# UNITED STATES
# SECURITIES AND EXCHANGE COMMISSION
**WASHINGTON, DC 20549**

# FORM 10-Q

**(Mark One)**

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

**For the quarterly period ended March 31, 2019**

**OR**

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

**For the transition period from _____ to _____**

**Commission File Number: 001-38238**

# Restoration Robotics, Inc.

**(Exact Name of Registrant as Specified in its Charter)**

| **Delaware** | **06-1681204** |
|---|---|
| **(State or other jurisdiction of incorporation or organization)** | **(I.R.S. Employer Identification No.)** |
| **128 Baytech Drive**<br>**San Jose, CA** | **95134** |
| **(Address of principal executive offices)** | **(Zip Code)** |

**Registrant's telephone number, including area code: (408) 883-6888**

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

| | | | |
|---|---|---|---|
| Large accelerated filer | ☐ | Accelerated filer | ☐ |
| Non-accelerated filer | ☒ | Smaller reporting company | ☒ |
| 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. ☐

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

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

| **Title of each class** | **Name of each exchange on which registered** | **Ticker Symbol** |
|---|---|---|
| Common Stock, $0.0001 par value per share | The Nasdaq Global Market | HAIR |

As of May 3, 2019, the registrant had 40,857,012 shares of common stock, $0.0001 par value per share, outstanding.

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**PART I**

**ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**RESTORATION ROBOTICS, INC.**

**Condensed Consolidated Balance Sheets**
***(Unaudited)***
***(in thousands, except for shares and per share data)***

| | March 31, 2019 | December 31, 2018 |
|---|---|---|
| **ASSETS** | | |
| CURRENT ASSETS: | | |
| Cash and cash equivalents | $ 14,957 | $ 16,122 |
| Accounts receivable, net of allowance of $1,963 and $1,772 as of March 31, 2019 and December 31, 2018, respectively | 6,699 | 6,569 |
| Inventory | 5,207 | 5,522 |
| Prepaid expenses and other current assets | 1,239 | 1,278 |
| Total current assets | 28,102 | 29,491 |
| Property and equipment, net | 1,471 | 1,299 |
| Restricted cash | 83 | 83 |
| Other assets | 166 | 100 |
| TOTAL ASSETS | $ 29,822 | $ 30,973 |
| **LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)** | | |
| CURRENT LIABILITIES: | | |
| Accounts payable | $ 4,193 | $ 3,815 |
| Accrued compensation | 1,515 | 1,771 |
| Other accrued liabilities | 2,920 | 2,337 |
| Deferred revenue | 1,384 | 1,407 |
| Current portion of long-term debt, net of discount of $693 and $617 as of March 31, 2019 and December 31, 2018, respectively | 1,974 | 49 |
| Total current liabilities | 11,986 | 9,379 |
| Other long-term liabilities | 655 | 594 |
| Related party convertible promissory notes (Note 8) | 5,000 | — |
| Long-term debt, net of discount of $638 and $746 as of March 31, 2019 and December 31, 2018 | 17,655 | 19,418 |
| TOTAL LIABILITIES | 35,296 | 29,391 |
| Commitments and Contingencies (Note 6) | | |
| STOCKHOLDERS' EQUITY (DEFICIT) | | |
| Convertible preferred stock, $0.0001 par value; 10,000,000 shares authorized, and no shares issued and outstanding as of March 31, 2019 and December 31, 2018 | — | — |
| Common stock, $0.0001 par value; 300,000,000 shares authorized as of March 31, 2019 and December 31, 2018; 40,767,012 and 40,677,012 shares issued and outstanding as of March 31, 2019 and December 31, 2018, respectively | 4 | 4 |
| Additional paid-in capital | 195,189 | 194,841 |
| Accumulated other comprehensive loss | (14) | (50) |
| Accumulated deficit | (200,653) | (193,213) |
| TOTAL STOCKHOLDERS' EQUITY (DEFICIT) | (5,474) | 1,582 |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT) | $ 29,822 | $ 30,973 |

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

**RESTORATION ROBOTICS, INC.**

**Condensed Consolidated Statements of Operations**
***(Unaudited)***
***(in thousands, except for shares and per share data)***

| | Three Months Ended March 31, | |
|---|---|---|
| | **2019** | **2018** |
| Revenue | $ 5,394 | $ 5,005 |
| Cost of revenue | 2,457 | 3,185 |
| Gross profit | 2,937 | 1,820 |
| Operating expenses: | | |
| Sales and marketing | 4,570 | 4,384 |
| Research and development | 1,488 | 2,125 |
| General and administrative | 1,992 | 2,351 |
| Merger related expenses | 1,501 | — |
| Total operating expenses | 9,551 | 8,860 |
| Loss from operations | (6,614) | (7,040) |
| Other expense, net: | | |
| Interest expense | (766) | (358) |
| Other expense, net | (46) | (20) |
| Total other expense, net | (812) | (378) |
| Net loss before provision for income taxes | (7,426) | (7,418) |
| Provision for income taxes | 14 | 13 |
| Net loss attributable to common stockholders | $ (7,440) | $ (7,431) |
| Net loss per share attributable to common stockholders, basic and diluted | $ (0.18) | $ (0.26) |
| Weighted-average shares used in computing net loss per share attributable to common stockholders, basic and diluted | 40,753,012 | 28,962,269 |

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

**RESTORATION ROBOTICS, INC.**

**Condensed Consolidated Statements of Comprehensive Loss**
***(Unaudited)***
***(in thousands)***

| | Three Months Ended March 31, | |
|---|---|---|
| | **2019** | **2018** |
| Net loss | $ (7,440) | $ (7,431) |
| Other comprehensive income (loss): | | |
| Cumulative translation adjustment | 36 | 4 |
| Comprehensive loss | $ (7,404) | $ (7,427) |

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

**RESTORATION ROBOTICS, INC.**

**Condensed Consolidated Statement of Stockholders' Equity (Deficit)**
***(Unaudited)***
***(in thousands, except for shares)***

| | Common Stock | | Additional Paid-in Capital | Accumulated Other Comprehensive Income (Loss) | Accumulated Deficit | Total Stockholders' Equity (Deficit) |
|---|---|---|---|---|---|---|
| | Shares | Amount | | | | |
| Balance — December 31, 2018 | 40,677,012 | $ 4 | $ 194,841 | $ (50) | $ (193,213) | $ 1,582 |
| Release of restricted stock awards | 90,000 | — | — | — | — | - |
| Stock-based compensation | — | — | 348 | — | — | 348 |
| Other comprehensive gain | — | — | — | 36 | — | 36 |
| Net loss | — | — | — | — | (7,440) | (7,440) |
| Balance — March 31, 2019 | 40,767,012 | $ 4 | $ 195,189 | $ (14) | $ (200,653) | $ (5,474) |

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

**RESTORATION ROBOTICS, INC.**

**Condensed Consolidated Statements of Cash Flows**
***(Unaudited)***
***(in thousands)***

| | Three Months Ended March 31, | |
|---|---|---|
| | **2019** | **2018** |
| **CASH FLOWS FROM OPERATING ACTIVITIES:** | | |
| Net loss | $ (7,440) | $ (7,431) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Depreciation and amortization | 149 | 132 |
| Amortization of debt discounts and issuance costs | 179 | 94 |
| Stock-based compensation | 348 | 125 |
| Provision for bad debt | 191 | 263 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | (321) | (876) |
| Inventory | 315 | 539 |
| Prepaid expenses and other assets | (28) | 230 |
| Accounts payable | 403 | 300 |
| Accrued and other liabilities | 329 | 1,062 |
| Deferred revenue | 36 | 607 |
| Net cash used in operating activities | (5,839) | (4,955) |
| **CASH FLOWS FROM INVESTING ACTIVITIES:** | | |
| Purchases of property and equipment | (346) | (260) |
| Net cash used in investing activities | (346) | (260) |
| **CASH FLOWS FROM FINANCING ACTIVITIES:** | | |
| Proceeds from related party convertible promissory notes, net | 4,984 | — |
| Proceeds from exercised stock options | — | 196 |
| Principal payments on long-term debt | — | (2,000) |
| Net cash provided by (used in) financing activities | 4,984 | (1,804) |
| Effect of exchange rate changes on cash, cash equivalents and restricted cash | 36 | 4 |
| NET DECREASE IN CASH, CASH EQUIVALENTS AND RESTRICTED CASH | (1,165) | (7,015) |
| CASH, CASH EQUIVALENTS AND RESTRICTED CASH — Beginning of period | 16,205 | 23,645 |
| CASH, CASH EQUIVALENTS AND RESTRICTED CASH — End of period | $ 15,040 | $ 16,630 |
| **SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:** | | |
| Interest paid during the period | $ 549 | $ 275 |
| **SUPPLEMENTAL DISCLOSURES OF NON-CASH INVESTING AND FINANCING INFORMATION:** | | |
| Purchase of property and equipment included in accounts payable | $ 25 | $ 10 |
| Discounts in connection with amendment of long-term debt | $ 130 | $ — |

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

## 1. NATURE OF OPERATIONS

Restoration Robotics, Inc. is a medical device company incorporated in the state of Delaware on November 22, 2002 and headquartered in San Jose, California. The Company develops an image-guided robotic system that enables follicular unit extraction (FUE) and implantation functionality for use in the field of hair transplantation and markets the ARTAS® Robotic System in the United States and certain other countries. In these notes to the unaudited condensed consolidated financial statements, the "Company" and "Restoration Robotics" refers to Restoration Robotics, Inc. and its subsidiaries on a consolidated basis.

**Proposed Merger with Venus**

On March 15, 2019, the Company entered into the Merger Agreement (the Merger Agreement) with Radiant Merger Sub Ltd., a company organized under the laws of Israel and a directly, wholly-owned subsidiary of the Company ("Merger Sub"), and Venus Concept Ltd., a company organized under the laws of Israel (Venus) to combine the companies in an all-stock transaction (the Merger). The Merger Agreement and the Merger have been approved by the Company's board of directors and the board of directors of Venus. The transaction is expected to close in the third quarter of 2019, subject to customary closing conditions, including the approval by stockholders of the Company and Venus and receipt of all necessary regulatory approvals.

The Merger Agreement provides that, upon the terms and subject to the satisfaction or waiver of the conditions set forth therein, Merger Sub will be merged with and into Venus, with Venus continuing as the surviving corporation and a direct wholly-owned subsidiary of the Company.

Under the terms of the transaction, the Company and Venus shareholders will own approximately 15% and 85% of the combined company, respectively, on a fully diluted basis, without giving effect to the shares issued in the proposed equity financing that is expected to close immediately after the merger (the Equity Financing). EW Healthcare Partners has committed to lead a $21,000 equity investment, priced at $0.825 per share (subject to adjustment for stock splits), in the combined company's common stock contingent on the closing of the Merger. Additional investors committed to participating in the proposed equity financing include 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 previously funded a $5.0 million convertible note to the Company, which will convert into the combined company's common stock at the closing of the equity financing led by EW Healthcare, at a price of $0.825 per share (subject to adjustment for stock splits).

Concurrent with closing of the Merger, the Company anticipates effecting a reverse stock split. The Company expects to have approximately 283.2 million shares outstanding (or approximately 18.9 million shares outstanding after giving effect to an anticipated 1-for-15 reverse stock split) and after taking into account shares issued to the former Venus shareholders in the Merger, shares issued as part of the $21,000 equity investment, and shares issued upon conversion of the $5,000 convertible notes issued by the Company in February, 2019, as discussed in *Note 8* to the condensed consolidated financial statements.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

***Liquidity***

These condensed consolidated financial statements are prepared on a going concern basis that contemplates the realization of assets and extinguishment of liabilities in the normal course of business. The Company has incurred net operating losses and negative cash flows from operations since inception. As of March 31, 2019, and December 31, 2018, the Company has an accumulated deficit of $200,653 and $193,213 and, as of such dates, and through the date of this filing, does not have sufficient capital to fund its planned operations. Because of the Company's recurring losses from operations and negative cash flows, the Company's independent registered public accounting firm included an explanatory paragraph in its report on the Company's consolidated financial statements as of, and for the year ended, December 31, 2018 that such factors raise substantial doubt about the Company's ability to continue as a going concern. To continue its operations, the Company must achieve profitable operations and/or obtain additional financing. 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. The Company may never become profitable and even if it does attain profitable operations, it may not be able to sustain profitability or positive cash flows on a recurring basis.

The Company will need to raise further capital in the future to service its debt or fund its operations until the time it can sustain positive cash flows. 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.

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.

***Basis of Presentation***

The condensed consolidated balance sheet as of March 31, 2019, the condensed consolidated statements of operations and condensed consolidated statements of comprehensive loss for the three months ended March 31, 2019 and 2018, the condensed consolidated statements of cash flows for the three months ended March 31, 2019 and 2018 and the condensed consolidated statement of stockholders' equity (deficit) for the three months ended March 31, 2019 are unaudited. The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States (U.S. GAAP) and in the opinion of management, reflect all adjustments of a normal and recurring nature that are necessary for the fair presentation of the Company's condensed consolidated financial statements included in this report. The condensed consolidated financial data disclosed in these notes to the condensed consolidated financial statements related to the three-month periods are also unaudited. The condensed consolidated results of operations for the three months ended March 31, 2019 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. The consolidated balance sheet as of December 31, 2018 included herein was derived from the audited consolidated financial statements as of that date. These condensed consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements included in its Annual Report filed on Form 10-K for the year ended December 31, 2018, with the SEC on March 20, 2019.

***Principles of Consolidation***

The accompanying condensed consolidated financial statements include the accounts of Restoration Robotics, Inc. and its wholly owned subsidiaries, which are organized in the United States, United Kingdom, Spain, Hong Kong and South Korea. All significant intercompany accounts and transactions have been eliminated in consolidation.

***Use of Estimates***

The preparation of the 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 condensed consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Significant estimates and assumptions made in the accompanying 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 net 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.

***Cash, Cash Equivalents, and Restricted Cash***

The Company considers all highly liquid investments with an original maturity of three months or less from the date of purchase to be cash equivalents. Cash and cash equivalents consist primarily of funds invested in readily available checking and savings accounts, investments in money market funds and short-term time deposits. The Company's restricted cash is held in a separate money market account as collateral for credit cards.

The following table provides a reconciliation of cash, cash equivalents, and restricted cash reported within the balance sheets that sum to the total of the same amounts shown in the condensed consolidated statements of cash flows.

| | March 31, 2019 | December 31, 2018 |
|---|---|---|
| Cash and cash equivalents | $ 14,957 | $ 16,122 |
| Restricted cash | 83 | 83 |
| Total cash, cash equivalents and restricted cash in the condensed consolidated statements of cash flows | $ 15,040 | $ 16,205 |

***Segments***

Operating segments are defined as components of an entity for which separate financial information is available and that is regularly reviewed by the Chief Operating Decision Maker (CODM) in deciding how to allocate resources to an individual segment and in assessing performance. The Company's CODM is its Chief Executive Officer. The Company has determined it operates in a single operating segment and has one reportable segment, as the CODM reviews financial information presented on a consolidated basis for purposes of making operating decisions, allocating resources, and evaluating financial performance. The Company does not assess the performance of individual product line on measures of profit or loss, or asset-based metrics.

***Concentration of Customers***

For the three months ended March 31, 2019, one customer accounted for more than 10% of the Company's revenue. For the three months ended March 31, 2018, no customer accounted for more than 10% of the Company's revenue. As of March 31, 2019, and December 31, 2018, no customers accounted for more than 10% of the Company's accounts receivable.

***JOBS Act Accounting Election***

The Company is an emerging growth company, as defined in the Jumpstart Our Business Startups Act of 2012 (the JOBS Act). Under the JOBS Act, emerging growth companies can delay adopting new or revised accounting standards issued after the enactment of the JOBS Act until those standards apply to private companies. The Company has elected to use this extended transition period for complying with new or revised accounting standards that have different effective dates for public and private companies until the earlier of the date that it is (i) no longer an emerging growth company or (ii) affirmatively and irrevocably opt out of the extended transition period provided in the JOBS Act. As a result, these condensed consolidated financial statements may not be comparable to companies that comply with the new or revised accounting pronouncements as of public company effective dates.

***Recently Adopted Accounting Standards***

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, Revenue from Contracts with Customers (Topic 606), as amended by ASU No. 2015-14, ASU No. 2016-08, ASU No. 2016-10, ASU No. 2016-12, and ASU No. 2016-20, (collectively, ASU 2014-09). ASU 2014-09 establishes a principle for recognizing revenue upon the transfer of promised goods or services to customers in an amount that reflects the expected consideration received in exchange for those goods or services and provides guidance on the recognition of costs related to obtaining and fulfilling customer contracts. ASU 2014-09 is required to be adopted, using either of two methods: (i) retrospective to each prior reporting period presented with the option to elect certain practical expedients as defined within ASU 2014-09; or (ii) retrospective with the cumulative effect of initially applying ASU 2014-09 recognized at the date of initial application and providing certain additional disclosures. The Company adopted the new revenue standard on January 1, 2019, using the

modified retrospective transition method applied to those contracts which were not completed as of that date. See Note 3. *Revenue*, to our unaudited condensed consolidated financial statements included in this Quarterly Report on Form 10-Q for additional details.

In June 2018, the FASB issued ASU No. 2018-7, *Compensation – Stock Compensation (Topic 718)— Improvements to Nonemployee Share-Based Payment Accounting*. This guidance supersedes ASC 505-50 and expands the scope of ASC 718 to include all share-based payment arrangements related to the acquisition of goods and services from both nonemployees and employees. The amendments should be applied on a modified retrospective basis through a cumulative-effect adjustment to retained earnings as of the beginning of the fiscal year of adoption. The Company adopted this standard on January 1, 2019 using the modified retrospective adoption method. The adoption of this standard did not have a material impact on the Company's condensed consolidated financial statements and related disclosures and no cumulative-effect adjustment was recorded to accumulated deficit at January 1, 2019.

***Recently Issued Accounting Standards Not Yet Adopted***

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*, or ASU 2016-02, as amended by ASU 2019-01 issued in March 2019, (collectively, ASU 2016-02), which requires lessees to record most leases on their balance sheets but recognize the expenses on their income statements in a manner similar to current practice. Under ASU 2016-02, a lessee would recognize a lease liability for the obligation to make lease payments and a right-to-use asset for the right to use the underlying asset for the lease term. For public entities, this standard is effective for annual reporting periods beginning after December 15, 2018, including interim periods within that reporting period. As an Emerging Growth Company, this standard is effective for the Company in annual reporting periods beginning after December 15, 2019, and interim periods within annual periods beginning after December 15, 2020. Early adoption is permitted. The Company is currently evaluating the standard and its impact on the condensed consolidated financial statements. However, the Company does expect a material change in its consolidated assets and liabilities upon adoption of this standard.

## 3. REVENUE

***Change in Accounting Principle***

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers* (*Topic 606).* Topic 606 supersedes the revenue recognition requirements in Topic 605 *Revenue Recognition* (Topic 605) and requires entities to recognize revenue when control of the promised goods or services is transferred to customers at an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The FASB has issued several amendments to the standard, including clarifications on disclosure of prior-period performance obligations and remaining performance obligations.

The guidance permits two methods of adoption: retrospectively to each prior reporting period presented (full retrospective method), or retrospectively with the cumulative effect of initially applying the guidance recognized at the date of initial application (the modified retrospective method). The Company adopted the standard effective January 1, 2019 using the modified retrospective method. This approach was applied to all contracts that were not completed as of January 1, 2019. The adoption of Topic 606 did not have a material impact on the Company's historical net losses and, therefore, no adjustment was made to the opening balance of accumulated deficit at January 1, 2019. Therefore, the comparative 2018 period has not been adjusted and continues to be reported under Topic 605.

Topic 606's core principle is that a reporting entity will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In applying this new guidance to contracts within its scope, an entity will:

- Identify the contract(s) with a customer;
- Identify the performance obligations in the contract;
- Determine the transaction price;
- Allocate the transaction price to the performance obligations in the contract; and
- Recognize revenue when (or as) the entity satisfies a performance obligation.

***Impact on Financial Statements***

In accordance with Topic 606, the disclosure of the impact of the change in accounting principle to the unaudited condensed consolidated statements of operations and balance sheets was as follows:

| | Three months ended March 31, 2019 | | |
|---|---|---|---|
| **Condensed Consolidated Statements of Operations Data** | **As Reported** | **Adjustments** | **Balance Without ASC 606 Adoption** |
| Revenue | $ 5,394 | $ (169) | $ 5,225 |
| Gross profit | 2,937 | (169) | 2,768 |
| Total operating expenses | 9,551 | 11 | 9,562 |
| Loss from operations | (6,614) | (180) | (6,794) |
| Net loss before provision for income taxes | (7,426) | (180) | (7,606) |
| Net loss attributable to common stockholders | $ (7,440) | $ (180) | $ (7,620) |
| Net loss per share attributable to common stockholders, basic and diluted | $ (0.18) | $ (0.01) | $ (0.19) |
| Weighted-average shares used in computing net loss per share attributable to common stockholders, basic and diluted | 40,753,012 | | 40,753,012 |

| | March 31, 2019 | | |
|---|---|---|---|
| **Condensed Consolidated Balance Sheets Data** | **As Reported** | **Adjustments** | **Balance Without ASC 606 Adoption** |
| **Assets** | | | |
| Prepaid expenses and other current assets | $ 1,239 | $ (132) | $ 1,107 |
| Other assets | 166 | (48) | 118 |
| **Stockholders' deficit** | | | |
| Accumulated deficit | (200,653) | (180) | (200,833) |

***Revenue Recognition***

The Company generates revenue primarily through the sale and delivery of promised goods and services, which consists of the sale of ARTAS® and ARTAS® iX Systems, training on the systems, extended service contracts, consumables and marketing services. Revenue is recognized when control is transferred to customers, in an amount that reflects the consideration the Company expects to be entitled to in exchange for the goods or services. Sales prices are documented in the executed sales contract or purchase order prior to the transfer of control to the customer. Customers may enter into a separate extended service agreement (referred to as ARTAS Care) to purchase an extended warranty for products from the Company whereby the payment is due at the inception of the agreement or in monthly installment payments. Revenue for ARTAS Care is recognized ratably over the term of the agreement.

The Company also utilizes distributors to sell ARTAS® and ARTAS® iX Systems and related consumables in certain markets outside of the United States. The Company recognizes revenue when control of the goods or services is transferred to the distributors. Standard terms for all agreements with either end customers or distributors do not allow for right of return, refunds, payment contingent on obtaining financing or other terms that could impact the customer’s payment obligation. Payment terms for U.S. customers are generally at shipment, delivery, or within 30 day of shipment, while payment terms for customers outside of the U.S. vary between 30 and 180 days after shipment.

***Performance Obligations, Determination and Allocation of Transaction Price and Method of Recognition***

The Company's system sale arrangements generally contain multiple products and services. For these bundled sale arrangements, the Company accounts for individual products and services as separate performance obligations. These performance obligations include: ARTAS® or ARTAS® iX System, including related accessories and software license (considered as one performance obligation), product training, consumables (consisting of harvest or site making/implantation kits), extended service contracts and marketing services. All ARTAS® and ARTAS® iX Systems include an assurance-type standard warranty, generally for a 12-month period. ARTAS Care (extended warranty service contract) will commence at the expiration of the standard warranty period. For multiple performance obligations arrangements, the Company allocates revenue

to each performance obligation based on its relative standalone selling price (SSP), which is based on a combination of observable prices or management's best estimate of standalone selling price when an observable price is not available.

ARTAS® and ARTAS® iX Systems and consumables are performance obligations that are satisfied at a point in time (upon shipment), whereas ARTAS Care, product training, and marketing services are performance obligations that are satisfied over time (e.g. straight line over the performance period or as training and marketing services are performed).

The following table includes estimated revenue expected to be recognized in the future related to performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period as follows (in thousands):

| Revenue | 2019 | 2020 | 2021 | 2022 and Thereafter | Total |
|---|---|---|---|---|---|
| System related | $ 339 | $ — | $ — | $ — | $ 339 |
| Procedure-based | 238 | — | — | — | 238 |
| Service-related fees | 807 | 176 | 25 | 112 | 1,120 |
| Total | $ 1,384 | $ 176 | $ 25 | $ 112 | $ 1,697 |

***Shipping and Freight Costs***

Shipping and freight costs are treated as fulfillment costs. For shipments to end-customers, the customer bears the shipping and freight costs and has control of the product upon shipment. For shipments to distributors, the distributor bears the shipping and freight costs, including insurance, tariffs and other import/export costs. Additionally, sale taxes are excluded from revenue.

***Practical Expedients***

In connection with the Company's adoption of Topic 606, the Company elected to use the following practical expedients (i) not to adjust the promised amount of consideration for the effects of a significant financing component when the Company expects, at contract inception, that the period between the Company's transfer of a promised product or service to a customer and when the customer pays for that product or service will be one year or less; (ii) to expense costs as incurred for costs to obtain a contract when the amortization period would have been one year or less; and (iii) not to recast revenue for contracts that begin and end in the same fiscal year.

***Costs to Obtain Customer Contracts***

Sales commissions and related expenses are considered incremental and recoverable costs of acquiring customer contracts. Except for sales commissions that would have been amortized in one year or less, which we have elected the practical expedient discussed above, certain sales commissions related to ARTAS Care and consumables that are sold bundled with the ARTAS® and ARTAS® iX Systems, are capitalized and amortized on a straight-line basis over the anticipated period of benefit, which we have estimated to be three years for ARTAS Care extended warranty service contracts and five years for consumables. We determined the period of benefit by taking into consideration the length of the customer contracts, the Company's technology lifecycle, and other factors. Amortization expense is recorded in sales and marketing expense within the condensed consolidated statement of operations. As of March 31, 2019, short-term and long-term unamortized deferred compensation were $3 and $8, which are included in "Prepaid and other current assets" and "Other Assets," respectively, on the condensed consolidated balance sheets.

***Deferred Revenue (Remaining Performance Obligations)***

The aggregate balance of remaining performance obligations represents contracted revenue that has not yet been recognized primarily from ARTAS Care extended warranty service contracts, product training and marketing services not yet rendered to customers.

| | Three months ended March 31, 2019 |
|---|---|
| Balance at the beginning of the period | $ 1,661 |
| Additions | 615 |
| Recognition of deferred revenue | (579) |
| Balance at the end of the period | $ 1,697 |
| Less: Deferred revenue - current | $ 1,384 |
| Deferred revenue - non-current (A) | $ 313 |

(A) Included in “Other long-term liabilities” on the condensed consolidated balance sheets as of March 31, 2019.

***Disaggregation of Revenue***

The Company disaggregates revenue from contracts with customers into geographical regions and by the timing of when goods and services are transferred. The Company determined that disaggregating revenue into these categories depicts how the nature, amount, timing and uncertainty of revenue and cash flows are affected by regional economic factors.

