

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

FORM 10-Q

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

For the quarterly period ended September 30, 2021

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 0-51481

STRATA
SKIN SCIENCES

STRATA SKIN SCIENCES, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction
of incorporation or organization)

13-3986004
(I.R.S. Employer
Identification No.)

5 Walnut Grove Drive, Suite 140, Horsham, Pennsylvania 19044
(Address of principal executive offices, including zip code)

(215) 619-3200

(Registrant's telephone number, including area code)

Securities registered under Section 12(b) of the Exchange Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, \$0.001 par value per share	SSKN	The NASDAQ Stock Market LLC

Indicate by check mark whether the registrant: (i) 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 (ii) 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 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, a smaller reporting company, or an emerging growth company. See 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

The number of shares outstanding of the issuer's common stock as of November 4, 2021 was [34,364,679] shares.

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PART I – Financial Information**ITEM 1. Financial Statements**

STRATA SKIN SCIENCES, INC. AND SUBSIDIARY
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except share and per share amounts)

	September 30, 2021 (unaudited)	December 31, 2020
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 13,047	\$ 10,604
Restricted cash	-	7,508
Accounts receivable, net of allowance for doubtful accounts of \$248 and \$274, respectively	3,151	2,944
Inventories	3,225	3,444
Prepaid expenses and other current assets	623	331
Total current assets	<u>20,046</u>	<u>24,831</u>
Property and equipment, net	6,403	5,529
Operating lease right-of-use assets, net	727	988
Intangible assets, net	10,546	6,345
Goodwill	8,803	8,803
Other assets	233	282
Total assets	<u>\$ 46,758</u>	<u>\$ 46,778</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Note payable	\$ -	\$ 7,275
Current portion of long-term debt	-	1,478
Accounts payable	2,480	2,764
Other accrued liabilities	5,548	4,690
Current portion of operating lease liabilities	359	369
Deferred revenues	3,767	2,262
Total current liabilities	<u>12,154</u>	<u>18,838</u>
Long-term liabilities:		
Long-term debt, net	7,282	1,050
Deferred tax liability	266	254
Long-term operating lease liabilities, net	445	710
Other liabilities	428	34
Total liabilities	<u>20,575</u>	<u>20,886</u>
Commitments and contingencies (see Note 15)		
Stockholders' equity:		
Series C Convertible Preferred Stock, \$0.10 par value, 10,000,000 shares authorized; 0 shares issued and outstanding at September 30, 2021 and December 31, 2020	-	-
Common Stock, \$0.001 par value, 150,000,000 shares authorized; 34,364,679, and 33,801,045 shares issued and outstanding at September 30, 2021 and December 31, 2020, respectively	34	34
Additional paid-in capital	246,979	244,831
Accumulated deficit	(220,830)	(218,973)
Total stockholders' equity	<u>26,183</u>	<u>25,892</u>
Total liabilities and stockholders' equity	<u>\$ 46,758</u>	<u>\$ 46,778</u>

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

STRATA SKIN SCIENCES, INC. AND SUBSIDIARY
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except share and per share amounts)
(unaudited)

	For the Three Months Ended September 30,	
	2021	2020
Revenues, net	\$ 7,711	\$ 5,613
Cost of revenues	<u>2,335</u>	<u>2,383</u>
Gross profit	<u>5,376</u>	<u>3,230</u>
Operating expenses:		
Engineering and product development	371	411
Selling and marketing	3,295	2,051
General and administrative	<u>2,175</u>	<u>1,929</u>
	<u>5,841</u>	<u>4,391</u>
Loss from operations	<u>(465)</u>	<u>(1,161)</u>
Interest expense net	<u>(52)</u>	<u>(21)</u>
Loss before income taxes	(517)	(1,182)
Income tax expense	<u>(4)</u>	<u>(72)</u>
Net loss	<u>\$ (521)</u>	<u>\$ (1,254)</u>
Loss per common share - basic and diluted	<u>\$ (0.02)</u>	<u>\$ (0.04)</u>
Weighted average shares of common stock outstanding – basic and diluted	<u>34,150,438</u>	<u>33,754,909</u>

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

STRATA SKIN SCIENCES, INC. AND SUBSIDIARY
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except share and per share amounts)
(unaudited)

	For the Nine Months Ended September 30,	
	2021	2020
Revenues, net	\$ 20,920	\$ 16,373
Cost of revenues	7,070	6,780
Gross profit	13,850	9,593
Operating expenses:		
Engineering and product development	1,158	950
Selling and marketing	9,387	6,446
General and administrative	7,085	5,921
	17,630	13,317
Loss from operations	(3,780)	(3,724)
Other income (expense), net:		
Gain on forgiveness of debt	2,028	-
Interest expense, net	(93)	(38)
	1,935	(38)
Loss before income taxes	(1,845)	(3,762)
Income tax expense	(12)	(207)
Net loss	\$ (1,857)	\$ (3,969)
Loss attributable to common shares	\$ (1,857)	\$ (3,947)
Loss attributable to Preferred Series C shares	\$ -	\$ (22)
Loss per common share – basic and diluted	\$ (0.05)	\$ (0.12)
Weighted average common shares outstanding – basic and diluted	33,944,321	33,551,070
Loss per Preferred Series C share - basic and diluted	-	\$ (43.73)
Shares used in computing loss per basic and diluted Preferred Series C Shares	-	491

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

STRATA SKIN SCIENCES, INC. AND SUBSIDIARY
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2020
(In thousands, except share amounts)
(unaudited)

	Convertible Preferred Stock – Series C		Common Stock		Additional Paid-In Capital	Accumulated Deficit	Total
	Shares	Amount	Shares	Amount			
BALANCE, January 1, 2020	2,103	\$ 1	32,932,273	\$ 33	\$ 243,180	\$ (214,561)	\$ 28,653
Stock-based compensation	-	-	-	-	430	-	430
Conversion of convertible preferred stock into common stock	(2,103)	(1)	782,089	1	-	-	-
Net loss	-	-	-	-	-	(1,035)	(1,035)
BALANCE, March 31, 2020	-	\$ -	33,714,362	\$ 34	\$ 243,610	\$ (215,596)	\$ 28,048
Stock-based compensation	-	-	-	-	410	-	410
Issuance of restricted stock	-	-	40,547	-	-	-	-
Net loss	-	-	-	-	-	(1,680)	(1,680)
BALANCE, June 30, 2020	-	\$ -	33,754,909	\$ 34	\$ 244,020	\$ (217,276)	\$ 26,778
Stock based compensation	-	-	-	-	403	-	403
Net loss	-	-	-	-	-	(1,254)	(1,254)
BALANCE, September 30, 2020	-	\$ -	33,754,909	\$ 34	\$ 244,423	\$ (218,530)	\$ 25,927

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

STRATA SKIN SCIENCES, INC. AND SUBSIDIARY
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2021

(In thousands, except share amounts)

(unaudited)

