleme's non-invasive *SmoothShapes® XV* system;
- 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 which treat wrinkles, acne scars, multi-color tattoos, vascular lesions and overall skin rejuvenation; and
- In October 2011, we acquired worldwide exclusive rights from NuvoLase, Inc. to distribute the PinPointe ™ FootLaser™. The PinPointe FootLaser is a light-based device for the treatment of onychomycosis. The system uses laser light to kill the fungus that lies in and under the nail without causing damage to the nail or the surrounding skin.

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 97 other countries. As of December 31, 2011, we have sold 11,524 aesthetic treatment systems worldwide. See Note 7 to our Consolidated Financial Statements for revenue, net asset and long-lived asset information by geographic region.

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. 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, Inc., an independent industry research and analysis firm, reported that in 2012, total sales of products in the global aesthetic market for 2011 exceeded $4.9 billion and that they would expand 13.5% per year to more than $9.3 billion by 2016. Global sales of skin tightening and body shaping systems would increase 12.4% annually from $325.0 million in 2010 to $583.0 million in 2015.

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;
- 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.

Expansion Into Non-Traditional Physician Customer and Medi-Spa Markets WE WILL BE UPDATING

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 light-based aesthetic treatment applications. These procedures include hair removal, rejuvenating the skin through the treatment of vascular and pigmented lesions, wrinkles, multi-colored tattoos, skin texture and skin discoloration, skin tightening through tissue coagulation, reducing the appearance of cellulite and treating onychomycosis. We also offer products for minimally invasive procedures for LaserBodySculpting for the removal of unwanted fat and the reduction of cellulite. 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. As of December 31, 2011, we have sold 11,524 aesthetic treatment systems worldwide.

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)	Hair removal, particularly for light skin types
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; Reduction of fat and cellulite
Intense Pulsed Light	Visible/Near infrared invisible light (400-950 nm)	Hair removal, all skin types; Vascular lesions, particularly shallow lesions and 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 56% of our revenue generated from product sales outside of North America in 2011. 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 97 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:

- *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.
- *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. Since 2002, we have introduced 24 new products. In February 2011, we expanded our body shaping treatment platform by acquiring substantially all of the assets of Eleme Medical and the introduction of *SmoothShapes® XV*. Also in February 2011, we launched our *Cellulaze* Workstation, the world's first aesthetic laser device for the reduction of cellulite into the European community and 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, Inc. to distribute the PinPointe™ FootLaser™. The PinPointe FootLaser is a light-based device for the treatment of onychomycosis.
- *Provide Comprehensive, Ongoing Customer Service.* We support our customers with a worldwide service organization that includes 31 field service engineers in North America and 37 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.
- *Develop Home Use Application for our Technology.* In June, 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.

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)	Pigmented Lesions	Reduce Cellulite	Acne	Tattoo Removal	Anti-Aging	Reduce Appearance of Cellulite	LaserBody Sculpting and Removal of Unwanted Fat
Flagship Products:										
Elite Family	Flagship	X	X	X						
Smartlipo Family(2)										Flagship
Cellulaze(2)					Flagship					
Affirm / SmartSkin								Flagship		
Cynergy	X	Flagship	X	X		X				
Accolade / MedLite C6 / RevLite			X	Flagship		X	X			
SmoothShapes XV / TriActive									Flagship	

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

(2) We distribute the *TriActive LaserDermology* and *Smartlipo* systems in North America pursuant to a distribution agreement with El.En. S.p.A, which we refer to as El.En. We distribute the *Smartlipo MPX/Triplex* and *Cellulaze* systems internationally pursuant to a distribution agreement with El.En.

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 and 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, LED's, a diffuser, integrated vacuum and 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 employed that 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 the ability 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 Cynosure *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 pigmented lesions, rejuvenate skin through the treatment of shallow vascular lesions and 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 LaserBodySculpting for the removal of unwanted fat and the reduction of cellulite. The applications of our products are described below.

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 March 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.

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 and placing it 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. Since we launched the Smartlipo system in 2006, we have enhanced the product by increasing the energy levels from 6 watts to 18 watts therefore increasing the speed of the procedure. In 2008, we introduced *Smartlipo MPX,* which added a second wavelength in a new platform and includes our patented MultiPlex technology that enables the energy from two lasers to be blended and increased the energy levels up to 46 watts. In March 2009, we introduced SmartSense with ThermaGuide and ThermaView, our proprietary intelligent delivery systems for our *Smartlipo* laser lipolysis workstations. In October 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.

Reduction 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 the ability 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.

Reduction of Appearance of Cellulite. The *TriActive* system contains six low-power diode lasers, mechanical massage and suction features and localized cooling. In addition, the FDA has cleared *TriActive* system as an over-the-counter device, for sale and use without physician supervision, because its diode lasers are sealed and do not pose a risk of exposure to operators' eyes. In a treatment for the temporary reduction of the appearance of cellulite, the practitioner applies the multifunction handpiece to deliver diode laser energy, as well as suction and manipulation therapy, to the treatment area. The laser energy and suction and manipulation therapy enhance micro-circulation in the area of the cellulite. Treatment for the temporary reduction in the appearance of cellulite requires a series of treatments of approximately 30 to 45 minutes each, depending on the treatment area and patient response.

In February 2011, we expanded our body shaping treatment platform by acquiring substantially all of the assets of Eleme Medical, including Eleme's non-invasive *SmoothShapes® XV* system. 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 for circumferential reduction outside the United States.

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. The *Affirm* system was the first non ablative micro-rejuvenation system, which included our patent pending mid-infrared Combined Apex Pulse(TM), or CAP, delivery system and Xenon Pulsed Light, or XPL, technology in one system. Our proprietary CAP technology stimulates collagen production throughout the entire treatment area. It remodels collagen through the papillary dermis to promote collagen production and skin tightening through precise thermal manipulation of the epidermal and dermal tissue. The laser energy is delivered through a durable and disposable tip that can treat an average of ten treatment areas. The XPL portion of the system effectively eradicates dyschromia, a common condition associated with aging skin. The XPL provides enhanced outcomes by targeting superficial pigments, veins and the blush of rosacea associated with sun damaged skin. Our *SmartSkin* micro-ablative workstation includes a proprietary scanning delivery system that combines ablative CO2 resurfacing and rejuvenation in a single laser system. The *SmartSkin* system offers a range of settings that enable physicians to customize the treatment based on the aesthetic goals and downtime expectations of the individual patient.

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. Clinical studies that we have conducted have shown that Multiplex delivery allows for more efficient treatment of vascular lesions by reducing the amount of laser energy required and allowing the laser energy to penetrate deeper into the target area.

In addition to the *Cynergy* system, each of our *Apogee Elite, Acclaim 7000,* and *VStar* systems can be used for the treatment of vascular lesions.

Skin Rejuvenation. Skin rejuvenation involves the treatment of shallow vascular lesions and pigmented lesions to rejuvenate the skin's appearance. In a skin rejuvenation procedure, the practitioner applies the system handpiece to the target area and delivers laser or pulsed light energy. The energy destroys the shallow vascular lesions and pigmented lesions and rejuvenates the skin's appearance without damage to the treated or surrounding area through the improvement in skin texture and reduction or elimination of skin irregularities. Cooling is generally not required. Patients typically receive between four to six treatments of approximately 30 minutes each. Treatments are spaced two to four weeks apart.

Each of our *Elite, Acclaim 7000,* and *Cynergy* systems can be used for skin rejuvenation through the treatment of shallow vascular lesions and pigmented lesions.

Our *Accolade* system is our flagship solution for the removal of pigmented lesions. The *Accolade* is a high powered 755 nm, Q-switched Alexandrite laser. The combination of various spot sizes and the laser's high repetition rates allow for rapid treatment. The target markets for the *Accolade* include Korea, China and Japan, where dermal lesions such as Nevus of Ota and Nevus of Ito are common.

In June 2011, we expanded our skin rejuvenation treatment platform by acquiring substantially all of the medical assets of HOYA ConBio, including ConBio's non-invasive *MedLite® C6* and *RevLite®* systems. The *MedLite® C6* is a Q-Switched Nd:YAG dual-wavelength system designed to be easy-to-use, with minimal downtime or patient discomfort, across a range of applications, including wrinkle reduction, acne scar reduction, multi-color tattoo removal, vascular lesion removal and provide overall skin rejuvenation. The MedLite's PhotoAcoustic effect combines high power and nanosecond pulse widths to deliver peak energy throughout the layers of the epidermis faster than the normal relaxation time of the tissue. The RevLite, ® built on the same platform as the MedLite C6, is the next generation of Q-switched laser technology—a multi-purpose, multi-wavelength aesthetic laser that offers up to 60 percent more power than the MedLite® C6.

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 the increasing number of 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. In addition, we maintain a public relations program that has resulted in sales opportunities based on our products being featured in several popular 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 independent distributors in 97 other countries.

We conduct our own international sales and service operations through wholly-owned subsidiaries in the United Kingdom, France, Germany, Spain, 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. Currently, we have written distribution agreements with 63 of our 68 third party distributors. Generally, the written agreements with our distributors have terms of between one and two years.

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 31 field service engineers. Outside of North America, we employ 37 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 49 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 $10.1 million in 2011, $7.3 million in 2010 and $6.7 million in 2009. We expect our research and development expenditures to increase in absolute dollars in 2012, but remain consistent as a percentage of revenue.

Manufacturing and Raw Materials

We manufacture all of our products, other than the *Smartlipo*, *Cellulaze*, *SmartSkin, Performa* and *TriActive* 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, Inc. 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, including our *Elite, Affirm, Accolade* and *Cynergy* product families, 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* 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* systems, *Cellulaze, SmartSkin, Performa* and *TriActive LaserDermology* products sold by us were jointly developed, and associated intellectual property rights are owned by El.En. El.En. manufactures, and we distribute, these products pursuant to distribution agreements between us and El.En. These agreements provide us with exclusive distribution rights in the United States and Canada for the single wavelength *Smartlipo* systems, *SmartSkin* and *TriActive LaserDermology*. These agreements also provide us with exclusive distribution rights worldwide for the *Smartlipo MPX*/*Triplex* and *Cellulaze* systems and distribution rights outside the United States and Canada for the *Performa* system. The transfer prices for products that we currently distribute under the agreements are specified in the agreement; however, they may be changed by El.En. at its discretion upon 30 days' notice.

El.En. is required to provide us with training, marketing and other sales support for the products we distribute under these agreements. We are required to use best efforts to sell and promote these products, and we are responsible for obtaining and maintaining regulatory approvals for them. If El.En. wishes to discontinue producing products that we distribute, it must make reasonable efforts to provide us with one year's notice of its plan to do so.

The distribution agreement for the *Smartlipo* systems expires in 2014. The distribution agreement for the *Smartlipo MPX*/*Triplex* and *Cellulaze* systems expires in 2016. The distribution agreement relating to the *TriActive LaserDermology* system will automatically renew for additional one-year terms unless either party provides notice of termination at least six months prior to the expiration of any subsequent renewal term. We or El.En. may terminate the distribution agreements at any time based upon material uncured breaches by, or the insolvency of, the other party. In addition, El.En. may terminate the distribution agreement for the *Smartlipo* systems and *TriActive LaserDermology* if we do not meet annual minimum purchase obligations specified in the agreements.

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, 2011, we owned a total of 40 United States patents, as well as foreign counterparts to 25 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; and
- the design of endoscopic laser and light delivery systems.

The expiration dates for our issued United States patents and patent application range from 2013 to 2032. Additionally, El.En. has applied for a patent covering the methods of use and operation of the *TriActive LaserDermology* system. 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 issue 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, Inc., 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. We have registered our *Cynosure®, Apogee ®*, *Apogee Elite®*, *Smartlipo® , Triplex ®*, *RevLite®*, *MedLite C6 ®*, *SmoothShapes XV®*, *Affirm®* and *SmartCool®* marks, among others, in the United States. We have also registered some of our marks in a number of foreign countries. In addition, El.En. has registered the *TriActive®* and *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 light-based products offered by public companies, such as Syneron Medical Ltd., Cutera, Inc., Palomar Medical Technologies, Inc. and Solta Medical, Inc., as well as several smaller specialized private companies, such as Alma Lasers, Ltd. 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. FDA regulations govern the following activities that we perform and will continue to perform to ensure that medical devices distributed domestically are safe and effective for their intended uses.

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 May 2008.

Our failure to maintain compliance with the QSR requirements could result in the shut down 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. Class I devices are subject to general controls such as labeling and adherence to FDA's QSR. Class II devices are subject to special controls such as performance standards and FDA guidelines as well as general controls. The FDA exempts some low risk devices from premarket notification requirements and the requirement of compliance with certain provisions of the QSR. The FDA places devices in class III, requiring premarket approval, if insufficient information exists to determine that the application of general controls or special controls are sufficient to provide reasonable assurance of safety and effectiveness and they are life-sustaining, life-supporting or implantable devices, or devices deemed not substantially equivalent to a previously cleared 510(k) device or to a "preamendment" class III device in commercial distribution before May 28, 1976, for which premarket approval applications have not been required. All of our current products are class II devices. Both premarket notifications and premarket approval applications when submitted to 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. By regulation, 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.

Laser devices used for aesthetic procedures, such as hair removal, have generally qualified for clearance under 510(k) procedures. The FDA determined that clearance of Cellulaze in the United States also qualified for a 510(k) submission.

Premarket Approval

If the device cannot be cleared through the 510(k) process, 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 or a PMA approval, 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. If the FDA disagrees with our determination not to seek a new 510(k) clearance or PMA approval, the FDA may retroactively require us to seek 510(k) clearance or premarket approval. The FDA could also require us 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. 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. We received this approval in January 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 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), 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 devices' labeled instructions, 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 May 2008 and we believe that we are in substantial compliance with the QSR. Since 1994, we have received five untitled letters from the FDA regarding alleged violations caused by our promotional activities. We have responded to these letters and the FDA found our responses acceptable.

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.

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, 2011, we had 346 employees, including 110 employees in sales and marketing functions, 49 employees in research, development and engineering functions,134 employees in manufacturing and service functions and 53 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 actual operating results to differ materially from those indicated or suggested by forward-looking statements made in this Annual Report or presented elsewhere by management from time to time.

Risks Related to Our Business and Industry

We have a history of net losses, and we may not regain profitability.

Although we were profitable in 2007 and 2008, we incurred net losses of approximately $2.9 million in 2011, $5.5 million in 2010 and $22.8 million in 2009. Although we incurred net losses of $2.9 million in 2011, we achieved net income of $1.1 million in the fourth quarter of 2011. We may not be able to regain or realize profitability on a quarterly or annual basis. If we are unable to regain profitability, the market value of our stock may decline, and an investor could lose all or a part of their investment.

Macroeconomic conditions have led to decreased demand for our products in the past and could lead to further decreases in the future.

The aesthetic laser and light-based treatment system industry in which we operate is particularly vulnerable to economic trends. Most treatments performed using our products are elective procedures, the cost of which must be borne by the patient and are not reimbursable through government or private health insurance. Accordingly, the decision to undergo a treatment in which one of our products is used is affected by the willingness of an individual to pay for such a treatment.

Consumer demand, and therefore our business, is sensitive to a number of factors that affect consumer spending, including political and economic conditions, health of credit markets, disposable consumer income levels, consumer debt levels, interest rates and consumer confidence. Practitioners' demand for our products decreased during 2009. However, demand has increased during 2010 and 2011, but not to levels realized in historical periods. We believe that consumer demand for discretionary aesthetic laser treatments remains uncertain and may continue to adversely affect our operating results.

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

Due to adverse general business conditions, lack of available credit or favorable terms, the creditworthiness 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.

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

Competition in the aesthetic laser industry is intense. Our products compete against products offered by public companies, such as Syneron Medical Ltd., Cutera, Inc., Palomar Medical Technologies, Inc., and Solta Medical, Inc., as well as several smaller specialized private companies, such as Alma Lasers, Ltd. 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.

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.

If we fail to obtain Alexandrite and Nd: Yag rods, gaussian mirrors, polarizers or our air cooling system from our sole suppliers, our ability to manufacture and sell our products and components would be impaired.

We use Alexandrite rods to manufacture the lasers for our *Elite* 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 meeting our quality standards. We use gaussian mirrors and polarizers to manufacture our *RevLite* / *MedLite C6* product lines. We depend exclusively on Channel Islands Opto-Mechanical Engineering Inc. 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.

We do not have long-term arrangements with any of these suppliers for the supply of these components, but instead purchase from them on a purchase order basis. Northrop Grumman SYNOPTICS, Channel Islands Opto-Mechanical Engineering Inc., 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. Any extended interruption in our supplies of these components could materially harm our business.

We rely upon third party suppliers for the components and subassemblies of many of our products, making us vulnerable to supply shortages and price fluctuations, which could harm our business.

Many of the components and subassemblies that comprise our aesthetic treatment systems are currently manufactured for us by a limited number of suppliers. 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. We do not have long-term contracts with any of these third parties, including the third party supplier that assembles many of our components and subassemblies, for the supply of parts or services. Any interruption in the supply of components or subassemblies, or our inability to obtain substitute components or subassemblies from alternate sources at acceptable prices in a timely manner, or our inability to obtain assembly and testing services, could impair our ability to meet the demand of our customers, which would have an adverse effect on our business and operating results.

Our recent acquisitions, and any other acquisitions that we may make in the future, could disrupt our ongoing business, divert the attention of our management and employees and adversely affect our results of operations.

From time to time, we evaluate potential strategic acquisitions of complementary businesses, products or technologies, as well as consider joint ventures and other collaborative projects. In February and June 2011, we acquired Eleme Medical and ConBio, respectively, and incorporated their products including intellectual property into our product portfolio. As part of the ConBio acquisition, we hired approximately 50 employees, including sales, service and engineering and are maintaining a manufacturing facility in Fremont, California.

We cannot assure you that these completed acquisitions, or any future acquisitions that we may make, will enhance our products or strengthen our competitive position. In particular, we may encounter difficulties assimilating or integrating the acquired businesses, technologies, products, personnel or operations of the acquired companies, and in retaining and motivating key personnel from these businesses. Any acquisition we pursue could diminish our cash available to us for other uses or be dilutive to our stockholders. We also cannot assure you that we have identified, or will be able to identify, all material adverse issues related to the integration of our acquisitions, such as significant defects in the internal control policies of companies that we have acquired. Any failure to properly integrate acquired businesses and their key personnel or to recognize material adverse issues related to integration of acquired companies may require a significant amount of time and resources to address. Acquisitions may disrupt our ongoing operations, divert management from day-to-day responsibilities, increase our expenses and harm our results of operations or financial condition.

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. If we do not continue to be innovative in the development of 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 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 and identify new markets for our products and technology, our products and technology 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 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. 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.

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 non-traditional physician customers and spas does not increase, our revenues will suffer and our business will be harmed.

The percentage of revenues from non-traditional physician customers and spa purchasers of our products has increased significantly since 2005. 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 105 foreign countries, and we therefore are subject to risks associated with having international operations. We derived 56%, 59% and 54% of our product revenues from sales outside North America for the years ended December 31, 2011, 2010 and 2009, respectively. Our gross margin has remained stable over the last three years reflecting our price stability but has decreased from historical periods 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.

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

We face risks associated with changes in foreign currency exchange rates. Revenues outside of North America that were recorded in U.S. dollars represented approximately 44% of our total 2011 revenues outside of North America. Substantially all of the remaining 56% of our total 2011 revenues outside of North America were sales in euros, British pounds, Japanese yen, Chinese yuan and South Korean won. Since we conduct our business in U.S. dollars, our most significant foreign currency exposure, 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 statement of operations. We may incur negative foreign currency translation charges as a result of changes in currency exchange rates, which could cause our operating results to suffer.

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 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 2011, 18% of our product revenue in 2010 and 16% of our product revenue in 2009. The increase in 2011 primarily relates to sales of our ConBio products. We do not control these distributors, and they may not be successful in marketing our products. Third party distributors 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 63 of our 68 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 do not perform adequately, or if we fail to maintain our existing relationships with these distributors 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.

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. 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 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, nor do we 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.

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. 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. 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.

Although this matter has come to resolution, other individual or class action claims may be brought against us alleging past violations of the TCPA. 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 other possible lawsuits 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.

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.

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:

- 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.

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

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 a number of factors, including:

- patient awareness of procedures and treatments;
- the cost, safety and effectiveness of the procedure and of alternative treatments;
- the success of our and our customers' sales and marketing efforts to purchasers of these procedures; and
- consumer confidence, which may be affected by economic and other conditions.

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

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.

El.En. has substantial control over us. In addition, El.En. and our executive officers and directors have the ability to control all matters submitted to stockholders for approval.

In addition to the factors discussed below regarding El.En.'s ability to control the election of a majority of the members of our board of directors, El.En. and our executive officers and directors, in the aggregate, beneficially own approximately 23% of our outstanding common stock. As a result, if these stockholders were to act together, they would be able to control all matters submitted to our stockholders for approval. For example, these persons could control any amendment of our certificate of incorporation and bylaws and approval of any merger, consolidation or sale of all or substantially all of our assets. This concentration of voting power could delay or prevent an acquisition of our company on terms that other stockholders may desire. Please also see the discussion under "Risks Related to Our Relationship with El.En.—El.En. has substantial control over us and could delay or prevent a change of control."

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:

- a dual class capital structure that allows El.En. to control the election of a majority of the members of our board of directors;
- the classification of the members of our directors who are elected by holders of our Class A common stock and Class B common stock, voting together as a single class;
- limitations on the removal of directors who are elected by holders of our Class A common stock and Class B common stock, voting together as a single class;
- advance notice requirements for stockholder proposals and nominations;
- the inability of Class A 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, and the right of the holders of shares of our Class B common stock to elect a majority of the members of our board of directors may not be modified without the approval of the holders of at least a majority of the shares of our Class B common stock outstanding. 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 and the affirmative vote of holders of at least a majority of the shares of Class B common stock outstanding. 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.

Our stock price may be volatile.

Our Class A common stock price may be volatile. 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 the our industry and issuance of new or changed securities analysts' reports or recommendations; and
- general economic, industry and market conditions.

Risks Related to Our Relationship with El.En.

El.En. has substantial control over us and could delay or prevent a change of control.

El.En., our largest stockholder, is able to control the election of a majority of the members of our board of directors. El.En. owns approximately 100% of our outstanding Class B common stock, which comprises 23% of our aggregate outstanding common stock. Until El.En. beneficially owns less than 20% of the aggregate number of shares of our Class A common stock and Class B common stock outstanding or less than 50% of the number of shares of our class B common stock outstanding, El.En., as holder of a majority of the shares of our Class B common stock, will have the right:

- to elect a majority of the members of our board of directors;
- to approve amendments to our bylaws adopted by our Class A and Class B stockholders, voting as a single class; and
- to approve amendments to any provisions of our restated certificate of incorporation relating to the rights of holders of common stock, the powers, election and classification of the board of directors, corporate opportunities and the rights of holders of Class A common stock and Class B common stock to elect and remove directors, act by written consent and call special meetings of stockholders.

In addition, the holders of shares of our Class B common stock will vote with our Class A stockholders for the election of the remaining directors.

Because El.En. is the holder of a majority of the shares of our Class B common stock, El.En.'s approval will be required for any of the actions described above. In addition, because El.En. will be able to control the election of a majority of our board, and because of its substantial holdings of our capital stock, El.En. will likely have the ability to delay or prevent a change of control of our company that may be favored by other directors or stockholders and otherwise exercise substantial control over all corporate actions requiring board or stockholder approval.

El.En. and its subsidiaries market and sell products that compete with our products, and any competition by 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. Although we have exclusive North American distribution rights for our single

wavelength *Smartlipo* systems, *SmartSkin* and *TriActive LaserDermology* products, exclusive worldwide distribution rights for our *Smartlipo MPX/Triplex* and *Cellulaze* products and distribution rights outside the United States and Canada for the *Performa* system, El.En. competes with us in North America with its other products. In the event that our distribution agreements with El.En. terminate, El.En. may compete with us in North America with these products. El.En. markets, sells, promotes and licenses products that compete with our products worldwide. Our business could be materially and adversely affected by 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.

For financial reporting purposes, our financial results are included in El.En.'s consolidated financial statements. Two of our directors, Andrea Cangioli and Leonardo Masotti, and the spouse of Leonardo Masotti, are also officers or directors of El.En. and certain of its subsidiaries and affiliates that compete with us in the worldwide market. These two directors own or have 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.

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 engage 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.

Our Class A share price may decline because of future sales of our shares by El.En.

El.En. may sell all or part of the shares of our Class B common stock that it owns, at which time those shares would automatically convert into shares of our Class A common stock. El.En. is not subject to any contractual obligation to maintain its ownership position in our shares. 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 Class A common stock.

If El.En. sells the shares of our stock held by it and no longer has control over us, our commercial relationship with El.En. may be adversely affected.

El.En. has advised us that it currently does not intend to sell its shares of our common stock in the foreseeable future. However, El.En.'s plans and intentions may change at any time. El.En. is not subject to any contractual obligation to maintain an ownership position in our shares.

If El.En. sells our shares and no longer has control over us, El.En. will cease to include our financial results in its consolidated financial statements, and El.En.'s interests may differ significantly from ours. If this occurs, our commercial relationship with El.En. may be adversely affected, which, in turn, could have a material adverse effect on our business. For example, if El.En. does not have a continuing 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 agreements. 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. These 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 interference proceedings declared by the United States 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 a variety of patents and patent applications in the United States and corresponding patents and patent applications in many foreign jurisdictions. Although we have reached a patent infringement settlement agreement with CoolTouch, Inc., we do not know how successful we would be should we choose to assert 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 will be advantageous to us. Even if issued, 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:

- 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. Since 1994, we have received five untitled letters from the FDA regarding alleged violations caused by our promotional activities. We have responded to these letters and the FDA has found our responses acceptable. 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. It is impossible to predict whether legislative changes will be enacted or FDA regulations, guidance or interpretations changed, and what the impact of such changes, if any, may be.

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 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.

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 2012. 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, Dr. Ari Weitzner, 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. Based on discovery in this matter, the plaintiff alleges that approximately three million facsimiles were sent on our behalf by a third party to approximately 100,000 individuals. On February 6, 2008, several months after the close of discovery, the plaintiff served a motion for class certification, which we opposed on numerous factual and legal grounds, including that a

nationwide class action may not be maintained in a Massachusetts state court by Dr. Weitzner, a New York resident; individual issues predominate over common issues; a class action is not superior to other methods of resolving TCPA claims; and Dr. Weitzner is an inadequate class representative. We also believe we have many merits defenses, including that the faxes in question do not constitute "advertising" within the meaning of the TCPA and many recipients had an established business relationship with us and are thereby deemed to have consented to the receipt of facsimile communications. The Court held a hearing on the plaintiff's class certification motion in June 2008. In July 2010, the Court issued an order dismissing this matter without prejudice for Dr. Weitzner's failure to prosecute the case in August 2010, Dr. Weitzner filed a motion for relief from the dismissal order, which the Court allowed. At a status conference held in November 2010, the Court confirmed that the class certification motion was still under advisement. In January 2012, the Court issued a Memorandum of Decision denying the class certification motion.

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, 2010		
First quarter	$ 12.18	$ 9.62
Second quarter	$ 14.06	$ 10.16
Third quarter	$ 10.75	$ 8.80
Fourth quarter	$ 11.00	$ 9.48
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

There is no established public trading market for our Class B common stock because, under the terms of our restated certificate of incorporation, shares of our Class B common stock will convert automatically into Class A common stock upon any transfer of such shares, whether or not for value. Additionally, shares of our Class B common stock are also convertible into Class A common stock upon the occurrence of events specified in our restated certificate of incorporation. Each share of our Class B common stock is convertible into one share of Class A common stock.

On March 1, 2012, the closing price per share of our Class A common stock was $17.35, as reported on The Nasdaq Global Market. The number of record holders of our Class A common stock as of March 1, 2012 was eleven. The number of record holders of our Class B common stock as of March 1, 2012 was three.

On July 28, 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, 2011, we repurchased 48,035 shares of our common stock at an aggregate cost of approximately $0.5 million and at a weighted average price of $9.68 per share under this program. As of December 31, 2011, we have repurchased an aggregate of 196,970 shares under this program at an aggregate cost of $1.9 million.

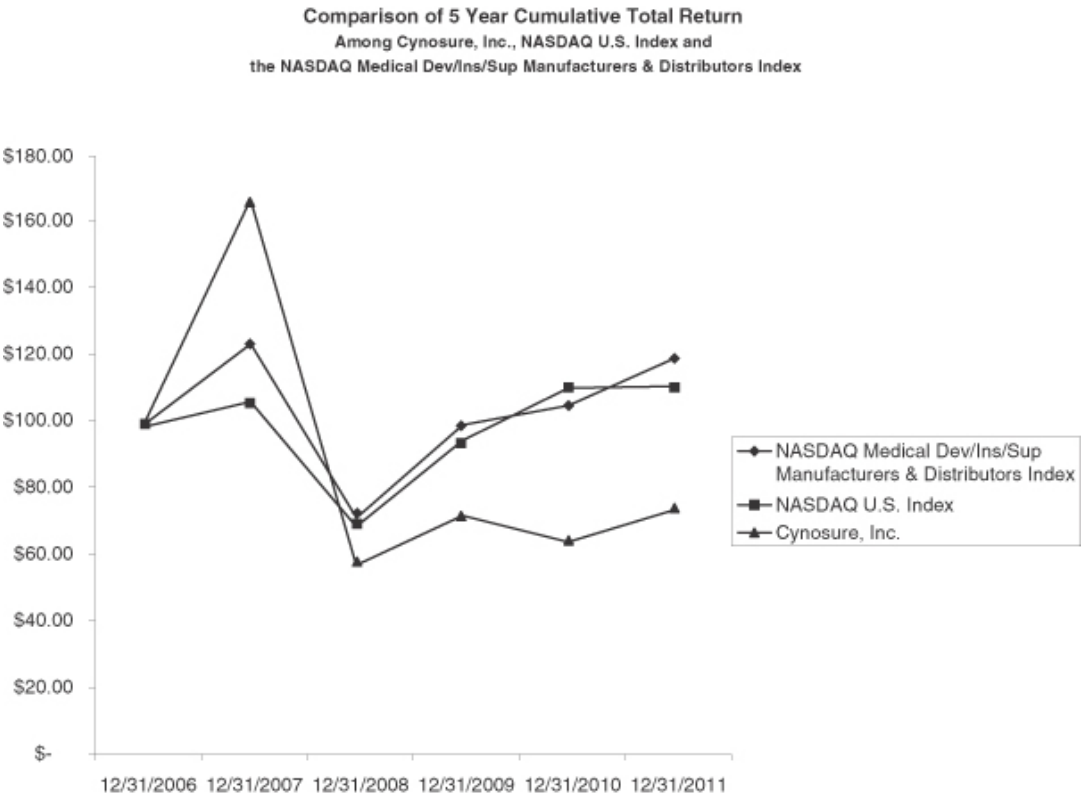
The following table provides information about purchases by the Company of equity securities that are registered by the Company pursuant to Section 12 of the Exchange Act during the quarter ended December 31, 2011, all of which were made under our stock repurchase program referenced above:

Period	Total number of shares purchased	Average price paid per share	Total number of shares purchased as part of publicly announced plans or programs	Maximum number (or appropriate dollar value) of shares that may yet be purchased under the plans or programs
October 1, 2011—October 31, 2011	310	$ 9.93	310	$8,113,845
November 1, 2011—November 30, 2011	—	$ —	—	8,113,845
December 1, 2011—December 31, 2011	—	$ —	—	8,113,845
Total	310	$ 9.93	310	$8,113,845

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, 2011, our total cash, cash equivalents and short and long-term marketable securities balance was $73.7 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 29, 2006 (the last trading day for the year ended December 31, 2006) 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.



Name	12/31/2006	12/31/2007	12/31/2008	12/31/2009	12/31/2010	12/31/2011
NASDAQ Medical Dev/Ins/Sup Manufacturers & Distributors Index	$ 100.00	$ 127.15	$ 68.47	$ 99.85	$ 106.48	$ 122.33
NASDAQ U.S. Index	100.00	108.47	66.35	95.38	113.19	113.81
Cynosure, Inc.	100.00	167.15	57.68	72.58	64.62	74.29

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

You should read the following selected consolidated financial data 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. We have derived the consolidated statement of operations data for the years ended December 31, 2011, 2010 and 2009 and the consolidated balance sheet data as of December 31, 2011 and 2010 from our audited consolidated financial statements, which are included elsewhere in this Annual Report. We have derived the consolidated statement of operations data for the years ended December 31, 2008 and 2007 and the consolidated balance sheet data as of December 31, 2009, 2008 and 2007 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,				
	2011	2010	2009	2008	2007
	(In thousands, except per share data)				
Consolidated Statement of Operations Data:					
Revenues	$ 110,602	$ 81,775	$ 72,825	$139,662	$124,315
Cost of revenues	48,294	35,388	32,808	48,705	44,507
Gross profit	62,308	46,387	40,017	90,957	79,808
Operating expenses:					
Sales and marketing	39,142	32,818	39,098	53,062	42,058
Research and development	10,079	7,300	6,679	7,497	6,827
Amortization of intangible assets acquired	854	—	—	—	—
General and administrative	14,255	11,312	14,556	17,837	11,346
Total operating expenses	64,330	51,430	60,333	78,396	60,231
(Loss) income from operations	(2,022)	(5,043)	(20,316)	12,561	19,577
Interest income, net	126	163	523	2,498	2,516
Gain (loss) on investments	2	23	22	(46)	(171)
Other (expense) income, net	(204)	(247)	672	(43)	866
(Loss) income before provision for income taxes	(2,098)	(5,104)	(19,099)	14,970	22,788
Provision for income taxes	807	442	3,659	4,771	8,276
Net (loss) income	$ (2,905)	$ (5,546)	$ (22,758)	$ 10,199	$ 14,512
Basic net (loss) income per share	$ (0.23)	$ (0.44)	$ (1.79)	$ 0.81	$ 1.21
Diluted net (loss) income per share	$ (0.23)	$ (0.44)	$ (1.79)	$ 0.80	$ 1.15
Basic weighted average common shares outstanding	12,585	12,666	12,709	12,581	11,993
Diluted weighted average common shares outstanding	12,585	12,666	12,709	12,806	12,654

	2011	2010	2009	2008	2007
Consolidated Balance Sheet Data:					
Cash, cash equivalents, marketable securities, investments and related financial instruments	$ 73,668	$ 96,826	$ 91,967	$ 95,451	$ 86,097
Working capital	82,638	99,687	106,908	109,495	113,732
Total assets	151,580	141,812	145,201	173,122	149,844
Capital lease obligation, net of current portion	494	40	171	436	794
(Accumulated deficit) retained earnings	(678)	2,227	7,773	30,531	20,332
Total stockholders' equity	119,627	120,300	123,830	140,354	120,878

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

Company Overview

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 pigmented lesions, rejuvenate the skin, liquefy and remove unwanted fat through laser lypolysis, reduce cellulite and treat onychomycosis. We are also developing in conjunction with our development agreement with Unilever Ltd. (Unilever) a laser treatment system for the home use market. As of December 31, 2011, we have sold 11,524 aesthetic treatment systems worldwide.