The following tables provide information about disaggregated revenue from contracts with customers into geographic regions, and the nature of the products and services:

| | Three Months Ended March 31, | |
|---|---|---|
| | 2019 | 2018 |
| United States | $ 3,183 | $ 2,255 |
| Europe and Middle East | 1,115 | 973 |
| Asia Pacific | 688 | 1,104 |
| Rest of World | 408 | 673 |
| Total revenue | $ 5,394 | $ 5,005 |

| | Three Months Ended March 31, | |
|---|---|---|
| | 2019 | 2018 |
| Systems | $ 3,553 | $ 2,005 |
| Procedure-based | 1,362 | 2,473 |
| Service-related fees | 479 | 527 |
| Total revenue | $ 5,394 | $ 5,005 |

## 4. NET LOSS PER SHARE

***Net Loss Per Share***

Basic net loss per share is calculated by dividing net loss by the weighted-average number of common shares outstanding during the period, without consideration for common stock equivalents. Diluted net loss per share is computed by dividing net loss by the weighted-average number of common share equivalents outstanding for the period determined using the treasury-stock method. For purposes of this calculation, convertible preferred stock, preferred stock warrants and stock options are common stock equivalents and are only included in the calculation of diluted net loss per share when their effect is dilutive.

The following outstanding shares of common stock equivalents were excluded from the calculation of diluted net loss per share attributable to common stockholders for the periods presented because including them would have been antidilutive:

| | As of March 31, | |
|---|---|---|
| | 2019 | 2018 |
| Options to purchase common stock | 3,970,513 | 1,950,853 |
| Warrants for common stock | 272,211 | 306,456 |
| Total potential dilutive shares | 4,242,724 | 2,257,309 |

## 5. FAIR VALUE MEASUREMENTS

Cash and cash equivalents, restricted cash, accounts receivable, accounts payable, and accrued liabilities approximate fair market value because of the short-term nature of those instruments. The Company's Term Loan with Solar and Convertible Promissory Notes (both discussed further in Note 8) have fair values that approximate their carrying value.

U.S. GAAP establishes a framework for measuring fair value and a fair value hierarchy based on the inputs used to measure fair value. This framework maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the observable inputs be used when available. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It applies to both items recognized and reported at fair value in the condensed consolidated financial statements and items disclosed at fair value in the notes to the condensed consolidated financial statements.

Observable inputs are inputs that market participants would use in pricing the asset or liability based on market data obtained from independent sources. Unobservable inputs reflect assumptions that market participants would use in pricing the asset or liability based on the best information available in the circumstances. The hierarchy is broken down into three levels based on the transparency of inputs as follows:

*Level 1* - Quoted prices are available in active markets for identical assets or liabilities as of the report date. A quoted price for an identical asset or liability in an active market provides the most reliable fair value measurement because it is directly observable to the market.

*Level 2* - Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the report date. The nature of these securities includes investments for which quoted prices are available but traded less frequently and investments that are fair valued using other securities, the parameters of which can be directly observed.

*Level 3* - Securities that have little to no pricing observability as of the report date. These securities are measured using management's best estimate of fair value, where the inputs into the determination of fair value are not observable and require significant management judgment or estimation.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. However, the determination of what constitutes "observable" requires significant judgment by the Company. The categorization of a financial instrument within the hierarchy is based upon the pricing transparency of the instrument and does not necessarily correspond to the Company's perceived risk of that instrument.

The following tables summarize the levels of fair value measurements of the Company's cash equivalents:

| | Fair Value Measurements as of March 31, 2019 | | | |
|---|---|---|---|---|
| | Quoted Prices in Active Markets using Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Total |
| **Assets** | | | | |
| Cash Equivalents: | | | | |
| Money market account | $ 13,715 | $ — | $ — | $ 13,715 |
| Restricted cash: | | | | |
| Money market account | 83 | — | — | 83 |
| Total assets | $ 13,798 | $ — | $ — | $ 13,798 |

| | Fair Value Measurements as of December 31, 2018 | | | |
|---|---|---|---|---|
| | Quoted Prices in Active Markets using Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Total |
| **Assets** | | | | |
| Cash Equivalents: | | | | |
| Money market account | $ 13,968 | $ — | $ — | $ 13,968 |
| Restricted cash: | | | | |
| Money market account | 83 | — | — | 83 |
| Total assets | $ 14,051 | $ — | $ — | $ 14,051 |

## 6. BALANCE SHEET COMPONENTS

***Inventory***

Inventory consists of the following:

| | March 31, 2019 | December 31, 2018 |
|---|---|---|
| Raw materials | $ 2,114 | $ 2,464 |
| Work-in-process | 92 | 323 |
| Finished goods | 3,001 | 2,735 |
| Total inventory | $ 5,207 | $ 5,522 |

***Property and Equipment, Net***

Property and equipment, net consist of the following:

| | March 31, 2019 | December 31, 2018 |
|---|---|---|
| Equipment | $ 3,844 | $ 3,531 |
| Computer hardware and software | 910 | 901 |
| Leasehold improvements | 874 | 874 |
| Furniture and fixtures | 457 | 457 |
| Total property and equipment | 6,085 | 5,763 |
| Less: Accumulated depreciation and amortization | (4,614) | (4,464) |
| Total property and equipment, net | $ 1,471 | $ 1,299 |

Depreciation and amortization expense was $149 and $132 for three months ended March 31, 2019 and 2018, respectively.

## 7. COMMITMENTS AND CONTINGENCIES

***Operating Leases***

The Company has various operating leases including 23,000 square feet of office space and 2,500 square feet of manufacturing space in San Jose, California, which expire in April 2022 and April 2019, respectively. After April 2019, our manufacturing space is on a month-to-month lease arrangement.

Aggregate future minimum lease payments required under the Company's operating leases as of March 31, 2019 are as follows:

| **Years Ending December 31,** | | |
|---|---|---|
| 2019 (remaining 9 months) | $ | 389 |
| 2020 | | 534 |
| 2021 | | 550 |
| 2022 | | 188 |
| Total future minimum lease payments | $ | 1,661 |

Total rent expense was $163 and $103 for three months ended March 31, 2019 and 2018, respectively.

***Commitments***

The Company has two master agreements and a component pricing agreement with Evolve Manufacturing Technologies, Inc. (Evolve) for the supply of the ARTAS® System and consumable products. The terms of these master agreements are substantially similar. The master agreement for the sale of ARTAS® Systems was effective beginning on April 1, 2016 and the master agreement for the sale of kits used with the ARTAS System was effective beginning on March 1, 2016. Both agreements are effective for an initial term of two years and will continue to automatically renew for additional twelve-month periods, subject to either party's right to terminate the agreement upon 180 days advance notice during the initial term, if our quarterly forecasted demand falls below 75% of our historical forecasted demand for the same period in the previous year or upon 120 days' advance notice after the initial term. Under the agreements, the Company has future purchase commitments up to $285 as of March 31, 2019.

In March 2018, the Company received U.S. FDA 510(k) clearance to expand the ARTAS® System technology to include an implantation functionality, referred to as ARTAS® iX. Based on manufacturing changes associated with the ARTAS® iX System, the Company determined that certain components procured or expected to be procured by Evolve, will be in excess of expected demand or usage based on the advance notice the Company provided to Evolve under the term of the agreement mentioned above. Additionally, in the fourth quarter of 2018, the Company recorded a $188 charge related to other excess purchase commitments from another vendor based on cost reduction changes in 2019. Although the Company will be taking steps to minimize the adverse impact on the Company's business, based on information available as of March 31, 2019, the Company's management recorded a loss contingency accrual of $473 which is included in "Other accrued liabilities" on the condensed consolidated balance sheets as of March 31, 2019.

***Licensing Agreements***

In July 2006, the Company entered into a license agreement with Rassman Licensing, LLC (Rassman) for non-exclusive, royalty bearing, non-transferable, perpetual, world-wide rights for use on approved fields relating to robotically controlled hair removal and implantation procedures. In consideration for this license, the Company paid Rassman a one-time payment of $1,000. The agreement terminates on May 9, 2020. In February 2012, the Company amended its license agreement with Rassman. In exchange for a one-time $400 payment to Rassman, the Company now has a fully paid royalty-free perpetual license to a patent subject to this license agreement.

In July 2006, the Company entered into a license agreement with HSC Development, LLC for exclusive non-transferable, royalty-free worldwide rights for use in approved fields relating to a computer-controlled system in which a device is carried on a mechanized arm for extraction or implantation of a follicular unit without manual manipulation. In consideration for this license, the Company paid HSC Development, LLC a one-time payment of $25 and issued 2,500 shares of the Company's common stock. The agreement terminates on July 27, 2024.

***Legal Proceedings***

From time to time the Company is involved in litigation arising out of claims in the normal course of business. Based on the information presently available, management believes that there are no claims or actions pending or threatened against the Company, the ultimate resolution of which will have a material effect on the Company's financial position, liquidity or results of operations, although the results of litigation are inherently uncertain.

*Purported Shareholder Class Action*

On May 23, 2018, a putative shareholder class action complaint was filed in Superior Court of the State of California, County of San Mateo (the "Superior Court"), captioned Wong v. Restoration Robotics, Inc., et al., No. 18CIV02609. On June 21, 2018 and June 28, 2018, two putative class action complaints were filed in the United States District Court for the Northern District of California, captioned Guerrini v. Restoration Robotics, Inc., et al., No. 5:18-cv-03712-EJD and Yzeiraj v. Restoration Robotics, Inc., et al., No. 5:18-cv-03883-BLF, respectively. On July 24, 2018, the U.S. Northern District Court related the Guerrini and Yzeiraj actions and reassigned the Yzeiraj action to Judge Edward J. Davila. The Wong and Guerrini complaints name the Company as defendants, and certain of its current and former executive officers and directors, certain of its venture capital investors and the underwriters in the Company's IPO. The Yzeiraj complaint names the Company as defendants and certain of its current and former executive officers and directors. The Wong complaint asserts claims under Sections 11, 12(a)(2) and 15 of the Securities Act of 1933, or the Securities Act. The Guerrini and Yzeiraj complaints assert claims under Sections 11 and 15 of the Securities Act. The complaints all allege, among other things, that the Company's Registration Statement filed with the SEC on September 1, 2017 and the Prospectus filed with the SEC on October 13, 2017 in connection with the Company's IPO were inaccurate and misleading, contained untrue statements of material facts, omitted to state other facts necessary to make the statements made not misleading and omitted to state material facts required to be stated therein. The complaints seek unspecified monetary damages, other equitable relief and attorneys' fees and costs.

On August 8, 2018, the Company, along with certain of its current and former executive officers and directors, filed a motion to dismiss the Wong complaint based on the forum selection clause designating the federal district courts as the exclusive forum for claims arising under the Securities Act contained in the Company's Amended and Restated Certificate of Incorporation, and which asked the court in the alternative to stay the Wong action. Also, on August 8, 2018, the venture capital investor and underwriters' defendants in the Wong action filed demurrers to the Wong complaint, and the Company, along with certain of its current and former executive officers and directors, joined in the venture capital investor defendants' demurrer. A hearing on the Company's motion to dismiss and the demurrers to the Wong complaint was held on October 24, 2018. On October 25, 2018, the Court ordered the defendants' demurrers to the complaint sustained with leave to amend and granted an extension of time for plaintiff to serve a First Amended Complaint until further order of the Court. On January 31, 2019, the Court stayed the case and stayed any decision on the Company's motion to dismiss on forum selection grounds pending resolution of an appeal of Sciabacucchi v. Salzberg, a case addressing similar issues in Delaware.

On October 2, 2018, the U.S. Northern District Court granted a Motion for Consolidation of Related Actions, Appointment as Lead Plaintiff and Approval of Lead Counsel filed by Plaintiff Edgardo Guerrini, which consolidated the Guerrini and Yzeiraj actions under the caption In re Restoration Robotics, Inc. Securities Litigation, Case No. 5:18-cv-03712-EJD. On November 30, 2018, Lead Plaintiff Edgardo Guerrini filed a Consolidated Amended Complaint for violations of federal securities laws asserting the same claims, against the same defendants, as his original complaint but adding certain allegations in support of those claims. On January 29, 2019, the Company, along with certain of its current and former executive officers and directors, filed a motion to dismiss the Consolidated Amended Complaint for failure to state a claim under Federal Rule of Civil Procedure 12(b)(6). The venture capital defendants and underwriter defendants filed joinders to the Company's motion to dismiss on the same day. A hearing on the Company's motion to dismiss is scheduled for July 11, 2019. The Company is unable to predict the date on which the District Court will issue any decision on the motion to dismiss at this time.

The Company believes that these lawsuits are without merit and management intends to vigorously defend against these claims.

## 8. LONG-TERM DEBT

*Issuance of Related Party Convertible Promissory Notes*

On February 28, 2019, the Company entered into a Note Purchase Agreement pursuant to which the Company raised $5,000 through the issuance of two unsecured subordinated convertible promissory notes (the Notes) to Frederic Moll, M.D., one of the Company's directors, and Interwest Partners IX, LP, one of the Company's stockholders affiliated with Gil Kliman, M.D., one of the Company's directors (together, the Investors).

The maturity date of the Notes is August 28, 2020 (the Maturity Date). The Notes bear interest on the unpaid principal amount at a rate of eight percent (8.0%) per annum from the date of issuance. The Notes are unsecured and subordinate in priority to the Company's existing obligations under the Solar Agreement.

All of the outstanding principal and unpaid accrued interest on the Notes will automatically be converted into shares of the same class and series of capital stock of the Company issued to other investors in any Qualified Financing to occur after the date of the Notes, at a conversion price equal to the price per share of the securities of the Company sold in such Qualified Financing. A "Qualified Financing" means the first issuance or series of related issuances of capital stock of the Company after the date of the Notes with gross proceeds to the Company of at least $20,000. The Company anticipates that the potential Equity Financing discussed above will constitute a Qualified Financing. Upon the occurrence of certain events of default or the Maturity Date, the Notes require the Company to repay the principal amount of the Notes and any unpaid accrued interest. Issuance costs associated with the Notes were not significant and accrued interest of $35 through March 31, 2019 is reported in "Other Long-Term Liabilities" on the condensed consolidated balance sheets.

*Loan and Security Agreement*

In May 2018, the Company entered into a Loan and Security Agreement and as subsequently amended (the Solar Agreement) with Solar Capital Ltd. (Solar) and certain other lenders thereunder (together with Solar, the Lenders), and Solar, as the Collateral Agent. The Solar Agreement consists of a four-year term loan for an aggregate principal amount of $20,000 (the Borrowings), for working capital, to fund the Company's general business requirements and to repay indebtedness of the Company to Oxford Finance LLC (the Oxford Agreement). The Company used $10,085 of the loan proceeds to repay the outstanding principal of $8,667, a final payment fee of $1,300 plus accrued interest and prepayment fees of $118 under the Oxford Agreement. The Borrowings under the Solar Agreement bear interest through maturity at a rate equal to the U.S. Dollar LIBOR rate plus 7.95% per annum (the Interest Rate). The outstanding balance on the loan was $20,000 and accrued interest totaled $180 as of March 31, 2019. The Interest Rate was 10.1% at March 31, 2019.

Pursuant to the terms of the Solar Agreement, the Company shall make interest only payments until December 1, 2019 (the Interest Only Period). The Interest Only Period may be extended up to three additional months, if the Company achieves certain revenue and capital fundraising thresholds. Following cessation of the Interest Only Period, the Company shall make equal monthly payments on the outstanding principal balance of the Borrowings and any unpaid and accrued interest such that the Borrowings shall be fully repaid on May 1, 2022.

In addition, pursuant to the Solar Agreement, the Company issued the Lenders warrants (the Warrants) to purchase an aggregate of 161,725 shares of the Company's common stock, $0.0001 par value per share, at an exercise price of $3.71 per share. The Warrants were immediately exercisable upon issuance, and excluding certain mergers or acquisitions, will expire on the ten-year anniversary of the date of issuance. The fair value of the Warrants issued was determined to be $404 using a Black-Scholes valuation model with the following assumptions: common stock price at issuance of $3.71 per share; exercise price of $3.71; risk-free interest rate of 2.97% based upon observed risk-free interest rates; expected volatility of 55.50% based on the Company's implied volatility; expected term of ten years, which is the contractual life of the Warrants; and a dividend yield of 0%. The fair value of the Warrants was recorded as a debt discount within notes payable and an increase to additional paid-in capital on the Company's condensed consolidated balance sheet. The debt discount is being amortized as interest expense over the term of the Solar Agreement, using the effective interest method.

The third-party transaction costs (not paid directly to the lenders) related to the debt of $404 are accounted for as a debt discount and classified within notes payable on the Company's condensed consolidated balance sheet and amortized as interest expense over the term of the loan using the effective interest method. Unamortized debt discounts related to the Oxford Agreement and all fees paid directly to Solar and Oxford totaling $505 in connection with the debt financing in May 2018 were written off to "Other income (expense), net" in the condensed consolidated statements of operations.

The obligations under the Solar Agreement are secured by a lien on substantially all the Company's property. The Solar Agreement contains certain affirmative covenants, negative covenants and events of default, including, covenants and restrictions that among other things, require the Company and its subsidiary to satisfy certain financial covenants including covenants requiring the Company to satisfy certain revenue and liquidity thresholds, and restricts the ability of the Company and its subsidiary's ability to, incur liens, incur additional indebtedness, make loans and investments, engage in mergers and acquisitions, engage in asset sales or sale and leaseback transactions, and declare dividends or redeem or repurchase capital stock. A failure to comply with these covenants could permit the Lenders under the Solar Agreement to declare the Borrowings, together with accrued but unpaid interest and certain Prepayment Fees, to be immediately due and payable. On November 2, 2018, the Solar Agreement was amended to modify the compliance requirement for certain revenue and liquidity thresholds. As part of this amendment, the Company paid a fee of $50 to the Lenders and cancelled 161,725 Warrants (originally issued in May 2018, as mentioned above) and issued 161,725 new warrants of the Company's common stock, $0.0001 par value per share, at an exercise price of $1.76 per share. All other terms of the Warrants were unchanged.

On February 13, 2019, the Company entered into a Third Amendment to the Loan and Security Agreement (the Third Amendment), which amended the Solar Agreement with the Lenders. Pursuant to the terms of the Third Amendment, the Solar Agreement was amended to modify the compliance requirement for certain liquidity thresholds to provide the Company with additional flexibility. As part of the Third Amendment, the Final Fee (as defined in the Solar Agreement) that is payable to the Lenders upon prepayment, default and maturity of the Solar Agreement, was amended and increased to $960. In addition, the Solar Agreement was amended to include certain additional changes to covenants covering certain operational milestones. As of March 31, 2019, the Company was in compliance with all covenants under the Solar Agreement, as amended.

The Company is also required to make mandatory prepayments of the Borrowings, subject to specified exceptions, upon defaulting on any payments of principal or interest on the Borrowings, the occurrence of certain specified defaults of the covenants in the Solar Agreement, the occurrence of a material adverse change in the business, operations or conditions of the Company and specified other events (each, an Event of Default). Upon the occurrence and continuation of an Event of Default, the Borrowings shall accrue at the Interest Rate plus 4.0%.

If all or any of the Borrowings are prepaid or required to be prepaid under the Solar Agreement, then the Company shall pay, in addition to such prepayment, a prepayment premium (the Prepayment Premium) equal to (i) with respect to any such prepayment paid on or prior to May 1, 2019, 3.0% of the principal amount of the Borrowings being prepaid, (ii) with respect to any prepayments paid after May 1, 2019 but on or prior to May 1, 2020, 2.0% of the principal amount of the Borrowings being prepaid and (iii) with respect to any prepayments paid after May 1, 2020 but on or prior to May 1, 2021, 1.0% of the principal amount of the Borrowings being prepaid. Notwithstanding the foregoing, if the Lenders each participate in a refinancing of the Borrowings, then the Prepayment Premium shall be 0%.

The scheduled principal payments on the outstanding borrowings as of March 31, 2019 are as follows:

| | As of March 31, 2019 |
|---|---|
| 2019 (remaining 9 months) | $ 667 |
| 2020 | 13,000 |
| 2021 | 8,000 |
| 2022 | 4,293 |
| 2023 | — |
| Total | 25,960 |
| Less debt discount | (1,331) |
| Less current portion | (1,974) |
| Non-current portion | $ 22,655 |
| Reported as: | |
| Convertible promissory notes | $ 5,000 |
| Long-term debt | 17,655 |
| Total non-current portion | $ 22,655 |

## 9. COMMON STOCK RESERVED FOR ISSUANCE

The Company is required to reserve and keep available out of its authorized but unissued shares of common stock a number of shares sufficient to affect the conversion of all outstanding common stock warrants, plus options granted and available for grant under the incentive plans.

| | March 31, 2019 | December 31, 2018 |
|---|---|---|
| Outstanding common stock warrants | 272,211 | 272,211 |
| Outstanding and issued stock options | 3,970,513 | 3,989,432 |
| Shares reserved for future option grants | 1,069,271 | 437,241 |
| Total common stock reserved for issuance | 5,311,995 | 4,698,884 |

**10. STOCK OPTION PLAN**

*2005 and 2015 Plans*

The Company granted incentive stock options (ISOs) and non-statutory stock options (NSOs) pursuant to its 2005 Stock Option Plan (the 2005 Plan) until the Board of Directors approved the 2015 Stock Option Plan (the 2015 Plan), and all remaining shares available for future award under the 2005 Plan were transferred to the 2015 Plan and the 2005 Plan was terminated. The Company granted ISOs and NSOs pursuant to its 2015 Plan until the 2017 Equity Incentive Plan (the 2017 Plan) was approved by the Board of Directors and became effective on October 11, 2017. As a result of the 2017 Plan becoming effective, all remaining shares available for future award under the 2015 Plan were transferred to the 2017 Plan, the 2015 Plan was terminated, and no further grants will be made under the Company's 2005 Plan and the 2015 Plan. Any outstanding stock awards granted under the 2005 Plan and the 2015 Plan will remain outstanding, subject to the terms of the Company's 2005 Plan and 2015 Plan and the applicable stock award agreements, until such outstanding stock awards that are stock options are exercised or until they terminate or expire by their terms, or until such stock awards are fully settled, terminated or forfeited.

*2017 Plan*

The Company's 2017 Plan provides for the grant of ISOs, NSOs, stock appreciation rights, restricted stock awards, restricted stock unit awards, and other forms of equity compensation to employees, directors and consultants. In addition, the Company's 2017 Plan provides for the grant of performance cash awards to employees, directors and consultants.

The Company recognized stock-based compensation for its employees and non-employees in the accompanying consolidated statements of operations as follows:

| | Three Months Ended March 31, | |
|---|---|---|
| | 2019 | 2018 |
| Cost of revenue | $ 9 | $ 4 |
| Sales and marketing | 135 | 22 |
| Research and development | 24 | 15 |
| General and administrative | 180 | 84 |
| Total stock-based compensation | $ 348 | $ 125 |

***Stock Options***

The fair value of each option is estimated at the date of grant using the Black-Scholes-Merton option pricing model, based on the following assumptions:

| | Three Months Ended March 31, | |
|---|---|---|
| | 2019 | 2018 |
| Expected term (years) | 5.1 | 6.1 |
| Risk-free interest rate | 2.65% | 2.40% |
| Expected volatility | 60.00% | 55.50% |
| Dividend yield | 0% | 0% |

The following table summarizes stock option activity under the Company's stock option plan:

| | Number of Shares | Weighted-Average Exercise Price per Share | Weighted-Average Remaining Contractual Term | Aggregate Intrinsic Value |
|---|---|---|---|---|
| Outstanding — December 31, 2018 | 3,989,432 | $ 1.95 | 8.7 | $ — |
| Options granted | 20,000 | 0.83 | | |
| Options cancelled | (38,919) | 1.37 | | |
| Outstanding — March 31, 2019 | 3,970,513 | $ 1.95 | 8.3 | $ — |
| Vested and expected to vest — March 31, 2019 | 3,582,709 | $ 1.96 | 8.2 | $ — |
| Exercisable — March 31, 2019 | 1,459,630 | $ 1.97 | 7.3 | $ — |

The weighted-average grant date fair value of options granted was $0.44 per share for three months ended March 31, 2019.

No options were exercised for the three months ended March 31, 2019. The total intrinsic value of options exercised was $14.8 for the three months ended March 31, 2018.

Unamortized stock-based compensation was $2,090 as of March 31, 2019, which is expected to be recognized over a weighted-average period of approximately 2.92 years.

***Restricted Stock Awards***

The Company's Board of Directors appointed Keith Sullivan, a current Board member of the Company, as interim Chief Commercial Officer, effective November 1, 2018, and for a period up to one year. Under the terms of the arrangement, Mr. Sullivan was granted 360,000 restricted stock awards, which shall vest in quarterly installments equal to 25% of the shares starting with the first vest date on January 15, 2019 so long as Mr. Sullivan is providing services. As of March 31, 2019, the Company had $144 of unrecognized compensation expense, net of estimated forfeitures, which it expects to recognize over the next seven months. The aggregate intrinsic value of the RSAs outstanding was $159.

***Restricted Stock Units***

On February 27, 2019, the Company's Board of Directors granted our Chief Financial Officer and interim Chief Commercial Officer each 500,000 restricted stock units that will vest contingent on the closing of the merger of the Company with Venus (as discussed in Note 1). During the three months ended March 31, 2019, no stock-based compensation expense was recorded.

## 11. INCOME TAXES

The Company generated a loss for the three months ended March 31, 2019 and 2018 and incurred $14 and $13 of tax expense for the three months ended March 31, 2019 and 2018, respectively. The Company's effective tax rate is (0.19)% and (0.17)% for income tax for the three months ended March 31, 2019 and 2018, respectively and the Company expects that its effective tax rate for the full year 2019 will be (0.17)%. Based on available evidence, including cumulative losses since inception and expected future losses, the Company has determined that it is more likely than not that the Company's U.S. federal, U.S. state and Korea deferred tax assets will not be realized and therefore a valuation allowance has been provided on these net deferred tax assets.

The Company has substantial net operating loss carry forwards available to offset future taxable income for U.S. federal and state income tax purposes. The Company's ability to utilize its net operating losses may be limited due to changes in its ownership as defined by Section 382 of the Internal Revenue Code (the Code). Under the provisions of Sections 382 and 383 of the Code, a change of control, as defined in the Code, may impose an annual limitation on the amount of the Company's net operating loss and tax credit carryforwards, and other tax attributes that can be used to reduce future tax liabilities.

The Company files tax returns for U.S. federal and state tax returns along with tax returns in the United Kingdom, Hong Kong, Spain and South Korea. The Company is not currently subject to any income tax examinations. Since the Company's inception, the Company had incurred losses from its U.S. operations, which generally allows all tax years to remain open.

Beginning in first quarter of 2018, the Company is subject to new provisions of the tax law, including provisions related to Global Low Taxed Intangible Income (GILTI), Foreign Derived Intangible Income deductions (FDII), and other changes. However, due to the Company's losses and full valuation allowance in the U.S., these were determined to have no material impact to the Estimated Annual Effective Tax Rate due to the full Valuation Allowance in the U.S.

***Uncertain Tax Positions***

Accounting Standards Codification 740-10 requires that the Company recognize the financial statement effects of a tax position when it becomes more likely than not, based upon the technical merits, that the position will be sustained upon examination. The gross amount of unrecognized tax benefits as of March 31, 2019 is approximately $1,490 and related to the reserve on R&D credits, none of which will affect the effective tax rate if recognized due to the valuation allowance. The Company does not expect any material changes in the next 12 months in unrecognized tax benefits.

