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

FORM 8-K/A
(Amendment No. 1)

CURRENT REPORT
Pursuant to Section 13 or 15(d)
of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): November 7, 2019

VENUS CONCEPT INC.
(Exact name of registrant as specified in its charter)

Delaware	001-38238	06-1681204
(State or other jurisdiction of incorporation)	(Commission File Number)	(IRS Employer Identification Number)

235 Yorkland Blvd, Suite 900
Toronto, Ontario M2J 4Y8
(Address of principal executive offices, including Zip Code)

Registrant's telephone number, including area code (877) 848-8430

(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, $0.0001 par value per share	**VERO**	**The Nasdaq Global Market**

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (§230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§240.12b-2 of this chapter). Emerging growth company ☒

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Item 2.01. Completion of Acquisition or Disposition of Assets.

This Current Report on Form 8-K/A amends and supplements Items 9.01(a) and 9.01(b) of the Current Report on Form 8-K filed by Venus Concept Inc. (the "Company") on November 7, 2019 (the "Initial Form 8-K") to include (i) audited consolidated financial statements of Venus Concept Ltd. ("Venus Concept") for the years ended December 31, 2018 and 2017, (ii) unaudited condensed consolidated financial statement of Venus Concept for the nine months ended September 30, 2019, and (iii) unaudited pro forma condensed combined financial statements of the Company for the nine months ended September 30, 2019 and the year ended December 31, 2018 reflecting the business combination with Venus, which were permitted pursuant to Item 9 of Form 8-K to be excluded from the Initial Form 8-K and filed by amendment to the Initial Form 8-K no later than 71 days after the date the Initial Form 8-K was required to be filed. In addition, the Company hereby amends Item 8.01 of the Initial Form 8-K to include the Management's Discussion and Analysis of Financial Condition and Results of Operations of Venus Concept for the nine months ended September 30, 2019.

Item 8.01. Other Events.

The Company is providing the Management's Discussion and Analysis of Financial Condition and Results of Operations of Venus Concept for the nine months ended September 30, 2019, which is filed as Exhibit 99.1.

Item 9.01. Financial Statements and Exhibits.

(a) Financial Statements of Business Acquired

Audited consolidated financial statements of Venus Concept for the years ended December 31, 2018 and 2017 including the independent auditor's report of Deloitte LLP thereon, filed as Exhibit 99.2.

Unaudited condensed consolidated financial statements of Venus Concept for the three and nine month periods ended September 30, 2019 and 2018, filed as Exhibit 99.3.

(b) Unaudited Pro Forma Financial Information

Unaudited pro forma condensed combined financial statements of the Company for the nine months ended September 30, 2019 and the year ended December 31, 2018, filed as Exhibit 99.4

(c) Exhibits

The following exhibits are filed herewith.

Exhibit No.	Description
23.1	Consent of Deloitte LLP
99.1	Management's Discussion and Analysis of Financial Condition and Results of Operations of Venus Concept Ltd. for the nine months ended September 30, 2019
99.2	Audited consolidated financial statements of Venus Concept Ltd. for the years ended December 31, 2018 and 2017
99.3	Unaudited condensed consolidated financial statements of Venus Concept Ltd. for the three and nine month periods ended September 30, 2019 and 2018
99.4	Unaudited pro forma condensed combined financial statements of Venus Concept Inc. for the nine months ended September 30, 2019 and the year ended December 31, 2018

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

VENUS CONCEPT INC.

Date: December 3, 2019

By: /s/ Domenic Della Penna
Domenic Della Penna
Chief Financial Officer

Exhibit 23.1

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in Registration Statement Nos. 333-220993, 333-223448 and 333-231507 on Form S-8 and 333-228562 on Form S-3 of our report dated December 2, 2019, relating to the financial statements of Venus Concept Ltd. and subsidiaries as of and for the years ended December 31, 2018 and 2017, appearing in the Current Report on Form 8-K/A of Venus Concept Inc. dated December 2, 2019.

/s/ Deloitte LLP

Chartered Professional Accountants
Licensed Public Accountants
December 2, 2019
Toronto, Canada

VENUS CONCEPT LTD. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of Venus Concept Ltd.'s (Venus Concept) financial condition and results of operations should be read together with the consolidated financial statements of Venus Concept and the related notes and the unaudited pro forma financial information, each included elsewhere in this Current Report on Form 8-K/A. This discussion of Venus Concept's financial condition and results of operations contains certain statements that are not strictly historical and are "forward-looking" statements and involve a high degree of risk and uncertainty. Actual results may differ materially from those projected in the forward-looking statements due to other risks and uncertainties that exist in Venus Concept's operations, development efforts and business environment. All forward-looking statements are based on information available to Venus Concept as of the date hereof, and Venus Concept assumes no obligation to update any such forward-looking statement.

Overview

Venus Concept is an innovative global medical technology company that develops, commercializes, and delivers minimally invasive and non-invasive medical aesthetic technologies and related practice enhancement services. To address the financial barriers faced by physicians and aesthetic service providers globally, Venus Concept focuses its product sale strategy on a subscription-based business model in North America and in Venus Concept's well established direct global markets. Venus Concept has received FDA clearance for the combined use of multipolar RF and PEMF for non-invasive treatment of facial rhytides (wrinkles) in Fitzpatrick skin types I (ivory)-IV (light brown), and temporary reduction in the appearance of cellulite, among others. Venus Concept also received FDA clearance for the use of its diode laser system for non-invasive fat reduction (lipolysis) in the abdomen and flanks for certain body types. In certain jurisdictions outside of the United States, Venus Concept's products have received marketing authorizations for indications such as temporary increase of skin tightening, cellulite reduction and uses for certain soft tissue injuries, among others, and for vaginal treatment in the Israeli market. Venus Concept's proprietary multipolar RF and PEMF technologies, also referred to as Venus Concept's (MP)2 technology, synergistically deliver consistent, homogenous treatments in a minimally invasive process. Venus Concept also uses in its systems IPL for treatment of benign pigmented epidermal and cutaneous lesions, lasers for hair removal and fractional ablative RF modality for skin resurfacing. Venus Concept designs and sells a full-suite of medical aesthetic products and markets its current products primarily to physicians interested in providing minimally invasive and non-invasive aesthetic procedures, and to aesthetic medical spas. Through its NeoGraft division, Venus Concept offers an automated hair restoration system that facilitates the harvesting of follicles during an FUE process, improving the accuracy and speed over commonly used manual extraction instruments. Venus Concept's NeoGraft systems are sold primarily to plastic surgeons and dermatologists, and in the United States, Venus Concept offers these doctors the services of a group of independently contracted technicians, who Venus Concept markets as "NeoGrafters". These technicians are certified to assist the physician during a NeoGraft hair restoration procedure.

Venus Concept has reported recurring net losses and negative cash flows from operations. As of September 30, 2019 and December 31, 2018, Venus Concept had an accumulated deficit of $54.9 million and $35.1 million, respectively. Venus Concept expects to continue to incur significant expenses and increasing operating losses for the foreseeable future in connection with our ongoing activities. As of September 30, 2019 and December 31, 2018, Venus Concept had cash and cash equivalents of $15.7 million and $6.8 million, respectively. In order to continue its operations, Venus Concept must achieve profitable operations and/or obtain additional equity investment or debt financing. Venus Concept completed convertible note offerings in June 2019 and August 2019 as described in the following paragraph and in more detail in the "Convertible Note Financings" section below and a private placement financing in November 2019 as described in the following paragraph and in more detail in the "Concurrent Financing" section below. Until Venus Concept generates revenue at a level to support its cost structure, Venus Concept expects to continue to incur substantial operating losses and net cash outflows.

On June 25, 2019, Venus Concept sold $7.8 million of convertible notes. On August 14, 2019, Venus Concept sold an additional $0.3 million of Venus Concept convertible notes to one investor and $7.0 million of Venus Concept convertible notes to certain investors. On August 21, 2019, Venus Concept sold an additional $14.1 million to certain investors. Venus Concept's recurring net losses and negative cash flows from operations raise substantial doubt about its ability to continue as a going concern within 12 months. Venus Concept based this estimate on assumptions that may prove to be wrong, and it could exhaust our available capital resources sooner than it expects. See "Liquidity and Capital Resources" below.

Merger with Restoration Robotics

Venus Concept completed its business combination with Restoration Robotics, Inc. ("Restoration Robotics"), in accordance with the terms of the Agreement and Plan of Merger and Reorganization, dated as of March 15, 2019, as amended from time to time (the "Merger Agreement"), by and among Venus Concept, Restoration Robotics and Radiant Merger Sub Ltd., a company organized under the laws of Israel and a direct, wholly-owned subsidiary of Venus Concept ("Merger Sub"). Under the Merger Agreement, Merger Sub merged with and into Venus Concept, with Venus Concept surviving as a wholly owned subsidiary of Restoration Robotics (the "Merger"). The Merger became effective on November 7, 2019. Following the completion of the Merger, Restoration Robotics changed its corporate name to "Venus Concept Inc.", and the business conducted by Venus Concept became the primary business conducted by Venus Concept Inc.

At the effective time of the Merger, each outstanding ordinary and preferred share of Venus Concept, nominal value of New Israeli Shekels 0.001 each, other than shares held by Venus Concept as treasury stock or held by Venus Concept Inc. or the Merger Sub, were converted into the right to receive 8.6506 (the pre-split "Exchange Ratio") validly issued, fully paid and non-assessable Venus Concept Inc. common stock ("Venus Concept Inc. Common Stock"), and each outstanding the Company stock option and warrant was assumed by Venus Concept Inc. and converted into and become an option or warrant (as applicable) exercisable for Venus Concept Inc. Common Stock with the number and exercise price adjusted by the Exchange Ratio.

Immediately following completion of the Merger, Venus Concept effected a 15-for-1 reverse stock split of Venus Concept Inc. Common Stock (the "Reverse Stock Split"). The Merger and the Reverse Stock Split were approved by Venus Concept Inc. stockholders on October 4, 2019. All share and per share amounts of Venus Concept Inc. (formerly Restoration Robotics) have been adjusted to reflect the reverse stock split, unless otherwise noted.

Products and Services

Venus Concept derives revenue from the sale of products and services. Product revenue includes revenue from the following:

- the sale of systems, which includes the main console and is inclusive of control software and applicators (referred to as system revenue);

- marketing supplies and kits;
- consumables and disposables;
- replacement applicators/handpieces; and
- Venus Concept skincare and hair products.

Service revenue includes revenue derived from Venus Concept's NeoGrafter technician services, practice enhancement services, Venus Concept's 2two5 internal advertising agency, and Venus Concept's extended warranty service contracts provided to Venus Concept's existing customer base.

Systems are sold through Venus Concept's subscription model, or through traditional sales contracts directly and through distributors.

Venus Concept's subscription model includes an up-front fee and a monthly payment schedule, typically over a period of 36 months, with approximately 40% of total contract payments collected in the first year. To ensure that each monthly product payment is made on time and that the customer's system is serviced in accordance with the terms of the warranty, every product purchased under a subscription agreement requires a monthly activation code, which Venus Concept provides to the customer upon receipt of the monthly payment. These recurring monthly payments provide Venus Concept's customers with enhanced financial transparency and predictability. If economic circumstances are appropriate, Venus Concept provides customers in good standing with the opportunity to "upgrade" to new agreements for the newest available or alternative Venus Concept technology throughout the subscription period. This structure can provide greater flexibility than traditional equipment leases secured through finance companies. Through Venus Concept's practice enhancement services, Venus Concept works closely with its customers and physicians to provide business recommendations that improve the quality of service outcomes, build patient traffic and improve financial returns for the customer's business.

Venus Concept has developed and commercialized nine technology platforms, including the NeoGraft platform. Venus Concept's medical aesthetic technology platforms have received regulatory clearance for indications such as treatment of facial wrinkles in certain skin types, temporary reduction of appearance of cellulite and relief of minor muscle aches and pains, as well as other indications, that are cleared for marketing in overseas markets but not in the United States, including treatment of certain soft tissue injuries, temporary increase of skin tightening, temporary body contouring, and vaginal treatments in the Israeli market only. In 2018 Venus Concept purchased the NeoGraft business to penetrate the hair restoration market.

In the United States, Venus Concept has obtained 510(k) clearance from FDA for Venus Concept's Venus Freeze and Venus Freeze Plus, Venus Viva, Venus Legacy, Venus Versa, Venus Velocity, Venus Heal and Venus Bliss systems. The Venus Glow and NeoGraft systems are listed as class I devices under FDA classification system. Outside the United States, Venus Concept markets its technologies in over 60 countries across Europe, Asia-Pacific and Latin America. Because each country has its own regulatory scheme and approval process, not every device is authorized for the same indications in each market in which a particular system is marketed.

Venus Concept generates recurring monthly revenue under its subscription model and traditional system sales. Venus Concept commenced its subscription model in North America in 2011 and, for the year ended December 31, 2018, approximately 75% of system revenues were derived from its subscription model. For the three and nine months ended September 30, 2019, approximately 70% of system revenues were derived from its subscription model. For the three and nine months ended September 30, 2018, approximately 75% and 77%, respectively, of system revenues were derived from its subscription model. Venus Concept operates directly in 29 international markets through its 24 direct offices, including wholly-owned subsidiaries in the United States, Canada, United Kingdom, Japan, South Korea, Mexico, Argentina, Colombia, Spain, France, Germany, Israel and Australia, and majority-owned subsidiaries in China, Hong Kong, Singapore, Indonesia, Vietnam, India, Italy, Bulgaria, Russia, Kazakhstan and South Africa.

Venus Concept's revenues were $26.2 million and $78.6 million for the three and nine months ended September 30, 2019 respectively as compared to $25.6 million and $74.0 million for the three and nine months ended September 30, 2018 respectively. Venus Concept had a net loss attributable to Venus Concept of $8.6 million and $19.8 million for the three and nine months ended September 30, 2019 respectively as compared to net loss of $1.4 million and $1.7 million for the three and nine months ended September 30, 2018, respectively. Venus Concept had an Adjusted EBITDA income of $28 thousand and Adjusted EBITDA loss of $1.0 million for the three and nine months ended September 30, 2019, respectively, as compared to Adjusted EBITDA income of $1.7 million and $7.4 million for the three and nine months ended September 30, 2018, respectively.

Use of Non-GAAP Financial Measures

Adjusted EBITDA is a non-GAAP measure defined as net loss income before foreign exchange loss, financial expenses, income tax expense, depreciation and amortization, stock-based compensation and non-recurring items for a given period. Adjusted EBITDA is not a measure of Venus Concept's financial performance under U.S. GAAP and should not be considered an alternative to net income or any other performance measures derived in accordance with U.S. GAAP. Accordingly, you should consider Adjusted EBITDA along with other financial performance measures, including net income, and Venus Concept's financial results presented in accordance with U.S. GAAP. Other companies, including companies in Venus Concept's industry, may calculate Adjusted EBITDA differently or not at all, which reduces its usefulness as a comparative measure. Venus Concept understands that although Adjusted EBITDA is frequently used by securities analysts, lenders and others in their evaluation of companies, Adjusted EBITDA has limitations as an analytical tool, and you should not consider it in isolation, or as a substitute for analysis of Venus Concept's results as reported under U.S. GAAP. Some of these limitations are: Adjusted EBITDA does not reflect Venus Concept's cash expenditures or future requirements for capital expenditures or contractual commitments; Adjusted EBITDA does not reflect changes in, or cash requirements for, Venus Concept's working capital needs; and although depreciation is a non-cash charge, the assets being depreciated will often have to be replaced in the future, and Adjusted EBITDA does not reflect any cash requirements for such replacements.

Venus Concept believes that Adjusted EBITDA is a useful measure for analyzing the performance of Venus Concept's core business because it facilitates operating performance comparisons from period to period and company to company by backing out potential differences caused by changes in foreign exchange rates that impact financial assets and liabilities denominated in currencies other than the U.S. dollar, tax positions (such as the impact on periods or companies of changes in effective tax rates), the age and book depreciation of fixed assets (affecting relative depreciation expense), stock-based compensation expense (because it is a non-cash expense) and non-recurring items as explained below.

The following reconciliation of net loss to Adjusted EBITDA for the periods presented:

Venus Concept Ltd.
Reconciliation of Net Income to Non-GAAP Adjusted EBITDA
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	**2018**	**2019**	**2018**
Net loss	$(8,977)	$(1,184)	$(19,560)	$(1,160)
Add back:				
Foreign exchange loss	396	886	409	1,675
Finance expenses	2,097	1,438	5,904	4,240
Income tax expense	(80)	(43)	867	1,027
Depreciation and amortization	329	241	1,064	734
Stock-based compensation expense	313	328	1,732	891
Other adjustments (1)	5,950	—	8,600	—
Adjusted EBITDA	**$ 28**	**$ 1,666**	**$ (984)**	**$ 7,407**

(1) For the three and nine months ended September 30, 2019, other adjustments included:

- The expenses related to the Merger (mainly professional fees).
- The expenses related to a patent infringement case (mainly professional fees).

Key Factors Impacting Venus Concept's Results of Operations

Venus Concept's results of operations are impacted by several factors, but it considers the following to be particularly significant to its business:

- **Number of systems delivered**. The majority of Venus Concept's revenue is generated from the delivery of systems, both under traditional sale contracts and under subscription agreements. The following table sets forth the number of systems Venus Concept has delivered in the geographic areas indicated:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	**2018**	**2019**	**2018**
United States	173	114	483	346
Israel	69	44	151	129
International	413	364	1,212	944
Total	655	522	1,846	1,419

- **Mix between traditional sales, subscription model sales and distributor sales**. Venus Concept delivers units through (1) traditional direct system sales contracts to customers, (2) Venus Concept's subscription model, and (3) system sales through distributor agreements. Unit deliveries under direct system sales contracts and subscription agreements have the higher per unit revenues and gross margins, while revenues and gross margins on systems sold through distributors are lower. However, distributor sales do not require significant sales and marketing support as these expenses are borne by the distributors. In addition, while traditional system sales contracts and subscription contracts have similar gross margins, cash collections on subscription contracts generally occur over a three-year period, with approximately 40% collected in the first year and the balance collected evenly over the remaining two years of the subscription agreement.

- **Significant Investment in Sales, Marketing and Operations.** Venus Concept has made a strategic decision to continue to penetrate the global market by investing in sales and marketing expenses across all geographic areas. This includes reducing Venus Concept's reliance on distributor arrangements, opening more direct offices and hiring experienced sales, marketing and operational staff. While Venus Concept will generate incremental product sales in these new markets, these revenues and the related margins may not fully offset the startup investments in the initial years. For the three months and nine months ended September 30, 2019, Venus Concept did not open any direct sales offices. In 2018, Venus Concept opened direct sales offices in Argentina and South Korea and relaunched its direct operations in Germany. In 2017, Venus Concept opened a direct sales office in Vietnam.

- **Bad Debt Expense**. Venus Concept maintains an allowance for doubtful accounts for estimated losses that may primarily arise from subscription customers that are unable to make the remaining required payments under the subscription contracts. Venus Concept's bad debt expense as a percentage of sales has generally been consistent year-over-year and quarter-over-quarter, however, bad debt expense in 2018 increased substantially as in the fourth quarter of 2018 Venus Concept recorded an $8.3 million provision against the receivable of a large U.S. national account customer that filed for Chapter 11 bankruptcy in February 2019. To the extent that Venus Concept conducts a significant amount of business with one customer or distributor, the potential impact on the business, both positive and negative, can significantly impact Venus Concept's results.

Basis of Presentation

Revenues

Venus Concept generates revenue from (1) sales of systems through Venus Concept's subscription model, traditional system sales to customers and distributors, (2) other product revenues from the sale of marketing supplies and kits, consumables and Venus skincare and hair products and (3) service revenue from the sale of Venus Concept's NeoGrafter technician services, Venus Concept's 2two5 internal advertising agency and Venus Concept's extended warranty service contracts provided to existing customers.

System Revenue

For the year ended December 31, 2018 and the three and nine months ended September 30, 2019, approximately 75%, 70% and 70%, respectively, of Venus Concept's system revenues were derived from subscription contracts. Venus Concept's subscription model is designed to provide a low barrier to ownership of Venus Concept's systems and includes an up-front fee followed by monthly payments, typically over a 36-month period. The up-front fee serves as a deposit. The significantly reduced up-front financial commitment, coupled with less onerous credit and disclosure requirements, is intended to make the sales program more appealing and affordable to physicians, including larger non-traditional providers of aesthetic services such as family practice, general practice, and medical spas. For accounting purposes, these arrangements are considered to be sales-type finance equipment leases, where the present value of all cash flows to be received under the subscription agreement is recognized as revenue upon shipment to the customer and achievement of the required revenue recognition criteria.

For the year ended December 31, 2018 and the three and nine months ended September 30, 2019, approximately 20%, 22% and 24%, respectively, of Venus Concept's system revenues were derived from traditional sales. Customers generally demand higher discounts in connection with these types of sales. Venus Concept recognizes revenues from products sold to end customers when title and risk of ownership have been transferred which usually occurs upon shipment to the end customer. Venus Concept does not generally grant rights of return or early termination rights to its end customers. These traditional sales are generally made through Venus Concept's sales team in the countries in which the team operates.

For the year ended December 31, 2018 and the three and nine months ended September 30, 2019, approximately 5% and 8% and 6%, respectively, of Venus Concept's system revenues were derived from distributor sales. Under the traditional distributor relationship, Venus Concept does not sell directly to the end customer and, accordingly, achieves a lower overall margin on each system sold compared to Venus Concept's direct sales. These sales are non-refundable, non-returnable and without any rights of price protection or stock rotation. Accordingly, Venus Concept considers distributors as end customers, or the sell-in method.

Other Product Revenue

Venus Concept also generates revenue from its customer base by selling Glide (a cooling/conductive gel which is required for use with many of Venus Concept's systems), marketing supplies and kits, consumables and disposables, replacement applicators and handpieces, Venus Concept skincare products (Venus Skin) and hair products.

Service Revenue

Venus Concept generates ancillary revenue from its existing customers by selling additional services including Venus Concept's NeoGrafter technician services for hair restoration, extended warranty service contracts, and services provided by Venus Concept's 2two5 internal advertising agency.

Cost of Goods Sold and Gross Profit

Cost of goods sold consists primarily of costs associated with manufacturing Venus Concept's different systems, including direct product costs from third party manufacturers, warehousing and storage costs and fulfillment and supply chain costs inclusive of personnel-related costs (primarily salaries, benefits, incentive compensation and stock-based compensation). Cost of goods sold also includes the cost of upgrades, technology amortization, royalty fees, parts, supplies, and cost of product warranties.

Operating Expenses

Selling and Marketing

Venus Concept currently sells its products and services using direct sales representatives in North America and in select international markets. Venus Concept's sales costs primarily consist of salaries, commissions, benefits, incentive compensation and stock-based compensation. Costs also include expenses for travel and other promotional and sales-related activities. Venus Concept continues to invest in new sales and marketing programs, and it expects that selling costs will continue to increase as Venus Concept expands its direct operations across all geographic areas. However, Venus Concept expects that selling expenses as a percentage of revenue will decline over time.

Venus Concept's marketing costs primarily consist of salaries, benefits, incentive compensation and stock-based compensation. They also include expenses for travel, trade shows, and other promotional and marketing activities, including direct and online marketing. Venus Concept's marketing expenses have increased as it continues to scale up its direct operations across all geographic areas. However, given the fixed cost nature of many of these expenses, Venus Concept expects that marketing expenses as a percentage of revenue will decline over time.

General and Administrative

Venus Concept's general and administrative costs primarily consist of expenses associated with Venus Concept's executive, accounting and finance, legal, intellectual property and human resource departments. These expenses consist of personnel-related expenses (primarily salaries, benefits, incentive compensation and stock-based compensation) and allocated facilities costs, audit fees, legal fees, consultants, travel, insurance and bad debt expense. During the normal course of operations, Venus Concept may incur bad debt expense on accounts receivable balances that are deemed to be uncollectible. Venus Concept expects its general and administrative expenses to increase due to the anticipated growth of Venus Concept's business and infrastructure.

Research and Development

Venus Concept's research and development costs primarily consist of personnel-related costs (primarily salaries, benefits, incentive compensation, and stock-based compensation), material costs, and facilities costs in Venus Concept's Yokneam, Israel research center. Venus Concept's ongoing research and development activities are primarily focused on improving and enhancing Venus Concept's current technologies, products, and services, and on expanding its current product offering with the introduction of new products and expanded indications.

Venus Concept expenses all research and development costs in the periods in which they are incurred. Venus Concept expects its research and development expenses to increase in absolute dollars as it continues to invest in research, clinical studies, regulatory affairs, and development activities, but to decline as a percentage of revenue as Venus Concept's revenue increases over time.

Finance Expenses

Finance expenses consists of interest income, interest expense and other banking charges. Interest income consists of interest earned on Venus Concept's cash, cash equivalents and short-term bank deposits. Venus Concept expects interest income to vary depending on Venus Concept's average investment balances and market interest rates during each reporting period. Interest expense consists of interest on long-term debt and other borrowings. The interest rate on Venus Concept's long-term debt is fixed at 9% as of September 30, 2019 and December 31, 2018.

Foreign Exchange Loss (Income)

Foreign currency exchange loss (income) changes reflect foreign exchange gains or losses related to the change in value of assets and liabilities denominated in currencies other than the U.S. dollar.

Income Taxes Expense

Commencing from the year 2018 and including the three and nine months ended September 30, 2019, Israeli companies are generally subject to income tax at the corporate tax rate of 23%. However, if certain conditions are met, companies may be entitled to a reduced corporate tax rate under various programs of the Encouragement of Capital Investment Law, 5719-1959, or the Encouragement Law. Venus Concept is currently examining its eligibility to be treated as Preferred Technology Enterprise which may entitle it to a reduced tax rate of 7.5% on Venus Concept's Preferred Technological Income as such term is defined in the Encouragement Law.

Venus Concept's non-Israeli subsidiaries are taxed according to the tax laws in their respective jurisdictions of organization. Due to Venus Concept's multi-jurisdictional operations, Venus Concept applies significant judgment to determine its consolidated income tax position. Venus Concept expects that the effective tax rate overall will be significantly impacted by its tax position in Israel but will also be impacted by the tax rates in jurisdictions where Venus Concept has subsidiaries.

Non-Controlling Interests

In many countries where Venus Concept has direct operations, Venus Concept has a minority shareholder. For accounting purposes, these minority partners are referred to as non-controlling interests, and Venus Concept records the non-controlling interests' share of earnings in Venus Concept's subsidiaries as a separate balance within shareholders' equity in the consolidated balance sheet and consolidated statements of changes in shareholders' equity (deficit).

Results of Operations

The following tables set forth Venus Concept's consolidated results of operations in U.S. dollars and as a percentage of revenues for the periods indicated:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
	(in thousands)		(in thousands)	
Revenues:				
Leases	$16,427	$17,869	$ 48,812	$52,885
Products and services	9,727	7,724	29,740	21,082
Total revenue	26,154	25,593	78,552	73,967
Cost of goods sold	7,386	5,878	21,645	16,660
Gross profit	18,768	19,715	56,907	57,307
Expenses:				
Selling and marketing	9,201	9,770	28,983	26,311
General and administrative	13,556	6,605	31,731	18,631
Research and development	1,686	1,713	5,667	4,856
Provision for bad debts	889	530	2,906	1,727
Total expenses	25,332	18,618	69,287	51,525
(Loss) income from operations	(6,564)	1,097	(12,380)	5,782
Foreign exchange loss	396	886	409	1,675
Finance expenses	2,097	1,438	5,904	4,240
Loss before income taxes	(9,057)	(1,227)	(18,693)	(133)
Income taxes expense	(80)	(43)	867	1,027
Net loss	**(8,977)**	**(1,184)**	**(19,560)**	**(1,160)**
Net loss attributable to Venus Concept	(8,640)	(1,363)	(19,823)	(1,736)
Net (loss) income attributable to the non-controlling interest	(337)	179	263	576
Net loss	**$ (8,977)**	**$ (1,184)**	**$(19,560)**	**$ (1,160)**
As a % of revenue:				
Revenues	100.0%	100.0%	100.0%	100.0%
Cost of goods sold	28.2%	23.0%	27.6%	22.5%
Gross profit	71.8%	77.0%	72.4%	77.5%
Operating expenses:				
Selling and marketing	35.2%	38.2%	36.9%	35.6%
General and administrative	51.8%	25.8%	40.4%	25.2%
Research and development	6.4%	6.7%	7.2%	6.6%
Provision for bad debts	3.4%	2.1%	3.7%	2.3%
Total operating expenses	96.9%	72.7%	88.2%	69.7%
(Loss) income from operations	-25.1%	4.3%	-15.8%	7.8%
Foreign exchange loss	1.5%	3.5%	0.5%	2.3%
Finance expenses	8.0%	5.6%	7.5%	5.7%
Loss before income taxes	-34.6%	-4.8%	-23.8%	-0.2%

The following tables set forth Venus Concept's revenue by region and by product type for the periods indicated:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
	(in thousands)		(in thousands)	
Revenue by region:				
United States	10,118	9,653	31,337	29,643
Israel	1,523	1,108	3,688	3,023
International	14,513	14,832	43,527	41,301
Total revenue	26,154	25,593	78,552	73,967

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
	(in thousands)		(in thousands)	
Revenue by product:				
Subscription – Systems	16,427	17,869	48,812	52,885
Products – Systems	7,105	6,081	21,189	16,011
Product – Other(1)	1,167	1,093	4,117	3,193
Services(2)	1,455	550	4,434	1,878
Total revenue	26,154	25,593	78,552	73,967

(1) Other products include Venus Concept's Venus Skin and hair products, and other consumables.
(2) Services includes NeoGrafter technician services, 2two5 ad agency services and extended warranty sales.

Comparison of the Three Months Ended September 30, 2019 and 2018

Revenues

	Three Months Ended September 30,				Change	
	2019		2018			
	$	% of Total	$	% of Total	$	%
Revenue by product:						
Subscription – Systems	16,427	62.8	17,869	69.8	(1,442)	(8.1)
Products – Systems	7,105	27.2	6,081	23.8	1,024	16.8
Product – Other	1,167	4.4	1,093	4.3	74	6.8
Services	1,455	5.6	550	2.1	905	164.5
Total revenue	26,154	100.0	25,593	100.0	561	2.2

Total revenue increased by $0.6 million, or 2.2%, to $26.2 million for the three months ended September 30, 2019 from $25.6 for the three months ended September 30, 2018. Revenues in the United States increased by $0.5 million, revenues in Israel increased by $0.4 million, while International revenues decreased by $0.3 million. The increase in revenue in U.S. markets in the third quarter of 2019 was driven primarily by sales of newer technology platforms. The decrease in revenue in International markets is primarily due to lower sales in our Asia Pacific market.

Venus Concept sold an aggregate of 655 systems in the three months ended September 30, 2019 compared to 522 in the three months ended September 30, 2018. The percentage of systems revenue derived from Venus Concept's subscription model was approximately 69.8% in the three months ended September 30, 2019 compared to 74.6% in the three months ended September 30, 2018.

Other product revenue increased by $0.1 million, or 6.8%, to $1.2 million in the three months ended September 30, 2019 from $1.1 million in the three months ended September 30, 2018. The increase was driven by Venus Concept's expanded direct sales presence in Latin America and Asia and additional consumables sales-related to increased systems sales.

Services revenue increased by $0.9 million, or 164.5%, to $1.5 million in the three months ended September 30, 2019 from $0.6 million in the three months ended September 30, 2018. This increase was driven by the addition of the NeoGrafter technician services as part of the NeoGraft acquisition and Venus Concept's new 2two5 ad agency services that commenced operation in the second quarter of 2018.

Cost of Goods Sold and Gross Profit

Cost of goods sold increased by $1.5 million, or 25.7%, to $7.4 million in the three months ended September 30, 2019 from $5.9 million in the three months ended September 30, 2018. Gross profit for the third quarter of 2019 decreased $0.9 million, or 4.8%, to $18.8 million, compared to $19.7 million in the third quarter of 2018. The decrease in gross profit is primarily due to lower average selling prices on systems sales and increased services revenue at lower margins. Gross margin was 71.8% of revenue in the third quarter of 2019, compared to 77.0% of revenue in the third quarter of 2018. The decrease in gross profit percentage is primarily related to an increase in cost of goods sold mainly due to a large chain account sale in Asia at a lower margin and lower selling prices on sales of certain certified pre-owned systems.