	Common Stock		Additional Paid-In Capital	Accumulated Deficit	Total
	Shares	Amount			
BALANCE, January 1, 2021	33,801,045	\$ 34	\$ 244,831	\$ (218,973)	\$ 25,892
Stock-based compensation	-	-	662	-	662
Issuance of restricted stock	16,260	-	-	-	-
Net loss	-	-	-	(2,418)	(2,418)
BALANCE, March 31, 2021	<u>33,817,305</u>	<u>\$ 34</u>	<u>\$ 245,493</u>	<u>\$ (221,391)</u>	<u>\$ 24,136</u>
Stock-based compensation	-	-	581	-	581
Issuance of restricted stock	71,934	-	-	-	-
Net income	-	-	-	1,082	1,082
BALANCE, June 30, 2021	<u>33,889,239</u>	<u>\$ 34</u>	<u>\$ 246,074</u>	<u>\$ (220,309)</u>	<u>\$ 25,799</u>
Stock-based compensation	-	-	320	-	320
Exercise of stock options	329,076	-	-	-	-
Issuance of restricted stock	146,364	-	-	-	-
Issuance of warrants	-	-	585	-	585
Net Loss	-	-	-	(521)	(521)
BALANCE, September 30, 2021	<u>34,364,679</u>	<u>\$ 34</u>	<u>\$ 246,979</u>	<u>\$ (220,830)</u>	<u>\$ 26,183</u>

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

STRATA SKIN SCIENCES, INC. AND SUBSIDIARY
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands, unaudited)

	For the Nine Months Ended September 30,	
	2021	2020
Cash Flows From Operating Activities:		
Net loss	\$ (1,857)	\$ (3,969)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	2,689	2,793
Amortization of right-of-use asset	261	242
Provision (recoveries) for doubtful accounts	(26)	65
Stock-based compensation	1,563	1,243
Loss on disposal of property and equipment	73	23
Gain on forgiveness of debt	(2,028)	-
Deferred taxes	12	207
Changes in operating assets and liabilities:		
Accounts receivable	(181)	1,811
Inventories	219	(475)
Prepaid expenses and other assets	(243)	98
Accounts payable	(284)	1,608
Other accrued liabilities	859	(576)
Other liabilities	(88)	(126)
Operating lease liabilities	(275)	(226)
Deferred revenues	145	(968)
Net cash provided by operating activities	839	1,750
Cash Flows From Investing Activities:		
Purchase of property and equipment	(2,523)	(1,447)
Cash paid in connection with Ra Medical asset acquisition	(3,473)	-
Net cash used in investing activities	(5,996)	(1,447)
Cash Flows From Financing Activities:		
Proceeds from Senior Term Facility borrowings, net of fees	7,867	-
Repayment of note payable	(7,275)	-
Proceeds from (repayment of) long-term debt	(500)	2,528
Net cash provided by financing activities	92	2,528
Net (decrease) increase in cash and cash equivalents and restricted cash	(5,065)	2,831
Cash, cash equivalents and restricted cash, beginning of period	18,112	15,629
Cash, cash equivalents and restricted cash, end of period	<u>\$ 13,047</u>	<u>\$ 18,460</u>
Cash and cash equivalents	\$ 13,047	\$ 11,063
Restricted cash	-	7,397
	<u>\$ 13,047</u>	<u>\$ 18,460</u>
Supplemental information of cash and non-cash transactions:		
Cash paid for interest	\$ 109	\$ 157
Fair value of warrants issued in connection with debt	\$ 585	\$ -
Assumed deferred revenue in connection with Ra Medical asset acquisition	\$ 1,841	\$ -

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

STRATA SKIN SCIENCES, INC. AND SUBSIDIARY
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(In thousands, except share, and per share amounts and number of lasers)
(unaudited)

Note 1

The Company:

Background

STRATA Skin Sciences (the “Company”) is a medical technology company in dermatology dedicated to developing, commercializing and marketing innovative products for the treatment of dermatologic conditions. Its products include the XTRAC® and Pharos® excimer lasers and VTRAC® lamp systems utilized in the treatment of psoriasis, vitiligo and various other skin conditions.

The XTRAC is an ultraviolet light excimer laser system utilized to treat psoriasis, vitiligo and other skin diseases. The XTRAC excimer laser system received clearance from the United States Food and Drug Administration (the “FDA”) in 2000. As of September 30, 2021, there were 880 XTRAC systems placed in dermatologists' offices in the United States and 49 systems internationally under the Company's recurring revenue business model. The XTRAC systems deployed under the recurring revenue model generate revenue on a per procedure basis or include a fixed payment over an agreed upon period with a capped number of treatments, which if exceeded would incur additional fees. The per-procedure charge is inclusive of the use of the system and the services provided by the Company to the customer, which includes system maintenance and other services. The VTRAC Excimer Lamp system, offered in addition to the XTRAC system internationally, provides targeted therapeutic efficacy demonstrated by excimer technology with a lamp system.

In September 2020, the Company signed a direct distribution agreement with its Japanese distributor for a combination of direct capital sales and recurring revenue for the country of Japan.

In February 2021, the Company signed an agreement with its Chinese distributor for a combination of direct capital sales and recurring revenues for the country of China.

In the first quarter of 2021, the Company introduced its Home by XTRAC™ business on a pilot test basis, by leveraging in-house resources including DTC advertising, in-house call center and its insurance reimbursement team to provide an at-home, insurance-reimbursed treatment option for patients with certain skin diseases that do not qualify for in-office treatments. The Company has discontinued the pilot program and is evaluating this potential business opportunity.

In late 2019, there was an outbreak of a new strain of coronavirus (“COVID-19”) which became a global pandemic. The COVID-19 pandemic has negatively impacted the global economy, disrupted global supply chains, constrained work force participation and created significant volatility and disruption of financial markets. In addition, the pandemic led to the suspension of elective procedures in the U.S. and to the temporary closure of many physician practices which are our primary customers. The Company does not know the extent of the impact on its customers, including their potential for permanent closure. While many offices have reopened, the ongoing impact of the COVID-19 pandemic and its variants on the Company's operational and financial performance, including its ability to execute its business strategies and initiatives in the expected time frames will depend on future developments, including the duration and ongoing spread of the COVID-19 outbreak and its variants, continued or renewed restrictions on business operations and transport, any governmental and societal responses thereto, including legislative or regulatory changes as well as the distribution and effectiveness of COVID-19 vaccines and the continued impact on worldwide economic and geopolitical conditions, all of which are uncertain and cannot be predicted.

Domestically, as the procedures for which the Company's devices are used are elective in nature; and as social distancing, travel restrictions, quarantines and other restrictions became prevalent in the United States, this had a negative impact on the Company's recurring revenue model and its financial position and cash flow. The virus has disrupted the supply chain from China and other countries which the Company depends upon to provide a steady source of components to manufacture and repair our devices. To mitigate the impact of COVID-19 the Company took a variety of measures to ensure the availability and functioning of its critical infrastructure by implementing business continuity plans. To promote the safety and security of its employees, while complying with various government mandates including work-from-home arrangements and social-distancing initiatives to reduce the transmission of COVID-19, the Company provided face masks for employees at facilities significantly impacted and required masks and on-site body temperature monitoring before entering facilities. In addition, the Company created and executed programs utilizing its direct to consumer advertising and call center to contact patients and partner clinics to restart the Company's partners' businesses. In October 2021, the Company implemented a policy whereby all Company employees are required to be vaccinated or complete weekly COVID-19 testing. To conserve its cash in order to mitigate the ongoing impact of the COVID-19 pandemic, in the second quarter of 2020 the Company furloughed employees, who returned to work after the Company received proceeds from the PPP Loan. The Company also reduced discretionary spending in 2020. See Note 2, **Liquidity** for discussion on Company liquidity.