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. As of December 31, 2011, El.En. owns approximately 100% of our Class B common stock, which comprises 23% of our aggregate outstanding common stock. El.En., through its ownership of our Class B common stock, has the right to elect and remove a majority of our board of directors and to approve stockholder-proposed amendments to our bylaws and amendments to specified provisions of our certificate of incorporation.

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

- the *Elite* product line for hair removal, treatment of facial and leg veins and pigmentations;
- the *Smartlipo* product line for LaserBodySculpting℠ for the removal of unwanted fat;
- the *Cellulaze* product line for the reduction of cellulite;
- the *SmoothShapes XV and TriActive* product line for the temporary reduction in the appearance of cellulite;
- the *Affirm/SmartSkin* product line for anti-aging applications, including treatments for wrinkles, skin texture, skin discoloration and skin tightening;
- the *Cynergy* product line for the treatment of vascular lesions; and
- the *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. Since 2002, we have introduced 24 new products.

- In February 2011, we launched *Cellulaze*, the world's first aesthetic laser device for the reduction of cellulite;
- Also in February 2011, we expanded our body shaping treatment platform by acquiring substantially all of the assets of Eleme Medical, including Eleme's non-invasive *SmoothShapes® XV* system;

- 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 which treat wrinkles, acne scars, multi-color tattoos, vascular lesions and overall skin rejuvenation; and
- In October 2011, we acquired worldwide exclusive rights from NuvoLase, Inc. to distribute the PinPointe ™ FootLaser™. The PinPointe FootLaser is a light-based device for the treatment of onychomycosis. The system uses laser light to kill the fungus that lies in and under the nail without causing damage to the nail or the surrounding skin.

Revenues

We generate revenues primarily from sales of our products, parts and accessories and from services, including product warranty revenues. In 2011, we derived approximately 80% of our revenues from sales of our products and 20% of our revenues from parts, accessories and service revenues. In 2010, we derived approximately 76% of our revenues from sales of our products and 24% of our revenues from parts, accessories and service revenues. In 2009, we derived approximately 77% of our revenues from sales of our products and 23% of 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 in the period in which the service occurs.

We sell our products directly 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. We derived 56%, 59% and 54% of our product revenues from sales outside North America for the years ended December 31, 2011, 2010 and 2009, respectively. As of December 31, 2011, we had 36 sales employees in North America, 33 sales employees in France, Spain, the United Kingdom, Germany, Korea, China and Japan and distributors that cover 97 countries. The following table provides revenue data by geographical region for the years ended December 31, 2011, 2010 and 2009:

	Percentage of Revenues Year Ended December 31,		
	2011	2010	2009
Region			
North America	44%	41%	46%
Europe	25	29	27
Asia/Pacific	25	24	21
Other	6	6	6
Total	100%	100%	100%

See Note 7 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. 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.

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 2012.

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 in 2012 but remain consistent as a percentage of revenues.

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 decrease in absolute dollars and as a percentage of revenues in 2012.

Interest Income (Expense), 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. Interest expense consists primarily of interest due on capitalized leases.

Gain (Loss) on Investments and Other Income (Expense), net

Gain (loss) on investments consists primarily of recoveries and losses related to the fair value of auction rate securities for periods before 2011. 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, 2011, we maintain a full valuation allowance on the net deferred tax assets in the United States, Germany, Japan and Mexico. During the fourth quarter of 2009, we determined that our net domestic deferred tax assets were no longer more-likely-than-not realizable. As a result, we recorded a deferred tax provision charge of $10.4 million to establish a full valuation allowance on our net domestic deferred tax assets.

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, 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)
Gain on investments	2	—	23	—	(21)	(91)
Other expense, net	(204)	—	(247)	—	43	17
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 Eleme 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 Eleme 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 Eleme 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 Eleme Medical acquisitions, as well as increased interest payments associated with our increase in capital leases.

Gain on Investment and Other Expense, net

	Year Ended December 31,			
	2011	2010	$ Change	% Change
Gain on investments	2	23	(21)	(91)%
Other expense, net (in thousands)	(204)	(247)	43	17%

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

Year Ended December 31, 2010 and 2009

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, 2010 and 2009:

	Year Ended December 31, 2010		Year Ended December 31, 2009		Change 2009 to 2010	
	Amount	As a % of Total Revenues	Amount	As a % of Total Revenues	$ Change	% Change
	(Dollars in thousands)					
Product revenues	$62,357	76%	$55,869	77%	6,488	12%
Parts, accessories and service revenues	19,418	24	16,956	23	2,462	15
Total revenues	81,775	100	72,825	100	8,950	12
Cost of revenues	35,388	43	32,808	45	2,580	8
Gross profit	46,387	57	40,017	55	6,370	16
Operating expenses:						
Sales and marketing	32,818	40	39,098	54	(6,280)	(16)
Research and development	7,300	9	6,679	9	621	9
General and administrative	11,312	14	14,556	20	(3,244)	(22)
Total operating expenses	51,430	63	60,333	83	(8,903)	(15)
Loss from operations	(5,043)	(6)	(20,316)	(28)	15,273	75
Interest income, net	163	—	523	1	(360)	(69)
Gain on investments	23	—	22	—	1	5
Other (expense) income, net	(247)	—	672	1	(919)	(137)
Loss before provision for income taxes	(5,104)	(6)	(19,099)	(26)	13,995	73
Provision for income taxes	442	(1)	3,659	5	(3,217)	(88)
Net loss	$ (5,546)	(7)%	$ (22,758)	(31)%	$ 17,212	76%

Revenues

Total revenue for the year ended December 31, 2010 increased by $9.0 million, or 12%, to $81.8 million as compared to the year ended December 31, 2009 revenues of $72.8 million (in thousands, except for percentages):

	Year Ended December 31,			
	2010	2009	$ Change	% Change
Product sales in North America	$ 27,788	$ 27,582	$ 206	1%
Product sales outside North America	34,569	28,287	6,282	22
Global parts, accessories and service sales	19,418	16,956	2,462	15
Total Revenues	$81,775	$ 72,825	$8,950	12%

- Revenues from the sale of products in North America increased 1% from the 2009 period. We believe that the availability of credit remained limited and demand for discretionary aesthetic laser treatments remained uncertain and as a result our North American revenues continued to be adversely affected. We develop and market aesthetic treatment systems (capital equipment) that are used by physicians and other practitioners to perform non-invasive and minimally invasive procedures in the aesthetic marketplace. These procedures are discretionary and not reimbursed by third-party insurers. The significant majority of our business each year is derived from new customers. A portion of our customers finance the purchase of these lasers through third party finance companies or banks. During the year ended December 31, 2010, credit continued to be difficult to obtain similar to the year ended December 31, 2009, and as a result, our potential customers were not as able to expand their practices or commit to purchasing equipment from us.
- Revenues from sales of products outside of North America increased by approximately $6.3 million, or 22%, from the 2009 period, due to a increase in the number of units sold by our European distributors and our Asian subsidiaries. We attribute this to improved global economic business conditions compared with the year ended December 31, 2009.
- Revenues from the global sale of parts, accessories and services increased $2.5 million, or 15%, from the 2009 period, which includes an increase in revenues generated from the sale of our service contracts as well as an increase in sales of certain parts and accessories.

Cost of Revenues

	Year Ended December 31,			
	2010	2009	$ Change	% Change
Cost of revenues (in thousands)	$35,388	$32,808	$2,580	8%
Cost of revenues (as a percentage of total revenues)	43%	45%		

Total cost of revenues increased $2.6 million, or 8%, to $35.4 million in 2010, as compared to $32.8 million in 2009. The increase was primarily associated with a 12% increase in total revenues. Our total cost of revenues decreased as a percentage of total revenues to 43% for the year ended December 31, 2010, from 45% for the year ended December 31, 2009 partially due to a $2.1 million charge to cost of product revenues in the 2009 period 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. Excluding the effect of the write-down, our total cost of revenues as a percentage of total revenues increased to 43% from 42% 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,			
	2010	2009	$ Change	% Change
Sales and marketing (in thousands)	$32,818	$39,098	$(6,280)	(16)%
Sales and marketing (as a percentage of total revenues)	40%	54%		

Sales and marketing expenses decreased $6.3 million, or 16%, to $32.8 million in 2010, as compared to $39.1 million in 2009. The decline was associated with a decrease of $3.2 million in personnel, administrative costs and travel expenses due to the overall reduction of our worldwide direct sales organization, promotional costs of $2.1 million due to the reduction in clinical workshops, tradeshows and other promotional efforts, and stock compensation expense of $1.0 million. Our sales and marketing expenses for the year ended December 31, 2010 decreased as a percentage of total revenues to 40% due to the reduction of these expenses, as well as a 12% increase in total revenues for the 2010 period as compared to the 2009 period.

Research and Development

	Year Ended December 31,			
	2010	2009	$ Change	% Change
Research and development (in thousands)	$7,300	$6,679	$ 621	9%
Research and development (as a percentage of total revenues)	9%	9%		

Research and development expenses increased by $0.6 million, or 9%, for the year ended December 31, 2010, as compared with the year ended December 31, 2009 due to an increase in professional fees and consulting associated with clinical studies and increased research and development efforts.

General and Administrative

	Year Ended December 31,			
	2010	2009	$ Change	% Change
General and administrative (in thousands)	$11,312	$14,556	$(3,244)	(22)%
General and administrative (as a percentage of total revenues)	14%	20%		

General and administrative expenses decreased by $3.2 million, or 22%, due to a decrease of $1.7 million in legal and professional services costs associated with the patent infringement case against CoolTouch, which was settled in January 2010, and a $1.6 million decrease in bad debt expense.

Interest Income, net

	Year Ended December 31,			
	2010	2009	$ Change	% Change
Interest income, net (in thousands)	$163	$523	$ (360)	(69)%

The decrease in interest income, net is primarily due to investing in securities that bear less risk and lower interest rates than in 2009.

Gain on Investment and Other (Expense) Income, net

	Year Ended December 31,			
	2010	2009	$ Change	% Change
Gain on investment (in thousands)	23	22	1	5%
Other (expense) income, net (in thousands)	(247)	672	(919)	(137)%

The decrease in other (expense) income is primarily a result of net foreign currency remeasurement losses in the year ended December 31, 2010 compared to the net foreign currency remeasurement gains for the year ended December 31, 2009 due to the strengthening of the U.S. dollar during 2010, primarily against the euro.

Provision for Income Taxes

	Year Ended December 31,			
	2010	2009	$ Change	% Change
Provision for income taxes (in thousands)	$442	$3,659	$(3,217)	(88)%
Provision as a percentage of loss before provision for income taxes	9%	19%		

The provision for income taxes results from a combination of the activities of our domestic and foreign subsidiaries. In 2010, we recorded an income tax provision of $0.4 million, representing an effective tax rate of 9%. We continued to maintain a valuation allowance against our net domestic deferred tax assets, and did not record a benefit for our loss in the U.S. for the year ended December 31, 2010, with the exception of the portion that could be carried back to recover federal income taxes paid in prior years. We recorded a benefit of $0.5 million for the federal refund as a result of the federal carryback claim. At December 31, 2010, we had no additional carryback capacity for future U.S. tax losses. In 2009, we recorded an income tax provision of $3.7 million, representing an effective tax rate of 19%. Our 2010 effective tax rate decreased from 2009 primarily due to the valuation allowance that was established against our net domestic deferred tax assets during the fourth quarter of 2009.

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 decreased by $23.2 million from December 31, 2010 to December 31, 2011 primarily due to our 2011 acquisitions of the aesthetic laser business of ConBio for $24.5 million and the assets of Eleme Medical for $2.5 million. At December 31, 2011, our cash, cash equivalents and short and long-term marketable securities were $73.7 million. Our cash and cash equivalents of $35.7 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 and various state and municipal governments. Our short-term marketable securities of $31.4 million consist of investments in various state and municipal governments, U.S. government agencies and treasuries, all of which mature by December 1, 2012. Our long-term marketable securities of $6.6 million consist of investments in various state and municipal governments, U.S. government agencies and treasuries all of which mature by October 1, 2013.

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 incurred minimal capital expenditures during the year ended December 31, 2011, and expect that capital expenditures during the next 12 months will increase slightly as a result of new demonstration equipment. Our inventory balance increased $10.9 million due to recent acquisitions which included inventory and increased purchases to meet increased revenue requirements with the launch of new products. During the year ended December 31, 2011 and 2010, respectively, we transferred $3.2 million and $4.8 million of demonstration equipment to fixed assets.

On July 28, 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, 2011, we repurchased 48,035 shares of our common stock at an aggregate cost of approximately $0.5 million and at a weighted average price of $9.68 per share under this program. As of December 31, 2011, we have repurchased an aggregate of 196,970 shares under this program at an aggregate cost of $1.9 million.

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 $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 Eleme 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.

Net cash used in operating activities was $1.5 million for the year ended December 31, 2009. This resulted primarily from net loss for the period of $22.8 million, decreased by approximately $11.6 million in depreciation and amortization and stock-based compensation expense, $6.8 million in deferred tax assets and approximately $0.4 million in accretion of discounts on marketable securities. Net changes in working capital items increased cash from operating activities by approximately $2.4 million principally related to a decrease in accounts receivable of $13.6 million due to reduced sales and increased collection efforts, and a decrease in inventory of $1.3 million primarily related to less purchases made during 2009 and the sale of inventory on hand at December 31, 2008, net of a $2.1 million charge to write-down inventory. This was offset by an increase in prepaid expenses and other assets related to our tax receivable position, and a decrease in amounts due to related party, accrued expenses and accounts payable of $11.3 million. Net cash used in investing activities was $2.3 million for the year ended December 31, 2009, which consisted primarily of net purchases of $1.5 million of marketable securities and fixed asset purchases of $0.7 million. Net cash used in financing activities during the year ended December 31, 2009 was $0.4 million, principally relating to 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, 2011.

	Total	Less Than One Year	One to Three Years	Three to Five Years	More than Five Years
			(In thousands)		
Capital lease obligations, including interest	$ 733	$ 239	$ 417	$ 77	$ —
Operating leases	9,722	1,648	2,968	3,048	2,058
Total contractual obligations	$10,455	$1,887	$ 3,385	$3,125	$2,058

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. 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 $12.9 million as of December 31, 2011, compared with $10.6 million as of December 31, 2010. The allowance for doubtful accounts as of December 31, 2011 was $1.9 million and as of December 31, 2010 was $2.2 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 $29.6 million as of December 31, 2011 compared to $18.7 million as of December 31, 2010. The increase in inventory relates to recent acquisitions which included inventory and 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 was $2.7 million at both December 31, 2011 and 2010.

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 whether 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. The Company's annual test for impairment occurs on the first day of the fourth quarter.

We have elected to early adopt 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, 2011.

Product Warranty Costs and Provisions

We 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 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 (FASB) amended its accounting guidance, ASC 220, on the presentation of other comprehensive income (OCI) in an entity's financial statements. The amended guidance eliminates the option to present the components of OCI as part of the statement of changes in shareholders equity and provides two options for presenting OCI: in a statement included in the income statement or in a separate statement immediately following the income statement. The amendments do not change the guidance for the items that have to be reported in OCI or when an item of OCI has to be moved into net income. For public entities, the amendments are effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. We do not expect that adoption of this guidance will have a significant impact on our consolidated financial statements.

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 bonds, and 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) income. All investments mature by October 1, 2013. 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 and intent 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, 2011	2012	2013
Investments (at fair value)	$ 41,232	$34,637	$6,595
Weighted average interest rate	0.31%	0.29%	0.41%

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 44% of our total international revenues during the year ended December 31, 2011. Substantially all of the remaining 56% 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, 2011. 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, 2011, 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, 2011 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, 2011. 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, 2011 based on the COSO criteria.

Our internal control over financial reporting as of December 31, 2011 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, 2011, 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, 2011, 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, 2011 and 2010, 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, 2011 of Cynosure, Inc. and our report dated March 7, 2012 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Boston, Massachusetts
March 7, 2012

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 2012 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 2012 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 2012 Proxy Statement under the caption "CORPORATE GOVERNANCE" and is incorporated in this report by reference.

Item 11. *Executive Compensation*

The information required by this item will be contained in our 2012 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 2012 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 2012 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 2012 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 2012 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.*

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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. D AVIN

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

Date: March 7, 2012

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. D AVIN **Michael R. Davin**	President, Chief Executive Officer and Chairman of the Board of Directors (Principal Executive Officer)	March 7, 2012
/s/ TIMOTHY W. B AKER **Timothy W. Baker**	Executive Vice President and Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)	March 7, 2012
/s/ BRIAN M. B AREFOOT **Brian M. Barefoot**	Director	March 7, 2012
/s/ ETTORE V. B IAGIONI **Ettore V. Biagioni**	Director	March 7, 2012
/s/ ANDREA C ANGIOLI **Andrea Cangioli**	Director	March 7, 2012
/s/ MARINA H ATSOPOULOS **Marina Hatsopoulos**	Director	March 7, 2012
/s/ LEONARDO M ASOTTI **Leonardo Masotti**	Director	March 7, 2012
/s/ THOMAS H. R OBINSON **Thomas H. Robinson**	Director	March 7, 2012

CYNOSURE, INC.

INDEX TO FINANCIAL STATEMENTS

Consolidated Financial Statements of Cynosure, Inc.

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, 2011 and 2010, 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, 2011. 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, 2011 and 2010, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2011, 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, 2011, 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 7, 2012 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Boston, Massachusetts
March 7, 2012

CYNOSURE, INC.

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

	December 31, 2011	December 31, 2010
ASSETS		
Current assets:		
Cash and cash equivalents	$ 35,694	$ 27,434
Short-term marketable securities	31,379	59,402
Accounts receivable, net of allowance of $1,872 and $2,207 in 2011 and 2010, respectively	12,853	10,621
Inventories	29,568	18,684
Prepaid expenses and other current assets	3,038	3,902
Deferred income taxes	701	489
Total current assets	113,233	120,532
Property and equipment, net	7,705	8,892
Long-term marketable securities	6,595	9,990
Goodwill and intangibles, net	23,486	1,666
Other assets	561	732
Total assets	$ 151,580	$ 141,812
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 8,474	$ 4,840
Amounts due to related party	1,550	1,785
Accrued expenses	13,944	10,427
Deferred revenue	6,388	3,660
Capital lease obligations	239	133
Total current liabilities	30,595	20,845
Capital lease obligations, net of current portion	494	40
Deferred revenue, net of current portion	367	348
Other noncurrent liability	497	279
Commitments and Contingencies		
Stockholders' equity:		
Preferred stock, $0.001 par value Authorized—5,000 shares as of December 31, 2011 and 2010 Issued—no shares as of December 31, 2011 and 2010	—	—
Class A and Class B common stock, $0.001 par value Authorized—70,000 shares as of December 31, 2011 and 2010 Issued—9,828 Class A shares and 2,975 Class B shares at December 31, 2011; Issued—9,786 Class A shares and 2,975 Class B shares at December 31, 2010	13	13
Additional paid-in capital	124,506	121,706
(Accumulated deficit) retained earnings	(678)	2,227
Accumulated other comprehensive loss	(2,041)	(1,938)
Treasury stock, 197 Class A shares and 36 Class B shares, at cost, at December 31, 2011; 149 Class A and 36 Class B shares, at cost, at December 31, 2010	(2,173)	(1,708)
Total stockholders' equity	119,627	120,300
Total liabilities and stockholders' equity	$ 151,580	$ 141,812

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,		
	2011	2010	2009
Product revenues	$ 88,361	$ 62,357	$ 55,869
Parts, accessories and service revenues	22,241	19,418	16,956
Total revenues	110,602	81,775	72,825
Cost of revenues	48,294	35,388	32,808
Gross profit	62,308	46,387	40,017
Operating expenses:			
Sales and marketing	39,142	32,818	39,098
Research and development	10,079	7,300	6,679
Amortization of intangible assets acquired	854	—	—
General and administrative	14,255	11,312	14,556
Total operating expenses	64,330	51,430	60,333
Loss from operations	(2,022)	(5,043)	(20,316)
Interest income, net	126	163	523
Gain on investments	2	23	22
Other (expense) income, net	(204)	(247)	672
Loss before provision for income taxes	(2,098)	(5,104)	(19,099)
Provision for income taxes	807	442	3,659
Net loss	$ (2,905)	$ (5,546)	$ (22,758)
Basic net loss per share	$ (0.23)	$ (0.44)	$ (1.79)
Diluted net loss per share	$ (0.23)	$ (0.44)	$ (1.79)
Basic weighted average common shares outstanding	12,585	12,666	12,709
Diluted weighted average common shares outstanding	12,585	12,666	12,709

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

CYNOSURE, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY AND COMPREHENSIVE LOSS
(In thousands)

	Class A and B Common Stock		Additional Paid-In Capital	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Loss	Class A & B Treasury Stock		Total Stockholders Equity	Comprehensive Loss
	Shares	$0.001 Par Value				Shares	Cost		
Balance at December 31, 2008	12,734	$ 13	$ 111,892	$ 30,531	$ (1,795)	(36)	$ (287)	$ 140,354	
Stock-based compensation expense	—	—	6,184	—	—	—	—	6,184	
Tax deficiency from stock-based compensation expense in excess of book deductions	—	—	(320)	—	—	—	—	(320)	
Exercise of stock options	16	—	58	—	—	—	—	58	
Repurchase of common stock	—	—		—	—	(3)	(32)	(32)	
Net loss	—	—	—	(22,758)	—	—	—	(22,758)	$ (22,758)
Cumulative translation adjustment	—	—	—	—	422	—	—	422	422
Unrealized loss on marketable securities, net of tax provision	—	—	—	—	(78)	—	—	(78)	(78)
Balance at December 31, 2009	12,750	$ 13	$ 117,814	$ 7,773	$ (1,451)	(39)	$ (319)	$ 123,830	$ (22,414)
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)	$ (5,546)
Cumulative translation adjustment	—	—	—	—	(510)	—	—	(510)	$ (510)
Unrealized gain on marketable securities, net of tax provision	—	—	—	—	23	—	—	23	23
Balance at December 31, 2010	12,761	$ 13	$ 121,706	$ 2,227	$ (1,938)	(185)	$(1,708)	$ 120,300	$ (6,033)
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)	$ (2,905)
Cumulative translation adjustment	—	—	—	—	(97)	—	—	(97)	(97)
Unrealized loss on marketable securities, net of tax provision	—	—	—	—	(6)	—	—	(6)	(6)
Balance at December 31, 2011	12,803	$ 13	$ 124,506	$ (678)	$ (2,041)	(233)	$(2,173)	$ 119,627	$ (3,008)

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,		
	2011	2010	2009
Operating activities:			
Net loss	$ (2,905)	$ (5,546)	$(22,758)
Reconciliation of net loss to net cash provided by (used in) operating activities:			
Depreciation and amortization	6,894	5,431	5,444
Gain on investments	—	(21)	(22)
Stock-based compensation	2,561	3,843	6,184
Deferred income taxes	(46)	(221)	6,775
(Gain) loss on disposal of fixed assets	(55)	62	24
Accretion of discounts on marketable securities	1,086	877	407
Changes in operating assets and liabilities, net of effect of acquisitions:			
Accounts receivable	(469)	883	13,649
Due from related party	—	—	40
Inventories	(10,343)	(1,988)	1,255
Net book value of demonstration inventory sold	999	1,244	734
Prepaid expenses and other current assets	908	2,480	(2,082)
Accounts payable	2,168	71	(280)
Due to related party	(238)	448	(4,723)
Tax benefit from stock option exercises	(33)	(2)	(3)
Accrued expenses	3,254	1,116	(6,313)
Deferred revenue	2,395	(883)	140
Other noncurrent liability	2	—	(5)
Net cash provided by (used in) operating activities	6,178	7,794	(1,534)
Investing activities:			
Purchases of property and equipment	(903)	(663)	(656)
Proceeds from the sales and maturities of securities	84,820	72,718	37,145
Purchases of marketable securities	(54,488)	(95,768)	(38,625)
Acquisitions	(26,970)	—	—
Increase in other assets	(34)	—	(192)
Net cash provided by (used in) investing activities	2,425	(23,713)	(2,328)
Financing activities:			
Excess tax benefit on options exercised	33	2	3
Repurchases of common stock	(465)	(1,389)	(32)
Proceeds from stock option exercises	241	85	58
Payments on capital lease obligation	(102)	(235)	(390)
Net cash used in financing activities	(293)	(1,537)	(361)
Effect of exchange rate changes on cash and cash equivalents	(50)	93	(237)
Net increase (decrease) in cash and cash equivalents	8,260	(17,363)	(4,460)
Cash and cash equivalents, beginning of year	27,434	44,797	49,257
Cash and cash equivalents, end of year	$ 35,694	$ 27,434	$ 44,797
Supplemental cash flow information:			
Cash paid for interest	$ 32	$ 57	$ 81
Cash paid for income taxes	$ 1,160	$ 1,021	$ 1,304
Supplemental noncash investing and financing activities:			
Transfer of demonstration equipment from inventory to fixed assets	$ 3,205	$ 4,802	$ 7,359
Assets acquired under capital lease	$ 695	—	—

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

CYNOSURE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Nature of the Business

Cynosure, Inc. (Cynosure or the Company) develops, manufactures and markets aesthetic treatment systems that are used by physicians and other practitioners to perform non-invasive treatments which include hair removal, rejuvenating the skin through the treatment of vascular and pigmented lesions, wrinkles, multi-colored tattoos, skin texture and skin discoloration, skin tightening through tissue coagulation, reducing the appearance of cellulite and treating onychomycosis and to perform minimally invasive procedures for LaserBodySculpting for the removal of unwanted fat and the reduction of cellulite. 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, 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 balance sheet.

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 gain (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, 2011 and 2010.

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 $12.9 million as of December 31, 2011, compared with $10.6 million as of December 31, 2010. The allowance for doubtful accounts as of December 31, 2011 was $1.9 million and as of December 31, 2010 was $2.2 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 2011, 2010 or 2009. No customer accounted for 10% or greater of accounts receivable as of December 31, 2011 or 2010. Accounts receivable allowance activity consisted of the following for the years ended December 31:

	2011	2010	2009
		(In thousands)	
Balance at beginning of year	$ 2,207	$ 2,983	$ 2,861
Additions	167	933	2,485
Deductions	(502)	(1,709)	(2,363)
Balance at end of year	$ 1,872	$ 2,207	$ 2,983

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,	
	2011	2010
	(In thousands)	
Raw materials	$ 7,645	$ 3,980
Work in process	1,437	711
Finished goods	20,486	13,993
	$ 29,568	$ 18,684

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 production 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 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.

In 2009, Cynosure 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 Cynosure's newer generation products more quickly than the Company anticipated, coupled with the downturn in the overall aesthetic laser market.

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 whether 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 the fourth quarter.

Cynosure has elected to early adopt 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 concluded that Cynosure, Inc. represents one reporting unit for goodwill impairment testing and Cynosure has performed a qualitative assessment on that reporting unit. As a result of Cynosure's assessment, the Company determined that goodwill is not impaired as of December 31, 2011.

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, $0.3 million, and $0.3 million for the years ended December 31, 2011, 2010 and 2009, respectively. Shipping and handling costs included as a component of cost of revenue totaled $0.5 million, $0.3 million and $0.3 million for the years ended December 31, 2011, 2010 and 2009, 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:

	Years Ended December 31,		
	2011	2010	2009
		(In thousands)	
Balance at beginning of year	$ 2,112	$ 2,440	$ 3,052
Warranty provision related to new sales	4,729	3,550	4,422
Warranty provision assumed from acquisitions	342	—	—
Costs incurred	(4,012)	(3,878)	(5,034)
Balance at end of year	$ 3,171	$ 2,112	$ 2,440

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 $1.8 million, $0.9 million, and $0.4 million of research and development costs in connection with this Agreement during fiscal 2011, 2010 and 2009, respectively, and recorded $1.7 million, $0.7 million, and $0.3 million of reimbursements from Unilever as a reduction to research and development expenses in the respective fiscal periods. Should any of these devices be commercialized, Cynosure will be entitled to future royalty payments from Unilever.

Advertising Costs

Cynosure expenses advertising costs as incurred. Advertising costs totaled $0.5 million, $0.4 million and $0.6 million for the years ended December 31, 2011, 2010 and 2009, 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 income within stockholders' equity. Certain intercompany and third party foreign currency-denominated transactions generated foreign currency remeasurement (losses) gains of approximately $(318,000), $(274,000) and $573,000 during 2011, 2010 and 2009, respectively, which are included in other (expense) income, net, in the consolidated statements of operations.

Comprehensive Loss and Accumulated Other Comprehensive Loss

Comprehensive loss is the change in equity of a company during a period from transactions and other events and circumstances, excluding transactions resulting from investments by owners and distributions to owners.

The components of accumulated other comprehensive loss as of December 31, 2011 and 2010 are as follows:

	December 31,	
	2011	2010
	(In thousands)	
Unrealized gain on marketable securities, net of $13 and $11 income taxes	$ 23	$ 29
Cumulative translation adjustment	(2,064)	(1,967)
Total accumulated other comprehensive loss	$ (2,041)	$ (1,938)

The components of total other comprehensive loss for the years ended December 31, 2011 and 2010 are as follows:

	Years Ended December 31,	
	2011	2010
	(In thousands)	
Cumulative translation adjustment	$ (97)	$ (510)
Unrealized (loss) gain on marketable securities	(6)	23
Total other comprehensive loss	(103)	(487)
Reported net loss	(2,905)	(5,546)
Total comprehensive loss	$ (3,008)	$ (6,033)

Stock-Based Compensation

Cynosure follows 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, 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 $2.6 million, $3.8 million and $6.2 million. Cynosure capitalized $15,000 and $17,000, respectively, of stock-based compensation expense as a part of inventory as of December 31, 2011 and 2010.

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,		
	2011	2010	2009
	(In thousands)		
Cost of revenues	$ 134	$ 289	$ 447
Sales and marketing	829	1,715	2,685
Research and development	446	538	899
General and administrative	1,152	1,301	2,153
Total stock-based compensation expense	$2,561	$ 3,843	$ 6,184

As of December 31, 2011, there was $3.5 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 1.63 years. Cash received from option exercises was $0.2 million, $0.1 million and $0.1 million during the years ended December 31, 2011, 2010 and 2009, respectively.

Cynosure granted 411,104, 440,711 and 506,225 stock options during the years ended December 31, 2011, 2010 and 2009, 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, 2011, 2010 and 2009 was $7.26, $5.79 and $4.38, respectively, using the following assumptions:

	Years Ended December 31,		
	2011	2010	2009
Risk-free interest rate	0.87% - 2.37%	1.49% - 2.50%	1.87% - 2.66%
Expected dividend yield	—	—	—
Expected term	5.8 years	5.8 years	5.8 years
Expected volatility	55% - 57%	57% - 59%	63% - 64%

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 2011 and 2010 periods and based on a weighted average of its own historical volatility and of the average volatilities of other guideline companies in the same industry for the 2009 period. Cynosure's expected term of options granted during the years ended December 31, 2011, 2010 and 2009 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.

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 Loss per Common Share

Basic net loss per share is determined by dividing net loss by the weighted average common shares outstanding during the period. Diluted net loss per share is determined by dividing net 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. Common shares outstanding includes both Class A and Class B as each share participates equally in earnings. Class B shares are 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, 2011, 2010 and 2009 is as follows:

	Years Ended December 31,		
	2011	2010	2009
Net loss	$ (2,905)	$ (5,546)	$(22,758)
Basic weighted average common shares outstanding	12,585	12,666	12,709
Weighted average common stock equivalents	—	—	—
Diluted weighted average common shares outstanding	12,585	12,666	12,709
Basic net loss per share	$ (0.23)	$ (0.44)	$ (1.79)
Diluted net loss per share	$ (0.23)	$ (0.44)	$ (1.79)

For the years ended December 31, 2011, 2010 and 2009 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, 2010 and 2009, respectively, outstanding options to purchase 2.0 million, 1.6 million and 1.1 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 (FASB) amended its accounting guidance, ASC 220, on the presentation of other comprehensive income (OCI) in an entity's financial statements. The amended guidance eliminates the option to present the components of OCI as part of the statement of changes in shareholders equity and provides two options for presenting OCI: in a statement included in the income statement or in a separate statement immediately following the income statement. The amendments do not change the guidance for the items that have to be reported in OCI or when an item of OCI has to be moved into net income. For public entities, the amendments are effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. Cynosure does not expect that adoption of this guidance will have a significant impact on its consolidated financial statements.

3. Fair Value

ASC 820, *Fair Value Measurement Topic*, 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.

In accordance with ASC 820, 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, 2011 (in thousands):

	Level 1	Level 2	Level 3	Total
Money market funds(1)	$7,281	$ —	$—	$ 7,281
State and municipal bonds(2)	—	26,851	—	26,851
Treasuries and government agencies	—	14,381	—	14,381
Equity securities	6	—	—	6
Total	$7,287	$ 41,232	$—	$48,519

(1) Included in cash and cash equivalents at December 31, 2011.
(2) $3.3 million included in cash and cash equivalents at December 31, 2011.