The Company recognizes interest and/or penalties related to uncertain tax positions. To the extent accrued interest and penalties do not ultimately become payable, amounts accrued will be reduced and reflected in the period that such determination is made. The interest and penalties are recognized as other expense and not tax expense. The Company currently has no interest and penalties related to uncertain tax positions.

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

*The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our unaudited condensed consolidated financial statements and the related notes included elsewhere in this Quarterly Report on Form 10-Q and with our audited financial statements and notes thereto in the Company's Annual Report filed on Form 10-K for the year ended December 31, 2018, filed with the Securities and Exchange Commission ("SEC") and other filings we have made with the SEC.*

*This Quarterly Report on Form 10-Q contains "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These statements are often identified by the use of words such as "may," "will," "expect," "believe," "anticipate," "intend," "could," "estimate," or "continue," and similar expressions or variations. These statements are based on the beliefs and assumptions of our management based on information currently available to management. Such forward-looking statements are subject to risks, uncertainties and other factors that could cause actual results and the timing of certain events to differ materially from future results expressed or implied by such forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those identified herein, and those discussed in the section titled "Risk Factors," set forth in Part II, Item 1A of this Form 10-Q and in our other SEC filings, including the Prospectus. You should review the risk factors for a more complete understanding of the risks associated with an investment in our securities. We disclaim any obligation to update any forward-looking statements to reflect events or circumstances after the date of such statements. Therefore, you should not rely on these forward-looking statements as representing our views as of any date subsequent to the date of this Quarterly Report on Form 10-Q. Our fiscal year end is December 31, and references throughout this Quarterly Report on Form 10-Q to a given fiscal year are to the twelve months ended on that date.*

### Overview

We are a medical technology company developing and commercializing a robotic device, the ARTAS® System, which assists physicians in performing many of the repetitive tasks that are a part of a follicular unit extraction, or FUE surgery, a type of hair restoration procedure. We believe the ARTAS® System is the first and only physician assisted robotic system that can identify and dissect hair follicular units directly from the scalp, create recipient implant sites and robotically implant the hair follicles into the implant sites. In addition to the ARTAS® System, we also offer the ARTAS Hair Studio application, an interactive three-dimensional patient consultation tool that enables a physician to create a simulated hair transplant model for use in patient consultations. We received clearance from the U.S. Food and Drug Administration, or FDA, in April 2011 to market the ARTAS® System in the U.S., and we have sold the ARTAS® System into 37 other countries. In March 2018, we received 510(k) clearance from the FDA to expand the ARTAS® technology to include implantation. In the third quarter of 2018, we commercially launched the next generation ARTAS® System, called ARTAS® iX System, which incorporates the implantation functionality as well as other functionalities. As of March 31, 2019, the ARTAS® System and ARTAS Hair Studio application are protected by over 80 patents in the U.S. and over 110 international patents.

On February 28, 2019, we entered into a Note Purchase Agreement pursuant to which we raised $5.0 million through the issuance of two unsecured subordinated convertible promissory notes, or the Notes, which were issued to Frederic Moll, M.D., one of our directors, and Interwest Partners IX, LP, one of our stockholders affiliated with Gil Kliman, M.D., one of our directors, or together the Investors. The maturity date of the Notes is August 28, 2020. The Notes bear interest on the unpaid principal amount at a rate of eight percent (8.0%) per annum from the date of issuance. The Notes are unsecured and subordinate in priority to our existing obligations under the Solar Agreement, as amended. All of the outstanding principal and unpaid accrued interest on the Notes will automatically be converted into shares of the same class and series of our capital stock issued to investors in the first issuance, or series of related issuances, of our capital stock with gross proceeds of at least $20.0 million following the date of the Notes.

*Proposed Merger with Venus*

On March 15, 2019, we entered into the Merger Agreement (the Merger Agreement) with Venus Concept Ltd. (Venus) to combine the companies in an all-stock transaction (the Merger). The Merger Agreement and the Merger have been approved by our board of directors and the board of directors of Venus. The transaction is expected to close in the third quarter of 2019, subject to customary closing conditions, including the approval by our stockholders and the stockholders of Venus as well as the receipt of all necessary regulatory approvals.

Under the terms of the transaction, our and Venus shareholders will own approximately 15% and 85% of the combined company, respectively, on a fully diluted basis, without giving effect to the shares issued in the proposed equity financing that is expected to close immediately after the merger. EW Healthcare Partners has committed to lead a $21.0 million equity investment, priced at $0.825 per share (subject to adjustment for stock splits), in the combined company's common stock contingent on the closing of the merger transaction. Additional investors committed to participating in the proposed equity financing include 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 previously funded a $5.0 million convertible note (the Notes), which will convert into the combined company's common stock at the closing of the equity financing led by EW Healthcare, at a price of $0.825 per share (subject to adjustment for stock splits).

Concurrent with closing of the Merger, we anticipate effecting a reverse stock split. We expect to have approximately 283.2 million shares outstanding (or approximately 18.9 million shares outstanding after giving effect to an anticipated 1-for-15 reverse stock split) and after taking into account shares issued to the former Venus shareholders in the merger, shares issued as part of the $21.0 million equity investment, and shares issued upon conversion of the $5.0 million Notes.

We have funded our operations to date primarily from the issuance and sale of our common stock in our IPO and subsequent public follow-on offering, private placements of our equity securities and, to a lesser extent, through debt financings, exercises of our common stock warrants and payments from our customers. As of March 31, 2019, we had cash and cash equivalents of $15.0 million.

**Factors Affecting our Results of Operations**

We believe there are several important factors that have impacted, and that we expect will impact, our results of operations.

***Adoption of the ARTAS® System***

The growth of our business depends on our ability to gain broader acceptance of the ARTAS® System and, in particular, the latest iteration of our ARTAS System, ARTAS® iX, as well as the ARTAS procedure by successfully marketing and distributing the ARTAS® System and the ARTAS procedure. If we are unable to successfully commercialize our ARTAS® System and the ARTAS procedure, we may not be able to generate sufficient revenue to achieve or sustain profitability. In the near term, we expect we will continue to operate at a loss, and we anticipate we will finance our operations principally through offerings of our capital stock and by incurring debt. If we are unable to raise adequate additional capital, we will be unable to maintain our commercialization efforts and our revenue could decline.

***Significant Investment in our Sales and Marketing***

We have made certain strategic changes to and investments in our U.S. sales and global marketing organizations, which included terminating certain personnel and hiring new personnel and realigning our reporting and leadership structure in the sales organization. For example, throughout 2018 we were increasing the size of our U.S. sales force by hiring sales professionals with experience selling capital equipment and equipment to physicians in the aesthetic market. In addition, we were investing significantly in our sales and marketing efforts related to the launch of the ARTAS® iX System. Strategically, we have been focused on our branding and have consolidated our regional marketing teams to standardize our messaging and focus of our marketing spending with an aim to be more efficient and cost-effective. As a result, we have seen a reduction in and improved efficiency of our marketing spending.

While we increased revenue in 2019 because of increased unit sales, these sales initiatives have also increased our sales and marketing expenses. Furthermore, we anticipate as we continue to advance the commercialization of the ARTAS® iX System, our sales and marketing expenses will continue to increase.

***Revenue Composition and Trends***

The following table reflects revenue by category:

| | Three Months Ended March 31, | |
|---|---|---|
| | 2019 | 2018 |
| Systems | $ 3,553 | $ 2,005 |
| Procedure-based | 1,362 | 2,473 |
| Service-related fees | 479 | 527 |
| Total revenue | $ 5,394 | $ 5,005 |

We derive our revenue from the sale and service of ARTAS® Systems and procedure-based fees.

- Revenue from systems for the three months ended March 31, 2019 increased as compared to the same period in 2018 due to the average sales price of our systems sold during the period being higher as a result of the launch of the ARTAS® iX Systems in the third quarter of 2018 in the United States and Europe in the fourth quarter of 2018, which has a higher average sales price. We anticipate U.S. and Europe revenue from systems sold going forward to be primarily from ARTAS iX Systems, while revenue from systems sold outside of these two regions to be primarily from the existing ARTAS Systems until the time, if and when, we receive regulatory approval for the ARTAS® iX System.

- Revenue from procedure-based fees for the three months end March 31, 2019 decreased as compared to the same period in 2018. Revenue from procedure-based fees for the three months ended March 31, 2019, decreased at least in part due to the timing of prior period purchases of bulk procedures, with customers purchasing bulk procedures in prior periods and using them during in later quarterly periods which we believe resulted in fewer procedures being purchased in the three months ended March 31, 2019.
- Service-related fees did not change significantly for the three months ended March 31, 2019 as compared to the same period in 2018.

Historically, the majority of our revenue and our revenue growth has been generated through system sales. While we would expect our procedure-based fees to increase as our installed base of ARTAS® and ARTAS® iX Systems grow worldwide, the total number of procedures has not followed the increase in our installed base of systems sold. For example, our procedure-based revenue decreased for the three months ended March 31, 2019, as compared to the same period in 2018, whereas our installed base has grown from 2018 to 2019. While procedure-based revenue has increased, on from a year-to-date perspective, more than our revenue from system sales on a combined basis, during the aforementioned periods, we believe that revenue from procedure-based fees may not grow proportionally as compared to the increase in our installed base and that it could vary from quarter-to-quarter due to a number of factors, including:

- physician uptake causing a slow ramp-up to utilizing the ARTAS® or ARTAS® iX Systems, which is particularly evident with physicians who are new to hair restoration procedures or physicians who do not operate a solely hair restoration focused practice who are commonly the profile we are targeting;
- capacity limitations with the current installed base of ARTAS® or ARTAS® iX Systems, which can result in procedure-based fees not growing as quickly as system sales, as high performing practitioners are limited in the number of procedures that can be performed in any given period;
- limited or no utilization of the ARTAS® or ARTAS® iX Systems after purchase because of a change in physician preference or practice; and
- the concentration of ARTAS procedures being performed on a limited number of ARTAS® and ARTAS® iX Systems leading to volatility between periods if particular high-volume practitioners perform a smaller number of procedures in a given period.

In order to increase the number of procedures performed per ARTAS® or ARTAS® iX System, and in turn increase revenue from procedure-based fees, we have, in connection with the leadership and sales and marketing changes, initiated programs to assist certain physicians in marketing efforts, patient education and practice optimization to increase utilization of the ARTAS® and ARTAS® iX Systems. If these efforts are successful, we anticipate that the growth in procedure-based fees will increase and that quarterly fluctuations in the number of total procedures performed will be reduced.

***Revenue from Markets Outside the U.S.***

Since launching the ARTAS® System in 2011, we have obtained clearance to sell our products in over 60 countries. In June 2012, we obtained our CE mark to sell our product into the European Economic Area, or EEA. We have sold into 37 countries and sell directly into the U.S., Korea, Hong Kong, Singapore, Spain, Poland, Benelux, Scandinavia, Portugal, the Netherlands and through distributors in the other countries. We obtained clearance to sell in China in September 2016. However, we have not obtained any regulatory approvals or clearances outside of the U.S. and Europe for our implantation functionality.

Revenue from markets outside of the U.S accounted for 41% of our total revenue in the first three months of 2019, compared to 55% from the same period in 2018. Although we will continue to invest resources outside of the U.S., we anticipate that the strategic shift in our sales strategy towards the U.S. market will impact the revenue mix between the U.S. and non-U.S. markets. In particular, in connection with our newly launched ARTAS® iX System, which is only cleared for sale in the U.S., our marketing efforts are highly focused on the U.S.

Internationally, both the ARTAS® and ARTAS® iX System unit sales and procedure-based fees decreased in the first three months of 2019 relative to the first three months of 2018. We believe the decline in system sales in the Asia Pacific region was due in part to potential customers delaying their purchase until the ARTAS® iX System is approved or cleared for use in their region.

While we believe our newly launched ARTAS® iX System, which incorporates a robotic implantation functionality, could have a positive effect on system sales in the U.S., it may have a negative effect on system sales outside the U.S. as the robotic implantation functionality is only approved in the U.S. and potential non-U.S. customers of the ARTAS® iX System may delay purchases of ARTAS® systems until the implantation functionality is available in their market.

We expect our operating expenses to increase because of increased sales and marketing activity to promote penetration in markets outside the U.S. where we already sell the ARTAS® System and geographic expansion into new markets.

**Factors Affecting Comparability**

We anticipate that our quarterly results of operations may fluctuate for the foreseeable future due to several factors, including the performance of our direct sales force and international distributors, the launch of our implantation functionality and the ARTAS® iX System, and unanticipated interruptions and expenses related to our operations and the proposed merger with Venus. In addition, due to the long lead time to finalize ARTAS® and ARTAS® iX-Systems unit sales with our physician customers, and the significant impact each unit sale has on a period's revenue due to the price of each unit, our quarterly revenue may not be comparable from one period to another.

Furthermore, our industry is characterized by seasonally lower demand during the third calendar quarter of the year, when both physicians and prospective patients take summer vacations. A detailed discussion of these and other factors that impact our business is provided in the "Risk Factors" section in this Quarterly Report on Form 10-Q.

**Results of Operations**

**Three Months Ended March 31, 2019 and 2018:**

| | Three Months Ended March 31, | | Change | |
|---|---|---|---|---|
| | 2019 | 2018 | $ | % |
| | *(dollars in thousands)* | | | |
| Revenue | $ 5,394 | $ 5,005 | $ 389 | 8% |
| Cost of revenue | 2,457 | 3,185 | (728) | (23) |
| Gross profit | 2,937 | 1,820 | 1,117 | 61 |
| *Gross margin* | 54% | 36% | | |
| Operating expenses: | | | | |
| Sales and marketing | 4,570 | 4,384 | 186 | 4 |
| Research and development | 1,488 | 2,125 | (637) | (30) |
| General and administrative | 1,992 | 2,351 | (359) | (15) |
| Merger related expenses | 1,501 | — | 1,501 | 100 |
| Total operating expenses | 9,551 | 8,860 | 691 | 8 |
| Loss from operations | (6,614) | (7,040) | 426 | (6) |
| Other expense, net: | | | | |
| Interest expense | (766) | (358) | (408) | 114 |
| Other expense, net | (46) | (20) | (26) | 130 |
| Total other expense, net | (812) | (378) | (434) | 115 |
| Net loss before provision for income taxes | (7,426) | (7,418) | (8) | 0 |
| Provision for income taxes | 14 | 13 | 1 | 8 |
| Net loss | $ (7,440) | $ (7,431) | $ (9) | 0% |

*Revenue.* Revenue increased 8% for the three months ended March 31, 2019, compared to the same period in 2018. The change in revenue was primarily due to the increased average selling price of our system sales for the three months ended March 31, 2019, as compared to the same period in 2018 due to the launch of ARTAS iX System in the third quarter of 2018, which have a higher average sales price. We sold 14 systems in the three months ended March 31, 2019, as compared to eight systems in the three months ended March 31, 2018. For the three months ended March 31, 2019, the revenue increase was partially offset by a decrease of $1.1 million from procedures-based fees, as compared to same period in 2018. The fluctuations in procedures-based fees was due to a significant number of ARTAS procedures being purchased prior to January 1, 2019 and being performed after that date, which we believe resulted in fewer procedures being purchased in the three months ended March 31, 2019.

*Gross Margin.* Gross margin typically fluctuates with product mix, selling prices, material costs and revenue level. Gross margin for the three months ended March 31, 2019 increased by 18 percentage points compared to the same period in 2018. The increase for the three months ended March 31, 2019 was primarily driven by certain cost efficiencies from manufacturing of our ARTAS iX System.

*Sales and Marketing*. Sales and marketing expenses increased 4%, for the three months ended March 31, 2019, compared to the same period in 2018. The increase was primarily due to the ongoing commercialization efforts for the ARTAS® iX System.

*Research and Development*. Research and development expense decreased 30%, for the three months ended March 31, 2019, compared to the same period in 2018. The decrease was primarily due to lower outside services and consulting costs associated with the development of the ARTAS® iX System, which was commercially launched in July 2018.

*General and Administrative*. General and administrative expenses decreased 15%, for the three months ended March 31, 2019, compared to the same period in 2018. The decrease was primarily the result of reduced professional service costs, consisting of accounting, consulting, legal and other professional fees incurred in connection with our first year as a public company in 2018.

*Merger related expenses.* Merger expenses increased 100% due to the pending merger transaction between our Company and Venus as further described in the overview section of Item 2. *"Management's Discussion and Analysis of Financial Condition and Results of Operations."*

*Interest expense*. Interest expense increased 114% for the three months ended March 31, 2019, compared to the same period in 2018. The increase in interest expense between the three-month periods was related to a higher average principal balance of our outstanding long-term-debt obligations as we refinanced our debt obligations with Solar in May 2018, which had a higher outstanding balance than the loan with our previous lender.

*Other expense, Net*. Other expense, net change was not significant.

*Provision for income tax:* Our effective tax rate is (0.19%) for income tax for the three months ended March 31, 2019, and we expect that our effective tax rate for the full year 2019 will be (0.17%). Based on available evidence, including cumulative losses since inception and expected future losses, we have determined that it is more likely than not that our U.S. federal, U.S. state and Korea deferred tax assets will not be realized and therefore a valuation allowance has been provided on the U.S. federal, U.S. state and Korea net deferred tax assets.

In general, if we experience a greater than 50% aggregate change in ownership over a three-year period, utilization of our pre-change net operating loss, or NOL, and credit carryforwards are subject to an annual limitation under Sections 382 and 383 of the U.S. Internal Revenue Code, or the Code. Generally, U.S. states maintain similar laws or regulations as Sections 382 and 383 of the Code. The annual limitation generally is determined by multiplying the value of our stock at the time of such ownership change (subject to certain adjustments) by the applicable long-term tax-exempt rate. Such limitations may result in expiration of a portion of the NOL or tax credit carryforwards before utilization.

We file tax returns for U.S. federal and state taxes along with tax returns in the United Kingdom, Hong Kong, Spain and South Korea. We are not currently subject to any income tax examinations. Since our inception, we have incurred losses from our U.S. operations, which generally allows all tax years to remain open.

We recognize the financial statement effects of a tax position when it becomes more likely than not, based upon the technical merits, that the position will be sustained upon examination. We do not expect any material changes in the next 12 months in unrecognized tax benefits.

We recognize interest and/or penalties related to uncertain tax positions. To the extent accrued interest and penalties do not ultimately become payable, amounts accrued will be reduced and reflected in the period that such determination is made. The interest and penalties are recognized as other expense and not tax expense. We currently have no interest and penalties related to uncertain tax positions.

**Liquidity and Capital Resources**

To date, we have incurred significant net losses and negative cash flows from operations. Our net loss was $7.4 million for each of the three months ended March 31, 2019 and 2018. As of March 31, 2019, we had an accumulated deficit of $200.7 million. As of March 31, 2019, and December 31, 2018, we had cash and cash equivalents of $15.0 million and $16.1 million, respectively. As of the filing date of this Quarterly Report, we believe our current cash and cash equivalents will not be sufficient to fund our operations for the next twelve months. These factors raise substantial doubt about our ability to continue as a going concern.

*Debt Obligations*

On May 10, 2018, we entered into a Loan and Security Agreement, as amended (the Solar Agreement) with Solar Capital Ltd. (Solar) and certain other lenders thereunder (together with Solar, the Lenders). Pursuant to the terms of the Solar Agreement, we borrowed $20.0 million with an interest rate at U.S. Dollar LIBOR plus 7.95% per annum (the Borrowings). All amounts borrowed under the

Solar Agreement are secured by liens over all personal property of the Company. Monthly payments on any amounts drawn shall consist of the interest only payments for the first 18 months, followed by payments of principal and accrued interest monthly thereafter until the four-year anniversary of the date of the Solar Agreement. In connection with the Solar Agreement, we granted the Lenders warrants to purchase an aggregate of 161,725 shares of our common stock exercisable at a price of $3.71 per share. On November 2, 2018, the Solar Agreement was amended to modify the compliance requirement for certain revenue and liquidity threshold. As part of this amendment, we paid a fee of $50,000 to the Lenders and cancelled 161,725 Warrants (originally issued in May 2018, as mentioned above) and issued 161,725 new warrants of the Company's common stock, $0.0001 par value per share, at an exercise price of $1.76 per share. All other terms of the Warrants were unchanged. On February 13, 2019, the Solar Agreement was amended to modify the compliance requirement for certain liquidity thresholds. As part of this amendment, the Final Fee (as defined in the Solar Agreement) that is payable to the Lenders upon prepayment, default and maturity of the Solar Agreement, was amended and increased to $960,000. In addition, the Solar Agreement was amended to include new covenants covering certain operational milestones. As of March 31, 2019, we were in compliance with all required covenants under the Solar Agreement, as amended.

On February 28, 2019, we raised $5.0 million through the issuance of Notes to Frederic Moll, M.D., one of our directors, and Interwest Partners IX, LP, one of our stockholders affiliated with Gil Kliman, M.D., one of our directors. The maturity date of the Notes is August 28, 2020. The Notes bear interest on the unpaid principal amount at a rate of eight percent (8.0%) per annum from the date of issuance. The Notes are unsecured and subordinate in priority to our existing obligations under the Solar Agreement.

*Capital Resources*

We have financed our operations principally through the issuance and sale of our common stock in our IPO, private placements of our capital stock, and to a lesser extent, secured debt financing and payments from customers. We believe that our existing cash and cash equivalents and cash expected to be generated from sales of our products will not be sufficient to fund our planned operations through the next 12 months. However, we will need additional capital to fund our future operations and we intend to obtain such capital through the sale of additional shares of capital stock or related securities. To the extent that we raise additional capital through future equity financings, the ownership interest of our stockholders will be diluted, and the terms of these securities may include liquidation or other preferences that adversely affect the rights of our existing common stockholders. If we raise additional funds through the issuance of debt securities, these securities could contain covenants that would restrict our operations. Further, there can be no assurance that we will be able to raise additional funds on favorable terms, or at all. Our failure to raise additional capital would have a negative impact on our financial condition and our ability to execute our business plan.

We have based our projections of operating capital requirements on assumptions that may prove to be incorrect and we may use all our available capital resources sooner than we expect. Because of the numerous risks and uncertainties associated with the ongoing commercialization of the ARTAS® System, we are unable to estimate the exact amount of our operating capital requirements. Our future funding requirements will depend on many factors, including, but not limited to:

- the revenue we generate from our operations;
- the scope and timing of our investment in our commercial infrastructure and sales-force;
- the costs of commercialization activities including product sales, marketing, manufacturing and distribution;
- the degree and rate of market acceptance of the ARTAS® System and the ARTAS procedure;
- the costs of filing, prosecuting, defending and enforcing any patent claims and other intellectual property rights;
- our need to implement additional infrastructure and internal systems;
- the research and development activities we intend to undertake in order to expand the approved indications of use for the ARTAS® System;
- the emergence of competing technologies or other adverse market developments;
- any product liability or other lawsuits related to our products;
- the expenses needed to attract and retain skilled personnel;
- the costs associated with being a public company; and
- the costs associated with maintaining subsidiaries in foreign jurisdictions.

We cannot assure that we will ever be profitable or generate positive cash flow from operating activities.

***Cash flows***

The following table summarizes our cash flows for the periods indicated:

| | Three Months Ended March 31, | |
|---|---|---|
| | 2019 | 2018 |
| | *(dollars in thousands)* | |
| Cash used in operating activities | $ (5,839) | $ (4,955) |
| Cash used in investing activities | (346) | (260) |
| Cash provided by (used in) financing activities | 4,984 | (1,804) |
| Effect of exchange rate changes on cash, cash equivalents and restricted cash | 36 | 4 |
| Net decrease in cash, cash equivalents and restricted cash | $ (1,165) | $ (7,015) |

***Cash Flows from Operating Activities***

For the three months ended March 31, 2019, cash used in operating activities of $5.8 million was attributable to a net loss of $7.4 million, partially offset by $0.9 million in non-cash charges and an increase from operating assets and liabilities of $0.7 million. The non-cash charges consisted primarily of stock-based compensation of $0.3 million, depreciation and amortization of $0.2 million, amortization of debt discounts and issuance costs of $0.2 million and provision for bad debt of $0.2 million. The net change in operating assets and liabilities was primarily attributable to an increase in accounts payable and accrued other liabilities of $0.7 million and an increase in inventory of $0.3 million primarily due to an increase in raw materials for ARTAS® iX System, which was offset by a decrease in accounts receivable of $0.3 million due to the timing of collections from customers in the first quarter of 2019.

For the three months ended March 31, 2018, cash used in operating activities of $5.0 million was attributable to a net loss of $7.4 million, partially offset by $0.6 million in non-cash charges and an increase from operating assets and liabilities of $1.9 million. The non-cash charges consisted primarily of provision for bad debt of $0.3 million, depreciation and amortization of $0.1 million, amortization of debt discounts and issuance costs of $0.1 million, stock-based compensation of $0.1 million. The net change in operating assets and liabilities was primarily attributable to an increase in accounts payable and accrued other liabilities of $1.4 million, an increase in deferred revenue of $0.6 million due to ARTAS System service contracts added in the first quarter of 2018 and the deferral of one ARTAS System sold, and an increase in inventory of $0.6 million as well as an increase in prepaid and other assets of $0.2 million, which was offset by a decrease in accounts receivable of $0.9 million due to the timing of collections from customers in the first quarter of 2018.

***Cash Flows from Investing Activities***

For the three months ended March 31, 2019 and 2018, cash used in investing activities related to purchases of property and equipment.

***Cash Flows from Financing Activities***

For the three months ended March 31, 2019, cash provided by financing activities was $5.0 million, consisting of net proceeds from our Convertible Promissory Notes of $5.0 million.

For the three months ended March 31, 2018, cash used in financing activities was $1.8 million, consisting of the $2.0 million payment of principal on our long-term debt, partially offset by $0.2 million of stock option exercises.

***Contractual Obligations and Other Commitments***

The following table summarizes our contractual obligations as of March 31, 2019, which represent material expected or contractually committed future obligations.

| | Payments Due by Period | | | | |
|---|---|---|---|---|---|
| | Less than 1 Year | 1 to 3 Years | 3 to 5 Years | More than 5 Years | Total |
| | *(dollars in thousands)* | | | | |
| Debt obligations, including interest (1) | $ 4,753 | $ 23,686 | $ 2,311 | $ — | $ 30,750 |
| Operating leases | 389 | 1,084 | 188 | — | 1,661 |
| Total contractual obligations | $ 5,142 | $ 24,770 | $ 2,499 | $ — | $ 32,411 |

(1) Represents our loan with Solar as well as our Convertible Promissory Notes and our anticipated repayment schedule for the loans. Pursuant to our loan agreement with Solar, the loan will mature in May 2022. The loan with Solar accrues interest at prime plus 7.95% per annum. The outstanding principal balance on the Solar loan was $20.9 million as of March 31, 2019, which includes a final payment of $0.9 million to Solar on the maturity of the loan. The Convertible Promissory Notes accrues interest at 8.0% per annum. The outstanding principal balance plus accrued interest matures on August 28, 2020, unless converted into common stock of the Company prior to maturity.