STRATA SKIN SCIENCES, INC. AND SUBSIDIARY
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(In thousands, except share, and per share amounts and number of lasers)
(unaudited)

Supply chain disruptions which began during the pandemic have continued and may continue for the foreseeable future. While the Company's operations have not been materially impacted by the general trends in supply chain problems, the Company continues to monitor and assess potential risks.

Basis of Presentation:

Principles of Consolidation

The condensed consolidated financial statements include the accounts of the Company and its wholly-owned, inactive subsidiary in India. All significant intercompany balances and transactions have been eliminated in consolidation.

Unaudited Interim Condensed Consolidated Financial Statements

The accompanying unaudited interim condensed consolidated financial statements have been prepared pursuant to the rules and regulations of the United States Securities and Exchange Commission ("SEC") for interim financial reporting. These condensed consolidated statements are unaudited and, in the opinion of management, include all adjustments (consisting of normal recurring adjustments and accruals) necessary to fairly present the results of the interim periods. The condensed consolidated balance sheet at December 31, 2020, has been derived from the audited consolidated financial statements at that date. Operating results and cash flows for the nine months ended September 30, 2021 are not necessarily indicative of the results that may be expected for the fiscal year ending December 31, 2021 or any other future period. Certain information and footnote disclosures normally included in annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) have been omitted in accordance with the rules and regulations for interim reporting of the SEC. These interim condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2020 (the "2020 Form 10-K"), and other forms filed with the SEC from time to time. Dollar amounts included herein are in thousands, except share, per share data and number of lasers.

Reclassifications

Certain reclassifications from the prior year presentation have been made to conform to the current year presentation. These reclassifications did not have a material impact on the Company's equity, results of operations, or cash flows.

Significant Accounting Policies

The significant accounting policies used in preparation of these condensed consolidated financial statements are disclosed in the Company's Annual Report on Form 10-K for the year ended December 31, 2020, and there have been no changes to the Company's significant accounting policies during the nine months ended September 30, 2021.

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 amounts reported of assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting periods. Actual results could differ from those estimates and be based on events different from those assumptions. As of September 30, 2021, the more significant estimates include (1) revenue recognition, in regards to deferred revenues and the contract term and valuation allowances of accounts receivable, (2) the inputs used in the impairment analysis of goodwill, (3) the estimated useful lives of intangible assets and property and equipment, (4) the inputs used in determining the fair value of equity-based awards, (5) the valuation allowance related to deferred tax assets, (6) the inventory reserves, (7) state sales and use tax accruals and (8) warranty claims.

Additionally, the full impact of the ongoing COVID-19 outbreak is unknown and cannot be reasonably estimated. However, management has made appropriate accounting estimates on certain accounting matters, which include the allowance for doubtful accounts, inventory valuation, carrying value of the goodwill and other long-lived assets, based on the facts and circumstances available as of the reporting date. The Company's future assessment of the magnitude and duration of the ongoing COVID-19 outbreak, as well as other factors, could result in material impacts to the Company's financial statements in future reporting periods.

STRATA SKIN SCIENCES, INC. AND SUBSIDIARY
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(In thousands, except share, and per share amounts and number of lasers)
(unaudited)

Fair Value Measurements

The Company measures and discloses fair value in accordance with Financial Accounting Standards Board (“FASB”) Accounting Standards Codification 820, *Fair Value Measurements and Disclosures* (“ASC Topic 820”). ASC Topic 820 defines fair value, establishes a framework and gives guidance regarding the methods used for measuring fair value, and expands disclosures about fair value measurements. Fair value is an exit price, representing the amount 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. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. As a basis for considering such assumptions there exists a three-tier fair value hierarchy which prioritizes the inputs used in measuring fair value as follows:

- Level 1 – unadjusted quoted prices are available in active markets for identical assets or liabilities that the Company has the ability to access as of the measurement date.
- Level 2 – pricing inputs are other than quoted prices in active markets that are directly observable for the asset or liability or indirectly observable through corroboration with observable market data.
- Level 3 – pricing inputs are unobservable for the non-financial asset or liability and only used when there is little, if any, market activity for the non-financial asset or liability at the measurement date. The inputs into the determination of fair value require significant management judgment or estimation. Fair value is determined using comparable market transactions and other valuation methodologies, adjusted as appropriate for liquidity, credit, market and/or other risk factors.

This hierarchy requires the Company to use observable market data, when available, and to minimize the use of unobservable inputs when determining fair value.

The fair value of cash and cash equivalents and restricted cash are based on their respective demand value, which are equal to the carrying value. The carrying value of all short-term monetary assets and liabilities is estimated to be approximate to their fair value due to the short-term nature of these instruments. As of September 30, 2021 and December 31, 2020, the carrying value of the note payable and the Company’s long term debt are estimated to approximate fair value.

Earnings Per Share

The Company calculates earnings (loss) per common share and Preferred Series C share in accordance with ASC 260, *Earnings per Share*. Under ASC 260, basic loss per common share and Preferred Series C share is calculated by dividing the loss attributable to common shares and Preferred Series C shares by the weighted-average number of common shares and Preferred Series C shares outstanding during the reporting period and excludes dilution for potentially dilutive securities. Diluted loss per common share and Preferred Series C share gives effect to dilutive options, warrants and other potential common shares outstanding during the period.

No shares of the Company’s Series C Convertible Preferred Stock were outstanding as of September 30, 2021 and 2020. These shares were subordinate to all other securities at the same subordination level as common stock and they participated in all dividends and distributions declared or paid with respect to common stock of the Company, on an as-converted basis. Therefore, the Series C Convertible Preferred Shares met the definition of common stock under ASC 260. Earnings per share is presented for each class of security meeting the definition of common stock. The loss is allocated to each class of security meeting the definition of common stock based on their contractual terms.

The Company considered its Series C Convertible Preferred Stock to be participating securities in the presentation of earnings (loss) per share. For the three and nine months ended September 30, 2021 and the three and nine months ended September 30, 2020, diluted loss per common share and Series C Convertible Preferred Stock share is equal to the basic loss per common share and Series C Convertible Preferred Stock share, respectively, since all potentially dilutive securities were anti-dilutive.

STRATA SKIN SCIENCES, INC. AND SUBSIDIARY
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(In thousands, except share, and per share amounts and number of lasers)
(unaudited)

The following table sets forth the potentially dilutive securities outstanding as of September 30, 2021 and 2020 that have been excluded from the loss per share calculation as their inclusion would have been anti-dilutive:

	September 30,	
	2021	2020
Common stock purchase warrants	373,626	149,901
Restricted stock units	144,497	119,330
Common stock options	3,963,889	4,908,038
Total	<u>4,482,012</u>	<u>5,177,269</u>

Accounting Pronouncements Recently Adopted

In December 2019, the FASB issued ASU No. 2019-12, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes*. ASU 2019-12 eliminated certain exceptions and changed guidance on other matters. The exceptions relate to the allocation of income taxes in separate company financial statements, tax accounting for equity method investments and accounting for income taxes when the interim period year-to-date loss exceeds the anticipated full year loss. Changes relate to the accounting for franchise taxes that are income-based and non-income-based, determining if a step up in tax basis is part of a business combination or if it is a separate transaction, when enacted tax law changes should be included in the annual effective tax rate computation, and the allocation of taxes in separate company financial statements to a legal entity that is not subject to income tax. The new standard is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020, with early adoption permitted. The adoption of ASU No. 2019-12 on January 1, 2021 did not have a material effect on the Company's condensed consolidated financial statements.