4. Short and Long-Term Marketable Securities

Cynosure's available-for-sale securities at December 31, 2011 consist of approximately $41.2 million of investments in debt securities consisting of state and municipal bonds, treasuries and government agencies and approximately $6,000 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, 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	$ —
Total cash equivalents	$ 3,264	$ 3,263	$ 1	$ —
Short-term marketable securities:				
State and municipal bonds	$ 18,868	$18,858	$ 12	$ (2)
Treasuries and government agencies	12,505	12,499	6	—
Equity securities	6	5	1	—
Total short-term marketable securities	$ 31,379	$ 31,362	$ 19	$ (2)
Long-term marketable securities:				
State and municipal bonds	$ 4,719	$ 4,713	$ 6	$ —
Treasuries and government agencies	1,876	1,875	1	—
Total long-term marketable securities	$ 6,595	$ 6,588	$ 7	$ —
Total available-for-sale securities	$ 41,238	$ 41,213	$ 27	$ (2)
Total marketable securities	$ 37,974			

As of December 31, 2010, 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	$ 1,109	$ 1,109	$ —	$ —
Treasuries and government agencies	5,008	5,011	—	(3)
Total cash equivalents	$ 6,117	$ 6,120	$ —	$ (3)
Short-term marketable securities:				
State and municipal bonds	$ 13,416	$ 13,420	$ —	$ (4)
Treasuries and government agencies	45,974	45,953	31	(10)
Equity securities	12	15	—	(3)
Total short-term marketable securities	$ 59,402	$ 59,388	$ 31	$ (17)
Long-term marketable securities:				
State and municipal bonds	$ 5,191	$ 5,200	$ —	$ (9)
Treasuries and government agencies	4,799	4,798	1	—
Total long-term marketable securities	$ 9,990	$ 9,998	$ 1	$ (9)
Total available-for-sale securities	$ 75,509	$75,506	$ 32	$ (29)
Total marketable securities	$ 69,392			

As of December 31, 2011, Cynosure's available-for-sale debt securities mature as follows (in thousands):

	Total	Maturities		
		Less Than One Year	One to Five Years	More than five years
State and municipal bonds	$26,849	$ 22,130	$ 4,719	$ —
U.S. government sponsored enterprises	14,383	12,507	1,876	—
Total available-for-sale debt securities	$ 41,232	$ 34,637	$ 6,595	$ —

5. Acquisitions

ConBio

On June 27, 2011, Cynosure acquired the net assets of HOYA ConBio's aesthetic laser business (ConBio) for $24.5 million in cash. The business purpose of this transaction was to acquire and incorporate ConBio's aesthetic laser product line which utilizes proprietary PhotoAcoustic energy technology including high-speed energy waves to penetrate the skin in nanoseconds, minimizing the amount of heat in each procedure, into Cynosure's product portfolio. ConBio's Q-Switched Nd:YAG technology is designed to treat a broad range of high-volume applications, including skin rejuvenation, skin toning, multi-color tattoo removal, wrinkle and acne scar reduction, pigmented lesions and vascular lesions. This acquisition was considered a business acquisition for accounting purposes. The goodwill recognized is attributable to synergies associated with the ConBio technology which has been integrated with Cynosure's product portfolio and distributed throughout the U.S. and international distribution channels.

The total purchase price was allocated to the net tangible and intangible assets based upon the fair values as of June 27, 2011. The excess of the purchase price over the net tangible and intangible assets was recorded as goodwill. Cynosure acquired $24.5 million of net assets, including $7.6 million of identifiable intangible assets, and goodwill of $14.1 million. The identifiable intangible assets include: $2.6 million of trade names, $2.0 million of developed technology and patents and $3.0 million of customer relationships. All intangible assets, including goodwill, are deductible for income tax purposes over 15 years.

The following table summarizes the fair value as of June 27, 2011 of the net assets acquired (in thousands):

Purchase price:	
Cash paid per Agreement	$24,500
Total	$24,500
Assets (liabilities) acquired:	
Accounts receivable	$ 1,506
Inventory	2,741
Prepaids and other assets	150
Property and equipment	525
Intangible assets	7,580
Goodwill	14,080
Accounts payable	(1,479)
Accrued expenses	(264)
Deferred revenue	(339)
Total	$24,500

Eleme Medical

On February 2, 2011, Cynosure acquired assets and certain liabilities of Eleme Medical for $2.5 million in cash. The business purpose of this transaction was to acquire and incorporate Eleme Medical's non-invasive

SmoothShapes® XV system for the temporary reduction in the appearance of cellulite into Cynosure's product portfolio and also included licensing rights to intellectual property related to the *SmoothShapes* technology. This acquisition was considered a business acquisition for accounting purposes. The goodwill recognized is attributable to expected synergies as the *SmoothShapes XV* technology will be integrated into Cynosure's U.S. and international distribution channel and complement the Cellulite product family.

The total purchase price was allocated to the net tangible and intangible assets based upon their fair values as of February 2, 2011. The excess of the purchase price over the net tangible and intangible assets was recorded as goodwill. Cynosure acquired $2.5 million of net assets, including $1.0 million of identifiable intangible assets, and goodwill of $0.5 million. All intangible assets, including goodwill, are deductible for income tax purposes over 15 years.

The following table summarizes the fair value as of February 2, 2011 of the net assets acquired (in thousands):

Purchase price:	
Cash paid per Agreement	$2,470
Total	$2,470
Assets (liabilities) acquired:	
Accounts receivable	$ 161
Inventory	736
Property and equipment	363
Identifiable intangible assets	988
Goodwill	460
Accrued warranty and royalty	(238)
Total	$2,470

The following unaudited pro forma condensed consolidated operating results for the years ended December 31, 2011 and 2010 summarizes the combined results of operations for Cynosure and the other two companies that were acquired during fiscal year 2011, ConBio and Eleme Medical. The unaudited pro forma condensed consolidated operating results includes the business combination accounting effects as if the acquisitions had been completed as of January 1, 2011 (for the 2011 period results) and January 1, 2010 (for the 2010 period results). These pro forma amounts are not necessarily indicative of the operating results that would have occurred if these transactions had occurred on such date.

	December 31,	
	2011	2010
	(in thousands)	
Revenue	$122,183	$110,925
Pre-tax loss	(466)	(9,002)

The amounts included in revenue within the consolidated statement of operations, relating to the acquisitions of ConBio and Eleme Medical, for the year ending December 31, 2011 was $18.6 million. As a result of the integration of the operations of ConBio and Eleme Medical into Cynosure's operations, disclosures of earnings included in the accompanying consolidated statement of operations since the acquisition date is not practicable.

Cynosure recorded $1.7 million of acquisition related costs for the year ending December 31, 2011. This amount is primarily recorded in general and administrative expenses on the consolidated statement of operations.

6. Goodwill and Other Intangible Assets

Changes to goodwill during the year ended December 31, 2011 were as follows (in thousands):

	Total
Balance—December 31, 2010	$ 1,225
Acquisition	14,540
Translation adjustment	(53)
Balance—December 31, 2011	$15,712

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 in 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. The Company 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.

Other intangible assets consist of the following at December 31, 2011 and December 31, 2010 (in thousands):

	Developed Technology & Patents	Business Licenses	Customer Relationships	Trade Names	Other	Total
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
December 31, 2010						
Cost	$ 591	$ 384	$ 64	$ —	$ 48	$ 1,087
Translation adjustment	—	30	19	—	—	49
Accumulated amortization	(554)	(109)	(30)	—	(2)	(695)
Balance, December 31, 2010	$ 37	$ 305	$ 53	$ —	$ 46	$ 441

Cynosure purchased $1.0 million of identifiable intangible assets from its Eleme Medical acquisition, of which $0.7 million was attributable to developed technology and patents, $0.3 million was attributable to customer relationships and $20,000 was attributable to trademarks in the twelve months ended December 31, 2011. These identifiable intangible assets are being amortized on a straight-line basis over a five year period.

Cynosure purchased $7.6 million of identifiable intangible assets from its ConBio acquisition, of which $2.0 million was assigned to developed technology and patents, $3.0 million was assigned to customer relationships and $2.6 million was assigned to trademarks. The developed technology and patents and customer relationships are being amortized on an accelerated basis; developed technology and patents over a 12 year period and customer relationships over a 5 year period. The trade names are being amortized on a straight-line basis over a 15 year period. The weighted-average amortization period for these intangible assets is 10.3 years.

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

Amortization expense for the years ended December 31, 2011, 2010 and 2009 was $1.2 million, $0.1 million and $0.1 million, respectively. In the 2011 period, $0.9 million is classified within operating expenses as amortization of intangible assets acquired through the Eleme Medical and ConBio acquisitions. 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, 2011, amortization expense on existing intangible assets for the next five years and beyond is as follows (table in thousands):

2012	1,843
2013	1,299
2014	950
2015	765
2016 and Thereafter	2,876
Total	$ 7,733

The table above includes $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 thereafter, to be recognized within operating expenses related to the amortization expense of intangible assets acquired through the Eleme Medical and ConBio acquisitions.

7. 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,		
	2011	2010	2009
		(In thousands)	
United States	$ 43,903	$29,292	$ 30,736
Europe	27,918	24,201	19,554
Asia/Pacific	27,357	19,373	15,113
Other	11,424	8,909	7,422
	$110,602	$81,775	$72,825

Total assets by geographic area are as follows:

	December 31,	
	2011	2010
	(In thousands)	
United States	$ 132,041	$123,211
Europe	12,688	12,119
Asia/Pacific	8,855	8,279
Eliminations	(2,004)	(1,797)
	$151,580	$141,812

Long-lived assets by geographic area are as follows:

	December 31,	
	2011	2010
	(In thousands)	
United States	$6,461	$7,571
Europe	1,344	1,833
Asia/Pacific	461	220
	$8,266	$9,624

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.

8. Balance Sheet Accounts

Property and Equipment

Property and equipment consists of the following at December 31:

	Estimated Useful Life (Years)	2011 Cost	2010 Cost
		(In thousands)	
Equipment	3-5	$ 4,217	$ 3,701
Furniture and fixtures	5	2,027	1,905
Computer equipment and software	3	3,489	3,273
Leased Equipment	5	2,199	2,118
Leasehold improvements	5	1,589	1,476
Demonstration equipment	3	20,200	18,558
Construction in-progress		—	14
		33,721	31,045
Less: Accumulated depreciation and amortization		(26,016)	(22,153)
		$ 7,705	$ 8,892

Depreciation expense relating to property and equipment was $5.7 million, $5.3 million and $5.4 million for the years ended December 31, 2011, 2010 and 2009, respectively. As of December 31, 2011 and 2010, the cost of assets recorded under capitalized leases was approximately $2.2 million and $2.1 million, respectively, and the related accumulated amortization was approximately $1.4 million and $1.9 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:

	2011	2010
	(In thousands)	
Accrued payroll and taxes	$ 2,309	$ 1,440
Accrued employee benefits	938	709
Accrued warranty costs	3,171	2,112
Accrued commissions	2,295	1,153
Accrued other	5,231	5,013
	$13,944	$10,427

9. Related Party Transactions

El. En. S.p.A, ("El.En.") owns approximately 23% of our outstanding common stock. Purchases of inventory from El.En. during the years ended December 31, 2011, 2010 and 2009 were approximately $7.8 million, $5.2 million and $4.9 million, respectively. As of December 31, 2011 and 2010, amounts due to related party for these purchases were approximately $1.5 million and $1.8 million, respectively. There were no amounts due from El.En. as of December 31, 2011 or 2010.

10. Stockholders' Equity

Common Stock Authorized

Cynosure has a dual class capital structure consisting of $0.001 par value Class A 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. As of December 31, 2011, there were 9,827,391 shares of Class A common stock issued and 2,975,297 shares of Class B common stock issued. The rights, preferences and privileges of each class of common stock are as follows:

Voting Rights

The holders of Class A common stock and Class B common stock have identical rights and 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, except for the approval rights of the holders of the Class B common stock applicable to specified amendments to Cynosure's certificate of incorporation and amendments of Cynosure's bylaws by stockholders and except with respect to the election and removal of directors. El.En., Cynosure's largest stockholder, is able to control the election of a majority of the members of Cynosure's board of directors. El.En. owns 99.98% of Cynosure's outstanding Class B common stock, which comprises 23% of Cynosure's aggregate outstanding common stock. Until El.En. beneficially owns less than 20% of the aggregate number of shares of Cynosure's Class A common stock and Class B common stock outstanding or less than 50% of the number of shares of Cynosure's Class B common stock outstanding, El.En., as holder of a majority of the shares of Cynosure's Class B common stock, will have the right:

- to elect a majority of the members of Cynosure's board of directors;
- to approve amendments to the bylaws adopted by Cynosure's Class A and Class B stockholders, voting as a single class; and
- to approve amendments to any provisions of Cynosure's restated certificate of incorporation relating to the rights of holders of common stock, the powers, election and classification of the board of directors, corporate opportunities and the rights of holders of Class A common stock and Class B common stock to elect and remove directors, act by written consent and call special meetings of stockholders.

In addition, the holders of shares of Cynosure's Class B common stock will vote with Cynosure's Class A stockholders for the election of the remaining directors.

Conversion

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

Each share of Class B common stock is convertible into one share of class A common stock at any time at the option of the holder. In addition, each share of Class B common stock shall convert automatically into one share of Class A common stock upon any transfer of such share of Class B common stock, whether or not for value.

Dividends

Subject to preferences that may apply to any shares of preferred stock outstanding at the time, the holders of Class A common stock and Class B 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 and Class B 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

On July 28, 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, 2011, Cynosure repurchased 48,035 shares of its common stock at an aggregate cost of approximately $0.5 million and at a weighted average price of $9.68 per share under this program. As of December 31, 2011, Cynosure has repurchased an aggregate of 196,970 shares under this program at an aggregate cost of $1.9 million.

11. 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, 2011, 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, 2011 the number of shares of Class A common stock reserved for issuance under the 2005 Plan is 2,488,369 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, 2011, there are 67,640 shares available for future grant under the 2005 Plan. In January 2012, 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 1992 Plan, 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	1,523,495	$3.00 - $36.94	$ 17.09		$ 2,117
Unvested	574,255	5.07 - 25.48	10.09		574
Outstanding, December 31, 2010	2,097,750	3.00 - 36.94	15.18	7.03 years	2,691
Granted	411,104	9.56 - 14.04	13.64		19
Exercised	(41,543)	3.00 - 14.30	5.81		326
Forfeited	(91,808)	4.50 - 36.94	25.79		36
Outstanding, December 31, 2011	2,375,503	$3.00 - $36.94	$ 14.66	6.67 years	$ 4,083
Vested	1,829,238	3.00 - 36.94	$ 15.47	6.06 years	$ 3,584
Unvested	546,265	5.07 - 14.04	11.97	8.72 years	498
Vested or expected to vest, December 31, 2011	2,354,582	$3.00 - $36.94	$ 14.68	6.65 years	$ 4,066
Exercisable, December 31, 2011	1,829,238	$3.00 - $36.94	$ 15.47	6.06 years	$ 3,584

12. Income Taxes

Loss before income tax provision consists of the following:

	2011	2010	2009
		(In thousands)	
Domestic	$ (2,710)	$(7,455)	$ (18,446)
Foreign	612	2,351	(653)
Total	$(2,098)	$ (5,104)	$(19,099)

The provision for income taxes consists of:

	2011	2010	2009
		(In thousands)	
Current:			
Federal	$ 241	$(368)	$ (3,422)
State	179	46	122
Foreign	433	985	184
Total current	853	663	(3,116)
Deferred:			
Federal	—	—	6,187
State	—	—	512
Foreign	(46)	(221)	76
Total deferred	(46)	(221)	6,775
	$ 807	$ 442	$ 3,659

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

	2011	2010	2009
Income tax provision at federal statutory rate:	35.0%	35.0%	35.0%
Decrease (increase) in tax resulting from -			
State taxes, net of federal benefit	(8.9)	0.8	3.7
Nondeductible expenses	(12.1)	(3.5)	(1.4)
Tax-exempt interest income	1.4	0.7	0.6
Effect of foreign taxes	3.6	6.9	0.8
Stock-based compensation	(0.6)	(2.3)	(1.3)
Research and development credit	23.9	4.3	1.1
Change in valuation allowance	(81.5)	(54.3)	(56.6)
Other	0.7	3.7	(1.1)
Effective income tax rate	(38.5)%	(8.7)%	(19.2)%

Significant components of Cynosure's net deferred tax assets and liabilities as of December 31, 2011 and 2010 are as follows:

	2011	2010
	(In thousands)	
Short-term deferred tax assets:		
Reserves and allowances	$ 2,474	$ 2,787
Other temporary differences	1,320	741
Valuation allowance	(3,093)	(3,039)
Net short-term deferred tax assets	$ 701	$ 489
Long-term deferred tax (liabilities) assets:		
Domestic net operating loss and tax credit carryovers	$ 4,468	$ 3,400
Foreign net operating loss carryforwards	739	658
Depreciation	(318)	602
Stock-based compensation	6,326	6,132
Intangible assets	181	—
Other long-term differences	293	—
Valuation allowance	(11,847)	(10,669)
Net long-term deferred tax (liabilities) assets	$ (158)	$ 123
Net deferred tax assets	$ 543	$ 612

During the fourth quarter of 2009, Cynosure determined that its net domestic deferred tax assets were no longer more-likely-than-not realizable. As a result, Cynosure recorded a deferred tax provision of $10.4 million to establish a full valuation allowance on its net domestic deferred tax assets. At December 31, 2011, Cynosure maintains a full valuation allowance against its net domestic deferred tax assets. Cynosure's domestic tax group is in a cumulative three-year domestic pre-tax book loss. At December 31, 2011, Cynosure has no additional carryback capacity for future U.S. tax losses. In addition, at December 31, 2011, Cynosure has domestic federal net operating loss carryforwards of approximately $5.0 million, state net operating loss carryforwards of $6.6 million, federal tax credit carryforwards of $2.1 million and state tax credit carryforwards of $0.2 million that are available to reduce future taxable income. Cynosure's U.S. federal net operating loss carryforwards and credits will begin to expire in 2030. Cynosure's U.S. state net operating loss carryforwards and credits will begin to expire in 2014.

At December 31, 2011, Cynosure has foreign net operating loss carryforwards of approximately $2.5 million in Germany, France and Mexico that are available to reduce future foreign income. Foreign net operating losses in Germany and France do not expire. Mexican net operating loss carryforwards begin to expire in 2019. As of December 31, 2011, Cynosure continues to maintain a full valuation allowance on its net foreign deferred tax assets in Germany, Japan and Mexico due to the uncertainty surrounding the future realization of the deferred tax assets in these jurisdictions.

Income taxes have not been provided on certain undistributed earnings of foreign subsidiaries of approximately $10.5 million, because such earnings are considered to be indefinitely reinvested in the business. 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. At December 31, 2011 and 2010, Cynosure had no material unrecognized tax benefits.

Cynosure files income tax returns in the U.S. federal jurisdiction, and in various state and foreign jurisdictions. With few exceptions, Cynosure is generally 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 2007.

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, 2011 and 2010 in the statements of operations and balance sheet was immaterial.

No significant changes or material settlements for uncertain tax positions are expected in the next reporting year.

13. 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 $357,000, $265,000 and $286,000 for the years ended December 31, 2011, 2010 and 2009, respectively.

14. 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, 2011, 2010 and 2009 was approximately $1.8 million, $1.7 million and $1.8 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
2012	$ 1,648	$ 249
2013	1,494	222
2014	1,474	195
2015	1,525	75
2016	1,523	8
Thereafter	2,058	—
Total minimum lease payments	$ 9,722	$ 749
Less amount representing interest		(16)
Present value of obligations under capital leases		$ 733
Current portion of capital lease obligations		239
Capital lease obligations, net of current portion		$ 494

Litigation

In 2005, Dr. Ari Weitzner, individually and as putative representative of a purported class, filed a complaint against Cynosure under the federal Telephone Consumer Protection Act (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 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. Based on discovery in this matter, the plaintiff alleges that approximately three million facsimiles were sent on Cynosure's behalf by a third party to approximately 100,000 individuals. In February 2008, several months after the close of discovery, the plaintiff served a motion for class certification, which Cynosure opposed on numerous factual and legal grounds, including that a nationwide class action may not be maintained in a Massachusetts state court by Dr. Weitzner, a New York resident; individual issues predominate over common issues; a class action is not superior to other methods of resolving TCPA claims; and Dr. Weitzner is an inadequate class representative. Cynosure also believes it has many merits defenses, including that the faxes in question do not constitute "advertising" within the meaning of the TCPA and many recipients had an established business relationship with Cynosure and are thereby deemed to have consented to the receipt of facsimile communications. The Court held a hearing on the plaintiff's class certification motion in June 2008. In July 2010, the Court issued an order dismissing this matter without prejudice for Dr. Weitzner's failure to prosecute the case. In August 2010, Dr. Weitzner filed a motion for relief from the dismissal order, which the Court allowed. At a status conference held in November 2010, the Court confirmed that the class certification motion was still under advisement. In January 2012, the court issued a Memorandum of Decision denying the class certification motion.

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.

15. 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, 2011. 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, 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

	Quarter Ended			
	March 31, 2010	June 30, 2010	Sept. 30, 2010	Dec. 31, 2010
	(In thousands, except per share data)			
Revenues	$ 18,893	$ 21,489	$ 19,051	$ 22,342
Gross profit	$ 10,800	$ 12,420	$ 10,684	$ 12,483
Loss from operations	$ (2,542)	$ (903)	$ (972)	$ (626)
Net loss	$ (2,812)	$ (1,477)	$ (460)	$ (797)
Basic net loss per share	$ (0.22)	$ (0.12)	$ (0.04)	$ (0.06)
Diluted net loss per share	$ (0.22)	$ (0.12)	$ (0.04)	$ (0.06)

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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))
3.4	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 (Incorporated by reference to the exhibits to the Company's Registration Statement on Form S-1 filed August 11, 2005 (333-127463))
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 January 1, 2003, between the Company and George Cho (Incorporated by reference to the exhibits to the Company's Registration Statement on Form S-1 filed August 11, 2005 (333-127463))
10.7*	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)
10.8†	Distribution Agreement, effective as of January 1, 2005, between the Company and El.En. S.p.A. (Incorporated by reference to the exhibits to the Company's Registration Statement on Form S-1 filed August 11, 2005 (333-127463))
10.9†	Distribution Agreement, effective as of January 1, 2005, between the Company and El.En. S.p.A. (Incorporated by reference to the exhibits to the Company's Registration Statement on Form S-1 filed August 11, 2005 (333-127463))
10.10	Promissory Note, dated October 1, 2004, between the Company and El.En. S.p.A. (Incorporated by reference to the exhibits to the Company's Registration Statement on Form S-1 filed August 11, 2005 (333-127463))
10.11	Lease, dated January 31, 2005, between Glenborough Fund V, Limited Partnership and the Company, as amended
10.12	Reimbursement Agreement among the Company, El.En. S.p.A. and BRCT, Inc. (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))
10.13*	Option Agreement, dated December 17, 2003, between El.En. and Michael Davin (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))

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Exhibit Number	Description
10.14*	Option Agreement, dated May 13, 2005, between El.En. and Michael Davin (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))
10.15	Non-Exclusive Patent License, dated November 6, 2006, between Palomar Medical Technologies, Inc. and the Company (Incorporated by reference to the exhibit to the Company's Current Report on Form 8-K filed November 7, 2006)
10.16*	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)
10.17	Asset Purchase Agreement, dated June 27, 2011, among the Company, Hoya Photonics, Inc. and Hoya Corporation (Incorporated by reference to the exhibits to the Company's Current Report on Form 8-K filed on June 29, 2011)
10.18	Business Transfer Agreement, dated June 29, 2011, between Hoya Conbio France EURL and Cynosure France SARL (Incorporated by reference to the exhibits to the Company's Current Report on Form 8-K filed on June 29, 2011)
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
101**	The following materials from the Cynosure, Inc. Yearly Report on Form 10-K for the year ended December 31, 2011, formatted in XBRL (eXtensible Business Reporting Language); (i) Condensed Statement of Earnings for the year ended December 31, 2011 and 2010, (ii) Condensed Statement of Financial Position at December 31, 2011 and December 31, 2010, (iii) Condensed Statement of Cash Flows for the twelve months ended December 31, 2011 and 2010, and (iv) Notes to Condensed 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 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 10.11

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LEASE

This lease between Glenborough Fund V, Limited Partnership, a Delaware limited partnership (herein Landlord), and Cynosure, Inc., a Delaware corporation (herein Tenant), is dated for reference purposes only as of this 31 day of January, 2005.

1. LEASE OF PREMISES.

In consideration of the Rent (as defined in Section 6.) and the provisions of this Lease, Landlord leases to Tenant and Tenant leases from Landlord the Premises shown by diagonal lines on the floor plan attached hereto as Exhibit "A", and further described in Section 2.13. The Premises are located within the Building and Project (as described in Sections 2.13. and 2.14.). Tenant shall have the nonexclusive right (unless otherwise provided herein) in common with Landlord, other tenants, subtenants and invitees, to use the Common Area (as defined in Section 2.5.). This Lease confers no rights either to the subsurface of the land below the ground level of the Building in which the Premises is located or to airspace, interior or exterior, above the ceiling of the Building.

2. DEFINITIONS.

As used in this Lease the following terms shall have the following meanings:

2.1. ADJUSTMENT DATE: INTENTIONALLY OMITTED.

2.2. ANNUAL BASE RENT:

$697,712.50 beginning April 1, 2005 ending March 31, 2006
$711,666.75 beginning April 1, 2006 ending March 31, 2007
$767,483.75 beginning April 1, 2007 ending March 31, 2009
$823,300.75 beginning April 1, 2009 ending March 31, 2011
$879,117.75 beginning April 1, 2011 ending March 31, 2012

2.3. BASE YEAR: Calendar Year 2005 for Operating Expenses; Fiscal Year 2005 for Tax Costs.

2.4. COMMENCEMENT DATE: April 1, 2005. If the Commencement Date is other than the first day of a month, then the Expiration Date of the Lease shall be extended to the last day of the month in which the Lease expires.

2.5. COMMON AREA: The building lobbies, common corridors and hallways, rest rooms, parking areas and other generally understood public or common areas.

2.6. EXPIRATION DATE: March 31, 2012, unless otherwise sooner terminated in accordance with the provisions of this Lease.

2.7. INDEX (Section 6.2.): INTENTIONALLY OMITTED

2.8. LANDLORD'S ADDRESS FOR NOTICE:

c/o Glenborough Realty Trust Incorporated
400 South El Camino Real, Suite 1100
San Mateo, CA 94402-1708
ATTN: Legal Department

RENT PAYMENT ADDRESS:

Glenborough Fund V, Limited Partnership
PO Box 6022
Hicksville, NY 11802-6022

TENANTS MAILING ADDRESS:

Cynosure, Inc.
10 Elizabeth Drive
Chelmsford, MA 01824

With a courtesy copy to:
Hanify & King P.C.
1 Beacon Street, 21st Floor
Boston, MA 02108
Attn: Daniel J. Lyne, Esq.

2.9. LISTING AND LEASING AGENT(S): Grubb & Ellis and CB Richard Ellis/Whitter Partners.

2.10. MONTHLY INSTALLMENTS OF BASE RENT:

$58,142.71 beginning April 1, 2005 ending March 31, 2006
$59.305.56 beginning April 1, 2006 ending March 31, 2007
$63,956.98 beginning April 1, 2007 ending March 31, 2009
$68.608.40 beginning April 1, 2009 ending March 31, 2011
$73,259.81 beginning April 1, 2011 ending March 31, 2012

2.11. NOTICE: Except as otherwise provided herein, Notice shall mean any notices, approvals and demands permitted or required to be given under this Lease. Notice shall be given in the form and manner set forth in Section 23.

2.12. PARKING: Tenant shall be entitled to the nonexclusive use of one hundred ninety-five (195) parking spaces. The charge for parking shall be $0.00 per month per parking space for the initial term of this Lease. Landlord may permit Tenant to rent additional spaces, if available, at the then current parking rate. Each such additional parking space, however, shall not be a part of this Lease, and Landlord reserves the right to adjust the parking rate for each additional parking space at any time and to terminate the rental of such additional parking spaces at any time.

2.13. PREMISES: That portion of the entire first lst floor and a portion of the second 2nd floor(s) of the Building located at 5 Carlisle Road. Westford. Massachusetts, commonly referred to as suite 100 and suite 200, as shown by diagonal lines on Exhibit "A". For purposes of this Lease, the Premises is deemed to contain approximately 55,817 square feet of Rentable Area.

2.14. PROJECT: The building of which the Premises are a part (the Building) and any other buildings or improvements on the real property (the Property) located at 5 Carlisle Road. Westford, Massachusetts and further described in Exhibit "B". The Project is commonly known as Westford Corporate Center.

2.15. RENTABLE AREA: As to both the Premises and the Project, the respective measurements of floor area as may from time to time be subject to lease by Tenant and all tenants of the Project, respectively, as determined by Landlord and applied on a consistent basis throughout the Project.

2.16. SECURITY DEPOSIT (Section 8.): $200,000.00, subject to section 41 of this lease.

2.17. STATE: The Commonwealth of Massachusetts.

2.18. TENANT'S FIRST ADJUSTMENT DATE (Section 6.2.): INTENTIONALLY OMITTED.

2.19. TENANT'S PROPORTIONATE SHARE: 68.4%. Such share is a fraction, the numerator of which is the Rentable Area of the Premises, and the denominator of which is the Rentable Area of the Project, as determined by Landlord from time to time. The Project consists of one (1) Building, and, for purposes of this Lease, the Building is deemed to contain approximately 81,632 square feet of Rentable Area.

2.20. TENANT'S USE (Section 9.): Executive office and research and development use for a medical and aesthetic laser company and assembly of laser devices.

2.21. TERM: The period commencing on the Commencement Date and expiring at midnight on the Expiration Date.

3. EXHIBITS AND ADDENDA.

The exhibits and addenda listed below (unless lined out) are attached hereto and incorporated by reference in this Lease:

3.1. Exhibit A - Floor Plan showing the Premises.
3.2. Exhibit B - Site Plan of the Project.
3.3. Exhibit C - Building Standard Tenant Improvements.
3.4. Exhibit D - Work Letter and Drawings.
3.5. Exhibit E - Rules and Regulations.
3.6. Exhibit F - Sign Criteria.

Addenda: Attached hereto and made a part of this Lease by reference are Sections 37-41.

4. DELIVERY OF POSSESSION.

If for any reason Landlord does not deliver possession of the Premises to Tenant on the Commencement Date, and such failure is not caused by an act or omission of Tenant, the Expiration Date shall be extended by the number of days the Commencement Date has been delayed and the validity of this Lease shall not be impaired nor shall Landlord be subject to any liability for such failure; but Rent shall be abated until delivery of

possession. Provided, however, if the Commencement Date has been delayed by an act or omission of Tenant then Rent shall not be abated until delivery of possession and the Expiration Date shall not be extended. Notwithstanding the foregoing to the contrary, if Landlord has not delivered the Premises to Tenant, with all of Landlord's Work substantially complete, on or before August 1, 2005, for any reason other than delays caused by Tenant and force majeure, then Landlord shall reimburse Tenant for any holdover rent that Tenant's current landlord charges Tenant and that Tenant actually pays for not vacating Tenant's current space up and until Landlord delivers possession. Delivery of possession shall be deemed to occur on the earlier of the date Landlord receives a Certificate of Occupancy or upon substantial completion of the Premises (as certified by Landlord's architect) but not earlier than April 1, 2005. If Landlord permits Tenant to enter into possession of the Premises before the Commencement Date, such possession shall be subject to the provisions of this Lease, including, without limitation, the payment of Rent (unless otherwise agreed in writing).

Following the full execution of the Lease and Landlord's receipt of Certificates of Insurance evidencing coverage as required under the Lease, Tenant shall be entitled to enter the Premises prior to the Commencement Date solely for the purpose of installing its wiring, trade fixtures, equipment and personal property therein (provided however, such installation activities shall not interfere with the completion of Landlord's Work.)

Within ten (10) days of delivery of possession Landlord shall deliver to Tenant and Tenant shall execute an Acceptance of Premises in which Tenant shall certify, among other things, that (a) Landlord has satisfactorily completed Landlord's Work to the Premises pursuant to Exhibit "D", unless written exception is set forth thereon, and (b) that Tenant accepts the Premises. Tenant's failure to execute and deliver the Acceptance of Premises shall be conclusive evidence, as against Tenant, that Landlord has satisfactorily completed Landlord's Work to the Premises pursuant to Exhibit "D".

In the event Tenant fails to take possession of the Premises following execution of this Lease, Tenant shall reimburse Landlord promptly upon demand for all costs incurred by Landlord in connection with entering into this Lease including, but not limited to, broker fees and commissions, sums paid for the preparation of a floor and/or space plan for the Premises, costs incurred in performing Landlord's Work pursuant to Exhibit "D", loss of rental income, attorneys' fees and costs, and any other damages for breach of this Lease established by Landlord.

5. INTENDED USE OF THE PREMISES.

The statement in this Lease of the nature of the business to be conducted by Tenant in the Premises does not constitute a representation or guaranty by the Landlord as to the present or future suitability of the Premises for the conduct of such business in the Premises, or that it is lawful or permissible under the Certificate of Occupancy issued for the Building, or is otherwise permitted by law. Tenant's taking possession of the Premises shall be conclusive evidence, as against Tenant, that, at the time such possession was taken, the Premises were satisfactory for Tenant's intended use.

6. RENT.

6.1. Payment of Rent. Tenant shall pay Rent for the Premises. Monthly Installments of Rent shall be payable in advance on the first day of each calendar month of the Term. If the Term begins (or ends) on other than the first (or last) day of a calendar month, Rent for the partial month shall be prorated based on the number of days in that month. Rent shall be paid to Landlord at the Rent Payment Address set forth in Section 2.8., or to such other person at such place as Landlord may from time to time designate in writing, without any prior demand therefor and without deduction or offset, in lawful money of the United States of America. Tenant shall pay Landlord the first Monthly Installment of Base Rent upon execution of this Lease.

6.2. Adjusted Base Rent. INTENTIONALLY OMITTED.

6.3. Additional Rent for Increases in Tax Costs and Operating Expenses. If, in any calendar year during the Term of this Lease, Landlord's Tax Costs and Operating Expenses (as hereinafter defined) for the Project (hereinafter sometimes together referred to as Direct Costs) shall be higher than in the Base Year specified in Section 2.3., Additional Rent for such Direct Costs payable hereunder shall be increased by an amount equal to Tenant's Proportionate Share of the difference between Landlord's actual Direct Costs for such calendar year and the actual Direct Costs of the Base Year. However, if during any calendar year of the Term the occupancy of the Project is less than ninety-five percent (95%), then Landlord shall make an appropriate adjustment of the variable components of Operating Expenses, as reasonably determined by Landlord, to determine the amount of Operating Expenses that would have been incurred had the Project been ninety-five percent (95%) occupied during that calendar year. This estimated amount shall be deemed the amount of Operating Expenses for that calendar year. For purposes hereof, "variable components' shall include only those Operating Expenses that are affected by variations in occupancy levels.

6.3.1. Definitions. As used in this Section 6.3.1., the following terms shall have the following meanings:

6.3.1.1. Tax Costs shall mean any and all real estate taxes, other similar charges on real property or improvements, assessments, water and sewer charges and all other charges (but in no event Landlord's income or estate taxes) assessed, levied, imposed or becoming a lien upon part or all of the Project or the appurtenances thereto, or

attributable thereto, or on the rents, issues, profits or income received or derived therefrom which may be imposed, levied, assessed or charged by the United States or the State, County or City in which the Project is located, or any other local government authority Agency or political subdivision thereof. Tax Costs for each tax year shall be apportioned to determine the Tax Costs for the subject calendar years.

Landlord at Landlord's sole discretion, may contest any taxes levied or assessed against the Building or Project during the Term. If Landlord contests any taxes levied or assessed during the Term, Tenant shall pay Landlord Tenant's Proportionate Share of all costs incurred by Landlord in connection with the contest.