In addition to the contractual obligations listed in the table above, in March 2018, we received U.S. FDA 510(k) clearance to expand the ARTAS® System technology to include an implantation functionality. Based on manufacturing changes associated with the ARTAS® System, we determined that certain components procured or expected to be procured by Evolve Manufacturing Technologies, Inc., our single third-party manufacturer, who assemble the ARTAS® Systems, will be in excess of expected demand or usage. Additionally, in the fourth quarter of 2018, the Company recorded a charge related to other excess purchase commitments from another vendor based on cost reduction changes in 2019. As a result, we recorded a loss contingency accrual of $0.5 million and included in “Other accrued liabilities” on the condensed consolidated balance sheets as of March 31, 2019.

**Off-Balance Sheet Arrangements**

We do not currently engage in off-balance sheet financing arrangements. In addition, we do not have any interest in entities referred to as variable interest entities, which includes special purpose entities and other structure finance entities.

**Critical Accounting Policies and Estimates**

Our unaudited condensed consolidated financial statements have been prepared in accordance with U.S. GAAP. Preparation of these statements requires management to make judgments and estimates. Some accounting policies have a significant impact on amounts reported in these financial statements. A summary of significant accounting policies and a description of accounting policies that are considered critical may be found in our 2018 Annual Report on Form 10-K for the year ended December 31, 2018, in the Notes to the Consolidated Financial Statements (Note 1) and the Critical Accounting Policies and Estimates section in Management’s Discussion and Analysis of Financial Condition and Results of Operations. Except for the change in our revenue accounting policy, as discussed in Note 2, there have been no changes in these significant accounting policies during the three months ended March 31, 2019.

**JOBS Act Accounting Election**

We are an emerging growth company, as defined in the Jumpstart Our Business Startups Act of 2012, or the JOBS Act. Under the JOBS Act, emerging growth companies can delay adopting new or revised accounting standards issued after the enactment of the JOBS Act until those standards apply to private companies. We have elected to use this extended transition period for complying with new or revised accounting standards that have different effective dates for public and private companies until the earlier of the date we (i) are no longer an emerging growth company or (ii) affirmatively and irrevocably opt out of the extended transition period provided in the JOBS Act. As a result, our financial statements may not be comparable to companies that comply with new or revised accounting pronouncements as of public company effective dates.

**Recent Accounting Pronouncements**

See Note 2 to our condensed consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q for recently adopted accounting pronouncements and recently issued accounting pronouncements not yet adopted as of the date of this Quarterly Report on Form 10-Q.

## ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

We are exposed to market risks in the ordinary course of our business. These risks primarily relate to interest rate and currency exchange rate fluctuations.

***Interest Rate Risk***

Our cash and cash equivalents are held in cash deposits and money market funds. Due to the short-term nature of these instruments, we do not believe that we have any material exposure to changes in the fair value of our investment portfolio because of changes in interest rates. Declines in interest rates, however, would reduce our future interest income.

We are exposed to interest rate risk related to our debt obligations which are subject to variable interest rates. As of March 31, 2019, a 100-basis point increase in interest rates on our debt subject to variable interest rate fluctuations would increase our interest expense $0.2 million annually.

***Foreign Currency Risk***

Our sales contracts are primarily denominated in U.S. dollars and, therefore, substantially all of our revenue is not subject to foreign currency risk. However, a strengthening of the U.S. Dollar could increase the real cost of our products to our customers outside of the U.S., which could adversely affect our financial condition and operating results. In addition, a portion of our operating expenses are incurred outside the U.S. and are denominated in foreign currencies and are subject to fluctuations due to changes in foreign currency exchange rates, particularly changes in the British Pound Sterling, Euro, Hong Kong Dollar, and South Korean Won. Additionally, fluctuations in foreign currency exchange rates may cause us to recognize transaction gains and losses in our statement of operations. A 10% increase or decrease in current exchange rates would not have a material effect on our financial results. To date, foreign currency transaction gains and losses have not been material to our consolidated financial statements, and we have not engaged in any foreign currency hedging transactions.

## ITEM 4. CONTROLS AND PROCEDURES.

***Evaluation of disclosure controls and procedures.***

Our management, with the participation and supervision of our Chief Executive Officer and our Chief Financial Officer, have evaluated our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended, or the Exchange Act) as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on that evaluation, our Chief Executive Officer and our Chief Financial Officer have concluded that, as of the end of the period covered by this Quarterly Report on Form 10-Q, our disclosure controls and procedures are designed at a reasonable assurance level and are effective to provide reasonable assurance that information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in SEC rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

***Changes in internal control over financial reporting.***

Our Chief Executive Officer and Chief Financial Officer did not identify any changes in our internal control over financial reporting in connection with the evaluation required by Rule 13a-15(d) and 15d-15(d) of the Exchange Act during the quarter ended March 31, 2019, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

***Inherent limitation on the effectiveness of internal control.***

The effectiveness of any system of internal control over financial reporting, including ours, is subject to inherent limitations, including the exercise of judgment in designing, implementing, operating, and evaluating the controls and procedures, and the inability to eliminate misconduct completely. Accordingly, in designing and evaluating the disclosure controls and procedures, management recognizes that any system of internal control over financial reporting, including ours, no matter how well designed and operated, can only provide reasonable, not absolute assurance of achieving the desired control objectives. In addition, the design of disclosure controls and procedures must reflect the fact that there are resource constraints and that management is required to apply its judgment in evaluating the benefits of possible controls and procedures relative to their costs. Moreover, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. We intend to continue to monitor and upgrade our internal controls as necessary or appropriate for our business but cannot assure you that such improvements will be sufficient to provide us with effective internal control over financial reporting.

## PART II OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS

On May 23, 2018, a putative shareholder class action complaint was filed in Superior Court of the State of California, County of San Mateo (the "Superior Court"), captioned Wong v. Restoration Robotics, Inc., et al., No. 18CIV02609. On June 21, 2018 and June 28, 2018, two putative class action complaints were filed in the United States District Court for the Northern District of California, captioned Guerrini v. Restoration Robotics, Inc., et al., No. 5:18-cv-03712-EJD and Yzeiraj v. Restoration Robotics, Inc., et al., No. 5:18-cv-03883-BLF, respectively. On July 24, 2018, the U.S. Northern District Court related the Guerrini and Yzeiraj actions and reassigned the Yzeiraj action to Judge Edward J. Davila. The Wong and Guerrini complaints name us as defendants, and certain of our current and former executive officers and directors, certain of our venture capital investors and the underwriters in our IPO. The Yzeiraj complaint names us as defendants and certain of our current and former executive officers and directors. The Wong complaint asserts claims under Sections 11, 12(a)(2) and 15 of the Securities Act of 1933, or the Securities Act. The Guerrini and Yzeiraj complaints assert claims under Sections 11 and 15 of the Securities Act. The complaints all allege, among other things, that our Registration Statement filed with the SEC on September 1, 2017 and the Prospectus filed with the SEC on October 13, 2017 in connection with our IPO were inaccurate and misleading, contained untrue statements of material facts, omitted to state other facts necessary to make the statements made not misleading and omitted to state material facts required to be stated therein. The complaints seek unspecified monetary damages, other equitable relief and attorneys' fees and costs.

On August 8, 2018, we, along with certain of our current and former executive officers and directors, filed a motion to dismiss the Wong complaint based on the forum selection clause designating the federal district courts as the exclusive forum for claims arising under the Securities Act contained in our Amended and Restated Certificate of Incorporation, and which asked the court in the alternative to stay the Wong action. Also, on August 8, 2018, the venture capital investor and underwriters' defendants in the Wong action filed demurrers to the Wong complaint, and we, along with certain of our current and former executive officers and directors, joined in the venture capital investor defendants' demurrer. A hearing on our motion to dismiss and the demurrers to the Wong complaint was held on October 24, 2018. On October 25, 2018, the Court ordered the defendants' demurrers to the complaint sustained with leave to amend and granted an extension of time for plaintiff to serve a First Amended Complaint until further order of the Court. On January 31, 2019, the Court stayed the case and stayed any decision on the Company's motion to dismiss on forum selection grounds pending resolution of an appeal of Sciabacucchi v. Salzberg, a case addressing similar issues in Delaware.

On October 2, 2018, the U.S. Northern District Court granted a Motion for Consolidation of Related Actions, Appointment as Lead Plaintiff and Approval of Lead Counsel filed by Plaintiff Edgardo Guerrini, which consolidated the Guerrini and Yzeiraj actions under the caption In re Restoration Robotics, Inc. Securities Litigation, Case No. 5:18-cv-03712-EJD. On November 30, 2018, Lead Plaintiff Edgardo Guerrini filed a Consolidated Amended Complaint for violations of federal securities laws asserting the same claims, against the same defendants, as his original complaint but adding certain allegations in support of those claims. On January 29, 2019, the Company, along with certain of its current and former executive officers and directors, filed a motion to dismiss the Consolidated Amended Complaint for failure to state a claim under Federal Rule of Civil Procedure 12(b)(6). The venture capital defendants and underwriter defendants filed joinders to the Company's motion to dismiss on the same day. A hearing on the Company's motion to dismiss is scheduled for July 11, 2019. The Company is unable to predict the date on which the District Court will issue any decision on the motion to dismiss at this time.

We believe that these lawsuits are without merit and we intend to vigorously defend against these claims.

Further, we may from time to time continue to be involved in various legal proceedings of a character normally incident to the ordinary course of our business, which we do not deem to be material to our business and results of operations.

### ITEM 1A. RISK FACTORS

*Our operations and financial results are subject to various risk and uncertainties, including those described below, any of which could adversely affect our business, results of operations, financial condition and prospects. In such an event, the market price of our common stock could decline, and you may lose all or part of your investment. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also impair our business operations. You should carefully consider the risk described below and the other information in this Quarterly Report on Form 10-Q, including our unaudited condensed consolidated financial statements and the related notes thereto, and "Management's Discussion and Analysis of Financial Condition and Results of Operations."*

**Risks Related to the Proposed Merger**

On March 15, 2019, we entered into the Merger Agreement with Venus and Merger Sub, pursuant to which, among other things, the Merger will occur. In connection with the proposed Merger, we are subject to certain risks including, but not limited to, those set forth below. The description of each of the Merger Agreement and the Merger herein is qualified in its entirety by reference to the full text of the Merger Agreement which was filed as an exhibit to our Annual Report on Form 10-K filed on March 20, 2019.

***We may fail to consummate the Merger, and uncertainties related to the consummation of the Merger may have a material adverse effect on our business, results of operations and financial condition and negatively impact the price of our common stock.***

On March 15, 2019, we entered into the Merger Agreement with Venus and Merger Sub. Pursuant to the Merger Agreement, Merger Sub will merge with and into Restoration Robotics, Inc., with Venus surviving the Merger as a wholly owned subsidiary of Restoration Robotics, Inc. The Merger is subject to the satisfaction of a number of conditions beyond our control, including receiving stockholder approval and other customary closing conditions. Failure to satisfy the conditions to the Merger could prevent or delay the completion of the Merger. Further, regulators may impose conditions, obligations or restrictions on the Merger that may have the effect of delaying or preventing its completion.

The efforts and costs to satisfy the closing conditions of the Merger, may place a significant burden on management and internal resources, and the Merger and related transactions, whether or not consummated, may result in a diversion of management's attention from day-to-day operations. Any significant diversion of management's attention away from ongoing business and difficulties encountered in the Merger process could have a material adverse effect on our business, results of operations and financial condition.

There also is no assurance that the Merger and the other transactions contemplated by the Merger Agreement will occur on the terms and timeline currently contemplated or at all.

The Merger Agreement also contains certain customary termination rights, including the right of each of the Company and Venus to terminate the Merger Agreement if the Merger is not consummated by October 31, 2019, subject to one (1) sixty-day extension in the event that the registration statement on Form S-4 that will contain a proxy statement/prospectus to register our common stock to be issued pursuant to the Merger Agreement (the "S-4") is still under review by the SEC, or if we have not received stockholder approval of the Merger within seventy (70) days of the date of the effectiveness of the S-4. If the Merger Agreement is terminated under certain circumstances, including termination by us to enter into a superior alternative transaction or termination by Venus upon a change of the Board's recommendation to the Company's stockholders, we will be obligated to pay to Venus a termination fee equal to $1,115,000 in cash. In addition, if the Merger Agreement is terminated under other circumstances, including termination as a result of our failure to obtain the required approvals of our stockholders or a material breach of the Merger Agreement by us, we will be obligated to reimburse Venus for its reasonable out-of-pocket fees and expenses, up to a maximum of $200,000 in cash.

If the proposed Merger is not completed or the Merger Agreement is terminated, the price of our common stock may decline, including to the extent that the current market price of our common stock reflects an assumption that the Merger and the other transactions contemplated by the Revised Merger Agreement will be consummated without further delays, which could have a material adverse effect on our business, results of operations and financial condition.

If the Merger Agreement is terminated and we determine to seek another business combination, we may not be able to negotiate a transaction with another party on terms comparable to, or better than, the terms of the Merger.

***We are subject to various uncertainties and restrictions on the conduct of our business while the Merger is pending, which could have a material adverse effect on our business, results of operations and financial condition.***

Uncertainty about the pendency of the Merger and the effect of the Merger on employees, customers, vendors, communities and other third parties who deal with us may have a material adverse effect on our business, results of operations and financial condition. These uncertainties may impair our ability to attract, retain and motivate key personnel pending the consummation of the Merger, as such personnel may experience uncertainty about their future roles following the consummation of the Merger. Additionally, these uncertainties could cause customers, distributors, vendors and other third parties who deal with us to seek to change existing business relationships with us or fail to extend an existing relationship with us, including, but not limited to direct customers and distributors delaying their purchases and/or payments of the ARTAS® and ARTAS® iX Systems, all of which could have a material adverse effect on our business, results of operations, financial condition and market price of our common stock. In addition, the Merger Agreement restricts us from taking certain actions without Venus' consent while the Merger is pending. These restrictions may, among other matters, prevent us from pursuing otherwise attractive business opportunities, buying or selling assets, making certain capital expenditures, refinancing or incurring additional indebtedness, entering into transactions, or making other changes to our business prior to consummation of the Merger or termination of the Merger Agreement. These restrictions and uncertainties could have a material adverse effect on our business, results of operations and financial condition.

***We and our directors and officers may be subject to lawsuits relating to the Merger.***

Litigation is very common in connection with the sale of public companies, regardless of whether the claims have any merit. One of the conditions to consummating the Merger is that no order preventing or otherwise prohibiting the consummation of the Merger shall have been issued by any court. Consequently, if any lawsuit challenging the Merger is successful in obtaining an order preventing the consummation of the Merger, that order may delay or prevent the Merger from being completed. While we will evaluate and defend against any lawsuits, the time and costs of defending against litigation relating to the Merger may adversely affect our business.

***We will continue to incur substantial transaction-related costs in connection with the Merger.***

We have incurred significant legal, advisory and financial services fees in connection with Merger. We have incurred, and expect to continue to incur, additional costs in connection with the satisfaction of the various conditions to closing of the Merger, including seeking approval from our stockholders and from applicable regulatory agencies. If there is any delay in the consummation of the Merger, these costs could increase significantly.

**Risks Related to Our Business**

***We have limited commercial history and we have incurred significant losses since our inception. We anticipate that we will continue to incur losses for the foreseeable future, which, together with our limited operating history, makes it difficult to assess our future viability.***

We have a limited commercial history and have focused primarily on research and development, product design and engineering, establishing supply and manufacturing relationships, seeking regulatory clearances and approvals to market the ARTAS® and ARTAS® iX System, and selling and marketing. We have incurred losses in each year since our inception in 2002. Our net losses were approximately $7.4 million for the three months ended March 31, 2019 and $28.7 million for the year ended December 31, 2018. As of March 31, 2019, we had an accumulated deficit of $200.7 million. We will continue to incur significant expenses for the foreseeable future as we expand our sales and marketing, research and development, and clinical and regulatory activities. We may never generate enough revenue to achieve or sustain profitability. Even if we do achieve profitability, we may not be able to sustain or increase profitability. Furthermore, because of our limited operating history and because the market for aesthetic products is rapidly evolving, we have limited insight into the trends or competitive products that may emerge and affect our business. Before investing, you should consider an investment in our common stock considering the risks, uncertainties, and difficulties frequently encountered by early-stage medical technology companies in rapidly evolving markets such as ours. We may not be able to successfully address any or all of these risks, and the failure to adequately do so could cause our business, results of operations, and financial condition to suffer.

***We may not be able to correctly estimate or control our future operating expenses, which could lead to cash shortfalls.***

Our operating expenses may fluctuate significantly in the future because of a variety of factors, many of which are outside of our control. These factors include:

- the cost of growing our ongoing commercialization and sales and marketing activities;
- the costs of manufacturing and maintaining enough inventories of our products to meet anticipated demand and inventory write-offs related to obsolete products or components;
- the costs of enhancing the existing functionality and development of new functionalities for the ARTAS® and ARTAS® iX System;
- the costs of preparing, filing, prosecuting, defending, and enforcing patent claims and other patent related costs, including litigation costs and the results of such litigation;
- the variability of ARTAS procedures being performed between periods if particular high-volume practitioners perform a smaller number of procedures in each period as a result of the concentration of procedures performed by certain practitioners;
- any product liability or other lawsuits and the costs associated with defending them or the results of such lawsuits;
- the costs associated with conducting business and maintaining subsidiaries in foreign jurisdictions;
- customers in jurisdictions where the ARTAS® iX System is not approved delaying their purchase, and not purchasing an ARTAS® System, until the ARTAS® iX System is approved or cleared for use in their market;
- the costs to attract and retain personnel with the skills required for effective operations; and
- the costs associated with being a public company.

Our budgeted expense levels are based in part on our expectations concerning future revenue from ARTAS® Systems sales, servicing and procedure-based fees. We may be unable to reduce our expenditures in a timely manner to compensate for any unexpected shortfalls in revenue. Accordingly, a significant shortfall in market acceptance or demand for the ARTAS® Systems and procedures could have an immediate and material adverse impact on our business and financial condition.

***It is difficult to forecast our future performance and our financial results may fluctuate unpredictably.***

Our limited commercial history and the rapid evolution of the markets for medical technologies and aesthetic products make it difficult for us to predict our future performance. Several factors, many of which are outside of our control, may contribute to fluctuations in our financial results, such as:

- physician demand for the ARTAS® and ARTAS® iX Systems and procedure usage may vary from quarter to quarter;
- customers in jurisdictions where the ARTAS® iX System is not approved delaying their purchase, and not purchasing an ARTAS® System, until the ARTAS® iX System is approved or cleared for use in their market;
- the inability of physicians to obtain the necessary financing to purchase the ARTAS® System or the ARTAS® iX System;
- changes in the length of our sales process for the ARTAS® and ARTAS® iX Systems;
- performance of new functionalities and system updates, such as the robotic implantation functionality in the new ARTAS® iX System;
- performance of our international distributors;
- positive or negative media coverage of the ARTAS® System or ARTAS® iX System, the procedures or products of our competitors, or our industry generally;
- our ability to maintain our current, or obtain further, regulatory clearances or approvals such as the regulatory clearances and approvals necessary to market the ARTAS® iX System outside the U.S.;
- delays in, or failure of, product and component deliveries by our third-party manufacturers or suppliers;
- seasonal or other variations in patient demand for aesthetic procedures;
- introduction of new aesthetic procedures or products that compete with the ARTAS® System or ARTAS® iX System;
- changes in accounting rules that may cause restatement of our consolidated financial statements or have other adverse effects; and
- adverse changes in the economy that reduce patient demand for elective aesthetic procedures.

***The long sales cycle, low unit volume for sales of the ARTAS® System and ARTAS® iX System and the historic seasonality of our industry, each may contribute to substantial fluctuations in our operating results and stock price and make it difficult to compare our results of operations to prior periods and predict future financial results.***

We sell a relatively small number of ARTAS® and ARTAS® iX Systems at a relatively high price, with each sale of an ARTAS® System or ARTAS® iX System typically involving a significant amount of time. Because of the relatively small number of ARTAS® and ARTAS® iX Systems we expect to sell in any period, each sale of a system could represent a significant percentage of our revenue for a period. Furthermore, due to the significant amount of time it can take to finalize the sale of a system, it is likely that a sale could be recognized in a subsequent period which could have a material effect on our results from quarter to quarter and increase the volatility of quarterly results. In addition, our industry is characterized by seasonally lower demand during the third quarter of the calendar year, generally when both physicians and prospective patients take summer vacation. As a result of these factors, future fluctuations in quarterly results could cause our revenue and cash flows to be below analyst and investor expectations, which could cause decline in our stock price. Due to future fluctuations in revenue and costs, as well as other potential fluctuations, you should not rely upon our operating results in any period as an indication of future performance. If we do not sell ARTAS® and ARTAS® iX Systems as anticipated, our operating results will vary significantly from our expectations. In addition, selling the ARTAS® and ARTAS® iX Systems requires significant marketing effort and expenditure in advance of the receipt of revenue and our efforts may not result in a sale.

***Our recurring losses from operations and negative cash flows have raised substantial doubt regarding our ability to continue as a going concern.***

Our independent registered public accounting firm included an explanatory paragraph in its report on our consolidated financial statements as of, and for the year ended, December 31, 2018 that our recurring losses from operations and negative cash flows raise substantial doubt about our ability to continue as a going concern. As of the filing date of this Quarterly Report, we believe our current cash and cash equivalents will not be sufficient to fund our operations for the next twelve months. Our ability to continue as a going concern will require us to obtain additional financing to fund our operations. The perception of our ability to continue as a going concern may make it more difficult for us to obtain financing for the continuation of our operations and could result in the loss of confidence by investors, suppliers and employees.

***We will require substantial additional financing to achieve our goals, and a failure to obtain this necessary capital when needed on acceptable terms, or at all, could force us to delay, limit, reduce or terminate our product development, commercialization and other operations or efforts.***

Since our inception, we have invested a significant portion of our efforts and financial resources in research and development and sales and marketing activities. Research and development, clinical trials, product engineering, ongoing product upgrades and other enhancements such as software-updates for the ARTAS® and ARTAS® iX Systems and seeking regulatory clearances and approvals to market future products will require substantial funds to complete. As of March 31, 2019, we had capital resources consisting of cash and cash equivalents of $15.0 million. We believe that we will continue to expend substantial resources for the foreseeable future in connection with the ongoing commercializing of the ARTAS® and ARTAS® iX System, increasing our sales and marketing efforts, and continuing research and development and product enhancements activities.

We believe our existing cash and cash equivalents and cash expected to be generated from the sale of our products will not be enough for us to fund our planned operations for the next twelve months. Therefore, we will need additional capital to fund our future operations. In addition, our operating plans may change as a result of many factors some of which may be unknown to us, and we may need to seek additional funds sooner than planned, through public or private equity or debt financings or other sources, such as strategic collaborations. Such financing may result in dilution to stockholders, imposition of burdensome debt covenants and repayment obligations, the licensing of rights to our technology or other restrictions that may affect our business. In addition, we may seek additional capital due to favorable market conditions or strategic considerations even if we believe we have enough funds for our current or future operating plans.

Additional funds may not be available when we need them, on terms that are acceptable to us, or at all. If adequate funds are not available to us on a timely basis, we may be required to:

- delay or curtail our efforts to develop enhancements to the ARTAS® and ARTAS® iX Systems, including any clinical trials that may be required to market such enhancements;
- delay or curtail our plans to increase and expand our sales and marketing efforts; or
- delay or curtail our plans to enhance our customer support and marketing activities.

We are restricted by covenants in the Solar Agreement. These covenants restrict, among other things, our ability to incur additional debt without Solar’s consent, which may limit our ability to obtain additional funds. In addition, the Solar Agreement contains certain minimum liquidity and minimum revenue covenants, which, if we fail to maintain or achieve, will result in a default under the agreement and the requirement for us to repay all outstanding principal amounts and accrued interest repay all amounts outstanding

***We are dependent upon the success of the ARTAS® System and ARTAS® iX System, which has a limited commercial history. If we are unsuccessful in developing the market for robotic hair restoration or the market acceptance for the ARTAS® System and ARTAS® iX System fails to grow significantly, our business and future prospects will be harmed.***

We commenced commercial sales of the ARTAS® System for hair follicle dissection in the U.S. in 2011 and expect that the revenue we generate from both system sales and servicing as well as recurring procedure-based fees will account for all our revenue for the foreseeable future. Accordingly, our success depends on the acceptance among physicians and patients of the ARTAS® and ARTAS® iX Systems as the preferred system for performing hair restoration surgery. Acceptance of the ARTAS® and ARTAS® iX Systems by physicians is significantly dependent on our ability to convince physicians of the benefits of the ARTAS® and ARTAS® iX Systems to their practices and, accordingly, develop the market for robotic-assisted hair restoration surgery. Acceptance of the ARTAS procedure by patients is equally important as patient demand will influence physicians to offer the ARTAS procedure, and the degree of market acceptance of the ARTAS® and ARTAS® iX Systems by physicians and patients is unproven. We believe that market acceptance of the ARTAS® and ARTAS® iX Systems will depend on many factors, including:

- the perceived advantages or disadvantages of the ARTAS® and ARTAS® iX Systems compared to other hair restoration products and treatments;
- the safety and efficacy of the ARTAS® and ARTAS® iX Systems relative to other hair restoration products and treatments;
- the price of the ARTAS® and ARTAS® iX Systems relative to other hair restoration products and treatments;
- our success in expanding our sales and marketing organization;
- the effectiveness of our marketing, advertising, and commercialization initiatives;
- our success in adding new functionalities to the ARTAS® and ARTAS® iX Systems and enhancing existing functions; and
- our ability to obtain regulatory clearance to market the ARTAS® and ARTAS® iX Systems for additional treatment indications in the U.S.

Further, the ARTAS® iX System, which was launched in June 2018, includes our recently approved robotic implantation functionality. As this functionality is new, it is possible that it could include defaults, “bugs” or present other technical issues which could prompt potential physician customers to delay their purchase of the ARTAS® iX System or could prompt physicians that have purchased the ARTAS® iX System to either return or not utilize the system.

We cannot assure you that the ARTAS® System or ARTAS® iX System will achieve broad market acceptance among physicians and patients. Because we expect to derive substantially all our revenue for the foreseeable future from ARTAS® and ARTAS® iX Systems sales, servicing and procedure-based fees, any failure of this product to satisfy physician or patient demand or to achieve meaningful market acceptance will harm our business and future prospects.

***If there is not sufficient patient demand for ARTAS procedures, our financial results and future prospects will be harmed.***

The ARTAS procedure is an elective aesthetic procedure, the cost of which must be borne by the patient and is not covered by or reimbursable through government or private health insurance. The decision to undergo the ARTAS procedure is thus driven by patient demand, which may be influenced by a number of factors, such as:

- the success of our sales and marketing programs;
- the extent to which our physician customers recommend the ARTAS procedures to their patients;
- our success in attracting consumers who have not previously undergone hair restoration treatment;
- the extent to which the ARTAS procedure satisfies patient expectations;
- our ability to properly train our physician customers in the use of the ARTAS® and ARTAS® iX Systems so that their patients do not experience excessive discomfort during treatment or adverse side effects;
- the cost, safety, and effectiveness of the ARTAS® and ARTAS® iX Systems versus other aesthetic treatments;
- consumer sentiment about the benefits and risks of aesthetic procedures generally and the ARTAS® and ARTAS® iX Systems in particular;
- the success of any direct-to-consumer marketing efforts we may initiate; and
- general consumer confidence, which may be impacted by economic and political conditions outside of our control.