Recent Accounting Pronouncements Not Yet Adopted

In March 2020, the FASB issued ASU 2020-04, *Reference Rate Reform (Topic 848) Facilitation of the Effects of Reference Rate Reform on Financial Statements*. This pronouncement provides temporary optional expedients and exceptions for applying U.S. GAAP principles to contract modifications and hedging relationships to ease the financial reporting burdens of the expected market transition from LIBOR and other interbank offered rates to alternative reference rates. The guidance is effective upon issuance in March 2020, and will apply through December 31, 2022. The Company continues to evaluate the temporary expedients and options available under this guidance and the effects of these pronouncements, and as the Company does not have any hedging activities does not believe this will have a material effect on its condensed consolidated financial statements.

In August 2020, the FASB issued ASU 2020-06, *Debt with Conversion and Other Options (Subtopic 470-20) and Derivative and Hedging – Contracts in Entity's Own Equity (Subtopic 815-40); Accounting for Convertible Instruments and Contracts in an Entity's own Equity*. The pronouncement simplifies the accounting for certain financial instruments with characteristics of liabilities and equity, including convertible instruments and contracts on an entity's own equity. Specifically, the ASU "simplifies accounting for convertible instruments by removing major separation models required under current U.S. GAAP." In addition, the ASU "removes certain settlement conditions that are required for equity contracts to qualify for it" and "simplifies the diluted earnings per share (EPS) calculations in certain areas." The guidance is effective beginning after December 15, 2023 and early adoption is permitted. The Company does not currently engage in contracts covered by this guidance and does not believe it will have a material effect on the Company's condensed consolidated financial statements, but could in the future.

In May 2021, the FASB issued ASU 2021-04, *Earnings per Share (Topic 260), Debt – Modifications and Extinguishments (Subtopic 470-50), Compensation – Stock Compensation (Topic 718), and Derivatives and Hedging – Contracts in Entity's Own Equity (Subtopic 815-40): Issuer's Accounting for Certain Modifications or Exchanges or Freestanding Equity-Classified Written Call Options*. The pronouncement outlines how an entity should account for modifications made to equity-classified written call options, including stock options and warrants to purchase the entity's own common stock. The guidance in the ASU requires an entity to treat a modification of an equity-classified written call option that does not cause the option to become liability-classified as an exchange of the original option for a new option. This guidance applies whether the modification is structured as an amendment to the terms and conditions of the equity-classified written call option or as termination of the original option and issuance of a new option. The guidance is effective prospectively for fiscal years beginning after December 15, 2021 and early adoption is permitted. The Company does not believe this will have a material effect on its condensed consolidated financial statements.

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Note 2

Liquidity

The Company has been negatively impacted by the ongoing COVID-19 pandemic, has historically experienced recurring losses, has been dependent on raising capital from the sale of securities in order to continue to operate and refinanced its debt at a lower interest rate. During the COVID-19 pandemic, the Company received cash proceeds from the PPP loan, which was forgiven, and the EIDL loan (each as defined in Note 10 below) that was repaid at the time the senior credit facility entered into with MidCap Financial Trust in September 2021 (see Note 10). Additionally, in October 2021, the Company entered into an equity distribution agreement with an investment bank under which the Company may sell up to \$11,000 of its common stock in registered “at-the-market” offerings (see Note 16). Management believes that the Company’s cash and cash equivalents, combined with the anticipated revenues from the sale or use of the Company’s products, will be sufficient to satisfy our working capital needs, capital asset purchases, outstanding commitments and other liquidity requirements associated with its existing operations through the next 12 months following the date of the issuance of these unaudited interim condensed consolidated financial statements. However, the negative impact of the ongoing COVID-19 outbreak on the financial markets and supply chain disruptions could interfere with the Company’s ability to access financing and on favorable terms.

Note 3

Revenue Recognition

In the Dermatology Recurring Procedures Segment the Company has two types of arrangements for its phototherapy treatment equipment as follows: (i) the Company places its lasers in a physician’s office at no charge to the physician, and generally charges the physician a fee for an agreed upon number of treatments; or (ii) the Company places its lasers in a physician’s office and charges the physician a fixed fee for a specified period of time not to exceed an agreed upon number of treatments; if that number is exceeded additional fees will have to be paid.

For the purposes of U.S. GAAP only, these two types of arrangements are treated under the guidance of ASC 842, Leases. While these arrangements are not contractually operating leases, since the Company sells the physician access codes in order to operate the treatment equipment, these arrangements are similar to operating leases for accounting purposes since the Company provides the customers limited rights to use the treatment equipment and the treatment equipment resides in the physician’s office and the Company may exercise the right to remove the equipment upon notice, under certain circumstances, while the physician controls the utility and output of such equipment during the term of the arrangement as it pertains to the use of access codes to treat the patients. For the lasers placed-in service under these arrangements, the terms of the domestic arrangements are generally 36 months with automatic one-year renewals and include a termination clause that can be affected at any time by either party with 30 to 60 day notice. Amounts paid are generally non-refundable. For the first type of arrangement, sales of access codes are considered variable treatment code payments and are recognized as revenue over the estimated usage period of the agreed upon number of treatments. For the second type of arrangement, customers purchase access codes and revenue is recognized ratably on a straight-line basis as the lasers are being used over the term period specified in the agreement. Variable treatment code payments that will be paid only if the customer exceeds the agreed upon number of treatments are recognized only when such treatments are being exceeded and used. Internationally, through its Korean, Japanese and, in 2021, Chinese distributors, the Company generally sells access codes for a fixed amount on a monthly basis to end-user customers and the terms are generally 48 months, with termination in the event of the customers’ failure to remit payments timely, and include a potential buy-out at the end of the term of the contract. Currently, this is the only foreign recurring revenue. Pre-paid amounts are recorded in deferred revenue and recognized as revenue over the lease term in the patterns described above. Under both methods, pricing is fixed with the customer.

With respect to lease and non-lease components, the Company adopted the practical expedient to account for the arrangement as a single lease component.

In the Dermatology Procedures Equipment segment, the Company sells its products internationally through distributors and domestically directly to physicians. For the product sales, the Company recognizes revenues when control of the promised products is transferred to either the Company’s distributors or end-user customers, in an amount that reflects the consideration the Company expects to be entitled to in exchange for those products (the transaction price). Control transfers to the customer at a point in time. To indicate the transfer of control, the Company must have a present right to payment and legal title must have passed to the customer. The Company ships most of its products FOB shipping point, and as such, the Company primarily transfers control and records revenue upon shipment. From time to time the Company will grant certain customers, for example governmental customers, FOB destination terms, and the transfer of control for revenue recognition occurs upon receipt. The Company has elected to recognize the cost of freight and shipping activities as fulfillment costs. Amounts billed to customers for shipping and handling are included as part of the transaction price and recognized as revenue when control of the underlying goods are transferred to the customer. The related shipping and freight charges incurred by the Company are included in cost of revenues.