	Three Months Ended September 30,					
	2019		2018		Change	
	$	% of Revenue	$	% of Revenue	$	%
Operating expenses:						
Selling and marketing	9,201	36.3	9,770	52.5	(569)	(5.8)
General and administrative	13,556	53.5	6,605	35.5	6,951	105.2
Research and development	1,686	6.7	1,713	9.2	(27)	(1.6)
Provision for bad debts	889	3.5	530	2.8	359	67.7
Total operating expenses	25,332	100.0	18,618	100.0	6,714	36.1

Selling and Marketing. Selling and marketing expenses decreased by 5.8% in the three months ended September 30, 2019 compared to the three months ended September 30, 2018. This decrease was primarily due to a timing factor, as during the third quarter of 2018 Venus Concept launched several new products – Venus Velocity and Venus Glow – that required significant marketing investments. In 2019 new product launch is planned for the fourth quarter of 2019. As a percentage of total revenues, Venus Concept's selling and marketing expenses decreased 3.0%, from 38.2% in the three months ended September 30, 2018 to 35.2% in the three months ended September 30, 2019. Venus Concept expects selling and marketing expenses to decrease as a percentage of sales in the future as it continues to penetrate the large countries in most regions.

General and Administrative. General and administrative expenses increased by 105.2% in the three months ended September 30, 2019 compared to the three months ended September 30, 2018, reflecting cost related to the Merger, continued investment in corporate infrastructure including expanded infrastructure in Asia-Pacific, Latin America and Europe, the related general and administrative expenses resulting from the NeoGraft acquisition and the launch of the 2two5 internal advertising in mid-2018. Increases in headcount were necessary to support increased activity across all areas of Venus Concept's business. As a percentage of total revenues, Venus Concept's general and administrative expenses increased 26.0%, from 25.8% in the three months ended September 30, 2018 to 51.8% in the three months ended September 30, 2019, primarily due to Merger related expenses.

Research and Development. Research and development expenses decreased by 1.6% in the three months ended September 30, 2019 compared to the three months ended September 30, 2018. As a percentage of total revenues, Venus Concept's research and development expenses decreased 0.3%, from 6.7% in the three months ended September 30, 2018 to 6.4% in the three months ended September 30, 2019.

Provision for Bad Debts. The provision for bad debts increased by 67.7% in the three months ended September 30, 2019 compared to the three months ended September 30, 2018. This increase related primarily to a write-off the receivable of a distributor of approximately $0.2 million during the third quarter of 2019, due to termination of a distribution agreement. As a percentage of total revenues, Venus Concept's provision for bad debts increased 1.3%, from 2.1% in the three months ended September 30, 2018 to 3.4% in the three months ended September 30, 2019.

Foreign exchange loss (income). Venus Concept had a foreign exchange loss of $0.4 million in the three months ended September 30, 2019 and foreign exchange loss of $0.9 million in the three months ended September 30, 2018. Changes in foreign exchange in 2019 are driven mainly by foreign exchange effect on accounts receivable balances denominated in currencies other than the US dollar. Venus Concept generally does not hedge against foreign currency risk.

Financial Expenses. Financial expenses increased by $0.7 million, to $2.1 million in the three months ended September 30, 2019 from $1.4 million in the three months ended September 30, 2018. This increase is a result of interest expense on increased debt assumed with our primary lender in the year ended December 31, 2018 and the three months ended September 30, 2019. See "Liquidity and Capital Resources" below.

Income Taxes Expense. Income taxes benefit increased to $80 thousand in the three months ended September 30, 2019 from a $40 thousand income tax benefit in the three months ended September 30, 2018, as Venus Concept continued to utilize prior periods losses. In certain jurisdictions, a temporary difference is created on the sale of systems under subscription agreements between the present value of the contract for accounting purposes and the taxability of the income when installments on that subscription are billed and paid.

Comparison of the Nine Months Ended September 30, 2019 and 2018

<u>Revenues</u>

	Nine Months Ended September 30,				Change	
	2019		2018			
	$	% of Total	$	% of Total	$	%
Revenue by product:						
Subscription – Systems	48,812	62.1	52,885	71.5	(4,073)	(7.7)
Products – Systems	21,188	27.0	16,011	21.7	5,177	32.3
Product – Other	4,117	5.2	3,193	4.3	924	28.9
Services	4,435	5.7	1,878	2.5	2,557	136.2
Total revenue	78,552	100.0	73,967	100.0	4,585	6.2

Total revenue increased by $4.6 million, or 6.2%, to $78.6 million for the nine months ended September 30, 2019 from $74.0 million for the nine months ended September 30, 2018. The increase in revenue was a result of increased revenue in the United States of $1.7 million, increased revenue in international markets of $2.2 million, and a slight increase in revenue in Israel of $0.7 million. The increase in revenue in the United States was driven by Venus Concept's continued investment in selling and marketing, partially offset by lower system sales in Venus Concept's national accounts channel. The increase in revenue in international markets is largely due to Venus Concept's expanded direct sales presence in Latin America and Asia.

Venus Concept sold an aggregate of 1,846 systems in the nine months ended September 30, 2019 compared to 1,419 in the nine months ended September 30, 2018. The percentage of systems revenue derived from Venus Concept's subscription model was approximately 69.7% in the nine months ended September 30, 2019 compared to 76.8% in the nine months ended September 30, 2018.

Other product revenue increased by $0.9 million, or 28.9%, to $4.1 million in the nine months ended September 30, 2019 from $3.2 million in the nine months ended September 30, 2018. The increase was driven by Venus Concept's expanded direct sales presence in Latin America and Asia and additional consumables sales-related to increased systems sales.

Services revenue increased by $2.6 million, or 136.2%, to $4.4 million in the nine months ended September 30, 2019 from $3.2 million in the nine months ended September 30, 2018. This increase was driven by the addition of the NeoGrafter technician services as part of the NeoGraft acquisition and Venus Concept's new 2two5 ad agency services that commenced operation in the second quarter of 2018.

Cost of Goods Sold and Gross Profit

Cost of goods sold increased by $5.0 million, or 29.9%, to 21.7 million in the nine months ended September 30, 2019 from $16.7 million in the nine months ended September 30, 2018. Gross profit decreased by $0.4 million, or 0.7%, to $56.9 million in the nine months ended September 30, 2019, as compared to $57.3 million in the nine months ended September 30, 2018. The decrease in gross profit is primarily due to lower average selling prices on systems sales and increased services revenue at lower margins. Gross margin was 72.4% of revenue in the nine months ended September 30, 2019 compared to 77.5% of revenue in the nine months ended September 30, 2018. The decrease in gross profit percentage is primarily related to an increase in cost of goods sold mainly due to a large chain account sale in Asia at a lower margin and lower selling prices on sales of certain certified pre-owned systems.

	Nine Months Ended September 30,				Change	
	2019		2018			
	$	% of Revenue	$	% of Revenue	$	%
Operating expenses:						
Selling and marketing	28,983	41.8	26,311	51.1	2,672	10.2
General and administrative	31,731	45.8	18,631	36.2	13,100	70.3
Research and development	5,667	8.2	4,856	9.4	811	16.7
Provision for bad debts	2,906	4.2	1,727	3.3	1,179	68.3
Total operating expenses	69,287	100.0	51,525	100.0	17,762	34.5

Selling and Marketing. Selling and marketing expenses increased by $2.7 million in the nine months ended September 30, 2019 compared to the nine months ended September 30, 2018. This increase was primarily due to a continued increase in sales headcount, and related travel and marketing expenditures. The sales headcount increase was a result of an increase in Venus Concept’s direct sales presence in Asia Pacific and Latin America and the acquisition of NeoGraft in the first quarter of 2018. As a percentage of total revenues, Venus Concept’s selling and marketing expenses increased 1.3%, from 35.6% in the nine months ended September 30, 2018 to 36.9% in the nine months ended September 30, 2019. Venus Concept expects selling and marketing expenses to decrease as a percentage of sales in the future as it continues to penetrate the large countries in most regions.

General and Administrative. General and administrative expenses increased by $13.1 million in the nine months ended September 30, 2019 compared to the nine months ended September 30, 2018, reflecting cost related to Merger, continued investment in corporate infrastructure including expanded infrastructure in Asia-Pacific, Latin America and Europe, the related general and administrative expenses resulting from the NeoGraft acquisition and the launch of the 2two5 internal advertising agency in mid-2018. Increases in headcount were necessary to support increased activity across all areas of Venus Concept’s business. As a percentage of total revenues, Venus Concept’s general and administrative expenses increased 15.2%, from 25.2% in the nine months ended September 30, 2018 compared to 40.4% in the nine months ended September 30, 2019.

Research and Development. Research and development expenses increased by $0.8 million in the nine months ended September 30, 2019 compared to the nine months ended September 30, 2018. This increase related primarily to an increase in the development of new products, clinical trials and regulatory certification for numerous products including Venus Heal, NeoGraft, Venus Fiore and Venus Bliss. As a percentage of total revenues, Venus Concept’s research and development expenses increased 0.6%, from 6.6% in the nine months ended September 30, 2018 compared to 7.2% in the nine months ended September 30, 2019.

Provision for Bad Debts. The provision for bad debts increased by $1.2 million in the nine months ended September 30, 2019 compared to the nine months ended September 30, 2018. This increase related primarily to a write-off of the receivable of a larger U.S. national account customer of approximately $0.8 million during the second quarter of 2019. As a percentage of total revenues, Venus Concept’s provision for bad debts increased 1.4%, to 3.7% in the nine months ended September 30, 2019 compared to 2.3% in the nine months ended September 30, 2018.

Foreign exchange loss. Venus Concept had a foreign exchange loss of $0.4 in the nine months ended September 30, 2019 compared to $1.7 million in the nine months ended September 30, 2018. The loss in 2019 is driven mainly by unrealized losses from accounts receivable balances denominated in currencies other than the US dollar. Venus Concept generally does not hedge against foreign currency risk.

Financial Expenses. Financial expenses increased by $1.7 million, to $5.9 million in the nine months ended September 30, 2019 from $4.2 million in the nine months ended September 30, 2018. This increase is a result of interest expense on increased debt levels with its primary lender in the year ended December 31, 2018 and the nine months ended September 30, 2019. See “Liquidity and Capital Resources” below.

Income Taxes Expense (Benefit). Income taxes expense decreased by $0.1 million, to $0.9 million in the nine months ended September 30, 2019 from $1.0 million in the nine months ended September 30, 2018. This decrease resulted from the changes in the deferred tax liabilities created from Venus Concept’s subscription business. In certain jurisdictions, a temporary difference is created on the sale of systems under subscription agreements between the present value of the contract for accounting purposes and the taxability of the income when installments on that subscription are billed and paid.

Liquidity and Capital Resources

Venus Concept had $15.7 million and $6.8 million of cash and cash equivalents as of September 30, 2019 and December 31, 2018, respectively. Venus Concept has funded its operations with cash generated from operating activities, through the sale of equity securities to investors in private placements and through debt financing. During the nine months ended September 30, 2019, Venus Concept drew $10.0 million on a term loan facility with Madryn Health Partners, LP, $1.9 million on a credit facility with City National Bank of Florida and issued an aggregate principal amount of $29.1 million unsecured senior subordinated convertible promissory notes to certain existing investors. During the nine months ended September 30, 2019, Venus Concept provided two loans to Restoration Robotics in total amount of $4.5 million, using proceeds from issuances of the unsecured senior subordinated convertible promissory notes. Venus Concept had total debt obligations of approximately $98.0 million as of September 30, 2019, including line of credit borrowings of $7.6 million and convertible promissory notes of $29.4 million, compared to total debt obligations of approximately $56.5 million at December 31, 2018, including line of credit borrowings of $5.6 million. Subsequent to September 30, 2019, the proceeds from the $28.0 million equity financing that closed on November 7, 2019 (see “Concurrent Financing” below) allowed Venus Concept to retire Venus Concept Inc. (former Restoration Robotics) existing obligations for the combined company, resulting in combined company indebtedness of approximately $69.0 million. In connection with the Merger (as defined above), all outstanding convertible debt obligations were converted into Venus Concept Inc. Common Stock (see “Convertible Note Financing” below) which resulted in having approximately $29.7 million shares of combined company common stock outstanding, on a post reverse split basis. During 2018, Venus Concept raised $6.9 million from the sale of preferred shares to existing investors that was used to fund the NeoGraft acquisition, and Venus Concept refinanced its long-term debt yielding incremental proceeds of $15.0 million used to fund working capital. During 2017, Venus Concept raised $36.3 million through private placements of securities used to fund Venus Concept’s operations and working capital.

Venus Concept’s working capital requirements reflect the growth of its business, in particular, the shift from a traditional sales model to its subscription model. Working capital is primarily impacted by growth in Venus Concept’s subscription sales which also impacts accounts receivable. Venus Concept’s overall growth also requires higher inventory levels to meet demand and to accommodate the increased number of technology platforms offered. Venus Concept expects its near to mid-term split of subscription sales revenue to traditional sales revenue to be at a ratio of approximately 70:30 respectively, compared to 75:25 split in 2018. In the second half of 2019, Venus Concept directed more effort to securing traditional sales in order to improve cash flow. This trend will continue in 2020. Venus Concept expects inventory to continue to increase in the short term, but at a lower rate than the rate of revenue growth.

Venus Concept also requires modest funding for capital expenditures. Venus Concept’s capital expenditures relate primarily to its research and development facilities in Yokneam, Israel. In addition, Venus Concept’s capital investments have included improvements and expansion of its subsidiary operations to support Venus Concept’s growth.

Madryn Loan Agreement

On October 11, 2016, Venus Concept entered into a loan agreement with Madryn Health Partners, LP as administrative agent and certain of its affiliates as lenders, collectively, "Madryn", which was amended on August 14, 2018. The loan agreement, as amended, is comprised of three committed tranches and one uncommitted tranche of debt totaling $70.0 million. The term A-1 commitment is $35.0 million, the term A-2 commitment is $15.0 million, the term B commitment is $10.0 million and the uncommitted term C was $10.0 million, but expired on September 30, 2019. As of September 30, 2019, Venus Concept had drawn on the term A-1, A-2 and B tranches for gross debt of $60.0 million. As of December 31, 2018, Venus Concept had drawn on the term A-1 and A-2 tranches for gross debt of $50.0 million. As of September 30, 2019, Venus had $60.0 million aggregate principal amount outstanding under the Madryn loan agreement.

In connection with the Madryn loan agreement, Venus Concept issued three 10-year warrants to funds affiliated with Madryn. As of September 30, 2019 and December 31, 2018, the Madryn funds held warrants to purchase 150,000 ordinary shares at a price of $5.0604 per share, 150,000 Series B preferred shares at a price of $5.0604 per share, and 12,000 Series C preferred shares at a price of $5.0604 per share.

Effective August 14, 2018, interest on the Madryn loan agreement is 9.00%, payable quarterly. Previously, interest was payable quarterly, at Venus Concept's option, as follows: cash interest at 9.00% during the interest only period, which was 3-years or 12 payments after closing, plus an additional 4.00%, paid in kind, or PIK. PIK interest could be paid in cash or added to the principal amount of the loan at Venus Concept's option.

On the 24th payment date following the closing date, December 31, 2022, the aggregate outstanding principal amount of the loans, together with any accrued and unpaid interest thereon and all other amounts due and owing under the loan agreement will become due and payable in full.

The loans are collateralized by substantially all the assets of Venus Concept and certain of its subsidiaries and are subject to certain revenue and liquidity covenants. The covenants require that Venus Concept and its subsidiaries, on a consolidated basis, achieve (i) minimum reported revenue targets for any four consecutive fiscal quarter period of an amount equal to the greater of (A) $100.0 million and (B) one hundred and fifty percent (150%) of the aggregate outstanding amount of the loans as of the last day of such four consecutive fiscal quarter period, (ii) minimum levels of cash held in deposit accounts controlled by Madryn to be no less than $2.0 million and (iii) minimum levels of cash held in all deposit accounts, plus availability under the City National Bank of Florida ("CNB") credit facility, to be no less than $5.0 million. As of March 31, 2019 and December 31, 2018, Venus Concept was in compliance with these revenue and liquidity covenants, however, as of June 30, 2019, Venus Concept was not in compliance with the minimum liquidity covenant and did not make a required interest payment due June 28, 2019 until July 10, 2019. Venus Concept received a letter from Madryn on July 5, 2019 stating that an event of default existed as a result of Venus Concept's failure to timely pay the interest payment due June 28, 2019.

On July 26, 2019, Venus Concept and Madryn executed a waiver and amendment to the Madryn loan agreement pursuant to which, Madryn lowered the liquidity covenant from $2.0 million to $0.2 million through the earlier of August 30, 2019 or the time Venus Concept raised $21.0 million in additional equity. Madryn waived the existing events of default.

Subsequent to the amendment, if all or any portion of the loans under the Madryn loan agreement are prepaid, then a prepayment premium is due, equal to: (i) 8.00% of the loans prepaid if prepaid on or prior to August 31, 2019, (ii) 6.50% if prepaid after August 31, 2019 but on or prior to August 31, 2020, (iii) 5.00% if prepaid after August 31, 2020 but on or prior to February 28, 2021, (iv) 4.00% if prepaid after February 28, 2021 but on or prior to August 31, 2021, (v) 3.00% if prepaid after August 31, 2021 but on or prior to February 28, 2022, and (vi) 2.00% if prepaid after February 28, 2022.

As of September 30, 2019, Venus Concept was in compliance with minimum reported revenue targets and minimum level of cash on hand in certain subsidiaries requirements

In connection with the Merger, Venus Concept entered into an amendment to the Madryn loan agreement, dated as of November 7, 2019 (the "Amendment"), pursuant to which Venus Concept Inc. was joined as (i) a guarantor to the Madryn loan agreement and (ii) a grantor to the certain security agreement, dated October 11, 2016 (as amended, restated, supplemented or otherwise modified from time to time), by and among the grantors from time to time party thereto and the administrative agent (the "U.S. Security Agreement").

As a guarantor under the Madryn loan agreement, Venus Concept Inc. is jointly and severally liable for the obligations (as defined in the Madryn loan agreement) thereunder and to secure its obligations thereunder, Venus Concept Inc. has granted the administrative agent a lien on all of its assets pursuant to the terms of the U.S. Security Agreement. In the event of default under the Madryn Credit Agreement, Madryn may accelerate the obligations and foreclose on the collateral granted by Venus Concept under the U.S. Security Agreement to satisfy the obligations.

CNB Credit Facility

Venus Concept has an agreement with City National Bank of Florida, or CNB, whereby CNB agreed to provide a revolving credit facility to certain of Venus Concept's subsidiaries in the maximum principal amount of $7.5 million, to be used to finance working capital requirements. As of December 31, 2018, Venus Concept had $5.7 million outstanding under the credit facility which bears interest at LIBOR plus 3.25%.

On April 25, 2019, the revolving loan commitment under the CNB credit facility was increased to $10.0 million. On August 19, 2019, the CNB credit facility was further amended to require the consummation on or before October 15, 2019 of both the Merger and an equity financing of at least $20.0 million. If both such events were not consummated by July 31, 2019, then an event of default would have been deemed to occur under the CNB credit facility on August 30, 2019, unless by such date either (i) the outstanding principal balance of loans in excess of $7.5 million had been repaid or (ii) the Merger and an equity financing of at least $20.0 million had been consummated.

On August 19, 2019, the CNB credit facility was further amended to require the consummation of the Merger and equity financing of at least $20.0 million on or before October 15, 2019.

As of September 30, 2019, Venus Concept had $7.6 million outstanding under the CNB credit facility, bearing interest at LIBOR plus 3.25%.

On October 30, 2019 the CNB credit facility was further amended to require the consummation of the Merger on or before November 15, 2019.

The CNB credit facility contains various covenants that limit Venus Concept's and its subsidiaries' ability to engage in specified types of transactions. Subject to limited exceptions, these covenants limit Venus Concept's ability, without CNB's consent, to, among other things, sell, lease, transfer, exclusively license or dispose of Venus Concept's assets, incur, create or permit to exist additional indebtedness, or liens, to make dividends and certain other restricted payments, and to make certain changes to its management and/or ownership structure. In addition, the CNB credit facility contains certain covenants that require Venus Concept subsidiary obligors to achieve certain minimum account balances, or a minimum debt service coverage ratio and a maximum total liability to tangible net worth ratio. If Venus Concept subsidiary obligors fail to comply with these covenants, it will result in a default and require Venus Concept and Venus Concept subsidiary obligors to repay all outstanding principal amounts and accrued interest.

As of March 31, 2019, Venus Concept was not in compliance with the minimum debt service coverage ratio of its credit facility with CNB. In June 2019, Venus Concept received a waiver removing the requirement to meet the minimum debt service coverage ratio for the period ended March 31, 2019. In July 2019, Venus Concept received a waiver removing the requirement to meet the minimum debt service coverage ratio for the period ended June 30, 2019 and that future periods would not be measured until August 30, 2019. As of September 30, 2019, Venus Concept was not in compliance with the minimum debt service coverage ratio under its credit facility with CNB. On October 30, 2019, CNB amended the minimum debt service coverage ratio covenant calculation, reaffirmed its prior waiver for June 30, 2019 and provided Venus Concept with a waiver removing the requirement to meet the minimum debt service coverage ratio as of September 30, 2019.

In the event of a default, if Venus Concept and Venus Concept subsidiary obligors are unable to repay all outstanding amounts, CNB may foreclose on the collateral granted to it to collateralize the indebtedness, which includes the enforcement of the CNB Guaranty, which will significantly affect Venus Concept's ability to operate its business.

Convertible Note Financings

On June 25, 2019, Venus Concept entered into a note purchase agreement pursuant to which Venus Concept issued an aggregate of $7.8 million of unsecured senior subordinated convertible promissory notes, or Venus Concept convertible notes, to certain investors named therein. Venus Concept convertible notes bore interest on the unpaid principal amount at a rate of eight percent (8%) per annum from the date of issuance. All of the outstanding principal and unpaid accrued interest on Venus Concept convertible notes were automatically converted into common stock of Venus Concept Inc. immediately following the closing of the Merger, at a conversion price of $6.996 per share. In the event that the Merger was not consummated, Venus Concept convertible notes would have been convertible into equity securities of Venus Concept.

On August 14, 2019, the parties to the equity commitment letter, related to the Merger, amended the equity commitment letter to "pull forward" their maximum committed amounts such that the $21.0 million committed under the equity commitment letter would be invested on or prior to August 30, 2019 in Venus Concept convertible notes were convertible into shares of Venus Concept Inc. Common Stock immediately following the closing of the Merger.

On August 14, 2019, Venus Concept issued $0.3 million aggregate principal amount of unsecured senior subordinated convertible promissory notes to one investor and $7.0 million aggregate principal amount to certain investors pursuant to the amended equity commitment letter for gross proceeds of $7.2 million. Debt issuance costs associated with the financing were approximately $0.8 million. The unsecured senior subordinated convertible promissory notes were automatically convertible into shares of Venus Concept Inc. Common Stock immediately following the closing of the Merger at a conversion price of $6.996 per share. The unsecured senior subordinated convertible promissory notes accrued interest at a rate of 8.00% per annum and matured on the thirtieth day following the termination of the Merger Agreement. The unsecured senior subordinated convertible promissory notes were subordinated to the Madryn and CNB indebtedness pursuant to subordination agreements with each investor and Madryn and CNB.

On August 21, 2019, Venus Concept issued unsecured senior subordinated convertible promissory notes to certain investors for gross proceeds of $14.1 million. Debt issuance costs associated with the financing were approximately $0.4 million. The unsecured senior subordinated convertible promissory notes were automatically convertible into shares of Venus Concept Inc. Common Stock at the closing of the Merger at a conversion price of $6.996 per share. The unsecured senior subordinated convertible promissory notes accrued interest at a rate of 8.00% per annum and would have matured on the thirtieth day following the termination of the Merger Agreement. The unsecured senior subordinated convertible promissory notes were subordinated to the Madryn and CNB indebtedness pursuant to subordination agreements with each investor and Madryn and CNB. Upon the closing of this financing, the equity commitment letter investors were released from their maximum committed amounts under the equity commitment letter.

Restoration Robotics Loans

On July 5, 2019, Venus Concept loaned Restoration Robotics $2.5 million of the proceeds from the issuance of Venus Concept convertible notes pursuant to a subordinated promissory note, or the First Restoration Note. The First Restoration Note is subordinated to the Solar Capital Ltd. loan agreement pursuant to a subordination agreement between Solar Capital Ltd. and Venus Concept dated June 25, 2019. The First Restoration Note accrues interest at a rate of 8.00% per annum and matures on November 30, 2019.

On August 14, 2019, pursuant to the terms of the equity commitment letter, Venus Concept agreed to loan Restoration Robotics $2.5 million of the proceeds from the August 2019 issuances of Venus Concept convertible notes. The loan was supposed to be made in three installments: $1.0 million loaned by August 30, 2019, $1.0 million loaned by September 30, 2019, and $0.5 million being loaned by October 15, 2019, in each case subject to the satisfaction of the conditions thereto. The third installment of $0.5 million was never made as the conditions were not met. Venus Concept's loan to Restoration Robotics is subordinated to the Solar Capital Ltd. loan agreement pursuant to a subordination agreement between Solar Capital Ltd. and Venus Concept dated June 25, 2019. The loan to Restoration Robotics accrues interest at a rate of 8.00% per annum and matures on November 30, 2019.

As of September 30, 2019, the principle amount of Venus Concept notes receivable outstanding was $4.5 million.

Concurrent Financing

On November 3, 2019, Restoration Robotics and Venus Concept entered into a securities purchase agreement (the "Purchase Agreement") with certain investors named therein pursuant to which the combined company agreed to issue and sell to the investors in a private placement in public equity an aggregate of approximately 7,483,980 shares (the "Concurrent Financing Shares") of the combined company common stock, par value $0.0001 per share, and warrants to purchase up to an aggregate of approximately 3,741,990 shares (the "Warrant Shares") of the combined company common stock at an exercise price of $6.00 per share (the "Concurrent Financing Warrants" and, together with the Concurrent Financing Shares and the Warrant Shares, the "Securities") immediately following the closing of the Merger (the "Concurrent Financing"). The aggregate purchase price for the Securities sold in the Concurrent Financing was $28.0 million.

Cash Flows

The following table presents the major components of net cash flows for the periods presented:

	Nine Months Ended September 30,	
	2019	2018
	(in thousands)	
Net cash used in operating activities	$(25,867)	$(25,901)
Net cash used in investing activities	(5,240)	(8,376)
Net cash provided by financing activities	40,081	21,347
Net increase in cash and cash equivalents	$ 8,974	$(12,930)

Cash Flows from Operating Activities.

In the nine months ended September 30, 2019, cash used in operating activities consisted of a net loss of $19.6 million and an investment in net operating assets of $14.6 million, partially offset by non-cash operating expenses of $8.3 million. The investment in net operating assets was primary attributable to an increase in accounts receivable of $19.1 million, primarily due to the increase in subscription sales, a decrease in the trade payables of $0.9 million and an increase in other current assets of $2.9 million. This was partially offset by a decrease in inventories of $4.0 million and an increase in accrued expenses and other current liabilities of $4.2 million. The non-cash operating expenses consisted mainly of a provision for bad debts of $2.9 million, depreciation and amortization of $1.1 million, stock-based compensation expense of $1.7 million, deferred tax expense of $0.5 million, a change in the fair value of the earn-out liability for the purchase of NeoGraft of $0.7 million, and a provision for inventory obsolescence of $0.5 million.

In the nine months ended September 30, 2018, cash used in operating activities consisted of net loss of $1.2 million, and an investment in net operating assets of $30.2 million, partially offset by non-cash operating expenses of $5.5 million. The investment in net operating assets was primarily attributable to an increase in accounts receivable of $30.6 million, primarily due to the increase in subscription sales, an increase in inventories of $5.4 million, an increase in other current assets of $0.4 million, and a decrease in other long term liabilities of $1.6 million, partially offset by an increase in accrued expenses and other current liabilities of $3.9 million, an increase in trade payables of $1.4 million, an increase in unearned interest income of $1.0 million, and an increase in other long term assets of $0.6 million. The non-cash operating expenses consisted mainly of a provision for bad debts of $1.7 million, deferred tax expense of $0.3 million, capitalized interest on debt of $0.9 million, financing fees of $0.5 million, stock-based compensation of $0.9 million, depreciation and amortization of $0.7 million, and a provision for inventory obsolescence of $0.4 million.

In 2018, cash used in operating activities consisted of a net loss of $14.2 million and an investment in net operating assets of $34.8 million, partially offset by non-cash operating expenses of $15.4 million. The investment in net operating assets was attributable to an increase in accounts receivable of $38.2 million due to the increase in subscription sales and an increase in inventories of $6.2 million to meet higher demand and to accommodate the increased number of technology platforms offered. This was partially offset by an increase in accounts payable of $4.2 million, a decrease in deferred expenses of $1.6 million, an increase in other liabilities of $2.6 million and a net decrease in other net operating assets of $1.1 million. The non-cash operating expenses consisted mainly of stock-based compensation of $1.3 million, depreciation and amortization of $1.3 million, capitalized interest of $0.9 million, and a provision for bad debts of $10.3 million.

Cash Flows from Investing Activities.

In the nine months ended September 30, 2019, cash used in investing activities consisted of the issuance of the loan to Restoration Robotics of $4.5 million, the purchase of property and equipment of $0.6 million and the cash paid for purchase of the non-controlling interest in Venus Concept Israel Ltd. of $0.1 million.

In the nine months ended September 30, 2018, cash used in investing activities consisted of the purchase of property and equipment of $0.4 million, $7.5 million of cash paid for the acquisition of NeoGraft, and $0.5 million of cash paid for the acquisition of Venus Concept UK Limited.

In 2018, cash used in investing activities consisted of $1.2 million for the purchase of property and equipment and $7.5 million for the acquisition of NeoGraft.

Cash Flows from Financing Activities.

In the nine months ended September 30, 2019, cash from financing activities consisted primarily of net proceeds from the drawdown on the Madryn loan agreement of $9.7 million, net proceeds from issuance of unsecured senior subordinated convertible promissory notes of $28.8 million, proceeds from exercise of options of $0.4 million and proceeds from the drawdown on the CNB credit facility of $1.9 million partially offset by payments related to the NeoGraft earn-out liability of $0.5 million, and NeoGraft annual installment payment of $0.3 million.

In the nine months ended September 30, 2018, cash from financing activities consisted primarily of net proceeds from the issuance of Series D preferred shares of $6.9 million and proceeds from the drawdown on the CNB credit facility of $14.2 million.

In 2018, the cash from financing activities consisted of net proceeds from the issuance of shares of $6.9 million, issuance of long-term debt of $15.0 million, $5.7 million in drawings on the credit facility and proceeds on the exercise of stock option of $0.2 million, offset by the $0.5 million of cash used to acquire the non-controlling interest in two subsidiaries and $0.8 million of financing fees.

Contractual Obligations and Commitments

Venus Concept's premises and those of its subsidiaries are leased under various operating lease agreements, which expire on various dates.

As of September 30, 2019, Venus Concept has non-cancellable purchase orders placed with Venus Concept's contract manufacturers in the amount of $6.3 million. In addition, as of September 30, 2019, Venus Concept had $0.6 million of open purchase orders that can be cancelled with 90 days' notice, except for a portion equal to 15% of the total amount representing the purchase of "long lead items."

The following table summarizes Venus Concept contractual obligations as of September 30, 2019:

	Payments Due by Period				
	Less than 1 year	1 to 3 years	4 to 5 years	More than 5 years	Total
			(in thousands)		
Debt obligations, including interest	$ 5,643	$ 11,286	$ 64,111	$ —	$81,040
Operating leases	855	1,259	831	1,531	4,476
Purchase commitments	6,404	—	—	—	6,404
Total contractual obligations	$ 12,902	$ 12,545	$ 64,942	$ 1,531	$91,920

Off-Balance Sheet Arrangements

Venus Concept did not have during the periods presented, and does not currently have, any off-balance sheet arrangements, as defined in the rules and regulations of the SEC.