Our financial performance will be materially harmed in the event we cannot generate significant patient demand for procedures performed with the ARTAS® System.

***Our success depends in part upon patient satisfaction with the effectiveness of the ARTAS® and ARTAS® iX Systems.***

In order to generate repeat and referral business, patients must be satisfied with the effectiveness of the ARTAS® Systems. If the ARTAS® System or ARTAS® iX System procedure is not done correctly, and or the patient suffers from complications and other adverse effects, the patient may not be satisfied with the benefits of the ARTAS® System or ARTAS® iX System. Furthermore, if the transplanted hair follicles do not grow or survive the transplant, the patient will likely not view the procedure as having a satisfactory outcome. If patients are not satisfied with the aesthetic benefits of the ARTAS® System, ARTAS® iX System or feel that it is too expensive for the results obtained, our reputation and future sales will suffer.

***Our success depends on growing physician adoption and use of the ARTAS® System and ARTAS® iX System.***

Our ability to increase the number of physicians willing to make a significant capital expenditure to purchase the ARTAS® System, or ARTAS® iX System and make it a significant part of their practices, depends on the success of our sales and marketing programs. We must be able to demonstrate that the cost of the ARTAS® and ARTAS® iX Systems and the revenue that a physician can derive from performing ARTAS procedures are compelling when compared to the costs and revenue associated with alternative aesthetic treatments the physician can offer. In addition, we believe our marketing programs, including clinical and practice development support, will be critical to increasing utilization and awareness of the ARTAS® and ARTAS® iX Systems, but these programs require physician commitment and involvement to succeed. If we are unable to increase physician adoption and use of the ARTAS® System, or ARTAS® iX System our financial performance will be adversely affected.

***Our inability to effectively compete with competitive hair restoration treatments or procedures may prevent us from achieving significant market penetration or improving our operating results.***

The medical technology and aesthetic product markets are highly competitive and dynamic and are characterized by rapid and substantial technological development and product innovations. We designed the ARTAS® System to assist physicians in performing follicular unit extraction surgery. Demand for the ARTAS® Systems and ARTAS procedures could be limited by other products and technologies. Competition to address hair loss comes from various sources, including:

- therapeutic options including Rogaine, which is applied topically, and Propecia, which is ingested, both of which have been approved by the FDA;
- non-surgical options, such as wigs, hair-loss concealer sprays and similar products; and
- other surgical alternatives, including hair transplantation surgery using the strip surgery method or using hand-held devices.

Surgical alternatives to the ARTAS® and ARTAS® iX Systems may be able to compete more effectively than the ARTAS procedure in established practices with trained staff and workflows built around performing these surgical alternatives. Practices experienced in offering strip surgery or follicular unit extractions using hand-held devices may be reluctant to incorporate or convert their practices to offer ARTAS procedures due to the effort involved to make such changes.

Many options may be able to provide satisfactory results for male hair loss, generally at a lower cost to the patient than the ARTAS® and ARTAS® iX Systems. As a result, if patients choose these competitive alternatives, our results of operation could be adversely affected.

We also face competition from other aesthetic devices that physicians may consider adding to their practice in lieu of building a hair restoration practice, for instance CoolSculpting, which is utilized for body contouring or cosmetic fat reduction. As a result, if physicians choose these competitive products over building a hair restoration practice with the ARTAS® System or ARTAS® iX System, our results of operation could be adversely affected.

Some of our competitors have a broad range of product offerings, large direct sales forces, and long-term customer relationships with our target physicians, which could inhibit our market penetration efforts. Our potential physician customers also may need to recoup the cost of expensive products that they have already purchased from our competitors, and thus they may decide to delay purchasing, or not to purchase, the ARTAS® System or ARTAS® iX System.

Many of our competitors are large, experienced companies that have substantially greater resources and brand recognition than we do. Competition could result in price-cutting, reduced profit margins, and limited market share, any of which would harm our business, financial condition, and results of operations.

***We may not be able to establish or strengthen our brand.***

We believe that establishing and strengthening the Restoration Robotics and ARTAS brand is critical to achieving widespread acceptance of the ARTAS® Systems, particularly because of the highly competitive nature of the market for aesthetic treatments and procedures to address male hair loss. Promoting and positioning our brand will depend largely on the success of our marketing efforts and our ability to provide physicians with a reliable product to assist them in performing hair restoration surgery. Given the established nature of our competitors, and our limited commercialization in the U.S., it is likely that our future marketing efforts will require us to incur significant additional expenses. These brand promotion activities may not yield increased sales and, even if they do, any sales increases may not offset the expenses we incur to promote our brand. If we fail to successfully promote and maintain our brand, or if we incur substantial expenses in an unsuccessful attempt to promote and maintain our brand, our ARTAS® Systems may not be accepted by physicians, which would adversely affect our business, results of operations and financial condition.

***We have limited experience with our direct sales and marketing force and any failure to build and manage our direct sales and marketing force effectively could have a material adverse effect on our business.***

We rely on a direct sales force to sell the ARTAS® and ARTAS® iX Systems in the U.S. and certain markets outside the U.S. In order to meet our anticipated sales objectives, we expect to grow our direct sales and marketing organization significantly over the next several years and intend to opportunistically build a direct sales and marketing force in certain international markets where we do not have a direct sales force. There are significant risks involved in building and managing our sales and marketing organization, including risks related to our ability to:

- hire qualified individuals as needed;
- generate sufficient leads within our target physician group for our sales force;
- provide adequate training for the effective sale and marketing of the ARTAS® System or ARTAS® iX System;
- retain and motivate our direct sales and marketing professionals; and
- effectively oversee geographically dispersed sales and marketing teams.

Our failure to adequately address these risks could have a material adverse effect on our ability to increase sales and use of the ARTAS® and ARTAS® iX Systems, which would cause our revenue to be lower than expected and harm our results of operations.

***To market and sell the ARTAS® and/or ARTAS® iX System in certain markets outside of the U.S., we depend on third-party distributors.***

We depend on third-party distributors to sell, market, and service the ARTAS® Systems in certain markets outside of the U.S. and to train our physician customers in such markets. Furthermore, we may need to engage additional third-party distributors to expand into new markets outside of the U.S. where we do not have a direct sales force. We are subject to a number of risks associated with our dependence on these third-parties, including:

- the lack of day-to-day control over the activities of third-party distributors;
- third-party distributors may not commit the necessary resources to market, sell, train, support and service our systems to the level of our expectations;
- third-party distributors may emphasize the sale of third-party products over our products;
- third-party distributors may not be as selective as we would be in choosing physicians to purchase the ARTAS® System or as effective in training physicians in marketing and patient selection;
- third-party distributors may violate applicable laws and regulations which may expose us to potential liability or limit our ability to sell products in certain markets
- third-party distributors may terminate their arrangements with us on limited, or no, notice or may change the terms of these arrangements in a manner unfavorable to us; and
- disagreements with our distributors that could require or result in costly and time-consuming litigation or arbitration which we could be required to conduct in jurisdictions with which we are not familiar.

If we fail to establish and maintain satisfactory relationships with our third-party distributors, our revenue and market share may not grow as anticipated, and we could be subject to unexpected costs which would harm our results of operations and financial condition.

***To successfully market and sell the ARTAS® and ARTAS® iX System in markets outside of the U.S., we must address many international business risks with which we have limited experience.***

Sales in markets outside of the U.S. accounted for approximately 40% of our revenue for the year ended December 31, 2018 and 41% and 54% of our revenue for the three months ended March 31, 2019 and 2018, respectively. We believe that a significant percentage of our business will continue to come from sales in markets outside of the U.S. through increased penetration in countries where we market and sell the ARTAS® or ARTAS® iX System. However, international sales are subject to a number of risks, including:

- difficulties in staffing and managing our international operations;
- increased competition as a result of more products and procedures receiving regulatory approval or otherwise free to market in international markets;
- longer accounts receivable payment cycles and difficulties in collecting accounts receivable;
- reduced or varied protection for intellectual property rights in some countries;
- export restrictions, trade regulations, and foreign tax laws;
- fluctuations in currency exchange rates;
- foreign certification and regulatory clearance or approval requirements, including receiving regulatory approval and clearance for the robotic implantation functionality included in our ARTAS® iX System;
- difficulties in developing effective marketing campaigns in unfamiliar foreign countries;
- customs clearance and shipping delays;
- political, social, and economic instability abroad, terrorist attacks, and security concerns in general;
- preference for locally produced products;
- potentially adverse tax consequences, including the complexities of foreign value-added tax systems, tax inefficiencies related to our corporate structure, and restrictions on the repatriation of earnings;
- the burdens of complying with a wide variety of foreign laws and different legal standards; and
- increased financial accounting and reporting burdens and complexities.

If one or more of these risks were realized, our results of operations and financial condition could be adversely affected.

We expect that our revenue from international markets may decrease in the near term as we have received regulatory approval or clearance for the implantation function outside of the U.S., which may result in purchasing delays in international markets as customers await the availability of that function. In addition, the number of ARTAS® Systems previously sold to distributors that have not yet been placed with an end user has increased in recent periods, which, in combination with the launch of ARTAS® iX, System may further exaggerate delays in international system sales.

***While traditional hair transplantation surgery has been available for many years, the ARTAS® System has only been commercially available since 2011. As a result, we have a limited track record compared to traditional hair transplantation surgery and the safety and efficacy of the ARTAS® System is not yet supported by long-term clinical data, which could limit sales, and the ARTAS® System could prove to be less safe or effective than initially thought.***

The ARTAS® System that we market in the U.S. is regulated as a medical device by the U.S. Food and Drug Administration, or the FDA, and has received premarket clearance under Section 510(k) of the U.S. Federal Food, Drug and Cosmetic Act, or FDCA. In the 510(k) clearance process, before a device may be marketed, the FDA must determine that a proposed device is “substantially equivalent” to a legally-marketed “predicate” device, which includes a device that has been previously cleared through the 510(k) process, a device that was legally marketed prior to May 28, 1976 (pre-amendments device), a device that was originally on the U.S. market pursuant to an approved premarket approval, or PMA, application and later down-classified, or a 510(k)-exempt device. This process is typically shorter and generally requires the submission of less supporting documentation than the FDA’s PMA process and does not always require long-term clinical studies.

Hair transplantation surgery has been a treatment option for hair restoration for many years, while we only began commercializing the ARTAS® System in 2011. Consequently, we lack the breadth of published long-term clinical data supporting the safety and efficacy of the ARTAS® System and the benefits it offers that might have been generated in connection with other hair restoration techniques. As a result, physicians may be slow to adopt the ARTAS® System, we may not have comparative data that our competitors have or are generating, and we may be subject to greater regulatory and product liability risks. Furthermore, future patient studies or clinical experience may indicate that treatment with the ARTAS® System does not improve patient outcomes compared to other hair restoration techniques. Such results would slow the adoption of the ARTAS® System by physicians, would significantly reduce our ability to achieve expected sales and could prevent us from achieving and maintaining profitability.

We have limited complication or patient success rate data with respect to treatment using the ARTAS® System. If future patient studies or clinical testing do not support our belief that our system offers a more advantageous treatment for hair restoration, market acceptance of the ARTAS® System could fail to increase or could decrease and our business could be harmed. Moreover, if future results and experience indicate that our implant products cause unexpected or serious complications or other unforeseen negative effects, we could be subject to mandatory product recalls, suspension or withdrawal of FDA or other governmental clearance or approval or, CE Certificates of Conformity, significant legal liability or harm to our business reputation. Furthermore, if patients that receive traditional hair transplantation surgery, such as strip surgery, were to experience unexpected or serious complications or other unforeseen effects, the market for the ARTAS® System may be adversely affected, even if such effects are not applicable to the ARTAS® System.

If we choose to, or are required to, conduct additional studies, such studies or experience could, slow the market adoption of the ARTAS® System by physicians, significantly reduce our ability to achieve expected revenue and prevent us from becoming profitable.

***We were the subject of purported class action lawsuits, and additional litigation may be brought against us in the future.***

In May and June 2018, a number of purported stockholder class action complaints were filed against us, the members of our board of directors (and affiliated venture funds), as well as certain of our current and former officers and the underwriters in our IPO. The complaints all allege, among other things, that our Registration Statement filed with the SEC on September 1, 2017 and the Prospectus filed with the SEC on October 13, 2017 in connection with our IPO were inaccurate and misleading, contained untrue statements of material facts, omitted to state other facts necessary to make the statements made not misleading and omitted to state material facts required to be stated therein. The complaints seek unspecified money damages, other equitable relief and attorneys' fees and costs. While we believe these claims to be without merit, we cannot assure you that additional claims alleging the same or similar facts will not be filed. Any litigation could result in substantial costs and a diversion of management's attention and resources.

***We rely on a single third-party manufacturer for the manufacturing of the reusable procedure kits, disposable procedure kits and spare procedures kits used with the ARTAS® System and the ARTAS® iX System.***

NPI Solutions, Inc., or NPI, produces reusable procedure kits, disposable procedure kits and spare kits used with the ARTAS® System and ARTAS® iX System. If the operations of NPI are interrupted or if it is unable or unwilling to meet our delivery requirements due to capacity limitations or other constraints, we may be limited in our ability to fulfill new customer kit orders required for use with existing ARTAS® System and ARTAS® iX System. Any change to another contract manufacturer would likely entail significant delay, require us to devote substantial time and resources, and could involve a period in which our products could not be produced in a timely or consistently high-quality manner, any of which could harm our reputation and results of operations.

We have a manufacturing agreement for consumables with NPI for the supply of consumable products, including reusable procedure kits, disposable procedure kits and spare procedure kits used with the ARTAS® System and ARTAS® iX System, pursuant to both of which we make purchases on a purchase order basis. The agreement is effective for an initial term of two years and will continue to automatically renew for additional twelve-month periods, subject to either party's right to terminate the agreement upon 180 days advance notice during the initial term if our quarterly forecasted demand falls below 75% of our historical forecasted demand for the same period in the previous year or upon 120 days' advance notice after the initial term.

In addition, our reliance on NPI involves a number of other risks, including, among other things, that:

- our various procedure kits may not be manufactured in accordance with agreed upon specifications or in compliance with regulatory requirements, or its manufacturing facilities may not be able to maintain compliance with regulatory requirements, which could negatively affect the safety or efficacy of our procedure kits, cause delays in shipments of our procedure kits, or require us to recall procedure kits previously delivered to customers;
- we may not be able to timely respond to unanticipated changes in customer orders, and if orders do not match forecasts, we may have excess or inadequate inventory of materials and components;

- we may be subject to price fluctuations when a supply contract is renegotiated or if our existing contract is not renewed;
- NPI may wish to discontinue manufacturing and supplying products to us for risk management reasons; and
- NPI may encounter financial or other hardships unrelated to our demand for products, which could inhibit its ability to fulfill our orders and meet our requirements.

If any of these risks materialize, it could significantly increase our costs, our ability to generate net sales would be impaired, market acceptance of our products could be adversely affected, and customers may instead purchase or use our competitors' products, which could have a materially adverse effect on our business, financial condition and results of operations.

Furthermore, if we are required to change the manufacturing of our various procedure kits, we will be required to verify that the new manufacturer maintains facilities, procedures and operations that comply with our quality and applicable regulatory requirements, which could further impede our ability to manufacture the procedure kits in a timely manner. Transitioning to a new supplier could be time-consuming and expensive, may result in interruptions in our operations and product delivery. The occurrence of these events could harm our ability to meet the demand for our products in a timely or cost-effective manner.

We cannot assure you that we will be able to secure alternative equipment and materials and utilize such equipment and materials without experiencing interruptions in our workflow. If we should encounter delays or difficulties in securing, reconfiguring or revalidating the equipment and components we require for the ARTAS® System and ARTAS® iX System, including the related consumables, our reputation, business, financial condition and results of operations could be negatively impacted.

***If NPI is unable to manufacture the reusable procedure kits, disposable procedure kits and spare procedures kits used with the ARTAS® System and the ARTAS® iX System in high-quality commercial quantities successfully and consistently to meet demand, our growth will be limited.***

To manufacture our reusable procedure kits, disposable procedure kits and spare procedure kits in the quantities that we believe will be required to meet anticipated market demand, NPI will need to increase manufacturing capacity, which will involve significant challenges. In addition, the development of commercial-scale manufacturing capabilities will require us and NPI to invest substantial additional funds and hire and retain the technical personnel who have the necessary manufacturing experience. Neither we nor NPI may successfully complete any required increase to existing manufacturing processes in a timely manner, or at all.

If NPI is unable to produce the reusable procedure kits, disposable procedure kits and spare kits in sufficient quantities to meet anticipated customer demand, our revenue, business, and financial prospects would be harmed. The limited experience NPI has in producing larger quantities of the procedure kits may also result in quality issues, and possibly result in product recalls. Manufacturing delays related to quality control could harm our reputation and decrease our revenue. Any recall could be expensive and generate negative publicity, which could impair our ability to market the ARTAS® System and the ARTAS® iX System and procedures and further affect our results of operations.

***If we are unable to manufacture our next generation ARTAS® System, called the ARTAS® iX System in high-quality commercial quantities successfully and consistently to meet demand, our growth will be limited, and our reputation could be harmed.***

To manufacture our ARTAS® iX System in the quantities that we believe will be required to meet anticipated market demand, we will need to develop and maintain sufficient manufacturing capacity, which will involve significant challenges. Historically, we have not manufactured any of our other products (e.g. ARTAS® System) in-house or without the contract manufacturer involvement. Over the next 12 months, we will manufacture the ARTAS® iX System without a third-party contract manufacturer's involvement. The development of commercial-scale manufacturing capabilities will require us (or our contract manufacturer for ARTAS® iX System, if we decide to utilize one on a long-term basis) to invest substantial additional funds and hire and retain the technical personnel who have the necessary manufacturing experience. Neither we nor a third-party manufacturer, if one is utilized, may successfully complete any required increase to existing manufacturing processes in a timely manner, or at all.

If we or a contract manufacturer, if one is utilized, are unable to produce the ARTAS® iX System in sufficient quantities to meet anticipated customer demand, our revenue, business, financial prospects, and reputation would be harmed. The limited experience we or a third-party manufacturer, if one is utilized, in producing the ARTAS® iX System may also result in quality issues, and possibly result in product recalls. Manufacturing delays related to quality control could harm our reputation and decrease our revenue. Any recall could be expensive and generate negative publicity, which could impair our ability to market the ARTAS® iX System and procedures and further affect our results of operations.

***Both our manufacturing of the ARTAX ® iX System and NPI's manufacturing of the procedure kits are dependent upon third-party suppliers and, in some cases, sole suppliers, for the majority of our components, subassemblies and materials, making us vulnerable to supply shortages and price fluctuations, which could harm our business.***

We and NPI, as the case may be, rely on several sole source suppliers, including Kuka Robotics, Inc., FLIR Integrated Imaging Solutions Inc. and 3D-CAM International Corporation, for certain components of the ARTAS® iX System, reusable procedure kits, disposable procedure kits and spare procedure kits. These sole suppliers, and any of our other suppliers, may be unwilling or unable to supply components of these systems to us or NPI reliably and at the levels we anticipate or are required by the market. For us to be successful, our suppliers must be able to provide products and components in substantial quantities, in compliance with regulatory requirements, in accordance with agreed upon specifications, at acceptable costs and on a timely basis. An interruption in our commercial operations could occur if we encounter delays or difficulties in securing these components, and if we cannot then obtain an acceptable substitute. If we are required to transition to new third-party suppliers for certain components of the ARTAS® iX System or our procedure kits, we believe that there are only a few such suppliers that can supply the necessary components. A supply interruption, price fluctuation or an increase in demand beyond our current suppliers' capabilities could harm our ability to manufacture the ARTAS® iX System and NPI's ability to manufacture our procedure kits until new sources of supply are identified and qualified. In addition, the use of components or materials furnished by these alternative suppliers could require us to alter our operations.

Our reliance on these suppliers subjects us to a number of risks that could harm our reputation, business, and financial condition, including, among other things:

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

Where practicable, we are seeking, or intending to seek, second-source manufacturers for certain of our components. However, we cannot provide assurance that we will be successful in establishing second-source manufacturers or that the second-source manufacturers will be able to satisfy commercial demand for the ARTAS® System and ARTAS® iX System.

If any of these risks materialize, costs could significantly increase and our ability to meet demand for our products could be impacted. If we are unable to satisfy commercial demand for the ARTAS® System and ARTAS® iX System in a timely manner, our ability to generate revenue would be impaired and market acceptance of our products could be adversely affected.

***We forecast sales to determine requirements for components and materials used in the ARTAS® System and ARTAS® iX System, reusable procedure kits, disposable procedure kits, upgrade kits and spare kits and if our forecasts are incorrect, we may experience delays in shipments or increased inventory costs.***

We keep limited finished products on hand. To manage our operations, we forecast anticipated product orders and material requirements to predict our inventory needs and enter into purchase orders on the basis of these requirements. Several components of the ARTAS® and ARTAS® iX Systems require significant order lead time. Our limited historical commercial experience and anticipated growth may not provide us with enough data to consistently and accurately predict future demand. If our business expands and our demand for components and materials increases beyond our estimates, our manufacturers and suppliers may be unable to meet our demand. In addition, if we underestimate our component and material requirements, we may have inadequate inventory, which could interrupt, delay, or prevent delivery of the ARTAS® System or the ARTAS® iX System and related products to our customers. In contrast, if we overestimate our requirements, we may have excess inventory, which would increase use of our working capital. Any of these occurrences would negatively affect our financial condition and the level of satisfaction our physician customers have with our business.

***Even though the ARTAS® System and ARTAS® iX System are marketed to physicians, there exists a potential for misuse by the operator of the systems by physicians, non-physicians or individuals who are not sufficiently trained, which could harm our reputation and our business.***

We and our independent distributors market and sell the ARTAS® System and ARTAS® iX System to physicians. Under state law in the U.S., our physician customers can generally allow nurse practitioners, technicians, and other non-physicians to perform the ARTAS procedures under their direct supervision. Similarly, in markets outside of the U.S., physicians can allow non-physicians to perform the ARTAS procedures under their supervision. Although we and our distributors provide training on the use of the ARTAS® System and ARTAS® iX System, we do not supervise the procedures performed with the ARTAS® System and ARTAS® iX System, nor can we be assured that direct physician supervision of procedures occurs according to our recommendations. The potential misuse of the ARTAS® System or ARTAS® iX System by physicians and non-physicians may result in adverse treatment outcomes, which could harm our reputation and expose us to costly product liability litigation.

We and our distributors offer product training sessions, but neither we nor our distributors require purchasers or operators of our products to attend training sessions. The lack of required training for operators of our product and the use of our products by non-physicians may result in product misuse and adverse treatment outcomes, which could harm our reputation and expose us to costly product liability litigation.

***Product liability suits could be brought against us for defective design, labeling, material, or workmanship, or misuse of the ARTAS® System or ARTAS® iX System, and could result in expensive and time-consuming litigation, payment of substantial damages, an increase in our insurance rates and substantial harm to our reputation.***

If the ARTAS® System or ARTAS® iX System are defectively designed, manufactured, or labeled, contains defective components, or is misused, we may become subject to substantial and costly litigation by our physician customers or their patients. Misuse of the ARTAS® System or ARTAS® iX System or failure to adhere to operating guidelines can cause skin damage and underlying tissue damage and, if our operating guidelines are found to be inadequate, we may be subject to liability. Furthermore, if a patient is injured in an unexpected manner or suffers unanticipated adverse events after undergoing the ARTAS procedure, even if the procedure was performed in accordance with our operating guidelines, we may be subject to product liability claims. Claims could also be asserted under state consumer protection acts. If we cannot successfully defend ourselves against product liability claims, we may incur substantial liabilities. Even successful defense would require significant financial and management resources. Regardless of the merits or eventual outcome, liability claims may result in:

- decreased demand for the ARTAS® System and ARTAS® iX System, or any future products;
- damage to our reputation;
- withdrawal of clinical trial participants;
- costs to defend the related litigation;
- a diversion of management’s time and our resources;
- substantial monetary awards to physician customers, patients or clinical trial participants;
- regulatory investigations, product recalls, withdrawals or labeling, marketing or promotional restrictions;
- loss of revenue; and
- the inability to commercialize any future products.

Our inability to obtain and maintain sufficient product liability insurance at an acceptable cost and scope of coverage to protect against potential product liability claims could inhibit commercialization of the ARTAS® and ARTAS® iX Systems. As of March 31, 2019, we carry product liability insurance in the amount of $4.0 million in the aggregate. Although we maintain such insurance, any claim that may be brought against us could result in a court judgment or settlement in an amount that is not covered, in whole or in part, by our insurance or that is in excess of the limits of our insurance coverage. Our insurance policies also have various exclusions and deductibles, and we may be subject to a product liability claim for which we have no coverage. We will have to pay any amounts awarded by a court or negotiated in a settlement that exceed our coverage limitations or that are not covered by our insurance, and we may not have, or be able to obtain, sufficient funds to pay such amounts. Moreover, in the future, we may not be able to maintain insurance coverage at a reasonable cost or in sufficient amounts to protect us against losses.

***The clinical trial process required to obtain regulatory clearances or approvals is lengthy and expensive with uncertain outcomes and could result in delays in new product introductions.***

In order to obtain 510(k) clearance for the ARTAS® System, we were required to conduct a clinical trial, and we expect to conduct clinical trials in support of marketing authorization for future products and product enhancements. Conducting clinical trials is a complex and expensive process, can take many years, and outcomes are inherently uncertain. We may suffer significant setbacks in clinical trials, even after earlier clinical trials showed promising results, and failure can occur at any time during the clinical trial process. Any of our products may malfunction or may produce undesirable adverse effects that could cause us or regulatory authorities to interrupt, delay or halt clinical trials. We, the FDA, or another regulatory authority may suspend or terminate clinical trials at any time to avoid exposing trial participants to unacceptable health risks.

Successful results of pre-clinical studies are not necessarily indicative of future clinical trial results, and predecessor clinical trial results may not be replicated in subsequent clinical trials. Additionally, the FDA may disagree with our interpretation of the data from our pre-clinical studies and clinical trials, or may find the clinical trial design, conduct or results inadequate to prove safety or efficacy, and may require us to pursue additional pre-clinical studies or clinical trials, which could further delay the clearance or approval of our products. The data we collect from our pre-clinical studies and clinical trials may not be sufficient to support FDA clearance or approval, and if we are unable to demonstrate the safety and efficacy of our future products in our clinical trials, we will be unable to obtain regulatory clearance or approval to market our products.

In addition, we may estimate and publicly announce the anticipated timing of the accomplishment of various clinical, regulatory and other product development goals, which are often referred to as milestones. These milestones could include the obtainment of the right to affix the CE Mark in the European Union; the submission to the FDA of an investigational device exemption, or IDE, application to commence a pivotal clinical trial for a new product; the enrollment of patients in clinical trials; the release of data from clinical trials; and other clinical and regulatory events. The actual timing of these milestones could vary dramatically compared to our estimates, in some cases for reasons beyond our control. We cannot assure you that we will meet our projected milestones and if we do not meet these milestones as publicly announced, the commercialization of our products may be delayed and, as a result, our stock price may decline.