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Remaining performance obligations related to ASC 606 represent the aggregate transaction price allocated to performance obligations with an original contract term greater than one year, which are fully or partially unsatisfied at the end of the period. Remaining performance obligations include the potential obligation to perform under extended warranties but excludes any equipment accounted for as leases. As of September 30, 2021, the aggregate amount of the transaction price allocated to remaining performance obligations was \$1,549, and the Company expects to recognize \$1,148 of the remaining performance obligations within one year and the balance over one to three years. At September 30, 2021, \$1,506 of the \$1,549 remaining performance obligations are comprised of the deferred revenue acquired in connection with the RA Medical asset acquisition. Contract assets primarily relate to the Company's rights to consideration for work completed in relation to its services performed but not billed at the reporting date. The contract assets are transferred to receivables when the rights become unconditional. Currently, the Company does not have any contract assets which have not transferred to a receivable. Contract liabilities primarily relate to extended warranties where the Company has received payments, but has not yet satisfied the related performance obligations.

The allocations of the transaction price are based on the price of stand-alone warranty contracts sold in the ordinary course of business. The advance consideration received from customers for the warranty services is a contract liability that is recognized ratably over the warranty period. As of September 30, 2021, the \$1,148 of short-term contract liabilities is presented as deferred revenues and the \$401 of long-term contract liabilities is presented within Other Liabilities on the condensed consolidated balance sheet. For the three and nine months ended September 30, 2021 and 2020, the Company recognized \$19 and \$73, and \$52 and \$162 respectively, as revenue from amounts classified as contract liabilities (i.e. deferred revenues) as of December 31, 2020, and 2019.

With respect to contract acquisition costs, the Company applied the practical expedient and expenses these costs immediately.

The Company records co-pay reimbursements made to patients receiving laser treatments as a reduction of revenue. For the three and nine months ended September 30, 2021, and 2020, the Company recorded such reimbursements in the amounts of \$199 and \$542, and \$160 and \$414, respectively.

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The following tables present the Company's revenue disaggregated by geographical region for the three and nine months ended September 30, 2021 and 2020, respectively. Domestic refers to revenue from customers based in the United States, and substantially all foreign revenue is derived from sales to our distributors, primarily in Asia.

	Three Months Ended September 30, 2021		
	Dermatology Recurring Procedures	Dermatology Procedures Equipment	TOTAL
	Domestic	\$ 5,370	\$ 519
Foreign	340	1,482	1,822
Total	\$ 5,710	\$ 2,001	\$ 7,711

	Nine Months Ended September 30, 2021		
	Dermatology Recurring Procedures	Dermatology Procedures Equipment	TOTAL
	Domestic	\$ 14,923	\$ 1,113
Foreign	918	3,966	4,884
Total	\$ 15,841	\$ 5,079	\$ 20,920

	Three Months Ended September 30, 2020		
	Dermatology Recurring Procedures	Dermatology Procedures Equipment	TOTAL
	Domestic	\$ 3,690	\$ 261
Foreign	145	1,517	1,662
Total	\$ 3,835	\$ 1,778	\$ 5,613

	Nine Months Ended September 30, 2020		
	Dermatology Recurring Procedures	Dermatology Procedures Equipment	TOTAL
	Domestic	\$ 11,957	\$ 701
Foreign	375	3,340	3,715
Total	\$ 12,332	\$ 4,041	\$ 16,373

The following table summarizes the Company's expected future undiscounted fixed treatment code payments from international recurring revenue customers as of September 30, 2021:

Remaining 2021	\$ 390
2022	1,556
2023	1,479
2024	1,076
2025	362
Thereafter	-
Total	\$ 4,863

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Note 4

Acquisition of Pharos Assets and Liabilities

In August 2021, the Company acquired certain assets and liabilities related to the U.S. dermatology Pharos business from Ra Medical Systems, Inc. (“Ra Medical”). Ra Medical’s Pharos excimer laser system holds FDA clearance to treat chronic skin diseases, including psoriasis, vitiligo, atopic dermatitis and leukoderma. The acquisition of these assets and liabilities allows the Company to market its full business solutions to Ra Medical’s existing customer base comprised of 400 dermatology practices offering opportunities to increase its recurring revenue base and a pathway to gain additional placements for the Company’s XTRAC excimer laser system.

The purchase price of \$3,700 was paid in cash at the time of acquisition. In addition, the Company assumed certain extended warranty service contracts associated with acquired laser system products. Concurrent with the purchase of the net assets, the Company and Ra Medical entered into a services agreement whereby Ra Medical will provide certain transitional services for the Company as it integrates the acquired assets into the Company. The Company determined this transaction represented an asset acquisition as substantially all of the value was in the acquired customer list intangible asset as defined by ASC 805, *Business Combinations* (“ASC 805”). The purchase price was allocated, on a relative fair basis, to the acquired inventory, customer lists and deferred revenue as follows (in thousands):

Consideration:

Cash payment	\$ 3,700
Transaction costs	57
Total consideration	<u>\$ 3,757</u>

Assets acquired:

Inventory	\$ 284
Customer lists	5,314
Total assets acquired	<u>\$ 5,598</u>

Liabilities assumed:

Deferred revenues - service contracts	\$ 1,841
Total liabilities assumed	<u>\$ 1,841</u>

Net assets acquired	<u>\$ 3,757</u>
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The customer lists intangible asset is being amortized on a straight-line basis over a period of twelve years. As the transaction was accounted for as an asset acquisition, the Company allocated consideration paid to the inventory acquired and the deferred revenue assumed with the remaining consideration paid allocated to the customer lists intangible asset which also equal its estimated fair value. The intangible asset was valued using an excess earnings model. Significant assumptions used in the excess earnings model include estimated customer sales growth, customer attrition, and weighted average cost of capital of 3%, 5% and 17%, respectively.

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Note 5**Inventories:**

Inventories consist of:

	September 30, 2021	December 31, 2020
Raw materials and work-in-process	\$ 3,024	\$ 2,949
Finished goods	201	495
Total inventories	\$ 3,225	\$ 3,444

Work-in-process is immaterial, given the Company's typically short manufacturing cycle, and therefore is disclosed in conjunction with raw materials.

Note 6**Property and Equipment, net:**

Property and equipment consist of:

	September 30, 2021	December 31, 2020
Lasers placed-in-service	\$ 25,190	\$ 22,942
Equipment, computer hardware and software	224	146
Furniture and fixtures	236	243
Leasehold improvements	43	43
	25,693	23,374
Accumulated depreciation and amortization	(19,290)	(17,845)
Property and equipment, net	\$ 6,403	\$ 5,529

Depreciation and related amortization expense was \$575 and \$1,576, and \$454 and \$1,535 for the three and nine months ended September 30, 2021, and 2020, respectively. During the nine months ended September 30, 2021, the Company recognized a \$73 loss on the disposal of property and equipment with an original cost of \$204 and accumulated depreciation of \$131 at the time of disposal.

Note 7**Intangible Assets, net:**

Set forth below is a detailed listing of definite-lived intangible assets as of September 30, 2021:

	Balance	Accumulated Amortization	Intangible assets, net
Core technology	\$ 5,700	\$ (3,562)	\$ 2,138
Product technology	2,000	(2,000)	-
Customer relationships	6,900	(4,313)	2,587
Tradenames	1,500	(938)	562
Pharos customer list	5,314	(55)	5,259
	\$ 21,414	\$ (10,868)	\$ 10,546

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The following table is a detailed listing of definite-lived intangible assets as of December 31, 2020:

	Balance	Accumulated Amortization	Intangible assets, net
Core technology	\$ 5,700	\$ (3,135)	\$ 2,565
Product technology	2,000	(2,000)	-
Customer relationships	6,900	(3,795)	3,105
Tradenames	1,500	(825)	675
	<u>\$ 16,100</u>	<u>\$ (9,755)</u>	<u>\$ 6,345</u>

In August 2021, the Company acquired customer lists in connection with the Ra Medical asset acquisition with an estimated fair value of \$5,314 at the time of acquisition (see Note 3).