6.3.1.2. Operating Expenses shall mean any and all expenses incurred by Landlord in connection with the management, maintenance, operation, and repair of the Project, the equipment, adjacent walks, Common Area, parking areas, the roof, landscaped areas, including, but not limited to, salaries, wages, benefits, pension payments, payroll taxes, worker's compensation, and other costs related to employees engaged in the management, operation, maintenance and/or repair of the Project; any and all assessments or costs incurred with respect to Covenants, Conditions and/or Restrictions, Reciprocal Easement Agreements or similar documents affecting the Building or Project, if any; the cost of all charges to Landlord for electricity, natural gas, air conditioning, steam, water, and other utilities furnished to the Project including any taxes thereon; reasonable attorneys' fees and/or consultant fees incurred by Landlord in contracting with a company or companies to provide electricity (or any other utility) to the Project, any fees for the installation, maintenance, repair or removal of related equipment, and any exit fees or stranded cost charges mandated by the State; the cost and expense for third-party consultants, accountants and attorneys; a management fee not greater than five percent (5%) of the gross Base Rent and Additional Rent received for the project; energy studies and the amortized cost of any energy or other cost saving equipment used by Landlord to provide services pursuant to the terms of the Lease (including the amortized cost to upgrade the efficiency or capacity of Building telecommunication lines and systems if responsibility therefor is assumed by Landlord as discussed in Section 35. hereof); reasonable reserves for replacements as may be customary in the geographic area in which the Project is located; the cost of license fees related to the Project; the cost of all charges for property (all risk), liability, rent loss and all other insurance for the Project to the extent that such insurance is required to be carried by Landlord under any lease, mortgage or deed of trust covering the whole or a substantial part of the Project or the Building, or, if not required under any such lease, mortgage or deed of trust, then to the extent such insurance is carried by owners of properties comparable to the Project; the cost of all building and cleaning supplies and materials; the cost of all charges for security services, cleaning, maintenance and service contracts and other services with independent contractors, including but not limited to the maintenance, operation and repair of all electrical, plumbing and mechanical systems of the Project and maintenance, repair and replacement of any intra-building cabling network ("ICN"); and the cost of any janitorial, utility or other services to be provided by Landlord.

Notwithstanding the foregoing, the following shall not be included within Operating Expenses: (i) costs of capital improvements, including to the roof and foundation (except any improvements that might be deemed "capital improvements" related to the enhancement or upgrade of the ICN and related equipment) and costs of curing design or construction defects; (ii) depreciation; (iii) interest and principal payments on mortgages and other debt costs and ground lease payments, if any, and any penalties assessed as a result of Landlord's late payments of such amounts; (iv) real estate broker leasing commissions or compensation; (v) any cost or expenditure (or portion thereof) for which Landlord is reimbursed, whether by insurance proceeds or otherwise; (vi) attorneys' fees, costs, disbursements, advertising and marketing and other expenses incurred in connection with the negotiation of leases with prospective tenants of the Building; (vii) rent for space which is not actually used by Landlord in connection with the management and operation of the Building; (viii) all costs or expenses (including fines, penalties and legal fees) incurred due to the violation by Landlord, its employees, agents, contractors or assigns of the terms and conditions of the Lease, or any valid, applicable building code, governmental rule, regulation or law; (ix) except for the referenced management compensation, any overhead or profit increments to any subsidiary or affiliate of Landlord for services on or to the Building, to the extent that the costs of such services exceed competitive costs for such services; (x) the cost of constructing tenant improvements for Tenant or any other tenant of the Building or Project; (xi) Operating Expenses specially charged to and paid by any other tenant of the Building or Project; (xii) the cost of special services, goods or materials provided to any other tenant of the Building or Project (xiii) any cost incurred by Landlord to test, survey, clean up, contain, abate, remove or otherwise remedy any Hazardous Materials not caused or brought into the Building by Tenant or any of Tenant's agents, assigns or invitees (as defined in Section 9.6 herein) which was in violation of applicable laws at time of introduction; (xiv) costs incurred by Landlord to rectify any violation of the Americans with Disabilities Act of 1990 (including amendments) which violation is in effect on the date hereof; (xv) other than specifically with respect to Building operations,

costs relating to maintaining Landlord's existence, either as a corporation, partnership, or other entity such as trustee's fees, annual fees, partnership or organization or administration expenses and deed recordation expenses.

6.4. Determination and Payment of Tax Costs and Operating Expenses.

6.4.1. On or before the last day of each December during the Term of this Lease, Landlord shall furnish to Tenant a written statement showing in reasonable detail Landlord's projected Direct Costs for the succeeding calendar year. If such statement of projected Direct Costs indicates the Direct Costs will be higher than in the Base Year, then the Rent due from Tenant hereunder for the next succeeding year shall be increased by an amount equal to Tenant's Proportionate Share of the difference between the projected Direct Costs for the calendar year and the Base Year. If during the course of the calendar year Landlord determines that actual Direct Costs will vary from its estimate by more than five percent (5%), Landlord may deliver to Tenant a written statement showing Landlord's revised estimate of Direct Costs. On the next payment date for Monthly Installments of Rent following Tenant's receipt of either such statement, Tenant shall pay to Landlord an additional amount equal to such monthly Rent increase adjustment (as set forth on Landlord's statement). Thereafter, the monthly Rent adjustment payments becoming due shall be in the amount set forth in such projected Rent adjustment statement from Landlord. Neither Landlord's failure to deliver nor late delivery of such statement shall constitute a default by Landlord or a waiver of Landlord's right to any Rent adjustment provided for herein.

6.4.2. On or before the first day of each April during the Term of this Lease, Landlord shall furnish to Tenant a written statement of reconciliation (the Reconciliation) showing in reasonable detail Landlord's actual Direct Costs for the prior year, together with a full statement of any adjustments necessary to reconcile any sums paid as estimated Rent adjustments during the prior year with those sums actually payable for such prior year. In the event such Reconciliation shows that additional sums are due from Tenant, Tenant shall pay such sums to Landlord within thirty (30) days of receipt of such Reconciliation. In the event such Reconciliation shows that a credit is due Tenant, such credit shall be credited against the sums next becoming due from Tenant, unless this Lease has expired or been terminated pursuant to the terms hereof (and all sums due Landlord have been paid), in which event such sums shall be refunded to Tenant. Neither Landlord's failure to deliver nor late delivery of such Reconciliation to Tenant by April first shall constitute a default by Landlord or operate as a waiver of Landlord's right to collect all Rent due hereunder.

6.4.3. So long as Tenant is not in default under the terms of the Lease and provided Notice of Tenant's request is given to Landlord within thirty (30) days after Tenant's receipt of the Reconciliation, Tenant may inspect Landlord's Reconciliation accounting records relating to Direct Costs at Landlord's corporate office, during normal business hours, for the purpose of verifying the charges contained in such statement. The audit must be completed within sixty (60) days of Landlord's receipt of Tenant's Notice, unless such period is extended by Landlord (in Landlord's reasonable discretion). Before conducting any audit however, Tenant must pay in full the amount of Direct Costs billed. Tenant may only review those records that specifically relate to Direct Costs. Tenant may not review any other leases or Landlord's tax returns or financial statements. In conducting an audit, Tenant must utilize an independent certified public accountant experienced in auditing records related to commercial property operations. The proposed accountant is subject to Landlord's reasonable prior approval. The audit shall be conducted in accordance with generally accepted rules of auditing practices. Tenant may not conduct an audit more often than once each calendar year. Tenant may audit records relating to a calendar year only one time. No audit shall cover a period of time other than the calendar year from which Landlord's Reconciliation was generated. Upon receipt thereof, Tenant shall deliver to Landlord a copy of the audit report and all accompanying data. Tenant and Tenant's auditor shall keep confidential any agreements involving the rights provided in this section and the results of any audit conducted hereunder. As a condition precedent to Tenant's right to conduct an audit, Tenant's auditor shall sign a confidentiality agreement in a form reasonably acceptable to Landlord. However, Tenant shall be permitted to furnish information to its attorneys, accountants and auditors to the extent necessary to perform their respective services for Tenant. In the event Tenant's audit of Landlord's books and records reveals an error in Landlord's computation of Direct Costs such that Direct Costs for the Building for the year in question were overstated in an amount greater than five percent (5%) Landlord shall promptly reimburse Tenant for the reasonable costs expended by Tenant in performing such audit, excluding travel expenses. If such audit reveals that Landlord has over-charged Tenant, then Landlord shall promptly reimburse to Tenant the amount of such over-charge.

6.5. Definition of Rent. All costs and expenses other than Base Rent, that Tenant assumes or agrees or is obligated to pay to Landlord under this Lease shall be deemed Additional Rent (which, together with the Base Rent, is sometimes referred to as Rent).

6.6. Taxes on Tenant's Use and Occupancy. In addition to the Rent and any other charges to be paid by Tenant hereunder, Tenant shall pay Landlord upon demand for any and all taxes payable by Landlord (other than net income taxes) which are not otherwise reimbursable under this Lease, whether or not now customary or within the contemplation of the parties, where such taxes are upon, measured by or reasonably attributable to (a) the cost or value of Tenant's equipment, furniture, fixtures and other personal property located in the Premises, or the cost or value of any leasehold improvements made in or to the

Premises by or for Tenant, other than Building Standard Tenant Improvements made by Landlord, regardless of whether title to such improvements is held by Tenant or Landlord; (b) the gross or net Rent payable under this Lease, including, without limitation, any rental or gross receipts tax levied by any taxing authority with respect to the receipt of the Rent hereunder; (c) the possession, leasing, operation, management, maintenance, alteration, repair, use or occupancy by Tenant of the Premises or any portion thereof; or (d) this transaction or any document to which Tenant is a party creating or transferring an interest or an estate in the Premises. If it becomes unlawful for Tenant to reimburse Landlord for any costs as required under this Lease, the Base Rent shall be revised to net Landlord the same net Rent after imposition of any tax or other charge upon Landlord as would have been payable to Landlord but for the reimbursement being unlawful.

7. LATE CHARGES.

If Tenant fails to pay when due any Rent or other amounts or charges which Tenant is obligated to pay under the terms of this Lease, then Tenant shall pay Landlord a late charge equal to ten percent (10%) of each such installment if any such installment is not received by Landlord within five (5) days from the date it is due. Tenant acknowledges that the late payment of any Rent will cause Landlord to lose the use of that money and incur costs and expenses not contemplated under this Lease including, without limitation, administrative costs and processing and accounting expenses, the exact amount of which is extremely difficult to ascertain. Landlord and Tenant agree that this late charge represents a reasonable estimate of such costs and expenses and is fair compensation to Landlord for the loss suffered as a result of such late payment by Tenant. However, the late charge is not intended to cover Landlord's attorneys' fees and costs relating to delinquent Rent. Acceptance of any late charge shall not constitute a waiver of Tenant's default with respect to such late payment by nor prevent Landlord from exercising any other rights or remedies available to Landlord under this Lease. Late charges are deemed Additional Rent.

In no event shall this provision for the imposition of a late charge be deemed to grant to Tenant a grace period or an extension of time within which to pay any Rent due hereunder or prevent Landlord from exercising any right or remedy available to Landlord upon Tenant's failure to pay such Rent when due.

8. SECURITY DEPOSIT.

Upon execution of this Lease, Tenant agrees to deposit with Landlord a Security Deposit in the amount set forth in Section 2.16. as security for Tenant's performance of its obligations under this Lease. Landlord and Tenant agree that the Security Deposit may be commingled with funds of Landlord and Landlord shall have no obligation or liability for payment of interest on such deposit. Tenant shall not mortgage, assign, transfer or encumber the Security Deposit without the prior written consent of Landlord and any attempt by Tenant to do so shall be void, without force or effect and shall not be binding upon Landlord.

If Tenant fails to timely pay any Rent or other amount due under this Lease, or fails to perform any of the terms hereof, Landlord may, at its option and without prejudice to any other remedy which Landlord may have, appropriate and apply or use all or any portion of the Security Deposit for Rent payments or any other amount then due and unpaid, for payment of any amount for which Landlord has become obligated as a result of Tenant's default or breach, and for any loss or damage sustained by Landlord as a result of Tenant's default or breach. If Landlord so uses any of the Security Deposit, Tenant shall, within ten (10) business days after written demand therefor, restore the Security Deposit to the full amount originally deposited. Tenant's failure to do so shall constitute an act of default hereunder and Landlord shall have the right to exercise any remedy provided for in Section 19 hereof.

If Tenant defaults under this Lease more than two (2) times during any calendar year, irrespective of whether such default is cured, then, without limiting Landlord's other rights and remedies, Landlord may, in Landlord's sole discretion, modify the amount of the required Security Deposit. Within ten (10) business days after Notice of such modification, Tenant shall submit to Landlord the required additional sums. Tenant's failure to do so shall constitute an act of default, and Landlord shall have the right to exercise any remedy provided for in Section 19 hereof.

If Tenant complies with all of the terms and conditions of this Lease, and Tenant is not in default on any of its obligations hereunder, then upon the earlier of (i) thirty (30) days from the Expiration Date or (ii) within the time period statutorily prescribed after Tenant vacates the Premises, Landlord shall return to Tenant (or, at Landlord's option, to the last subtenant or assignee of Tenant's interest hereunder) the Security Deposit less any expenditures made by Landlord to repair damages to the Premises caused by Tenant and to clean the Premises upon expiration or earlier termination of this Lease.

9. TENANT'S USE OF THE PREMISES.

The provisions of this Section are for the benefit of the Landlord and are not nor shall they be construed to be for the benefit of any tenant of the Building or Project.

9.1. Use. Tenant shall use the Premises solely for the purposes set forth in Section 2.20. No change in the Use of the Premises shall be permitted, except as provided in this Section 9.

9.1.1. If, at any time during the Term hereof, Tenant desires to change the Use of the Premises, including any change in Use associated with a proposed assignment or sublet of the Premises, Tenant shall provide Notice to Landlord of its request for approval of such proposed change in Use. Tenant shall promptly supply Landlord with such information concerning the proposed change in Use as Landlord may reasonably request. Landlord shall have the right to approve such proposed change in Use, which approval shall not be unreasonably withheld. Landlord's consent to any change in Use shall not be construed as a consent to any subsequent change in Use.

9.2. Observance of Law. Tenant shall not use or occupy the Premises or permit anything to be done in or about the Premises in violation of any declarations, covenant, condition or restriction, or law, statute, ordinance or governmental rules, regulations or requirements now in force or which may hereafter be enacted or promulgated. Tenant shall, at its sole cost and expense, upon Notice from Landlord, immediately discontinue any use of the Premises which is declared by any governmental authority having jurisdiction to be a violation of law or of the Certificate of Occupancy. Tenant shall promptly comply, at its sole cost and expense, with all laws, statutes, ordinances and governmental rules, regulations or requirements now in force or which may hereafter be imposed which shall by reason of Tenant's Use or occupancy of the Premises, impose any duty upon Tenant or Landlord with respect to Tenant's Use or occupation. Further, Tenant shall, at Tenant's sole cost and expense, bring the Premises into compliance with all such laws, including the Americans With Disabilities Act of 1990, as amended (ADA), whether or not the necessity for compliance is triggered by Tenant's Use, and Tenant shall make, at its sole cost and expense, any changes to the Premises required to accommodate Tenant's employees with disabilities (any work performed pursuant to this Section shall be subject to the terms of Section 12. hereof). Landlord agrees to construct the Landlord's Work to be performed in the Premises pursuant to Section 12.1 of this Lease (subject to the Allowance), in compliance with all applicable laws, including the ADA. The judgment of any court of competent jurisdiction or the admission by Tenant in any action or proceeding against Tenant, whether Landlord is a party thereto or not, that Tenant has violated any such law, statute, ordinance, or governmental regulation, rule or requirement in the use or occupancy of the Premises, Building or Project shall be conclusive of that fact as between Landlord and Tenant. Landlord, at its sole cost and expense (except to the extent properly included in Operating Expenses), shall be responsible for correcting any violations of the ADA with respect to the Premises and the Common Areas of the Building, provided that Landlord's obligation with respect to the Premises shall be limited to violations that arise out of the Landlord's Work (as defined in Section 37 of the Addendum) to be performed pursuant to Exhibit "D" attached hereto and/or the condition of the Premises prior to the installation of any furniture, equipment and other personal property to Tenant. Notwithstanding the foregoing, Landlord may contest any alleged violations, including, without limitation, the right to apply for and obtain a waiver or deferment of compliance, may assert any and all defenses permitted by law and may appeal any decisions, judgments or rulings as permitted by law.

9.3. Insurance. Tenant shall not do or permit to be done anything which will contravene, invalidate or increase the cost of any insurance policy covering the Building or Project and/or property located therein, and shall comply with all rules, orders, regulations, requirements and recommendations of Landlord's insurance carrier(s) or any board of fire insurance underwriters or other similar body now or hereafter constituted, relating to or affecting the condition, use or occupancy of the Premises, excluding structural changes not related to or affected by Tenant's improvements or acts. Tenant shall promptly upon demand reimburse Landlord for any additional premium charged for violation of this Section.

9.4. Nuisance and Waste. Tenant shall not do or permit anything to be done in or about the Premises which will in any way obstruct or interfere with the rights of other tenants or occupants of the Building or Project, or injure or annoy them, or use or allow the Premises to be used for any improper, unlawful or objectionable purpose. Tenant shall not cause, maintain or permit any nuisance in, on or about the Premises. Tenant shall not commit or suffer to be committed any waste in or upon the Premises.

9.5. Load and Equipment Limits. Tenant shall not place a load upon any floor of the Premises which exceeds the load per square foot which such floor was designed to carry as determined by Landlord or Landlord's structural engineer. The cost of any such determination made by Landlord's structural engineer in connection with Tenant's occupancy shall be paid by Tenant upon Landlord's demand. Tenant shall not install business machines or mechanical equipment which will in any manner cause noise objectionable to or injure other tenants in the Project. Tenant shall have reasonable access to two (2) shared loading docks located on the first (1st) floor of the Premises.

9.6. Hazardous Material. Unless Tenant obtains the prior written consent of Landlord, Tenant shall not create, generate, use, bring, allow, emit, dispose, or permit on the Premises, Building or Project any toxic or hazardous gaseous, liquid, or solid material or waste, or any other hazardous material defined or listed in any applicable federal, state or local law, rule, regulation or ordinance ("Hazardous Material"). If Landlord grants its consent, Tenant shall comply with all applicable laws with respect to such Hazardous Material, including all laws affecting the use, storage and disposal thereof. If the presence of any Hazardous Material brought to the Premises, Building or Project by Tenant or Tenant's employees, agent or contractors results in contamination, Tenant shall promptly take all actions necessary, at Tenant's sole cost and expense, to remediate the contamination and restore the Premises, Building or Project to the condition that existed before introduction of such Hazardous Material. Tenant shall first obtain Landlord's approval of the proposed remedial action and shall keep Landlord informed during the process of remediation.

Tenant shall indemnify, defend and hold Landlord harmless from any claims, liabilities, costs or expenses incurred or suffered by Landlord arising from such bringing, allowing, using, permitting, generating, creating, emitting, or disposing of toxic or Hazardous Material whether or not consent to same has been granted by Landlord. Tenant's duty to defend, hold-harmless and indemnify Landlord hereunder shall survive the expiration or termination of this Lease. The consent requirement contained herein shall not apply to ordinary office products that may contain de minimis quantities of Hazardous Material; however, Tenant's indemnification obligations are not diminished with respect to the presence of such products. Tenant acknowledges that Tenant has an affirmative duty to immediately notify Landlord of any release or suspected release of Hazardous Material in the Premises or on or about the Project.

Landlord represents that, to its actual knowledge and without the requirement of further investigation, any emission, handling, transportation, storage, treatment or usage of hazardous materials that has occurred on the Premises prior to the execution date of the Lease has been substantially in compliance with all applicable federal state, and local laws, regulations and ordinances.

Notwithstanding the foregoing, Landlord shall indemnify Tenant for any damages, costs, liability, etc. to the extent arising from any hazardous materials existing in the Premises as of the date of execution hereof, as well as any hazardous materials introduced onto the Premises by Landlord after the date of execution of the Lease.

Medical waste and any other waste, the removal of which is regulated, shall be contracted for and disposed of by Tenant, at Tenant's expense, in accordance with all applicable laws and regulations. No material shall be placed in Project trash boxes, receptacles or Common Areas if the material is of such a nature that it cannot be disposed of in the ordinary and customary manner of removing and disposing of trash and garbage in the State without being in violation of any law or ordinance.

10. SERVICES AND UTILITIES.

Landlord agrees to furnish services and utilities to the Premises during normal business hours on generally recognized business days subject to the Rules and Regulations of the Building or Project and provided that Tenant is not in default hereunder. Services and utilities shall include reasonable quantities of electricity, heating, ventilation and air conditioning (HVAC) as required in Landlord's reasonable judgment for the comfortable use and occupancy of the Premises; lighting replacement for building standard lights; window washing and janitor services in a manner that such services are customarily furnished to comparable office buildings in the area. Landlord shall supply common area water for drinking, cleaning and restroom purposes only. Tenant, at Tenant's sole cost and expense, shall supply all paper and other products used within the Premises. During normal business hours on generally recognized business days, Landlord shall also maintain and keep lighted the common stairs, common entries and restrooms in the Building and shall furnish elevator service and restroom supplies. Landlord may provide telecommunications lines and systems as discussed in Section 35, hereof. Landlord represents that it previously replaced two (2) of the roof top HVAC units and that Landlord shall replace the two (2) non-dedicated primary rooftop HVAC units within two (2) years of the date of execution of this Lease, at Landlord's sole cost and expense.

If permitted by law, Landlord shall have the right, in Landlord's reasonable discretion, at any time and from time to time during the Term, to contract for the provision of electricity (or any other utility) with, and to switch from, any company providing such utility. Tenant shall cooperate with Landlord and any such utility provider at all times, and, as reasonably necessary, Tenant shall allow such parties access to the electric (or other utility) lines, feeders, risers, wiring and other machinery located within the Premises.

Landlord shall not be in default hereunder or be liable for any damages directly or indirectly resulting from, nor shall Rent be abated by reason of (a) the installation, use or interruption of use of any equipment in connection with the furnishing of any of the foregoing services, or (b) failure to furnish or delay in furnishing any such services where such failure or delay is caused by accident or any condition or event beyond the reasonable control of Landlord, or by the making of necessary repairs or improvements to the Premises, Building or Project, or (c) any change, failure, interruption, disruption or defect in the quantity or character of the electricity (or other utility) supplied to the Premises or Project, or (d) the limitation, curtailment or rationing of, or restrictions on, use of water, electricity, gas or any other form of energy serving the Premises, Building or Project. Landlord shall not be liable under any circumstances for a loss of or injury to property or business, however occurring, through, in connection with or incidental to the failure to furnish any such services. Notwithstanding the foregoing, if the HVAC and electrical services Landlord is required to provide to the Premises hereunder are not provided to the Premises for a period of more than five (5) consecutive days following Landlord's notice from Tenant of the absence of such service(s), and if a materially adverse effect on Tenant's ability to conduct its business in the Premises results from the absence of such service(s), such that Tenant is prevented from using and does not use the Premises or any portion thereof, then all rental under this Lease shall abate starting of the sixth (6th) consecutive day and continuing during the period such service(s) is not provided in proportion to the portion of the Premises that Tenant is prevented from using and does not use and such abatement shall continue until such date and time as such service(s) is re-established.

Tenant shall not, without the prior written consent of Landlord, use any apparatus or device in the Premises, including, without limitation, electronic data processing machines, punch card machines, word processing equipment, personal computers, or machines using in excess of 220 volts, which consumes more electricity than is usually furnished or supplied for the use of desk top office equipment and photocopy equipment ordinarily in use in premises designated as general office space, as determined by Landlord.

Tenant shall not connect any apparatus to electric current except through existing electrical outlets in the Premises.

Notwithstanding anything contained herein to the contrary, if Tenant is granted the right to purchase electricity from a provider other than the company or companies used by Landlord, Tenant shall indemnify, defend, and hold harmless Landlord from and against all losses, claims, demands, expenses and judgments caused by, or directly or indirectly arising from, the acts or omissions of Tenant's electricity provider (including, but not limited to, expenses and/or fines incurred by Landlord in the event Tenant's electricity provider fails to provide sufficient power to the Premises, as well as damages resulting from the improper or faulty installation or construction of facilities or equipment in or on the Premises by Tenant or Tenant's electricity provider.

Tenant acknowledges and agrees that separate metering of utilities is currently furnished to the Premises and accounts for all such separately metered utilities shall be in Tenant's name and paid for by Tenant.

If Tenant uses heat generating machines or equipment in the Premises that affects the temperature otherwise maintained by the HVAC system, Landlord reserves the right to install supplementary air conditioning units in the Premises and the cost thereof, including the cost of installation, operation and maintenance thereof, shall be paid by Tenant to Landlord upon demand therefor.

Tenant shall not dispose of more than five (5) gallons of water from manufacturing operations in any consecutive three (3) hour time period.

11. REPAIRS AND MAINTENANCE.

11.1. Landlord's Obligations. Landlord shall make structural repairs except as specified herein and shall maintain in good order, condition and repair the Building and all other portions of the Premises not the obligation of Tenant or of any other tenant in the Building. If applicable, Landlord shall also maintain in good order, condition and repair the ICN, the cost of which is a reimbursable expense unless responsibility therefor is assigned to a particular tenant.

11.2. Tenant's Obligations.

11.2.1. Tenant shall, at Tenant's sole expense and except for services furnished by Landlord pursuant to Section 10. hereof, maintain the Premises in good order, condition and repair. For the purposes of this Section 11.2.1., the term Premises shall be deemed to include all items and equipment installed by or for the benefit of or at the expense of Tenant, including without limitation the interior surfaces of the ceilings, walls and floors; all doors; all interior and exterior windows; dedicated heating, ventilating and air conditioning equipment; all plumbing, pipes and fixtures; electrical switches and fixtures; internal wiring as it connects to the ICN, if applicable; and Building Standard Tenant Improvements, if any.

11.2.2. Tenant shall be responsible for all repairs and alterations in and to the Premises, Building and Project and the facilities and systems thereof to the satisfaction of Landlord, the need for which arises out of (a) Tenant's use or occupancy of the Premises, (b) the installation, removal, use or operation of Tenant's Property (as defined in Section 13.) in the Premises, (c) the moving of Tenant's Property into or out of the Building, or (d) the act, omission, misuse or negligence of Tenant, its agents, contractors, employees or invitees.

11.2.3. If Tenant fails to maintain the Premises in good order, condition and repair, Landlord shall give Notice to Tenant to do such acts as are reasonably required to so maintain the Premises. If Tenant fails to promptly commence such work and diligently prosecute it to completion, then Landlord shall have the right to do such acts and expend such funds at the expense of Tenant as are reasonably required to perform such work.

11.3. Compliance with Law. Landlord and Tenant shall each do all acts necessary to comply with all applicable laws, statutes, ordinances, and rules of any public authority relating to their respective maintenance obligations as set forth herein. The provisions of Section 9.2. are deemed restated here.

11.4. Notice of Defect. If it is Landlord's obligation to repair, Tenant shall give Landlord prompt Notice, regardless of the nature or cause, of any damage to or defective condition in any part or appurtenance of the Building's mechanical, electrical, plumbing, HVAC or other systems serving, located in, or passing through the Premises.

11.5. Landlord's Liability. Except as otherwise expressly provided in this Lease, Landlord shall have no liability to Tenant nor shall Tenant's obligations under this Lease be reduced or abated in any manner by reason of any inconvenience, annoyance, interruption or injury to business arising from Landlord's making any repairs or changes which Landlord is required or permitted by this Lease or by any other tenant's lease or required by law to make in or to any portion of the Project, Building or Premises. Landlord shall nevertheless use reasonable efforts to minimize any interference with Tenant's conduct of its business in the Premises.

12. CONSTRUCTION, ALTERATIONS AND ADDITIONS.

12.1. Landlord's Construction Obligations. Landlord shall perform Landlord's Work to the Premises as described in Exhibit "D".

12.2. Tenant's Construction Obligations. NONE.

12.3. Tenant's Alterations and Additions. Except as provided in Section 12.2. above, Tenant shall not make any other additions, alterations or improvements to the Premises without obtaining the prior written consent of Landlord. Landlord's consent may be conditioned, without limitation, on Tenant removing any such additions, alterations or improvements upon the expiration of the Term and restoring the Premises to the same condition as on the date Tenant took possession. All of Tenant's Work described in Exhibit "D", as well as any addition, alteration or improvement, shall comply with all applicable laws, ordinances, codes and rules of any public authority (including, but not limited to the ADA) and shall be done in a good and professional manner by properly qualified and licensed personnel approved by Landlord. All work shall be diligently prosecuted to completion. Upon completion, Tenant shall furnish Landlord "as-built" plans. Prior to commencing any such work, Tenant shall furnish Landlord with plans and specifications; names and addresses of contractors; copies of all contracts; copies of all necessary permits; evidence of contractor's and subcontractor's insurance coverage for Builder's Risk at least as broad as Insurance Services Office (ISO) special causes of loss form CP 10 30, Commercial General Liability at least as broad as ISO CG 00 01, workers' compensation, employer's liability and auto liability, all in amounts reasonably satisfactory to Landlord; and indemnification in a form reasonably satisfactory to Landlord. The work shall be performed in a manner that will not interfere with the quiet enjoyment of the other tenants in the Building in which the Premises is located.

Landlord may require, in Landlord's sole discretion and at Tenant's sole cost and expense, that Tenant provide Landlord with a lien and completion bond in an amount equal to at least one and one-half (1-1/2) times the total estimated cost of any additions, alterations or improvements to be made in or to the Premises. Nothing contained in this Section 12.3. shall relieve Tenant of its obligation under Section 12.4. to keep the Premises, Building and Project free of all liens.

12.4. Payment. Tenant shall pay the costs of any work done on the Premises pursuant to Sections 12.2. and 12.3., and shall keep the Premises, Building and Project free and clear of liens of any kind. Tenant hereby indemnifies, and agrees to defend against and keep Landlord free and harmless from all liability, loss, damage, costs, attorneys' fees and any other expense incurred on account of claims by any person performing work or furnishing materials or supplies for Tenant or any person claiming under Tenant.

Tenant shall give Notice to Landlord at least ten (10) business days prior to the expected date of commencement of any work relating to alterations, additions or improvements to the Premises. Landlord retains the right to enter the Premises and post such notices as Landlord deems proper at any reasonable time.

12.5. Property of Landlord. Except as otherwise set forth herein, all additions, alterations and improvements made to the Premises shall become the property of Landlord and shall be surrendered with the Premises upon the expiration of the Term unless their removal is required by Landlord as provided in Section 12.3., provided, however, Tenant's equipment, machinery and trade fixtures shall remain the Property of Tenant and shall be removed, subject to the provisions of Section 12.2.

13. LEASEHOLD IMPROVEMENTS; TENANT'S PROPERTY.

13.1. Leasehold Improvements. All fixtures, equipment (including air-conditioning or heating systems), improvements and appurtenances attached to or built into the Premises at the commencement or during the Term of the Lease (Leasehold Improvements), whether or not by or at the expense of Tenant, shall be and remain a part of the Premises, shall be the property of Landlord and shall not be removed by Tenant, except as expressly provided in Section 12.5 and 13.2. unless Landlord, by Notice to Tenant not later than thirty (30) days prior to the expiration of the Term, elects to have Tenant remove any Leasehold Improvements installed by Tenant. In such case, Tenant, at Tenant's sole cost and expense and prior to the expiration of the Term, shall remove the Leasehold Improvements and repair any damage caused by such removal.

13.2. Tenant's Property. All signs, notices, displays, movable partitions, business and trade fixtures, machinery and equipment (excluding air-conditioning or heating systems, whether installed by Tenant or not), personal telecommunications equipment and office equipment located in the Premises and acquired by or for the account of Tenant, without expense to Landlord, which can be removed without structural damage to the Building, and all furniture, furnishings and other articles of movable personal property owned by Tenant and located in the Premises (collectively, Tenant's Property) shall be and shall remain the property of Tenant and may be removed by Tenant at any time during the Term; provided that if any of Tenant's Property is removed, Tenant shall promptly repair any damage to the Premises or to the Building resulting from such removal, including without limitation repairing the flooring and patching and painting the walls where required by Landlord to Landlord's reasonable satisfaction, all at Tenant's sole cost and expense.

14. INDEMNIFICATION.

14.1. Tenant Indemnification. Tenant shall indemnify and hold Landlord harmless from and against any and all liability and claims of any kind for loss or damage to any person or property arising out of: (a) Tenant's use and occupancy of the Premises, or the Building or Project, or any work, activity or thing done, allowed or suffered by Tenant in, on or about the Premises, the Building or the Project; (b) any breach or default by Tenant of any of Tenant's obligations under this Lease; or (c) any negligent or otherwise tortious act or omission of Tenant, its agents, employees, subtenants, licensees, customers, guests, invitees or contractors (including agents or contractors who perform work outside of the Premises for Tenant). At Landlord's request, Tenant shall, at Tenant's expense, and by counsel satisfactory to Landlord, defend Landlord in any action or proceeding arising from any such claim. Tenant shall indemnify Landlord against all costs, attorneys' fees, expert witness fees and any other expenses or liabilities incurred in such action or proceeding. As a material part of the consideration for Landlord's execution of this Lease, Tenant hereby assumes all risk of damage or injury to any person or property in, on or about the Premises from any cause and Tenant hereby waives all claims in respect thereof against Landlord, except in connection with damage or injury resulting solely from the gross negligence or willful misconduct of Landlord or its authorized agents.

14.2. Landlord Not Liable. Landlord shall not be liable for injury or damage which may be sustained by the person or property of Tenant, its employees, invitees or customers, or any other person in or about the Premises, caused by or resulting from fire, steam, electricity, gas, water or rain which may leak or flow from or into any part of the Premises, or from the breakage, leakage, obstruction or other defects of pipes, sprinklers, wires, appliances, plumbing, air conditioning, lighting fixtures or mechanical or electrical systems, whether such damage or injury results from conditions arising upon the Premises or upon other portions of the Building or Project or from other sources, unless the condition was the sole result of Landlord's gross negligence or willful misconduct. Landlord shall not be liable for any damages arising from any act or omission of any other tenant of the Building or Project or for the acts of persons in, on or about the Premises, Building or the Project who are not the authorized agents of Landlord or for losses due to theft, vandalism or like causes.

Tenant acknowledges that Landlord's election to provide mechanical surveillance or to post security personnel in the Building or on the Project is solely within Landlord's discretion. Landlord shall have no liability in connection with the decision whether or not to provide such services, and, to the extent permitted by law, Tenant hereby waives all claims based thereon.