Delays in the commencement or completion of clinical testing could significantly affect our product development costs. We do not know whether planned clinical trials will begin on time, need to be redesigned, enroll an adequate number of patients in a timely manner or be completed on schedule, if at all. The commencement and completion of clinical trials can be delayed or terminated for a number of reasons, including delays or failures related to:

- the FDA or comparable foreign regulatory authorities disagreeing as to the design or implementation of our clinical studies;
- obtaining regulatory approval to commence a clinical trial;
- reaching agreement on acceptable terms with prospective clinical research organizations, or CROs, and trial sites, the terms of which can be subject to extensive negotiation and may vary significantly among different CROs and trial sites;
- manufacturing sufficient quantities of a product for use in clinical trials;
- obtaining institutional review board, or IRB, or ethics committees' approval to conduct a clinical trial at each prospective site;
- recruiting and enrolling patients and maintaining their participation in clinical trials;
- having clinical sites observe trial protocol or continue to participate in a trial;
- addressing any patient safety concerns that arise during the course of a clinical trial;
- addressing any conflicts with new or existing laws or regulations; and
- adding a sufficient number of clinical trial sites.

Patient enrollment in clinical trials and completion of patient follow-up depend on many factors, including the size of the patient population, the nature of the trial protocol, the proximity of patients to clinical sites, the eligibility criteria for the clinical trial, patient compliance, competing clinical trials and clinicians' and patients' perceptions as to the potential advantages of the product being studied in relation to other available therapies, including any new treatments that may be cleared or approved for the indications we are investigating. For example, patients may be discouraged from enrolling in our clinical trials if the trial protocol requires them to undergo extensive post-treatment procedures or follow-up to assess the safety and efficacy of a product, or they may be persuaded to participate in contemporaneous clinical trials of a competitor's product. In addition, patients participating in our clinical trials may drop out before completion of the trial or suffer adverse medical events unrelated to our products. Delays in patient enrollment or failure of patients to continue to participate in a clinical trial may delay commencement or completion of the clinical trial, cause an increase in the costs of the clinical trial and delays, or result in the failure of the clinical trial.

We could also encounter delays if the FDA concluded that our financial relationships with our principal investigators resulted in a perceived or actual conflict of interest that may have affected the interpretation of a study, the integrity of the data generated at the applicable clinical trial site or the utility of the clinical trial itself. Principal investigators for our clinical trials may serve as scientific advisors or consultants to us from time to time and receive cash compensation and/or stock options in connection with such services. If these relationships and any related compensation to or ownership interest by the clinical investigator carrying out the study result in perceived or actual conflicts of interest, or the FDA concludes that the financial relationship may have affected interpretation of the study, the integrity of the data generated at the applicable clinical trial site may be questioned and the utility of the clinical trial itself may be jeopardized, which could result in the delay or rejection of our marketing application by the FDA. Any such delay or rejection could prevent us from commercializing any of our products in development.

Furthermore, clinical trials may also be delayed because of ambiguous or negative interim results. In addition, a clinical trial may be suspended or terminated by us, the FDA, the IRB overseeing the clinical trial at issue, the Data Safety Monitoring Board for such trial, any of our clinical trial sites with respect to that site, or other regulatory authorities due to several factors, including:

- failure to conduct the clinical trial in accordance with applicable regulatory requirements or our clinical protocols;
- inspection of the clinical trial operations or trial sites by the FDA or other regulatory authorities resulting in the imposition of a clinical hold;
- inability of a clinical investigator or clinical trial site to continue to participate in the clinical trial;
- unforeseen safety issues or adverse side effects;
- failure to demonstrate a benefit from using the product; and
- lack of adequate funding to continue the clinical trial.

Additionally, changes in regulatory requirements and guidance may occur and we may need to amend clinical trial protocols to reflect these changes. Amendments may require us to resubmit our clinical trial protocols to IRBs for reexamination, which may impact the costs, timing or successful completion of a clinical trial. If we experience delays in completion of, or if we terminate, any of our clinical trials, the commercial prospects for our products may be harmed and our ability to generate product revenue from these products will be delayed or not realized at all. In addition, any delays in completing our clinical trials will increase our costs, slow down our product development and approval process and jeopardize our ability to commence product sales and generate revenue. Any of these occurrences may significantly harm our business, financial condition and prospects significantly. In addition, many of the factors that cause, or lead to, a delay in the commencement or completion of a clinical trial may also ultimately lead to the denial of regulatory approval of the subject product.

***Our business could be adversely affected if we are unable to extend the cleared uses of the ARTAS® System and ARTAS® iX System or successfully pursue the development, regulatory clearance or approval and commercialization of future products.***

The ARTAS® System and ARTAS® iX System for hair follicle dissection, which has been cleared for use in the U.S. only for dissecting hair follicles from the scalp in men diagnosed with AGA who have black or brown straight hair, recipient site making for the follicle transplantation sites and, in our ARTAS® iX System, robotic implantation in which hair follicles are robotically transplanted, which recently has been approved for commercial marketing in the U.S., are our only products. Our business could be adversely affected if we are unable to extend the cleared uses of the ARTAS® System and ARTAS® iX System or successfully pursue the development, regulatory clearance or approval and commercialization of future products. In the future, we may also become dependent on other products that we may develop or acquire. The clinical and commercial success of our products will depend on several factors, including the following:

- the ability to raise any additional required capital on acceptable terms, or at all;
- timely completion of our nonclinical studies and clinical trials, which may be significantly slower, or cost more than we anticipate and will depend substantially upon the performance of third-party contractors;
- whether we are required by the FDA or similar foreign regulatory agencies to conduct additional clinical trials or other studies beyond those planned to support the clearance or approval and commercialization of any future indications or products;
- our ability to demonstrate to the satisfaction of the FDA and similar foreign regulatory authorities the safety, efficacy and acceptable risk to benefit profile of any future indications or products;
- the prevalence, duration and severity of potential side effects or other safety issues experienced with our future approved products, if any;
- the timely receipt of necessary marketing approvals or clearances from the FDA and foreign regulatory authorities;

- achieving and maintaining, and, where applicable, ensuring that our third-party contractors achieve and maintain, compliance with our contractual obligations and with all regulatory requirements applicable to any future products or additional approved indications, if any;
- acceptance by physicians and patients of the benefits, safety and efficacy of any future products, if approved or cleared, including relative to alternative and competing treatments;
- our ability to establish and enforce intellectual property rights in and to our products or any future indications or products; and
- our ability to avoid third-party patent interference, intellectual property challenges or intellectual property infringement claims.

Even if regulatory approvals or clearances are obtained, we may never be able to successfully commercialize any future indications or products. Accordingly, we cannot provide assurances that we will be able to generate sufficient revenue through the sale of any future products to continue our business.

***The Solar Agreement contains restrictions that limit our flexibility in operating our business.***

In May 2018, we entered into the Solar Agreement with Solar and other lenders, which was subsequently amended in June 2018, November 2018, January 2019 and in February 2019. We borrowed $20.0 million under the Solar Agreement. The Solar Agreement also contains various covenants that limit our ability to engage in specified types of transactions. Subject to limited exceptions, these covenants limit our ability, without Solar's consent, to, among other things:

- sell, lease, transfer, exclusively license or dispose of our assets;
- create, incur, assume or permit to exist additional indebtedness or liens, which may limit our ability to raise additional capital;
- make restricted payments, including paying dividends on, repurchasing or making distributions with respect to our capital stock;
- pay any cash dividend or make any other cash distribution or payment in respect of our capital stock more than $150,000 in aggregate per calendar year;
- make specified investments (including loans and advances);
- make changes to certain key personnel including our President and Chief Executive Officer;
- merge, consolidate or liquidate; and
- enter into certain transactions with our affiliates.

In addition, the Solar Agreement contains certain covenants that require us to achieve certain revenue and liquidity thresholds. These covenants under the agreement require us to meet certain minimum liquidity and minimum revenue covenants, which, if we fail to maintain or achieve, will result in a default and require us to repay all outstanding principal amounts and accrued interest repay all amounts outstanding. In the event of a default, if we are unable to repay all outstanding amounts Solar may foreclose on the collateral granted to it to collateralize such indebtedness and will significantly affect our ability to operate our business.

***We will need to increase the size of our organization, and we may experience difficulties in managing growth.***

As of March 31, 2019, we had 99 employees, with 37 employees in sales and marketing, 26 employees in customer support, 19 employees in research and development, including clinical, regulatory and certain quality control functions, five employees in manufacturing operations and 12 employees in general management and administration. We will need to continue to expand our sales, marketing, managerial, operational, finance and administrative resources for the ongoing commercialization of the ARTAS® System and ARTAS® iX System and continue our development activities of any future products.

Our existing management, personnel, systems and facilities may not be adequate to support our future growth. Our need to effectively execute our growth strategy requires that we:

- identify, recruit, retain, incentivize and integrate additional employees, including sales personnel;
- manage our internal development and operational efforts effectively while carrying out our contractual obligations to third parties; and
- continue to improve our operational, financial and management controls, reports systems and procedures.

***If we fail to attract and retain senior management and key personnel, we may be unable to successfully grow our business.***

Our success depends in part on our continued ability to attract, retain and motivate highly qualified management, clinical and other personnel. We are highly dependent upon our senior management, particularly our President and Chief Executive Officer, our management team and other key personnel. The loss of services of any of these individuals could delay or prevent enhancement of the ARTAS® System and ARTAS® iX System, the expansion of the ARTAS® System and ARTAS® iX System to new indications, or the development of any future products. Although we have entered into employment agreements with our senior management team, these agreements do not provide for a fixed term of service.

Competition for qualified personnel in the medical device field is intense due to the limited number of individuals who possess the skills and experience required by our industry. We will need to hire additional personnel and we may not be able to attract and retain quality personnel on acceptable terms, or at all. In addition, to the extent we hire personnel from competitors, we may be subject to allegations that they have been improperly solicited or that they have divulged proprietary or other confidential information, or that their former employers own their research output.

***Because we have opted to take advantage of the JOBS Act provision which allows us to delay implementing new accounting standards, our consolidated financial statements may not be directly comparable to other public companies.***

Pursuant to the Jumpstart Our Business Startups Act of 2012, or the JOBS Act, emerging growth companies can delay adopting new or revised accounting standards issued after the enactment of the JOBS Act until such time as those standards apply to private companies. We have elected to use this extended transition period for complying with new or revised accounting standards that have different effective dates for public and private companies until the earlier of the date we (i) are no longer an emerging growth company or (ii) affirmatively and irrevocably opt out of the extended transition period provided in the JOBS Act. Because we have elected to take advantage of this provision of the JOBS Act, our consolidated financial statements and the reported results of operations contained therein may not be directly comparable to other public companies.

***We incur significant costs because of operating as a public company, and our management devotes substantial time to new compliance initiatives. We may fail to comply with the rules that apply to public companies, including Section 404 of the Sarbanes-Oxley Act of 2002, which could result in sanctions or other penalties that would harm our business.***

We incur significant legal, accounting and other expenses as a public company, including costs resulting from public company reporting obligations under the Securities Exchange Act of 1934, as amended, and regulations regarding corporate governance practices. The listing requirements of The Nasdaq Global Market and the rules of the Securities and Exchange Commission, or SEC, require that we satisfy certain corporate governance requirements relating to director independence, filing annual and interim reports, stockholder meetings, approvals and voting, soliciting proxies, conflicts of interest and a code of conduct. Our management and other personnel devote a substantial amount of time to ensure that we comply with all of these requirements. Moreover, the reporting requirements, rules and regulations will continue to increase our legal and financial compliance costs and will make some activities more time-consuming and costlier. Any changes we make to comply with these obligations may not be sufficient to allow us to satisfy our obligations as a public company on a timely basis, or at all. These reporting requirements, rules and regulations, coupled with the increase in potential litigation exposure associated with being a public company, could also make it more difficult for us to attract and retain qualified persons to serve on our board of directors or board committees or to serve as executive officers, or to obtain certain types of insurance, including directors' and officers' insurance, on acceptable terms.

We are subject to Section 404 of The Sarbanes-Oxley Act of 2002, or Section 404, and the related rules of the SEC, which generally require our management and independent registered public accounting firm to report on the effectiveness of our internal control over financial reporting. During the course of our review and testing, we may identify deficiencies and be unable to remediate them before we must provide the required reports.

If we have a material weakness in our internal controls over financial reporting, we may not detect errors on a timely basis and our consolidated financial statements may be materially misstated. We or our independent registered public accounting firm may not be able to conclude on an ongoing basis that we have effective internal control over financial reporting, which could harm our operating results, cause investors to lose confidence in our reported financial information and cause the market price of our stock to decline. In addition, as a public company we are required to file accurate and timely quarterly and annual reports with the SEC under the Securities Exchange Act of 1934, as amended. Any failure to report our financial results on an accurate and timely basis could result in sanctions, lawsuits, delisting of our shares from The Nasdaq Global Market or other adverse consequences that would materially harm to our business and cause the market price of our common stock to decline.

Further, for so long as we remain an emerging growth company as defined in the JOBS Act, we intend to take advantage of certain exemptions from various reporting requirements that are applicable to public companies that are not emerging growth companies, including, but not limited to, not being required to comply with the auditor attestation requirements of Section 404. Once we are no longer an emerging growth company or, if prior to such date, we opt to no longer take advantage of the applicable exemption, our independent registered public accounting firm will be engaged to provide an attestation report on the effectiveness of our internal control over financial reporting. We will remain an emerging growth company until the earlier of (1) the last day of the fiscal year (a)following the fifth anniversary of our IPO, (b) in which we have total annual gross revenue of at least $1.07 billion, or (c) in which we are deemed to be a large accelerated filer, which means the market value of our common stock that is held by non-affiliates exceeds $700.0 million as of the prior June 30th, and (2) the date on which we have issued more than $1.0 billion in non-convertible debt during the prior three-year period.

***Unfavorable global economic conditions could adversely affect our business, financial condition or results of operations.***

Our results of operations could be adversely affected by general conditions in the global economy and in the global financial markets. Furthermore, the market for aesthetic medical procedures may be particularly vulnerable to unfavorable economic conditions. In particular, the ARTAS procedures will not receive coverage and reimbursement and, as a result, demand for this product will be tied to discretionary spending levels of our targeted patient population. The recent global financial crisis caused extreme volatility and disruptions in the capital and credit markets. A severe or prolonged economic downturn, such as the recent global financial crisis, could result in a variety of risks to our business, including weakened demand for the ARTAS® and ARTAS® iX Systems, ARTAS procedures or any future products, if approved, and our ability to raise additional capital when needed on acceptable terms, if at all. A weak or declining economy could also strain our manufacturers or suppliers, possibly resulting in supply disruption, or cause our customers to delay making payments for our services. Any of the foregoing could harm our business and we cannot anticipate all of the ways in which the economic climate and financial market conditions could adversely impact our business.

***We or the third parties upon whom we depend may be adversely affected by earthquakes or other natural disasters and our business continuity and disaster recovery plans may not adequately protect us from a serious disaster.***

Our corporate headquarters and other facilities are located in San Jose, California, which in the past has experienced both severe earthquakes and floods. We do not carry earthquake or flood insurance. Earthquakes or other natural disasters could severely disrupt our operations, and have a material adverse effect on our business, results of operations, financial condition and prospects.

If a natural disaster, power outage or other event occurred that prevented us from using all or a significant portion of our headquarters, that damaged critical infrastructure, such as our ARTAS enterprise system, enterprise financial systems and records, manufacturing resource planning and enterprise quality systems, or that otherwise disrupted operations, it may be difficult or, in certain cases, impossible, for us to continue our business for a substantial period of time. The disaster recovery and business continuity plan we have in place are limited and are unlikely to prove adequate in the event of a serious disaster or similar event. We may incur substantial expenses because of the limited nature of our disaster recovery and business continuity plans, which, particularly when taken together with our lack of earthquake or flood insurance, could have a material adverse effect on our business.

Furthermore, integral parties in our supply chain are similarly vulnerable to natural disasters or other sudden, unforeseen and severe adverse events. If such an event were to affect our supply chain, it could have a material adverse effect on our business.

***Significant disruptions of information technology systems or breaches of data security could materially adversely affect our business, results of operations and financial condition.***

We collect and maintain information in digital form that is necessary to conduct our business, and we are increasingly dependent on information technology systems and infrastructure to operate our business. In the ordinary course of our business, we collect, store and transmit large amounts of confidential information, including intellectual property, proprietary business information and personal information. It is critical that we do so in a secure manner to maintain the confidentiality and integrity of such confidential information. We have established physical, electronic, and organizational measures to safeguard and secure our systems to prevent a data compromise, and rely on commercially available systems, software, tools, and monitoring to provide security for our information technology systems and the processing, transmission and storage of digital information. We have also outsourced elements of our information technology infrastructure, and as a result a few third-party vendors may or could have access to our confidential information. Our internal information technology systems and infrastructure, and those of our current and any future collaborators, contractors and consultants and other third parties on which we rely, are vulnerable to damage from computer viruses, malware, natural disasters, terrorism, war, telecommunication and electrical failures, cyber-attacks or cyber-intrusions over the Internet, attachments to emails, persons inside our organization, or persons with access to systems inside our organization. The risk of a security breach or disruption, particularly through cyber-attacks or cyber intrusion, including by computer hackers, foreign governments, and cyber terrorists, has generally increased as the number, intensity and sophistication of attempted attacks and

intrusions from around the world have increased. In addition, the prevalent use of mobile devices that access confidential information increases the risk of data security breaches, which could lead to the loss of confidential information or other intellectual property. The costs to us to mitigate network security problems, bugs, viruses, worms, malicious software programs and security vulnerabilities could be significant, and while we have implemented security measures to protect our data security and information technology systems, our efforts to address these problems may not be successful, and these problems could result in unexpected interruptions, delays, cessation of service and other harm to our business and our competitive position. If such an event were to occur and cause interruptions in our operations, it could result in a material disruption of our product development programs. Moreover, if a computer security breach affects our systems or results in the unauthorized release of personally identifiable information, our reputation could be materially damaged. In addition, such a breach may require notification to governmental agencies, the media or individuals pursuant to various federal and state privacy and security laws, if applicable, including the Health Insurance Portability and Accountability Act of 1996, or HIPAA, as amended by the Health Information Technology for Clinical Health Act of 2009, or HITECH, and its implementing rules and regulations, as well as regulations promulgated by the Federal Trade Commission and state breach notification laws. We would also be exposed to a risk of loss or litigation and potential liability, which could materially adversely affect our business, results of operations and financial condition.

***Our employees and independent contractors, including consultants, manufacturers, distributors, commercial collaborators, service providers and other vendors may engage in misconduct or other improper activities, including noncompliance with regulatory standards and requirements, which could have an adverse effect on our results of operations.***

We are exposed to the risk that our employees and independent contractors, including consultants, manufacturers, distributors, commercial collaborators, service providers and other vendors may engage in misconduct or other illegal activity. Misconduct by these parties could include intentional, reckless and/or negligent conduct or other unauthorized activities that violate the laws and regulations of the FDA and other similar regulatory bodies, including those laws that require the reporting of true, complete and accurate information to such regulatory bodies; manufacturing standards; U.S. federal and state healthcare fraud and abuse, data privacy laws and other similar non-U.S. laws; or laws that require the true, complete and accurate reporting of financial information or data. Activities subject to these laws also involve the improper use or misrepresentation of information obtained in the course of clinical trials, the creation of fraudulent data in our nonclinical studies or clinical trials, or illegal misappropriation of product, which could result in regulatory sanctions and cause serious harm to our reputation. It is not always possible to identify and deter misconduct by employees and other third-parties, and the precautions we take to detect and prevent this activity may not be effective in controlling unknown or unmanaged risks or losses or in protecting us from governmental investigations or other actions or lawsuits stemming from a failure to be in compliance with such laws or regulations. In addition, we are subject to the risk that a person or government could allege such fraud or other misconduct, even if none occurred. If any such actions are instituted against us, and we are not successful in defending ourselves or asserting our rights, those actions could have a significant impact on our business and financial results, including, without limitation, the imposition of significant civil, criminal and administrative penalties, damages, monetary fines, disgorgements, individual imprisonment, other sanctions, contractual damages, reputational harm, diminished profits and future earnings and curtailment of our operations, any of which could adversely affect our ability to operate our business and our results of operations.

**Risks Related to Intellectual Property**

***We may in the future become involved in lawsuits to defend ourselves against intellectual property disputes, which could be expensive and time consuming, and ultimately unsuccessful, and could result in the diversion of significant resources, and hinder our ability to commercialize our existing or future products.***

Our success depends in part on not infringing the patents or violating the other proprietary rights of others. Intellectual property disputes can be costly to defend and may cause our business, operating results and financial condition to suffer. Significant litigation regarding patent rights occurs in the medical industry. Whether merited or not, it is possible that U.S. and foreign patents and pending patent applications controlled by third parties may be alleged to cover our products. We may also face allegations that our employees have misappropriated the intellectual property rights of their former employers or other third parties. Our competitors in both the U.S. and abroad, many of which have substantially greater resources and have made substantial investments in patent portfolios and competing technologies, may have applied for or obtained or may in the future apply for and obtain, patents that will prevent, limit, or otherwise interfere with our ability to make, use, sell, and/or export our products. Our competitors may have one or more patents for which they can threaten and/or initiate patent infringement actions against us and/or any of our third-party suppliers. Our ability to defend ourselves and/or our third-party suppliers may be limited by our financial and human resources, the availability of reasonable defenses, and the ultimate acceptance of our defenses by the courts or juries. Furthermore, if such patents are successfully asserted against us, this may result in an adverse impact on our business, including injunctions, damages, and/or attorneys' fees. From time to time and in the ordinary course of business, we may develop noninfringement and/or invalidity positions with respect to third-party patents, which may or not be ultimately adjudicated as successful by a judge or jury if such patents were asserted against us.

We may receive in the future, particularly as a public company, communications from patent holders, including non-practicing entities, alleging infringement of patents or other intellectual property rights or misappropriation of trade secrets, or offering licenses to such intellectual property. Any claims that we assert against perceived infringers could also provoke these parties to assert counterclaims against us alleging that we infringe their intellectual property rights. At any given time, we may be involved as either a plaintiff or a defendant in a number of patent infringement actions, the outcomes of which may not be known for prolonged periods of time.

The large number of patents, the rapid rate of new patent applications and issuances, the complexities of the technologies involved, and the uncertainty of litigation significantly increase the risks related to any patent litigation. Any potential intellectual property litigation also could force us to do one or more of the following:

- stop selling, making, using, or exporting products that use the disputed intellectual property;
- obtain a license from the intellectual property owner to continue selling, making, exporting, or using products, which license may require substantial royalty payments and may not be available on reasonable terms, or at all;
- incur significant legal expenses;
- pay substantial damages or royalties to the party whose intellectual property rights we may be found to be infringing, potentially including treble damages if the court finds that the infringement was willful;
- if a license is available from a third-party, we may have to pay substantial royalties, upfront fees or grant cross-licenses to intellectual property rights for our products and services;
- pay the attorney fees and costs of litigation to the party whose intellectual property rights we may be found to be infringing;
- find non-infringing substitute products, which could be costly and create significant delay due to the need for FDA regulatory clearance;
- find alternative supplies for infringing products or processes, which could be costly and create significant delay due to the need for FDA regulatory clearance; and/or
- redesign those products or processes that infringe any third-party intellectual property, which could be costly, disruptive, and/or infeasible.

From time to time, we may be subject to legal proceedings and claims in the ordinary course of business with respect to intellectual property. Even if resolved in our favor, litigation or other legal proceedings relating to intellectual property claims may cause us to incur significant expenses and could distract our technical and management personnel from their normal responsibilities. In addition, there could be public announcements of the results of hearings, motions or other interim proceedings or developments, and if securities analysts or investors perceive these results to be negative, it could have a material adverse effect on the price of our common stock. Finally, any uncertainties resulting from the initiation and continuation of any litigation could have a material adverse effect on our ability to raise the funds necessary to continue our operations.

If any of the foregoing occurs, we may have to withdraw existing products from the market or may be unable to commercialize one or more of our products, all of which could have a material adverse effect on our business, results of operations and financial condition. Any litigation or claim against us, even those without merit, may cause us to incur substantial costs, and could place a significant strain on our financial resources, divert the attention of management from our core business and harm our reputation. Furthermore, as the number of participants in the robotic hair restoration surgery market grows, the possibility of intellectual property infringement claims against us increases.

In addition, we may indemnify our customers, suppliers and international distributors against claims relating to the infringement of the intellectual property rights of third parties relating to our products, methods, and/or manufacturing processes. Third parties may assert infringement claims against our customers, suppliers, or distributors. These claims may require us to initiate or defend protracted and costly litigation on behalf of our customers, suppliers or distributors, regardless of the merits of these claims. If any of these claims succeed, we may be forced to pay damages on behalf of our customers, suppliers, or distributors or may be required to obtain licenses for the products they use. If we cannot obtain all necessary licenses on commercially reasonable terms, our customers may be forced to stop using our products, or our suppliers may be forced to stop providing us with products.

Similarly, interference or derivation proceedings provoked by third parties or brought by the United Stated Patent and Trademark Office, or USPTO, or any foreign patent authority may be necessary to determine the priority of inventions or other matters of inventorship with respect to our patents or patent applications. We may also become involved in other proceedings, such as re-examination or opposition proceedings, before the USPTO or its foreign counterparts relating to our intellectual property or the intellectual property rights of others. An unfavorable outcome in any such proceedings could require us to cease using the related

technology or to attempt to license rights to it from the prevailing party or could cause us to lose valuable intellectual property rights. Our business could be harmed if the prevailing party does not offer us a license on commercially reasonable terms, if any license is offered at all. Litigation or other proceedings may fail and, even if successful, may result in substantial costs and distract our management and other employees. We may also become involved in disputes with others regarding the ownership of intellectual property rights. For example, we jointly develop intellectual property with certain parties, and disagreements may therefore arise as to the ownership of the intellectual property developed pursuant to these relationships. If we are unable to resolve these disputes, we could lose valuable intellectual property rights.

***Changes in patent law could diminish the value of patents in general, thereby impairing our ability to protect our existing and future products.***

Recent patent reform legislation could increase the uncertainties and costs surrounding the prosecution of our patent applications and the enforcement or defense of our issued patents. On September 16, 2011, the Leahy- Smith America Invents Act, or the Leahy-Smith Act, was signed into law. The Leahy-Smith Act includes a number of significant changes to U.S. patent law. These include provisions that affect the way patent applications are prosecuted, redefine prior art, may affect patent litigation, and switched the U.S. patent system from a "first-to-invent" system to a "first-to-file" system. Under a "first-to-file" system, assuming the other requirements for patentability are met, the first inventor to file a patent application generally will be entitled to the patent on an invention regardless of whether another inventor had made the invention earlier. The USPTO recently developed new regulations and procedures to govern administration of the Leahy-Smith Act, and many of the substantive changes to patent law associated with the Leahy-Smith Act, in particular, the first-to-file provisions, only became effective on March 16, 2013. Accordingly, it is not clear what, if any, impact the Leahy-Smith Act will have on the operation of our business. The Leahy-Smith Act and its implementation could increase the uncertainties and costs surrounding the prosecution of our patent applications and the enforcement or defense of our issued patents, all of which could have a material adverse effect on our business and financial condition.