Quantitative and Qualitative Disclosures about Market Risk

Venus Concept is exposed to market risks in the ordinary course of its business. These risks include interest rate fluctuations, inflation and foreign currency exchange risk.

Interest Rate Fluctuations

Venus Concept's investments include cash and cash equivalents, which consist of cash accounts, and are held for working capital purposes. Venus Concept had cash and cash equivalents of approximately $15.7 million and $6.8 million as of September 30, 2019 and December 31, 2018, respectively. The primary objective of Venus Concept's investment activities is to preserve principal without significantly increasing risk. Venus Concept does not enter into investments for trading or speculative purposes, and all of Venus Concept's cash accounts are held in low interest rate cash accounts. Venus Concept's long-term debt bears interest at a fixed rate of 9% and the credit facility bears interest at a variable rate of LIBOR plus 3.25%. Venus Concept does not invest in any instruments to manage its interest rate risk. Although the credit facility interest rates may fluctuate, Venus Concept does not expect its operating results or cash flows to be materially affected to any degree by a sudden change in market interest rates.

Inflation

Venus Concept does not believe that inflation has had a material effect on its business, financial condition, or results of operations. If Venus Concept's costs were to become subject to significant inflationary pressures, Venus Concept may not be able to fully offset such higher costs through price increases. Venus Concept's inability or failure to do so could harm its business, financial condition, and its results of operations.

Foreign Currency Exchange Risk

Venus Concept's functional currency for selling products and services and its financial reporting currency is the U.S. dollar. During the nine months ended September 30, 2019 and the year ended December 31, 2018, approximately 53% and 49% of Venus Concept's revenues respectively were denominated in U.S. dollars, 7% and 10%, respectively, in Canadian dollars and the balance in a mixture of currencies. In addition, during the nine months ended September 30, 2019 and the year ended December 31, 2018, approximately 42% and 36%, respectively, of Venus Concept's operating expenses were incurred in U.S. dollars, 23.5% and 32%, respectively, in Israeli shekels and 14% in Canadian dollars. Venus Concept's Israeli operating expenses consisted primarily of salaries and overhead for Venus Concept's research and development and general and administrative operations in Israel.

A 10% increase or decrease in the value of the NIS against the U.S. dollar would have decreased or increased Venus Concept's net loss by approximately $2.1 million and $3.2 million in the nine months ended September 30, 2019 and the year ended December 31, 2018, respectively.

For purposes of Venus Concept's consolidated financial statements, local currency assets and liabilities are translated at the rate of exchange to the U.S. dollar on the balance sheet date and local currency revenues and expenses are translated at the exchange rate at the date of the transaction or the average exchange rate during the reporting period to the U.S. dollar.

Venus Concept generally does not hedge against foreign currency exchange risk.

Internal Control Over Financial Reporting

As a private company, Venus Concept has not historically prepared public company level financial statements. In connection with the audit of its consolidated financial statements, it has identified material weaknesses in its internal control over financial reporting. A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company's annual or interim consolidated financial statements will not be prevented or detected on a timely basis.

Venus Concept has experienced significant global expansion of operations and revenue growth. As this has occurred, the Company has increased the number of personnel in the organization and specifically in its financial reporting team. Despite this progress, Venus Concept identified control deficiencies in aggregate that constitute material weaknesses in the five components of internal control as defined by COSO 2013 (control environment, risk assessment, control activities, information and communication, and monitoring). In particular, compared to public company level processes and standards, Venus Concept did not have in place an effective control environment with formal processes and procedures and an adequate number of accounting personnel with the appropriate technical training in, and experience with, U.S. GAAP to allow for a detailed review of accounting transactions that would identify errors in a timely manner. Furthermore, given the growth of the Company, Venus Concept had not adopted and implemented technology solutions that would automate lessor accounting processes and enable the accurate and timely preparation of financial statements. Finally, the Company did not design or maintain effective controls over the financial statement close and reporting process in order to ensure the accurate and timely preparation of financial statements in accordance with US GAAP.

- Venus Concept performed a formal evaluation of key business process internal controls;
- Management developed a formal plan of internal controls assessment and testing, which was approved by Venus Concept's Audit Committee;
- Venus Concept has added personnel to the accounting and financial department with experience in GAAP and SEC financial reporting requirements, implementing accounting systems, developing and implementing internal and external financial reporting systems, as well as compliance, internal controls and enterprise risk management;
- Venus Concept is in the process of implementing a new software program to automate lease accounting;
- Venus Concept has also engaged an independent consulting firm which has extensive experience in SEC reporting, internal controls, and compliance and has been involved in addressing the areas identified in the material weakness disclosure in the registration statement and which has been assisting in the implementation of the remediation plan; and
- Venus Concept recently hired a manager of internal audit and compliance.

Venus Concept intends to continue further enhancing its design and implementation of the processes described above and as Venus Concept continues to evaluate and work to improve its internal control over financial reporting, additional measures may be taken to address these control deficiencies or modify the remediation plan described above.

These remediation measures may be time consuming, costly, and might place significant demands on our financial and operational resources. Although Venus Concept has made enhancements to its control procedures in this area, the material weaknesses will not be remediated until the necessary controls have been implemented and are operating effectively. Venus Concept does not know the specific time frame needed to fully remediate the material weaknesses identified.

Critical Accounting Policies and Estimates

Venus Concept's condensed consolidated financial statements have been prepared in accordance with U.S. GAAP. The preparation of Venus Concept's consolidated financial statements requires management to make estimates, assumptions, and judgments that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the applicable periods. Management bases its estimates, assumptions, and judgments on historical experience and on various other factors that it believes to be reasonable under the circumstances. Different assumptions and judgments would change the estimates used in the preparation of Venus Concept's consolidated financial statements, which, in turn, could materially change Venus Concept's results from those reported. Management evaluates its estimates, assumptions, and judgments on an ongoing basis. Historically, Venus Concept's critical accounting estimates have not differed materially from actual results. However, if Venus Concept's assumptions change, it may need to revise its estimates, or take other corrective actions, either of which may also have a material adverse effect on Venus Concept's statements of operations, liquidity, and financial condition.

Venus Concept believes the following critical accounting policies involve significant areas where management applies judgments and estimates in the preparation of Venus Concept's consolidated financial statements.

Revenue Recognition

(i) Subscription revenue

Many of Venus Concept's products are sold under subscription contracts with title passing to the customer at the end of the contract term. The subscription contracts include an initial up-front fee followed by monthly installments typically over a period of 36 months. In accordance with ASC 840 Leases, these arrangements are considered to be sales-type leases, where the present value of all cash flows to be received within the arrangement is recognized upon shipment to the customer and achievement of the required revenue recognition criteria.

When management determines that collection of future minimum contractual payments cannot be reasonably assured at the inception of a subscription contract, these contracts are classified as operating leases, where revenue is recognized on a straight-line basis over the term of the lease.

(ii) Other products and services

For products (systems and other products) and service not sold through subscription contracts, Venus recognizes revenue in accordance with the accounting guidance for ASC 605-25, Revenue Arrangements with Multiple Deliverables, which requires that the following four criteria be met in order to recognize revenue:

- persuasive evidence of an agreement with a customer exists;
- delivery has occurred or services have been rendered;
- the fees for the arrangement are fixed or determinable; and
- collectability is reasonably assured.

Venus Concept recognizes revenues from products sold to end-customers when title and risk of ownership has been transferred which usually occurs upon shipment to the end customer. Venus Concept does not grant rights of return to its end-customers.

Venus Concept's products sold through arrangements with distributors are non-refundable, non-returnable and without any rights of price protection. Accordingly, Venus Concept considers distributors as end-customers.

In respect of sales of systems with installation and training, in accordance with (ASC) ASC 605, Venus Concept has concluded that its arrangements are generally consistent with the indicators suggesting that installation and training are not essential to the functionality of Venus Concept's systems. Accordingly, installation and training are considered inconsequential and perfunctory relative to the system, and therefore Venus Concept recognizes revenue for the system, installation and training upon shipment to the customer once all other revenue recognition criteria have been met.

Long-term receivables

Long-term receivables relate to Venus Concept's subscription revenue or contracts which stipulate payment terms which exceed one year. They are comprised of the unpaid principal balance, plus accrued interest, net of the allowance for credit losses. These receivables have been discounted based on the implicit interest rate in the subscription lease which range between 8% to 9% for the three and nine months ended September 30, 2019 and the year ended December 31, 2018 and 10% to 14% for the year ended December 31, 2017. Unearned interest revenue represents the interest only portion of the respective subscription payments and will be recognized in income over the respective payment term as it is earned.

Allowance for doubtful accounts

The allowance for doubtful accounts is based on Venus Concept's assessment of the collectability of customer accounts and the aging of the related invoices and represents Venus Concept's best estimate of probable credit losses in its existing trade accounts receivable. Venus Concept regularly reviews the allowance by considering factors such as historical experience, credit quality, the age of the accounts receivable balances, and current economic conditions that may affect a customer's ability to pay.

Warranty accrual

Venus Concept generally warranties the majority of its systems against defects for up to three years. The warranty period begins upon shipment and Venus Concept records a liability for accrued warranty costs at the time of sale of a system, which consists of the remaining warranty on systems sold based on historical warranty costs and management's estimates. Venus Concept periodically assesses the adequacy of Venus Concept's recorded warranty liabilities and adjust the amounts thereof as necessary. Venus Concept must exercise judgment in estimating its expected system warranty costs. If actual system failure rates, freight, material, technical support and labor costs differ from Venus Concept's estimates, Venus Concept will be required to revise its estimated warranty liability. To date, Venus Concept's warranty reserve has been sufficient to satisfy warranty claims paid.

Stock-Based Compensation

Option Valuations

Venus Concept recognizes compensation costs related to stock-based awards granted to employees based on the estimated fair value of the awards on the date of grant, net of estimated forfeitures. Venus Concept estimates the grant date fair value, and the resulting stock-based compensation expense, using the Black-Scholes option-pricing model. The grant date fair value of the stock-based awards is generally recognized on a straight-line basis over the requisite service period, which is generally the vesting period of the respective awards.

The Black-Scholes option pricing model requires the use of subjective and complex assumptions which determine the fair value of stock-based awards as follows:

Expected term. The expected term represents the period that Venus Concept's stock-based awards are expected to be outstanding and was primarily determined using the simplified method in accordance with guidance provided by the SEC. For option grants considered to be "plain vanilla," the simplified method calculates the expected term as the average of the time-to-vesting and the contractual life of the options.

Expected volatility. The expected volatility is derived from historical volatilities of several unrelated public companies that are deemed to be comparable to Venus Concept's business because Venus Concept has limited information on the volatility of Venus Concept's common stock since Venus Concept has no trading history. When making the selections of Venus Concept's industry peer companies to be used in the volatility calculation, Venus Concept considered the size, operational and economic similarities to Venus Concept's principal business operations. The early exercise multiple was based on data of comparable companies.

Risk-free interest rate. The risk-free interest rate assumption is derived from the interest curve for United States government bonds for periods corresponding to the life term of the option on the grant date.

Expected dividend rate. The expected dividend was assumed to be zero as Venus Concept has no current plans to pay dividends.

Expected forfeiture rates. Venus Concept accounts for forfeitures as they occur.

Fair Value of Venus Concept's ordinary shares. Because Venus Concept's shares are not publicly traded, Venus Concept must estimate the fair value of ordinary shares. Venus Concept uses the price per share in its latest sale of securities as an estimate of the fair value of Venus Concept's ordinary shares.

Financial statements in U.S. dollars

Venus Concept's management believes that the U.S. dollar is the currency in the primary economic environment in which Venus Concept operates. The U.S. dollar is the most significant currency in which Venus Concept's revenues are generated, and Venus Concept's costs are incurred. In addition, Venus Concept's debt and equity financings are generally based in U.S. dollars. Thus, Venus Concept's functional currency, and that of its subsidiaries, is the U.S. dollar.

Transactions and balances originally denominated in U.S. dollars are presented at their original amounts. Non-dollar transactions and balances are re-measured into U.S. dollars in accordance with the principles set forth in ASC 830-10 "Foreign Currency Translation". All exchange gains and losses from re-measurement of monetary balance sheet items resulting from transactions in non-U.S. dollar currencies are recorded as foreign exchange loss (income) in the consolidated statement of operations as they arise.

Income Taxes

Venus Concept follows the deferred income taxes method of accounting for income taxes. Under this method, deferred income taxes are recognized for the future tax consequences attributable to differences between the financial statement carrying values of accounts and their respective income tax basis. Deferred income tax assets and liabilities are measured using enacted income tax rates expected to apply to taxable income in the years during which the temporary differences are expected to be realized or settled. The effect on deferred income tax assets and liabilities of a change in tax rates is included in income in the period that includes the enactment date. Valuation allowances are established when necessary to reduce deferred tax assets to the amounts that are more likely than not to be realized. Venus Concept evaluates tax positions taken or expected to be taken in the course of preparing tax returns to determine whether the tax positions have met a "more likely-than-not" threshold of being sustained by the applicable tax authority. Tax benefits related to tax positions not deemed to meet the "more likely-than-not" threshold are not permitted to be recognized in the consolidated financial statements. Although Venus Concept believes that its estimates are reasonable and that Venus Concept has considered future taxable income and ongoing prudent and feasible tax strategies in estimating Venus Concept's tax outcome, there is no assurance that the final tax outcome will not be different than those which are reflected in Venus Concept's historical income tax provisions and deferred income tax assets and liabilities. Such differences could have a material effect on Venus Concept's income tax provision, net income and cash balances in the period in which such determination is made.

Recent Accounting Pronouncements

Accounting pronouncements recently adopted

On January 1, 2018, the Company adopted ASU No. 2016-16, Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory. Previously, U.S. GAAP prohibited the recognition of current and deferred income taxes for an intra-entity asset transfer until the asset has been sold to an outside party. This prohibition on recognition was an exception to the principle of comprehensive recognition of current and deferred income taxes under U.S. GAAP. The amendment to the guidance eliminated the exception for an intra-entity transfer of an asset other than inventory and required an entity to recognize the income tax consequences when the transfer occurs. Prior periods were not retrospectively adjusted. The adoption of the ASU did not have an impact on the consolidated financial statements.

In May 2017, the Financial Accounting Standards Board ("FASB") issued ASU No. 2017-09 (Topic 718) Compensation—Stock Compensation: Scope of Modification Accounting, which provides guidance on the types of changes to the terms or conditions of share-based payment awards to which an entity would be required to apply modification accounting. The new standard is effective on a prospective basis for interim and annual periods beginning after December 15, 2017, with early adoption permitted. The Company adopted this ASU on a prospective basis on January 1, 2018. The adoption of the ASU did not have a material impact on the consolidated financial statements.

In March 2016, the FASB issued ASU No. 2016-09, Compensation – Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting, or ASU 2016-09. ASU 2016-09 simplifies the accounting and reporting of share-based payment transactions, including adjustments to how excess tax benefits and payments for tax withholdings should be classified and provides the election to eliminate the estimate for forfeitures. This standard is effective for annual reporting periods beginning after December 15, 2016, and interim periods within annual periods beginning after December 15, 2016. Early adoption is permitted for any entity in any interim or annual period for which financial statements have not been issued or made available for issuance. The Company adopted this ASU on a prospective basis on January 1, 2017. The adoption of the ASU did not have a material impact on the consolidated financial statements.

In November 2016, the FASB issued ASU No. 2016-18 (Topic 230) Statement of Cash Flow: Restricted Cash, which provides guidance on the classification of restricted cash to be included with cash and cash equivalents when reconciling the beginning of period and end of period total amounts on the statement of cash flows. The amendments of this ASU are effective for interim and annual periods beginning after December 15, 2017, with early adoption permitted. The standard must be applied retrospectively to all periods presented. The Company adopted this standard on January 1, 2018 and the adoption did not have an impact on its consolidated financial statements.

In January 2017, the Company adopted ASU 2015-11 Simplifying the Measurement of Inventory. The guidance requires that inventory that is measured on a first-in-first-out ("FIFO") or average cost basis be measured at lower of cost and net realizable value, as opposed to the lower of cost or market. The Company applied this guidance prospectively on January 1, 2017 and the adoption did not cause a material impact of the Company's consolidated financial statements.

Accounting pronouncements issued but not yet adopted

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606). The FASB subsequently issued the following amendments to ASU No. 2014-09: ASU No. 2016-08, Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations; ASU No. 2016-10, Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing; ASU No. 2016-12, Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients; and ASU No. 2016-20, Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers.

The main provisions of Topic 606 require the identification of performance obligations within a contract and require the recognition of revenue based on a stand-alone allocation of contract revenue to each performance obligation. Performance obligations may be satisfied and revenue recognized over a period of time if: 1) the customer simultaneously receives and consumes the benefits provided by the entity's performance as the entity performs, or 2) the entity's performance creates or enhances an asset that the customer controls as the asset is created or enhanced, or 3) the entity's performance does not create an asset with an alternative use to the entity, and the entity has an enforceable right to payment for performance completed to date. For public entities the amendments of the update are effective for annual reporting periods beginning after December 15, 2017 including interim periods within that reporting period.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842) and subsequently amended by ASU 2018-11, Leases (Topic 842): Targeted Improvements, ASU 2018-20, Narrow-Scope Improvements for Lessors and ASU 2019-01, Leases (Topic 842): Codification Improvements. The guidance is intended to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and requiring more disclosures related to leasing transactions. The amendments in this update are effective for fiscal years, and interim periods within those years, beginning after December 15, 2018. Early adoption is permitted.

As codified in ASU 2017-13, in an SEC staff announcement at the July 20, 2017 Emerging Issues Task Force ("EITF") meeting, specifically related to public business entities ("PBEs") that qualify as a PBE solely due to the requirement to include or the inclusion of its financial statements or financial information in another entity's SEC filing (certain PBEs), the SEC stated that it will allow certain PBEs to elect to apply the non-PBE effective dates for the revenue recognition and lease accounting standards only. The Company has made these elections and plans to adopt the revenue recognition guidance for the annual period ending December 31, 2019 using the modified retrospective adoption method and the lease guidance for the annual period ending December 31, 2020.

The Company has commenced the issue identification phase for Topic 606 and does not expect the new revenue recognition guidance to have a material impact on the Company's consolidated financial statements. The Company is in the process of determining the impact of Topic 842 on its consolidated financial statements.

In August 2018, the FASB issued ASU No. 2018-15, Intangibles – Goodwill and Other – Internal-Use Software (Subtopic 350-40), relating to a customer's accounting for implementation, set-up, and other upfront costs incurred in a cloud computing arrangement that is hosted by a vendor (i.e., a service contract). Under the new guidance, a customer will apply the same criteria for capitalizing implementation costs as it would for an arrangement that has a software license. The new guidance also prescribes the balance sheet, income statement, and cash flow classification of the capitalized implementation costs and related amortization expense, and requires additional quantitative and qualitative disclosures. The ASU is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Early application is permitted. The Company can choose to adopt the new guidance (1) prospectively to eligible costs incurred on or after the date this guidance is first applied or (2) retrospectively. The Company is evaluating the impact, if any, that this pronouncement will have on the consolidated financial statements.

In August 2018, the FASB issued ASU No. 2018-13, Fair Value Measurement (Topic 820): Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement, which removes, adds and modifies certain disclosure requirements for fair value measurements in Topic 820. The Company will no longer be required to disclose the amount of and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy, and the valuation processes of Level 3 fair value measurements. However, the Company will be required to additionally disclose the changes in unrealized gains and losses included in other comprehensive income for recurring Level 3 fair value measurements, and the range and weighted average of assumptions used to develop significant unobservable inputs for Level 3 fair value measurements. The ASU is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. The amendments relating to additional disclosure requirements will be applied prospectively for only the most recent interim or annual period presented in the initial year of adoption. All other amendments will be applied retrospectively to all periods presented upon their effective date. The Company is evaluating the impact, if any, that this pronouncement will have on the consolidated financial statements.

Exhibit 99.2

INDEX TO VENUS CONCEPT LTD. CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2018 and 2017

Index to Financial Statements

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the shareholders and the Board of Directors of Venus Concept Ltd.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Venus Concept Ltd. and subsidiaries (the "Company") as of December 31, 2018 and 2017, the related consolidated statements of operations, comprehensive (loss) income, changes in shareholders' equity (deficit), and cash flows, for each of the two years in the period ended December 31, 2018, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the two years in the period ended December 31, 2018, in conformity with accounting principles generally accepted in the United States of America.

Going Concern

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 2 to the financial statements, the Company has reported recurring net losses and negative cash flows from operations, which raises substantial doubt about the Company's ability to continue as a going concern. Management's plans regarding these matters are also described in Note 2. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Deloitte LLP

Chartered Professional Accountants
Licensed Public Accountants
Toronto, Canada
December 2, 2019

We have served as the Company's auditor since 2017.

Venus Concept Ltd.
Consolidated Balance Sheets
As at December 31, 2018 and 2017 (In thousands of U.S. Dollars, except share data)

	2018 $	2017 $
Assets		
Current assets		
Cash and cash equivalents	**6,758**	20,194
Trade receivables, net of allowance for doubtful accounts of $4,408 ($2,417 in 2017)	**42,663**	29,893
Inventories	**20,261**	13,337
Deferred expenses	**620**	1,513
Prepaid expenses	**1,148**	2,051
Advances to suppliers	**1,732**	481
Other current assets	**1,423**	2,373
	74,605	69,842
Long-term assets		
Long-term receivables	**38,201**	26,395
Deferred tax assets	**297**	145
Deferred expenses	**—**	701
Severance pay funds	**791**	925
Property and equipment, net	**3,381**	3,178
Intangible assets	**5,252**	—
Goodwill	**2,603**	—
	50,525	31,344
	125,130	101,186
Liabilities		
Current liabilities		
Line of credit	**5,655**	—
Trade payables	**8,625**	4,005
Accrued expenses and other current liabilities	**10,880**	9,843
Taxes payable	**407**	187
Unearned interest income	**3,849**	3,059
Warranty accrual	**495**	366
Deferred revenues	**163**	737
	30,074	18,197
Long-term liabilities		
Long-term debt	**50,892**	35,261
Accrued severance pay	**835**	906
Deferred tax liabilities	**1,893**	1,305
Unearned interest income	**1,752**	1,895
Warranty accrual	**841**	673
Other long-term liabilities	**2,388**	188
	58,601	40,228
	88,675	58,425
Commitments and contingencies		
Shareholders' equity		
Share capital		
Series A preferred shares of 0.0003 par value: 2,192,736 shares authorized, issued and outstanding at December 31, 2018 and 2017	**—**	—
Series B preferred shares of 0.0003 par value: 4,714,034 shares authorized, 4,564,034 shares issued and outstanding at December 31, 2018 and 2017	**—**	—
Series C preferred shares of 0.0003 par value: 8,015,320 shares authorized, 8,003,319 shares issued and outstanding at December 31, 2018 and 2017	**—**	—
Series C-1 preferred shares of 0.0003 par value: 98,807 shares authorized, issued and outstanding at December 31, 2018 and 2017	**—**	—
Series D preferred shares of 0.0003 par value: 1,122,216 shares authorized, issued and outstanding at December 31, 2018, nil outstanding in 2017	**—**	—
Ordinary shares of 0.0003 par value: 83,856,887 and 84,979,103 shares authorized at December 31, 2018 and 2017, respectively; 8,276,229 and 8,151,029 shares issued and outstanding at December 31, 2018 and 2017, respectively	**57,101**	49,978
Additional paid-in capital	**10,399**	10,075
Accumulated deficit	**(35,067)**	(20,108)
Treasury shares, at cost; 1,800 shares as at December 31, 2018 and 2017	**—**	—
	32,433	39,945
Non-controlling interest	**4,022**	2,816
	36,455	42,761
	125,130	101,186

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

Venus Concept Ltd.
Consolidated Statements of Operations
Years ended December 31, 2018, and 2017 (In thousands of U.S. dollars, except share data)

	2018 $	2017 $
Revenue		
Leases	**71,540**	65,052
Products and services	**31,074**	24,022
	102,614	89,074
Cost of goods sold		
Leases	**13,091**	10,232
Products and services	**10,168**	10,634
	23,259	20,866
Gross profit	**79,355**	68,208
Selling and marketing	**37,315**	26,759
General and administrative	**27,432**	20,606
Research and development	**7,047**	5,678
Provision for bad debts	**10,928**	2,465
	82,722	55,508
(Loss) income from operations	**(3,367)**	12,700
Foreign exchange loss (income)	**3,266**	(686)
Finance expenses	**5,361**	5,503
(Loss) income before income taxes	**(11,994)**	7,883
Income taxes expense	**2,215**	479
Net (loss) income	**(14,209)**	7,404
(Loss) income attributable to the Company	**(14,959)**	5,726
Income attributable to the non-controlling interest	**750**	1,678
	(14,209)	7,404
Net (loss) income per share:		
Basic	**$ (1.82)**	$ 0.29
Diluted	**$ (1.82)**	$ 0.22
Weighted-average number of shares used in per share calculation		
Basic	**8,206**	9,506
Diluted	**8,206**	12,705

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

Index to Financial Statements

Venus Concept Ltd.
Consolidated Statements of Comprehensive (Loss) Income
Years ended December 31, 2018, and 2017 (In thousands of U.S. dollars, except share data)

	2018	2017
	$	$
Net (loss) income	**(14,209)**	7,404
Foreign currency translation adjustment	—	—
Comprehensive (loss) income	**(14,209)**	7,404
Comprehensive (loss) income attributable to the Company	**(14,959)**	5,726
Comprehensive income attributable to the non-controlling interest	**750**	1,678
	(14,209)	7,404

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

Index to Financial Statements

Venus Concept Ltd.
Consolidated Statements of Changes in Shareholders' Equity (Deficit)
Years ended December 31, 2018 and 2017 (In thousands of U.S. dollars, except share data)

	2018										
	Series A Preferred shares	Series B preferred shares	Series C preferred shares	Series C-1 preferred non-voting	Series D preferred shares	Number of ordinary shares	Share capital	Additional paid-in capital	Accumulated deficit	Non-controlling interest	Total shareholders' equity
	#	#	#	#	#	#	$	$	$	$	$
Balance, January 1, 2018	2,192,736	4,564,034	8,003,319	98,807	—	8,151,029	49,978	10,075	(20,108)	2,816	42,761
Changes during the year ended December 31, 2018 Equity issuance	—	—	—	—	1,122,216	—	6,915	—	—	—	6,915
Comprehensive loss—Venus Concept Ltd.	—	—	—	—	—	—	—	—	(14,959)	—	(14,959)
Comprehensive income—NCI	—	—	—	—	—	—	—	—	—	750	750
Acquisition of non-controlling interest	—	—	—	—	—	—	—	(933)	—	456	(477)
Options exercised	—	—	—	—	—	125,200	208	—	—	—	208
Stock-based compensation	—	—	—	—	—	—	—	1,257	—	—	1,257
Balance, December 31, 2018	2,192,736	4,564,034	8,003,319	98,807	1,122,216	8,276,229	57,101	10,399	(35,067)	4,022	36,455

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

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Consolidated Statements of Changes in Shareholders' Equity (Deficit) (Continued)

	2017									
	Series A preferred shares	Series B preferred shares	Series C preferred shares	Series C-1 preferred non-voting	Number of ordinary shares	Share capital	Additional paid-in capital	Accumulated deficit	Non-controlling interest	Total shareholders' equity
	#	#	#	#	#	$	$	$	$	$
Balance, January 1, 2017	2,192,736	2,282,017	—	—	11,026,236	13,660	9,106	(25,834)	1,138	(1,930)
Changes during the year ended December 31, 2017										
Exchange of shares	—	2,282,017	593,190	—	(2,875,207)	—	—	—	—	—
Equity issuance	—	—	7,410,129	98,807	—	36,318	—	—	—	36,318
Comprehensive income—Venus Concept Ltd.	—	—	—	—	—	—	—	5,726	—	5,726
Comprehensive income—NCI	—	—	—	—	—	—	—	—	1,678	1,678
Warrants issued on equity	—	—	—	—	—	—	27	—	—	27
Stock-based compensation	—	—	—	—	—	—	942	—	—	942
Balance, December 31, 2017	2,192,736	4,564,034	8,003,319	98,807	8,151,029	49,978	10,075	(20,108)	2,816	42,761

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

Index to Financial Statements

Venus Concept Ltd.
Consolidated Statements of Cash Flows

Years ended December 31, 2018, and 2017 (In thousands of U.S. dollars, except share data)

	2018 $	2017 $
Operating activities		
Net (loss) income	**(14,209)**	7,404
Changes to reconcile net (loss) income to cash used in operating activities		
Depreciation and amortization	**1,340**	668
Stock-based compensation	**1,257**	942
Provision for bad debts	**10,928**	2,465
Accretion on long-term debt	**144**	144
Financing fees	**355**	74
Capitalized interest on debt	**939**	1,450
Deferred tax expense	**436**	1,201
Changes in operating assets and liabilities		
Unearned interest income	**891**	3,416
Severance payments	**(10)**	(41)
Warranty accrual	**304**	(51)
Prepaid expenses and other assets	**484**	325
Deferred expenses	**1,600**	2,344
Accounts receivable, short and long-term	**(38,162)**	(39,753)
Inventories	**(6,205)**	310
Deferred revenues	**(575)**	89
Trade payables	**4,206**	(1,820)
Accrued expenses and other current liabilities	**1,599**	2,039
Other long term liabilities	**1,029**	(86)
Cash used in operating activities	**(33,649)**	(18,880)
Investing activities		
Purchase of property and equipment	**(1,155)**	(1,527)
Acquisition of business	**(7,502)**	—
Cash used in investing activities	**(8,657)**	(1,527)
Financing activities		
Acquisition of non-controlling interest	**(477)**	—
Financing fees paid	**(806)**	(284)
Equity issuance, net of fees	**6,915**	36,318
Issuance of long-term debt	**15,000**	—
Repayment of long-term debt	—	—
Drawdown on line of credit	**5,655**	—
Proceeds from exercise of options	**208**	—
Cash provided by financing activities	**26,495**	36,034
Effect of exchange rate differences on cash and cash equivalents	**2,375**	(1,557)
(Decrease) increase in cash and cash equivalents	**(13,436)**	14,070
Cash and cash equivalents, beginning of year	**20,194**	6,124
Cash and cash equivalents, end of year	**6,758**	20,194
Non-cash investing activity		
Earn-out liability	**1,177**	—
Non-cash financing activity		
Warrants issued	—	28
Supplemental information		
Cash paid during the year for income taxes	**524**	309
Cash paid during the year for interest	**4,071**	3,286

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

Venus Concept Ltd.

Notes to the consolidated financial statements
December 31, 2018 and 2017
(In thousands of U.S. dollars, except share data)

1. Description of business

Venus Concept Ltd. (the “Company” or “Venus Concept”) was incorporated in 2009 under the laws of the State of Israel and is a global medical technology company. The Company and its subsidiaries develop, manufacture and commercialize safe, efficacious and easy-to-use aesthetic technologies. The Company designs and sells a full-suite of aesthetic and medical products, and markets its current products primarily to physicians interested in providing minimally invasive and non-invasive procedures and to aesthetic medical spas.

Merger with Restoration Robotics

On March 15, 2019, the Company entered into an agreement (as amended on August 14, 2019 and October 31, 2019) (the “Merger Agreement”) with Radiant Merger Sub Ltd. (the “Merger Sub”), a company organized under the laws of Israel and a wholly-owned subsidiary of the Company, and Restoration Robotics, Inc. (“Restoration Robotics”), a company incorporated in the state of Delaware, to combine the companies in an all-stock transaction (the “Merger”). The Merger Agreement (as amended on August 14, 2019 and October 31, 2019) and the Merger have been approved by the Company’s board of directors (the “Board”) and the board of directors of Restoration Robotics (the “Restoration Robotics Board”). The Merger was completed on November 7, 2019 (see Note 25).

Immediately following completion of the Merger, Venus Concept Inc. (formerly Restoration Robotics) effected a 15-for-1 reverse stock split of Venus Concept Inc. common stock (the “Reverse Stock Split”). The Merger and the Reverse Stock Split were approved by Venus Concept Inc.’s stockholders on October 4, 2019, subject to the closing of the Merger (see Note 25).