15. TENANT'S INSURANCE.

15.1. Insurance Requirement. Tenant shall procure and maintain insurance coverage in accordance with the terms hereof, either as specific policies or within blanket policies. Coverage shall begin on the date Tenant is given access to the Premises for any purpose and shall continue until expiration of the Term, except as otherwise set forth in the Lease. The cost of such insurance shall be borne by Tenant.

Insurance shall be with insurers licensed to do business in the State, and acceptable to Landlord. The insurers must have a current A.M. Best's rating of not less than A: VII, or equivalent (as reasonably determined by Landlord) if the Best's rating system is discontinued.

Tenant shall furnish Landlord with original certificates and amendatory endorsements effecting coverage required by this Section 15. before the date Tenant is first given access to the Premises. All certificates and endorsements are to be received and approved by Landlord before any work commences. Landlord reserves the right to inspect and/or copy any insurance policy required to be maintained by Tenant hereunder, or to require complete, certified copies of all required insurance policies, including endorsements effecting the coverage required herein at any time. Tenant shall comply with such requirement within thirty (30) days of demand therefor by Landlord. Tenant shall furnish Landlord with renewal certificates and amendments or a "binder" of any such policy at least twenty (20) days prior to the expiration thereof. Each insurance policy required herein shall be endorsed to state that coverage shall not be canceled, except after thirty (30) days prior written notice to Landlord and Landlord's lender (if such lender's address is provided).

The Commercial General Liability policy, as hereinafter required, shall contain, or be endorsed to contain, the following provisions: (a) Landlord and any parties designated by Landlord shall be covered as additional insureds as their respective interests may appear; and (b) Tenant's insurance coverage shall be primary insurance as to any insurance carried by the parties designated as additional insureds. Any insurance or self-insurance maintained by Landlord shall be excess of Tenant's insurance and shall not contribute with it.

15.2. Minimum Scope of Coverage. Coverage shall be at least as broad as set forth herein. However, if, because of Tenant's Use or occupancy of the Premises, Landlord determines, in Landlord's reasonable judgment, that additional insurance coverage or different types of insurance are necessary, then Tenant shall obtain such insurance at Tenant's expense in accordance with the terms of this Section 15.

15.2.1. Commercial General Liability (ISO occurrence form CG 00 01) which shall cover liability arising from Tenant's Use and occupancy of the Premises, its operations therefrom, Tenant's independent contractors, products-completed operations, personal injury and advertising injury, and liability assumed under an insured contract.

15.2.2. Workers' Compensation insurance as required by law, and Employers Liability insurance.

15.2.3. Commercial Property Insurance (ISO special causes of loss form CP 10 30) against all risk of direct physical loss or damage (including flood, if applicable), earthquake excepted, for: (a) all leasehold improvements (including any alterations, additions or improvements made by Tenant pursuant to the provisions of Section 12. hereof) in, on or about the Premises; and (b) trade fixtures, merchandise and Tenant's Property from time to time in, on or about the Premises. The proceeds of such property insurance shall be used for the repair or replacement of the property so insured. Upon termination of this Lease following a casualty as set forth herein, the proceeds under (a) shall be paid to Landlord, and the proceeds under (b) above shall be paid to Tenant.

15.2.4. Business Auto Liability.

Landlord shall, during the Term hereof, maintain in effect similar insurance on the Building and Common Area.

15.2.5. Business Interruption and Extra Expense Insurance.

15.3. Minimum Limits of Insurance. Tenant shall maintain limits not less than:

15.3.1. Commercial General Liability: $1,000,000 per occurrence. If the insurance contains a general aggregate limit, either the general aggregate limit shall apply separately to this location or the general aggregate limit shall be at least twice the required occurrence limit.

15.3.2. Employer's Liability: $1,000,000 per accident for bodily injury or disease.

15.3.3. Commercial Property Insurance: 100% replacement cost with no coinsurance penalty provision.

15.3.4. Business Auto Liability: $1,000,000 per accident.

15.3.5. Business Interruption and Extra Expense Insurance: In a reasonable amount and comparable to amounts carried by comparable tenants in comparable projects.

15.4. Deductible and Self-Insured Retention. Any deductible or self-insured retention in excess of $25,000 per occurrence must be declared to and approved by Landlord. At the option of Landlord, either the insurer shall reduce or eliminate such deductible or self-insured retention or Tenant shall provide separate insurance conforming to this requirement.

15.5. Increases in Insurance Policy Limits. If the coverage limits set forth in this Section 15. are deemed inadequate by Landlord or Landlord's lender, then Tenant shall increase the coverage limits to the amounts reasonably recommended by either Landlord or Landlord's lender. Landlord agrees that any such required increases in coverage limits shall not occur more frequently than once every three (3) years.

15.6. Waiver of Subrogation. Landlord and Tenant each hereby waive all rights of recovery against the other and against the officers, employees, agents and representatives, contractors and invitees of the other, on account of loss by or damage to the waiving party or its property or the property of others under its control, to the extent that such loss or damage is insured against under any insurance policy which may have been in force at the time of such loss or damage.

15.7. Landlord's Right to Obtain Insurance for Tenant. If Tenant is in default for failing to obtain the insurance coverage or provide certificates and endorsements as required by this Lease, Landlord may, at its option, obtain such insurance for Tenant. Tenant shall pay, as Additional Rent, the reasonable cost thereof together with a twenty-five percent (25%) service charge.

16. DAMAGE OR DESTRUCTION.

16.1. Damage. If, during the Term of this Lease, the Premises or the portion of the Building necessary for Tenant's occupancy is damaged by fire or other casualty covered by fire and extended coverage insurance carried by Landlord, Landlord shall promptly repair the damage provided (a) such repairs can, in Landlord's opinion, be completed, under applicable laws and regulations, within one hundred eighty (180) days of the date a permit for such construction is issued by the governing authority, (b) insurance proceeds are available to pay eighty percent (80%) or more of the cost of restoration, and (c) Tenant performs its obligations pursuant to Section 16.4, hereof. In such event, this Lease shall continue in full force and effect, except that if such damage is not the result of the negligence or willful misconduct of Tenant, its agents or employees, Tenant shall be entitled to a proportionate reduction of Rent to the extent Tenant's use of the Premises is impaired, commencing with the date of damage and continuing until completion of the repairs required of Landlord under Section 16.4. If the damage is due to the fault or neglect of Tenant, its agents or employees and loss of rental income insurance is denied as a result, there shall be no abatement of Rent.

Notwithstanding anything contained in the Lease to the contrary, in the event of partial or total damage or destruction of the Premises during the last twelve (12) months of the Term, either party shall

have the option to terminate this Lease upon thirty (30) days prior Notice to the other party provided such Notice is served within thirty (30) days after the damage or destruction. For purposes of this Section 16.1., "partial damage or destruction" shall mean the damage or destruction of at least thirty-three and one-third percent (33 and 1/3%) of the Premises, as determined by Landlord in Landlord's reasonable discretion.

16.2. Repair of Premises in Excess of One Hundred Eighty Days. If in Landlord's opinion, such repairs to the Premises or portion of the Building necessary for Tenant's occupancy cannot be completed under applicable laws and regulations within one hundred eighty (180) days of the date a permit for such construction is issued by the governing authority, Landlord may elect, upon Notice to Tenant given within thirty (30) days after the date of such fire or other casualty, to repair such damage, in which event this Lease shall continue in full force and effect, but Rent shall be partially abated as provided in this Section 1. If Landlord does not so elect to make such repairs, this Lease shall terminate as of the date of such fire or other casualty.

16.3. Repair Outside Premises. If any other portion of the Building or Project is totally destroyed or damaged to the extent that in Landlord's opinion repair thereof cannot be completed under applicable laws and regulations within one hundred eighty (180) days of the date a permit for such construction is issued by the governing authority, Landlord may elect upon Notice to Tenant given within thirty (30) days after the date of such fire or other casualty, to repair such damage, in which event this Lease shall continue in full force and effect, but Rent shall be partially abated as provided in this Section 16. If Landlord does not elect to make such repairs, this Lease shall terminate as of the date of such fire or other casualty.

16.4. Tenant Repair. If the Premises are to be repaired under this Section 16., Landlord shall repair at its cost any injury or damage to the Building and Building Standard Tenant Improvements, if any. Notwithstanding anything contained herein to the contrary, Landlord shall not be obligated to perform work other than Landlord's Work performed previously pursuant to Section 12.1. hereof. Tenant shall be responsible at its sole cost and expense for the repair, restoration and replacement of any other Leasehold Improvements and Tenant's Property (as well as reconstructing and reconnecting Tenant's internal telecommunications wiring and related equipment). Landlord shall not be liable for any loss of business, inconvenience or annoyance arising from any repair or restoration of any portion of the Premises, Building or Project as a result of any damage from fire or other casualty.

16.5. Election Not to Perform Landlord's Work. Notwithstanding anything to the contrary contained herein, Landlord shall provide Notice to Tenant of its intent to repair or replace the Premises (if Landlord elects to perform such work), and, within ten (10) days of its receipt of such Notice, Tenant shall provide Notice to Landlord of its intent to reoccupy the Premises. Should Tenant fail to provide such Notice to Landlord, then such failure shall be deemed an election by Tenant not to re-occupy the Premises and Landlord may elect not to perform the repair or replacement of the Premises. Such election shall not result in a termination of this Lease and all obligations of Tenant hereunder shall remain in full force and effect, including the obligation to pay Rent.

16.6. Express Agreement. This Lease shall be considered an express agreement governing any case of damage to or destruction of the Premises, Building or Project by fire or other casualty, and any present or future law which purports to govern the rights of Landlord and Tenant in such circumstances in the absence of an express agreement shall have no application.

17. EMINENT DOMAIN.

17.1. Whole Taking. If the whole of the Building or Premises is lawfully taken by condemnation or in any other manner for any public or quasi-public purpose, this Lease shall terminate as of the date of such taking, and Rent shall be prorated to such date.

17.2. Partial Taking. If less than the whole of the Building or Premises is so taken, this Lease shall be unaffected by such taking, provided that (a) Tenant shall have the right to terminate this Lease by Notice to Landlord given within ninety (90) days after the date of such taking if twenty percent (20%) or more of the Premises is taken and the remaining area of the Premises is not reasonably sufficient for Tenant to continue operation of its business, and (b) Landlord shall have the right to terminate this Lease by Notice to Tenant given within ninety (90) days after the date of such taking. If either Landlord or Tenant so elects to terminate this Lease, the Lease shall terminate on the thirtieth (30th) calendar day after either such Notice. Rent shall be prorated to the date of termination. If this Lease continues in force upon such partial taking, Base Rent and Tenant's Proportionate Share shall be equitably adjusted.

17.3. Proceeds. In the event of any taking, partial or whole, all of the proceeds of any award, judgment or settlement payable by the condemning authority shall be the exclusive property of Landlord, and Tenant hereby assigns to Landlord all of its right, title and interest in any award, judgment or settlement from the condemning authority; however, Tenant shall have the right, to the extent that Landlord's award is not reduced or prejudiced, to claim from the condemning authority (but not from Landlord) such compensation as may be recoverable by Tenant in its own right for relocation expenses and damage to Tenant's Property and damage to Leasehold Improvements installed at the sole expense of Tenant.

17.4. Landlord's Restoration. In the event of a partial taking of the Premises which does not result in a termination of this Lease, Landlord shall restore the remaining portion of the Premises as nearly as practicable to its condition prior to the condemnation or taking; provided however, Landlord shall not be

obligated to perform work other than Landlord's Work performed previously pursuant to Section 12.1. hereof. Tenant shall be responsible at its sole cost and expense for the repair, restoration and replacement of Tenant's Property and any other Leasehold Improvements.

18. ASSIGNMENT AND SUBLETTING.

No assignment of this Lease or sublease of all or any part of the Premises shall be permitted, except as provided in this Section 18.

18.1. No Assignment or Subletting. Tenant shall not, without the prior written consent of Landlord, assign or hypothecate this Lease or any interest herein or sublet the Premises or any part thereof, or permit the use of the Premises or any part thereof by any party other than Tenant. Any of the foregoing acts without such consent shall be voidable and shall, at the option of Landlord, constitute a default hereunder. This Lease shall not, nor shall any interest of Tenant herein, be assignable by operation of law without the prior written consent of Landlord.

18.1.1. For purposes of this Section 18., the following shall be deemed an assignment:

18.1.1.1. If Tenant is a partnership, any withdrawal or substitution (whether voluntary, involuntary, or by operation of law, and whether occurring at one time or over a period of time) of any partner(s) owning twenty-five (25%) or more (cumulatively) of any interest in the capital or profits of the partnership, or the dissolution of the partnership;

18.1.1.2. If Tenant is a corporation, any dissolution, merger, consolidation, or other reorganization of Tenant, any sale or transfer (or cumulative sales or transfers) of the capital stock of Tenant in excess of twenty-five percent (25%), or any sale (or cumulative sales) or transfer of fifty-one (51%) or more of the value of the assets of Tenant provided, however, the foregoing shall not apply to corporations the capital stock of which is publicly traded. Notwithstanding the foregoing, so long as Tenant's Use does not change. Tenant shall have the right to assign the Lease without Landlord's consent to: i) Tenant's wholly-owned subsidiary; ii) Tenant's parent corporation, or subsidiary of parent corporation: iii) the surviving entity if Tenant merges or consolidates (it being agreed that such merger or consolidation shall be permitted subject to the provisions of this clause (iii)), provided that the surviving entity has a net worth at least equal to that of Tenant prior to such merger or consolidation: iv) in the event of a public offering of Tenant's shares on a major national stock exchange, or (v) in the event of a sale of substantially all assets of the Tenant. In the event of such an assignment. Tenant shall provide Landlord prior written notice of the assignment, which notice shall include the identity of the assignee, the anticipated date of the assignment and the forwarding address of the assignor, if applicable. Nothing contained herein shall relieve Tenant (or the assignor, as the case may be) of its obligations under the Lease.

18.2. Landlord's Consent. If, at any time or from time to time during the Term hereof, Tenant desires to assign this Lease or sublet all or any part of the Premises, and if Tenant is not then in default under the terms of the Lease, Tenant shall submit to Landlord a written request for approval setting forth the terms and provisions of the proposed assignment or sublease, the identity of the proposed assignee or subtenant, and a copy of the proposed form of assignment or sublease. Tenant's request for consent shall be submitted to Landlord at least thirty (30) days prior to the intended date of such transfer. Tenant shall promptly supply Landlord with such information concerning the business background and financial condition of such proposed assignee or subtenant as Landlord may reasonably request. Landlord shall have the right to approve such proposed assignee or subtenant, which approval shall not be unreasonably withheld. In no event however, shall Landlord be required to consent to any assignment or sublease (a) to an existing tenant in the Project or (b) that may violate any restrictions contained in any mortgage, lease or agreement affecting the Project. Landlord's consent to any assignment shall not be construed as a consent to any subsequent assignment, subletting, transfer of partnership interest or stock, occupancy or use.

18.2.1. Landlord's approval shall be conditioned, among other things, on Landlord's receiving adequate assurances of future performance under this Lease and any sublease or assignment. In determining the adequacy of such assurances, Landlord may base its decision on such factors as it deems appropriate, including but not limited to:

18.2.1.1. that the source of rent and other consideration due under this Lease, and, in the case of assignment, that the financial condition and operating performance and business experience of the proposed assignee and its guarantors, if any, shall be equal to or greater than the financial condition and operating performance and experience of Tenant and its guarantors, if any, as of the time Tenant became the lessee under this Lease;

18.2.1.2. that any assumption or assignment of this Lease will not result in increased cost or expense, wear and tear, greater traffic or demand for services and

utilities provided by Landlord pursuant to Section 10. hereof and will not disturb or be detrimental to other tenants of Landlord;

18.2.1.3. whether the proposed assignee's use of the Premises will include the use of Hazardous Material, or will in any way increase any risk to Landlord relating to Hazardous Material; and

18.2.1.4.

18.2.2. The assignment or sublease shall be on the same terms and conditions set forth in the written request for approval given to Landlord, or, if different, upon terms and conditions consented to by Landlord;

18.2.3. No assignment or sublease shall be valid and no assignee or sublessee shall take possession of the Premises or any part thereof until an executed counterpart of such assignment or sublease has been delivered to Landlord;

18.2.4. No assignee or sublessee shall have a further right to assign or sublet except on the terms herein contained;

18.2.5. Any sums or other economic considerations received by Tenant as a result of such assignment or subletting, however denominated under the assignment or sublease, which exceed, in the aggregate (a) the total sums which Tenant is obligated to pay Landlord under this Lease (prorated to reflect obligations allocable to any portion of the Premises subleased), plus (b) any real estate brokerage commissions or fees payable to third parties in connection with such assignment or subletting, shall be shared equally by Tenant and Landlord as Additional Rent under this Lease without effecting or reducing any other obligations of Tenant hereunder.

If Landlord consents to the proposed transfer, Tenant shall deliver to Landlord three (3) fully executed original documents (in the form previously approved by Landlord) and Landlord shall attach its consent thereto. Landlord shall retain one (1) fully executed original document. No transfer of Tenant's interest in this Lease shall be deemed effective until the terms and conditions of this Section 18. have been fulfilled.

18.3. Tenant Remains Responsible. No subletting or assignment shall release Tenant of Tenant's obligations under this Lease or alter the primary liability of Tenant to pay the Rent and to perform all other obligations to be performed by Tenant hereunder. The acceptance of Rent by Landlord from any other person shall not be deemed to be a waiver by Landlord of any provision hereof. Consent to one assignment or subletting shall not be deemed consent to any subsequent assignment or subletting. In the event of default by an assignee or subtenant of Tenant or any successor of Tenant in the performance of any of the terms hereof, Landlord may proceed directly against Tenant without the necessity of exhausting remedies against such assignee, subtenant or successor. Landlord may consent to subsequent assignments or sublets of the Lease or amendments or modifications to the Lease with assignees of Tenant, without notifying Tenant, or any successor of Tenant, and without obtaining its or their consent thereto and any such actions shall not relieve Tenant of liability under this Lease.

18.4. Conversion to a Limited Liability Entity. Notwithstanding anything contained herein to the contrary, if Tenant is a limited or general partnership (or is comprised of two (2) or more persons, individually or as co-partners, or entities), the change or conversion of Tenant to (a) a limited liability company, (b) a limited liability partnership, or (c) any other entity which possesses the characteristics of limited liability (any such limited liability entity is collectively referred to herein as a "Successor Entity") shall be prohibited unless the prior written consent of Landlord is obtained, which consent may be withheld in Landlord's sole discretion.

18.4.1. Notwithstanding the preceding paragraph, Landlord agrees not to unreasonably withhold or delay such consent provided that:

18.4.1.1. The Successor Entity succeeds to all or substantially all of Tenant's business and assets;

18.4.1.2. The Successor Entity shall have a tangible net worth (Tangible Net Worth), determined in accordance with generally accepted accounting principles, consistently applied, of not less than the greater of the Tangible Net Worth of Tenant on (a) the date of execution of the Lease, or (b) the day immediately preceding the proposed effective date of such conversion; and

18.4.1.3. Tenant is not in default of any of the terms, covenants, or conditions of this Lease on the propose effective date of such conversion.

18.5. Payment of Fees. If Tenant assigns the Lease or sublets the Premises or requests the consent of Landlord to any assignment, subletting or conversion to a limited liability entity, then Tenant shall, upon demand, pay Landlord, whether or not consent is ultimately given, an administrative fee not to exceed Three Hundred and 00/100 Dollars ($300.00) so long as Tenant does not request changes to the Lease or Landlord's standard form of consent.

19. DEFAULT.

19.1. Tenant's Default. The occurrence of any one or more of the following events shall constitute a default and breach of this Lease by Tenant.

19.1.1. If Tenant abandons the Premises or vacates the Premises for three (3) consecutive months.

19.1.2. If Tenant fails to pay any Rent or Additional Rent or any other charges required to be paid by Tenant under this Lease and such failure continues for three (3) days after receipt of Notice thereof from Landlord to Tenant.

19.1.3. If Tenant fails to promptly and fully perform any other covenant, condition or agreement contained in this Lease and such failure continues for thirty (30) days after Notice thereof from Landlord to Tenant, or, if such default cannot reasonably be cured within thirty (30) days, if Tenant fails to commence to cure within that thirty (30) day period and diligently prosecute to completion.

19.1.4. Tenant's failure to occupy the Premises within sixty (60) days after delivery of possession (as defined in Section 4. hereof).

19.1.5. Tenant's failure to provide any document, instrument or assurance as required by Sections 12., 15., 18. and/or 35. if the failure continues for seven (7) days after receipt of Notice from Landlord to Tenant.

19.1.6. To the extent provided by law:

19.1.6.1. If a writ of attachment or execution is levied on this Lease or on substantially all of Tenant's Property; or

19.1.6.2. If Tenant or Tenant's Guarantor makes a general assignment for the benefit of creditors; or

19.1.6.3. If Tenant files a voluntary petition for relief or if a petition against Tenant in a proceeding under the federal bankruptcy laws or other insolvency laws is filed and not withdrawn or dismissed within ninety (90) days thereafter, or if under the provisions of any law providing for reorganization or winding up of corporations, any court of competent jurisdiction assumes jurisdiction, custody or control of Tenant or any substantial part of its property and such jurisdiction, custody or control remains in force unrelinquished, unstayed or unterminated for a period of ninety (90) days; or

19.1.6.4. If in any proceeding or action in which Tenant is a party, a trustee, receiver, agent or custodian is appointed to take charge of the Premises or Tenant's Property (or has the authority to do so); or

19.1.6.5. If Tenant is a partnership or consists of more than one (1) person or entity, if any partner of the partnership or other person or entity is involved in any of the acts or events described in Sections 19.1.6.1. through above.

19.2. Landlord Remedies. In the event of Tenant's default hereunder, then, in addition to any other rights or remedies Landlord may have under any law or at equity, Landlord shall have the right to collect interest on all past due sums (at the maximum rate permitted by law to be charged by an individual), and, at Landlord's option and without further notice or demand of any kind, to do the following:

19.2.1. Terminate this Lease and Tenant's right to possession of the Premises and reenter the Premises and take possession thereof, and Tenant shall have no further claim to the Premises or under this Lease; or

19.2.2. Continue this Lease in effect, reenter and occupy the Premises for the account of Tenant, and collect any unpaid Rent or other charges which have or thereafter become due and payable; or

19.2.3. Reenter the Premises under the provisions of Section 19.2.2., and thereafter elect to terminate this Lease and Tenant's right to possession of the Premises.

If Landlord reenters the Premises under the provisions of Sections 19.2.2. or 19.2.3. above, Landlord shall not be deemed to have terminated this Lease or the obligation of Tenant to pay any Rent or other charges thereafter accruing unless Landlord notifies Tenant in writing of Landlord's election to terminate this Lease. Acts of maintenance, efforts to relet the Premises or the appointment of a receiver on Landlord's initiative to protect Landlord's interest under this Lease shall not constitute a termination of Tenant's obligations under the Lease. In the event of any reentry or retaking of possession by Landlord, Landlord shall have the right, but not the obligation, to remove all or any part of Tenant's Property in the Premises and to place such property in storage at a public warehouse at the expense and risk of Tenant. If Landlord elects to relet

the Premises for the account of Tenant, the rent received by Landlord from such reletting shall be applied as follows: first, to the payment of any indebtedness other than Rent due hereunder from Tenant to Landlord; second, to the payment of any costs of such reletting; third, to the payment of the cost of any alterations or repairs to the Premises; fourth to the payment of Rent due and unpaid hereunder; and the balance, if any, shall be held by Landlord and applied in payment of future Rent as it becomes due. If that portion of Rent received from the reletting which is applied against the Rent due hereunder is less than the amount of the Rent due, Tenant shall pay the deficiency to Landlord promptly upon demand by Landlord. Such deficiency shall be calculated and paid monthly. Tenant shall also pay to Landlord, as soon as determined, any costs and expenses incurred by Landlord in connection with such reletting or in making alterations and repairs to the Premises which are not covered by the rent received from the reletting. Provided, however, (i) Landlord shall be obligated to use reasonable efforts to mitigate all damages due to Landlord as a result of any event of default and (ii) any and all of Landlord's remedies described herein below resulting from any event of default shall be exercised only in accordance with, and to the extent permitted by applicable law.

19.3. Damages Recoverable. Should Landlord elect to terminate this Lease under the provisions of Section 19.2., Landlord may recover as damages from Tenant the following:

19.3.1. Past Rent. The worth at the time of the award of any unpaid Rent that had been earned at the time of termination including the value of any Rent that was abated during the Term of the Lease (except Rent that was abated as a result of damage or destruction or condemnation); plus

19.3.2. Rent Prior to Award. The worth at the time of the award of the amount by which the unpaid Rent that would have been earned between the time of the termination and the time of the award exceeds the amount of unpaid Rent that Tenant proves could reasonably have been avoided; plus

19.3.3. Rent After Award. The worth at the time of the award of the amount by which the unpaid Rent for the balance of the Term after the time of award exceeds the amount of the unpaid Rent that Tenant proves could be reasonably avoided; plus

19.3.4. Proximately Caused Damages. Any other amount necessary to compensate Landlord for all detriment proximately caused by Tenant's failure to perform its obligations under this Lease or which in the ordinary course of things would be likely to result therefrom, including, but not limited to, any costs or expenses (including attorneys' fees), incurred by Landlord in (a) retaking possession of the Premises, (b) maintaining the Premises after Tenant's default, (c) preparing the Premises for reletting to a new tenant, including any repairs or alterations, and (d) reletting the Premises, including brokers' commissions.

"The worth at the time of the award" as used in Sections 19.3.1. and 19.3.2. above, is to be computed by allowing interest at the maximum rate permitted by law to be charged by an individual. "The worth at the time of the award" as used in Section 19.3.3. above, is to be computed by discounting the amount at the discount rate of the Federal Reserve Bank situated nearest to the Premises at the time of the award plus one percent (1%).

19.4. Landlord's Right to Cure Tenant's Default. If Tenant defaults in the performance of any of its obligations under this Lease and Tenant has not timely cured the default after Notice, Landlord may (but shall not be obligated to), without waiving such default, perform the same for the account and at the expense of Tenant. Tenant shall pay Landlord all costs of such performance immediately upon written demand therefor, and if paid at a later date these costs shall bear interest at the maximum rate permitted by law to be charged by an individual.

19.5. Landlord's Default. If Landlord fails to perform any covenant, condition or agreement contained in this Lease within thirty (30) days after receipt of Notice from Tenant specifying such default, or, if such default cannot reasonably be cured within thirty (30) days if Landlord fails to commence to cure within that thirty (30) day period and diligently prosecute to completion, then Landlord shall be liable to Tenant for any damages sustained by Tenant as a result of Landlord's breach; provided, however, it is expressly understood and agreed that if Tenant obtains a money judgment against Landlord resulting from any default or other claim arising under this Lease, that judgment shall be satisfied only out of the rents, issues, profits, and other income actually received on account of Landlord's right, title and interest in the Premises, Building or Project, and no other real, personal or mixed property of Landlord (or of any of the partners which comprise Landlord, if any), wherever situated, shall be subject to levy to satisfy such judgment.

19.6. Mortgagee Protection. Tenant agrees to send by certified or registered mail to any first mortgagee or first deed of trust beneficiary of Landlord whose address has been furnished to Tenant, a copy of any notice of default served by Tenant on Landlord. If Landlord fails to cure such default within the time provided for in this Lease, then such mortgagee or beneficiary shall have such additional time to cure the default as is reasonably necessary under the circumstances.

19.7. Tenant's Right to Cure Landlord's Default. If, after Notice to Landlord of default, Landlord (or any first mortgagee or first deed of trust beneficiary of Landlord) fails to cure the default as provided herein, then Tenant shall have the right to cure that default at Landlord's expense. Tenant shall not have the right to terminate this Lease or to withhold, reduce or offset any amount against any payments of

Rent or any other charges due and payable under this Lease except as otherwise specifically provided herein. Tenant expressly waives the benefits of any statute now or hereafter in effect which would otherwise afford Tenant the right to make repairs at Landlord's expense or to terminate this Lease because of Landlord's failure to keep the Premises in good order, condition and repair.

20. WAIVER.

No delay or omission in the exercise of any right or remedy of Landlord upon any default by Tenant shall impair such right or remedy or be construed as a waiver of such default. The receipt and acceptance by Landlord of delinquent Rent shall not constitute a waiver of any other default: it shall constitute only a waiver of timely payment for the particular Rent payment involved (excluding the collection of a late charge or interest).

No act or conduct of Landlord, including, without limitation, the acceptance of keys to the Premises, shall constitute an acceptance of the surrender of the Premises by Tenant before the expiration of the Term. Only written acknowledgement from Landlord to Tenant shall constitute acceptance of the surrender of the Premises and accomplish a termination of this Lease.

Landlord's consent to or approval of any act by Tenant requiring Landlord's consent or approval shall not be deemed to waive or render unnecessary Landlord's consent to or approval of any subsequent act by Tenant.

Any waiver by Landlord of any default must be in writing and shall not be a waiver of any other default concerning the same or any other provision of this Lease.

21. SUBORDINATION AND ATTORNMENT.

This Lease is and shall be subject and subordinate to all ground or underlying leases (including renewals, extensions, modifications, consolidations and replacements thereof) which now exist or may hereafter be executed affecting the Building or the land upon which the Building is situated, or both, and to the lien of any mortgages or deeds of trust in any amount or amounts whatsoever (including renewals, extensions, modifications, consolidations and replacements thereof) now or hereafter placed on or against the Building or on or against Landlord's interest or estate therein, or on or against any ground or underlying lease, without the necessity of the execution and delivery of any further instruments on the part of Tenant to effectuate such subordination. Nevertheless, Tenant covenants and agrees to execute and deliver upon demand, without charge therefor, such further instruments evidencing such subordination of this Lease to such ground or underlying leases, and to the lien of any such mortgages or deeds of trust as may be required by Landlord.

Notwithstanding anything contained herein to the contrary, if any mortgagee, trustee or ground lessor shall elect that this Lease is senior to the lien of its mortgage, deed of trust or ground lease, and shall give written notice thereof to Tenant, this Lease shall be deemed prior to such mortgage, deed of trust or ground lease, whether this Lease is dated prior or subsequent to the date of said mortgage, deed of trust, or ground lease, or the date of the recording thereof.

In the event of any foreclosure sale, transfer in lieu of foreclosure or termination of the lease in which Landlord is lessee, Tenant shall attorn to the purchaser, transferee or lessor as the case may be, and recognize that party as Landlord under this Lease, provided such party acquires and accepts the Premises subject to this lease. Upon written request of Tenant as a condition precedent to the future subordination of this Lease to a future mortgage. Landlord shall use reasonable efforts to secure, at no cost to Landlord, a subordination, nondisturbance and attornment agreement, in form and substance reasonably acceptable to Tenant, to Landlord and to the lender, from any future lender on the Building.

22. TENANT ESTOPPEL CERTIFICATES.

22.1. Landlord Request for Estoppel Certificate. Within ten (10) days after receipt of a written request from Landlord, Tenant shall execute and deliver to Landlord or Landlord's designee, in the form requested by Landlord, a written statement certifying, among other things, (a) that this Lease is unmodified and in full force and effect, or that it is in full force and effect as modified and stating the modifications; (b) the amount of Base Rent and the date to which Base Rent and Additional Rent have been paid in advance; (c) the amount of any security deposited with Landlord; and (d) that Landlord is not in default hereunder or, if Landlord is claimed to be in default, stating the nature of any claimed default. Any such statement may be conclusively relied upon by a prospective purchaser, assignee or encumbrancer of the Premises.

22.2. Failure to Execute. Tenant's failure to execute and deliver such statement within the reasonable time required shall at Landlord's election be a default under this Lease and shall also be conclusive upon Tenant that: (a) this Lease is in full force and effect and has not been modified except as represented by Landlord; (b) there are no uncured defaults in Landlord's performance and that Tenant has no right of offset, counter-claim or deduction against Rent and (c) not more than one month's Rent has been paid in advance.

23. NOTICE.

Notice shall be in writing and shall be deemed duly served or given if personally delivered, sent by certified or registered U.S. Mail, postage prepaid with a return receipt requested, or sent by overnight courier service, fee prepaid with a return receipt requested, as follows: (a) if to Landlord, to Landlord's Address for

Notice with a copy to the Building manager, and (b) if to Tenant, to Tenant's Mailing Address; provided, however, Notices to Tenant shall be deemed duly served or given if delivered or sent to Tenant at the Premises. Landlord and Tenant may from time to time by Notice to the other designate another place for receipt of future Notice. Notwithstanding anything contained herein to the contrary, when an applicable State statute requires service of Notice in a particular manner, service of that Notice in accordance with those particular requirements shall replace rather than supplement any Notice requirement set forth in the Lease.

24. TRANSFER OF LANDLORD'S INTEREST.

In the event of any sale or transfer by Landlord of the Premises, Building or Project, and assignment of this Lease by Landlord, Landlord shall be and is hereby entirely freed and relieved of any and all liability and obligations contained in or derived from this Lease arising out of any act, occurrence or omission relating to the Premises, Building, Project or Lease occurring after the consummation of such sale or transfer, provided the purchaser shall expressly assume all of the covenants and obligations of Landlord under this Lease. This Lease shall not be affected by any such sale and Tenant agrees to attorn to the purchaser or assignee provided all of Landlord's obligations hereunder are assumed by such transferee. If any security deposit or prepaid Rent has been paid by Tenant, Landlord shall transfer the security deposit or prepaid Rent to Landlord's successor and upon such transfer, Landlord shall be relieved of any and all further liability with respect thereto.

25. SURRENDER OF PREMISES.

25.1. Clean and Same Condition. Upon the Expiration Date or earlier termination of this Lease, Tenant shall peaceably surrender the Premises to Landlord clean and in the same condition as when received, except for (a) reasonable wear and tear, (b) loss by fire or other casualty, and (c) loss by condemnation. Tenant shall remove Tenant's Property no later than the Expiration Date. If Tenant is required by Landlord to remove any additions, alterations, or improvements under Section 12.3., Tenant shall complete such removal no later than the Expiration Date. Any damage to the Premises, including any structural damage, resulting from removal of any addition, alteration, or improvement made pursuant to Section 12.3. and/or from Tenant's use or from the removal of Tenant's Property pursuant to Section 13.2. shall be repaired (in accordance with Landlord's reasonable direction) no later than the Expiration Date by Tenant at Tenant's sole cost and expense. On the Expiration Date, Tenant shall surrender all keys to the Premises.