In addition, patent reform legislation may pass in the future that could lead to additional uncertainties and increased costs surrounding the prosecution, enforcement and defense of our patents and applications. Furthermore, the U.S. Supreme Court and the U.S. Court of Appeals for the Federal Circuit have made, and will likely continue to make, changes in how the patent laws of the U.S. are interpreted. For example, the U.S. Supreme Court has ruled on several patent cases in recent years, such as *Association for Molecular Pathology v. Myriad Genetics, Inc.* (Myriad I), *Mayo Collaborative Services v. Prometheus Laboratories, Inc.*, and *Alice Corporation Pty. Ltd. v. CLS Bank International*, either narrowing the scope of patent protection available in certain circumstances or weakening the rights of patent owners in certain situations. Similarly, foreign courts have made, and will likely continue to make, changes in how the patent laws in their respective jurisdictions are interpreted. We cannot predict future changes in the interpretation of patent laws or changes to patent laws that might be enacted into law by U.S. and foreign legislative bodies. Those changes may materially affect our patents or patent applications and our ability to obtain additional patent protection in the future.

***Obtaining and maintaining patent protection depends on compliance with various procedural, document submission, fee payment and other requirements imposed by governmental patent agencies, and our patent protection could be reduced or eliminated for non-compliance with these requirements.***

The USPTO and various foreign governmental patent agencies require compliance with a number of procedural, documentary, fee payment, and other similar provisions during the patent application process. In addition, periodic maintenance fees on issued patents often must be paid to the USPTO and foreign patent agencies over the lifetime of the patent. While an unintentional lapse can in many cases be cured by payment of a late fee or by other means in accordance with the applicable rules, there are situations in which noncompliance can result in abandonment or lapse of the patent or patent application, resulting in partial or complete loss of patent rights in the relevant jurisdiction. Non-compliance events that could result in abandonment or lapse of a patent or patent application include, but are not limited to, failure to respond to official actions within prescribed time limits, non-payment of fees and failure to properly legalize and submit formal documents. If we fail to maintain the patents and patent applications covering our products or procedures, we may not be able to stop a competitor from marketing products that are the same as or similar to our own, which would have a material adverse effect on our business.

***We may not be able to adequately protect our intellectual property rights throughout the world.***

Filing, prosecuting and defending patents on our products in all countries throughout the world would be prohibitively expensive. The requirements for patentability may differ in certain countries, particularly developing countries, and the breadth of patent claims allowed can be inconsistent. In addition, the laws of some foreign countries may not protect our intellectual property rights to the same extent as laws in the U.S. Consequently, we may not be able to prevent third parties from practicing our inventions in all countries outside the U.S. Competitors may use our technologies in jurisdictions where we have not obtained patent protection to develop their own products and, furthermore, may export otherwise infringing products to territories in which we have patent protection that may not be sufficient to terminate infringing activities.

We do not have patent rights in certain foreign countries in which a market may exist. Moreover, in foreign jurisdictions where we do have patent rights, proceedings to enforce such rights could result in substantial costs and divert our efforts and attention from other aspects of our business, could put our patents at risk of being invalidated or interpreted narrowly, and our patent applications at risk of not issuing. Additionally, such proceedings could provoke third parties to assert claims against us. We may not prevail in any lawsuits that we initiate, and the damages or other remedies awarded, if any, may not be commercially meaningful. Thus, we may not be able to stop a competitor from marketing and selling in foreign countries products that are the same as or similar to our products, and our competitive position in the international market would be harmed.

***We depend on certain technologies that are licensed to us. We do not control these technologies and any loss of our rights to them could prevent us from selling our products.***

We are dependent on licenses from HSC Development LLC and James A. Harris, M.D. for some of our key technologies. We do not own the patents that underlie these licenses. Our rights to use the technology we license are subject to the negotiation of, continuation of and compliance with the terms of those licenses. In some cases, we do not control the prosecution, maintenance, or filing of the patents to which we hold licenses, or the enforcement of these patents against third parties. These patents and patent applications are not written by us or our attorneys, and we did not have control over the drafting and prosecution. Our licensors might not have given the same attention to the drafting and prosecution of these patents and applications as we would have if we had been the owners of the patents and applications and had control over the drafting and prosecution. We cannot be certain that drafting and/or prosecution of the licensed patents and patent applications by the licensors have been or will be conducted in compliance with applicable laws and regulations or will result in valid and enforceable patents and other intellectual property rights.

***Our intellectual property agreements with third parties may be subject to disagreements over contract interpretation, which could narrow the scope of our rights to the relevant intellectual property or technology or increase our financial or other obligations to our licensors.***

Certain provisions in our intellectual property agreements may be susceptible to multiple interpretations. The resolution of any contract interpretation disagreement that may arise could affect the scope of our rights to the relevant intellectual property or technology or affect financial or other obligations under the relevant agreement, either of which could have a material adverse effect on our business, financial condition, results of operations and prospects.

In addition, while it is our policy to require our employees and contractors who may be involved in the conception or development of intellectual property to execute agreements assigning such intellectual property to us, we may be unsuccessful in executing such an agreement with each party who in fact conceives or develops intellectual property that we regard as our own. Our assignment agreements may not be self-executing or may be breached, and we may be forced to bring claims against third parties, or defend claims they may bring against us, to determine the ownership of what we regard as our intellectual property.

***We may be subject to damages resulting from claims that we or our employees have wrongfully used or disclosed alleged trade secrets of our competitors or are in breach of non-competition or non-solicitation agreements with our competitors.***

We could in the future be subject to claims that we or our employees have inadvertently or otherwise used or disclosed alleged trade secrets or other proprietary information of former employers or competitors. Although we have procedures in place that seek to prevent our employees and consultants from using the intellectual property, proprietary information, know-how or trade secrets of others in their work for us, we may in the future be subject to claims that we caused an employee to breach the terms of his or her non-competition or non-solicitation agreement, or that we or these individuals have, inadvertently or otherwise, used or disclosed the alleged trade secrets or other proprietary information of a former employer or competitor. Litigation may be necessary to defend against these claims. Even if we are successful in defending against these claims, litigation could result in substantial costs and could be a distraction to management. If our defense to those claims fails, in addition to paying monetary damages, a court could prohibit us from using technologies or functionalities that are essential to our products, if such technologies or functionalities are found to incorporate or be derived from the trade secrets or other proprietary information of the former employers. An inability to incorporate technologies or functionalities that are important or essential to our products would have a material adverse effect on our business and may prevent us from selling our products or from practicing our processes. In addition, we may lose valuable intellectual property rights or personnel. Moreover, any such litigation or the threat thereof may adversely affect our ability to hire employees or contract with independent sales representatives. A loss of key personnel or their work product could hamper or prevent our ability to commercialize our products, which could have an adverse effect on our business, results of operations and financial condition.

***If our trademarks and trade names are not adequately protected, then we may not be able to build name recognition in our markets of interest and our business may be adversely affected.***

We hold various trademarks for our products and services. Many of these trademarks are registered with the USPTO and corresponding government agencies in numerous other countries, and we hold trademark applications for these marks in a number of foreign countries, although the laws of many countries may not protect our trademark rights to the same extent as the laws of the U.S. Actions taken by us to establish and protect our trademarks might not prevent imitation of our products or services, infringement of our trademark rights by unauthorized parties or other challenges to our ownership or validity of our trademarks. If any of these events occur, we may not be able to protect and enforce our rights in these trademarks, which we need in order to build name recognition with potential partners or customers in our markets of interest. In addition, unauthorized third-parties may have registered trademarks similar and identical to our trademarks in foreign jurisdictions or may in the future file for registration of such trademarks. If they succeed in registering or developing common law rights in such trademarks, and if we were not successful in challenging such third-party rights, we may not be able to use such trademarks to market our products and services in those countries. If we are unable to register our trademarks, enforce our trademarks, or bar a third-party from registering or using a trademark, our ability to establish name recognition based on our trademarks and compete effectively in our markets of interest may be adversely affected.

***If we are unable to protect the confidentiality of our trade secrets, our business and competitive position may be harmed.***

In addition to patent and trademark protection, we also rely on trade secrets, including unpatented know-how, technology and other proprietary information, to maintain our competitive position. We seek to protect our trade secrets, in part, by entering into non-disclosure and confidentiality agreements with parties who have access to them, such as our consultants and vendors, or our former or current employees. We also enter into confidentiality and invention or patent assignment agreements with our employees and consultants. Despite these efforts, however, any of these parties may breach the agreements and disclose our trade secrets and other unpatented or unregistered proprietary information, and once disclosed, we are likely to lose trade secret protection. Monitoring unauthorized uses and disclosures of our intellectual property is difficult, and we do not know whether the steps we have taken to protect our intellectual property will be effective. In addition, we may not be able to obtain adequate remedies for any such breaches. Enforcing a claim that a party illegally disclosed or misappropriated a trade secret is difficult, expensive and time-consuming, and the outcome is unpredictable. In addition, some courts inside and outside the U.S. are less willing or unwilling to enforce trade secret protection.

Furthermore, our competitors may independently develop knowledge, methods and know-how similar, equivalent, or superior to our proprietary technology. Competitors could purchase our products and attempt to replicate some or all of the competitive advantages we derive from our development efforts, willfully infringe our intellectual property rights, design around our protected technology, or develop their own competitive technologies that fall outside of our intellectual property rights. In addition, our key employees, consultants, suppliers or other individuals with access to our proprietary technology and know-how may incorporate that technology and know-how into projects and inventions developed independently or with third parties. As a result, disputes may arise regarding the ownership of the proprietary rights to such technology or know-how, and any such dispute may not be resolved in our favor. If any of our trade secrets were to be lawfully obtained or independently developed by a competitor, we would have no right to prevent them, or those to whom they communicate it, from using that technology or information to compete with us and our competitive position could be adversely affected. If our intellectual property is not adequately protected so as to protect our market against competitors' products and methods, our competitive position could be adversely affected, as could our business.

**Risks Related to Government Regulation**

***The ARTAS® and ARTAS® iX Systems and our operations are subject to extensive government regulation and oversight both in the U.S. and abroad, and our failure to comply with applicable requirements could harm our business.***

The ARTAS® and ARTAS® iX Systems and related products and services are regulated as medical devices subject to extensive regulation in the U.S. and elsewhere, including by the FDA and its foreign counterparts. The FDA and foreign regulatory agencies regulate, among other things, with respect to medical devices:

- design, development and manufacturing;
- testing, labeling, content and language of instructions for use and storage;
- clinical trials;
- product safety;
- marketing, sales and distribution;
- premarket clearance and approval;

- record keeping procedures;
- advertising and promotion;
- recalls and field safety corrective actions;
- post-market surveillance, including reporting of deaths or serious injuries and malfunctions that, if they were to recur, could lead to death or serious injury;
- post-market approval studies; and
- product import and export.

The regulations to which we are subject are complex and have tended to become more stringent over time. Regulatory changes could result in restrictions on our ability to carry on or expand our operations, higher than anticipated costs or lower than anticipated sales.

In the U.S., before we can market a new medical device, or a new use of, new claim for or significant modification to an existing product, we must first receive either clearance under Section 510(k) of the FDCA or approval of a PMA application from the FDA, unless an exemption applies. In the 510(k) clearance process, before a device may be marketed, the FDA must determine that a proposed device is "substantially equivalent" to a legally-marketed "predicate" device, which includes a device that has been previously cleared through the 510(k) process, a device that was legally marketed prior to May 28, 1976 (pre-amendments device), a device that was originally on the U.S. market pursuant to an approved premarket approval, or PMA, application and later down-classified, or a 510(k)-exempt device. To be "substantially equivalent," the proposed device must have the same intended use as the predicate device, and either have the same technological characteristics as the predicate device or have different technological characteristics and not raise different questions of safety or effectiveness than the predicate device. Clinical data are sometimes required to support substantial equivalence. In the PMA process, the FDA must determine that a proposed device is safe and effective for its intended use based, in part, on extensive data, including, but not limited to, technical, pre-clinical, clinical trial, manufacturing and labeling data. The PMA process is typically required for devices that are deemed to pose the greatest risk, such as life- sustaining, life-supporting or implantable devices.

Modifications to products that are approved through a PMA application generally require FDA approval. Similarly, certain modifications made to products cleared through a 510(k) may require a new 510(k) clearance. Both the PMA approval and the 510(k)-clearance process can be expensive, lengthy and uncertain. The FDA's 510(k) clearance process usually takes from three to 12 months but can last longer. The process of obtaining a PMA is much costlier and more uncertain than the 510(k)-clearance process and generally takes from one to three years, or even longer, from the time the application is filed with the FDA. In addition, a PMA generally requires, and the 510(k)-clearance process sometimes requires, the performance of one or more clinical trials. Despite the time, effort and cost, we cannot assure you that any particular device will be approved or cleared by the FDA. Any delay or failure to obtain necessary regulatory approvals could harm our business.

In the U.S., we have obtained 510(k) premarket clearance from the FDA to market the ARTAS® and ARTAS® iX System for harvesting hair follicles from the scalp in men diagnosed with AGA who have black or brown straight hair. An element of our strategy is to continue to add new functionalities and enhance existing functionalities to the ARTAS® and ARTAS® iX Systems. We expect that certain modifications we may make to the ARTAS® and ARTAS® iX Systems may require new 510(k) clearance; however, future modifications may be subject to the substantially more costly, time-consuming and uncertain PMA process. If the FDA requires us to go through a lengthier, more rigorous examination for future products or modifications to existing products than we had expected, product introductions or modifications could be delayed or canceled, which could cause our sales to decline.

The FDA can delay, limit or deny clearance or approval of a device for many reasons, including:

- we may not be able to demonstrate to the FDA's satisfaction that the product or modification is substantially equivalent to the proposed predicate device or safe and effective for its intended use;
- the data from our pre-clinical studies and clinical trials may be insufficient to support clearance or approval, where required; and
- the manufacturing process or facilities we use may not meet applicable requirements.

The FDA's and other regulatory authorities' policies may change, and additional government regulations may be enacted that could prevent, limit or delay regulatory approval of our products. For example, in December 2016, the 21st Century Cures Act, or Cures Act, was signed into law. The Cures Act, among other things, is intended to modernize the regulation of medical devices and spur innovation, but its ultimate implementation remains unclear. If we are slow or unable to adapt to changes in existing requirements or the adoption of new requirements or policies, or if we are not able to maintain regulatory compliance, we may fail to obtain any marketing clearances or approvals, lose any marketing clearance or approval that we may have obtained, and we may not achieve or sustain profitability.

We also cannot predict the likelihood, nature or extent of government regulation that may arise from future legislation or administrative action, either in the U.S. or abroad. For example, certain policies of the Trump administration may impact our business and industry. Namely, the Trump administration has taken several executive actions, including the issuance of several Executive Orders, that could impose significant burdens on, or otherwise materially delay, the FDA's ability to engage in routine regulatory and oversight activities such as implementing statutes through rulemaking, issuance of guidance, and review and approval of marketing applications. Notably, on January 30, 2017, President Trump issued an Executive Order, applicable to all executive agencies including the FDA, requiring that for each notice of proposed rulemaking or final regulation to be issued in fiscal year 2017, the agency must identify at least two existing regulations to be repealed, unless prohibited by law. These requirements are referred to as the "two-for-one" provisions. This Executive Order includes a budget neutrality provision that requires the total incremental cost of all new regulations in the 2017 fiscal year, including repealed regulations, to be no greater than zero, except in limited circumstances. For fiscal years 2018 and beyond, the Executive Order requires agencies to identify regulations to offset any incremental cost of a new regulation and approximate the total costs or savings associated with each new regulation or repealed regulation. In interim guidance issued by the Office of Information and Regulatory Affairs within OMB on February 2, 2017, the administration indicates that the "two-for-one" provisions may apply not only to agency regulations, but also to significant agency guidance documents. In addition, on February 24, 2017, President Trump issued an executive order directing each affected agency to designate an agency official as a "Regulatory Reform Officer" and establish a "Regulatory Reform Task Force" to implement the two-for-one provisions and other previously issued executive orders relating to the review of federal regulations, however it is difficult to predict how these requirements will be implemented, and the extent to which they will impact the FDA's ability to exercise its regulatory authority. If these executive actions impose constraints on FDA's ability to engage in oversight and implementation activities in the normal course, our business may be negatively impacted.

Even after we have obtained the proper regulatory clearance or approval to market a product, we have ongoing responsibilities under FDA regulations. The failure to comply with applicable regulations could jeopardize our ability to sell the ARTAS® and ARTAS® iX Systems and result in enforcement actions such as:

- warning letters;
- fines;
- injunctions;
- civil penalties;
- termination of distribution;
- recalls or seizures of products;
- delays in the introduction of products into the market;
- total or partial suspension of production;
- refusal to grant future clearances or approvals;
- withdrawals or suspensions of current clearances or approvals, resulting in prohibitions on sales of our product or products; and
- in the most serious cases, criminal penalties.

Any of these sanctions could result in higher than anticipated costs or lower than anticipated sales and harm our reputation, business, financial condition and results of operations.

***We are subject to extensive governmental regulation in foreign jurisdictions, such as Europe, and our failure to comply with applicable requirements could cause our business to suffer.***

We must maintain regulatory approval in foreign jurisdictions in which we plan to market and sell the ARTAS® System.

In the European Economic Area or EEA, manufacturers of medical devices need to comply with the Essential Requirements laid down in Annex II to the EU Medical Devices Directive (Council Directive 93/42/EEC).

Compliance with these requirements is a prerequisite to be able to affix the CE mark to medical devices, without which they cannot be marketed or sold in the EEA. To demonstrate compliance with the Essential Requirements and obtain the right to affix the CE Mark, manufacturers of medical devices must undergo a conformity assessment procedure, which varies according to the type of medical device and its classification. Except for low risk medical devices (Class I with no measuring function and which are not sterile), where the manufacturer can issue an EC Declaration of Conformity based on a self-assessment of the conformity of its products with the Essential Requirements, a conformity assessment procedure requires the intervention of a Notified Body, which is an organization designated by a competent authority of an EEA country to conduct conformity assessments.

Depending on the relevant conformity assessment procedure, the Notified Body would audit and examine the Technical File and the quality system for the manufacture, design and final inspection of our devices. The Notified Body issues a CE Certificate of Conformity following successful completion of a conformity assessment procedure conducted in relation to the medical device and its manufacturer and their conformity with the Essential Requirements. This Certificate entitles the manufacturer to affix the CE mark to its medical devices after having prepared and signed a related EC Declaration of Conformity.

As a rule, demonstration of conformity of medical devices and their manufacturers with the Essential Requirements must be based, among other things, on the evaluation of clinical data supporting the safety and performance of the products during normal conditions of use. Specifically, a manufacturer must demonstrate that the device achieves its intended performance during normal conditions of use and that the known and foreseeable risks, and any adverse events, are minimized and acceptable when weighed against the benefits of its intended performance, and that any claims made about the performance and safety of the device (e.g., product labeling and instructions for use) are supported by suitable evidence. This assessment must be based on clinical data, which can be obtained from (1) clinical studies conducted on the devices being assessed, (2) scientific literature from similar devices whose equivalence with the assessed device can be demonstrated or (3) both clinical studies and scientific literature. With respect to active implantable medical devices or Class III devices, the manufacturer must conduct clinical studies to obtain the required clinical data, unless reliance on existing clinical data from equivalent devices can be justified. The conduct of clinical studies in the EEA is governed by detailed regulatory obligations. These may include the requirement of prior authorization by the competent authorities of the country in which the study takes place and the requirement to obtain a positive opinion from a competent Ethics Committee. This process can be expensive and time-consuming.

On April 5, 2017, the European Parliament passed the Medical Devices Regulation, which repeals and replaces the EU Medical Devices Directive. Unlike directives, which must be implemented into the national laws of the EEA member States, the regulations would be directly applicable, i.e., without the need for adoption of EEA member State laws implementing them, in all EEA member States and are intended to eliminate current differences in the regulation of medical devices among EEA member States. The Medical Devices Regulation, among other things, is intended to establish a uniform, transparent, predictable and sustainable regulatory framework across the EEA for medical devices and in vitro diagnostic devices and ensure a high level of safety and health while supporting innovation.

The Medical Devices Regulation will however only become applicable three years after publication. Once applicable, the new regulations will among other things:

- strengthen the rules on placing devices on the market and reinforce surveillance once they are available;
- establish explicit provisions on manufacturers' responsibilities for the follow-up of the quality, performance and safety of devices placed on the market;
- improve the traceability of medical devices throughout the supply chain to the end-user or patient through a unique identification number;
- set up a central database to provide patients, healthcare professionals and the public with comprehensive information on products available in the EU; and
- strengthen rules for the assessment of certain high-risk devices, such as implants, which may have to undergo an additional check by experts before they are placed on the market.

These modifications may have an impact on the way we conduct our business in the EEA.

***We are subject to governmental regulation and other legal obligations, particularly related to privacy, data protection and information security. Our actual or perceived failure to comply with such obligations could harm our business.***

We are subject to diverse laws and regulations relating to data privacy and security, including, in the United States, the federal Health Insurance Portability and Accountability Act of 1996, or HIPAA, and, in the European Union (EU) and shortly in the European Economic Area (EEA), Regulation 2016/679, known as the General Data Protection Regulation, or GDPR. New global privacy rules are being enacted and existing ones are being updated and strengthened. Complying with these numerous, complex and often changing regulations is expensive and difficult, and failure to comply with any privacy laws or data security laws or any security incident or breach involving the misappropriation, loss or other unauthorized use or disclosure of sensitive or confidential patient or consumer information, whether by us, one of our business associates or another third-party, could have a material adverse effect on our business, reputation, financial condition and results of operations, including but not limited to: material fines and penalties; damages; litigation; consent orders; and injunctive relief.

Furthermore, these rules are constantly changing; for example, the GDPR came into effect in May this year reforming the European regime. The GDPR implements more stringent operational requirements than its predecessor legislation. For example, the GDPR requires us to make more detailed disclosures to data subjects, requires disclosure of the legal basis on which we can process personal data, makes it harder for us to obtain valid consent for processing, provides more robust rights for data subjects, introduces mandatory data breach notification through the EU, imposes additional obligations on us when contracting with service providers and requires us to adopt appropriate privacy governance including policies, procedures, training and data audit. If we do not comply with our obligations under the GDPR, we could be exposed to fines of up to the higher of 20,000,000 Euros or up to 4% of our total worldwide annual turnover in the event of a significant breach. In addition, we may be the subject of litigation and/or adverse publicity, which could have material adverse effect on our reputation and business.

We are also subject to evolving European laws on data export and electronic marketing. The rules on data export will apply when we transfer personal data to group companies or third parties outside of the EEA. For example, in 2015, the Court of Justice of the EU ruled that the U.S.-EU Safe Harbor framework, one compliance method by which companies could transfer personal data regarding citizens of the EU to the United States, was invalid and could no longer be relied upon. The U.S.-EU Safe Harbor framework was replaced with the U.S.-EU Privacy Shield framework, which is now under review and there is currently litigation challenging another EU mechanism for adequate data transfers, the standard contractual clauses. It is uncertain whether the Privacy Shield framework and/or the standard contractual clauses will be similarly invalidated by the European courts. These changes may require us to find alternative bases for the compliant transfer of personal data from the EEA to the U.S and we are monitoring developments in this area. The EU is also in the process of replacing the e-Privacy Directive with a new set of rules taking the form of a regulation, which will be directly implemented in the laws of each European member state, without the need for further enactment. The current draft of the e-Privacy Regulation retains strict op-in for electronic marketing and the penalties for contravention have significantly increased with fining powers to the same levels as GDPR (i.e. the greater of 20,000,000 Euros or 4% of total global annual revenue).

***Modifications to the ARTAS® System or ARTAS® iX System and any future products that receive 510(k) clearances may require new 510(k) clearances or PMA approvals, and if we make such modifications without seeking new clearances or approvals, the FDA may require us to cease marketing or recall the modified products until clearances or approvals are obtained.***

The ARTAS® and ARTAS® iX Systems have received 510(k) clearances from the FDA. Any modification to a 510(k)-cleared device that could significantly affect its safety or effectiveness, or that would constitute a major change in its intended use, design or manufacture, requires a new 510(k) clearance or, possibly, approval of a PMA. The FDA requires every manufacturer to make this determination in the first instance, but the FDA may review any manufacturer's decision. The FDA may not agree with our decisions regarding whether new clearances or approvals are necessary. We have made modifications to the ARTAS® System in the past and have determined based on our review of the applicable FDA regulations and guidance that in certain instances new 510(k) clearances or PMA approvals were not required. We may make similar modifications or add additional functionalities in the future that we believe do not require a new 510(k) clearance or approval of a PMA. The FDA has issued a guidance document intended to assist manufacturers in determining whether modifications to cleared devices require the submission of a new 510(k), and such guidance has come under scrutiny in recent years, the practical impact of which is unclear. If the FDA disagrees with our determination and requires us to submit new 510(k) notifications or PMA applications for modifications to our previously cleared products for which we have concluded that new clearances or approvals are unnecessary, we may be required to cease marketing or to recall the modified product until we obtain clearance or approval, which could require us to redesign our products, conduct clinical trials to support any modifications, and pay significant regulatory fines or penalties. In addition, the FDA may not approve or clear our products for the indications that are necessary or desirable for successful commercialization or could require clinical trials to support any modifications. Any delay or failure in obtaining required clearances or approvals would adversely affect our ability to introduce new or enhanced products in a timely manner, which in turn would harm our future growth. Any of these actions would harm our operating results.

***We are subject to restrictions on the indications for which we are permitted to market our products, and any violation of those restrictions, or marketing of the ARTAS® System or ARTAS® iX System for off-label uses, could subject us to regulatory enforcement action.***

The FDA's 510(k) clearance for the ARTAS® and ARTAS® iX Systems specifies the cleared indication for use of the product is dissecting hair follicles from the scalp in men diagnosed with AGA who have black or brown straight hair. The ARTAS® and ARTAS® iX Systems are intended to assist physicians in identifying and extracting hair follicular units from the scalp during hair transplantation.

We train our marketing and direct sales force to not promote the ARTAS® System or ARTAS® iX System for uses outside of the FDA-cleared indications for use, known as "off-label uses." We cannot, however, prevent a physician from using the ARTAS® System or ARTAS® iX System off-label when, in the physician's independent professional medical judgment, he or she deems it appropriate. There may be increased risk of injury to patients if physicians attempt to use the ARTAS® System or ARTAS® iX System off-label. Furthermore, the use of the ARTAS® System or ARTAS® iX System for indications other than those cleared by the FDA or approved by any foreign regulatory body may not effectively treat such conditions, which could harm our reputation in the marketplace among physicians and patients.

If the FDA or any foreign regulatory body determines that our promotional materials or training constitute promotion of an off-label use, it could request that we modify our training or promotional materials or subject us to regulatory or enforcement actions, including, among other things, the issuance or imposition of an untitled letter, a warning letter, injunction, seizure, refusal to issue new 510(k)s or PMAs, withdrawal of existing 510(k)s or PMAs, refusal to grant export approvals, and civil fines or criminal penalties. It is also possible that other federal, state or foreign enforcement authorities might take action under other regulatory authority, such as false claims laws, if they consider our business activities to constitute promotion of an off-label use, which could result in significant penalties, including, but not limited to, criminal, civil and administrative penalties, damages, fines, disgorgement, exclusion from participation in government healthcare programs and the curtailment of our operations.