The Merger Agreement provided that, upon the terms and subject to the satisfaction or waiver of the conditions set forth therein, the Merger Sub would be merged with and into the Company, with Venus continuing as the surviving company, as a wholly-owned subsidiary of Restoration Robotics.

Under the terms of the Merger Agreement (as amended on August 14, 2019 and October 31, 2019), immediately after the Merger, shareholders of the Company and Restoration Robotics would own approximately 85% and 15%, respectively, of the combined company, on a fully diluted basis, without giving effect to the shares issued in the equity financing (the “Equity Financing”).

EW Healthcare Partners, a beneficial owner of Venus Concept and affiliate of a director on the Board, had committed to lead a $21,000 equity investment in the convertible promissory notes of Venus Concept priced at $6.996 per share, post split. The convertible promissory notes converted into the combined company’s common stock immediately following the closing of the Merger (see Note 25). In addition the following investors participated in the Equity Financing: HealthQuest Capital, Madryn Asset Management, Longitude Capital Management, Fred Moll, and Aperture Venture Partners. In addition to the Equity Financing, Fred Moll and InterWest Partners funded a $5,000 convertible note to Restoration Robotics, which converted into the combined company’s common stock at the closing of the Equity Financing led by EW Healthcare, at a price of $6.996 per share.

In conjunction with the Merger, the Company and Restoration Robotics, Inc. agreed to enter into a securities purchase agreement with certain investors pursuant to which the combined company, after the completion of the Merger, would issue and sell to the investors in a private placement the common stock of the combined company, par value $0.0001 per share, and warrants to purchase the common stock of the combined company at an exercise price of $6.00 per share (the “Concurrent Financing”) (see Note 25).

2. Going concern and significant accounting policies

Going Concern

The accompanying consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business, and, as such, the consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or amounts and classification of liabilities that might be necessary should the Company be unable to continue in existence.

2. Significant accounting policies (continued)

The Company has reported recurring net losses and negative cash flows from operations. As of December 31, 2018 and as of December 31, 2017, the Company had an accumulated deficit of $35,067 and $20,018, respectively. Further, during the periods ended June 30, 2019 and September 30, 2019, the Company was not in compliance with certain financial covenants associated with credit facilities with City National Bank of Florida (see Note 25). In addition, during the period ended June 30, 2019 the Company was not in compliance with certain financial covenants associated with its loan agreement with Madryn Health Partners, LP (see Note 25). The Company received waivers from the City National Bank of Florida for the periods ended June 30, 2019 and September 30, 2019 and a waiver from Madryn Health Partners, LP for the period ended June 30, 2019. The Company's recurring net losses and negative cash flows from operations raise substantial doubt about the Company's ability to continue as a going concern within 12 months from the date that the consolidated financial statements are issued.

In order to continue its operations, the Company must achieve profitable operations and/or obtain additional equity investment or debt financing. Until the Company achieves profitability, management plans to fund its operations and capital expenditures through borrowings and issuance of capital stock. The Company completed convertible note offerings completed in June 2019 and August 2019 (see Note 25) and the Concurrent Financing (see Note 25). Until the Company generates revenue at a level to support its cost structure, the Company expects to continue to incur substantial operating losses and net cash outflows.

There can be no assurance that the Company will be successful in raising additional capital or that such capital, if available, will be on terms that are acceptable to the Company. If the Company is unable to raise sufficient additional capital, it may be compelled to reduce the scope of its operations and planned capital expenditures or sell certain assets, including intellectual property assets. These consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded assets amounts or amounts and classification of liabilities that might result from the uncertainty.

Significant Accounting Policies

(a) Principles of consolidation

The consolidated financial statements are prepared in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP").

The consolidated financial statements include the financial accounts of the Company and all of its subsidiaries. Intercompany transactions and balances, including profits from intercompany sales not yet realized outside the Company, have been eliminated upon consolidation. The Company does not own 100% of its subsidiaries but accounts for the partial ownership interest through non-controlling interest. The financial results of NeoGraft Solutions Inc. ("NeoGraft") have been included in the consolidated financial statements from the date of acquisition on February 15, 2018.

(b) Use of estimates

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions in determining the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates. As applicable to these consolidated financial statements, the most significant estimates and assumptions relate to the implicit interest rate used to record lease revenue, allowance for doubtful accounts, accrued warranty costs, inventory valuation, valuation and measurement of deferred tax assets and liabilities, accrued severance pay, useful lives of property and equipment, earn-out liability, fair value of stock-based compensation, useful lives of intangibles, impairment of long lived assets and goodwill, and valuation of acquired intangibles and goodwill.

Venus Concept Ltd.

Notes to the consolidated financial statements
December 31, 2018 and 2017
(In thousands of U.S. dollars, except share data)

2. Significant accounting policies (continued)

(c) Recently adopted accounting standards

On January 1, 2018, the Company adopted ASU No. 2016-16, Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory. Previously, U.S. GAAP prohibited the recognition of current and deferred income taxes for an intra-entity asset transfer until the asset has been sold to an outside party. This prohibition on recognition was an exception to the principle of comprehensive recognition of current and deferred income taxes under U.S. GAAP. The amendment to the guidance eliminated the exception for an intra-entity transfer of an asset other than inventory and required an entity to recognize the income tax consequences when the transfer occurs. Prior periods were not retrospectively adjusted. The adoption of the ASU did not have an impact on the consolidated financial statements.

In May 2017, the Financial Accounting Standards Board ("FASB") issued ASU No. 2017-09 (Topic 718) Compensation—Stock Compensation: Scope of Modification Accounting, which provides guidance on the types of changes to the terms or conditions of share-based payment awards to which an entity would be required to apply modification accounting. The new standard is effective on a prospective basis for interim and annual periods beginning after December 15, 2017, with early adoption permitted. The Company adopted this ASU on a prospective basis on January 1, 2018. The adoption of the ASU did not have a material impact on the consolidated financial statements.

In March 2016, the FASB issued ASU No. 2016-09, Compensation – Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting, or ASU 2016-09. ASU 2016-09 simplifies the accounting and reporting of share-based payment transactions, including adjustments to how excess tax benefits and payments for tax withholdings should be classified and provides the election to eliminate the estimate for forfeitures. This standard is effective for annual reporting periods beginning after December 15, 2016, and interim periods within annual periods beginning after December 15, 2016. Early adoption is permitted for any entity in any interim or annual period for which financial statements have not been issued or made available for issuance. The Company adopted this ASU on a prospective basis on January 1, 2017. The adoption of the ASU did not have a material impact on the consolidated financial statements.

In November 2016, the FASB issued ASU No. 2016-18 (Topic 230) Statement of Cash Flow: Restricted Cash, which provides guidance on the classification of restricted cash to be included with cash and cash equivalents when reconciling the beginning of period and end of period total amounts on the statement of cash flows. The amendments of this ASU are effective for interim and annual periods beginning after December 15, 2017, with early adoption permitted. The standard must be applied retrospectively to all periods presented. The Company adopted this standard on January 1, 2018 and the adoption did not have an impact on its consolidated financial statements.

In January 2017, the Company adopted ASU 2015-11 Simplifying the Measurement of Inventory. The guidance requires that inventory that is measured on a first-in-first-out ("FIFO") or average cost basis be measured at lower of cost and net realizable value, as opposed to the lower of cost or market. The Company applied this guidance prospectively on January 1, 2017 and the adoption did not cause a material impact of the Company's consolidated financial statements.

(d) Presentation currency and foreign currency translation

The consolidated financial statements are presented in U.S. dollars.

A majority of the Company's revenue is generated in U.S dollars and its financing is in U.S. dollars. The Company's management believes that the U.S. dollar is the primary currency in the economic environment in which the Company operates. Thus, the functional currency of the parent company and subsidiaries is the U.S. dollar.

All exchange gains and losses from remeasurement of monetary balance sheet items resulting from transactions in non-functional currencies are recorded in the consolidated statements of operations and comprehensive (loss) income as they arise.

Venus Concept Ltd.

Notes to the consolidated financial statements
December 31, 2018 and 2017
(In thousands of U.S. dollars, except share data)

2. Significant accounting policies (continued)

(e) Risks and uncertainties

The Company's future results of operations involve a number of risks and uncertainties. Factors that could affect the Company's future operating results and cause actual results to vary materially from expectations include, but are not limited to, rapid technological change, continued acceptance of the Company's products, competition from substitute products and larger companies, protection of proprietary technology, strategic relationships and dependence on key individuals. If the Company fails to adhere to ongoing Food and Drug Administration ("FDA") Quality System Regulation, or regulations in countries other than the United States, FDA or other regulators may withdraw its market clearances or take other action. The Company relies on suppliers to manufacture some of the components used in its products. The Company's suppliers may encounter supply interruptions or problems during manufacturing due to a variety of reasons, including failure to comply with applicable regulations, including FDA's Quality System Regulation, equipment malfunction and environmental regulations, any of which could delay or impede the Company's ability to meet demand.

The Company has borrowings whose interest rates are subject to fluctuations as charged by the lender. The Company does not use derivative financial instruments to mitigate the exposure to interest rate risk.

The Company's objective is to have sufficient liquidity to meet its liabilities when due. The Company monitors its cash balances and cash used in operating activities to meet its requirements. As at December 31, 2018 and 2017, the most significant financial liabilities are the line of credit, trade payables, earn-out liability and long-term debt.

(f) Cash and cash equivalents

Cash equivalents consist of short-term, highly liquid investments that are readily convertible into cash or which have original maturities of three months or less.

2. Significant accounting policies (continued)

(g) Fair value of financial instruments

Financial assets and financial liabilities are initially recognized at fair value when the Company becomes a party to the contractual provision of the financial instrument. Subsequently, all financial instruments are measured at amortized cost using the effective interest method.

The financial instruments of the Company consist mainly of cash and cash equivalents, trade receivables, long-term receivables, advances to suppliers, line of credit, trade payables, earn-out liability and long-term debt. In view of their nature, the fair value of the financial instruments approximate their carrying amounts.

The Company measures the fair value of its financial assets and liabilities using the fair value hierarchy. A financial instrument's classification within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement. Three levels of inputs may be used to measure fair value.

Level 1 – Quoted prices in active markets for identical assets or liabilities

Level 2 – Observable inputs other than Level 1 prices 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 market 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 insignificant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgement or estimation.

(h) Allowance for doubtful accounts

The allowance for doubtful accounts is based on the Company's assessment of the collectability of customer accounts and the aging of the related invoices, and represents the Company's best estimate of probable credit losses in its existing trade accounts receivable. The Company regularly reviews the allowance by considering factors such as historical experience, credit quality, the age of the accounts receivable balances, and current economic conditions that may affect a customer's ability to pay.

2. Significant accounting policies (continued)

(i) Inventories

Inventories are stated at the lower of cost or net realizable value and include raw materials, work in process and finished goods. Cost is determined as follows:

Raw Materials and Work in Progress (“WIP”) – Cost is determined on a standard cost basis utilizing the weighted average cost of historical purchases, which approximates actual cost.

The cost of WIP and finished goods includes the cost of raw materials and the applicable share of the cost of labor and fixed and variable production overheads.

The Company regularly evaluates the value of inventory based on a combination of factors including the following: historical usage rates, product end of life dates, technological obsolescence and product introductions.

The Company includes demonstration units within inventories. Proceeds from the sale of demonstration units are recorded as revenue.

(j) Long-term receivables

Long-term receivables relate to the Company’s subscription revenue or contracts which stipulate payment terms which exceed one year. They are comprised of the unpaid principal balance, plus accrued interest, net of the allowance for credit losses. These receivables have been discounted based on the implicit interest rate in the subscription lease which range between 8% to 9% in 2018 and 10% to 14% in 2017. Unearned interest revenue represents the interest only portion of the respective subscription payments and will be recognized in income over the respective payment term as it is earned.

Deferred revenues represent payments received prior to the income being earned. Once delivery of the equipment and/or the services have been rendered, then these amounts will be recognized in income.

(k) Property and equipment

Property and equipment are stated at cost less accumulated depreciation. Depreciation is computed using the straight-line method, over the estimated useful lives of the assets, as follows:

Lab equipment tooling and molds	4 – 10 years
Computers and software	3 years
Vehicles	6 – 7 years
Office furniture and equipment	6 – 15 years

Leasehold improvements are amortized over the shorter of the life of the relevant lease or the service life of the improvements.

2. Significant accounting policies (continued)

(l) Intangible assets

Intangible assets consist of customer relationships, brand and supplier agreement. Intangible assets are stated at cost less accumulated amortization. Amortization is computed using the straight-line method over the estimated useful lives of the assets, as follows:

Customer relationships	15 years
Brand	10 years
Supplier agreement	10 years

The useful lives of intangible assets are based on the Company's assessment of various factors impacting estimated cash flows, such as the product's position in its lifecycle, the existence or absence of like products in the market, various other competitive and regulatory issues, and contractual terms.

(m) Impairment of long-lived assets

The Company accounts for the impairment of long-lived assets in accordance with FASB, Accounting Standards Codification ("ASC") 360-10, "Accounting for the Impairment of Long-Lived Assets". This standard requires that long-lived assets be reviewed for impairment whenever events or changes in circumstances indicate that the assets' carrying amounts may not be recoverable. For assets that are to be held and used, impairment is assessed when the estimated undiscounted cash flows associated with the asset or group of assets is less than their carrying values. If impairment exists, an adjustment is made to write the asset down to its fair value, and a loss is recorded as the difference between the carrying value and fair value. Fair values are determined based on quoted market values, discounted cash flows or internal and external appraisals, as applicable. Assets to be disposed of are carried at the lower of carrying value and estimated net realizable value. During the years ended December 31, 2018 and 2017, there was no impairment of long-lived assets.

(n) Goodwill

Goodwill represents the excess of the purchase price of the business acquired over the fair value of the net identifiable assets of an acquired business.

Goodwill is not amortized, but is tested for impairment annually or more frequently when an event occurs or circumstances change that indicate the carrying value may not be recoverable. In testing goodwill for impairment, the Company elected to utilize a qualitative assessment to evaluate whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If the qualitative assessment indicates that goodwill impairment is more likely than not, a two-step impairment test is performed. Under the two-step impairment test, the carrying value of the reporting unit is compared to the fair value of the reporting unit. If the fair value is determined to be less than the carrying value, a second step is performed to compute the amount of impairment as the difference between the implied fair value of goodwill and the carrying value. Fair value of reporting units are estimated using discounted cash flows. Forecasts of future cash flows are based on the Company's best estimate of future net sales and operating expenses.

Venus Concept Ltd.

Notes to the consolidated financial statements
December 31, 2018 and 2017
(In thousands of U.S. dollars, except share data)

2. Significant accounting policies (continued)

(n) Goodwill (continued)

Required annual testing of goodwill for impairment was completed for the reporting unit as of December 31, 2018, and determined that goodwill is not impaired as the fair value of the reporting unit substantially exceeded its book value.

(o) Warranty accrual

The Company provides a warranty for many of its products against defects for up to one year, with certain products carrying a warranty for a more extended period of up to four years. The warranty period begins upon shipment.

The Company records a liability for accrued warranty costs at the time of sale of a system, which consists of the warranty on products sold based on historical warranty costs and management's estimates. The Company periodically assesses the adequacy of its recorded warranty liabilities and adjusts the amounts thereof as necessary.

(p) Stock- based compensation

The Company accounts for stock-based compensation in accordance with ASC 718, "Compensation – Stock Compensation". ASC 718 requires companies to estimate the fair value of equity-based payment awards on the date of grant. The value of the portion of the award that is ultimately expected to vest is recognized as an expense over the requisite service period in the Company's consolidated statement of operations and comprehensive (loss) income.

The Company recognizes compensation expenses for the value of its awards granted based on the straight-line method over the requisite service period of each of the awards. A policy choice has been made to account for forfeitures when they occur.

Stock options granted to non-employees are based on the fair value on the grant date and re-measured at the end of each reporting period based on the fair value until the earlier of the options being fully vested and the performance obligations are complete. These are subject to a service vesting condition and are recognized on a straight-line method over the requisite service period. Forfeitures are estimated at the time of grant and revised, if necessary in subsequent periods if actual forfeitures differ from those estimates. Estimated forfeitures are based on historical pre-vesting forfeitures.

The Company estimates the fair value of stock options granted using the Black-Scholes option-pricing model that uses the weighted average assumptions noted in the table below.

(In thousands of U.S. dollars, except share data)

2. Significant accounting policies (continued)

(p) Stock- based compensation (continued)

The expected term of options represents the period of time that options granted are expected to be outstanding, and is determined based on the simplified method. The Company has used this method for all stock option grants and considers this to be the best estimate since it has limited exercise experience to better estimate the expected term.

	2018	2017
Risk-free interest rate	**2.1% – 2.8 %**	1.5% – 2.02%
Expected term of options	**3 – 4 years**	3 – 4 years
Expected volatility	**50 %**	50%
Expected dividend yield	**None**	None

The expected volatility is based on the historical volatility of comparable companies. The risk-free interest rate assumption is derived from the interest curve for U.S. government bonds for periods corresponding to the expected term of the option on the grant date.

The Company utilizes significant estimates and assumptions in determining the fair value of its common stock. The Company has utilized various valuation methodologies in accordance with the framework of the American Institute of Certified Public Accountants Technical Practice Aid, *Valuation of Privately-Held Company Equity Securities Issued as Compensation*, to estimate the fair value of its common stock. Each valuation methodology includes estimates and assumptions that require the Company's judgment. These estimates and assumptions include a number of objective and subjective factors, including external market conditions, the prices at which the Company sold shares of preferred stock, the superior rights and preferences of securities senior to the Company's common and the timing of, and the likelihood of, achieving a liquidity event, such as an IPO or sale of the company. Changes to the key assumptions used in the valuations could result in significant differences in the fair value of the ordinary shares at each valuation date.

(q) Revenue recognition

(i) Leases

Many of the Company's products are sold under subscription contracts with title passing to the customer at the earlier of the end of the term and when the payment is received in full. The subscription contracts include an initial deposit followed by monthly installments typically over a period of 36 months. In accordance with ASC 840 Leases, these arrangements are considered to be sales-type leases, where the present value of all cash flows to be received within the arrangement is recognized upon shipment to the customer and achievement of the required revenue recognition criteria. Various accounting and reporting systems are used to monitor subscription receivables which include providing access codes to operate the machines to paying customers and restricting access codes on machines to non paying customers.

When management determines that collection of future minimum contractual payments cannot be reasonably assured at the inception of a subscription contract, these contracts are classified as operating leases, where revenue is recognized on a straight-line basis over the term of the lease.

2. Significant accounting policies (continued)

(q) Revenue recognition (continued)

(ii) Products and services

The Company recognizes revenues on other products and services in accordance with ASC 605-10-S99 (SEC Staff Accounting Bulletin ("SAB") No. 104, "Revenue Recognition"), which requires that the following four criteria be met in order to recognize revenue:

- Persuasive evidence of an agreement exists;
- Delivery has occurred or services have been rendered;
- The selling price is fixed or determinable; and
- Collectability is reasonably assured.

The Company recognizes revenues from products sold to end-customers when title and risk of ownership has been transferred which usually occurs upon shipment to the end-customer. The Company does not grant rights of return to its end-customers.

The Company's products sold through arrangements with distributors are non-refundable, non-returnable and without any rights of price protection or stock rotation. Accordingly, the Company considers distributors as end-customers (the "sell-in method").

In cases where revenue recognition criteria for distributors sales were not satisfied at the time of shipment, mainly collectability had not been established, revenues are recognized once the product is delivered to the end customer (the "sell-through method"). Since the Company does not have reliable information about when the distributors sell the product through to end customers, the Company uses cash collection from such distributors as a basis for revenue recognition under the sell-through method.

In respect of sales of systems with installation and training, in accordance with ASC 605, the Company has concluded that its arrangements are generally consistent with the indicators suggesting that installation and training are not essential to the functionality of the Company's systems. Accordingly, installation and training are considered inconsequential and perfunctory relative to the system, and therefore the Company recognizes revenue for the system, installation and training upon shipment to the customer once all other revenue recognition criteria have been met, and provides an accrual for installation and training costs, as appropriate.

Taxes imposed by government authorities on the Company's revenue-producing activities with customers and distributors, such as sales taxes and value added taxes, are excluded from revenue.

(r) Cost of goods

For subscription sales (qualifying as sales-type lease arrangements) and product sales, the costs are recognized upon shipment to the customer or distributor.

Costs related to lease agreements classified as operating leases are amortized over the minimum lease term of the arrangement.

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2. Significant accounting policies (continued)

(s) Advertising costs

The cost of advertising and media is expensed as incurred. For the years ended December 31, 2018, and 2017 advertising costs totaled $1,225 and $1,133, respectively.

(t) Research and development costs

Research and development costs are expensed as incurred.

(u) Net (loss) income per share

The Company computes net (loss) income per share in accordance with ASC Topic 260, "Earnings Per Share" ("ASC 260") and related guidance, which requires two calculations of net (loss) income attributable to the Company's shareholders per share to be disclosed: basic and diluted. Convertible preferred shares are participating securities and are included in the calculation of basic and diluted earnings per share using the two-class method. In periods where the Company reports net losses, such losses are not allocated to the convertible preferred shares for the computation of basic or diluted EPS.

Diluted net (loss) income per share is the same as basic earnings per share for the periods in which the Company had a net loss because the inclusion of outstanding common stock equivalents would be anti-dilutive.

(v) Income taxes

The Company follows the deferred income taxes method of accounting for income taxes. Under this method, deferred income taxes are recognized for the future tax consequences attributable to differences between the financial statement carrying values of accounts and their respective income tax basis. Deferred income tax assets and liabilities are measured using enacted income tax rates expected to apply to taxable income in the years during which the temporary differences are expected to be realized or settled. The effect on deferred income tax assets and liabilities of a change in tax rates is included in income in the period that includes the enactment date.

Valuation allowances are established when necessary to reduce deferred tax assets to the amounts that are more likely than not to be realized. The Company evaluates tax positions taken or expected to be taken in the course of preparing tax returns to determine whether the tax positions have met a "more likely-than-not" threshold of being sustained by the applicable tax authority. Tax benefits related to tax positions not deemed to meet the "more likely-than-not" threshold are not permitted to be recognized in the consolidated financial statements.

(w) Business combinations

The consideration for each acquisition is measured at the aggregate of the fair values of assets acquired, liabilities incurred or assumed, and equity instruments issued by the Company in exchange for control of the acquired company. Acquisition-related costs are recognized in operations as incurred in selling and marketing expense. Where applicable, the consideration for the acquisition includes any asset or liability resulting from a contingent consideration arrangement, measured at its acquisition-

2. Significant accounting policies (continued)

(w) Business combinations (continued)

date fair value. Subsequent changes in such fair values are adjusted against the cost of acquisition as soon as all necessary information is obtained where it qualifies as measurement period adjustments within one year from closing.

(x) Future accounting pronouncements

(i) In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606). The FASB subsequently issued the following amendments to ASU No. 2014-09: ASU No. 2016-08, Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations; ASU No. 2016-10, Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing; ASU No. 2016-12, Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients; and ASU No. 2016-20, Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers.

The main provisions of Topic 606 require the identification of performance obligations within a contract and require the recognition of revenue based on a stand-alone allocation of contract revenue to each performance obligation. Performance obligations may be satisfied and revenue recognized over a period of time if: 1) the customer simultaneously receives and consumes the benefits provided by the entity's performance as the entity performs, or 2) the entity's performance creates or enhances an asset that the customer controls as the asset is created or enhanced, or 3) the entity's performance does not create an asset with an alternative use to the entity, and the entity has an enforceable right to payment for performance completed to date. For public entities the amendments of the update are effective for annual reporting periods beginning after December 15, 2017 including interim periods within that reporting period.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842) and subsequently amended by ASU 2018-11, Leases (Topic 842): Targeted Improvements, ASU 2018-20, Narrow-Scope Improvements for Lessors and ASU 2019-01, Leases (Topic 842): Codification Improvements. The guidance is intended to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and requiring more disclosures related to leasing transactions. The amendments in this update are effective for fiscal years, and interim periods within those years, beginning after December 15, 2018. Early adoption is permitted.

As codified in ASU 2017-13, in an SEC staff announcement at the July 20, 2017 Emerging Issues Task Force ("EITF") meeting, specifically related to public business entities ("PBEs") that qualify as a PBE solely due to the requirement to include or the inclusion of its financial statements or financial information in another entity's SEC filing (certain PBEs), the SEC stated that it will allow certain PBEs to elect to apply the non-PBE effective dates for the revenue recognition and lease accounting standards only. The Company has made these elections and plans to adopt the revenue recognition guidance for the annual period ending December 31, 2019 using the modified retrospective adoption method and the lease guidance for the annual period ending December 31, 2020.

2. Significant accounting policies (continued)

(x) Future accounting pronouncements (continued)

The Company has commenced the issue identification phase for Topic 606 and does not expect the new revenue recognition guidance to have a material impact on the Company's consolidated financial statements. The Company is in the process of determining the impact of Topic 842 on its consolidated financial statements.

(ii) In August 2018, the FASB issued ASU No. 2018-15, Intangibles – Goodwill and Other – Internal-Use Software (Subtopic 350-40), relating to a customer's accounting for implementation, set-up, and other upfront costs incurred in a cloud computing arrangement that is hosted by a vendor (i.e., a service contract). Under the new guidance, a customer will apply the same criteria for capitalizing implementation costs as it would for an arrangement that has a software license. The new guidance also prescribes the balance sheet, income statement, and cash flow classification of the capitalized implementation costs and related amortization expense, and requires additional quantitative and qualitative disclosures. The ASU is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Early application is permitted. The Company can choose to adopt the new guidance (1) prospectively to eligible costs incurred on or after the date this guidance is first applied or (2) retrospectively. The Company is evaluating the impact, if any, that this pronouncement will have on the consolidated financial statements.

(iii) In August 2018, the FASB issued ASU No. 2018-13, Fair Value Measurement (Topic 820): Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement, which removes, adds and modifies certain disclosure requirements for fair value measurements in Topic 820. The Company will no longer be required to disclose the amount of and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy, and the valuation processes of Level 3 fair value measurements. However, the Company will be required to additionally disclose the changes in unrealized gains and losses included in other comprehensive income for recurring Level 3 fair value measurements, and the range and weighted average of assumptions used to develop significant unobservable inputs for Level 3 fair value measurements. The ASU is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. The amendments relating to additional disclosure requirements will be applied prospectively for only the most recent interim or annual period presented in the initial year of adoption. All other amendments will be applied retrospectively to all periods presented upon their effective date. The Company is evaluating the impact, if any, that this pronouncement will have on the consolidated financial statements.

(iv) In June 2018, the FASB issued ASU 2018-07, which simplifies guidance on non-employee share-based payments. This expands the scope of ASC 718 to include all share-based payment arrangements related to the acquisition of goods and services from both non-employees and employees. As a result, most of the guidance in ASC 718 associated with employee share-based payments, applies to non-employee share-based payment arrangements. The ASU amendment is effective for fiscal years and interim periods within those fiscal years beginning after December 15, 2018 and will be applied prospectively. The Company is evaluating the impact, if any, that this pronouncement will have on the consolidated financial statements.

2. Significant accounting policies (continued)

(x) Future accounting pronouncements (continued)

(v) In June 2016, the FASB issued ASU 2016-13 Credit Losses. For assets held at amortized cost basis, ASC 326-20 eliminates the probable initial recognition threshold and instead, requires an entity to reflect its current estimate of all expected credit losses. The allowance for doubtful accounts is a valuation account that is deducted from the amortized cost basis of the financial assets to present the net amount expected to be collected. The ASU is effective for fiscal years and interim periods beginning after December 15, 2019. The Company is evaluating the impact, if any, that this pronouncement will have on the consolidated financial statements.

(vi) In November 2018, the FASB issued ASU 2018-19, which amends the scope and transition requirements on ASU 2016-13 Credit Losses. The ASU clarifies that operating lease receivables are not within the scope of ASC 326-20 and should instead be accounted for under the new leasing standard, ASC 842. The ASU amendment is effective for fiscal years and interim periods within those fiscal year beginning after, December 15, 2020 and will be applied prospectively. The Company is evaluating the impact, if any, that this pronouncement will have on the consolidated financial statements.

3. Business combinations

On February 15, 2018, the Company acquired the assets and liabilities of NeoGraft. The primary reason for this acquisition was to expand the product offering to hair restoration solutions. Acquisition-related costs were expensed as incurred and amounted to $67 for the year ended December 31, 2018 ($101 in 2017). Pro forma results of operations have not been presented because the effect of this acquisition was not material to the results of operations. In 2018, the total revenues related to NeoGraft amounted to $7,763 and gross profit of $6,046.

The total consideration is $8,679 of which $500 was held back and $250 will be payable out of escrow one year from the closing date and remaining $250 will be payable upon two years from the closing date. In addition, included in purchase consideration is $1,177 of contingent earn-out payments.

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3. Business combinations (continued)

The following table sets out the allocation of the purchase price:

Cash on closing	**$ 7,502**
Contingent earn-out payments	**1,177**
Total proceeds	**$ 8,679**
Net assets acquired	
Inventory	**1,315**
Accounts receivable	**44**
Fixed assets	**7**
Accounts payable	**(990)**
Customer relationships	**1,400**
Brand	**1,300**
Supplier agreement	**3,000**
Fair value of net assets acquired	**$ 6,076**
Goodwill	**$ 2,603**

Goodwill is primarily related to sales growth from future product and service offerings and new customers. The goodwill of NeoGraft is deductible for tax purposes under the cumulative eligible capital expenditures deduction in Canada.

The weighted average life remaining on the acquired intangibles are as follows:

Customer relationships	14 years
Brand	9 years
Supplier agreement	9 years

4. Cash and cash equivalents

	2018	2017
	$	$
Cash	**6,658**	19,896
Restricted deposit	**19**	218
Guaranteed investment certificates (“GIC”)	**81**	80
	6,758	20,194

The restricted deposit is a balance held in Bank Hapoalim in Israel for collateral against rent and credit cards. The GICs bear interest at 0.5%, mature on dates ranging from October 5, 2019 to July 10, 2019, and are convertible into cash upon notice by the Company.

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5. Other current assets

	2018 $	2017 $
Government remittances	**987**	1,530
Sundry assets and miscellaneous	**436**	843
	1,423	2,373

Government remittances are receivable from Canada Revenue Agency and the Israel Tax Authority, which are in regard to the refund of sales taxes in the local jurisdictions.

6. Inventories

	2018 $	2017 $
Raw material	**92**	823
Work in progress	**1,323**	578
Finished goods	**18,846**	11,936
	20,261	13,337

Additions to inventory are primarily comprised of newly produced units and applicators, refurbishment cost from demos and used equipment which were reacquired during the year from upgraded sales. The Company expensed $19,929, ($18,475 in 2017) in cost of goods sold during the year. The balance of cost of goods sold represents the sale of applicators, parts and warranty.

The Company provides for excess and obsolete inventories when conditions indicate that the inventory cost is not recoverable due to physical deterioration, usage, obsolescence, reductions in estimated future demand and reductions in selling prices. Inventory provisions are measured as the difference between the cost of inventory and net realizable value to establish a lower cost basis for the inventories. During 2018, a provision of $470 (nil in 2017) for obsolescence was taken.

7. Receivables, net of allowance for doubtful accounts

A summary of the Company's financing receivables is presented as follows:

	2018 $	2017 $
Gross financing receivables	**78,962**	51,378
Unearned income	**(5,601)**	(4,954)
Allowance for doubtful accounts	**(4,408)**	(2,417)
	68,953	44,007
Reported as:		
Current trade receivables	**35,314**	22,566
Current unearned interest income	**(3,849)**	(3,059)
Long-term trade receivables	**39,240**	26,395
Long-term unearned interest income	**(1,752)**	(1,895)
	68,953	44,007

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7. Receivables, net of allowance for doubtful accounts (continued)

Current subscriptions are reported as part of trade receivables. The following are the contractual commitments, net of allowance for doubtful accounts, to be received by the Company over the next 5 years:

	Total $	2019 $	2020 $	2021 $	2022 $	2023 $
Current financing receivables	**35,314**	35,314	—	—	—	—
Long-term financing receivables	**39,240**	—	27,519	11,455	264	2
	74,554	35,314	27,519	11,455	264	2

Many of the Company's products are sold under subscription contracts with title passing to the customer at the earlier of the end of the lease term and when payment is received in full, which is generally 36 months. These arrangements are considered to be sales-type leases, where the present value of all cash flows to be received within the arrangement is recognized upon shipment to the customer as product revenue. Various accounting and reporting systems are used to monitor trade receivables and subscription receivables which include providing access codes to operate the machines to paying customers and restricting access codes on machines to non-paying customers. Above are the contractual commitments to be received by the Company over the next 5 years.