25.2. Failure to Deliver Possession. If Tenants fails to vacate and deliver possession of the Premises to Landlord on the expiration or sooner termination of this Lease as required by Section 12.3., Tenant shall indemnify, defend and hold Landlord harmless from all claims, liabilities and damages resulting from Tenant's failure to vacate and deliver possession of the Premises, including, without limitation, claims made by a succeeding tenant resulting from Tenant's failure to vacate and deliver possession of the Premises and rental loss which Landlord suffers.

25.3. Property Abandoned. If Tenant abandons or surrenders the Premises, or is dispossessed by process of law or otherwise, any of Tenant's Property left on the Premises shall be deemed to be abandoned, and, at Landlord's option, title shall pass to Landlord under this Lease as by a bill of sale. If Landlord elects to remove all or any part of such Tenant's Property, the cost of removal, including repairing any damage to the Premises or Building caused by such removal, shall be paid by Tenant.

26. HOLDING OVER.

Tenant shall not occupy the Premises after the Expiration Date without Landlord's consent. If after expiration of the Term, Tenant remains in possession of the Premises with Landlord's permission (express or implied), Tenant shall become a tenant from month to month only upon all the provisions of this Lease (except as to the term and Base Rent). Monthly Installments of Base Rent payable by Tenant during this period shall be increased one hundred fifty percent (150%) of the Monthly Installments of Base Rent payable by Tenant in the final month of the Term. The tenancy may be terminated by either party, effective on the last day of a calendar month, by delivering a Notice to the other party at least thirty (30) days prior thereto. Nothing contained in this Section 26. shall be construed to limit or constitute a waiver of any other rights or remedies available to Landlord pursuant to this Lease or at law.

27. RULES AND REGULATIONS.

Tenant agrees to comply with (and cause its agents, contractors, employees and invitees to comply with) the rules and regulations attached hereto as Exhibit "E" and with such reasonable modifications thereof and additions thereto as Landlord may from time to time make. Landlord agrees to enforce the rules and regulations uniformly against all tenants of the Project. Landlord shall not be liable, however, for any violation of said rules and regulations by other tenants or occupants of the Building or Project.

28. CERTAIN RIGHTS RESERVED BY LANDLORD.

Landlord reserves the following rights, exercisable without (a) liability to Tenant for damage or injury to property, person or business; (b) being found to have caused an actual or constructive eviction from the Premises; or (c) being found to have disturbed Tenant's use or possession of the Premises.

28.1. Name. To name the Building and Project and to change the name or street address of the Building or Project.

28.2. Signage. To install and maintain all signs on the exterior and interior of the Building and Project.

28.3. Access. To have pass keys to the Premises and all doors within the Premises, excluding Tenant's files, vaults and safes. Tenant shall have access to the Building and the Premises twenty-four (24) hours per day, seven (7) days per week, fifty-two (52) weeks per year, subject to any of Landlord's reasonable security procedures.

28.4. Physical Changes. To stripe or re-stripe, re-surface, enlarge, change the grade or drainage of and control access to the parking lot; to assign and reassign spaces for the exclusive or nonexclusive use of tenants (including Tenant); and to locate or relocate parking spaces assigned to Tenant.

28.5. Inspection. At any time during the Term, and on reasonable prior telephonic notice to Tenant, to inspect the Premises, and to show the Premises to any person having an existing or prospective interest in the Project or Landlord, and during the last six months of the Term, to show the Premises to prospective tenants thereof.

28.6. Entry. To enter the Premises upon reasonable prior notice to Tenant (except in the event of an emergency) for the purpose of making inspections, repairs, alterations, additions or improvements to the Premises or the Building (including, without limitation, checking, calibrating, adjusting or balancing controls and other parts of the HVAC system), and to take all steps as may be necessary or desirable for the safety, protection, maintenance or preservation of the Premises or the Building or Landlord's interest therein, or as may be necessary or desirable for the operation or improvement of the Building or in order to comply with laws, orders or requirements of governmental or other authority. Landlord agrees to use its best efforts (except in an emergency) to minimize interference with Tenant's business in the Premises in the course of any such entry.

28.7. Common Area Regulation. To exclusively regulate and control use of the Common Area.

29. ADVERTISEMENTS AND SIGNS.

Subject to Section 40. Tenant shall not affix, paint, erect or inscribe any sign, projection, awning, signal or advertisement of any kind to any part of the Premises, Building or Project, including without limitation the inside or outside of windows or doors, without the prior written consent of Landlord. Landlord shall have the right to remove any signs or other matter installed without Landlord's permission, without being liable to Tenant by reason of such removal, and to charge the cost of removal to Tenant as Additional Rent hereunder, payable within ten (10) days of written demand by Landlord.

30. RELOCATION OF PREMISES.

Upon the prior written consent of Tenant, said consent shall not be unreasonably withheld. Landlord shall have the right to relocate the Premises to another part of the Building at any time after the execution and delivery of the Lease upon at least one hundred twenty(120) days prior Notice to Tenant. The new premises shall be similar in size to the Premises described in this Lease and shall be leased to Tenant on the same terms and conditions as provided in the Lease, except that if the new premises contains more or less square footage, then there shall be a proportionate adjustment in Rent. Landlord shall pay reasonable expenses incurred by Tenant as a result of the relocation, including without limitation, moving Tenant's Property to the new premises. Upon completion of such relocation, the new premises shall be the Premises for all purposes under the Lease and the parties shall immediately execute an amendment to this Lease setting forth the relocation of the Premises and the reduction of Base Rent, if any.

31. GOVERNMENT ENERGY OR UTILITY CONTROLS.

In the event of imposition of federal, state or local government controls, rules, regulations, or restrictions on the use or consumption of energy or other utilities (including telecommunications) during the Term, both Landlord and Tenant shall be bound thereby. In the event of a difference in interpretation by Landlord and Tenant of any such controls, the interpretation of Landlord shall prevail and Landlord shall have the right to enforce compliance therewith, including the right of entry into the Premises to effect compliance.

32. FORCE MAJEURE.

Any prevention, delay or stoppage of work to be performed by Landlord or Tenant which is due to strikes, labor disputes, inability to obtain labor, materials, equipment or reasonable substitutes therefor, acts of God, governmental restrictions or regulations or controls, judicial orders, enemy or hostile government actions, civil commotion, fire or other casualty, or other causes beyond the reasonable control of the party obligated to perform hereunder, shall excuse performance of the work by that party for a period equal to the duration of that prevention, delay or stoppage. Nothing in this Section 32. shall excuse or delay Tenant's obligation to pay Rent or other charges under this Lease.

33. BROKERAGE FEES.

Tenant warrants and represents that it has not dealt with any real estate broker or agent in connection with this Lease or its negotiation except the Listing and Leasing Agent(s) set forth in Section 2.9. of this Lease. Tenant shall indemnify, defend and hold Landlord harmless from any cost, expense or liability (including costs of suit and reasonable attorneys' fees) for any compensation, commission or fees claimed by any other real estate broker or agent in connection with this Lease or its negotiation by reason of any act of Tenant.

34. QUIET ENJOYMENT.

Tenant, upon payment of Rent and performance of all of its obligations under this Lease, shall peaceably, quietly and exclusively enjoy possession of the Premises without unwarranted interference by Landlord or anyone acting or claiming through Landlord, subject to the terms of this Lease and to any mortgage, lease, or other agreement to which this Lease may be subordinate.

35. TELECOMMUNICATIONS.

35.1. Telecommunications Companies. Tenant and Tenant's telecommunications companies, including but not limited to local exchange telecommunications companies and alternative access vendor services companies ("Telecommunications Companies"), shall have no right of access to and within the lands or Buildings comprising the Project for the installation and operation of telecommunications lines and systems including but not limited to voice, video, data, and any other telecommunications services provided over wire, fiber optic, microwave, wireless and any other transmission systems, for part or all of Tenant's telecommunications within the Building and from the Building to any other location (hereinafter collectively referred to as "Telecommunications Lines"), without Landlord's prior written consent, which Landlord may withhold in its sole and absolute discretion. Notwithstanding the foregoing, Tenant may perform any installation, repair and maintenance to its Telecommunications Lines without Landlord's consent where the equipment being installed, repaired or maintained is not located in an area in which the Telecommunications Lines or any part thereof of any other tenant or of Landlord are located.

35.2. Tenant's Obligations. If at any time, Tenant's Telecommunications Companies or appropriate governmental authorities relocate the point of demarcation from the location of Tenant's telecommunications equipment in Tenant's telephone equipment room or other location, to some other point, or in any other manner transfer any obligations or liabilities for telecommunications to Landlord or Tenant, whether by operation of law or otherwise, upon Landlord's election, Tenant shall, at Tenant's sole expense and cost: (1) within thirty (30) days after notice is first given to Tenant of Landlord's election, cause to be completed by an appropriate telecommunications engineering entity approved in advance in writing by Landlord, all details of the Telecommunications Lines serving Tenant in the Building which details shall include all appropriate plans, schematics, and specifications; and (2) if Landlord so elects, immediately undertake the operation, repair and maintenance of the Telecommunications Lines serving Tenant in the Building; and (3) upon the termination of the Lease for any reason, or upon expiration of the Lease, immediately effect the complete removal of all or any portion or portions of the Telecommunications Lines serving Tenant in the Building and repair any damage caused thereby (to Landlord's reasonable satisfaction).

Prior to the commencement of any alterations, additions, or modifications to the Telecommunications Lines serving Tenant in the Building, except for minor changes, Tenant shall first obtain Landlord's prior written consent by written request accompanied by detailed plans, schematics, and specifications showing all alterations, additions and modifications to be performed, with the time schedule for completion of the work, and the identity of the entity that will perform the work, for which, except as otherwise provided in Section 35.3. below, Landlord may withhold consent, said consent not to be unreasonably withheld, delayed, or conditioned.

35.3. Landlord's Consent. Without in any way limiting Landlord's right to withhold its consent to a proposed request for access, or for alterations, additions or modifications of the Telecommunications Lines serving Tenant in the Building, Landlord shall consider the following factors in making its determination:

35.3.1. If the proposed actions of Tenant and its Telecommunications Companies will impose new obligations on Landlord, or expose Landlord to liability of any nature or description, or increase Landlord's insurance costs for the Building, or create liabilities for which Landlord is unable to obtain insurance protection, or imperil Landlord's insurance coverage;

35.3.2. If Tenant's Telecommunications Companies are unwilling to pay reasonable monetary compensation for the use and occupation of the Building for the Telecommunications Lines;

35.3.3. If Tenant and its Telecommunications Companies would cause any work to be performed that would adversely affect the land and Building or any space in the Building in any manner; 35.3.4. If Tenant encumbers or mortgages its interest in any telecommunications wiring or cabling; or

35.3.5. If Tenant is in default under this Lease.

35.4. Indemnification. Tenant shall indemnify, defend and hold harmless Landlord and its employees, agents, officers and directors from and against any claims, demands, penalties, fines, liabilities, settlements, damages, costs, or expenses of any kind or nature, known or unknown, contingent or otherwise, arising out of or in any way related to the acts and omissions of Tenant, Tenant's officers, directors, employees, agents, contractors, subcontractors, subtenants and invitees with respect to (1) any Telecommunications Lines serving Tenant in the Building which are on, from, or affecting the Project and Building; (2) any bodily injury (including wrongful death) or property damage (real or personal) arising out of or related to any Telecommunications Lines serving Tenant in the Building which are on, from, or affecting the Building (except to the extent caused by the gross negligence or willful misconduct of Landlord); (3) any lawsuit brought settlement reached, or governmental order relating to such Telecommunications Lines; (4) any violations of laws, orders, regulations, requirements, or demands of governmental authorities, or any reasonable policies or requirements of Landlord, which are based upon or in any way related to such Telecommunications Lines, including, without limitation, attorney and consultant fees, court costs and litigation expenses. This indemnification and hold harmless agreement will survive this Lease. Under no circumstances shall Landlord be required to maintain, repair or replace any Building systems or any portions thereof, when such maintenance, repair or replacement is caused in whole or in part by the failure of any such system or any portions thereof, and/or the requirements of any governmental authorities. Under no circumstances shall Landlord be liable for interruption in telecommunications services to Tenant or any other entity affected, for electrical spikes or surges, or for any other cause whatsoever, whether by Act of God or otherwise, even if the same is caused by the ordinary negligence of Landlord, Landlord's contractors, subcontractors, or agents or other tenants, subtenants, or their contractors, subcontractors, or agents.

35.5. Landlord's Operation of Building Telecommunications Lines and Systems. Notwithstanding anything contained herein to the contrary, if the point of demarcation is relocated, Landlord may, but shall not be obligated to, undertake the operation, repair and maintenance of telecommunications lines and systems in the Building. If Landlord so elects, Landlord shall give Notice of its intent to do so, and Landlord shall, based on Landlord's sole business discretion, make such lines and systems available to tenants of the Building (including Tenant) in the manner it deems most prudent. Landlord may include in Operating Expenses all or a portion of the expenses related to the operation, repair and maintenance of the telecommunications lines and systems.

36. MISCELLANEOUS.

36.1. Accord and Satisfaction; Allocation of Payments. No payment by Tenant or receipt by Landlord of a lesser amount than the Rent provided for in this Lease shall be deemed to be other than on account of the earliest due Rent, nor shall any endorsement or statement on any check or letter accompanying any check or payment as Rent be deemed an accord and satisfaction, and Landlord may accept such check or payment without prejudice to Landlord's right to recover the balance of the Rent or pursue any other remedy provided for in this Lease. In connection with the foregoing, Landlord shall have the absolute right in its sole discretion to apply any payment received from Tenant to any account or other payment of Tenant then not current and due or delinquent.

36.2. Addenda. If any provision contained in an addendum to this Lease is inconsistent with any other provision herein, the provision contained in the addendum shall control, unless otherwise provided in the addendum.

36.3. Attorneys' Fees. If any action or proceeding is brought by either party against the other pertaining to or arising out of this Lease, the finally prevailing party (i.e., the party that recovers the greater relief as a result of the action or proceeding) shall be entitled to recover all costs and expenses, including reasonable attorneys' fees, incurred on account of such action or proceeding.

36.4. Captions and Section Numbers. The captions appearing in the body of this Lease have been inserted as a matter of convenience and for reference only and in no way define, limit or enlarge the scope or meaning of this Lease. All references to Section numbers refer to Sections in this Lease.

36.5. Changes Requested by Lender. Neither Landlord nor Tenant shall unreasonably withhold its consent to changes or amendments to this Lease requested by the lender on Landlord's interest, so long as such changes do not alter the basic business terms of this Lease or otherwise materially diminish any rights or materially increase any obligations of the party from whom consent to such change or amendment is requested.

36.6. Choice of Law. This Lease shall be construed and enforced in accordance with the Laws of the State.

36.7. Consent. Notwithstanding anything contained in this Lease to the contrary, Tenant shall have no claim, and hereby waives the right to any claim against Landlord for money damages, by reason of any refusal, withholding or delaying by Landlord of any consent, approval or statement of satisfaction, and, in such event, Tenant's only remedies therefor shall be an action for specific performance, injunction or declaratory judgment to enforce any right to such consent, approval or statement of satisfaction.

36.8. Authority. If Tenant is not an individual signing on his or her own behalf, then each individual signing this Lease on behalf of the business entity that constitutes Tenant represents and warrants that the individual is duly authorized to execute and deliver this Lease on behalf of the business entity, and that this Lease is binding on Tenant in accordance with its terms. Tenant shall, at Landlord's request, deliver a

certified copy of a resolution of its board of directors, if Tenant is a corporation, or other memorandum of resolution if Tenant is a limited partnership, general partnership or limited liability entity, authorizing such execution.

36.9. Waiver of Right to Jury Trial. Landlord and Tenant hereby waive their respective rights to a trial by jury of any claim, action, proceeding or counterclaim by either party against the other on any matters arising out of or in any way connected with this Lease, the relationship of Landlord and Tenant, and/or Tenant's Use or occupancy of the Premises, Building or Project (including any claim of injury or damage or the enforcement of any remedy under any current or future laws, statutes, regulations, codes or ordinances).

36.10. Counterparts. This Lease may be executed in multiple counterparts, all of which shall constitute one and the same Lease.

36.11. Execution of Lease; No Option. The submission of this Lease to Tenant shall be for examination purposes only and does not and shall not constitute a reservation of or option for Tenant to Lease, or otherwise create any interest of Tenant in the Premises or any other premises within the Building or Project. Execution of this Lease by Tenant and its return to Landlord shall not be binding on Landlord, notwithstanding any time interval, until Landlord has in fact signed and delivered this Lease to Tenant.

36.12. Furnishing of Financial Statements; Tenant's Representations. In order to induce Landlord to enter into this Lease, but not more often than once per calendar year, unless Tenant is in default or in the event of a sale or refinance of the Building. Tenant agrees that it shall promptly furnish Landlord, from time to time, upon Landlord's written request, financial statements reflecting Tenant's current financial condition. Tenant, to the best of its knowledge, represents and warrants that all financial statements, records and information furnished by Tenant to Landlord in connection with this Lease are true, correct and complete in all respects.

36.13. Further Assurances. The parties agree to promptly sign all documents reasonably requested to give effect to the provisions of this Lease.

36.14. Prior Agreements; Amendments. This Lease and the schedules and addenda attached, if any, form a part of this Lease together with the rules and regulations set forth on Exhibit "E" attached hereto, and set forth all the covenants, promises, assurances, agreements, representations, conditions, warranties, statements, and understandings (Representations) between Landlord and Tenant concerning the Premises and the Building and Project, and there are no Representations, either oral or written, between them other than those in this Lease.

This Lease supersedes and revokes all previous negotiations, arrangements, letters of intent, offers to lease, lease proposals, brochures, representations, and information conveyed, whether oral or in writing, between the parties hereto or their respective representatives or any other person purporting to represent Landlord or Tenant. Tenant acknowledges that it has not been induced to enter into this Lease by any Representations not set forth in this Lease, and that it has not relied on any such Representations. Tenant further acknowledges that no such Representations shall be used in the interpretation or construction of this Lease, and that Landlord shall have no liability for any consequences arising as a result of any such Representations.

Except as otherwise provided herein, no subsequent alteration, amendment, change, or addition to this Lease shall be binding upon Landlord or Tenant unless it is in writing and signed by each party.

36.15. Recording. Tenant shall not record this Lease without the prior written consent of Landlord. Tenant or Landlord, upon the request of the other party shall execute and acknowledge a short form memorandum of this Lease (Notice of Lease) for recording purposes.

36.16. Severability. A final determination by a court of competent jurisdiction that any provision of this Lease is invalid shall not affect the validity of any other provision, and any provision so determined to be invalid shall, to the extent possible, be construed to accomplish its intended effect.

36.17. Successors and Assigns. This Lease shall apply to and bind the heirs, personal representatives, and successors and assigns of the parties.

36.18. Time Is of the Essence. Time is of the essence of this Lease.

[REMAINDER OF THE PAGE LEFT BLANK INTENTIONALLY]
[SIGNATURES APPEAR ON THE NEXT PAGE]

IN WITNESS WHEREOF, the parties hereto have executed this Lease as of the date first set forth on Page 1.

LANDLORD:

GLENBOROUGH FUND V, LIMITED PARTNERSHIP,
a Delaware limited partnership

By: GRTV, Inc.,
a Delaware corporation
Its General Partner

By: /s/ [ILLEGIBLE]
Its [ILLEGIBLE]

TENANT:
CYNOSURE, INC.,
a Delaware corporation

By: /s/ [ILLEGIBLE]
Its CFO

By: _____
Its

ADDENDUM TO LEASE BY AND BETWEEN
GLENBOROUGH FUND V, LIMITED PARTNERSHIP,
a Delaware limited partnership ("Landlord")
and
CYNOSURE, INC.,
a Delaware corporation ("Tenant")

DATED: January 31, 2005

37. TENANT IMPROVEMENTS.

Section 37. adds to and amends the Lease as follows:

(a) Subject to the Allowance (as such term is defined below), Landlord has agreed to construct certain leasehold improvements in the Premises prior to Tenant's occupancy using Building standard methods, materials and finishes and in accordance with the terms and conditions of the Work Letter attached to the Lease as Exhibit D (the "Leasehold Improvements" or, for purposes of Section 12.1. of this Lease, "Landlord's Work"). Tenant does not intend to construct any additional leasehold improvements, and therefore there is no "Tenant's Work" for purposes of Section 12.2.

(b) Landlord has agreed to contribute a maximum amount of $781,438.00 towards the hard costs of the Leasehold Improvements (the "Allowance"); provided, however, that Tenant may use a portion of the Allowance in an amount not to exceed (i) $83,725.50 for the cost of preparing design and construction documents and mechanical and electrical plans for the Leasehold Improvements, and (ii) $55,817.00 (the "Furniture Allowance") for the cost of relocating the furniture currently existing in the Premises as of the date of this Lease.

(c) Promptly following full execution of this Lease, Landlord shall cause its space planner and/or architect (the "Space Planner") to prepare a space plan with specifications (collectively, the "Space Plan") in sufficient detail for Landlord's general contractor ("General Contractor") to price the Leasehold Improvements. Tenant shall provide information required by the Space Planner to prepare the Space Plan within not more than twenty four (24) hours of request and shall provide approvals within not more than forty eight (48) hours of submission of the preliminary Space Plan and final Space Plan. Any delays by Tenant in responding to the Space Planner's requests for information, excessive revisions, or delay in approving the preliminary and any final Space Plan shall constitute Tenant Delay. The final Space Plan shall be initialed and dated by each party and a copy thereof shall be attached to each original of this Lease as Exhibit "D-l."

(d) Landlord shall cause General Contractor to price the construction contract for the Leasehold Improvements. In the event the Allowance will be exceeded, Landlord shall provide Tenant with an opportunity to revise the scope of the Leasehold Improvements. In no event shall this Lease be terminable on the basis of the pricing for the Leasehold Improvements.

(e) Promptly after approval of the Space Plan, Landlord shall cause Space Planner to prepare construction drawings and specifications (collectively, the "Construction Drawings") based on the Space Plan for Tenant's review and approval. Tenant shall not delay or unreasonably withhold its approval of the Construction Drawings. Tenant shall have not more than forty eight (48) hours to review and approve the Construction Drawings. When approved, the Construction Drawings shall be dated and initialed by Landlord and Tenant and attached to each original of this Lease as Exhibit "D-2."

(f) Any portion of the Allowance which exceeds the cost of the Leasehold Improvements or is otherwise remaining after December 31, 2005 shall accrue to the sole benefit of Landlord, it being agreed that Tenant shall not be entitled to any credit, offset, abatement or payment with respect thereto.

38. OPTION TO EXTEND.

Section38. adds to and amends the Lease as follows:

(a) Tenant is hereby granted one (1) option to extend the Term of the Lease (the "Option to Extend") for a period of five (5) years (the "Extended Term"). Upon the proper exercise of the Option to Extend, the Term shall be extended for the Extended Term. Tenant shall not

have the right to extend the initial Term if as of the date of delivery of the Option Exercise Notice (as defined below), or as of the end of the initial Term, Tenant is in default under the Lease beyond any applicable notice and cure period.

(b) The Option to Extend shall be exercised by Tenant, if at all, by giving written Notice of exercise (the "Option Exercise Notice") not more than fifteen (15) months and not less than twelve (12) months prior to the Expiration Date for the initial Term. If Tenant expands its Premises, the Option to Extend shall cover the entirety of the Premises as of the Expiration Date for the initial Term. Notwithstanding anything herein to the contrary, in the event that Tenant does not properly exercise its Option to Extend the initial Term for the Extended Term, then Tenant's Option to Extend shall be null and void and of no further force or effect.

(c) Base Rent for each year of Extended Term shall be adjusted to fair market Base Rent, as of the commencement of the Extended Term, for renewals of comparable term and space in the Building and/or in similar class buildings in the submarket in which the Premises is located.

(d) The parties shall have thirty (30) days after Landlord receives the Option Exercise Notice in which to agree on fair market Base Rent during the Extended Term. If the parties agree on the Base Rent for the Extended Term during such thirty (30) day period, they shall immediately execute an amendment to the Lease stating the new Base Rent.

(e) If the parties are unable to agree on fair market Base Rent for the Extended Term within such thirty (30) day period, then within ten (10) days after the expiration of that period each party, at its cost and by giving written notice to the other party, shall appoint a real estate broker with at least 5 years full-time commercial brokerage experience in the area in which the Premises is located to estimate and set Base Rent for the Extended Term. If a party does not appoint a broker within ten (10) days after the other party has given notice of the name of its broker, the single broker appointed shall be the sole broker and shall set Base Rent for the Extended Term. If the two brokers are appointed by the parties as stated in this Section 38., they shall meet promptly and attempt to set Base Rent for the Extended Term. If they are unable to agree within thirty (30) days after the second broker has been appointed, they shall attempt to elect a third broker meeting the qualifications stated in this Section 38. within ten (10) days after the last day the two brokers are given to set Base Rent. If they are unable to agree on the third broker, either of the parties to this Lease by giving ten (10) days written notice to the other party can apply to the then president of the county real estate board of the county in which the Premises are located, or to the presiding judge of the superior court of that county, for the selection of a third broker who meets the qualifications stated in this Section 38. Each of the parties shall bear one half of the cost of appointing the third broker and of paying the third broker's fee. The third broker, however selected, shall be a person who has not previously acted in any capacity for either party.

Within thirty (30) days after the selection of the third broker, a majority of the brokers shall set Base Rent for the Extended Term.

In setting Base Rent, the broker or brokers shall consider the highest and best use for the Premises without regard to the restriction on use of the Premises contained in this Lease. If, however, the low estimate and/or the high estimate are/is more than five percent (5%) lower and/or higher than the middle estimate, the low estimate and/or the high estimate shall be disregarded. If only one estimate is disregarded, the average of the remaining two estimates shall be the Base Rent for the Premises during the Extended Term. If both the low estimate and the high estimate are disregarded as stated in this Section 38., the middle estimate shall be the Base Rent for the Premises during the Extended Term. After Base Rent for the Extended Term has been set, the broker shall immediately notify the parties.

Landlord and Tenant shall immediately execute an Amendment to the Lease setting forth Base Rent for the Extended Term.

(f) This Option to Extend is granted by Landlord to the Tenant originally named in the Lease and to no other, and is personal as to such entity and shall not be exercised or assigned, voluntarily or involuntarily, by or to anyone or any other entity. Any assignment of this Option to Extend without Landlord's prior written consent shall be null and void and, at Landlord's election, shall constitute a default under the Lease. Landlord's consent to an assignment of the Lease shall not also constitute consent to assignment of the Option to Extend unless the Option to Extend is expressly included in Landlord's consent.

39. RIGHT OF FIRST OFFER.

Section 39. adds to and amends the Lease as follows:

(a) Provided that Tenant is not in default under the Lease at the time of offer, Landlord hereby grants to Tenant a one-time right of first offer ("Right of First Offer") to lease any available space ("Available Space") in the Building which may become available for lease as provided hereinbelow as determined by Landlord. For purposes hereof, the Available Space shall become available for lease at such time as Landlord is prepared to actively market such Available Space for lease to third parties and/or to submit to a third party a bona fide proposal or letter of intent to lease the Available Space. Notwithstanding anything herein to the contrary, Tenant's Right of First Offer set forth herein shall be subject and subordinate to all expansion, first offer and similar rights set forth in any lease for space in the Building and Landlord may in all cases renew or extend an existing tenant's lease of its existing premises regardless of the existence of an extension or renewal option in such tenant's lease. "One-time" means if Tenant declines any offer from Landlord, Landlord shall not be required to make future offers to Tenant.

(b) Landlord shall notify Tenant, in writing (the "Availability Notice"), of the availability of the Available Space and shall specify, in the Availability Notice, the term and commencement date for the Available Space, Monthly Base Rent for such term, any improvements allowance and any other significant business terms for the Available Space (all of which shall be consistent with terms being offered to other prospective tenants). Tenant shall either accept Landlord's offer as set forth in the Availability Notice, in which case the parties shall prepare and execute an amendment to the Lease to add the Available Space to the Premises under the terms indicated by Landlord, or Tenant shall counter-propose other terms, each by written notice (the "Acceptance Notice" or the "Counterproposal Notice," as applicable) returned to Landlord within five (5) days of receipt of Landlord's Availability Notice. In the event that Tenant fails to return an Acceptance Notice or a Counterproposal Notice within the time period prescribed, this one-time Right of First Offer shall be rendered null and void and Landlord may freely offer the Available Space or any portion of it to any other party on any terms.

(c) If Tenant timely returns a Counterproposal Notice, and has countered Landlord's offer, Landlord may either accept Tenant's counterproposal or the parties shall thereafter endeavor, in good faith, promptly, and using diligent efforts, to agree upon mutually satisfactory business terms. If the parties fail to reach agreement on business terms within five (5) days of Landlord's receipt of Tenant's timely Counterproposal Notice, and neither party accepts the other's original proposal or counterproposal, then this one-time Right of First Offer shall be rendered null and void and Landlord may freely offer the Available Space or any portion of it to any other party on any terms. If the parties reach agreement on business terms within five (5) days of Landlord's receipt of Tenant's timely Counterproposal Notice or the initial proposal or counterproposal has been accepted within said five (5) days, they shall immediately execute an amendment to the Lease stating the addition of the Available Space to the Premises under the Lease for the agreed terms.

(d) This one-time Right of First Offer is not applicable during the last full calendar year of the Lease Term unless Tenant has properly exercised its option to extend the initial Term of the Lease.

(e) This one-time Right of First Offer is granted to the original Tenant executing this Lease, and is personal as to such entity and shall not be exercised or assigned, voluntarily or involuntarily, by or to anyone or any other entity. Any assignment of this one-time Right of First Offer without Landlord's prior written consent shall be null and void and, at Landlord's election, shall constitute an immediate default under the Lease. Landlord's consent to an assignment of the Lease shall not also constitute consent to assignment of the Right of First Offer unless the Right of First Offer is expressly included in Landlord's consent.

40. SIGNAGE.

Section 40. adds to and amends the Lease as follows:

Tenant is hereby granted the right to install, at its sole cost and expense, a sign on the exterior of the Building. Such signage shall be subject to (i) all applicable laws, statutes, codes, regulations, etc. set forth by any governmental or quasi-governmental entity or entities having jurisdiction thereof, (ii) all permit requirements set forth by local authorities, and (iii) Landlord's approval as to size, location, placement, manner of placement, and design of such sign. Any costs of construction, erection, maintenance, utilities, repair, replacement, removal, or any other costs whatsoever related to such sign shall be Tenant's expense. Notwithstanding anything herein to the contrary, Tenant, at its sole cost and expense, shall remove such sign at the expiration or earlier termination of the Lease, and shall repair any damage to the Building caused by the installation, presence, removal, or other activity related to such sign.

41. SECURITY DEPOSIT REDUCTION.

Section 41. adds to and amends the Lease as follows:

Notwithstanding anything to the contrary contained in the Lease, and subject to the remaining terms of this Section 41, upon Tenant's satisfaction of the First Milestone Requirement (as defined below), Tenant shall have the right to provide Landlord with a written notice (the "First Security Deposit Reduction Notice") advising Landlord that Tenant has satisfied the First Milestone Requirement and requesting that Landlord reduce the amount of the Security Deposit then held by Landlord under the Lease by one-third (1/3). Tenant's First Security Deposit Reduction Notice shall be accompanied by financial statements that have been certified by Tenant and reviewed by Tenant's public accounting firm on an annual or quarterly basis evidencing the satisfaction of the First Milestone Requirement. For purposes of the Lease, the "First Milestone Requirement" shall be satisfied by Tenant if Tenant achieves not less than $66,000,000.00 in net sales (as determined in accordance with generally accepted accounting principles consistently applied ("GAAP")), and not less than $15,000,000.00 in net income before interest and taxes (as determined in accordance with GAAP).

In addition, subject to the remaining terms of this Section 41, and provided that Tenant has satisfied the First Milestone Requirement and was entitled to reduce the Security Deposit as provided herein, then upon Tenant's satisfaction of the Second Milestone Requirement (as defined below), Tenant shall have the right to provide Landlord with a written notice (the "Second Security Deposit Reduction Notice") advising Landlord that Tenant has satisfied the Second Milestone Requirement and requesting that Landlord reduce the amount of the Security Deposit then held by Landlord under the Lease by one-third (1/3). Tenant's Second Security Deposit Reduction Notice shall be accompanied by financial statements that have been certified by Tenant and reviewed by Tenant's public accounting firm on an annual or quarterly basis evidencing the satisfaction of the Second Milestone Requirement. For purposes of the Lease, the "Second Milestone Requirement" shall be satisfied by Tenant if Tenant achieves not less than $113,000,000.00 in net sales (as determined in accordance with GAAP) and not less than $39,000,000.00 in net income before interest and taxes (as determined in accordance with GAAP).

Notwithstanding anything contained herein to the contrary, Tenant shall not have the right to reduce the amount of the Security Deposit as provided herein if (i) Tenant is in default under the Lease, beyond any applicable cure period, as of the date that Landlord receives the First Security Deposit Reduction Notice or the Second Security Deposit Reduction Notice, as the case may be, or as of the date of the Refund (as defined below), or (ii) Tenant has been in default under the Lease, beyond any applicable cure period, at any time during the Term prior to Landlord's receipt of the First Security Deposit Reduction Notice or the Second Security Deposit Reduction Notice, as the case may be, or at any time during the Term prior to the date of the Refund.

If Tenant is entitled to reduce the Security Deposit as provided herein, Landlord shall refund the applicable portion of the Security Deposit to Tenant (the "Refund") within forty-five (45) days after Landlord's receipt of the First Security Reduction Notice or the Second Security Reduction

Notice, as the case may be, together with all financial statements evidencing the satisfaction of the First Milestone Requirement or the Second Milestone Requirement, as the case may be.

IN WITNESS WHEREOF, Landlord and Tenant have executed this Addendum as of the date first above written.

LANDLORD:

GLENBOROUGH FUND V, Limited Partnership,
a Delaware limited partnership

By: GRTV, Inc.,
a Delaware corporation
Its General Partner

By: /s/ [ILLEGIBLE]
Its [ILLEGIBLE]

TENANT:

CYNOSURE, INC.,
a Delaware corporation

By: /s/ [ILLEGIBLE]
Its CFO

By: _____
Its

[FIRST FLOOR PLAN]

EXHIBIT A
PROPOSED FIRST FLOOR PLAN
CYNOSURE
5 CARLISLE ROAD
WESTFORD, MASSACHUSETTS

[SECOND FLOOR PLAN]

EXHIBIT A
PROPOSED SECOND FLOOR PLAN
CYNOSURE
5 CARLISLE ROAD
WESTFORD, MASSACHUSETTS

EXHIBIT B
SITE PLAN OF THE PROJECT
WESTFORD CORPORATE CENTER

[SITE PLAN]

EXHIBIT C
BUILDING STANDARD TENANT IMPROVEMENTS
WESTFORD CORPORATE CENTER

1.) PARTITIONS

Ceiling height partitions consisting of 3 5/8" 20-gauge metal studs at 16" O.C. with 5/8" gypsum board each side, taped and sanded to receive paint.