***The ARTAS® System or ARTAS® iX System may cause or contribute to adverse medical events that we are required to report to the FDA, and if we fail to do so, we would be subject to sanctions that could harm our reputation, business, financial condition and results of operations. The discovery of serious safety issues with the ARTAS® System or ARTAS® iX System, or a recall of the ARTAS® System or ARTAS® iX System either voluntarily or at the direction of the FDA or another governmental authority, could have a negative impact on us.***

We are subject to the FDA's medical device reporting regulations and similar foreign regulations. The FDA's medical device reporting regulations require us to report to the FDA when we receive or become aware of information that reasonably suggests that the ARTAS® System or ARTAS® iX System may have caused or contributed to a death or serious injury or malfunctioned in a way that, if the malfunction were to recur, it could cause or contribute to a death or serious injury. The timing of our obligation to report is triggered by the date we become aware of the adverse event as well as the nature of the event. We may fail to report adverse events of which we become aware within the prescribed timeframe. We may also fail to recognize that we have become aware of a reportable adverse event, especially if it is not reported to us as an adverse event or if it is an adverse event that is unexpected or removed in time from the use of the ARTAS® System ARTAS® iX System, as the case may be. If we fail to comply with our reporting obligations, the FDA could act, including warning letters, untitled letters, administrative actions, criminal prosecution, imposition of civil monetary penalties, revocation of our device clearance, seizure of our products or delay in clearance of future products.

The FDA and foreign regulatory bodies have the authority to require the recall of commercialized products in the event of material deficiencies or defects in design or manufacture of a product or if a product poses an unacceptable risk to health. The FDA's authority to require a recall must be based on a finding that there is reasonable probability that the device could cause serious injury or death. We may also choose to voluntarily recall a product if any material deficiency is found. A government-mandated or voluntary recall by us could occur because of an unacceptable risk to health, component failures, malfunctions, manufacturing defects, labeling or design deficiencies, packaging defects or other deficiencies or failures to comply with applicable regulations. We cannot assure you that product defects or other errors will not occur in the future. Recalls involving the ARTAS® System or ARTAS® iX System could be particularly harmful to our business, financial condition and results of operations because it is our only product.

Companies are required to maintain certain records of recalls and corrections, even if they are not reportable to the FDA. We may initiate voluntary withdrawals or corrections for the ARTAS® System or ARTAS® iX System in the future that we determine do not require notification of the FDA. If the FDA disagrees with our determinations, it could require us to report those actions as recalls and we may be subject to enforcement action. A future recall announcement could harm our reputation with customers, potentially lead to product liability claims against us and negatively affect our sales.

***If we or our distributors do not obtain and maintain international regulatory registrations or approvals for the ARTAS® System, our ability to market and sell the ARTAS® System outside of the U.S. will be diminished.***

Sale of the ARTAS® System outside the U.S. are subject to foreign regulatory requirements that vary widely from country to country. In addition, the FDA regulates exports of medical devices from the U.S. While the regulations of some countries may not impose barriers to marketing and selling the ARTAS® System or only require notification, others require that we or our distributors obtain the approval of a specified regulatory body. Complying with foreign regulatory requirements, including obtaining registrations or approvals, can be expensive and time-consuming, and we cannot be certain that we or our distributors will receive regulatory approvals in each country in which we plan to market the ARTAS® System or that we will be able to do so on a timely basis. The time required to obtain registrations or approvals, if required by other countries, may be longer than that required for FDA clearance, and requirements for such registrations, clearances, or approvals may significantly differ from FDA requirements. If we modify the

ARTAS® System, we or our distributors may need to apply for additional regulatory approvals or other authorizations before we are permitted to sell the modified product. In addition, we may not continue to meet the quality and safety standards required to maintain the authorizations that we or our distributors have received. If we or our distributors are unable to maintain our authorizations in a particular country, we will no longer be able to sell the applicable product in that country, which could harm our business.

Regulatory clearance or approval by the FDA does not ensure clearance or approval by regulatory authorities in other countries, and clearance or approval by one or more foreign regulatory authorities does not ensure clearance or approval by regulatory authorities in other foreign countries or by the FDA. However, a failure or delay in obtaining regulatory clearance or approval in one country may have a negative effect on the regulatory process in others.

***We must manufacture our products in accordance with federal and state regulations, and we could be forced to recall our installed systems or terminate production if we fail to comply with these regulations.***

The methods used in, and the facilities used for, the manufacture of the ARTAS® and ARTAS® iX Systems and related products must comply with the FDA's Quality System Regulation, or QSR, which is a complex regulatory scheme that covers the procedures and documentation of the design, testing, production, process controls, quality assurance, labeling, packaging, handling, storage, distribution, installation, servicing and shipping of medical devices.

Furthermore, we are required to verify that our suppliers maintain facilities, procedures and operations that comply with our quality and applicable regulatory requirements. The FDA enforces the QSR through periodic announced or unannounced inspections of medical device manufacturing facilities, which may include the facilities of subcontractors. The ARTAS® and ARTAS® iX Systems are also subject to similar state regulations and various laws and regulations of foreign countries governing manufacturing.

We cannot guarantee that we or any subcontractors will take the necessary steps to comply with applicable regulations, which could cause delays in the delivery of the ARTAS® System or ARTAS® iX System. In addition, failure to comply with applicable FDA requirements or later discovery of previously unknown problems with the ARTAS® System or ARTAS® iX System manufacturing processes could result in, among other things:

- warning letters or untitled letters;
- fines, injunctions or civil penalties;
- suspension or withdrawal of approvals or clearances;
- seizures or recalls of our products;
- total or partial suspension of production or distribution;
- administrative or judicially imposed sanctions;
- the FDA's refusal to grant pending or future clearances or approvals for our products;
- clinical holds;
- refusal to permit the import or export of our products; and
- criminal prosecution to us or our employees.

Any of these actions could significantly and negatively impact supply of our products. If any of these events occurs, our reputation could be harmed, we could be exposed to product liability claims and we could lose customers and suffer reduced revenue and increased costs.

***We may be subject to various federal and state laws pertaining to healthcare fraud and abuse, and any violations by us of such laws could result in fines or other penalties.***

While procedures utilizing the ARTAS® and ARTAS® iX Systems are not currently covered or reimbursed by any third-party payor, our commercial, research and other financial relationships with healthcare providers and others may be subject to various federal and state laws intended to prevent healthcare fraud and abuse. Such laws include the U.S. federal Anti-Kickback Statute and similar laws that apply to state healthcare programs, private payors and self-pay patients; the U.S. federal civil and criminal false claims laws, such as the civil False Claims Act, and civil monetary penalties laws; state and federal data privacy and security laws and regulations; state and federal physician payment transparency laws; and state and federal consumer protection and unfair competition laws.

Further, these laws may impact any sales, marketing and education programs we currently have or may develop in the future and the way we implement any of those programs. Penalties for violations of these laws can include exclusion from federal healthcare programs and substantial civil and criminal penalties.

***Recently enacted and future legislation may increase the difficulty and cost for us to sell our products.***

In the U.S. and some non-U.S. jurisdictions, there have been, and we expect there will continue to be, a number of legislative and regulatory changes and proposed changes regarding the healthcare system that could, among other things, restrict or regulate post-approval activities and affect our ability to profitably sell our products. For example, in March 2010, the Patient Protection and Affordable Care Act, as amended by the Health Care and Education Reconciliation Act, collectively the Affordable Care Act, was enacted. The Affordable Care Act, imposed, among other things, an annual excise tax of 2.3% on any entity that manufactures or imports medical devices offered for sale in the U.S., which, due to subsequent legislative amendments, has been suspended from January 1, 2016 to December 31, 2019, and, absent further legislative action, will be reinstated starting January 1, 2020. It is uncertain the extent to which any challenges, amendments and attempts to repeal and replace the Affordable Care Act in the future may impact our business or financial condition. We expect that the Affordable Care Act, as well as other healthcare reform measures that may be adopted in the future, may potentially increase our costs to sell our product and decrease our profitability.

***Recent U.S. tax legislation and future changes to applicable U.S. or foreign tax laws and regulations may have a material adverse effect on our business, financial condition and results of operations.***

We are subject to income and other taxes in the U.S. and foreign jurisdictions. Changes in laws and policy relating to taxes or trade may have an adverse effect on our business, financial condition and results of operations. For example, the U.S. government recently enacted significant tax reform, and certain provisions of the new law may adversely affect us. Changes include, but are not limited to, a federal corporate tax rate decrease from 35% to 21% for tax years beginning after December 31, 2017, the transition of U.S. international taxation from a worldwide tax system to a more generally territorial system, and a one-time transition tax on the mandatory deemed repatriation of foreign earnings. The legislation is unclear in many respects and could be subject to potential amendments and technical corrections and will be subject to interpretations and implementing regulations by the Treasury and Internal Revenue Service, any of which could mitigate or increase certain adverse effects of the legislation. In addition, it is unclear how these U.S. federal income tax changes will affect state and local taxation. Generally, future changes in applicable U.S. or foreign tax laws and regulations, or their interpretation and application could have an adverse effect on our business, financial conditions and results of operations.

**Risks Related to Our Common Stock**

***Our stock price may be volatile, and you may not be able to resell shares of our common stock at or above the price you paid.***

The market price of our common stock could be highly volatile and could be subject to wide fluctuations in response to various factors, some of which are beyond our control. These factors include those discussed in this “Risk Factors” section and others such as:

- any delays in the consummation of the Merger, or the Merger failing to occur;
- the continued growth in demand for the ARTAS® Systems and ARTAS procedures;
- our commercialization, marketing and manufacturing capabilities;
- the continuing productivity and effectiveness of our commercial infrastructure and salesforce;
- our financial performance;
- our intentions and our ability to establish collaborations and/or partnerships;
- the timing or likelihood of regulatory filings and approvals for the ARTAS® Systems for expanded indications and functionality;
- our commercialization, marketing and manufacturing capabilities;
- our expectations regarding the potential market size and the size of the patient populations for the ARTAS® Systems;
- the effective pricing of the ARTAS® Systems, services and procedures;
- the implementation of our business model and strategic plans for our business and technology;
- the scope of protection we can establish and maintain for intellectual property rights covering the ARTAS® Systems, along with any product enhancements;
- estimates of our expenses, future revenue, capital requirements, our needs for additional financing and our ability to obtain additional capital;
- our financial performance; and
- developments and projections relating to our competitors and our industry, including competing therapies and procedures.

In addition, the stock markets in general, and the markets for medical device and aesthetic stocks in particular, have experienced extreme volatility that may have been unrelated to the operating performance of the issuer. These broad market fluctuations may adversely affect the market price or liquidity of our common stock. In the past, when the market price of a stock has been volatile, holders of that stock have sometimes instituted securities class action litigation against the issuer. Recently, several securities class action complaints have been filed against us, certain of our current and former executive officers and directors, certain of our investors and certain underwriters in our IPO. These complaints allege violations of Sections 11, 12(a)(2) and 15 of the Securities Act due to allegedly false and misleading statements made in connection with our IPO. While we believe that these lawsuits are without merit and we intend to vigorously defend against these claims, we could incur substantial costs in defending these lawsuits and the attention of our management could be diverted from the operation of our business. Further, if more of our stockholders were to bring additional lawsuits on similar or unrelated grounds, we could incur substantial costs defending these additional lawsuits and the attention of our management would be further diverted from the operation of our business.

***An active market for our common stock may not be maintained.***

Prior to our IPO, there had been no public market for shares of our common stock. Our stock only recently began trading on the Nasdaq Global Market, but we can provide no assurance that we will be able to maintain an active trading market on the Nasdaq Global Market or any other exchange in the future. If an active market for our common stock does not develop or is not maintained, it may be difficult for our stockholders to sell shares without depressing the market price for the shares or at all. An inactive market may also impair our ability to raise capital by selling shares and may impair our ability to acquire other businesses, applications, or technologies using our shares as consideration.

***If we fail to adhere to the listing requirements of the Nasdaq Global Market, including maintaining a minimum market value our listed securities of $50.0 million, our common stock could be delisted.***

Our common stock is listed on the Nasdaq Global Market and as such is subject to various requirements for continued listing under the rules of the Nasdaq Global Stock Market (Listing Rules). On January 18, 2019, we received a letter indicating that for 30 consecutive business days we did not maintain a minimum market value of listed securities, (MVLS) of $50.0 million as required by the Listing Rules. In accordance with the Listing Rules, we have 180 calendar days, or until July 17, 2019, to regain compliance with the minimum MVLS rule. Additionally, on March 14, 2019, we received a letter indicating that for 30 consecutive business days we did not maintain a minimum closing bid price of $1.00 per share as required by the Listing Rules. In accordance with the Listing Rules, we have 180 calendar days, or until September 10, 2019, to regain compliance with the minimum bid price rule. Further, on March 15, 2019, we received a letter indicating that for 30 consecutive business days we did not maintain a minimum market value of publicly held shares (MVPHS) of $15.0 million. In accordance with the Listing Rules, we have 180 calendar days, or until September 11, 2019, to regain compliance with the MVPHS rule.

In accordance with the applicable Listing Rules, if we are unable to regain compliance with any of the above prior to the expiration of the applicable grace period, we will be required to transfer to the Nasdaq Capital Market, subject to our ability to meet the listing standards of the Nasdaq Capital Market. If we are unable to meet the listing standards of the Nasdaq Capital Market, our common stock will be delisted. If our common stock is delisted from Nasdaq, we could be required to list on the over-the-counter, or OTC, market, which may adversely affect the price and trading liquidity of our common stock. Delisting from the Nasdaq may have other negative results, including the potential loss of confidence in us by suppliers, customers and employees, the loss of institutional investor interest, fewer business development opportunities and greater difficulty in obtaining financing on favorable terms or at all.

***If securities or industry analysts issue an adverse or misleading opinion regarding our stock, our stock price and trading volume could decline.***

The trading market for our common stock is influenced by the research and reports that industry or securities analysts publish about us or our business. We currently have very limited research coverage by securities and industry analysts. If no additional securities or industry analysts commence coverage of us, the market price or trading volume of our stock could be negatively impacted. If any of the analysts who cover us issue an adverse or misleading opinion regarding us, our business model, our intellectual property or our stock performance, or if our operating results fail to meet the expectations of analysts, our stock price would likely decline. If one or more of these analysts cease coverage of us or fail to publish reports on us regularly, we could lose visibility in the financial markets, which in turn could cause our stock price or trading volume to decline.

***We are an "emerging growth company" and as a result of the reduced disclosure and governance requirements applicable to emerging growth companies, our common stock may be less attractive to investors.***

We are an "emerging growth company," as defined in the JOBS Act, and we intend to take advantage of certain exemptions from various reporting requirements that are applicable to other public companies that are not emerging growth companies including, but not limited to, not being required to comply with the auditor attestation requirements of Section 404, reduced disclosure obligations regarding executive compensation in our periodic reports and proxy statements, and exemptions from the requirements of holding a nonbinding advisory vote on executive compensation, stockholder approval of any golden parachute payments not previously approved and delayed adoption of new or revised accounting standards issued subsequent to the enactment of the JOBS Act until such time as those standards apply to private companies. We cannot predict if investors will find our common stock less attractive because we will rely on these exemptions. If some investors find our common stock less attractive as a result, there may be a less active trading market for our common stock and our stock price may be more volatile. We may take advantage of these reporting exemptions until we are no longer an emerging growth company. We will remain an emerging growth company until the earlier of (1) the last day of the fiscal year (a) following the fifth anniversary of the completion of our IPO, (b) in which we have total annual gross revenue of at least $1.07 billion, or (c) in which we are deemed to be a large accelerated filer, which means the market value of our common stock that is held by non-affiliates exceeds $700.0 million as of the prior June 30th, and (2) the date on which we have issued more than $1.0 billion in non-convertible debt during the prior three-year period.

***If we sell shares of our common stock in future financings, stockholders may experience immediate dilution and, as a result, our stock price may decline.***

We may from time to time issue additional shares of common stock at a discount from the current market price of our common stock. As a result, our stockholders would experience immediate dilution upon the purchase of any shares of our common stock sold at such discount. In addition, as opportunities present themselves, we may enter into financing or similar arrangements in the future, including the issuance of debt securities, preferred stock or common stock. If we issue common stock or securities convertible into common stock, our common stockholders would experience additional dilution and, as a result, our stock price may decline.

***Our principal stockholders and management own a significant percentage of our stock and will be able to exert significant control over matters subject to stockholder approval.***

Based on the number of shares outstanding as of March 31, 2019, our executive officers, directors, holders of 5% or more of our capital stock and their respective affiliates beneficially owned approximately 40.0% of our voting stock. These stockholders will have the ability to influence us through this ownership position. These stockholders may be able to determine all matters requiring stockholder approval. For example, these stockholders may be able to control elections of directors, amendments of our organizational documents, or approval of any merger, sale of assets, or other major corporate transaction. This may prevent or discourage unsolicited acquisition proposals or offers for our common stock that you may feel are in your best interest as one of our stockholders.

***Our ability to use our net operating loss carryforwards and certain other tax attributes may be limited.***

We have incurred substantial losses during our history and do not expect to become profitable in the near future, and we may never achieve profitability. To the extent that we continue to generate taxable losses, unused losses will carry forward to offset future taxable income, if any, until such unused losses expire. Under Sections 382 and 383 of the Internal Revenue Code of 1986, as amended, if a corporation undergoes an "ownership change," generally defined as a greater than 50 percentage point change (by value) in its equity ownership by certain stockholders over a three-year period, the corporation's ability to use its pre-change net operating loss carryforwards, or NOLs, and other pre-change tax attributes (such as research and development tax credits) to offset its post-change income or taxes may be limited. We may have experienced ownership changes in the past and may experience ownership changes in the future and/or subsequent shifts in our stock ownership (some of which shifts are outside our control). As a result, if we earn net taxable income, our ability to use our pre-change NOLs to offset such taxable income could be subject to limitations. Similar provisions of state tax law may also apply. As a result, even if we attain profitability, we may be unable to use a material portion of our NOLs and other tax attributes.

***Provisions in our charter documents and under Delaware law could discourage a takeover that stockholders may consider favorable and may lead to entrenchment of management.***

Our amended and restated certificate of incorporation and amended and restated bylaws contain provisions that could delay or prevent changes in control or changes in our management without the consent of our board of directors. These provisions will include the following:

- a classified board of directors with three-year staggered terms, which may delay the ability of stockholders to change the membership of a majority of our board of directors;
- no cumulative voting in the election of directors, which limits the ability of minority stockholders to elect director candidates;
- the exclusive right of our board of directors to elect a director to fill a vacancy created by the expansion of the board of directors or the resignation, death or removal of a director, which prevents stockholders from being able to fill vacancies on our board of directors;
- the ability of our board of directors to authorize the issuance of shares of preferred stock and to determine the price and other terms of those shares, including preferences and voting rights, without stockholder approval, which could be used to significantly dilute the ownership of a hostile acquirer;
- the ability of our board of directors to alter our bylaws without obtaining stockholder approval;
- the required approval of at least 66 2/3% of the shares entitled to vote at an election of directors to adopt, amend or repeal our bylaws or repeal the provisions of our amended and restated certificate of incorporation regarding the election and removal of directors;
- a prohibition on stockholder action by written consent, which forces stockholder action to be taken at an annual or special meeting of our stockholders;
- the requirement that a special meeting of stockholders may be called only by the chairman of the board of directors, the chief executive officer, the president or the board of directors, which may delay the ability of our stockholders to force consideration of a proposal or to act, including the removal of directors; and
- advance notice procedures that stockholders must comply with in order to nominate candidates to our board of directors or to propose matters to be acted upon at a stockholders' meeting, which may discourage or deter a potential acquirer from conducting a solicitation of proxies to elect the acquirer's own slate of directors or otherwise attempting to obtain control of us.

In addition, these provisions would apply even if we were to receive an offer that some stockholders may consider beneficial.

We are also subject to the anti-takeover provisions contained in Section 203 of the Delaware General Corporation Law. Under Section 203, a corporation may not, in general, engage in a business combination with any holder of 15% or more of its capital stock unless the holder has held the stock for three years or, among other exceptions, the board of directors has approved the transaction.

***Claims for indemnification by our directors and officers may reduce our available funds to satisfy successful third-party claims against us and may reduce the amount of money available to us.***

Our amended and restated certificate of incorporation and amended and restated bylaws provide that we will indemnify our directors and officers, in each case to the fullest extent permitted by Delaware law.

In addition, as permitted by Section 145 of the Delaware General Corporation Law, our amended and restated bylaws and our indemnification agreements that we have entered into with our directors and officers provide that:

- we will indemnify our directors and officers for serving us in those capacities or for serving other business enterprises at our request, to the fullest extent permitted by Delaware law. Delaware law provides that a corporation may indemnify such person if such person acted in good faith and in a manner such person reasonably believed to be in or not opposed to the best interests of the registrant and, with respect to any criminal proceeding, had no reasonable cause to believe such person's conduct was unlawful;
- we may, in our discretion, indemnify employees and agents in those circumstances where indemnification is permitted by applicable law;
- we are required to advance expenses, as incurred, to our directors and officers in connection with defending a proceeding, except that such directors or officers shall undertake to repay such advances if it is ultimately determined that such person is not entitled to indemnification;

- we will not be obligated pursuant to our amended and restated bylaws to indemnify a person with respect to proceedings initiated by that person against us or our other indemnitees, except with respect to proceedings authorized by our board of directors or brought to enforce a right to indemnification;
- the rights conferred in our amended and restated bylaws are not exclusive, and we are authorized to enter into indemnification agreements with our directors, officers, employees and agents and to obtain insurance to indemnify such persons; and
- we may not retroactively amend our amended and restated bylaw provisions to reduce our indemnification obligations to directors, officers, employees and agents.

***Our certificate of incorporation provides that the Court of Chancery of the State of Delaware will be the exclusive forum for substantially all disputes between us and our stockholders, which could limit our stockholders' ability to obtain a favorable judicial forum for disputes with us or our directors, officers or employees.***

Our amended and restated certificate of incorporation provides that the Court of Chancery of the State of Delaware is the exclusive forum for any derivative action or proceeding brought on our behalf, any action asserting a breach of fiduciary duty, any action asserting a claim against us arising pursuant to the Delaware General Corporation Law, our certificate of incorporation or our bylaws, any action to interpret, apply, enforce, or determine the validity of our certificate of incorporation or bylaws, or any action asserting a claim against us that is governed by the internal affairs doctrine. The choice of forum provision may limit a stockholder's ability to bring a claim in a judicial forum that it finds favorable for disputes with us or our directors, officers or other employees, which may discourage such lawsuits against us and our directors, officers and other employees. Alternatively, if a court were to find the choice of forum provision contained in our certificate of incorporation to be inapplicable or unenforceable in an action, we may incur additional costs associated with resolving such action in other jurisdictions, which could adversely affect our business and financial condition.

***We do not intend to pay dividends on our common stock, and, consequently, our stockholders' ability to achieve a return on their investment will depend on appreciation in the price of our common stock.***

We do not intend to pay any cash dividends on our common stock for the foreseeable future. We intend to invest our future earnings, if any, to fund our growth. Furthermore, pursuant to the loan and the security agreement between us and Solar, we are not permitted to pay cash dividends more than $150,000 in aggregate per fiscal year without its prior written consent. Therefore, our stockholders are not likely to receive any dividends on their common stock for the foreseeable future. Since we do not intend to pay dividends, our stockholders' ability to receive a return on their investment will depend on any future appreciation in the market value of our common stock. There is no guarantee that our common stock will appreciate or even maintain the price at which our stockholders have purchased it.

## ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

*Unregistered Sales of Equity Securities*

There were no unregistered securities issued and sold during the quarter ended March 31, 2019.

*Use of Proceeds*

None

*Issuer Purchases of Equity Securities*

None.

## ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

## ITEM 4. MINE SAFETY DISCLOSURES

Not Applicable.

**ITEM 5. OTHER INFORMATION**

On May 10, 2019, Gabe Zingaretti notified us of his decision to resign as our Chief Operations Officer, effective on May 24, 2019. Mr. Zingaretti's resignation is as a result of his decision to pursue other professional opportunities and is not due to any disagreement with us on any matter relating to our operations, policies or practices.

**ITEM 6. EXHIBITS**

| Exhibit Number | Description | Form | Date | Number | Filed Herewith |
|---|---|---|---|---|---|
| 3.1 | Amended and Restated Certificate of Incorporation | 8-K | 10-17-17 | 3.1 | |
| 3.2 | Amended and Restated Bylaws | 8-K | 10-17-17 | 3.2 | |
| 4.1 | Reference is made to exhibits 3.1 through 3.2. | | | | |
| 4.2 | Form of Common Stock Certificate | S-1/A | 9-18-17 | 4.2 | |
| 31.1 | Certification of Principal Executive Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. | | | | X |
| 31.2 | Certification of Principal Financial Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. | | | | X |
| 32.1* | Certification of Principal Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. | | | | X |
| 32.2* | Certification of Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. | | | | X |
| 101.INS | XBRL Instance Document | | | | |
| 101.SCH | XBRL Taxonomy Extension Schema Document | | | | |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document | | | | |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document | | | | |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document | | | | |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document | | | | |

* The certification attached as Exhibit 32.1 and Exhibit 32.2 that accompanies this Quarterly Report on Form 10-Q is not deemed filed with the SEC and is not to be incorporated by reference into any filing of Restoration Robotics, Inc. under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, whether made before or after the date of this Form 10-Q, irrespective of any general incorporation language contained in such filing.

**SIGNATURES**

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

Company Name

Date: May 15, 2019

By: /s/ RYAN RHODES

**Ryan Rhodes**
**President, Chief Executive Officer**

Date: May 15, 2019

By: /s/ MARK L. HAIR

**Mark L. Hair**
**Chief Financial Officer**

**Exhibit 31.1**

**CERTIFICATION OF PRESIDENT AND CHIEF EXECUTIVE OFFICER**
**PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Ryan Rhodes, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Restoration Robotics, Inc.;

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

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

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

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

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

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

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

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

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

Date: May 15, 2019

By: /s/ RYAN RHODES

**Name: Ryan Rhodes**
**President, Chief Executive Officer**
**(Principal Executive Officer)**

**Exhibit 31.2**

**CERTIFICATION OF CHIEF FINANCIAL OFFICER**
**PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Mark L. Hair, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Restoration Robotics, Inc.;

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

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

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

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

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

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

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

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

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

Date: May 15, 2019

By: /s/ MARK L. HAIR

**Name: Mark L. Hair**
**Chief Financial Officer**
**(Principal Financial Officer)**

**Exhibit 32.1**

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

In connection with the quarterly report of Restoration Robotics, Inc. (the "Company") on Form 10-Q for the period ending March 31, 2019 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

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

Date: May 15, 2019

By: /s/ RYAN RHODES

**Name: Ryan Rhodes**
**President, Chief Executive Officer**
**(Principal Executive Officer)**

**Exhibit 32.2**

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

In connection with the quarterly report of Restoration Robotics, Inc. (the "Company") on Form 10-Q for the period ending March 31, 2019, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

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

Date: May 15, 2019

By: /s/ MARK L. HAIR

**Name: Mark L. Hair**
**Chief Financial Officer**
**(Principal Financial Officer)**