	2018 $	2017 $
Allowance for doubtful accounts		
Beginning balance	**2,417**	253
Write-offs	**(8,937)**	(299)
Provision	**10,928**	2,463
Ending balance	**4,408**	2,417

The Company maintains an allowance for doubtful accounts for estimated losses that may primarily arise from subscription customers that are unable to make the remaining required payments under contract. The Company's bad debt expenses as a percentage of sales has generally been consistent year over year, however, bad debt expense in 2018 increased substantially as the Company recorded a provision for bad debts of $8,300 against the receivable of a large U.S. national account customer that filed for Chapter 11 bankruptcy in February of 2019. Total provision for bad debts amounted to $10,928 in 2018 ($2,465 in 2017).

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8. Property and equipment

	2018 $	2017 $
Cost		
Lab equipment tooling and molds	**3,379**	2,561
Office furniture and equipment	**974**	1,284
Leasehold improvements	**948**	918
Computers and software	**783**	574
Vehicles	**70**	111
	6,154	5,448
Accumulated depreciation		
Lab equipment tooling and molds	**1,437**	766
Office furniture and equipment	**319**	531
Leasehold improvements	**483**	517
Computers and software	**496**	410
Vehicles	**38**	46
	2,773	2,270
Property and equipment	**3,381**	3,178
Depreciation expense of property and equipment has been classified as follows:		
Cost of goods sold	**142**	120
Research and development	**353**	129
General and administration	**397**	419
	892	668

9. Intangible assets

	2018 $
Cost	
Customer relationships	**1,400**
Brand	**1,300**
Supplier agreement	**3,000**
	5,700
Accumulated amortization	
Customer relationships	**56**
Brand	**125**
Supplier agreement	**267**
	448
Intangible assets	**5,252**
Amortization	
General and administration	**448**

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9. Intangible assets (continued)

Estimated amortization expense for the next five fiscal years and all years thereafter are as follows:

	$
2019	537
2020	537
2021	537
2022	537
2023	537
Thereafter	2,567
	5,252

10. Credit facility

The Company has an agreement with City National Bank of Florida (the "Lender") whereby the Lender agreed to provide a revolving credit facility to certain of the Company's subsidiaries in the maximum principal amount of $7,500 ($5,000 in 2017), to be used to finance working capital requirements. As of December 31, 2018, the Company had $5,655 outstanding (nil in 2017) under the facility, which bears interest at LIBOR rate plus 3.25%, which amounted to a weighted average of 5.7% (5.1% in 2017).

The credit facility is secured by accounts receivable and inventory and requires us to maintain either minimum account balances or a maximum total liability to tangible net worth ratio and a minimum debt service coverage ratio. As of December 31, 2018, the Company was in compliance with the maximum total liability to tangible net worth ratio and were initially not in compliance with the minimum debt service coverage ratio. However subsequent to year-end, the Company received a waiver with respect to the minimum debt service coverage ratio to exclude write-offs from a large U.S. national account described in Note 7. As a result, the Company was in compliance with the minimum debt service coverage ratio based on the revised calculation excluding the write-off as at December 31, 2018. As at December 31, 2017, the Company was in compliance with the financial covenants. An event of default under this agreement would cause a default under the Madryn agreement (see Note 19).

11. Other liabilities and accrued expenses

	2018	2017
	$	$
Employees and related liabilities	**728**	900
Accrued expenses	**4,303**	5,219
Commission accrual	**3,866**	2,450
Sales and consumption taxes	**1,983**	1,274
	10,880	9,843

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12. Warranty accrual

The following table provides the details of the change in the Company's warranty accrual:

	2018	2017
	$	$
Balance, beginning of year	**1,039**	1,083
Warranties issued during the year	**998**	906
Warranty costs incurred during the year	**(701)**	(950)
	1,336	1,039
Current	**495**	366
Long term	**841**	673
	1,336	1,039

13. Accrued severance pay and severance pay funds

The Company's liability for severance pay in Israel is calculated pursuant to Israeli severance pay law based on the most recent salary of each employee multiplied by the number of years of employment as of the consolidated balance sheet date.

The Company's liability to all employees is funded by monthly deposits to severance pay funds and insurance policies. An accrual is set up for any unfunded amount.

The deposited funds include an accumulated gain up to the consolidated balance sheet date. The total amount of unrealized gains on the deposited funds amounted to $811 ($795 in 2017) and realized gains of $12 ($42 in 2017). The deposited funds may be withdrawn by the employee pursuant to Israeli severance pay law the orders, permits, and regulations promulgated thereunder. The value of the deposited funds is based on the cash surrender value of the policies.

14. Commitments

The premises of the Company and its subsidiaries are leased under various operating lease agreements, which expire on various dates. Rent expense for the years ended December 31, 2018 and 2017 was approximately $1,344 and $1,447, respectively.

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14. Commitments (continued)

Future minimum annual office lease commitments and purchase commitments with manufacturers as of December 31, 2018 are as follows:

	Office Lease	Purchase Commitments	Total
	$	$	$
2019	815	4,664	5,479
2020	566	—	566
2021	409	—	409
2022	318	—	318
2023	238	—	238
	2,346	4,664	7,010

The Company has also committed to quarterly earn-out payments as part of its purchase obligation of the assets described in Note 3 of these consolidated financial statements. The amount due is 5% of NeoGraft equipment sales and services that occur within the quarter. The balance of the earn-out was $950 as at December 31, 2018 which is presented as part of other long-term liabilities.

15. Shareholders' equity

Share capital

(1) Ordinary shares

Ordinary shares confer upon their holders voting rights and the right to participate in shareholders' meetings on the basis of one vote per share, the right to receive profits and the right to a share in surplus assets upon liquidation of the Company.

(2) Series A preferred shares

In May 2014, the Company issued 2,192,736 Series A preferred shares at a price of approximately $3.648 per share for gross proceeds of $8,000 to the Company.

The preferred shares confer upon their holders voting rights similar to the ordinary shares and the right to participate in dividends in priority to holders of ordinary shares. The holders have a veto right when certain issues are brought to vote.

The Series A preferred shares are not redeemable, but are convertible into ordinary shares at anytime at the option of the shareholder and contain a liquidation preference feature as follows:

In the event of any liquidation, dissolution or winding-up of the Company, holders of the Series A preferred shares shall be entitled to receive, prior to and in preference to the holders of the ordinary shares, the greater of, (i) a per share amount (the "Series A Preference Amount") equal to one times the Series A Purchase Price or (ii) participation in the distribution of proceeds of any liquidation, dissolution or winding-up of the Company on an as-converted basis along with the holders of the ordinary shares. Following the payment of the liquidation preference, the Series A preferred shares are entitled to participate in the remaining proceeds on a pro rata basis with the ordinary shares.

15. Shareholders' equity (continued)

Share capital (continued)

For the purposes of this provision, a liquidation includes a merger or consolidation or change in control of the Company, but does not include a qualified IPO as described below. In the event of an underwritten public offering of ordinary shares of the Company, in excess of $50,000 and at a public offering price of not less than $8.00 per share (a "Qualified IPO") each preferred share will automatically convert into one ordinary share.

(3) Series B preferred shares

In November 2016, the shareholders approved changes to authorized share capital of the Company as follows: the creation of 4,714,034 Series B preferred shares and a corresponding decrease in the number of authorized ordinary shares. 2,282,017 shares (unaudited) were issued in 2016 and another 2,282,017 shares were issued in 2017.

The Series B preferred shares confer upon their holders voting rights similar to the ordinary shares and the right to participate in dividends in priority to holders of ordinary shares. The holders have a veto right when certain issues are brought to vote.

The Series B preferred shares are not redeemable, but are convertible into ordinary shares at anytime at the option of the shareholder.

The Series B preferred shares shall have a non-participating liquidation preference of $4.56 and are senior to the Series A preferred shares and the ordinary shares.

(4) Series C & C-1 preferred shares

In June 2017 and December 2017, the shareholders approved changes to the authorized share capital of the Company as follows: conversion of 593,190 ordinary shares to Series C preferred shares, the issuance of 7,410,129 Series C preferred shares and the issuance of 98,807 Series C-1 preferred shares at a price of $5.0604 per share and net of issuance costs of $1,680.

The Series C preferred shares confer upon their holders voting rights similar to the ordinary shares and the right to participate in dividends in priority to holders of ordinary shares. The holders have a veto right when certain issues are brought to vote. The Series C-1 preferred shares have all the attributes of the Series C preferred shares but are non-voting.

The Series C and C-1 preferred shares are not redeemable, and only the Series C preferred shares are convertible into ordinary shares at anytime at the option of the shareholder.

(5) Series D preferred shares

In February 2018, the shareholders approved the issuance of 1,122,216 Series D preferred shares at a price of $6.2377 per share and issuance costs of $85.

The Series D preferred shares confer upon their holders voting rights similar to the ordinary shares and the right to participate in dividends in priority to holders of ordinary shares. The holders have a veto right when certain issues are brought to vote.

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15. Shareholders' equity (continued)

Share capital (continued)

The Series D preferred shares are not redeemable, but are convertible into ordinary shares at anytime at the option of the shareholder.

Share Option Plan

In November 2010, the Company's Board of Directors adopted a share option plan (the "2010 Share Option Plan") pursuant to which some of the Company's ordinary shares are reserved for issuance upon the exercise of options to be granted to directors, officers, employees and consultants of the Company. The 2010 Share Option Plan is administered by the Company's Board, which designates the options and dates of grant thereunder. Options granted vest over a period determined by the Board, originally had a contractual life of seven years, which was extended by 10 years in November 2017, and are non-assignable except by the laws of descent. The Board has the authority to prescribe, amend and rescind rules and regulations relating to the 2010 Share Option Plan, provided that any such amendment or rescindment that would adversely affect the rights of an Optionee that has received or been granted an Option shall not be made without the Optionee's written consent.

As of December 31, 2018, the number of Ordinary shares reserved for issuance and available for grant under the 2010 Share Option Plan was 188,217 (313,357 in 2017).

The following tables summarize information about share options outstanding at December 31, 2018:

	2018		
	Number of options	Weighted average exercise price	Aggregate intrinsic value
		$	
Outstanding on January 1, 2018	5,163,197	1.76	17,032
Granted during 2018	886,410	4.34	—
Exercised during the year	(125,200)	(1.66)	574
Forfeited during the year	(247,777)	(2.43)	—
Outstanding at December 31, 2018	5,676,630	2.14	23,283
Options exercisable at December 31, 2018	4,083,980	1.96	17,491
Options expected to vest at December 31, 2018	1,592,650	3.92	3,694

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15. Shareholders' equity (continued)

Share Option Plan (continued)

Exercise prices	Share options outstanding	Weighted average remaining contractual life (years)	Options exercisable	Weighted average remaining contractual term (years)
$				
0.0003	**10,000**	**1.96**	**10,000**	**1.96**
0.25	**539,275**	**2.25**	**539,275**	**2.25**
0.75	**1,610,396**	**3.94**	**1,607,802**	**3.94**
1.50	**10,000**	**4.01**	**10,000**	**4.01**
2.00	**1,432,909**	**5.65**	**1,363,059**	**5.65**
3.00	**690,500**	**7.54**	**393,688**	**7.54**
4.00	**825,050**	**9.04**	**160,156**	**9.04**
4.57	**558,500**	**9.64**	**—**	**—**
	5,676,630	**5.34**	**4,083,980**	**4.58**

The following tables summarize information about share options outstanding at December 31, 2017:

	Number of options	Weighted average exercise price	2017 Aggregate intrinsic value
		$	
Outstanding on January 1, 2017	4,497,047	1.42	17,163
Granted during 2017	973,000	3.41	—
Forfeited during 2017	(306,850)	(2.00)	—
Outstanding at December 31, 2017	5,163,197	1.76	17,032
Options exercisable at December 31, 2017	4,318,093	1.39	15,831
Options expected to vest at December 31, 2017	845,104	3.64	4,375

Exercise prices	Share options outstanding	Weighted average remaining contractual life (years)	Options exercisable	Weighted average remaining contractual term (years)
$				
0.0003	10,000	2.96	10,000	2.96
0.25	539,275	3.25	539,275	3.25
0.75	1,702,413	4.93	1,702,413	4.93
1.00	15,000	6.59	15,000	6.59
1.50	20,000	6.00	20,000	6.00
2.00	1,532,509	6.63	1,532,509	6.63
3.00	806,500	7.93	498,896	4.90
4.00	537,500	9.74	—	—
	5,163,197	6.23	4,318,093	5.32

Venus Concept Ltd.

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15. Shareholders' equity (continued)

Share Option Plan (continued)

Total stock-based compensation recorded related to options granted to employees and non-employees was allocated as follows:

	2018	2017
	$	$
Cost of goods sold	2	6
Research and development	54	34
Selling and marketing	416	249
General and administrative	785	653
	1,257	942

16. Financial expenses

	2018	2017
	$	$
Interest expense	4,889	5,262
Debt termination fees	—	—
Amortization of financing fees	328	97
Accretion on long-term debt	144	144
	5,361	5,503

17. Income taxes

(a) *(Loss) income before income taxes is comprised of the following:*

	2018	2017
	$	$
Israel	(6,751)	(2,408)
US	(6,260)	10,163
Other jurisdictions	1,017	128
	(11,994)	7,883

(b) *Income tax expense (recovery)*

	2018	2017
	$	$
Current	1,779	1,680
Deferred	436	(1,201)
	2,215	479

Current income taxes expense is comprised of the following:

	2018	2017
	$	$
U.S. federal	1,291	4,577
Foreign	562	(4,217)
State and local	(74)	1,320
Total current taxes	1,779	1,680

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17. Income taxes (continued)

(b) Income tax expense (recovery) (continued)

Deferred income taxes expense is comprised of the following:

	2018	2017
	$	$
U.S. federal	**851**	—
Foreign	**(626)**	(1,201)
State and local	**211**	—
Total deferred taxes	**436**	(1,201)

(c) Deferred income taxes

Deferred taxes are computed using the tax rates expected to be in effect when the related temporary differences reverse.

Significant components of the deferred tax assets and liabilities of the Company and its subsidiaries are as follows:

	2018	2017
	$	$
Deferred tax assets		
Accrued vacation	**22**	22
Property and equipment	**4**	—
Accrued severance pay	**88**	13
Accrued warranty	**183**	110
Loss carryforwards	**6,739**	4,306
Valuation allowance	**(6,739)**	(4,306)
	297	145
Deferred tax liabilities		
Deferred revenue	**1,774**	1,305
Acquisition related intangible assets	**119**	—
	1,893	1,305

The Company has losses available to off-set future taxable income where the benefit has not been recognized in these consolidated financial statements. As of December 31, 2018, the Company has loss carry forwards and temporary differences of $27,631 ($17,600 in 2017). Losses can be carried forward indefinitely except for Canada which can be carried forward for 20 years, U.S. which is subject to an 80% limitation of taxable income, Japan for 9 years and India for 8 years. A valuation allowance of $6,739 ($4,306 in 2017) has been taken on the benefit of these losses since the Company does not currently believe it is more likely than not that it will be able to realize their benefit.

Venus Concept Ltd.

Notes to the consolidated financial statements
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17. Income taxes (continued)

(d) Reconciliation of tax expense

	2018	2017
	$	$
(Loss) income before taxes	**(11,994)**	7,883
Theoretical tax (benefit) expense at the statutory rate (23.6% in 2018; 24.5% in 2017)	**(2,827)**	1,930
Differences in jurisdictional tax rates	**211**	1,854
Recognition of losses	**467**	(2,230)
Valuation allowance	**2,433**	(1,330)
Non-deductible expenses – mainly non deductible interest	**1,931**	255
Tax provision	**2,215**	479

(e) Valuation allowance

	2018	2017
	$	$
Beginning balance	**4,306**	5,636
Additions	**2,900**	724
Deductions	**(467)**	(2,054)
Ending balance	**6,739**	4,306

(f) Non-Israeli subsidiaries

Subsidiaries that are incorporated outside of Israel are assessed for tax under the tax laws in their countries of residence. The principal tax rate for 2018 is 23.6% and in 2017 is 24.5%. The principal tax rates (Federal and State/Provincial) applicable to the subsidiaries incorporated in the U.S. and Canada are approximately 26.2% and 26.5% respectively.

(g) Tax legislation

On December 22, 2017, tax legislation commonly known as the Tax Cuts and Jobs Act (the "Act") was enacted in the U.S. Under ASC 740, the effects of new legislation are recognized upon enactment. Accordingly, recognition of the tax effects of the Act was required for the annual periods that include December 22, 2017. The adoption of the Act had no material impact on the year ended December 31, 2017 due to the losses incurred in that year.

Venus Concept Ltd.

Notes to the consolidated financial statements
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(In thousands of U.S. dollars, except share data)

17. Income taxes (continued)

(h) Uncertain tax positions

The Company establishes reserves for uncertain tax positions. An uncertain income tax position will not be recognized if it has less than a 50% likelihood of being sustained. As of December 31, 2018 and 2017, there are no uncertain tax positions.

18. Segment information

Segment reporting is based on how management organizes the Company's operating segments where separate financial information is made available to and evaluated regularly by the chief operating decision maker in allocating resources and in assessing performance. The Company's chief operating decision maker is its Chief Executive Officer ("CEO"), who makes decisions on allocating resources and in assessing performance. The CEO reviews the Company's consolidated results as one operating segment. In making operating decisions, the CEO primarily considers consolidated financial information, accompanied by disaggregated information about revenues by geography and type. The Company's CEO views its operations, manages its business, and uses one measurement of profitability for the one operating segment, which designs and sells a full-suite of aesthetic and medical products and services, to physicians interested in providing non-invasive procedures and to aesthetic medical spas. Substantially all of the Company's long-lived assets are located in Israel.

The following table presents the revenue disaggregated by geographic area:

	2018	2017
	$	$
United States	**46,311**	42,759
Israel	**3,481**	5,440
International	**52,822**	40,875
	102,614	89,074

Revenue by type is a key indicator for providing management with an understanding of the Company's financial performance, which is organized into four different categories:

1. Lease revenue - includes all system sales with typical lease terms of 36 months.
2. System revenue - includes all systems sales with payment terms within 12 months.
3. Product revenue - includes skincare, hair and other consumables payable upon receipt.
4. Service revenue - includes NeoGraft technician services, ad agency services and extended warranty sales.

Venus Concept Ltd.

Notes to the consolidated financial statements
December 31, 2018 and 2017
(In thousands of U.S. dollars, except share data)

18. Segment information (continued)

The following table presents the revenue by type:

	2018 $	2017 $
Lease revenue	**71,540**	65,052
System revenue	**23,454**	19,878
Product revenue	**4,412**	3,709
Service revenue	**3,208**	435
	102,614	89,074

19. Long-term debt

	2018 $	2017 $
Due to Madryn Health Partners, LP	**50,000**	35,000
PIK interest accrued	**2,700**	1,761
Value of warrants allocated to additional paid-in capital	**(899)**	(899)
Financing fees	**(1,229)**	(778)
Interest accretion to date	**320**	177
	50,892	35,261

On October 11, 2016, the Company entered into a loan agreement with Madryn which was amended on August 14, 2018. The loan agreement, as amended, is comprised of three committed tranches and one uncommitted tranche of debt totalling $70,000. The term A-1 commitment is $35,000, the term A-2 commitment is $15,000, the term B commitment is $10,000, and the uncommitted term C may be funded at Madryn's discretion in an amount not to exceed $10,000. As at December 31, 2018 the Company has drawn on the term A-1 and A-2 borrowings for gross debt of $50,000. The term B borrowings were available at the Company's option on or prior to August 31, 2019 and were drawn in January 2019. The term C tranche expired on September 30, 2019, however, term C tranche is not committed and the proceeds of this tranche must be used to consummate a mutually agreed upon acquisition or investment. In connection with the loan agreement with Madryn, Venus Concept issued three types of 10-year warrants. As of December 31, 2018, Madryn held warrants to purchase 150,000 Ordinary Shares at a price of $5.0604 per share, 150,000 Series B Preferred Shares at a price of $5.0604 per share, and 12,000 Series C Preferred Shares at a price of $5.0604 per share.

In 2016, the fair value of warrants issued as part of the financing was estimated by management to be $899 (unaudited), based on the Black-Scholes option pricing model assuming a share price volatility of 50% based on historical information of companies in a similar industry, a risk-free interest rate of 1.58% and with no expected dividend yield over the life of the warrants. The fair value of the warrants have been allocated to equity and the balance of the debenture was allocated to long-term debt. In addition, financing fees have been allocated to long-term debt.

(In thousands of U.S. dollars, except share data)

19. Long-term debt (continued)

Effective August 14, 2018, interest on the Madryn loan is 9%, payable quarterly. Previously, interest was payable quarterly, at the Company's option, as follows: cash interest 9% during the interest only period, which was 3 years or 12 principal payments after closing, plus an additional 4% rate, paid in kind ("PIK"). The Company has the option of settling the PIK interest in cash or added to the principal amount of the loan.

On the 24th payment date following the closing date, December 31, 2022, the aggregate outstanding principal amount of the loans, together with any accrued and unpaid interest thereon and all other amounts due and owing under the loan agreement will become due and payable in full.

If all or any portion of the loans under the Madryn Credit Agreement are prepaid, then a prepayment premium must be paid equal to: (i) 6.00% of the loans prepaid if prepaid on or prior to August 31, 2019, (ii) 4.50% if prepaid after August 31, 2019 but on or prior to August 31, 2020, (iii) 3.00% if prepaid after August 31, 2020 but on or prior to February 28, 2021, (iv) 2.00% if prepaid after February 28, 2021 but on or prior to August 31, 2021, (v) 1.00% if prepaid after August 31, 2021 but on or prior to February 28, 2022, and (vi) 0.00% if prepaid after February 28, 2022.

These covenants require that the Company achieves minimum reported revenue targets and minimum levels of cash on hand in certain subsidiaries. As at December 31, 2018, the Company was in compliance with the necessary covenants.

Madryn also held 8%-2018 and 3%-2017 in preferred shares of the Company at December 31, 2018 and 2017 respectively.

The Company has committed to pay the following annual amounts which include interest to Madryn on a quarterly basis:

	$
2019	4,743
2020	4,743
2021	4,743
2022	57,443
	71,672

20. Acquisition of non-controlling interest

On March 30, 2018, the Company acquired the remaining 40% minority interest shares of Venus Concept UK Limited for total consideration of $456. In addition, on October 31, 2018, the Company acquired the remaining 49% minority interest of Venus Concept Japan Co. Ltd for total consideration of $21.

21. Contingencies

In the normal course of business, the Company is involved in various claims. The Company is also subject to regulatory matters within jurisdictions of the Company's operations. Although the outcome of these claims as at December 31, 2018 cannot be determined with certainty, the Company believes that their outcome will have no material impact on the Company's business, consolidated financial position, results of operations or cash flows.

(In thousands of U.S. dollars, except share data)

22. Financial instruments

(a) Fair value

The table below summarizes financial instruments by valuation method as at December 31, 2018.

	Level 1 $	Level 2 $	Level 3 $	Total $
Restricted deposit	—	19	—	19
GIC	—	81	—	81
Earn-out liability	—	—	950	950

The earn-out liability is measured using the discounted cash flow techniques, with the expected cash outflows estimated based on the probability of assessment of the acquired business achieving the revenue metrics required for payment. Expected future revenues of the acquired business and associated estimate of probability are not observable inputs. The payments due are based on point in time measurements of the metrics quarterly for two years from acquisition date.

The table below summarizes financial instruments by valuation method as at December 31, 2017.

	Level 1 $	Level 2 $	Level 3 $	Total $
Restricted deposit	—	218	—	218
GIC	—	80	—	80

(b) Concentrations of credit risk

Financial instruments which potentially subject the Company to concentration of credit risk consist principally of cash and cash equivalents, accounts receivable and long-term receivables. The Company’s cash and cash equivalents are invested primarily in deposits with major banks worldwide, as such minimal credit risk exists with respect to such investments. The Company’s trade receivables are derived from global sales to customers. An allowance for doubtful accounts is provided with respect to all balances deemed doubtful of collection. No single customer represented more than 2% of total revenue or 2% of trade receivables for any of the year ended December 31, 2018 (one customer in 2017 amounting to 3% of total revenue and 21% of trade receivables).

Venus Concept Ltd.

Notes to the consolidated financial statements
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23. Net (loss) income per share

The following table sets forth the computation of basic and diluted net (loss) income, (312,000 warrants were not included in the calculation since they were anti-dilutive) and the weighted average number of shares used in computing basic and diluted net (loss) income per share (in thousands, except per share data):

	2018	2017
Numerator:		
Net (loss) income	**$(14,209)**	$ 7,404
Net (loss) income allocated to common shareholders	**$(14,959)**	$ 2,798
Denominator:		
Weighted average shares of common stock outstanding used in computing net (loss) income per share, basic	**8,206**	9,506
Dilutive effect of incremental shares and share equivalents	—	3,199
Weighted average shares of common stock outstanding used in computing net (loss) income per share, diluted	**8,206**	12,705
Weighted average shares of participating shares outstanding used in computing net (loss) income per participating share	—	9,966
Net (loss) income per share:		
Basic	**$ (1.82)**	$ 0.29
Diluted	**$ (1.82)**	$ 0.22
Net income per participating share:		
Basic	—	$ 0.29
Diluted	—	$ 0.29

The Company's potential dilutive securities, which include preferred stock, stock options, and warrants, have been excluded from the computation of diluted net loss per share as the effect would be to reduce the net loss per share. Therefore, the weighted-average number of common shares outstanding used to calculate both basic and diluted net loss per share attributable to common stockholders is the same. The Company excluded the following potential common shares, presented based on amounts outstanding at December 31, 2018, from the computation of diluted net loss per share attributable to common stockholders because including them would have had an anti-dilutive effect:

	As of December 31, 2018
Preferred stock	15,981
Options to purchase common stock	5,677
Warrants to purchase common stock	312

24. Related party transactions

All amounts were at recorded at the exchange amount, which is the amount established and agreed to by the related parties. The following are transactions between the Company and parties related through employment.

Services Agreement

In 2016, Ipsum Management (S) Pte. Ltd. (“Ipsum”) began providing marketing and sales support services to the Company’s subsidiary in Singapore. One of the senior executives of the Company is the sole shareholder of Ipsum. For the years ended December 31, 2018 and 2017, the fees charged by Ipsum were approximately $44 and $172, respectively. These amounts are reported as part of selling and marketing expenses in the consolidated financial statements. No amounts were outstanding as at December 31, 2018 and 2017.

Non-Interest Demand Loan to PT Neoasia Medica

On July 1, 2016, a senior manager of the Company transferred 100% of his shares in Inphronics Limited to the Company, making it a wholly owned subsidiary. At such time, an unsecured non-interest-bearing working capital loan to PT Neoasia Medical, a subsidiary of Inphronics Limited, was outstanding. As of December 31, 2018, the outstanding amount of the loan was IDR 6.9 billion, which is equivalent to approximately $477 ($510 in 2017). This loan is reported as part of other liabilities and accrued expenses.

Distribution agreements

On January 1, 2018, the Company entered into a new Distribution Agreement with Technicalbiomed Co., Ltd. (“TBC”), pursuant to which TBC will continue to distribute the Company’s products in Thailand. A senior manager of the Company is a 30% shareholder of TBC. For years ended December 31, 2018 and 2017, TBC purchased products in the amounts of $330 and $270, respectively, under this distribution agreement. These sales are included in products and services revenue. No amounts were outstanding as at December 31, 2018 and 2017.

Intellectual Property Transfer Agreement

In August 2013, the Company entered into a license agreement for the rights to an invention for fractional radio frequency treatment of the skin with the developers of the technology. Pursuant to the license agreement, the developers, amongst which one is a senior executive of the Company, granted to the Company an exclusive worldwide, perpetual, irrevocable license to develop and commercialize their inventions and any product into which it is integrated. As consideration for such license, the Company agreed to pay the developers 7% of the gross income received by the Company from sales of the Venus Viva system and the related consumables and $1.5 per Venus Versa system, up to an aggregate amount of $3,000. For the years ended December 31, 2018 and 2017, the Company paid approximately $382 and $441, respectively, in royalties and reported the amounts under research and development expense in the consolidated financial statements. As at December 31, 2018, $101 ($92 in 2017) was outstanding and reported as part of trade payables on the consolidated financial statements.

Venus Concept Ltd.

Notes to the consolidated financial statements
December 31, 2018 and 2017
(In thousands of U.S. dollars, except share data)

25. Subsequent events

Subsequent events were evaluated through December 2, 2019, the date of issuance.

As presented below the Company had a number of transactions that occurred after December 31, 2018. As some of these transactions are interrelated, they are grouped accordingly.

Borrowings and Financial Arrangements

City National Bank of Florida ("CNB")

As at March 31, 2019, the Company was not in compliance with the minimum debt service coverage ratio on its credit facility with CNB. In June 2019, the Company received a waiver removing the requirement to meet the minimum debt service coverage ratio for the period ended March 31, 2019.

As of June 30, 2019, Venus Concept was not in compliance with the minimum debt service coverage ratio under its credit facility with CNB. In July 2019, the Company received a waiver removing the requirement to meet the minimum debt service coverage ratio for the period ended June 30, 2019 and agreed that future periods would not be measured until August 30, 2019. CNB has provided a waiver for cross defaults arising under the Madryn loan agreement through August 30, 2019.

On August 19, 2019, the CNB credit facility was further amended to require the consummation on or before October 15, 2019 of both the Merger and an equity financing of at least $20,000.

As of September 30, 2019, the Company was not in compliance with the minimum debt service coverage ratio under its credit facility with CNB. On October 30, 2019 the CNB credit facility was further amended to require the consummation of the Merger on or before November 15, 2019. In addition, the CNB amended the minimum debt service coverage ratio covenant calculation, reaffirmed its prior waiver as of June 30, 2019 and provided the Company with a waiver removing the requirement to meet the minimum debt service coverage ratio as of September 30, 2019. The covenants under the amended loan agreement include certain minimum average daily account balances, a minimum debt service coverage ratio, and a maximum total liability to tangible net worth ratio. Per the third amendment, the covenants will be assessed on December 31, 2019.

Madryn Health Partners, LP ("Madryn")

In January 2019, the Company drew on the term B borrowings of $10,000 available to it under the Madryn loan agreement (Note 19).

Starting on June 25, 2019, the Company was not in compliance with the minimum liquidity covenant under the Madryn loan agreement. Additionally, the Company failed to timely pay an interest payment due June 28, 2019 as required by it's the Madryn loan agreement; however, this interest payment was subsequently made by the Company on July 10, 2019.

On July 26, 2019, the Company and Madryn executed a waiver and amendment to the Madryn loan agreement pursuant to which, Madryn lowered the liquidity covenant from $2,000 to $200 through the earlier of August 30, 2019 and the time the Company raises $21,000 in additional equity. Madryn waived the existing events of default. In addition, the amendment to the Madryn loan agreement includes, among other changes, a requirement that the Company complete an equity financing with proceeds of $21,000 no later than August 30, 2019.

As of September 30, 2019, the Company was in compliance with all covenants under Madryn loan agreement.

The Madryn loan agreement required a consent from Madryn in connection with the Merger, which consent was obtained by the by the Company on November 7, 2019, the date of the Merger completion (as described further below).

25. Subsequent events (continued)

Also in connection with the Merger, the Company entered into an amendment to the Madryn loan agreement, dated as of November 7, 2019 (the "Amendment"), pursuant to which the combined company was joined as (i) a guarantor to the Madryn loan agreement and (ii) a grantor to the certain security agreement, dated October 11, 2016 (as amended, restated, supplemented or otherwise modified from time to time), by and among the grantors from time to time party thereto and the administrative agent (the "U.S. Security Agreement"). As a guarantor under the Madryn loan agreement, the combined company is jointly and severally liable for the obligations (as defined in the Madryn loan agreement) thereunder and to secure its obligations thereunder, the combined company has granted the administrative agent a lien on all of its assets pursuant to the terms of the U.S. Security Agreement. In the event of default under the Madryn Credit Agreement, Madryn may accelerate the obligations and foreclose on the collateral granted by the combined company under the U.S. Security Agreement to satisfy the obligations.