Amortization expense was \$408 and \$1,113, and \$353 and \$1,258 for the three and nine months ended September 30, 2021, and 2020, respectively.

Definite-lived intangible assets are tested for impairment when events or changes in circumstances indicate that the carrying value of the asset group may not be recoverable. The Company recognizes an impairment loss when and to the extent that the recoverable amount of an asset group is less than its carrying value. There were no impairment charges for the nine months ended September 30, 2021.

Estimated amortization expense for the above amortizable intangible assets for future periods is as follows:

Remaining 2021	\$	463
2022		1,853
2023		1,853
2024		1,853
2025		1,148
Thereafter		3,376
Total	<u>\$</u>	<u>10,546</u>

Note 8

Other Accrued Liabilities:

Other accrued liabilities consist of:

	September 30, 2021	December 31, 2020
Accrued warranty, current	\$ 54	\$ 87
Accrued compensation, including commissions and vacation	1,578	891
Accrued state sales, use and other taxes	3,152	3,105
Accrued professional fees and other accrued liabilities	764	607
Total other accrued liabilities	<u>\$ 5,548</u>	<u>\$ 4,690</u>

Accrued State Sales and Use Tax

In the ordinary course of business, the Company is, from time to time, subject to audits performed by state taxing authorities. These actions and proceedings are generally based on the position that the arrangements entered into by the Company are subject to sales and use tax rather than exempt from tax under applicable law. The Company uses estimates when accruing its sales and use tax liability. All of the Company's tax positions are subject to audit. One state has assessed the Company, in two assessments, an aggregate amount of \$1,484 for the period from March 2014 through February 2020, including penalties and interest. The Company has declined an informal offer to settle at a substantially lower amount, and the Company appealed in that jurisdiction's administrative process of appeal.

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In January 2021, the Company received notification that the administrative judge from the respective state had issued an opinion finding in favor of the Company that the sale of XTRAC treatment codes were not taxable as sales tax with respect to the first assessment. The jurisdiction has filed an appeal of the administrative law judge's finding, and the appeal is in process.

A second jurisdiction has made an assessment of \$720 from June 2015 through March 2018 plus interest of \$171 through April 2020. The Company is also in that jurisdiction's administrative process of appeal and the timing of the process has been impacted by the COVID-19 pandemic. If there is a determination that the true object of the Company's recurring revenue model is not exempt from sales taxes and is not a prescription medicine or the Company does not have other defenses where the Company does not prevail, the Company may be subject to sales taxes in those particular states for previous years and in the future, plus potential interest and penalties.

The Company believes its state sales and use tax accruals have properly recognized such that if the Company's arrangements with customers are deemed more likely than not that the Company would not be exempt from sales tax in a particular state are the basis for measurement of the state sales and use tax is calculated in accordance with ASC 405, Liabilities as a transaction tax. If and when the Company is successful in defending itself or in settling the sales tax obligation for a lesser amount, the reversal of this liability is to be recorded in the period the settlement is reached. However, the precise scope, timing and time period at issue, as well as the final outcome of any audit and actual settlement remains uncertain.

The Company records state sales tax collected and remitted for its customers on equipment sales on a net basis, excluded from revenue. The Company's sales tax expense that is not presently being collected and remitted for the recurring revenue business is recorded in general and administrative expenses on the condensed consolidated statements of operations.

Accrued Warranty Costs

The Company offers a standard warranty on product sales generally for a one to two-year period, however, the Company has offered longer warranty periods, ranging from three to four years, in order to meet competition or meet customer demands. The Company provides for the estimated cost of the future warranty claims on the date the product is sold. Total accrued warranty is included in other accrued liabilities and other liabilities on the condensed consolidated balance sheets. The activity in the warranty accrual during the three and nine months ended September 30, 2021, and 2020, is summarized as follows:

	Three Months Ended, September 30,		Nine Months Ended, September 30,	
	2021	2020	2021	2020
Accrual at beginning of period	\$ 98	\$ 139	\$ 113	\$ 232
Additions charged to warranty expense	11	37	52	46
Expiring warranties/claimed satisfied	(28)	(41)	(84)	(143)
Total	81	135	81	135
Less: current portion	(54)	(107)	(54)	(107)
Total long-term accrued warranty costs	<u>\$ 27</u>	<u>\$ 28</u>	<u>\$ 27</u>	<u>\$ 28</u>

Note 9

Note Payable

On December 30, 2020, the Company had renewed its \$7,275 loan with a commercial bank pursuant to a one-year Fixed Rate – Term Promissory Note (the "Note"). The Company's obligations under the Note were secured by an Assignment and Pledge of Time Deposit, under which the Company had pledged to the commercial bank the proceeds of a time deposit account in the amount of the loan and recorded the time deposit and accrued interest as restricted cash on the balance sheet. The principal was due on December 30, 2021 with no penalties for prepayments. The interest rate is fixed at 1.40%. The secured time deposit had a fixed interest rate of 0.40%. On September 30, 2021, the Company repaid the Note with the proceeds from the Time Deposit.

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Note 10

Long-term Debt:

Senior Term Facility

On September 30 2021, the Company entered into a credit and security agreement with MidCap Financial Trust, also acting as the administrative agent, and the lenders identified therein (“Senior Term Facility”). The Senior Term Facility provides for an \$8.0 million senior term loan that was drawn upon by the Company upon executing the agreement. On September 30, 2021, the Company also repaid the outstanding principal and interest for its Note Payable (Note 9) and the Economic Injury Disaster Loan. Borrowings under the Senior Term Facility bear interest at LIBOR (with a LIBOR floor rate of 0.50%) plus 7.50% and matures on September 1, 2026, unless terminated earlier. The Company is obligated to make monthly interest-only payments through September 30, 2024. From October 1, 2024 to the date of maturity, the Company will make 24 equal monthly principal payments plus interest and all borrowings are secured by substantially all of the Company’s assets.

The Company may voluntarily prepay the outstanding term loan, with such prepayment at least \$5.0 million, at any time upon 30 days’ written notice. Upon prepayment, the Company will be required to pay a prepayment fee equal to (i) 4.00% of the outstanding principal prepaid or required to be prepaid (whichever is greater), if the prepayment is made within twelve months of September 30, 2021, (ii) 3.00% of the outstanding principal prepaid or required to be prepaid (whichever is greater), if the prepayment is made between twelve months and twenty-four months after September 30, 2021, (iii) 2.00% of the outstanding principal prepaid or required to be prepaid (whichever is greater), if the prepayment is made between twenty-four months and thirty-six months after September 30, 2021, or (iv) 1.00% of the outstanding principal prepaid or required to be prepaid (whichever is greater), if the prepayment is made after thirty-six months after September 30, 2021 and prior to the maturity date.