Maximum: One (1) lineal foot per 16 square feet of area.

2.) DOORS AND FRAMES

Tenant entry door shall be solid core with lockset and door closer. Tenant is allowed one (1) entry door per suite up to 10,000 square feet of area, and an additional entry door is allowed for suites greater than 10,000 square feet.

Tenant is allowed one (1) interior passage door for every 300 square feet of area. All interior passage doors to be given standard latch set hardware, and shall be 1 3/4" solid core Oak veneer door 7'0"x3'x0" with metal frames

3.) CEILING

Suspended Building Standard 24"x48" grid configuration with Armstrong 769A acoustical lay-in panels will be used throughout the premises.

4.) LIGHTING

24"x48" Building Standard three (3) tube 40 watt recessed fluorescent fixtures with lenses. One (1) fixture per 80 square feet of area.

Any alterations or additions to said existing Building Standard pattern required to accommodate Tenant Improvements shall be at Tenant's sole expense.

Elevator lobbies and common toilet facilities will have lighting selected by Landlord.

5.) LIGHT SWITCHES

One (1) Building Standard single pole wall mounted light switch per 300 square feet of area.

6.) ELECTRICAL OUTLETS

One (1) Building Standard 120V Duplex electrical wall mounted outlet for each 175 square feet of area. Each outlet is 120 volts and is circuited with similar outlets on a 20 amp circuit.

7.) LIGHTED EXIT LIGHTS

Building Standard exit signs are provided in the Premises to meet any requirements by code.

8.) FLOOR COVERING AND BASE

Carpeting in elevator lobbies and common corridors on all multiple-tenancy office floors in color and type as selected by Landlord; carpeting within office space as required and selected by Tenant from Building Standard selection of 28oz. loop carpeting.

Maximum: Two (2) lineal feet of base per twelve (12) square feet of space.

9.) PAINT

All wall surfaces except doors finished with one (1) coat primer sealer and one (1) coat flat latex paint in colors to be selected by Tenant from Building Standard selection, with not more than one (1) color to be in premises.

10.) WINDOW COVERING

Building Standard vertical blinds on all exterior windows. No deletions or substitutions allowed.

11.) HVAC

A complete year-round HVAC system engineered to handle normal office usage with ducted supply air through ceiling diffusers, zoned and located in existing Building Standard pattern. Return air though exhaust vents. Any alterations or additions to said system required to accommodate Tenant Improvements shall be at Tenant's sole expense and must be done by Landlord-Approved Contractor.

12.) TENANT SIGNAGE

One (1) Building Standard tenant identification sign at Tenant's entry door and inclusion in building lobby directory.

PROPOSED TENANT IMPROVEMENTS FOR
CYNOSURE
5 CARLISLE ROAD
WESTFORD MA
EXHIBIT D
1-4-2005

Work below applies to Areas of Work A, B and C, unless noted otherwise.

1. Interior Partitions:

New interior walls shall be constructed of 3-5/8" x 25 Ga. metal studs at 16" O/C with 1/2"" gypsum wallboard on both sides. Walls shall extend to, not through, the ceiling grid.

2. Doors, Frames and Hardware:

Reuse existing doors, frames and hardware wherever possible. Provide new units (to match existing) as required by new layout.

3. Ceilings:

Existing tiles and grid to remain and be repaired, with new suspended ceiling system (to match adjacent areas) only as required by new layout.

Exception:

Second floor (Area of Work C) shall receive new suspended ceiling tiles (Armstrong Cortege Second Look II 2x4 tegular tiles) existing grid is to remain.

4. Lighting:

Existing fixtures shall be reused. Provide new fixtures (to match existing) as required by new layouts. Each room and area shall be individually switched.

Provide new light fixtures within Area of Work C.

5. Receptacles:

Existing receptacles will be supplemented with new standard 115V duplex receptacles, as required for a normal business use.

6. HVAC:

Existing system diffusers and ductwork will be relocated, with new ductwork and diffusers as required by new layout.

7. Window treatment:

Existing to remain, modified as required at new perimeter rooms.

8. Floor Finishes:

Provide Bigelow Fairfield II 28 oz. loop pile carpet at all offices, conference rooms, open offices and similar areas, with 1/8” x 4” vinyl base.

Provide Armstrong Standard Excelon 12x12x1/8” vinyl floor tile at lunchrooms, stockroom, machine shop, tech shop, server room, sub assembly, incoming inspection and manufacturing.

9. Paint:

Gypsum board walls shall be painted, and shall receive one primer and one finish coat of latex eggshell finish paint.

Door frames shall receive a primer and two finish coats of semi gloss alkyd paint

10. Fire Protection:

Existing sprinkler system to be modified as required by new layout

11. Work not included:

a. Installation of telephone and computer wiring, outlets and equipment.

b. Furnishings including, but not limited to, open office work stations and reception desk.

c. Security system.

END

[FLOOR KEY PLAN]

EXHIBIT D SP1

[FLOOR KEY PLAN]

EXHIBIT D SP2

[FLOOR KEY PLAN]

[FLOOR KEY PLAN]

EXHIBIT E
RULES AND REGULATIONS
WESTFORD CORPORATE CENTER

1.) The entrances, lobbies, passages, corridors, elevators, halls, courts, sidewalks, vestibules, and stairways shall not be encumbered or obstructed by Tenant, Tenant's agents, servants, employees, licensees or visitors or used by them for any purposes other than ingress or egress to and from the Premises.

2.) The moving in or out of all safes, freight, furniture, or bulky matter of any description shall take place during the hours which Landlord may determine from time to time. Landlord reserves the right to inspect all freight and bulky matter to be brought into the Building and to exclude from the Building all freight and bulky matter which violates any of these Rules and Regulations or the Lease of which these Rules and Regulations are a part. Landlord reserves the right to have Landlord's structural engineer review Tenant's floor loads on the Premises at Tenant's expense.

3.) Tenant, or the employees, agents, servants, visitors or licensees of Tenant shall not at any time place, lease or discard any rubbish, paper, articles, or objects of any kind whatsoever outside the doors of the Premises or in the corridors or passageways of the Building. No animals or birds shall be brought or kept in or about the Building. Bicycles shall not be permitted in the Building.

4.) Tenant shall not place objects against glass partitions or doors or windows or adjacent to any common space which would be unsightly from the Building corridors or from the exterior of the Building and will promptly remove the same upon notice from Landlord.

5.) Tenant shall not make noises, cause disturbances, create vibrations, odors or noxious fumes or use or operate any electric or electrical devices or other devices that emit sound waves or are dangerous to other tenants and occupants of the Building or that would interfere with the operation of any device or equipment or radio or television broadcasting or reception from or within the Building or elsewhere, or with the operation of roads or highways in the vicinity of the Building, and shall not place or install nay projections, antennae, aerials, or similar devices inside or outside of the Premises, without the prior written approval of Landlord.

6.) Tenant shall not: (a) use the Premises for lodging, manufacturing or for any immoral or illegal purposes; (b) the Premises to engage in the manufacture or sale of, or permit the use of spirituous, fermented, intoxicating or alcoholic beverages on the Premises; (c) use the Premises to engage in the manufacture or sale of, or permit the use of, any illegal drugs on the Premises.

7.) No awning or other projection shall be attached to the outside walls or window. No curtains, blinds, shades, screens or signs other than those furnished by Landlord shall be attached to, hung in, or used in connection with any window or door of the Premises without prior written consent of Landlord.

8.) No signs, advertisement, object, notice or other lettering shall be exhibited, inscribed, painted or affixed on any part of the outside or inside of the Premises if visible from outside of the Premises. Interior signs on doors shall be painted or affixed for Tenant by Landlord or by sign painters first approved by Landlord at the expense of Tenant and shall be of a size, color and style acceptable to Landlord.

9.) Tenant shall not use the name of the Building or use pictures or illustrations of the Building in advertising or other publicity without prior written consent of Landlord. Landlord shall have the right to prohibit any advertising by Tenant

which, in Landlord's reasonable opinion, tens to impair the reputation of the Building or its desirability for offices, and, upon written notice from Landlord, Tenant will refrain from or discontinue such advertising.

10.) Door keys for doors in the Premises will be furnished at the Commencement of the Lease by Landlord. Tenant shall not affix additional locks on doors and shall purchase duplicate keys only from Landlord and will provide to Landlord, prior to termination, the means of opening of safes, cabinets, or vaults to be left on the Premises after termination. In the event of the loss of any keys so furnished by Landlord, Tenant shall pay to Landlord the cost thereof.

11.) Tenant shall cooperate and participate in all security programs affecting the Building.

12.) Tenant assumes full responsibility for protecting its space from theft, robbery and pilferage, which included keeping doors locked and other means of entry to the Premises closed and secured.

13.) Tenant shall not make any room-to-room canvass to solicit business from other tenants in the Building, and shall not exhibit, sell or offer to sell, use, rent or exchange any item or services in or from the Premises unless ordinarily embraced within Tenant's use of the Premises as specified in its Lease. Canvassing, soliciting and peddling in the Building are prohibited and Tenant shall cooperate to prevent the same. Peddlers, solicitors and beggars shall be reported to the Management Office.

14.) Tenant shall not wasted electricity or water and agrees to cooperate fully with Landlord to assure the most effective operation of the Building's heating and air conditioning and shall refrain from attempting to adjust controls. Tenant shall keep corridor doors closed except when being used for access.

15.) The water and wash closets and other plumbing fixtures shall not be used for any purpose other than those for which they were constructed, and no sweepings, rubbish, rags, or other substances shall be thrown therein.

16.) Building employees shall not be required to perform, and shall not be requested by any tenant or occupant to perform, any work outside of their regular duties, unless under specific instructions from the office of the Managing Agent of the Building.

17.) Tenant may request heating and/or air conditioning during other periods in addition to normal working hours by submitting its request in writing to the office of the Managing Agent of the Building no later than 2:00 p.m. the preceding work day (Monday through Friday). The request shall clearly state the start and stop hours of the "off-hour" service. Tenant shall submit to the Building Manage a list of personnel authorized to make such request. When applicable, Tenant shall be charged for such operation in the form of additional rent.

18.) Tenant covenants and agrees that its use of the Premises shall not cause a discharge of sanitary (non-industrial) sewage which will result in a violation of the sewage discharge permit (s) for the Building. Discharges in excess of that amount, and any discharge of industrial sewage, shall only be permitted if Tenant, at its sole expense, shall have obtained all necessary permits and licenses therefore, including without limitation permits from state and local authorities having jurisdiction thereof. Tenant shall submit to Landlord on December 31 of each year of the Term of this Lease a statement, certified by an authorized officer of Tenant, which contains the following information: name of all chemicals, gases, and hazardous substances (liquid, gas or granular); quantity used, stored or generated per year; method of disposal;

permit number, if any, attributable to each substance, together with copies of all permits for such substance; and permit expiration date for each substance.

EXHIBIT F
SIGN CRITERIA
WESTFORD CORPORATE CENTER

Sign Standards for the Park

Tenant shall have the right to exterior "signs" in conformance with standards and requirements as follows:

1.) BUILDING STANDARDS: Where the Tenant leases more than fifty percent (50%) of the entire building, the Tenant, at its expense, may install on the Building a sign (the "Building Sign") consisting of the Tenants' logo and/or letters to spell out, as a maximum, the corporate name of the tenant; such logo and/or letters to individually affixed to the exterior of the building in a location and manner reasonably acceptable to the Landlord. The logo and individual letters (i) shall be no more than two (2) feet high nor more than two (2) and a half inches deep, (ii) shall not be internally illuminated or illuminated by lights bracketed off the building, and (iii) shall be fabricated of no. 304 (18-8 alloy) stainless steel with a stain finish, grain to be horizontal; the minimum thickness of faces to be 18-gauge and sides to be 22-gauge. The design, location, and proposed installation must be approved in writing by the Landlord prior to installation, which approval shall not be unreasonably withheld, delayed or conditioned.

2.) STREET SIGN: Where the Tenant is a major tenant (tenant of at least 20,000 square feet) of the building, the Tenant, at its expense, may request that the Landlord include on either one or both faces of the street address sign located at the entrance of the building site (i.e. the Landlord furnished Westford Corporate Center sign of nominal dimensions 4'-2" high 8'-0" wide which identifies the street address of the building) lettering to spell out, the corporate name of the Tenant. The background field area for lettering so requested is limited to maximum size or 4 inches high by 72 inches long on the signs of multi-tenanted buildings; on the signs of single-tenanted buildings the maximum background filed area is 17 inches high by 72 inches long, and in addition to the corporate name may also include lettering to identify a subdivision or special use group of the Tenant pertinent to the building. The individual letters on these signs shall be adhesive backed vinyl with a maximum height of 6 inches; they may be at the Tenant's option in the logo typeface of Tenant's corporate graphic standards, or Helvetica medium which is the standard of Westford Corporate Center. Unless otherwise approved in writing by the Landlord, which approval of Landlord shall not unreasonably withhold, delay or condition, the color of the letters shall be black. The Tenant is responsible for graphic layout and for the Landlord's costs of providing and installing the lettering.

3.) TRAFFIC DIRECTORY SIGNS: Where the Tenant is sole tenant of the entire building, the Tenant, at its expense and with the prior written approval of the Landlord, may install within the bounds of the leased building site vehicular and/or pedestrian directory signs. Such signs shall be identical in an construction, and have the same background color, to the Westford Corporate Center standard pole mounted "flag" type traffic control signs. The sign face shall be rectilinear and shall not have an area exceeding 20 inches high by 28 inches wide. The mounting height of such signs shall not exceed the mounting height of the Westford Corporate Center traffic control signs.

FIRST AMENDMENT TO LEASE

This First Amendment to Lease ("First Amendment") is made and entered into this 16 day of September, 2005, by and between Glenborough Fund V, Limited Partnership, a Delaware limited partnership ("Landlord") and Cynosure, Inc., a Delaware corporation ("Tenant").

R E C I T A L S

This First Amendment is made with reference to the following facts and objectives:

A. By Lease and Addendum dated January 31, 2005 (collectively, the "Lease"), Tenant leased from Landlord approximately 55,817 square feet of Rentable Area (the "Premises") known as Suites 100 and 200 of that certain building located at 5 Carlisle Road, Westford, Massachusetts.

B. Landlord and Tenant desire to revise the Commencement Date and Expiration Date of the Lease, and to otherwise modify and amend the Lease, all in accordance with the following terms and conditions.

NOW, THEREFORE, Landlord and Tenant hereby agree as follows:

1. Section 2.4. of the Lease is hereby modified and amended to set forth the Commencement Date as July 1, 2005.

2. Section 2.6. of the Lease is hereby modified and amended to set forth the Expiration Date as June 30, 2012.

3. Sections 2.2 and 2.10. of the Lease are hereby modified and amended to set forth Monthly Installments of Base Rent for the Premises as follows:

July 1, 2005 through June 30, 2006	$ 58,142.71
July 1, 2006 through June 30, 2007	$ 59,305.56
July 1, 2007 through June 30, 2009	$ 63,956.98
July 1, 2009 through June 30, 2011	$ 68,608.40
July 1, 2011 through June 30, 2012	$ 73,259.81

4. All other terms and conditions of the Lease shall remain in full force and effect.

This First Amendment modifies and amends the Lease. To the extent there are any inconsistencies between this First Amendment and the Lease, the terms and provisions of this First Amendment shall control.

[Signatures Appear On Next Page]

IN WITNESS WHEREOF, Landlord and Tenant have executed this First Amendment to Lease as of the date first above written.

LANDLORD:
GLENBOROUGH FUND V, Limited Partnership,
a Delaware limited partnership

By: GRTV, Inc.,
a Delaware corporation
Its General Partner

By: _____
Its _____

TENANT:
CYNOSURE, INC.,
a Delaware corporation

By: _____
Its EVP, CFO

By: _____
Its _____

SECOND AMENDMENT

THIS SECOND AMENDMENT (the "Amendment") is made and entered into effective as of September 28, 2007 (the "Effective Date") by and between GLENBOROUGH WESTFORD CENTER, LLC, a Delaware limited liability company ("Landlord") and CYNOSURE, INC., a Delaware corporation ("Tenant").

RECITALS

A. Landlord and Tenant are parties to that certain Lease dated January 31, 2005 (the "Original Lease") by and between Glenborough Fund V, Limited Partnership ("Original Landlord") and Tenant, as amended by a certain First Amendment to Lease dated September 16, 2005 (the "First Amendment") (collectively, the Original Lease together with the First Amendment and this Second Amendment shall be referred (to herein as the "Lease"). Pursuant to the Lease, Tenant currently leases certain premises on the first and second floor of the building commonly known as the Westford Corporate Center located at 5 Carlisle Road, Westford, Massachusetts 01886 (the "Building"), which premises contain approximately 55,817 rentable square feet of office space in the Building (the "Original Premises") consisting of Suites 100 and 200.

B. Tenant has requested that Landlord extend the Term of the Lease until December 31, 2012 and that Landlord lease to Tenant approximately 12,500 rentable square feet of space on the second floor of the Building contiguous with the second floor portion of the Original Premises, as more particularly shown on Exhibit A-l attached hereto and incorporated herein (the "Expansion Premises") and that the Lease be appropriately amended, and Landlord is willing to do the same on the following terms and conditions.

NOW, THEREFORE, in consideration of the above recitals which by this reference are incorporated herein, the mutual covenants and conditions contained herein and other valuable consideration, (the receipt and sufficiency of which are hereby acknowledged, Landlord and Tenant agree as follows:

1. Term. Effective as of the Effective Date, the date "June 30, 2012" in Section 2.6 of the Original Lease (as amended) is hereby deleted and replaced with December 31, 2012, which date shall hereinafter be referred to as the "Expiration Date".

2. Expansion Premises.

2.01. Effective as of the Effective Date (the "Expansion Premises Commencement Date"), the Expansion Premises shall be added to the Original Premises, and together they shall constitute the "Premises" (agreed to be 68,317 rentable square feet) for all purposes under the Lease. The Expansion Premises shall be subject to all of the terms and conditions of the Lease currently in effect, except as expressly modified herein.

2.02. Except for the Landlord Work (as defined in Exhibit B attached hereto and incorporated herein), the Expansion Premises are accepted by Tenant in "as is" condition and configuration without any representations or warranties by Landlord. By taking possession of the Expansion Premises, Tenant agrees that the Expansion Premises are in good order and satisfactory condition. Landlord shall not be liable for a failure to deliver possession of the Expansion Premises or any other space due to the holdover or unlawful possession of such space by another party. During Tenant's possession of the Expansion Premises prior to the Expansion Premises Rent Commencement Date (defined below), Tenant shall not be required to pay Rent

with respect to the Expansion Premises except for the cost of services requested by Tenant. Any initial improvements to the Expansion Premises and/or renovation of the Premises by Tenant made in connection with this Amendment shall be performed in accordance with the Tenant Work Letter attached hereto as Exhibit B.

3. Annual Base Rent; Tax Costs and Operating Expenses.

3.01. Effective as of January 1, 2008 (the "Expansion Premises Rent Commencement Date"), the Annual Base Rent schedules set forth in Sections 2.2 and 2.10 of the Original Lease (as amended) shall be amended and replaced with the Annual Base Rent schedule for the entire Premises entitled Schedule 1 attached hereto and incorporated herein.

3.02. Effective as of Expansion Space Commencement Date, the term "Base Year" in Section 2.3 of the Original Lease shall be amended and replaced with the follow: The term "Base Year" shall mean, with respect to the Original Premises, Calendar Year 2005 for Operating Expenses and Fiscal Year 2005 (i.e. July 1, 2004 - June 30, 2005) for Tax Costs, and with respect to the Expansion Premises, Calendar Year 2008 for Operating Expenses and Fiscal Year 2008 (i,e. July 1, 2007 - June 30, 2008) for Tax Costs.

3.03. Effective as of Expansion Space Commencement Date, the term "Tenant's Proportionate Share" in Section 2.19 of the Original Lease shall be amended and replaced with "68.4% with respect to the Original Premises and 15.3% with respect to the Expansion Premises."

4. Electrical Service. The Original Premises and Expansion Premises shall be submetered for electrical service. Tenant shall be solely responsible for the cost of electrical service necessary for the dedicated cooling of Tenant's lab space in the Premises.

5. Building Systems. Landlord shall keep and maintain in good repair and working order and perform maintenance upon the: (a) structural elements of the Building; (b) mechanical (including HVAC), electrical, plumbing and fire/life safety systems serving the Building in general; (c) Common Areas; (d) roof of the Building; (e) exterior windows of the Building; and (f) elevators serving the Building.

6. Parking; Building Amenities.

6.01. Effective as of the Expansion Premises Commencement Date, Section 2.12 of the Original Lease shall be deleted and replaced with the following: "Tenant shall have non-reserved vehicle access to the Building's parking lot at a ratio of 3.3 vehicle spaces per each one thousand (1,000) rentable square feet of the Premises (i.e. non-reserved parking for two hundred and twenty-five (225) motor vehicles based upon the Tenant's occupancy of 68,317 rentable square feet; the foregoing referred to herein as " Tenant's Parking Rights"). Tenant's Parking Rights shall be non-transferable (directly or indirectly) to any other institutions, entities or individuals. Tenant's use of the Tenant's Parking Rights shall be limited to normal business hours, and overnight parking at the Building shall be strictly prohibited. Landlord shall not be responsible for money, jewelry, automobiles or other personal property lost in or stolen from the parking lot. Landlord shall not be liable for any loss, injury or damage to persons using the parking lot or automobiles or other property thereon, it being agreed that, to the fullest extent permitted by law, the use of the parking lot and the parking spaces shall be at the sole risk of Tenant and its employees. Except for emergency repairs, Tenant and its employees shall not perform any work on any automobiles while located in the parking lot. Tenant's Parking Rights shall be subject to

such reasonable rules and regulations therefor as may be set and changed with reasonable prior notice by the Landlord from time to time and uniformly enforced by Landlord during the Term. Tenant's Parking Rights above are non-assignable and intended solely for the use of Tenant's employees working from and business invitees to the Premises; and as such Tenant shall not offer them for "use" or "license" to any other entity, the general public, or any other tenants of the Building. All such appurtenant rights for parking as set forth **in** this Section are automatically terminated upon termination of this Lease, and shall have no separate independent validity or legal standing. Landlord reserves the right to relocate and/or temporarily dose any or all of the parking facilities to the extent necessary in the event of a casualty or governmental taking or for maintenance and repairs of the parking facility provided Landlord shall reopen the same or provide replacement parking facilities as soon as practicable thereafter."

6.02. To the extent the same are provided for the non-exclusive use of all tenants and occupants of the Building and Project, Tenant may use the Building and Project amenities subject to (i) the Project Rules and Regulations and other rules, regulations and fees with respect to such amenities adopted by Landlord from time to time and (ii) Landlord's right to discontinue any or all of such amenities at Landlord's sole discretion as Landlord shall deem necessary at any time and from time to time.

7. Miscellaneous.

7.01. Effective as of the Effective Date, Landlord's Address for Notice as set forth in Section 2.8 of the Original Lease shall be as follows:

For all Notices:

Steve Smith
Normandy Real Estate Management
1776 On the Green
67 Park Place East
Morristown, NJ 07960

With a copy to:

Raymond P. Trevisan
Principal, General Counsel
Normandy Real Estate Partners
67 Park Place East
Morristown, NJ 07960

7.02. Effective as of the Effective Date, all payments of Base Rent, Additional Rent and other amounts due under the Lease from Tenant shall be made as follows:

If by Regular Mail:	Glenborough Westford Center, LLC P.O. Box 30930 New York, New York 10087-0930
If by Overnight Mail/Courier:	JP Morgan Chase - Lockbox Processing "Glenborough Westford Center, LLC

Lockbox 30930
4 Chase Metrotech Center
Ground Level Courier on Willoughby Street
Brooklyn, NY 11245

If by Wire Transfer:

Glenborough Westford Center, LLC
Account No. 230460283
ABA: 021000021
Bank: JPMorgan Chase Bank
401 Madison Avenue
New York, NY 10017

7.03. This Amendment and the attached exhibits, which are hereby incorporated into and made a part of this Amendment, set forth the entire agreement between the parties with respect to the matters set forth herein. There have been no additional oral or written representations or agreements. Under no circumstances shall Tenant be entitled to any Rent abatement, improvement allowance, leasehold improvements, or other work to the Premises, or any similar economic incentives that may have been provided Tenant in connection with entering into the Lease, unless specifically set forth in this Amendment,

7.04. Except as herein modified or amended, the provisions, conditions and terms of the Lease shall remain unchanged and in full force and effect.

7.05. In the case of any inconsistency between the provisions of the Original Lease and/or First Amendment and this Amendment, the provisions of this Amendment shall govern and control,

7.06. Submission of this Amendment by Landlord is not an offer to enter into this Amendment but rather is a solicitation for such an offer by Tenant. Landlord shall not be bound by this Amendment until Landlord has executed and delivered the same to Tenant.

7.07. The capitalized terms used in this Amendment shall have the same definitions as set forth in the Lease to the extent that such capitalized terms are defined therein and not redefined in this Amendment.

7.08. Tenant hereby represents to Landlord that Tenant has dealt with no broker in connection with this Amendment other than Richard Barry Joyce & Partners and Cushman & Wakefield. Tenant agrees to indemnify and hold Landlord, its trustees, members, principals, beneficiaries, partners, officers, directors, employees, mortgagee(s)and agents, and the respective principals and members of any such agents (collectively, the "Landlord Related Parties") harmless from all claims of any brokers claiming to have represented Tenant in connection with this Amendment,

7.09. Each signatory of this Amendment represents hereby that he or she has the authority to execute and deliver the same on behalf of the party hereto for which such signatory is acting.

IN WITNESS WHEREOF, Landlord and Tenant have duly executed this Amendment as of the day and year first above written.

WITNESS/ATTEST:

Name (print): _____

Name (print): _____

LANDLORD:

GLENBOROUGH WESTFORD CENTER, LLC, a Delaware limited liability company

By: _____
Name: _____
Title: _____

WITNESS/ATTEST:

Name (print): _____

Name (print): _____

TENANT:

CYNOSURE, INC., a Delaware corporation

By: _____
Name: Timothy W. Baker
Title: EVP, CFO

SCHEDULE 1

ANNUAL BASE RENT

Period	Monthly Installment of Base Rent	
January 1, 2008 - December 31, 2008	$ 82,706.98	*992,483.76
January 1, 2009 - June 30, 2009	$ 83,748.65	502,491,90
July 1, 2009 - December 31, 2009	$ 88,400.06	530,400.36
January 1, 2010 - December 31, 2010	$ 89,441.73	1,073,300.76
January 1, 2011 - June 30, 2011	$ 90,483.40	542,900.40
July 1, 2011 - December 31, 2011	$ 95,134.81	570,808.86
January 1,2012 - June 30, 2012	$ 96,176.48	577,058.88
July 1, 2012 - December 31, 2012	$115,945.00	695,670

* EY tied monthly payment to lease amendment w/o/p

EXHIBIT A-l

PLAN OF EXPANSION PREMISES

EXHIBIT B

TENANT WORK LETTER

This Exhibit is attached to and made a part of the Second Amendment by and between GLENBOROUGH WESTFORD CENTER, LLC, a Delaware limited liability company ("Landlord") and CYNOSURE, INC., a Delaware corporation (" Tenant") for certain space in the Building located at 5 Carlisle Road, Westford, Massachusetts 01886.

1. General.

1.1 Purpose. This Tenant Work Letter sets forth the terms and conditions governing Tenant's construction of tenant improvements to be installed in the Premises required and/or desired as a result of the addition of the Expansion Premises (the " Tenant Improvements ").

1.2 Construction Representatives. Prior to commencement of construction hereunder, each of Landlord and Tenant shall designate a representative ("Representative") who shall act for Landlord and Tenant, as the case may be, in all matters regarding Tenant Improvements.

All inquiries, requests, instructions, authorizations or other communications with respect to the Tenant Improvements shall be made to Landlord's Representative or Tenant's Representative, as the case may be. Authorizations made by Tenant's Representative shall be binding and Tenant shall be responsible for all costs authorized by Tenant's Representative. Either party may change its Representative at any time by written notice to the other party. Landlord shall not be obligated to respond to or act upon any plan, drawing, change order approval or other matter relating to the Tenant Improvements until it has been executed by Tenant's Representative.

2. Landlord Work; Labor Harmony. Landlord shall construct a demising wall for the Expansion Premises and (ii) install a sub-meter for the Expansion Premises at Landlord's sole cost and expense using Building-standard materials and construction (" Landlord Work"). Tenant acknowledges and agrees that in the event any portion of the construction of the Tenant Improvements interferes with, or in the reasonable judgment of Landlord may interfere with, the construction of any work to be performed by Landlord in the Building (including the Landlord Work) during construction of the Tenant Improvements, in all such events the work performed by Landlord shall take priority. If at any time construction of the Tenant Improvements shall cause disharmony, interference or union disputes of any nature whatsoever, whether with contractors of the Landlord and/or other tenants or occupants of the Building, Landlord reserves the right, without any liability to Landlord whatsoever, to immediately halt such construction of the Tenant Improvements and/or bar any offending contractors and/or subcontractors from the Building until such disharmony, interference or union disputes may be resolved.

3. Design and Schedule.

3.1 Tenant Plans for Tenant Improvements.

(a) Space Plan.

(b) Construction Drawings and Specifications. The "Construction Drawings and Specifications" as used herein shall mean the construction working drawings, the mechanical, electrical and other technical specifications, and the finishing details, including wall finishes and colors and technical and mechanical

equipment installation, if any, all of which details the installation of the Tenant Improvements in the Expansion Premises. The Construction Drawings shall be signed by Tenant's Representative and shall be delivered to Landlord for its review. The Construction Drawings and Specifications shall:

(i) be compatible with the Building shell, and with the design, construction and equipment of the Building;

(ii) comply with all applicable laws, codes and ordinances including the Americans With Disabilities Act, and the rules and regulations of all governmental authorities having jurisdiction;

(iii) comply with all applicable insurance regulations and the requirements of the Board of Underwriters for a fire resistant Class A building;

(iv) include locations of all Tenant Improvements including complete dimensions; and

(v) indicate an overall materials specification and level of quality consistent with other new first-class office space construction in the Boston Metro-West area.

(c) Except as otherwise provided pursuant to Section 12.3 and/or Section 12.5 of the Lease, all Tenant Improvements which are permanently affixed to the Expansion Premises or alter the operational systems of the Building shall become the property of Landlord upon expiration or earlier termination of the Lease and shall remain in the Expansion Premises at all times during the Term of the Lease,

3.2 Approvals by Landlord. All Construction Drawings .and Specifications for the Tenant Improvements (collectively, the " Tenant Plans") shall be subject, to Landlord's prior written approval, which shall not be unreasonably withheld or delayed, except that Landlord shall have complete discretion with regard to granting or withholding approval of the portions of the Tenant Plans to the extent the Tenant Plans would impact the Building's structure or systems, affect future marketability of the Premises or Building or would be visible from the common facilities or exterior of the Building. Any changes, additions or modifications that Tenant desires to make to the Tenant Plans shall also be subject to Landlord's prior written approval, which shall not be unreasonably withheld or delayed except as provided above for the Building structure, system or appearance impact.

4. Construction of Tenant Improvements. Following Landlord's final approval of the Tenant Plans and Tenant obtaining permits, Tenant shall commence" and diligently proceed with the construction of the Tenant Improvements, Tenant shall hire a contractor acceptable to Landlord to complete the Tenant Improvements and shall provide Landlord with a copy of the construction contract and all amendments thereto prior to commencement of construction. The Tenant Improvements shall be conducted with due diligence, in a good and workmanlike manner befitting a first class office building, and in accordance with the Tenant Plans and all applicable laws, codes, ordinances and rules and regulations of all governmental authorities having jurisdiction and shall be performed in compliance with the terms and conditions of the Lease including without limitation Sections 12.3 and 12.4 of the. Original Lease. Tenant shall (i) apply for a construction permit for the Tenant Improvements (the "Building Permit") no later than three (3) business days after receipt of Landlord's approval of the Construction Drawings and Specifications and (ii) complete construction as soon as is practicable but consistent with the schedule provided to the Landlord in connection with its approval of the Tenant's Plans. Expenses for electric service and other separately metered utilities during Tenant's build-out and move-in shall be the responsibility of Tenant.

Tenant hereby agrees to indemnify Landlord and hold Landlord harmless from any and all claims for personal or bodily injury and property damage that may arise from the performance of the Tenant improvements, whether resulting from the negligence or willful, misconduct of its general contractors, subcontractors or otherwise. Tenant and its contractors and subcontractors shall execute such additional documents as Landlord deems reasonably appropriate to evidence said indemnity.

Tenant shall not commence the Tenant Improvements until all items set forth in Section 12.3 of the Original Lease are provided to Landlord, including without limitation the evidence of insurance required therein, copies of all contracts and copies of all required governmental permits and approvals.

5. Change Orders. If Tenant requests any change or addition to or subtraction from the Tenant Improvements (" Change Order") after Landlord's approval of the final and complete Construction Drawings and Specifications for the Tenant Improvements, Landlord shall respond to Tenant's request for consent as soon as reasonably possible, but in no event later than ten (10) business days after being made. Any changes, additions or modifications that Tenant desires to make to the Tenant Plans shall not be unreasonably withheld, except that Landlord shall have complete discretion with regard to granting or withholding approval for the Building structure, system or appearance as provided in Section 3.2 above. All costs incurred by Landlord in connection with such change orders shall by reimbursed by Tenant to Landlord, as additional rent, with fifteen (15) days of Tenant's receipt of an invoice therefor.

6. Cooperation With Other Tenants . Tenant shall promptly remove from the common facilities any of Tenant's or Tenant's contractors' or subcontractors' equipment, materials, supplies or other property deposited in the common facilities during the construction of the Tenant Improvements. Further, Tenant shall at no time disrupt or allow disruption to any other existing tenant's or Building occupant's access to their premises or the Building, nor allow disruptions of mechanical, electrical, telephone and plumbing services. In addition, Tenant shall not interrupt or interfere with the normal business operations of any other tenant or occupant of the Building, the Project or adjacent buildings, To the extent construction of the Tenant Improvements does, or in the reasonable opinion of Landlord may, interrupt the normal business operations of any other tenant or occupant of the Building, the Project or adjacent buildings, such portion of the Tenant Improvement work shall be performed after normal business hours at such times as are directed by Landlord.