Issuance of senior subordinated convertible promissory notes

In June and August 2019 the Company issued unsecured several tranches of senior subordinated convertible promissory notes to a restricted group of investors: $7,800 in June 2019 and two tranches of $7,200 and $14,050 in August 2019. According to the terms of these notes they converted into shares of Restoration Robotics common stock at the consummation of the Merger (as described below) at a conversion price of $6.996 per share. The unsecured senior subordinated convertible promissory notes accrued interest at a rate of 8.00% per annum and matured on the thirtieth day following the termination of the Merger Agreement. The unsecured senior subordinated convertible promissory notes were subordinated to the Madryn and CNB indebtedness pursuant to subordination agreements with each investor and Madryn and CNB.

Loans to Restoration Robotics

From July to September 2019 the Company loaned to Restoration Robotics an aggregate of $4,500 in three installments, using the proceeds from the issuance of the Company's unsecured senior subordinated convertible promissory notes described above. The Company's loans to Restoration Robotics were subordinated to the Solar Loan Agreement pursuant to a subordination agreement between Solar Capital Ltd. and the Company dated June 25, 2019. The loans to Restoration Robotics accrue interest at a rate of 8.00% per annum and mature on November 30, 2019.

Restoration Robotics repaid $2,000 on November 22, 2019 and another $2,500 on November 25, 2019.

Concurrent Financing

On November 3, 2019, Restoration Robotics, Inc., a medical device company incorporated in the state of Delaware ("Restoration Robotics"), and the Company entered into a securities purchase agreement (the "Purchase Agreement") with certain investors named therein (collectively, the "Investors") pursuant to which the Company agreed to issue and sell to the Investors in a private placement an aggregate of 7,483,980 shares (the "Concurrent Financing Shares") of the Company common stock, par value $0.0001 per share, and warrants to purchase up to an aggregate of 3,741,990 shares (the "Warrant Shares") of the Company common stock at an exercise price of $6.00 per share (the "Concurrent Financing Warrants" and, together with the Concurrent Financing Shares and the Concurrent Financing Warrant Shares, the "Securities") immediately following the closing of the Merger (the "Concurrent Financing"). The gross proceeds for the Securities sold in the Concurrent Financing was $28.0 million. The Concurrent Financing closed on November 7, 2019.

Merger

On November 7, 2019, the Company completed the merger (the "Merger") of Radiant Merger Sub Ltd. (the "Merger Sub"), and Restoration Robotics, a company incorporated in the state of Delaware, pursuant to the merger agreement, as amended on August 14, 2019 and October 31, 2019 (the "Merger Agreement").

Under the Merger Agreement, the Merger Sub merged with and into the Company, with the Company surviving as a wholly owned subsidiary of Restoration Robotics. Following the completion of the Merger, Restoration Robotics changed its corporate name to Venus Concept Inc., and the business conducted by the Company became the primary business conducted by Venus Concept Inc.

25. Subsequent events (continued)

At the effective time of the Merger, each outstanding ordinary and preferred share of the Company, other than shares held by the Company as treasury stock or held by Venus Concept Inc. or the Merger Sub, were converted into the right to receive 8.6506 (the "Exchange Ratio") validly issued, fully paid and non-assessable Venus Concept Inc. common stock, and each outstanding stock option and warrant issued and outstanding by the Company was assumed by Venus Concept Inc. and converted into and become an option or warrant (as applicable) exercisable for Venus Concept Inc. common stock with the number and exercise price adjusted by the Exchange Ratio.

The Merger will be accounted for as a reverse acquisition with the Company as the acquiring company for accounting purposes, and Venus Concept Inc. as the legal acquirer. The Company was determined to be the accounting acquirer based on an analysis of the criteria outlined in ASC 805 and the facts and circumstances specific to the Merger, including the fact that immediately following the merger: (1) the Company's shareholders owned a substantial majority of the voting rights of the combined organization; (2) the Company designated a majority (seven of nine) of the initial members of the board of directors of the combined organization; and (3) the Company's senior management held most key positions in senior management of the combined organization.

As a result, upon consummation of the Merger, the historical financial statements of the Company will become the historical financial statements of the combined organization and will record the assets acquired and liabilities assumed of Venus Concept Inc. in the Merger at their fair values as of the acquisition date.

For accounting purposes the purchase price will be based on (i) the fair value of Venus Concept Inc. common stock as of the Merger date of $15.7 million which was determined based on the number of shares of Venus Concept Inc. common stock that were issued to the Company stockholders in connection with the Merger and (ii) the portion of the fair value attributable to fully and partially vested stock options, unvested restricted stock awards and warrants that were exchanged for the outstanding options and warrants held by Venus Concept Inc. employees.

For the nine months ended September 30, 2019, the Company incurred acquisition-related expenses of approximately $7.6 million which are included in selling and marketing and general and administrative expenses.

Certain disclosures required by ASC 805, Business Combinations, with respect to the Merger have been omitted because the information needed is not currently available due to the close proximity of closing of the Merger with the date these consolidated financial statements are being issued. At September 30, 2019, Venus Concept Inc. reported total assets of $20.8 million, total liabilities of $42.6 million, gross outstanding borrowings of $32.8 million and cash and cash equivalents of $8.9 million. The purchase price will be allocated to the fair value of assets and liabilities acquired.

Exhibit 99.3

INDEX TO VENUS CONCEPT CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
Three and nine month periods ended September 30, 2019 and 2018

Index to Financial Statements

Venus Concept Ltd.
Condensed Consolidated Balance Sheets
(In thousands of U.S. dollars, except share and per share data)
(Unaudited)

	As of	
	September 30, 2019	**December 31, 2018**
Assets		
Current assets		
Cash and cash equivalents	**$ 15,732**	$ 6,758
Trade receivables, net of allowance for doubtful accounts of $3,406 ($4,408 as of December 31, 2018)	**59,144**	42,663
Notes receivable	**4,500**	—
Inventories	**15,777**	20,261
Prepaid expenses	**777**	1,148
Other current assets	**6,641**	3,775
Total current assets	**102,571**	74,605
Long-term assets		
Long-term portion of trade receivables	**38,074**	38,201
Property and equipment, net	**3,335**	3,381
Deferred tax assets	**269**	297
Intangible assets	**4,851**	5,252
Goodwill	**2,603**	2,603
Severance pay funds	**849**	791
Total non-current assets	**49,981**	50,525
Total assets	**152,552**	125,130
Liabilities		
Current liabilities		
Trade payables	**$ 7,766**	$ 8,625
Line of credit	**7,572**	5,655
Unearned interest income	**3,965**	3,849
Convertible promissory notes	**29,420**	—
Accrued expenses and other current liabilities	**16,138**	11,945
Total current liabilities	**64,861**	30,074
Long-term liabilities		
Long-term debt	**60,981**	50,892
Deferred tax liabilities	**2,332**	1,893
Unearned interest income	**1,794**	1,752
Other long-term liabilities	**3,725**	4,064
Total non-current liabilities	**68,832**	58,601
Total liabilities	**133,693**	88,675
Commitments and contingencies (Note 12)		
Shareholders' equity		
Share capital		
Series A preferred shares of 0.0003 par value: 2,192,736 shares authorized, issued and outstanding at September 30, 2019 and December 31, 2018	—	—
Series B preferred shares of 0.0003 par value: 4,714,034 shares authorized, 4,564,034 shares issued and outstanding at September 30, 2019 and December 31, 2018	—	—
Series C preferred shares of 0.0003 par value: 8,015,320 shares authorized, 8,003,319 shares issued outstanding at September 30, 2019 and December 31, 2018	—	—
Series C-1 preferred shares of 0.0003 par value: 98,807 shares authorized and issued outstanding at September 30, 2019 and December 31, 2018	—	—
Series D preferred shares of 0.0003 par value: 1,122,216 shares authorized, issued and outstanding at September 30, 2019 and December 31, 2018	—	—
Ordinary shares of 0.0003 par value: 83,856,887 and 84,979,103 shares authorized at September 30, 2019 and December 31, 2018; 8,580,959 and 8,276,229 shares issued and outstanding at September 30, 2019 and December 31, 2018, respectively	**57,459**	57,101
Additional paid-in capital	**11,937**	10,399
Accumulated deficit	**(54,890)**	(35,067)
Treasury shares, at cost; 1,800 shares as at September 30, 2019 and December 31, 2018	—	—
Total Venus Concept Ltd. shareholders' equity	**14,506**	32,433
Non-controlling interest	**4,353**	4,022
Total shareholders' equity	**18,859**	36,455
Total liabilities and shareholders' equity	**$ 152,552**	$ 125,130

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

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Venus Concept Ltd.
Condensed Consolidated Statements of Operations
(In thousands of U.S. dollars, except per share data)
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	**2018**	**2019**	**2018**
Revenue				
Leases	**$16,427**	$17,869	**$ 48,812**	$52,885
Products and services	**9,727**	7,724	**29,740**	21,082
Total revenue	**26,154**	25,593	**78,552**	73,967
Cost of goods sold				
Leases	**3,502**	3,726	**10,264**	10,120
Products and services	**3,884**	2,152	**11,381**	6,540
Total cost of goods sold	**7,386**	5,878	**21,645**	16,660
Gross profit	**18,768**	19,715	**56,907**	57,307
Selling and marketing	**9,201**	9,770	**28,983**	26,311
General and administrative	**13,556**	6,605	**31,731**	18,631
Research and development	**1,686**	1,713	**5,667**	4,856
Provision for bad debts	**889**	530	**2,906**	1,727
Total operating expenses	**25,332**	18,618	**69,287**	51,525
(Loss) income from operations	**(6,564)**	1,097	**(12,380)**	5,782
Foreign exchange loss	**396**	886	**409**	1,675
Finance expenses	**2,097**	1,438	**5,904**	4,240
Total other expense, net	**2,493**	2,324	**6,313**	5,915
Loss before income taxes	**(9,057)**	(1,227)	**(18,693)**	(133)
Income tax (benefit) expense	**(80)**	(43)	**867**	1,027
Net loss	**(8,977)**	(1,184)	**(19,560)**	(1,160)
Allocation of net (loss) income				
Loss attributable to Venus Concept Ltd.	**(8,640)**	(1,363)	**(19,823)**	(1,736)
(Loss) income attributable to non-controlling interest	**(337)**	179	**263**	576
	$ (8,977)	$ (1,184)	**$(19,560)**	$ (1,160)
Net loss per share:				
Basic	**$ (1.02)**	$ (0.17)	**$ (2.38)**	$ (0.21)
Weighted-average number of shares used in per share calculation:				
Basic	**8,472**	8,233	**8,345**	8,184

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

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Venus Concept Ltd.
Condensed Consolidated Statement of Changes in Shareholders' Equity
(In thousands of U.S. dollars, except share data)
(Unaudited)

	Nine Months Ended September 30, 2019										
	Series A preferred shares	**Series B preferred shares**	**Series C preferred shares**	**Series C-1 preferred non-voting**	**Series D preferred shares**	**Number of ordinary shares**	**Share capital**	**Additional paid-in capital**	**Accumulated deficit**	**Non-controlling interest**	**Total shareholders' equity**
	#	#	#	#	#	#	$	$	$	$	$
Balance, January 1, 2019	**2,192,736**	**4,564,034**	**8,003,319**	**98,807**	**1,122,216**	**8,276,229**	**57,101**	**10,399**	**(35,067)**	**4,022**	**36,455**
Changes during the three months ended March 31, 2019											
Net loss – Venus Concept Ltd.	—	—	—	—	—	—	—	—	(5,273)	—	(5,273)
Net income – NCI	—	—	—	—	—	—	—	—	—	168	168
Options exercised	—	—	—	—	—	6,080	7	—	—	—	7
Stock-based compensation	—	—	—	—	—	—	—	375	—	—	375
Balance, March 31, 2019	**2,192,736**	**4,564,034**	**8,003,319**	**98,807**	**1,122,216**	**8,282,309**	**57,108**	**10,774**	**(40,340)**	**4,190**	**31,732**
Changes during the three months ended June 30, 2019											
Net loss – Venus Concept Ltd.	—	—	—	—	—	—	—	—	(5,910)	—	(5,910)
Net income – NCI	—	—	—	—	—	—	—	—	—	432	432
Stock-based compensation	—	—	—	—	—	—	—	1,044	—	—	1,044
Balance, June 30, 2019	**2,192,736**	**4,564,034**	**8,003,319**	**98,807**	**1,122,216**	**8,282,309**	**57,108**	**11,818**	**(46,250)**	**4,622**	**27,298**
Changes during the three months ended September 30, 2019											—
Net loss – Venus Concept Ltd.	—	—	—	—	—		—	—	(8,640)	—	(8,640)
Acquisition of non-controlling interest	—	—	—	—	—	—	—	(191)	—	68	(123)
Net income – NCI	—	—	—	—	—	—	—	—	—	(337)	(337)
Options exercised	—	—	—	—	—	298,650	351	(3)	—	—	348
Stock-based compensation	—	—	—	—	—	—	—	313	—	—	313
Balance, September 30, 2019	**2,192,736**	**4,564,034**	**8,003,319**	**98,807**	**1,122,216**	**8,580,959**	**57,459**	**11,937**	**(54,890)**	**4,353**	**18,859**

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

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Venus Concept Ltd.
Condensed Consolidated Statement of Changes in Shareholders' Equity
(In thousands of U.S. dollars, except share data)
(Unaudited)

	Series A preferred shares	Series B preferred shares	Series C preferred shares	Series C-1 preferred non-voting	Series D preferred shares	Number of ordinary shares	Share capital	Additional paid-in capital	Accumulated deficit	Non-controlling interest	Total shareholders' equity
	#	#	#	#	#	#	$	$	$	$	$
Balance, January 1, 2018	2,192,736	4,564,034	8,003,319	98,807	—	8,151,029	49,978	10,075	(20,108)	2,816	42,761
Changes during the three months ended											
March 31, 2018											
Equity issuance	—	—	—	—	1,122,216	—	6,915	—	—	—	6,915
Net loss – Venus Concept Ltd.	—	—	—	—	—	—	—	—	(1,023)	—	(1,023)
Net income – NCI	—	—	—	—	—	—	—	—	—	396	396
Purchase of non-controlling interest	—	—	—	—	—	—	—	(862)	—	405	(457)
Stock-based compensation	—	—	—	—	—	—	—	254	—	—	254
Balance, March 31, 2018	2,192,736	4,564,034	8,003,319	98,807	1,122,216	8,151,029	56,893	9,467	(21,131)	3,617	48,846
Changes during the three months ended											
June 30, 2018											
Net income – Venus Concept Ltd.	—	—	—	—	—	—	—	—	650	—	650
Net income – NCI	—	—	—	—	—	—	—	—	—	1	1
Options exercised	—	—	—	—	—	35,000	39	—	—	—	39
Stock-based compensation	—	—	—	—	—	—	—	309	—	—	309
Balance, June 30, 2018	2,192,736	4,564,034	8,003,319	98,807	1,122,216	8,186,029	56,932	9,776	(20,481)	3,618	49,845
Changes during the three months ended											
September 30, 2018											
Net income – Venus Concept Ltd.	—	—	—	—	—	—	—	—	(1,363)	—	(1,363)
Net income – NCI	—	—	—	—	—	—	—	—	—	179	179
Options exercised	—	—	—	—	—	90,200	170	(1)	—	—	169
Stock-based compensation	—	—	—	—	—	—	—	328	—	—	328
Balance, September 30, 2018	2,192,736	4,564,034	8,003,319	98,807	1,122,216	8,276,229	57,102	10,103	(21,844)	3,797	49,158

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

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Venus Concept Ltd.
Condensed Consolidated Statements of Cash Flows
(In thousands of U.S. dollars)
(Unaudited)

	Nine Months Ended September 30,	
	2019	2018
	$	$
Operating activities		
Net loss	**(19,560)**	(1,160)
Changes to reconcile net income (loss) to cash used in operating activities		
Depreciation and amortization	**1,064**	734
Stock-based compensation expense	**1,732**	891
Provision for bad debts	**2,906**	1,727
Provision for obsolescence	**496**	374
Financing fees	**521**	455
Accretion on long-term debt	**108**	108
Capitalized interest on debt	**—**	909
Interest on convertible promissory notes	**370**	—
Deferred tax expense	**467**	310
Change in fair value of earn-out liability	**678**	—
Changes in operating assets and liabilities:		
Inventories	**3,988**	(5,369)
Trade receivables, short- and long-term	**(19,102)**	(30,577)
Unearned interest income	**158**	1,032
Prepaid expenses	**371**	565
Other current assets	**(2,865)**	(364)
Severance pay funds	**(58)**	101
Trade payables	**(860)**	1,405
Accrued expenses and other current liabilities	**4,193**	3,934
Other long term assets	**(157)**	639
Other long term liabilities	**(317)**	(1,615)
Net cash used in operating activities	**(25,867)**	(25,901)
Investing activities		
Issuance of subordinated promissory notes	**(4,500)**	—
Purchase of property and equipment	**(617)**	(417)
Cash paid for purchase of non-controlling interest	**(123)**	(457)
Acquisition of business	**—**	(7,502)
Cash used in investing activities	**(5,240)**	(8,376)
Financing activities		
Proceeds from issuance of Series D preferred shares, net of cash issuance costs of $85	**—**	6,915
Proceeds from issuance of long-term debt, net of cash financing fees of $260	**9,740**	14,224
Proceeds from issuance of convertible promissory notes, net of cash issuance costs of $280	**28,770**	—
Drawdown on line of credit	**1,917**	—
Proceeds from exercise of options	**355**	208
Payment of earn-out liability	**(451)**	—
Payment of installment payments	**(250)**	—
Cash provided by financing activities	**40,081**	21,347
Increase (decrease) in cash and cash equivalents	**8,974**	(12,930)
Cash and cash equivalents, beginning of period	**6,758**	20,194
Cash and cash equivalents, end of period	**15,732**	7,264
Non-cash investing activity		
Earn-out liability	**—**	1,177
Purchase of non-controlling interest	**68**	405
Supplemental information		
Cash paid during the period for income taxes	**529**	510
Cash paid during the period for interest	**4,620**	2,773

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

Venus Concept Ltd.
Notes to Condensed Consolidated Financial Statements (Unaudited)
(In thousands of U.S. dollars, except share and per share data)

1. Description of business

Venus Concept Ltd. (“Venus” or the “Company”) was incorporated in 2009 under the laws of the State of Israel and is a global medical technology company. The Company and its subsidiaries develop, manufacture and commercialize safe, efficacious, and easy-to-use aesthetic technologies. The Company designs and sells a full-suite of aesthetic and medical products and markets its current products primarily to physicians interested in providing minimally invasive and non-invasive procedures and to aesthetic medical spas.

Merger with Restoration Robotics

On March 15, 2019, the Company entered into an agreement (as amended on August 14, 2019 and October 31, 2019) (the “Merger Agreement”) with Radiant Merger Sub Ltd. (the “Merger Sub”), a company organized under the laws of Israel and a wholly-owned subsidiary of the Company, and Restoration Robotics, Inc. (“Restoration Robotics”), a company incorporated in the state of Delaware, to combine the companies in an all-stock transaction (the “Merger”). The Merger Agreement (as amended on August 14, 2019 and October 31, 2019) and the Merger have been approved by the Company’s board of directors (the “Board”) and the board of directors of Restoration Robotics (the “Restoration Robotics Board”). The Merger was completed on November 7, 2019 (see Note 21).

Immediately following completion of the Merger, Venus Concept Inc. (formerly Restoration Robotics) effected a 15-for-1 reverse stock split of Venus Concept Inc. common stock (the “Reverse Stock Split”). The Merger and the Reverse Stock Split were approved by Venus Concept Inc.’s stockholders on October 4, 2019. As a result of the Reverse Stock Split 29,667,622 shares of the combined company’s common stock were outstanding. (see Note 21).

The Merger Agreement provided that, upon the terms and subject to the satisfaction or waiver of the conditions set forth therein, the Merger Sub would be merged with and into the Company, with Venus continuing as the surviving company, as a wholly-owned subsidiary of Restoration Robotics.

Under the terms of the Merger Agreement, immediately after the Merger, shareholders of the Company and Restoration Robotics would own approximately 85% and 15%, respectively, of the combined company, on a fully diluted basis, without giving effect to the shares issued in the Equity Financing as defined below.

EW Healthcare Partners, a beneficial owner of Venus and affiliate of a director on the Board, had committed to lead a $21,000 equity investment in the convertible promissory notes of Venus priced at $6.996 per share, post split (the “Equity Financing”). The convertible promissory notes converted into the combined company’s common stock immediately following the closing of the Merger (see Note 17). In addition, the following investors participated in the Equity Financing: HealthQuest Capital, Madryn Asset Management, Longitude Capital Management, Fred Moll, and Aperture Venture Partners. In addition to the Equity Financing, Fred Moll and InterWest Partners funded a $5,000 convertible note to Restoration Robotics, which converted into the combined company’s common stock at the closing of the Equity Financing, at a price of $6.996 per share.

In conjunction with the Merger, the Company and Restoration Robotics agreed to enter into a securities purchase agreement with certain investors pursuant to which the combined company, after the completion of the Merger, would issue and sell to the investors in a private placement the common stock of the combined company, par value $0.0001 per share, and warrants to purchase the common stock of the combined company at an exercise price of $6.00 per share (the “Concurrent Financing”) (see Note 21).

2. Summary of Significant Accounting Policies

Going Concern

The accompanying condensed consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business, and, as such, the condensed consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or amounts and classification of liabilities that might be necessary should the Company be unable to continue in existence.

The Company has reported recurring net losses and negative cash flows from operations. As of September 30, 2019 and December 31, 2018, the Company had an accumulated deficit of $54,890 and $35,067, respectively. Further, during the periods ended June 30, 2019 and September 30, 2019, the Company was not in compliance with certain financial covenants associated with credit facilities with City National Bank of Florida (see Note 11). In addition, during the period ended June 30, 2019 the Company was not in compliance with certain financial covenants associated with its loan agreement with Madryn Health Partners, LP (see Note 16). The Company received waivers from the City National Bank of Florida for the periods ended June 30, 2019 and September 30, 2019 and a waiver from Madryn Health Partners, LP for the period ended June 30, 2019. The Company’s recurring net losses and negative cash flows from operations raise substantial doubt about the Company’s ability to continue as a going concern within 12 months from the date that the condensed consolidated financial statements are issued.

In order to continue its operations, the Company must achieve profitable operations and/or obtain additional equity investment or debt financing. Until the Company achieves profitability, management plans to fund its operations and capital expenditures through borrowings and issuance of capital stock. The Company completed convertible note offerings completed in June 2019 and August 2019 (see Note 17) and the Concurrent Financing (see Note 21). Until the Company generates revenue at a level to support its cost structure, the Company expects to continue to incur substantial operating losses and net cash outflows.

There can be no assurance that the Company will be successful in raising additional capital or that such capital, if available, will be on terms that are acceptable to the Company. If the Company is unable to raise sufficient additional capital, it may be compelled to reduce the scope of its operations and planned capital expenditures or sell certain assets, including intellectual property assets. These condensed consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded assets amounts or amounts and classification of liabilities that might result from the uncertainty.

Significant Accounting Policies

The Company's significant accounting policies are disclosed in the audited consolidated financial statements for the year ended December 31, 2018. Since the date of those consolidated financial statements, there have been no changes to its significant accounting policies.

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States ("U.S. GAAP"). Accordingly, certain information and footnote disclosures required by GAAP for complete financial statements have been condensed or omitted. In the opinion of management, the accompanying unaudited condensed consolidated financial statements reflect all adjustments of a normal and recurring nature that are necessary for the fair presentation of the Company's condensed consolidated financial statements. The condensed consolidated financial information disclosed in these notes to the condensed consolidated financial statements related to the nine-month periods are also unaudited. The condensed consolidated results of operations for the interim periods are not necessarily indicative of the results to be expected for the year ending December 31, 2019, or for any other future annual or interim period. These unaudited condensed consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements and the notes thereto for the year ended December 31, 2018.

Principles of Consolidation

The accompanying condensed consolidated financial statements include the accounts of Venus Concept Ltd., its wholly-owned subsidiaries, which are organized in the United States, Spain, Canada, Mexico, Japan, Korea, Germany, France, Argentina, Colombia, Australia, Israel and the United Kingdom and its majority-owned subsidiaries, which are organized in Hong Kong, China, India, South Africa, Russia, Kazakhstan, Singapore, Vietnam, Italy and Bulgaria. All intercompany accounts and transactions have been eliminated on consolidation.

Use of Estimates

The preparation of the unaudited condensed consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the unaudited condensed consolidated financial statements and the reported amounts of revenue and expenses during the reporting periods. Significant estimates and assumptions made in the accompanying unaudited condensed consolidated financial statements include, but are not limited to, revenue recognition, allowance for doubtful accounts, inventory valuation, stock-based compensation, warranty accrual and the recoverability of the Company's deferred tax assets and related valuation allowance. The Company evaluates its estimates and assumptions on an ongoing basis using historical experience and other factors and adjusts those estimates and assumptions when facts and circumstances dictate. Actual results could materially differ from those estimates.

3. Business combinations

On July 4, 2019, the Company acquired the remaining 49% minority interest shares of Venus Concept Israel Ltd. for total consideration of $123. Acquisition-related costs were expensed as incurred and amounted to $19 for the three and nine months ended September 30, 2019.

On February 15, 2018, the Company acquired the assets and liabilities of NeoGraft. The primary reason for this acquisition was to expand the product offering to hair restoration solutions. Acquisition-related costs were expensed as incurred and amounted to $67 for the three and nine months ended September 30, 2018. Pro forma results of operations have not been presented because the effect of this acquisition was not material to the results of operations. For the three and nine months ended September 30, 2018, revenues related to NeoGraft were $1,584 and $5,517, respectively. For the three and nine months ended September 30, 2018, net financial results related to NeoGraft were net loss of $490 and net income of $404, respectively.

The total consideration for the acquisition was $8,679, of which $500 was held back at closing of the acquisition and is payable in two annual installments of $250 beginning one year from the closing date. As of September 30, 2019, $250 remains payable by the Company.

Venus Concept Ltd.
Notes to Condensed Consolidated Financial Statements (Unaudited)
(In thousands of U.S. dollars, except share and per share data)

The following table sets out the allocation of the purchase price:

Cash on closing	**$7,502**
Installment payments	**500**
Contingent earn-out payments	**677**
Total purchase price	**$8,679**
Net assets acquired	
Inventory	**1,315**
Accounts receivable	**44**
Fixed assets	**7**
Accounts payable	**(990)**
Customer relationships	**1,400**
Brand	**1,300**
Supplier agreement	**3,000**
Fair value of net assets acquired	**$6,076**
Goodwill	**$2,603**

The measurement period for the above business combination has closed, and there have been no adjustments to the allocation of the purchase price.

Goodwill is primarily related to sales growth from future product and service offerings and new customers. The goodwill of NeoGraft is deductible for tax purposes under the cumulative eligible capital expenditures deduction in Canada.

The weighted average life of the acquired intangibles as of the acquisition date was as follows:

Customer relationships	14 years
Brand	9 years
Supplier agreement	9 years

4. Cash and Cash Equivalents

A summary of the Company's cash and cash equivalents is as follows:

	September 30, 2019	December 31, 2018
	$	$
Cash	**15,651**	6,658
Restricted deposit	**20**	19
Guaranteed investment certificates ("GIC")	**61**	81
	15,732	6,758

The restricted deposit is a balance held in Bank Hapoalim in Israel for collateral against rent and credit cards. The GICs bear interest at 0.50%, mature on dates ranging from July 10, 2020 to October 5, 2020, and are convertible into cash upon notice by the Company.

5. Accounts Receivable

A summary of the Company's financing receivables is as follows:

	September 30, 2019	December 31, 2018
	$	$
Gross financing receivables	**80,721**	78,962
Unearned interest income	**(5,759)**	(5,601)
Allowance for doubtful accounts	**(3,406)**	(4,408)
	71,556	68,953
Reported as:		
Current trade receivables	**39,399**	35,314
Current unearned interest income	**(3,965)**	(3,849)
Long-term trade receivables	**37,916**	39,240
Long-term unearned interest income	**(1,794)**	(1,752)
	71,556	68,953

Venus Concept Ltd.
Notes to Condensed Consolidated Financial Statements (Unaudited)
(In thousands of U.S. dollars, except share and per share data)

Current subscriptions are reported as part of current trade receivables and relate to the Company's products that are sold under subscription contracts. Under the subscription contracts, title passes to the customer at the earlier of the end of the lease term or when payment is received in full, which is generally 36 months. These arrangements are considered to be sales-type leases, where the present value of all cash flows to be received within the arrangement is recognized upon shipment to the customer as lease revenue.

The following are the contractual commitments, net of allowance for doubtful accounts, to be received by the Company over the next five years related to subscription contracts:

	Total	September 30, 2020	September 30, 2021	September 30, 2022	September 30, 2023	September 30, 2024
	$	$	$	$	$	$
Current financing receivables	**39,399**	39,399	—	—	—	—
Long-term financing receivables	**37,916**	—	27,810	9,939	167	—
	77,315	39,399	27,810	9,939	167	—

For the three and nine months ended September 30, 2019, the provision for bad debts was $889 and $2,906, respectively. For the three and nine months ended September 30, 2018, the provision for bad debts was $530 and $1,727, respectively. The Company maintains an allowance for doubtful accounts for estimated losses, primarily related to subscription contracts. In the fourth quarter of 2018, the Company recorded a provision for bad debts of $8,300 against the receivable of a large U.S. national account customer that filed for Chapter 11 bankruptcy in February 2019.

A summary of the Company's activity for the allowance for doubtful accounts is as follows:

	2019	**2018**
	$	**$**
Allowance for doubtful accounts		
Beginning balance at January 1	**4,408**	2,417
Writeoffs	**(1,064)**	(67)
Provision	**561**	542
Balance at March 31	**3,905**	2,892
Writeoffs	**(2,027)**	(205)
Provision	**1,456**	655
Balance at June 30	**3,334**	3,342
Writeoffs	**(817)**	(713)
Provision	**889**	530
Balance at September 30	**3,406**	3,159

6. Inventories

A summary of the Company's inventory is as follows:

	September 30, 2019	December 31, 2018
	$	$
Raw material	**142**	92
Work in progress	**1,601**	1,323
Finished goods	**14,034**	18,846
	15,777	20,261

The Company's inventory is made up primarily of newly produced units and applicators, refurbishment cost from demos, and used equipment which were reacquired during the year from upgraded sales. For the three and nine months ended September 30, 2019, the Company expensed $5,829 and $17,142, respectively, in cost of goods sold. For the three and nine months ended September 30, 2018, the Company expensed $5,353 and $13,942, respectively, in cost of goods sold. For the three and nine months ended September 30, 2019 and September 30, 2018, respectively, the balance of cost of goods for sold represents the cost of applicators, parts, and warranty.

Venus Concept Ltd.
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The Company provides for excess and obsolete inventories when conditions indicate that the inventory cost is not recoverable due to physical deterioration, usage, obsolescence, reductions in estimated future demand and reductions in selling prices. Inventory provisions are measured as the difference between the cost of inventory and net realizable value to establish a lower cost basis for the inventories. During the three and nine months ended September 30, 2019, the Company recorded a provision for obsolescence of $61 and $496, respectively. During the three and nine months ended September 30, 2018, the Company recorded a provision for obsolescence of $132 and $374, respectively.