The Senior Term Facility contains certain customary representations and warranties, affirmative covenants and conditions. The Senior Term Facility also contains a number of negative covenants that subject the Company to certain exceptions and waivers and restrictions, as defined in the agreement. In addition, the Senior Term Facility contains a quarterly financial covenant that requires the Company to not have less than \$24.0 million of net revenue for the trailing 12-month period as of September 30, 2021, with compliance measured on the last day of each fiscal quarter beginning on September 30, 2021. The minimum net revenue threshold will increase to \$30.0 million by December 31, 2023. At September 30, 2021, the Company was in compliance with all financial and nonfinancial covenants within the Senior Term Facility. At December 31, 2021, the minimum net revenue threshold will be \$25.0 million.

The Senior Term Facility contains customary indemnification obligations and customary events of default, including, among other things, (i) nonpayment, (ii) breach of warranty, (iii) nonperformance of covenants and obligations, (iv) default on other indebtedness, (v) judgments, (iv) change of control, (vii) bankruptcy and insolvency, (viii) impairment of security, (xi) regulatory matters, (xii) failure to remain a publicly traded company and (xiii) material adverse event. Where an event of default arises from certain bankruptcy events, the commitments shall automatically and immediately terminate and the principal of, and interest then outstanding on, all of the loans shall become immediately due and payable. Subject to certain notice requirements and other conditions, upon the occurrence of other events of default, including the occurrence of a condition having or reasonably likely to have a material adverse effect, commitments may be terminated and the principal of, and interest then outstanding on, all of the loans may become immediately due and payable. On September 30, 2021, no event of default had occurred and the Company believed that events or conditions having a material adverse effect, giving rise to an acceleration of any amounts outstanding under the Credit Agreement, had not occurred and was remote.

In connection with entering into the Senior Term Facility, the Company issued an affiliate of the lender a warrant to purchase 373,626 shares of the Company’s common stock at an initial exercise price of \$1.82 per share. The warrants are equity classified and are exercisable at any time on or prior to the tenth anniversary of their issue date. The estimated fair value of the warrants was \$0.6 million and determined using the Black-Scholes option pricing model. The key assumptions used in the Black-Scholes option pricing model were (i) an expected term of ten years, (ii) expected volatility of 88.6%, (iii) a risk-free rate of 1.5% and (iv) no estimated dividend yield. In addition, the Company incurred third party costs and lender fees of \$0.1 million. The proceeds were allocated on a basis that approximates the relative fair value method. The fair value of the warrants and fees incurred were recorded as a debt discount and are being recognized as interest expense over the life of the Senior Term Facility using the effective-interest method. No interest or amortization of debt discount was recognized during the three and nine months ended September 30, 2021 in connection with the Senior Term Facility.

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Future minimum principal payments at September 30, 2021 are as follows (in thousands):

2024	\$	1,000
2025		4,000
2026		3,000
Total	\$	<u>8,000</u>

Paycheck Protection Program Loan

On April 22, 2020, the Company closed a loan of \$2,028 (the “PPP loan”) from a commercial bank, pursuant to the Paycheck Protection Program (“PPP”) administered by the Small Business Administration (the “SBA”) pursuant to the CARES Act. The PPP loan would have matured on May 1, 2022 and bore an interest rate of 1% per annum. Payments of principal and interest of any unforgiven balance was scheduled to commence December 1, 2020, but was deferred until the SBA approved of the forgiveness amount. In the second quarter of 2021, the Company received notification that the PPP loan had been forgiven. In the second quarter, the Company recorded a gain on the forgiveness of debt in the amount of the loan of \$2,028.

Economic Injury Disaster Loan

On May 22, 2020, the Company executed the standard loan documents required for securing a loan (the “EIDL Loan”) from the SBA under its Economic Injury Disaster Loan (“EIDL”) assistance program in light of the impact of the COVID-19 pandemic on the Company’s business. The principal amount of the EIDL Loan is up to \$500, with proceeds to be used for working capital purposes and is collateralized by all the Company’s assets. On June 12, 2020, the Company received these funds from the SBA. Interest accrued at the rate of 3.75% per annum. Installment payments, including principal and interest, were originally due monthly beginning March 26, 2021 (twelve months from the date of the promissory note) in the amount of \$2. In March 2021, the SBA deferred payments on the EIDL loans by an additional 12 months. The balance of principal and interest was payable over the next thirty years from the date of the promissory note. There are no penalties for prepayment. Based upon guidance issued by the SBA on June 19, 2020, the EIDL Loan was not required to be refinanced by the PPP loan. On September 30, 2021, the Company repaid this loan.

Note 11

Stock-based Compensation:

On October 27, 2016, the Company’s stockholders approved the Company’s adoption of the new 2016 Omnibus Incentive Stock Plan (“2016 Plan”) having 2,058,880 shares available for issuance in respect of awards made thereunder. The Company terminated the 2013 Stock Incentive Plan in October 2016. On May 29, 2018, the Company’s stockholders approved the Company’s amendment to the 2016 Plan to increase the number of the Company’s common stock available for grants under the plan by 3,134,365. On July 7, 2021, the shareholders approved an amendment to the 2016 Omnibus Incentive Plan to increase the number of shares of common stock for issuance by 2,700,000. As of September 30, 2021, there were 3,853,038 shares of common stock remaining available for issuance for awards under the 2016 Plan.

The Company measures share-based awards at their grant-date fair value and records compensation expense on a straight-line basis over the vesting period of the awards. The Company recorded share-based compensation expense of \$320 and \$1,563, \$403 and \$1,243 for the three and nine months ended September 30, 2021, and 2020, respectively and within general and administrative expenses in the accompanying unaudited condensed consolidated statements of operations.

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Stock Options

The following table summarizes stock option activity for the nine months ended September 30, 2021:

	Number of shares	Weighted average exercise price per share	Weighted average remaining contractual term (years)
Outstanding at January 1, 2021	5,292,888	\$ 1.87	
Granted	2,043,714	\$ 1.67	
Exercised	(1,557,628)	\$ 1.12	
Forfeited/expired	(1,815,085)	\$ 1.84	
Outstanding at September 30, 2021	<u>3,963,889</u>	\$ 2.05	8.2
Exercisable at September 30, 2021	<u>1,236,841</u>	\$ 2.77	5.6

The weighted-average grant date fair value of options granted was \$1.24 per share during the nine months ended September 30, 2021. There were no options granted during the nine months ended September 30, 2020. As of September 30, 2021, the total unrecognized compensation expense related to unvested stock option awards was \$2,720, which the Company expects to recognize over a weighted-average period of approximately 2.4 years. The aggregate intrinsic value of options outstanding and options exercisable at September 30, 2021 was \$558 and \$53, respectively.

For the nine months ended September 30, 2021, the fair value of each option was estimated on the date of grant using the weighted average assumptions in the table below:

Expected volatility	90.4%
Risk-free interest rate	1.0%
Expected life (in years)	5.9
Expected dividend yield	0%
Fair value of common stock	\$ 1.68

During the nine months ended September 30, 2021, there were 1,557,628 options that were exercised on a cashless basis at \$1.12 per share resulting in the net issuance of 329,076 shares of common stock.

On February 28, 2021, in connection with the separation of the Company's Chief Executive Officer, the Company accelerated the vesting of all unvested options to purchase shares of common stock and extended the period to exercise to August 22, 2021. This acceleration and the extension of the period to vest met the modification criteria for accounting purposes. For these modifications, the Company calculated and recorded the additional compensation expense of \$173.