7. Inspection by Landlord; Construction Supervision . Landlord shall have the right to inspect the Tenant Improvements at all reasonable times. Landlord's failure to inspect the Tenant Improvements shall in no event constitute a waiver of any of Landlord's rights hereunder nor shall Landlord's inspection of the Tenant Improvements constitute the Landlord's approval of same. Tenant shall pay Landlord a fee of 4% of the contract price for the Tenant Improvements for construction management *and* supervision.

8. Completion of Tenant Improvements. Tenant shall notify Landlord in writing when the Tenant Improvements have been substantially completed, Landlord shall thereupon have the opportunity to inspect the Expansion Premises in order to determine if the Expansion Premises have been substantially completed in accordance with the Tenant Plans. If the Tenant Improvements have not been substantially completed in accordance with the Tenant Plans, Landlord shall immediately following inspection, provide Tenant with written notification of the items deemed incorrect or incomplete. Tenant shall forthwith proceed to correct the incorrect or incomplete items. Notwithstanding anything to the contrary, the Tenant Improvements shall not be considered suitable for review by Landlord until all designated or required governmental inspections,, permits and certifications necessary for the Tenant Improvements, including, but not limited to a temporary or final certificate of occupancy, have been made, given and/or posted.

9, Tenant Improvement Allowance.

(a) Landlord shall reimburse Tenant for up to $250,000 (the "Improvement Allowance") of the Costs of Tenant Improvements (as hereinafter defined). Tenant shall be solely responsible for the amount by which the Costs of Tenant Improvements exceeds the Improvement Allowance.

(b) Tenant acknowledges that any request for payment of the Improvement Allowance must be delivered to Landlord together with executed lien waivers, architect's certificates, contractor's statements and owner's statements covering the work for which reimbursement is then being requested. Landlord shall make disbursements of the Improvement Allowance within thirty (30) days after the Landlord's receipt of all required documentation, but in no event earlier than the date that Tenant takes possession of the entire Expansion Premises. Funds paid to Tenant from Landlord shall be deemed to be paid out of the Improvement Allowance until the full amount of the Improvement Allowance has been disbursed. Upon Tenant's completion of Tenant Improvements and delivery to Landlord of final lien waivers (including as-built plans for the Tenant Improvement if requested by Landlord) and other evidence required by Landlord to confirm Tenant Improvements has been completed and fully paid for, Landlord shall, after written request from Tenant, disburse to Tenant any portion of the Improvement Allowance to which Tenant has satisfied the requirements for disbursement,

"Costs of Tenant Improvements" shall mean the design and architectural costs to prepare the Tenant Plans, costs of all labor and materials, costs for removal of all construction debris, general contractor's fees and any permit or license fees necessary for completion of construction of Tenant Improvements and shall include the construction management and supervisory fee described in Section 7 above, if applicable. Landlord acknowledges that said Costs of Tenant Improvements may be applied to Tenant Improvements in either the Expansion Premises or the Original Premises as set forth in the Tenant Plans. Landlord shall be under no obligation to apply any portion of the Improvement Allowance for any purposes other than as provided in this Exhibit B, nor shall Landlord be deemed to have assumed any obligations, in whole or in part, of Tenant to any contractors, subcontractors, supplier, workers or material men. Landlord shall be under no obligation to disburse any remaining portion of the Improvement Allowance if (i) Tenant is in Default under the Lease at the time of request of such disbursement or at the time such disbursement is due from Landlord or (ii) any disbursement request is received after the date that is six (6) months from the Expansion Premises Commencement Date, and Tenant shall not thereafter be entitled to any such undisbursed portion of the Improvement Allowance.

THIRD AMENDMENT

THIS THIRD AMENDMENT (this "Third Amendment") is made and entered into as of July 1, 2011, by and between **GLENBOROUGH WESTFORD CENTER, LLC**, a Delaware limited liability company ("Landlord"), and **CYNOSURE, INC.**, a Delaware corporation ("Tenant").

RECITALS

A. Landlord (as successor in interest to Glenborough Fund V, Limited Partnership) and Tenant are parties to that certain lease dated January 31, 2005, as amended by a First Amendment to Lease dated September 16, 2005, and a Second Amendment dated September 28, 2007 (the " Second Amendment") (as amended, the "Lease"). Pursuant to the Lease, Landlord has leased to Tenant space currently containing 68,317 rentable square feet (the "Premises"), of which 40,092 rentable square feet are located on the first floor and 28,225 rentable square feet are located on the second floor of the building commonly known as Westford Corporate Center located at 5 Carlisle Road, Westford. Massachusetts 01886 (the "Building").

B. The Lease by its terms shall expire on December 31, 2012, and the parties desire to extend the Term of the Lease, and to modify certain provisions of the Lease, all on the following terms and conditions.

NOW, THEREFORE, in consideration of the mutual covenants and agreements herein contained and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Landlord and Tenant agree as follows:

I. Extension.

The Term of the Lease, as previously extended, is hereby further extended through June 30, 2018 (the " Extended Expiration Date"), upon all the terms and conditions set forth in the Lease, except as set forth in this Third Amendment.

II. Base Rent.

Notwithstanding anything set forth in the Lease to the contrary, commencing on July 1, 2011, Tenant shall pay Annual Base Rent for the Premises as set forth below:

Period	Annual Rate Per Rentable Square Foot	Annual Base Rent	Monthly Base Rent
07/01/2011 – 12/31/2011		Per Existing Lease	
01/01/2012 – 02/28/2012	$ 0	$ 0	$ 0
03/01/2012 – 03/31/2012	$ 9.35	$ 638,763.95 (annualized)	$ 53,230.33
04/01/2012 – 06/30/2012	$ 15.65	$1,069,161.05 (annualized)	$ 89,096.75
07/01/2012 – 06/30/2013	$ 16.75	$ 1,144,309.75	$ 95,359.15
07/01/2013 – 06/30/2014	$ 17.50	$1,195,547.50	$ 99,628.96
07/01/2014 – 06/30/2015	$ 18.25	$1,246,785.25	$ 103,898.77
07/01/2015 – 06/30/2016	$ 19.00	$ 1,298,023.00	$108,168.58
07/01/2016 – 06/30/2017	$ 19.75	$ 1,349,260.75	$ 112,438.40
07/01/2017 – 06/30/2018	$ 20.25	$ 1,383,419.25	$ 115,284.94

III. Additional Rent—Operating Expenses and Tax Costs.

Commencing January 1, 2013, and continuing through the Extended Expiration Date, (i) the Base Year for Operating Expenses shall be Calendar Year 2013, and (ii) the Base Year for Tax Costs shall be Fiscal Year 2013 (i.e., July 1, 2012 through June 30, 2013). Landlord agrees that Tax Costs for the Base Year shall not be affected by any abatement that Landlord may receive for and with respect to such year.

IV. Electricity.

Tenant shall continue to pay for electricity provided to the Premises as set forth in Section 10 of the Lease, as amended by Section 4 of the Second Amendment.

V. Parking.

Tenant shall continue to have Tenant's Parking Rights, as initially defined in Section 2.12 of the Lease and subsequently deleted and replaced with Section 6.01 of the Second Amendment. In addition, Landlord shall designate the current six (6) spaces at the front of the Building as "reserved for visitors."

VI. Condition of Premises.

Tenant is in possession of the Premises and accepts the same "as is" without any agreements, representations, understandings or obligations on the part of Landlord to perform any alterations, repairs or improvements, except as may be expressly provided otherwise in this Third Amendment.

VII. Landlord's Contribution.

1. Landlord shall, in the manner hereinafter provided, contribute up to One Million Seventeen Thousand Two Hundred Forty and 13/100 Dollars ($1,017,240.13 (i.e., $14.89 per rentable square foot of the Premises) (" Landlord's Contribution") towards the cost of Tenant's design and improvements to the Premises ("Tenant's Work"). Tenant's Work shall be performed in accordance with Section 12 of the Lease. Provided that Tenant is not in default of its obligations under the Lease at the time that Tenant submits any requisition (as hereinafter defined) on account of Landlord's Contribution, Landlord shall pay the cost of the work shown on each requisition submitted by Tenant to Landlord within thirty (30) days of submission thereof by Tenant to Landlord. In the event that Landlord's Contribution shall not be sufficient to complete Tenant's Work, Tenant shall pay the excess costs prior to Landlord disbursing Landlord's Contribution to Tenant.

2. For the purposes hereof, a " requisition" shall mean written documentation (including, without limitation, invoices from Tenant's contractor, written lien waivers and such other documentation as Landlord may reasonably request) showing in reasonable detail the costs of the improvements installed by Tenant to date in the Premises, accompanied by certifications from Tenant, Tenant's architect, and Tenant's contractor that the work performed to date has been performed in accordance with applicable laws and in accordance with Tenant's approved plans, and that the amount of the requisition in question does not exceed the cost of the work covered by such requisition. Each requisition shall be accompanied by evidence reasonably satisfactory to Landlord that all work covered by previous requisitions has been fully paid by Tenant. Tenant shall submit requisition(s) no more often than monthly.

3. Notwithstanding anything to the contrary herein contained:

(i) Landlord shall have no obligation to advance funds on account of Landlord's Contribution unless and until Landlord has received the requisition in question, together with the certifications required by Subparagraph (2) above, certifying that the work shown on the requisition has been performed in accordance with applicable law and in accordance with Tenant's plans.

(ii) Except with respect to work and/or materials previously paid for by Tenant, as evidenced by paid invoices and written lien waivers provided to Landlord, Landlord shall have the right to have Landlord's Contribution paid to both Tenant and Tenant's contractor(s) and vendor(s) jointly.

(iii) Landlord shall have no obligation to pay Landlord's Contribution in respect of any requisition submitted (x) prior to December 31, 2011 or (y) after the later to occur of (a) the date that is one (1) year after Landlord's lender approves this Third Amendment (which approval may be evidenced by such lender's execution of a subordination, non-disturbance and attornment agreement pursuant to Section XVI below) and Landlord notifies Tenant of same and (b) December 31, 2012.

(iv) Tenant shall not be entitled to any unused portion of Landlord's Contribution, except that Tenant shall be permitted to use up to twenty percent (20%) of Landlord Contribution (i.e., up to $203,448.03) towards the cost of furniture, fixtures, equipment, security systems, flagpole, wiring and cabling.

(v) The parties acknowledge that Landlord's property manager Normandy FundSub Management LLC) will oversee and coordinate the performance of Tenant's Work, and Landlord shall be entitled to receive an administration fee for said property manager's oversight of Tenant's Work (including, without limitation, the qualification of contractors, review of all plans and construction schedules, the coordination of Building services, and the tie-in to the Base Building systems) in an amount equal to two percent (2%) of the total hard costs of Tenant's Work. Tenant's Work shall be performed by a licensed general contractor selected by Tenant and approved in writing by Landlord, which approval shall not be unreasonably withheld. Tenant's Work shall be performed in accordance with plans and specifications therefor prepared by Tenant and approved in writing by Landlord, which approval shall not be unreasonably withheld.

(vi) If Landlord fails to pay any installment of Landlord's Contribution when due hereunder, which failure continues for more than thirty (30) days after Tenant give Landlord notice of such failure, then Tenant may offset the amount of Landlord's Contribution due but not paid hereunder against the next installment(s) of Base Rent due hereunder.

VIII. Security Deposit.

The parties hereby acknowledge that Landlord is currently holding a Security Deposit in the amount of $200,000.00 pursuant to Sections 2.16, 8, and 41 of the Lease. Within thirty (30) days after Tenant's right to terminate this Third Amendment pursuant to Section XVI below has lapsed or been waived in writing by Tenant, the Security Deposit shall be reduced to $95,000.00, which reduction shall be effected by, at Landlord's option, (i) Landlord paying to Tenant the sum of $105,000.00, or (ii) Landlord crediting such sum against the next installment(s) of Base Rent due hereunder. The Security Deposit shall not be subject to further reduction pursuant to Section 41 of the Lease and shall continue to be held by Landlord in accordance with Section 8 of the Lease through the Extended Expiration Date, as the same may be extended.

IX. Landlord Addresses.

Effective as of the date hereof, Landlord's addresses for notices set forth in Section 2.8 of the Lease, as amended by Section 7.01 of the Second Amendment are hereby deleted in their entirety and the below-listed addresses shall be substituted therefor:

Landlord's Notice Addresses:

Glenborough Westford Center, LLC
c/o Normandy Real Estate Management, LLC
7/57 Wells Avenue
Newton, Massachusetts 02459
Attention: Jeff Rines, Senior Vice President

With a copy to:

Normandy Real Estate Partners, LLC
53 Maple Avenue
Morristown, New Jersey 07960
Attention: Raymond P. Trevisan, Principal and General Counsel

With a copy to:

Normandy Real Estate Partners, LLC
53 Maple Avenue
Morristown, New Jersey 07960
Attention: Steve Smith, Director

X. Extension Options.

Section 38 of the Lease (Option to Extend) is hereby deleted in its entirety and the below-listed Section 38 is hereby substituted therefor:

"38. Options to Extend.

A. Grant of Option: Conditions. Tenant shall have the right to extend the Term (the "Extension Options") for two (2) additional periods of five (5) years each, commencing on the day following the expiration of the then current Term and ending on the last day of the sixtieth (60th) calendar month thereafter (each, an "Extension Term"), if:

1. Landlord receives notice of exercise (each, an "Initial Extension Notice") not later than fourteen (14) full calendar months prior to the expiration of the then current Term and not earlier than fifteen (15) full calendar months prior to the expiration of the then current Term; and

2. Tenant is not in default under the Lease beyond any applicable cure periods at the time that Tenant delivers its Initial Extension Notice or at the time Tenant delivers its Binding Notice (as defined below); and

3. Not more than twenty-five percent (25%) of the Premises is sublet at the time that Tenant delivers its Initial Extension Notice or at the time Tenant delivers its Binding Notice.

B. Terms Applicable to Premises During Extension Term.

1. The initial Base Rent rate per rentable square foot for the Premises during an Extension Term shall equal the Prevailing Market rate

(hereinafter defined) per rentable square foot for renewals or extensions in the market of the Premises. Base Rent during an Extension Term shall increase, if at all, in accordance with the increases assumed in the determination of Prevailing Market rate. Base Rent attributable to the Premises shall be payable in monthly installments in accordance with the terms and conditions of Section 6 of the Lease.

2. Tenant shall pay Additional Rent (i.e., Tax Costs and Operating Expenses) for the Premises during an Extension Term in accordance with the terms of Section 6 of the Lease, and the manner and method in which Tenant reimburses Landlord for Tenant' s share of Tax Costs and Operating Expenses and the Base Year applicable to such matter, shall be some of the factors considered in determining the Prevailing Market rate for the applicable Extension Term.

C. Initial Procedure for Determining Prevailing Market . Within thirty (30) days after receipt of Tenant's Initial Extension Notice (but no sooner than twelve (12) months prior to the expiration of the then current Term), Landlord shall advise Tenant of the applicable Base Rent rate for the Premises for the applicable Extension Term. Tenant, within fifteen (15) days after the date on which Landlord advises Tenant of the applicable Base Rent rate for said Extension Term, shall elect one of the following: (i) to give Landlord written notice that Tenant accepts Landlord's Base Rent for the Extension Term ("Binding Notice "), (ii) if Tenant disagrees with Landlord's determination, to provide Landlord with written notice of rejection (the " Rejection Notice"), or (iii) to withdraw Tenant's exercise of the Extension Option by giving Landlord written notice of such election. If Tenant fails to provide Landlord with either a Binding Notice or a Rejection Notice, or to withdraw Tenant's exercise of the Extension Option, within such fifteen-(15)-day period, Tenant shall be deemed to have provided a Binding Notice. If Tenant provides or is deemed to have provided Landlord with a Binding Notice, Landlord and Tenant shall enter into the Extension Amendment (as defined below) upon the terms and conditions set forth herein and in Landlord's notice as to Base Rent for the Extension Term. If Tenant provides Landlord with a Rejection Notice, Landlord and Tenant shall work together in good faith to agree upon the Prevailing Market rate for the Premises during the Extension Term. Upon agreement, Landlord and Tenant shall enter into the Extension Amendment in accordance with the terms and conditions hereof. If Landlord and Tenant fail to agree upon the Prevailing Market rate within thirty (30) days after the date Tenant provides Landlord with the Rejection Notice, then the Prevailing Market rate shall be determined in accordance with the arbitration procedures described in Section D below.

D. Arbitration Procedure.

1. If Landlord and Tenant have failed to reach agreement as to the Prevailing Market rate within thirty (30) days after the date of the Rejection Notice, then, within five (5) days after the expiration of such thirty-(30)-day period, Landlord and Tenant shall each simultaneously submit to the other, in a sealed envelope, its good faith estimate of the Prevailing Market rate for the Premises during the Extension Term (collectively referred to as the " Estimates"). If the higher of such Estimates is not more than one hundred five percent (105%) of the lower of such Estimates, then Prevailing Market rate shall be the average of the two Estimates. If the Prevailing Market rate is not resolved by the exchange of Estimates, then, within seven (7) days after the exchange of Estimates, Landlord and Tenant shall each select an appraiser to determine which of the two Estimates most closely reflects the Prevailing Market rate for the Premises during the Extension Term. Each appraiser so selected shall be certified as an MAI appraiser or as an ASA appraiser and shall have had at least five (5) years of experience within the previous ten (10) years as a real estate appraiser working in the Boston MetroWest rental market, with working knowledge of current rental rates and practices. For purposes hereof, an "MAI" appraiser means an individual who holds an MAI designation conferred by, and is an independent member of, the American Institute of Real Estate Appraisers (or its successor organization, or in the event there is no successor organization, the organization and designation most similar), and an " ASA" appraiser means an individual who holds the Senior Member designation conferred by, and is an independent member of, the American Society of Appraisers (or its successor organization, or, in the event there is no successor organization, the organization and designation most similar).

2. Upon selection, Landlord's and Tenant's appraisers shall work together in good faith to agree upon which of the two Estimates most closely reflects the Prevailing Market rate for the Premises. The Estimate chosen by such appraisers shall be binding on both Landlord and Tenant as the Base Rent rate for the Premises during the Extension Term. If either Landlord or Tenant fails to appoint an appraiser within the seven-(7)-day period referred to above, the appraiser appointed by the other party shall be the sole appraiser for the purposes hereof. If the two appraisers cannot agree upon which of the two Estimates most closely reflects the Prevailing Market within twenty (20) days after their appointment, then, within ten (10) days after the expiration of such twenty-(20)-day period, the two appraisers shall select a third appraiser meeting the

aforementioned criteria. Once the third appraiser (i.e., arbitrator) has been selected as provided for above, then, as soon thereafter as practicable but in any case within fourteen (14) days, the arbitrator shall make his determination of which of the two Estimates most closely reflects the Prevailing Market rate, and such Estimate shall be binding on both Landlord and Tenant as the Prevailing Market rate for the Premises for the purpose of determining Base Rent for the Extension Term. If the arbitrator believes that expert advice would materially assist him, he may retain one or more qualified persons to provide such expert advice. The parties shall share equally in the costs of the arbitrator and of any experts retained by the arbitrator. Any fees of any appraiser, counsel or experts engaged directly by Landlord or Tenant, however, shall be borne by the party retaining such appraiser, counsel or expert.

3. If the Prevailing Market rate has not been determined by the commencement date of the Extension Term, Tenant shall pay Base Rent upon the terms and conditions in effect during the last month of the previous current Term for the Premises until such time as the Prevailing Market rate has been determined. Upon such determination, the Base Rent for the Premises shall be retroactively adjusted to the commencement of the Extension Term for the Premises.

E. Extension Amendment. If Tenant is entitled to and properly exercises its Extension Option, Landlord shall prepare an amendment (the "Extension Amendment ") to reflect changes in the Base Rent, Term, Expiration Date and other appropriate terms directly reflecting the exercise of the Extension Option. The Extension Amendment shall be sent to Tenant within fifteen (15) days after final determination of the Prevailing Market rate applicable during the Extension Term, and, provided that the Extension Amendment complies with the terms hereof, Tenant shall execute and return the Extension Amendment to Landlord within fifteen (15) days after Tenant's receipt of same, but an otherwise valid exercise of the Extension Option shall be fully effective whether or not the Extension Amendment is executed.

F. Prevailing Market. For purposes hereof, "Prevailing Market" shall mean the arms' length fair market annual rental rate per rentable square foot for renewals or extensions entered into on or about the date on which the Prevailing Market is being determined hereunder for space comparable to the Premises in the Building and office buildings comparable to the Building located within a radius of ten (10) miles from the Building. The determination of Prevailing Market shall take into account any material economic differences between the terms of this Lease and any comparison lease or amendment, such as rent abatements, construction costs and other concessions or allowances and the manner, if any, in which the landlord under any such lease is reimbursed for operating expenses and taxes.

XI. Right of First Refusal.

Section 39 of the Lease (Right of First Offer) is hereby deleted in its entirety and the below-listed Section 39 is hereby substituted therefor:

"39. Right of First Refusal.

A. Grant of Option; Conditions. Tenant shall have a right of first refusal (the "Right of First Refusal") with respect to the balance of the second floor of the Building, containing approximately 13,315 rentable square feet of space (the " Refusal Space"). Tenant's Right of First Refusal shall be exercised as follows: when Landlord has a prospective tenant (the " Prospect") interested in leasing the Refusal Space, Landlord shall advise Tenant (the "Advice") of the terms under which Landlord is prepared to lease the Refusal Space to such Prospect and Tenant may lease the Refusal Space, under such terms, by providing Landlord with written notice of exercise (the "Notice of Exercise") within ten (10) days after the date of the Advice, except that Tenant shall have no such Right of First Refusal and Landlord need not provide Tenant with an Advice if:

1. Tenant is in default under the Lease beyond any applicable cure periods at the time that Landlord would otherwise deliver the Advice; or

2. more than twenty-five percent (25%) of the Premises, is sublet at the time Landlord would otherwise deliver the Advice; or

3. the Tenant is not occupying the Premises on the date Landlord would otherwise deliver the Advice.

B. Terms for Refusal Space. The term for the Refusal Space shall commence upon the commencement date stated in the Advice and thereupon such Refusal Space shall be considered a part of the Premises, provided that all of the terms stated in the Advice, including the expiration date set forth in the Advice, shall govern Tenant's leasing of the Refusal Space and, but only to the extent that they do not conflict with the Advice, the terms and conditions of the Lease shall apply to the Refusal Space. Tenant shall pay Base Rent and Additional Rent for the Refusal Space in accordance with the terms and conditions of the Advice.

C. The Refusal Space (including improvements and personalty, if any) shall be accepted by Tenant in its condition and as-built configuration existing on the earlier of the date Tenant takes possession of the Refusal Space or the date the term for such Refusal Space commences, unless the Advice specifies work to be performed by Landlord in the Refusal Space, in which case Landlord shall perform such work in the Refusal Space. If

Landlord is delayed delivering possession of the Refusal Space due to the holdover or unlawful possession of such space by any party, Landlord shall use reasonable efforts to obtain possession of the space, and the commencement of the term for the Refusal Space shall be postponed until the date Landlord delivers possession of the Refusal Space to Tenant free from occupancy by any party.

D. If Tenant fails timely to give the Notice of Exercise, Landlord shall have the right to lease the Refusal Space on the terms and conditions of the Advice or such other terms and conditions as may be less advantageous to the lessee. Landlord shall not enter into any lease with a third party on terms that are more advantageous to the lessee unless Landlord first gives Tenant another Advice setting forth such more advantageous terms.

E. Refusal Space Amendment. If Tenant exercises its Right of First Refusal, Landlord shall prepare an amendment (the "Refusal Space Amendment") adding the Refusal Space to the Premises on the terms set forth in the Advice and reflecting the changes in the Base Rent, rentable square footage of the Premises, Tenant's Proportionate Share and other appropriate terms. A copy of the Refusal Space Amendment shall be sent to Tenant within a reasonable time after Landlord's receipt of the Notice of Exercise executed by Tenant, and Tenant shall execute and return the Refusal Space Amendment to Landlord within fifteen (15) days thereafter, but an otherwise valid exercise of the Right of First Refusal shall be fully effective whether or not the Refusal Space Amendment is executed."

XII. Amended Lease Provisions.

A. Leasehold Improvements. Notwithstanding the provisions of Sections 12.5 and 13.1 of the Lease, Tenant shall not be required to remove at the expiration or earlier termination of the Lease any Leasehold Improvements that exist as of the date hereof. Notwithstanding Section 12.3 of the Lease, Tenant shall not be required to remove at the expiration or earlier termination of the Lease any future Leasehold Improvements which are cosmetic in nature such as carpet, paint, flooring, ceiling tiles and flagpoles. In any event, Tenant shall remove all of its signage. Improvements to elevators and bathrooms shall also not be required to be removed at the expiration or earlier termination of the Lease.

B. Assignment and Subletting. Effective as of the date hereof, Section 18 of the Lease shall be modified as follows:

1. Section 18.1 of the Lease is hereby supplemented by adding in the first sentence after the word "Landlord" the words "which consent shall not be unreasonably withheld, conditioned, or delayed".

2. Section 18.2 of the Lease is hereby amended by adding at the end of clause (a) in the fifth sentence the words "if Landlord has available space in the Project to accommodate said existing tenant's space requirements".

3. Section 18.2.5 of the Lease is hereby deleted in its entirety and the below-listed Section 18.2.5 is hereby substituted therefor:

"18.2.5 In the event of an assignment of this Lease or a sublease of the Premises or any portion thereof, Tenant shall pay to Landlord fifty percent (50%) of any Net Transfer Profit (as defined below), payable in accordance with the following. In the case of an assignment of this Lease, "Net Transfer Profit ": (1) shall be defined as a lump sum in the amount (if any) by which any consideration paid by the assignee in consideration of or as an inducement to Tenant to make said assignment exceeds the Transfer Expenses, as hereinafter defined, and (2) shall be payable within thirty (30) days after Tenant's receipt of the payment to be made by the assignee to Tenant. In the case of a sublease, "Net Transfer Profit": (3) shall be defined as a monthly amount equal to the amount by which the sublease rent and other charges payable by the subtenant to Tenant under the sublease exceed the sum of the rent and other charges payable under this Lease for the Premises (or allocable to the sublet portion thereof, if less than the entire Premises is being sublet), and (4) shall be payable on a monthly basis concurrently with the subtenant's payment of rent to Tenant under the sublease, provided however that Tenant shall first recoup all of the Transfer Expenses from such Net Transfer Profit before being obligated to make any payments to Landlord on account thereof. For purposes hereof, "Transfer Expenses" shall mean reasonable attorneys' fees, construction costs, tenant improvement allowances, marketing costs and brokerage fees incurred by Tenant in order to effect such assignment or sublease, as the case may be."

4. Section 19.1.1 of the Lease is hereby amended by deleting the words "or vacates the Premises for three (3) consecutive months."

XIII. Inapplicable and Deleted Lease Provisions.

Section 12.1 (Landlord's Construction Obligations), Section 37 (Tenant Improvements), and Exhibit D (Proposed Tenant Improvements) of the Lease and Exhibit B (Tenant Work Letter) of the Second Amendment shall have no applicability with respect to this Third Amendment.

Section 30 (Relocation of Premises) of the Lease is hereby deleted in its entirety and is of no further force or effect.

XIV. Landlord Default.

Landlord shall not be deemed to be in default of its obligations under the Lease unless Tenant has given Landlord written notice of such default, and Landlord has failed to cure said default within thirty (30) days after Landlord receives such notice or such longer period of time as Landlord may reasonably require to cure such default.

Except as otherwise expressly provided in the Lease, in no event shall Tenant have the right to terminate the Lease nor shall Tenant's obligation to pay Base Rent or other charges under the Lease abate based upon any default by Landlord of its obligations under the Lease.

XV. Flagpole, Monument Sign.

1. In addition to Tenant's signage rights set forth in Section 40 and Exhibit F of the Lease, which rights shall remain in full force and effect, Tenant, at Tenant's sole cost and expense or as a portion of Landlord's Contribution, shall have the right to install on the Property a flagpole flying the American flag (the "Flagpole") in a location to be mutually agreed upon by Landlord and Tenant. The installation of said Flagpole shall be done in compliance with all applicable laws, codes and ordinances, and Tenant shall be responsible for obtaining all governmental permits and approvals, if any, required in connection therewith. The Flagpole shall be deemed Tenant's Property and Tenant, at Tenant's sole cost and expense, shall repair, maintain, and, at Landlord's election, upon the expiration or earlier termination of the Lease, remove the Flagpole and repair any damage to the Property resulting from Tenant's installation, presence, removal, or other activity related to the Flagpole.

2. Tenant shall have the right, at Tenant's sole expense (except that a portion of the Landlord's Contribution may be applied toward such cost), to increase the size of the Building monument sign on which Tenant's name appears as of the date of this Third Amendment. Any such work shall be done in accordance with plans and specifications therefor that have been prepared by Tenant and approved in advance, in writing by Landlord and in compliance with all applicable laws and regulations. Tenant acknowledges that such monument sign shall not be exclusive to Tenant and that Landlord may require, as part of the approval process, that Tenant provide sufficient space on such monument for signs of other tenants of the Building. Tenant shall be solely responsible for obtaining all permits and approvals required for the work to increase the size of such monument sign.

XVI. Subordination, Non-Disturbance and Attornment Agreement.

Landlord shall use reasonable efforts to obtain a subordination, non-disturbance and attornment agreement from its current mortgagee within sixty (60) days after the execution and delivery of this Third Amendment by the parties. Tenant agrees that (i) any such agreement shall be on such mortgagee's standard form attached hereby as Exhibit G, with such commercially reasonable changes as may be agreed upon by the parties, and (ii) Tenant shall pay any charges (including legal fees) required by such mortgagee as a condition to entering into such agreement (but Tenant shall have the right to rescind the request for such agreement when the mortgagee first informs it of what those fees will be). If Landlord fails to obtain such agreement executed by such mortgagee on or before November 15, 2011, Tenant may elect to terminate this Third Amendment by giving Landlord written notice of such election at any time after such date and before Landlord obtains such executed agreement. If Tenant so elects, then this Third Amendment shall automatically terminate on the date that is thirty (30) days after Tenant delivers such termination notice, unless, on or before the expiration of such thirty-day period, Landlord deliver such executed agreement, in which event Tenant's election to terminate shall automatically become void.

XVII. Removal of Tenant's Property in Refusal Space.

The parties hereby acknowledge that Tenant has been storing Tenant's personal property in the Refusal Space, and Tenant hereby agrees to remove all of Tenant's personal property from the Refusal Space within forty-five (45) days following the execution and delivery of this Third Amendment by the parties.

XVIII. Miscellaneous.

1. This Third Amendment sets forth the entire agreement between the parties with respect to the matters set forth herein. There have been no additional oral or written representations or agreements. Under no circumstances shall Tenant be entitled to any rent abatement, improvement allowance, leasehold improvements, or other work to the Premises, or any similar economic incentives that may have been provided Tenant in connection with entering into the Lease, unless specifically set forth in this Third Amendment.

2. Except as herein modified or amended, the provisions, conditions and terms of the Lease shall remain unchanged and in full force and effect.

3. In the case of any inconsistency between the provisions of the Lease and this Third Amendment, the provisions of this Third Amendment shall govern and control.

4. Submission of this Third Amendment by Landlord is not an offer to enter into this Third Amendment but rather is a solicitation for such an offer by Tenant. Landlord shall not be bound by this Third Amendment until Landlord has executed and delivered the same to Tenant.

5. The capitalized terms used in this Third Amendment shall have the same definitions as set forth in the Lease to the extent that such capitalized terms are defined therein and not redefined in this Third Amendment.

6. Tenant hereby represents to Landlord that Tenant has dealt with no broker in connection with this Third Amendment, other than Cushman & Wakefield (the "Broker"). Tenant agrees to indemnify and hold Landlord, its members, principals, beneficiaries, partners, officers, directors, employees, mortgagee(s) and agents, and the respective principals and members of any such agents (collectively, the " Landlord Related Parties") harmless from all claims of any brokers claiming to have represented Tenant in connection with this Third Amendment, other than the Broker. Landlord hereby represents to Tenant that Landlord has dealt with no broker in connection with this Third Amendment, other than the Broker. Landlord agrees to indemnify and hold Tenant, its members, principals, beneficiaries, partners, officers, directors, employees, and agents, and the respective principals and members of any such agents (collectively, the "Tenant Related Parties") harmless from all claims of any brokers claiming to have represented Landlord in connection with this Third Amendment, other than the Broker.

7. Tenant represents and warrants to Landlord that each individual executing this Lease on behalf of Tenant is authorized to do so on behalf of Tenant and that Tenant is not, and the entities or individuals constituting Tenant or which may own or control Tenant or which may be owned or controlled by Tenant are not, among the individuals or entities identified on any list compiled pursuant to Executive Order 13224 for the purpose of identifying suspected terrorists.

8. Each signatory of this Third Amendment represents hereby that he or she has the authority to execute and deliver the same on behalf of the party hereto for which such signatory is acting.

IN WITNESS WHEREOF, Landlord and Tenant have duly executed this Third Amendment as of the day and year first above written.

LANDLORD:

GLENBOROUGH WESTFORD CENTER, LLC, a Delaware limited liability company

By: /s/ Raymond P. Trevisan
Name: Raymond P. Trevisan
Title: Vice President / Secretary

TENANT:

CYNOSURE, INC.,
a Delaware corporation

By: /s/ Timothy W. Baker
Name: Timothy W. Baker
Title: Executive Vice President, Chief Financial Officer

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EXHIBIT G

FORM OF SUBORDINATION, NON-DISTURBANCE AND ATTORNMENT AGREEMENT

See attached.

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SUBSIDIARIES OF THE REGISTRANT

Exhibit 21.1

SUBSIDIARY	JURISDICTION OF INCORPORATION
Cynosure France	France
Cynosure GmbH	Germany
Cynosure K.K.	Japan
Cynosure UK Ltd.	United Kingdom
Cynosure Spain S.L.	Spain
Cynosure Securities Corporation	United States
Suzhou Cynosure Medical Devices Company Ltd.	China
Cynosure Mexico	Mexico
Cynosure Korea Limited	Korea

Exhibit 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the Registration Statements on Form S-8 (Nos. 333-130237, 333-157945, 333-164569, 333-171984 and 333-179452) pertaining to the Cynosure 1992 Stock Option Plan, Cynosure 2004 Stock Option Plan, and the Cynosure 2005 Stock Incentive Plan of our reports dated March 7, 2012, with respect to the consolidated financial statements of Cynosure, Inc. and the effectiveness of internal control over financial reporting of Cynosure, Inc., included in this Annual Report (Form 10-K) for the year ended December 31, 2011.

/s/ Ernst & Young LLP

Boston, Massachusetts
March 7, 2012

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 7, 2012

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 7, 2012

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, 2011 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. D AVIN

Michael R. Davin
Chairman, President and Chief Executive Officer

Date: March 7, 2012

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, 2011 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 7, 2012