7. Other current assets

A summary of the Company's other current assets is as follows:

	September 30, 2019	December 31, 2018
	$	$
Advances to suppliers	**3,437**	1,732
Deferred expenses	**111**	620
Recoverable taxes	**782**	124
Other current assets	**2,311**	1,299
	6,641	3,775

8. Property and Equipment

A summary of the Company's property and equipment is as follows:

	September 30, 2019	December 31, 2018
	$	$
Cost		
Lab equipment tooling and molds	**3,581**	3,379
Office furniture and equipment	**1,239**	974
Leasehold improvements	**1,052**	948
Computers and software	**816**	783
Vehicles	**16**	70
Total	**6,704**	6,154
Accumulated depreciation		
Lab equipment tooling and molds	**1,785**	1,437
Office furniture and equipment	**364**	319
Leasehold improvements	**640**	483
Computers and software	**570**	496
Vehicles	**10**	38
Total	**3,369**	2,773
Property and equipment, net	**3,335**	3,381

A summary of the Company's depreciation expense related to property and equipment is as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
	$	$	$	$
Cost of goods sold	**48**	34	**140**	95
Research and development	**73**	41	**227**	171
Sales and marketing	**9**	2	**38**	15
General and administrative	**65**	15	**258**	155
	195	92	**663**	436

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9. Intangible Assets

A summary of the Company's intangible assets related to the business acquisition (see Note 3) is as follows:

	September 30, 2019	December 31, 2018
	$	$
Cost		
Customer relationships	**1,400**	1,400
Brand	**1,300**	1,300
Supplier agreement	**3,000**	3,000
	5,700	5,700
Accumulated amortization		
Customer relationships	**106**	56
Brand	**237**	125
Supplier agreement	**506**	267
	849	448
Intangible assets	**4,851**	5,252

A summary of the Company's amortization of intangible assets is as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
	$	$	$	$
General and administrative	**134**	149	**401**	298

10. Notes Receivable

On July 5, 2019, the Company agreed to loan Restoration Robotics $2,500 of the proceeds from the issuance of the Company's convertible notes pursuant to a subordinated promissory note (the "First Restoration Note"). The First Restoration Note is subordinated to the Solar Capital Ltd. Loan agreement pursuant to a subordination agreement between Solar Capital Ltd. and the Company dated June 25, 2019. The First Restoration Note accrues interest at a rate of 8.00% per annum and matures on November 30, 2019.

On August 14, 2019, pursuant to the terms of the equity commitment letter, The Company agreed to loan Restoration Robotics $2,500 of the proceeds from the August 2019 issuances of the Company's unsecured senior subordinated convertible promissory notes. The loan was supposed to be made in three installments: $1,000 by August 30, 2019, $1,000 by September 30, 2019 and $500 by October 15, 2019, in each case subject to the satisfaction of the conditions thereto. The third installment of $500 was never made as the conditions were not met. The Company's loan to Restoration Robotics is subordinated to the Solar Capital Ltd. loan agreement pursuant to a subordination agreement between Solar Capital Ltd. and the Company dated June 25, 2019. The loan to Restoration Robotics accrues interest at a rate of 8.00% per annum and matures on November 30, 2019.

As of September 30, 2019, the principle amount of Venus Concept notes receivable outstanding was $4,500, accrued interest receivable is $56.

11. Credit facility

The Company has an agreement with City National Bank of Florida whereby City National Bank of Florida agreed to provide a revolving credit facility to certain of the Company's subsidiaries in the maximum principal amount of $10,000 to be used to finance working capital requirements.

As of September 30, 2019 and December 31, 2018, the Company had $7,572 and $5,655 outstanding, respectively, under the revolving credit facility, which bears interest at LIBOR plus 3.25%, which amounted to a weighted average interest rate of 5.60% and 5.70% for the nine months ended September 30, 2019 and year ended December 31, 2018, respectively.

In April 2019, the Company expanded its revolving credit facility with City National Bank of Florida from $7,500 to $10,000. As part of this amendment, the Company was required to complete the Merger and obtain the Equity Financing (see Note 1), and otherwise would be required to repay the excess of the loan over $7,500 by November 15, 2019.

(In thousands of U.S. dollars, except share and per share data)

The credit facility is secured by accounts receivable and inventory and requires the Company to maintain either a minimum cash balance in deposit accounts or a maximum total liability to tangible net worth ratio and a minimum debt service coverage ratio. As of September 30, 2019 and December 31, 2018, the Company was in compliance with maintaining the maximum total liability to tangible net worth ratio. To be in compliance with maintaining the minimum debt service coverage ratio as of December 31, 2018, the Company received a waiver to exclude write-offs from a large U.S. national account from the ratio (see Note 5). An event of default under this agreement would cause a default under the Madryn agreement (see Note 15). As at March 31, 2019, the Company was not in compliance with the minimum debt service coverage ratio. In June 2019, the Company received a waiver removing the requirement to meet the minimum debt service coverage ratio for the period ended March 31, 2019.

As of June 30, 2019, Venus Concept was not in compliance with the minimum debt service coverage ratio under its credit facility with City National Bank of Florida. In July 2019, the Company received a waiver removing the requirement to meet the minimum debt service coverage ratio for the period ended June 30, 2019 and agreed that future periods would not be measured until August 30, 2019. City National Bank of Florida has provided a waiver for cross defaults arising under the Madryn loan agreement through August 30, 2019.

On August 19, 2019, the City National Bank of Florida credit facility was further amended to require the consummation on or before October 15, 2019 of both the Merger and an equity financing of at least $20,000.

As of September 30, 2019, the Company was not in compliance with the minimum debt service coverage ratio under its credit facility with City National Bank of Florida. On October 30, 2019 the City National Bank of Florida credit facility was further amended to require the consummation of the Merger on or before November 15, 2019. If the Merger was not consummated by November 15, 2019, an event of default would occur under the City National Bank of Florida credit and the outstanding principal balance of loans in excess of $7,500 would have been required to be repaid. In addition, the City National Bank of Florida amended the minimum debt service coverage ratio covenant calculation, reaffirmed its prior waiver as of June 30, 2019 and provided the Company with a waiver removing the requirement to meet the minimum debt service coverage ratio as of September 30, 2019.

12. Commitments and contingencies

Commitments

The premises of the Company and its subsidiaries are leased under various operating lease agreements, which expire on various dates. Rent expense for the three and nine months ended September 30, 2019 was $416 and $1,304, respectively. Rent expense for the three and nine months ended September 30, 2018 was $374 and $1,191, respectively.

Future minimum annual office lease commitments and purchase commitments with manufacturers as of September 30, 2019 are as follows:

	Office Leases $	Purchase Commitments $	Total $
October 1, 2019 to December 31, 2019	295	6,404	6,699
2020	746	—	746
2021	649	—	649
2022	564	—	564
2023	497	—	497
2024	258	—	258
Thereafter	1,467	—	1,467
	4,476	6,404	10,880

(In thousands of U.S. dollars, except share and per share data)

Future minimum annual office lease commitments and purchase commitments with manufacturers as of December 31, 2018 are as follows:

	Office Leases	Purchase Commitments	Total
	$	$	$
2019	815	4,664	5,479
2020	566	—	566
2021	409	—	409
2022	318	—	318
2023	238	—	238
	2,346	4,664	7,010

The Company has also committed to quarterly earn-out payments as part of its purchase obligation of the business combination described in Note 3 of these unaudited condensed consolidated financial statements. The amount due is 5.00% of NeoGraft equipment sales and services that occur within the quarter; measurements and payments continued through September 30, 2019. As of September 30, 2019, and December 31, 2018, the balance of the earn-out liability was $1,177 and $950, respectively, which includes deferred payments and is presented as part of other long-term liabilities.

Contingencies

In the normal course of business, the Company is involved in various claims. The Company is also subject to regulatory matters within jurisdictions of the Company's operations. The outcome of these claims and regulatory matters as of September 30, 2019 and December 31, 2018 cannot be determined with certainty.

13. Shareholders' equity

Share Option Plan

In November 2010, the Company's Board adopted a share option plan (the "2010 Share Option Plan") pursuant to which some of the Company's ordinary shares are reserved for issuance upon the exercise of options to be granted to directors, officers, employees and consultants of the Company. As of September 30, 2019, the number of ordinary shares reserved for issuance and available for grant under the Share Option Plan was 1,409,532.

During the nine months ended September 30, 2019, the Company granted options to purchase 240,500 ordinary shares. The Company recorded stock-based compensation expense for options granted during the three and nine months ended September 30, 2019 of $44 and $85, respectively. The Company recorded stock-based compensation expense for options granted during the three and nine months ended September 30, 2018 of $117 and $216, respectively. As of September 30, 2019, there were 5,386,368 options outstanding. The weighted average fair value of options granted during the nine months ended September 30, 2019 was $4.57 per share. As of September 30, 2019, the total unrecognized stock-based compensation balance for unvested options was $7,946, which is expected to be recognized over 4.3 years.

Total stock-based compensation recorded related to options granted to employees and non-employees was allocated as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
	$	$	$	$
Research and development	**9**	14	**58**	39
Selling and marketing	**112**	110	**694**	297
General and administrative	**192**	204	**980**	555
Total stock-based compensation expense	**313**	328	**1,732**	891

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14. Income taxes

A reconciliation of income tax expense is as follows:

	Three Months Ended September 30, 2019	Three Months Ended September 30, 2018	Nine Months Ended September 30, 2019	Nine Months Ended September 30, 2018
	$	$	$	$
(Loss) income before income taxes	**(9,057)**	(1,227)	**(18,693)**	(133)
Tax (benefit) expense at statutory rate (25.1% in 2019, 23.8% in 2018)	**(2,273)**	(292)	**(4,692)**	(32)
Differences in jurisdictional rates	**(496)**	(51)	**(482)**	59
Recognition of losses	**116**	804	**725**	2,036
Valuation allowance	**2,311**	(497)	**4,857**	(1,082)
Non-deductible expenses	**262**	(7)	**459**	46
Total income tax (benefit) expense	**(80)**	(43)	**867**	1,027
Net (loss) income	**(8,977)**	(1,184)	**(19,560)**	(1,160)

15. Segment information

Segment reporting is based on how management organizes the Company's operating segments where separate financial information is made available to and evaluated regularly by the chief operating decision maker in allocating resources and in assessing performance. The Company's chief operating decision maker is its Chief Executive Officer ("CEO"), who makes decisions on allocating resources and in assessing performance. The CEO reviews the Company's condensed consolidated results as one operating segment. In making operating decisions, the CEO primarily considers condensed consolidated financial information, accompanied by disaggregated information about revenues by geography and revenue by type. The Company's CEO views its operations, manages its business, and uses one measurement of profitability for the one operating segment, which designs and sells a full-suite of aesthetic and medical products and services, to physicians interested in providing non-invasive procedures and to aesthetic medical spas. Substantially all of the Company's long-lived assets are located in Israel.

The following table presents the revenue disaggregated by geographic area:

	Three Months Ended September 30, 2019	Three Months Ended September 30, 2018	Nine Months Ended September 30, 2019	Nine Months Ended September 30, 2018
United States	**$ 10,118**	$ 9,653	**$ 31,337**	$ 29,643
Israel	**1,523**	1,108	**3,688**	3,023
International	**14,513**	14,832	**43,527**	41,301
Total revenue	**$ 26,154**	$ 25,593	**$ 78,552**	$ 73,967

Revenue by type is a key indicator for providing management with an understanding of the Company's financial performance, which is organized into four different categories:

1. Lease revenue – includes all system sales with typical lease terms of 36 months.
2. System revenue – includes all systems sales with payment terms within 12 months.
3. Product revenue – includes skincare, hair and other consumables payable upon receipt.
4. Service revenue – includes NeoGraft technician services, ad agency services and extended warranty sales.

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The following table presents the revenue by type:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	**2018**	**2019**	**2018**
Lease revenue	**$ 16,427**	$ 17,869	**$ 48,812**	$ 52,885
System revenue	**7,105**	6,081	**21,189**	16,011
Product revenue	**1,167**	1,093	**4,117**	3,193
Service revenue	**1,455**	550	**4,434**	1,878
Total revenue	**$ 26,154**	$ 25,593	**$ 78,552**	$ 73,967

16. Long-term debt

The following table presents the Company's long-term debt:

	September 30, 2019	December 31, 2018
	$	$
Due to Madryn Health Partners, LP	**60,000**	50,000
Accrued "payment-in-kind" interest	**2,700**	2,700
Value of warrants allocated to additional paid-in capital	**(791)**	(899)
Financing fees	**(1,489)**	(1,229)
Accumulated interest accretion	**561**	320
	60,981	50,892

On October 11, 2016, the Company entered into a loan agreement with Madryn, which was amended on August 14, 2018. As of September 30, 2019, the Company has drawn on the term A-1, A-2, and B borrowings for gross debt of $60,000. As of December 31, 2018, the Company has drawn on the term A-1 and A-2 borrowings for gross debt of $50,000. The term C tranche was available at the discretion of Madryn on or prior to September 30, 2019.

In connection with the Madryn loan agreement, Venus Concept issued three types of 10-year warrants to funds affiliated with Madryn. As of September 30, 2019, the Madryn funds held warrants to purchase 150,000 ordinary shares at a price of $5.0604 per share, 150,000 Series B preferred shares at a price of $5.0604 per share, and 12,000 Series C preferred shares at a price of $5.0604 per share.

Effective August 14, 2018, interest on the Madryn loan is 9.00%, payable quarterly. Previously, interest was payable quarterly, at the Company's option, as follows: cash interest 9.00% during the interest only period, which was three years or twelve principal payments after closing, plus an additional 4.00% rate, considered payment-in-kind ("PIK"). The Company has the option of settling the PIK interest in cash or adding PIK interest to the principal amount of the loan.

Previously, if all or any portion of the loans under the Madryn loan agreement are prepaid, then a prepayment premium must be paid equal to: (i) 6.00% of the loans prepaid if prepaid on or prior to August 31, 2019, (ii) 4.50% if prepaid after August 31, 2019 but on or prior to August 31, 2020, (iii) 3.00% if prepaid after August 31, 2020 but on or prior to February 28, 2021, (iv) 2.00% if prepaid after February 28, 2021 but on or prior to August 31, 2021, (v) 1.00% if prepaid after August 31, 2021 but on or prior to February 28, 2022, and (vi) 0.00% if prepaid after February 28, 2022.

On the 24th payment date following the closing date, December 31, 2022, the aggregate outstanding principal amount of the loans, together with any accrued and unpaid interest thereon and all other amounts due and owing under the loan agreement will become due and payable in full.

The Company has committed to pay the following annual amounts, which include interest to Madryn, on a quarterly basis and include amounts that have been paid as of September 30, 2019:

	$
2019	5,418
2020	5,643
2021	5,643
2022	68,343
	85,047

The covenants under the loan agreement with Madryn require the Company to achieve minimum reported revenue targets and minimum levels of cash on hand in certain subsidiaries. As of June 30, 2019, the Company was not in compliance with the minimum liquidity covenant under its loan agreement with Madryn. Additionally, the Company failed to timely pay an interest payment due June 28, 2019 as required by its loan agreement with Madryn; however, this interest payment was subsequently made by the Company on July 10, 2019.

On July 26, 2019, the Company and Madryn executed a waiver and amendment to the Madryn loan agreement pursuant to which Madryn lowered the liquidity covenant from $2,000 to $200 through the earlier of August 30, 2019 or the time the Company raised $21,000 in additional equity. Madryn waived the existing events of default. In addition, the amendment to the Madryn loan agreement included, among other changes, a requirement that the Company complete an equity financing with proceeds of $21,000 no later than August 30, 2019. This financing was completed as described above in the Note 2.

Subsequent to the amendment, if all or any portion of the loans under the Madryn loan agreement are prepaid, then a prepayment premium must be paid equal to: (i) 8.00% of the loans prepaid if prepaid on or prior to August 31, 2019, (ii) 6.50% if prepaid after August 31, 2019 but on or prior to August 31, 2020, (iii) 5.00% if prepaid after August 31, 2020 but on or prior to February 28, 2021, (iv) 4.00% if prepaid after February 28, 2021 but on or prior to August 31, 2021, (v) 3.00% if prepaid after August 31, 2021 but on or prior to February 28, 2022, and (vi) 2.00% if prepaid after February 28, 2022.

As of September 30, 2019, the Company was in compliance with minimum reported revenue targets and minimum levels of cash on hand in certain subsidiaries requirements.

In connection with the Merger (see Note 1), a consent from Madryn was required. If the Merger closed without Madryn's consent, the Company would be in default under the Madryn loan agreement, which would also cause a default under the credit facility with City National Bank of Florida. The consent was obtained by the Company on November 7, 2019, the date of the Merger completion (as described in Note 21).

As of September 30, 2019, the Company was not in compliance with the minimum debt service coverage ratio under its credit facility with City National Bank of Florida. Failure to comply with the covenants under the City National Bank of Florida credit facility would result in a default, which would also cause a default in the Madryn loan agreement. City National Bank of Florida has provided a waiver for cross defaults arising under the Madryn loan agreement through September 30, 2019.

17. Convertible promissory notes

There were $29.4 million and no convertible promissory notes outstanding as of September 30, 2019 and December 31, 2018, respectively.

In June 2019, the Company issued unsecured senior subordinated convertible promissory notes in the aggregate principal amount of $7,800. Debt issuance costs associated with the initial closing approximated $280.

In August 2019, the Company issued an aggregate of $21.25 million of additional unsecured senior subordinated convertible promissory notes to the equity commitment letter investors pursuant to an amended equity commitment letter. The funding of the investments included two separate financings. As a first interim financing, the Company issued unsecured senior subordinated convertible promissory notes to twelve investors for gross proceeds of $7,200. Debt issuance costs associated with the financing approximated $760. Of the $7,200 in gross proceeds, $6,950 was applied to the equity commitment letter in the first interim financing and $250 was not applied to the equity commitment letter. For the second interim financing the Company issued unsecured senior subordinated convertible promissory notes to nine investors for gross proceeds of $14,050. Debt issuance costs associated with the financing approximated $400.

The convertible notes issued by the Company in June 2019 and August 2019 are collectively referred to as the "2019 Notes". The 2019 Notes bear interest at a rate of 8.00% per annum, are unsecured and are due and payable, including accrued interest, on the thirtieth day following the termination of the Merger. In the event of a qualified sale of equity securities to one or more investors resulting in gross proceeds to the Company of at least $5,000, all principal and accrued and unpaid interest under the 2019 Notes was convertible, at the option of the holder, into a number of shares of the Company's class of equity securities issued in such a financing equal to the outstanding principal and accrued but unpaid interest under the 2019 Notes, divided by an amount equal to the issuance price of such equity securities in such a financing. When the Merger was consummated, all outstanding principal and any accrued and unpaid interest under the 2019 Notes was automatically converted into a number of shares of fully paid and non-assessable shares of common stock, par value $0.0001 per share, of Restoration Robotics, calculated by dividing the outstanding principal amount of the 2019 Notes (and any accrued and unpaid interest under the 2019 Notes) by the post-merger conversion price of $6.996 per share. In the event the Merger was terminated, all outstanding principal and any accrued and unpaid interest under the 2019 Notes would have converted, at the option of the holder, into a number of shares of Venus Series D preferred shares, par value New Israeli Shekel ("NIS") 0.001 per share, of the Company calculated by dividing the outstanding principal amount of the 2019 Notes (and any accrued and unpaid interest under the 2019 Notes) by the initial pre-merger conversion price of $6.23766 per share, which is subject to adjustment.

The terms of the 2019 Notes provided that: (i) all outstanding principal and interest was due and payable in cash upon an event of default, as defined in the 2019 Notes agreement; (ii) amounts outstanding under the 2019 Notes were not prepayable without the written notice of the holder, without premium or penalty; and (iii) the 2019 Notes were subordinated to the Madryn and City National Bank of Florida indebtedness pursuant to subordination agreements with each holder and Madryn and City National Bank of Florida. There were no financial or negative covenants associated with the 2019 Notes.

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In connection with the 2019 Notes, the Company paid legal costs of $1,440 which were recorded as a debt discount. The debt discount was amortized at an effective interest rate of 18.46% using the effective interest method over the term of the 2019 Notes. In connection with the 2019 Notes, the Company recognized interest expense of $370 during the three and nine months ended September 30, 2019.

18. Financial instruments

(a) Fair value

The following tables present information about the Company's financial assets and liabilities measured at fair value on a recurring basis and indicate the level of the fair value hierarchy utilized to determine such fair values as of September 30, 2019 and December 31, 2018, respectively:

	As of September 30, 2019			
	Level 1 $	Level 2 $	Level 3 $	Total $
Restricted deposit	—	20	—	20
GIC	—	61	—	61
Earn-out liability	—	—	1,177	1,177

	As of December 31, 2018			
	Level 1 $	Level 2 $	Level 3 $	Total $
Restricted deposit	—	19	—	19
GIC	—	81	—	81
Earn-out liability	—	—	950	950

The earn-out liability is measured using discounted cash flow techniques, with the expected cash outflows estimated based on the probability of assessment of the acquired business achieving the revenue metrics required for payment. Expected future revenues of the acquired business and the associated estimate of probability are not observable inputs. The payments due are based on point in time measurements of the metrics quarterly for two years from the acquisition date.

The following table provides a roll forward of the aggregate fair values of the earn-out liability as of September 30, 2019, for which fair value is determined using Level 3 inputs:

	Earn-out liability $
Balance as of January 1, 2019	950
Payments	(90)
Change in fair value	161
Balance as of March 31, 2019	1,021
Payments	(48)
Change in fair value	417
Balance as of June 30, 2019	1,390
Payments	(313)
Change in fair value	100
Balance as of September 30, 2019	1,177

There were no material changes in the fair value of the earn-out liability for the three and nine months ended September 30, 2018.

Changes in the fair value of the earn-out liability were recognized in finance expenses in the condensed consolidated statement of operations.

(In thousands of U.S. dollars, except share and per share data)

(b) Concentrations of credit risk

Financial instruments which potentially subject the Company to concentration of credit risk consist principally of cash and cash equivalents, accounts receivable and long-term receivables. The Company's cash and cash equivalents are invested primarily in deposits with major banks worldwide, as such minimal credit risk exists with respect to such investments. The Company's trade receivables are derived from global sales to customers. An allowance for doubtful accounts is provided with respect to all balances deemed doubtful of collection.

No single customer represented more than 5.00% of total revenue for any of the three and nine months ended September 30, 2019 and September 30, 2018. No single customer represented more than 2.00% of trade receivables as of September 30, 2019 and December 31, 2018.

19. Net loss per share

The following table sets forth the computation of basic net loss per share and the weighted average number of shares used in computing basic net loss per share:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	**2018**	**2019**	**2018**
Net loss	**$(8,977)**	$(1,184)	**$(19,560)**	$(1,160)
Net loss allocated to common shareholders	**$(8,640)**	$(1,363)	**$(19,823)**	$(1,736)
Weighted average shares of common stock outstanding used in computing net loss per share, basic	**8,472**	8,233	**8,344**	8,184
Net loss per share:				
Basic	**$ (1.02)**	$ (0.17)	**$ (2.38)**	$ (0.21)

Diluted net loss per share is the same as basic loss per share for the periods in which the Company had a net loss because the inclusion of outstanding common stock equivalents would be anti-dilutive.

20. Related party transactions

All amounts were at recorded at the exchange amount, which is the amount established and agreed to by the related parties. The following are transactions between the Company and parties related through employment.

Services Agreement

In 2016, Ipsum Management (S) Pte. Ltd. ("Ipsum") began providing marketing and sales support services to the Company's subsidiary in Singapore. One of the senior executives of the Company is the sole shareholder of Ipsum. For the three and nine months ended September 30, 2019, the fees charged by Ipsum were $0. For the three and nine months ended September 30, 2018, the fees charged by Ipsum were $13 and $39, respectively. These amounts are reported as part of selling and marketing expenses. No amounts were outstanding as at September 30, 2019 and December 31, 2018.

Non-Interest Demand Loan to PT Neoasia Medical

On July 1, 2016, a senior manager of the Company transferred 100.00% of his shares in Inphronics Limited to the Company, making it a wholly-owned subsidiary. At such time, an unsecured non-interest-bearing working capital loan to PT Neoasia Medical, a subsidiary of Inphronics Limited, that was previously provided by the senior manager of the Company was outstanding. As of September 30, 2019 and December 31, 2018, the outstanding amount of the loan was Indonesian rupiah ("IDR") 6.9 billion, which is equivalent to $486 and $477, respectively. This loan is reported as part of accrued expenses and other current liabilities.

Distribution agreements

On January 1, 2018, the Company entered into a new Distribution Agreement with Technicalbiomed Co., Ltd. ("TBC"), pursuant to which TBC will continue to distribute the Company's products in Thailand. A senior manager of the Company is a 30.00% shareholder of TBC. For the three and nine months ended September 30, 2019, TBC purchased products in the amount of $97 and $278, respectively, under this distribution agreement. For the three and nine months ended September 30, 2018, TBC purchased products in the amount of $225 and $385, respectively, under this distribution agreement. These sales are included in products and services revenue.

Intellectual Property Transfer Agreement

In August 2013, the Company entered into a license agreement for the rights to an invention for fractional radio frequency treatment of the skin with the developers of the technology. Pursuant to the license agreement, the developers, amongst which one is a senior executive of the Company, granted to the Company an exclusive worldwide, perpetual, irrevocable license to develop and commercialize their inventions and any product into which it is integrated. As consideration for such license, the Company agreed to pay the developers 7.00% of the gross income received by the Company from sales of the Venus Viva system and the related consumables and $1.50 per Venus Versa system, up to an aggregate amount of $3,000. For the three and nine months ended September 30, 2019, the Company paid $603 and $806, respectively, in royalties. For the three and nine months ended September 30, 2018, the Company paid $245 and $609, respectively, in royalties. The royalties are reported under research and development expense in the condensed consolidated financial statements. As of September 30, 2019 and December 31, 2018, $0 and $101, respectively, was outstanding and reported as part of trade payables.

21. Subsequent events

Subsequent events were evaluated through December 2, 2019, the date of issuance.

City National Bank of Florida Credit Facility Agreement Amendment

On October 30, 2019, the City National Bank of Florida issued a third amendment to the amended and restated loan agreement with the Company, updating its covenants under the revolving credit facility. The covenants under the amended loan agreement include certain minimum average daily account balances, a minimum debt service coverage ratio, and a maximum total liability to tangible net worth ratio. Per the third amendment, the covenants will be assessed on December 31, 2019.

Concurrent Financing

On November 3, 2019, Restoration Robotics and the Company entered into a securities purchase agreement (the “Purchase Agreement”) with certain investors named therein (collectively, the “Investors”) pursuant to which the combined company, Venus Concept Inc. (as defined below in the “Merger” section), agreed to issue and sell to the investors in a private placement an aggregate of approximately 7,483,980 shares (the “Concurrent Financing Shares”) of Venus Concept Inc. common stock, par value $0.0001 per share, and warrants to purchase up to an aggregate of approximately 3,741,990 shares (the “Warrant Shares”) of Venus Concept Inc. common stock at an exercise price of $6.00 per share (the “Concurrent Financing Warrants” and, together with the Concurrent Financing Shares and the Warrant Shares, the “Securities”) immediately following the closing of the Merger (the “Concurrent Financing”). The aggregate purchase price for the Securities sold in the Concurrent Financing was $28.0 million.

Merger

On March 15, 2019, the Company entered into the Merger Agreement with the Merger Sub and Restoration Robotics, to combine the companies in the Merger. On November 7, 2019 the Merger was completed and a certificate of merger was executed. Under the Merger Agreement, the Merger Sub merged with and into the Company, and the Company became a wholly owned subsidiary of Restoration Robotics.

Following the completion of the Merger, Restoration Robotics changed its corporate name to “Venus Concept Inc.” and the business conducted by the Company became the primary business conducted by Venus Concept Inc.

Upon the closing of the Merger, (i) each outstanding ordinary and preferred share of the Company, nominal value New Israeli Shekels 0.001 per share (a “Venus Share”), other than shares held by the Company as treasury stock or held by Venus Concept Inc. or the Merger Sub, were converted into the right to receive 8.6506 (the “Exchange Ratio”) issued, fully paid and non-assessable Venus Concept Inc. common stock (“Venus Concept Inc. Common Stock”), and (ii) each outstanding stock option and warrant of the Company was assumed by Venus Concept Inc. and converted into and become an option or warrant (as applicable) exercisable for Venus Concept Inc. Common Stock with the number and exercise price adjusted for the Exchange Ratio. Immediately following the Merger, current Venus Concept Inc. stockholders owned approximately 15% of the fully-diluted common stock of the combined company and the Company’s shareholders owned approximately 85% of the fully-diluted common stock of the combined company, without giving effect to the shares of Venus Concept Inc. Common Stock that were issued upon the conversion of Venus Concept Inc.’s convertible notes, the Company’s convertible notes or the Concurrent Financing.

An aggregate of 212,476,651 shares of Venus Concept Inc. Common Stock was issued to the Company’s shareholders in the Merger. Immediately following the Merger, after giving effect to the conversion of all of Venus Concept Inc.’s convertible notes and the Company’s convertible notes and the issuance of Venus Concept Inc. Common Stock and the Concurrent Financing Shares in the Concurrent Financing, there were approximately 445,014,330 shares of Venus Concept Inc. Common Stock outstanding.

The Merger will be accounted for as a reverse acquisition with the Company as the acquiring company for accounting purposes, but not the legal acquirer. The Company was determined to be the accounting acquirer based on an analysis of the criteria outlined in ASC 805 and the facts and circumstances specific to the Merger, including the fact that immediately following the merger: (1) The Company's shareholders owned a substantial majority of the voting rights of the combined organization; (2) The Company designated a majority (seven of nine) of the initial members of the board of directors of the combined organization; and (3) The Company's senior management held most key positions in senior management of the combined organization.

As a result, upon consummation of the Merger, the historical financial statements of the Company will become the historical financial statements of the combined organization and will record the assets acquired and liabilities assumed of Venus Concept Inc. in the Merger at their fair values as of the acquisition date.

The purchase price will be determined based on (i) the fair value of Venus Concept Inc. Common Stock as of the Merger date of $15.7 million which was determined based on the number of shares of Venus Concept Inc. Common Stock that were issued to Venus Concept Inc.'s stockholders in connection with the Merger and (ii) the portion of the fair value attributable to fully and partially vested stock options, unvested restricted stock awards and warrants that were exchanged for the outstanding options and warrants held by Venus Concept Inc. employees.

For the nine months ended September 30, 2019, the Company incurred acquisition-related expenses of approximately $7.6 million which are included in selling and marketing and general and administrative expenses.

Certain disclosures required by ASC 805, Business Combinations, with respect to the Merger have been omitted because the information needed is not currently available due to the close proximity of closing of the Merger with the date these consolidated financial statements are being issued. At September 30, 2019, Venus Concept Inc. reported total assets of $20.8 million, total liabilities of $42.6 million, gross outstanding borrowings of $32.8 million and cash and cash equivalents of $8.9 million. The purchase price will be allocated to the fair value of assets and liabilities acquired.

Madryn Agreement Amendment

In connection with the Merger, the Company entered into an amendment to the Madryn loan agreement, dated as of November 7, 2019 (the "Amendment"), pursuant to which Venus Concept Inc. was joined as (i) a guarantor to the Madryn loan agreement and (ii) a grantor to the certain security agreement, dated October 11, 2016 (as amended, restated, supplemented or otherwise modified from time to time), by and among the grantors from time to time party thereto and the administrative agent (the "U.S. Security Agreement").

As a guarantor under the Madryn loan agreement, Venus Concept Inc. is jointly and severally liable for the obligations (as defined in the Madryn loan agreement) thereunder and to secure its obligations thereunder, Venus Concept Inc. has granted the administrative agent a lien on all of its assets pursuant to the terms of the U.S. Security Agreement. In the event of default under the Madryn Credit Agreement, Madryn may accelerate the obligations and foreclose on the collateral granted by Venus Concept Inc. under the U.S. Security Agreement to satisfy the obligations.

Exhibit 99.4

INDEX TO UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL STATEMENTS

UNAUDITED PRO FORMA COMBINED FINANCIAL STATEMENTS

On November 7, 2019, Venus Concept Ltd., completed the merger (the "Merger") of Radiant Merger Sub Ltd. (the "Merger Sub"), and Restoration Robotics, Inc., a company incorporated in the state of Delaware, pursuant to the merger agreement, as amended on August 14, 2019 and October 31, 2019 (the "Merger Agreement").

Under the Merger Agreement, the Merger Sub merged with and into Venus Concept Ltd., with Venus Concept Ltd. surviving as a wholly owned subsidiary of Restoration Robotics, Inc. Following the completion of the Merger, Restoration Robotics, Inc. changed its corporate name to Venus Concept Inc., and the business conducted by Venus Concept Ltd. became the primary business conducted by Venus Concept Inc.

At the effective time of the Merger, each outstanding ordinary and preferred share of Venus Concept Ltd., other than shares held by Venus Concept Ltd. as treasury stock or held by Venus Concept Inc. or the Merger Sub, were converted into the right to receive 8.6506 (the "Exchange Ratio") validly issued, fully paid and non-assessable Venus Concept Inc. common stock, and each outstanding stock option and warrant issued and outstanding by Venus Concept Ltd. was assumed by Venus Concept Inc. and converted into and become an option or warrant (as applicable) exercisable for Venus Concept Inc. common stock with the number and exercise price adjusted by the Exchange Ratio.

Immediately following completion of the Merger, Venus Concept Inc. effected a 15-for-1 reverse stock split of Venus Concept Inc. common stock (the "Reverse Stock Split"). The Merger and the Reverse Stock Split were approved by Venus Concept Inc.'s stockholders on October 4, 2019, subject to the closing of the Merger.

In the unaudited pro forma combined financial statements, the Merger was accounted for as a business combination using the acquisition method of accounting under the provisions of Financial Accounting Standards Board, Accounting Standards Codification ("ASC"), Topic 805 "Business Combinations" ("ASC 805"). The Merger was accounted for as a reverse acquisition with Venus Concept Ltd. being deemed the acquiring company for accounting purposes. Under ASC 805, Venus Concept Ltd., as the accounting acquirer, recorded the assets acquired and liabilities assumed of Venus Concept Inc. in the Merger at their fair values as of the acquisition date.

Venus Concept Ltd. was determined to be the accounting acquirer based on an analysis of the criteria outlined in ASC 805 and the facts and circumstances specific to the Merger, including the fact that immediately following the Merger: (1) Venus Concept Ltd. shareholders owned a substantial majority of the voting rights of the combined company; (2) Venus Concept Ltd. designated a majority (seven of nine) of the initial members of the board of directors of the combined company; and (3) Venus Concept Ltd. senior management held most key positions in senior management of the combined company.

The unaudited pro forma combined balance sheet data as of September 30, 2019 gives effect to the Merger as if it took place on September 30, 2019. The unaudited pro forma combined statement of operations data for the year ended December 31, 2018 and the nine months ended September 30, 2019 gives effect to the Merger as if it took place on January 1, 2018. The historical financial statements of Venus Concept Inc. and Venus Concept Ltd. have been adjusted to give pro forma effect to events that are (1) directly attributable to the Merger, (2) factually supportable, and (3) with respect to the unaudited pro forma combined statements of operations, expected to have a continuing impact on the combined results of operations of the combined company.

The unaudited pro forma combined financial information is based on assumptions and adjustments that are described in the accompanying notes. The application of the acquisition method of accounting is dependent upon certain valuations and other studies that have yet to be finalized. Accordingly, the pro forma adjustments reflected in the unaudited pro forma combined financial statements are preliminary and based on estimates, subject to further revision as additional information becomes available and additional analyses are performed and have been made solely for the purpose of providing the unaudited pro forma combined financial information. Differences between the preliminary adjustments reflected in the unaudited pro forma combined financial information and the final application of the acquisition method of accounting, which is expected to be completed as soon as practicable after the closing of the Merger, may arise, and those differences could have a material impact on the accompanying unaudited pro forma combined financial information and the combined company's future results of operations and financial position. In addition, differences between the preliminary and final adjustments will likely occur as a result of changes in Venus Concept Inc.'s assets and liabilities between September 30, 2019 and November 7, 2019, the closing date of the Merger.

The unaudited pro forma combined financial information does not give effect to the potential impact of operating efficiencies or other savings or expenses that may be associated with the integration of the two companies. The unaudited pro forma combined financial information has been prepared for illustrative purposes only and is not necessarily indicative of the financial position or results of operations in future periods or the results that would have been realized had Venus Concept Inc. and Venus Concept Ltd. been a combined company during the specified periods.

The unaudited pro forma condensed combined financial statements, including the notes thereto, should be read in conjunction with the separate historical consolidated financial statements of Venus Concept Inc. and Venus Concept Ltd. and the separate Management's Discussion and Analysis of Financial Condition and Results of Operations. Restoration Robotics, Inc.'s historical audited consolidated financial statements and Management's Discussion of Financial Condition and Results of Operations for the year ended December 31, 2018, are incorporated herein by reference to Item 8 of Restoration Robotics, Inc.'s Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 20, 2019. Venus Concept Ltd.'s historical audited consolidated financial statements for the year ended December 31, 2018 are included elsewhere in this Current Report on Form 8-K/A. Venus Concept Inc.'s (formerly Restoration Robotics, Inc.) historical unaudited condensed consolidated financial statements and Management's Discussion of Financial Condition and Results of Operations for the nine months ended September 30, 2019 are incorporated herein by reference to Item 1 of Venus Concept Inc. Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on November 14, 2019. Venus Concept Ltd.'s historical unaudited condensed consolidated financial statements and Management's Discussion of Financial Condition and Results of Operations for the nine months ended September 30, 2019 are included elsewhere in this Current Report on Form 8-K/A.

Unaudited Pro Forma Condensed Combined Balance Sheet
As of September 30, 2019
(in thousands)

	Venus Concept Ltd.	Venus Concept Inc.	Pro Forma Merger Adjustments		Pro Forma Combined	Pro Forma Financing Adjustments		Pro Forma Concurrent Financing Adjustments		Pro Forma Combined Including Financing and Concurrent Financing Adjustments
ASSETS										
CURRENT ASSETS										
Cash and cash equivalents	$ 15,732	$ 8,915	$ —		$ 24,647	$ —		$ 7,898	J,K	$ 32,545
Accounts receivable	59,144	3,663	—		62,807	—		—		62,807
Inventory	15,777	5,623	868	C	22,268	—		—		22,268
Notes receivable	4,500	—	(4,500)	C	—	—		—		—
Prepaid expenses and other current assets	7,418	1,042	—		8,460	—		—		8,460
	102,571	19,243	(3,632)		118,182	—		7,898		126,080
Property and equipment, net	3,335	1,323	—		4,658	—		—		4,658
Restricted cash	—	83	—		83	—		—		83
Long-term accounts receivable	38,074	—	—		38,074	—		—		38,074
Deferred tax assets	269	—	—		269	—		—		269
Other assets	849	100	—		949	—		—		949
Intangible assets	4,851	—	18,400	C	23,251	—		—		23,251
Goodwill	2,603	—	20,750	C	23,353	—		—		23,353
TOTAL ASSETS	$152,552	$ 20,749	$ 35,518		$ 208,819	$ —		$ 7,898		$ 216,717
LIABILITIES AND SHAREHOLDERS' EQUITY										
CURRENT LIABILITIES:										
Line of credit	$ 7,572	$ —	$ —		$ 7,572	$ —		$ —		$ 7,572
Accounts payable	7,766	5,226	—		12,992	—		(167)	K	12,825
Accrued expenses and other current liabilities	16,138	3,944	4,610	B	24,561	(259)	I	—		24,302
			(131)	C						
Deferred revenue	3,965	1,346	117	C	5,428	—		—		5,428
Convertible promissory notes	29,420	11,500	(4,500)	C	36,420	(29,420)	L	—		—
						(7,000)	I			
Current portion of long-term debt	—	5,878	—		5,878	—		(5,878)	K	—
	64,861	27,894	96		92,851	(36,679)		(6,045)		50,127
Unearned interest revenue	1,794	—	—		1,794	—		—		1,794
Deferred tax liabilities	2,332	—	—		2,332	—		—		2,332
Long term debt	60,981	14,158	—		75,139	—		(14,158)	K	60,981
Other long-term liabilities	3,725	497	(198)	C	4,024	—		—		4,024
TOTAL LIABILITIES	133,693	42,549	(102)		176,140	(36,679)		(20,203)		119,258
SHAREHOLDERS' EQUITY										
Common stock	57,459	4	(4)	C	25	6	L	11	J	44
			4	C		2	I			
			(57,438)	D						
			—	A						
Additional paid-in capital	11,937	195,914	(196,288)	C	85,201	29,414	L	22,484	J	149,926
			15,826	C		7,257	I	5,570	J	
			57,438	D						
			374	A						
Accumulated other comprehensive income	—	43	(43)	C	—					—
Accumulated deficit	(54,890)	(217,761)	220,735	C	(56,900)			36	K	(56,864)
			(374)	A						
			(4,610)	B						
	14,506	(21,800)	35,620		28,326	36,679		28,101		93,106
Non-controlling interest	4,353	—	—		4,353	—		—		4,353
TOTAL SHAREHOLDERS' EQUITY	18,859	(21,800)	35,620		32,679	36,679		28,101		97,459
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$152,552	$ 20,749	$ 35,518		$ 208,819	$ —		$ 7,898		$ 216,717

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Unaudited Pro Forma Condensed Combined Statement of Operations
For the Nine Months Ended September 30, 2019
(in thousands, except share and per share amounts)

	Venus Concept Ltd.	Venus Concept Inc.	Pro Forma Merger Adjustments		Pro Forma Combined	Pro Forma Financing Adjustments		Pro Forma Concurrent Financing Adjustments		Pro Forma Combined Including Financing and Concurrent Financing Adjustments
Revenue	$ 78,552	$ 11,632	$ —		$ 90,184	$ —		$ —		$ 90,184
Cost of goods sold	21,645	6,465	1,903	F	30,013	—		—		30,013
Gross profit	56,907	5,167	(1,903)		60,171	—		—		60,171
Operating expenses:										
Sales and marketing	28,983	12,688	(263)	E	41,408	—		—		41,408
Research and development	5,667	4,573	(32)	E	10,208	—		—		10,208
General and administrative			(442)	E						
	34,637	9,800	(11,740)	G	32,255	—		—		32,255
Total operating expenses	69,287	27,061	(12,477)		83,871	—		—		83,871
Loss from operations	(12,380)	(21,894)	10,574		(23,700)	—		—		(23,700)
Other expenses, net:										
Interest expense	(5,904)	(2,512)	—		(8,416)	370	L	1,570	M	(6,217)
						259	I			
Foreign exchange loss	(409)	—	—		(409)	—		—		(409)
Other expense, net	—	(109)	—		(109)	—		—		(109)
Loss before income taxes	(18,693)	(24,515)	10,574		(32,634)	629		1,570		(30,435)
Provision for income taxes	867	33	—		900	—		—		900
Net loss	(19,560)	(24,548)	10,574		(33,534)	629		1,570		(31,335)
Non-controlling interest	263	—	—		263	—		—		263
Net loss attributable to shareholders	$ (19,823)	$ (24,548)	$ 10,574		$ (33,797)	$ 629		$ 1,570		$ (31,598)
Weighted average shares outstanding, basic and diluted	8,344,995	40,843,825	213,566,651	H	254,410,476	63,078,902	L	112,259,700	J	445,312,972
						15,563,894	I			
Net loss per share after 15-1 reverse split, basic and diluted	$ —	$ (9.02)	$ —		$ (1.99)	$ —		$ —		$ (1.06)
Weighted average shares outstanding after 15-1 reverse split, basic and diluted	—	2,722,922	14,237,776	H	16,960,698	4,205,260	L	7,483,980	J	29,687,530
						1,037,592	I			

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Unaudited Pro Forma Condensed Combined Statement of Operations
For the Year Ended December 31, 2018
(in thousands, except share and per share amounts)

	Venus Concept Ltd.	Venus Concept Inc.	Pro Forma Merger Adjustments		Pro Forma Combined	Pro Forma Financing Adjustments		Pro Forma Concurrent Financing Adjustments		Pro Forma Combined Including Financing and Concurrent Financing Adjustments
Revenue	$ 102,614	$ 21,956	$ —		$ 124,570	$ —		$ —		$ 124,570
Cost of goods sold	23,259	12,450	2,538	F	38,247	—		—		38,247
Gross profit	79,355	9,506	(2,538)		86,323	—		—		86,323
Operating expenses:										
Sales and marketing	37,315	18,204	(204)	E	55,315	—		—		55,315
Research and development	7,047	8,374	(37)	E	15,384	—		—		15,384
General and administrative	38,360	8,834	(463)	E	46,731	—		—		46,731
Total operating expenses	82,722	35,412	(704)		117,430	—		—		117,430
Loss from operations	(3,367)	(25,906)	(1,834)		(31,107)	—		—		(31,107)
Other expense, net:										
Interest expense	(5,361)	(2,224)	—		(7,585)	—		1,325	M	(6,260)
Foreign exchange loss	(3,266)	—	—		(3,266)	—		—		(3,266)
Other expense, net	—	(549)	—		(549)	—		—		(549)
Loss before income taxes	(11,994)	(28,679)	(1,834)		(42,507)	—		1,325		(41,182)
Provision for income taxes	2,215	47	—		2,262	—		—		2,262
Net loss	(14,209)	(28,726)	(1,834)		(44,769)	—		1,325		(43,444)
Non-controlling interest	750	—	—		750	—		—		750
Net loss attributable to shareholders	(14,959)	(28,726)	(1,834)		(45,519)	—		1,325		(44,194)
Net loss per share, basic and diluted	(1.82)	(0.86)			(0.18)					(0.10)
Weighted average shares outstanding, basic and diluted	8,206,000	33,512,181	213,836,651	H	247,348,832	63,078,902	L	112,259,700	J	438,251,328
						15,563,894	I			
Net loss per share after 15-1 reverse split, basic and diluted		(12.86)			(2.76)					(1.51)
Weighted average shares outstanding after 15-1 reverse split, basic and diluted		2,234,145	14,255,776	H	16,489,921	4,205,260	L	7,483,980	J	29,216,753
						1,037,592	I			

Notes to Unaudited Pro Forma Combined Financial Statements

1. Description of the Merger

Merger of Venus Concept Ltd. and Venus Concept Inc.

On March 15, 2019, Venus Concept Inc., Venus Concept Ltd. and the Merger Sub entered into the Merger Agreement, pursuant to which, on November 7, 2019, the Merger Sub merged with and into Venus Concept Ltd. with Venus Concept Ltd. surviving as a wholly-owned subsidiary of Venus Concept Inc. At the effective time of the Merger, each ordinary share and preferred share of Venus Concept Ltd. that was outstanding immediately prior to the effective time of the Merger, other than shares held by Venus Concept Ltd. as treasury stock or held by Venus Concept Ltd. or Merger Sub, was converted into the right to receive shares of Venus Concept Inc. common stock based on the Exchange Ratio of 8.6506 shares of Venus Concept Inc. common stock for each Venus Concept Ltd. ordinary share and preferred share.

Immediately following the completion of the Merger, Venus Concept Inc. and Venus Concept Ltd. effected the Reverse Stock Split as defined above.

An aggregate of 14,165,110 shares of Venus Concept Inc. common stock were issued to Venus Concept Ltd. shareholders in the Merger on a post-split basis, excluding 3,286,286 shares underlying outstanding options and warrants.

Treatment of Stock Options and Warrants in the Merger

At the effective time of the Merger, each outstanding Venus Concept Ltd. stock option and warrant, whether or not vested, to purchase ordinary shares or preferred shares, as applicable, of Venus Concept Ltd., that was unexercised immediately prior to the effective time of the Merger was converted into an option or warrant to purchase shares of Venus Concept Inc. common stock as determined pursuant to the exchange ratio defined above. All rights with respect to each Venus Concept Ltd. stock option or warrant were assumed by Venus Concept Inc .in accordance with its terms. Accordingly, from and after the effective time of the Merger, each Venus Concept Ltd. stock option and warrant assumed by Venus Concept Inc. may be exercised solely for shares of Venus Concept Inc. common stock. The number of shares of Venus Concept Inc. common stock subject to each Venus Concept Ltd. stock option assumed by Venus Concept Inc. was determined by multiplying (a) the number of shares of Venus Concept Ltd. ordinary shares that were subject to such Venus Concept Ltd. stock option, as in effect immediately prior to the effective time of the Merger by (b) the Exchange Ratio and rounding the resulting number down to the nearest whole number of shares of Venus Concept Inc. common stock. The per share exercise price for Venus Concept Inc. common stock issuable upon exercise of each Venus Concept Ltd. stock option assumed by Venus Concept Inc. was determined by dividing (a) the per share exercise price of Venus Concept Ltd. ordinary shares subject to such Venus Concept Ltd. stock option, as in effect immediately prior to the effective time of the Merger, by (b) the Exchange Ratio and rounding the resulting exercise price up to the nearest whole cent. The conversion of Venus Concept Ltd. stock options to Venus Concept Inc. stock options was treated as a modification of the awards for accounting purposes.

The equity awards of Venus Concept Inc. that were issued and outstanding at the time of the Merger remain issued and outstanding. However, for accounting purposes, the equity awards of Venus Concept Inc. were assumed to have been exchanged for equity awards of Venus Concept Ltd., the accounting acquirer. As of September 30, 2019, Venus Concept Inc. had outstanding stock options to purchase, on a post-split basis, 221,941 shares of common stock, of which stock options to purchase 117,524 shares were vested and exercisable at a weighted average exercise price of $2.02 per share.

2. Concurrent Financing

On November 3, 2019, Venus Concept Inc. and Venus Concept Ltd. entered into a securities purchase agreement (the “Purchase Agreement”) with certain investors named therein (collectively, the “Investors”) pursuant to which, Venus Concept Inc. agreed to issue and sell to the Investors in a private placement an aggregate of 7,483,980 shares (the “Concurrent Financing Shares”) of Venus Concept Inc. common stock, par value $0.0001 per share, and warrants to purchase up to an aggregate of 3,741,990 shares (the “Warrant Shares”) of Venus Concept Inc. common stock at an exercise price of $6.00 per share (the “Concurrent Financing Warrants” and, together with the Concurrent Financing Shares and the Warrant Shares, the “Securities”) immediately following the closing of the Merger (the “Concurrent Financing”). The aggregate purchase price for the Securities sold in the Concurrent Financing was $28.0 million.

Accounting Treatment of Concurrent Financing Shares and Concurrent Financing Warrants

The Concurrent Financing Shares were recognized on the settlement date which was the date that the proceeds were received, and the shares were issued. The total value received on the settlement date was considered as fair value. Those proceeds were allocated first to the par value of the common shares, with any excess over par value allocated to additional paid-in capital.

Venus Concept Ltd. accounted for the Concurrent Financing Warrants in accordance with ASC Topic 480-10 “Distinguishing Liabilities from Equity”. Based on this guidance, Venus Concept Ltd. determined that each Concurrent Financing Warrant did not meet the criteria to be classified as a liability. Accordingly, the Concurrent Financing Warrants were classified as equity and are not subject to remeasurement at each balance sheet date. The fair value of the Concurrent Financing Warrants issued was estimated by Venus Concept Ltd. using the Black-Scholes option pricing model based on the market value of the underlying common stock at the measurement date, the contractual terms of the Concurrent Financing Warrants, expected volatility of 58% based on historical information of companies in a similar industry, a risk-free interest rate of 1.74% and with no expected dividend yield over the life of the Concurrent Financing Warrants. The proceeds from the Concurrent Financing of $28.0 million were allocated to the Concurrent Financing Shares and Concurrent Financing Warrants based on the relative fair values of the Concurrent Financing Shares and Concurrent Financing Warrants. The portion of the proceeds allocated to the Concurrent Financing Warrants are accounted for as paid-in capital.

3. Basis of Presentation

The accompanying unaudited pro forma combined financial information was prepared in accordance with Article 11 of SEC Regulation S-X. The unaudited pro forma combined balance sheet as of September 30, 2019 was prepared using the historical consolidated balance sheets of Venus Concept Ltd. and Venus Concept Inc. as of September 30, 2019 and gives effect to the Merger as if it occurred on September 30, 2019. The unaudited pro forma combined statements of operations for the nine months ended September 30, 2019 and the year ended December 31, 2018 give effect to the Merger as if it occurred on January 1, 2018 and were prepared using:

- the historical unaudited condensed consolidated financial statements of Venus Concept Ltd. for the nine months ended September 30, 2019;
- the historical unaudited condensed consolidated financial statements of Venus Concept Inc. (formerly Restoration Robotics, Inc.) for the nine months ended September 30, 2019;
- the historical audited consolidated financial statements of Venus Concept Ltd. for the year ended December 31, 2018; and
- the historical audited consolidated financial statements of Restoration Robotics, Inc. for the year ended December 31, 2018.

The unaudited pro forma combined financial information does not include the impacts of any revenue, cost or other operating synergies that may result from the Merger or any related restructuring costs that may be contemplated.

4. Accounting Policies

During the preparation of the accompanying unaudited pro forma combined financial information, Venus Concept Ltd. was not aware of any material differences between Venus Concept Ltd.’s accounting policies and the accounting policies of Venus Concept Inc. Following the consummation of the Merger, Venus Concept Ltd. will conduct a more detailed review of Venus Concept Inc.’s accounting policies. As a result, Venus Concept Ltd. may identify differences between the accounting policies of the two companies that, when conformed, could have had a material impact on the accompanying unaudited pro forma combined financial information.

5. Accounting for the Merger

Immediately following the Merger, Venus Concept Inc.'s stockholders owned approximately 15% of the outstanding capital stock of the combined company on a fully diluted basis, and current Venus Concept Ltd. shareholders owned approximately 85% of the outstanding capital stock of the combined company on a fully diluted basis. Venus Concept Ltd. shareholders are entitled to receive 14,165,110 shares of Venus Concept Inc. common stock in connection with the Merger, based on the number of Venus Concept Ltd. ordinary and preferred shares outstanding as of September 30, 2019. An aggregate 14,165,110 shares of common stock were issued to Venus Concept Ltd. shareholders in the Merger on a post-split basis, excluded 3,286,286 shares underlying outstanding options and warrants. Immediately after the effective time of the Merger, and after giving effect to the conversion of all Venus Concept Ltd. convertible notes and Venus Concept Inc. convertible notes and the issuance of the Securities in the Concurrent Financing, there were 29,667,622 shares of Venus Concept Inc. common stock outstanding.

The intellectual property reflected in the pro forma financial information represents the estimated value of proprietary technology developed by Venus Concept Inc. to robotize implantation of follicles during the hair implantation process which is expected to give Venus Concept Ltd. a significant advantage in the hair restoration market.

This value is estimated based on the income approach using the multi-period excess earnings method and includes the following assumptions: forecast revenue attributable to the intellectual property, the estimated life of the intellectual property and estimated annual rate of technology migration, forecast expenditures associated with maintenance of the existing intellectual property, estimated contributory asset charges, the discount rate used to present value the excess cash flow attributable to intellectual property, and the associated tax amortization benefit. These assumptions are based on historical and projected company- and industry-specific data.

The useful life of the intellectual property of 7.5 years represents management's estimate of the life cycle of the proprietary technology developed by Venus Concept Inc. This estimate is based on the historical experience with previous versions of the same technology and can vary depending on the rate of obsolescence of the proprietary technology developed by Venus Concept Ltd. and availability of more advanced alternative technologies.

The total purchase price paid in the Merger had been allocated to the tangible and intangible assets acquired and liabilities assumed of Venus Concept Inc. based on their preliminary estimated fair values as of the completion of the Merger, with the excess allocated to goodwill. The following summarizes the purchase price paid in the Merger post-split (in thousands, except share and per share amounts):

	Purchase Price Details
Number of shares of the combined company to be owned by Venus Concept Inc. shareholders (1)	2,802,466
Multiplied by the price per share of Venus Concept Inc. common stock (2)	$ 5.6055
The value of Venus Concept Inc. common stock	15,709
The value of fully and partially vested stock options and warrants (3)	121
Total purchase price	$ 15,830

(1) The final purchase price was determined based on the number of shares of Venus Concept Inc. common stock that Venus Concept Inc. stockholders own immediately prior to the closing of the Merger. For purposes of this unaudited pro forma combined financial information, the number of shares of 2,802,466 represents (a) 2,729,800 shares of Venus Concept Inc. common stock outstanding as of September 30, 2019, (b) 6,000 shares of restricted Venus Concept Inc. common stock that became vested in full upon the closing of the Merger, and (c) 66,666 shares issued to management of Venus Concept Inc. as a transaction bonus.

(2) The estimated purchase price was based on the last reported sale price of Venus Concept Inc. common stock on the Nasdaq Capital Market immediately prior to the closing of the Merger (November 6, 2019).

(3) The estimated value of the fully vested and partially vested stock options and warrants was based on the following assumptions:

Expected term (in years)	5.10
Risk-free interest rate	1.63%
Expected volatility	60.00%
Expected dividend rate	0.00%

Under the acquisition method of accounting, the total purchase price was allocated to the acquired tangible and intangible assets and assumed liabilities of Venus Concept Inc. based on their preliminary estimated fair values as of the completion of the Merger, with the excess allocated to goodwill. Goodwill of $20.8 million determined for the purpose of this unaudited pro forma combined financial information had been calculated using preliminary estimates of the fair value of the net assets of Venus Concept Inc. as of the completion of the Merger. The purchase price allocation is preliminary and will be revised as additional information becomes available and as additional analyses are performed which could be materially different from the amounts presented in the unaudited pro forma combined financial statements.

For the purposes of these unaudited pro forma combined financial statements, the intellectual property acquired has been valued based on the income approach using the multi-period excess earnings method. The useful life of the intellectual property was determined based on management's estimate of the product life cycle, the absence of like products in the market and various other competitive and regulatory factors. Significant changes to the key assumptions used in the discounted cash flow could result in different fair values of intellectual property at each valuation date.

The following summarizes the preliminary allocation of the purchase price paid in the Merger as if it had been completed on September 30, 2019 (in thousands):

Cash and cash equivalents	$ 8,915
Other current assets	11,197
Property and equipment, net	1,323
Intellectual property	18,400
Other non-current assets	183
Goodwill	20,750
Current liabilities	(13,103)
Long-term debt, including current portion	(31,536)
Other non-current liabilities	(299)
	$ 15,830

The purchase price allocation included herein is preliminary and will be revised as additional information becomes available and as additional analyses are performed. The final purchase price allocation is expected to be completed as soon as practicable, but no later than one year after the consummation of the Merger. The final amounts allocated to assets acquired and liabilities assumed could differ materially from the amounts presented in the unaudited pro forma combined financial statements.

6. Shares of Venus Concept Inc. Common Stock Issued to Venus Concept Ltd. Stockholders at the Closing of the Merger

At the closing of the Merger, all outstanding shares of Venus Concept Ltd. capital stock converted into shares of Venus Concept Inc. common stock. Based on the 8,580,959 shares of Venus Concept Ltd. ordinary shares and the 15,981,112 shares of Venus Concept Ltd. preferred shares outstanding as of September 30, 2019, and based on the Exchange Ratio determined in accordance with the terms of the Merger Agreement of 8.6506, Venus Concept Inc. expected to issue 14,165,110 shares, on a post-split basis, of Venus Concept Inc. common stock in the Merger, determined as follows:

Venus Concept Ltd. ordinary shares outstanding	8,580,959
Venus Concept Ltd. preferred shares outstanding	15,981,112
Total Venus Concept Ltd. capital stock outstanding	24,562,071
Stock Exchange Ratio	8.6506
Reverse Stock Split	15-for-1
Total shares of Venus Concept Inc. common stock issued to Venus Concept Ltd. shareholders upon closing post-split	14,165,110

In addition, in connection with the Merger, Venus Concept Inc. assumed all of the outstanding options and warrants to acquire Venus Concept Ltd. capital stock and such options and warrants became exercisable for shares of Venus Concept Inc. common stock following the Merger completion. See Note 5.

7. Pro Forma Adjustments

The unaudited pro forma condensed combined financial statements include pro forma adjustments that are (1) directly attributable to the Merger, (2) factually supportable, and (3) with respect to the unaudited pro forma condensed combined statement of operations, expected to have a continuing impact on the results of operations of Venus Concept Ltd. Based on Venus Concept Ltd.'s management's review of Venus Concept Inc.'s summary of significant accounting policies, the nature and amount of any adjustments to the historical financial statements of Venus Concept Inc. to conform to the accounting policies of Venus Concept Ltd. are not expected to be significant.

The following pro forma adjustments included in the pro forma condensed combined balance sheet assume that the Merger was consummated on September 30, 2019 and are based on preliminary estimates that could change materially as additional information is obtained.

A. To reflect 66,666 shares issued to management of Venus Concept Inc. as a transaction bonus incentive. The additional shares are also included in the calculation of the purchase price.

B. To reflect accrual for costs that are directly related to the closing of the Merger, representing estimated remaining transaction costs of approximately $2.6 million for Venus Concept Inc. and approximately $2.0 million for Venus Concept Ltd.

C. To reflect application of purchase accounting under the acquisition method and the elimination of Venus Concept Inc.'s historical stockholders' equity balances, including additional paid-in capital and accumulated deficit, after considering the effects of the pro forma adjustments described in items A and B that are attributable to Venus Concept Inc. See Note 5.

D. To reflect a decrease in common stock and an increase in additional paid-in capital representing the issuance of 14,165,110 shares of Venus Concept Inc. common stock to Venus Concept Ltd. shareholders in connection with the Merger. See Note 6.

The following pro forma adjustment included in the pro forma condensed combined statement of operations assumes that the Merger was consummated on January 1, 2018 and is based on preliminary estimates that could change materially as additional information is obtained.

E. To reflect a decrease in stock-based compensation expense of approximately $0.7 million for the nine months ended September 30, 2019 and $0.7 million for the year ended December 31, 2018 related to the modification of Venus Concept Ltd. unvested stock options. The modification would be expected to decrease stock-based compensation expense by approximately $1.0 million for the year ended December 31, 2019, $0.7 million for the year ended December 31, 2020, $0.6 million for the year ended December 31, 2021, $0.3 million for the year ended December 31, 2022, and have an immaterial impact thereafter.

F. To reflect additional amortization of approximately $1.9 million for the nine months ended September 30, 2019 and $2.5 million for the year ended December 31, 2018 related to the acquired intellectual property. The intellectual property is estimated to have an economic life of 7.5 years as of the acquisition date.

G. To reflect the elimination of nonrecurring transaction costs incurred during the nine-month period ended September 30, 2019 that are directly related to the Merger. Of the $11.7 million in transaction costs, $7.6 million were incurred by Venus Concept Ltd. and $4.1 million were incurred by Venus Concept Inc.

H. To reflect the estimated shares of Venus Concept Inc. common stock issued to Venus Concept Ltd. shareholders upon closing of the Merger (see Note 6), the shares of Venus Concept Inc. common stock issued for the restricted stock award that will become fully vested upon the closing of the Merger, and the shares issued to management of Venus Concept Inc. as a transaction bonus incentive.

The following pro forma adjustment reflects the effect of the anticipated financing and Concurrent Financing transaction on the pro forma condensed combined financial statements.

I. To reflect the conversion of $7.0 million of Venus Concept Inc. convertible notes issued on August 20, 2019 and February 28, 2019 and the respective accrued interest of $0.3 million into shares of Venus Concept Inc. common stock following the closing of the Merger at a conversion price of $6.996 per share, resulting in the issuance of 1,037,592 shares post-split.

J. To reflect the issuance of 7,483,980 Concurrent Financing Shares, par value $0.0001 per share, and Concurrent Financing Warrants to purchase up to an aggregate of 3,741,990 Venus Concept Inc. shares at an exercise price of $6.00 per share post-split as a result of the Concurrent Financing. The aggregate purchase price for the Securities sold in the Concurrent Financing was $28.0 million.

K. To reflect the payoff and termination of Venus Concept Inc. obligations under its loan agreement with Solar Capital Ltd. (“Solar”) and certain other lenders (together, the “Lenders”). The payoff to Solar and the Lenders of $20.2 million pursuant to the loan agreement consisted of cash and warrants to purchase up to 50,000 shares of Venus Concept Inc. common stock, post Reverse Stock Split, at an exercise price of $6.00 per share.

L. To reflect the conversion of $29.4 million of Venus Concept Ltd. convertible notes issued on June 25, 2019, August 14, 2019 and August 21, 2019 into shares of Venus Concept Inc. common stock following the closing of the Merger at a conversion price of $6.996 per share, resulting in the issuance of 4,205,260 shares post-split.

M. To reflect elimination of accrued interest under the loan agreement with Solar and the Lenders due to payoff of Venus Concept Inc.’s obligations under its loan agreement with Solar and the Lenders, as described above.