Restricted Stock Units

Restricted stock unit unvested are summarized in the following table:

	Number of shares	Weighted average grant date fair value
Unvested at January 1, 2021	-	\$ -
Granted	290,861	\$ 1.44
Vested	(146,364)	\$ 1.42
Unvested at September 30, 2021	<u>144,497</u>	\$ 1.45

As of September 30, 2021, the total unrecognized compensation expense related to unvested stock option awards was \$167, which the Company expects to recognize over a weighted-average period of approximately 0.8 years.

STRATA SKIN SCIENCES, INC. AND SUBSIDIARY
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(In thousands, except share, and per share amounts and number of lasers)
(unaudited)

Note 12

Income Taxes:

The Company accounts for income taxes using the asset and liability method. The provision for income taxes includes federal, state and local income taxes currently payable and deferred taxes resulting from temporary differences between the financial statement and tax bases of assets and liabilities. Valuation allowances are recorded to reduce deferred tax assets when it is more likely than not that a tax benefit will not be realized.

Income tax expense of \$4 and of \$12, and \$72 and \$207 for the three and nine months ended September 30, 2021, and 2020, respectively, was comprised primarily of changes in deferred tax liability related to goodwill. Goodwill is an amortizing asset according to tax regulations.

The United States enacted the Coronavirus Aid, Relief, and Economic Security Act (CARES Act). The CARES Act is an approximately \$2 trillion emergency economic stimulus package in response to the COVID-19 outbreak, which among other things contains numerous income tax provisions. Some of these tax provisions are expected to be effective retroactively for years ending before the date of enactment. The Company analyzed the impact of the CARES Act and does not foresee a significant impact on its condensed consolidated financial position, results of operations, effective tax rate and cash flows.

The Company has experienced certain ownership changes, which under the provisions of Section 382 of the Internal Revenue Code of 1986, as amended, result in annual limitations on the Company's ability to utilize its net operating losses in the future. The February 2014, July 2014, June 2015 and May 2018 equity raises by the Company will limit the annual use of these net operating loss carryforwards. Although the Company has not performed a Section 382 study, any limitation of its pre-change net operating loss carryforwards that would result in a reduction of its deferred tax asset would also have an equal and offsetting adjustment to the valuation allowance.

Note 13

Business Segments:

The Company has organized its business into two operating segments to present its organization based upon the Company's management structure, products and services offered, markets served and types of customers, as follows: The Dermatology Recurring Procedures segment derives its revenues from the usage of its equipment by dermatologists to perform XTRAC procedures. The Dermatology Procedures Equipment segment generates revenues from the sale of equipment, such as lasers and lamp products. Management reviews financial information presented on an operating segment basis for the purposes of making certain operating decisions and assessing financial performance.

Unallocated operating expenses include costs that are not specific to a particular segment but are general to the group; included are expenses incurred for administrative and accounting staff, general liability and other insurance, professional fees and other similar corporate expenses. Interest expense and other income (expense), net, are also not allocated to the operating segments.

STRATA SKIN SCIENCES, INC. AND SUBSIDIARY
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(In thousands, except share, and per share amounts and number of lasers)
(unaudited)

The following tables reflect results of operations from the Company's business segments for the periods indicated below:

Three Months Ended September 30, 2021

	Dermatology Recurring Procedures	Dermatology Procedures Equipment	TOTAL
Revenues	\$ 5,710	\$ 2,001	\$ 7,711
Costs of revenues	1,512	823	2,335
Gross profit	4,198	1,178	5,376
Gross profit %	73.5%	58.9%	69.7%
Allocated operating expenses:			
Engineering and product development	333	38	371
Selling and marketing	3,094	201	3,295
Unallocated operating expenses	-	-	2,175
	3,427	239	5,841
Income (loss) from operations	771	939	(465)
Interest expense, net	-	-	(52)
Income (loss) before income taxes	\$ 771	\$ 939	\$ (517)

Nine Months Ended September 30, 2021

	Dermatology Recurring Procedures	Dermatology Procedures Equipment	TOTAL
Revenues	\$ 15,841	\$ 5,079	\$ 20,920
Costs of revenues	4,648	2,422	7,070
Gross profit	11,193	2,657	13,850
Gross profit %	70.7%	52.3%	66.2%
Allocated operating expenses:			
Engineering and product development	1,013	145	1,158
Selling and marketing	8,805	582	9,387
Unallocated operating expenses	-	-	7,085
	9,818	727	17,630
Income (loss) from operations	1,375	1,930	(3,780)
Gain on forgiveness of debt	-	-	2,028
Interest expense, net	-	-	(93)
Income (loss) before income taxes	\$ 1,375	\$ 1,930	\$ (1,845)

STRATA SKIN SCIENCES, INC. AND SUBSIDIARY
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(In thousands, except share, and per share amounts and number of lasers)
(unaudited)

Three Months Ended September 30, 2020

	Dermatology Recurring Procedures	Dermatology Procedures Equipment	TOTAL
Revenues	\$ 3,835	\$ 1,778	\$ 5,613
Costs of revenues	1,368	1,015	2,383
Gross profit	<u>2,467</u>	<u>763</u>	<u>3,230</u>
Gross profit %	64.3%	42.9%	57.5%
Allocated operating expenses:			
Engineering and product development	329	82	411
Selling and marketing	1,883	168	2,051
Unallocated operating expenses	-	-	1,929
	<u>2,212</u>	<u>250</u>	<u>4,391</u>
Income (loss) from operations	255	513	(1,161)
Interest expense, net	-	-	(21)
Income (loss) before income taxes	<u>\$ 255</u>	<u>\$ 513</u>	<u>\$ (1,182)</u>

Nine Months Ended September 30, 2020

	Dermatology Recurring Procedures	Dermatology Procedures Equipment	TOTAL
Revenues	\$ 12,332	\$ 4,041	\$ 16,373
Costs of revenues	4,534	2,246	6,780
Gross profit	<u>7,798</u>	<u>1,795</u>	<u>9,593</u>
Gross profit %	63.2%	44.4%	58.6%
Allocated operating expenses:			
Engineering and product development	828	122	950
Selling and marketing	6,021	425	6,446
Unallocated operating expenses	-	-	5,921
	<u>6,849</u>	<u>547</u>	<u>13,317</u>
Income (loss) from operations	949	1,248	(3,724)
Interest expense, net	-	-	(38)
Income (loss) before income taxes	<u>\$ 949</u>	<u>\$ 1,248</u>	<u>\$ (3,762)</u>

Note 14

Significant Customer Concentration:

For the three months ended September 30, 2021, there were no customers representing more than 10% of revenues. For the nine months ended September 30, 2021, there was one customer whose sales were \$2,220, or 10.6% of total revenues for such period. There was one other customer that represented 10.5% of accounts receivable as of September 30, 2021.

STRATA SKIN SCIENCES, INC. AND SUBSIDIARY
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(In thousands, except share, and per share amounts and number of lasers)
(unaudited)

For the three and nine months ended September 30, 2020, revenues from the sales to the Company’s international master distributor were \$846 and \$2,149, or 15.1% and 13.1%, respectively, of total revenues for such periods. For the three months ended September 30, 2020 revenues from another distributor were \$632 or 11.3% of total revenue for the period. No other distributor or customer represented more than 10% of total Company revenues for the three and nine months ended September 30, 2020.

Note 15**Commitments:****Leases**

The Company recognizes right-of-use assets (“ROU assets”) and operating lease liabilities when it obtains the right to control an asset under a leasing arrangement with an initial term greater than twelve months. The Company adopted the short-term accounting election for leases with a duration of less than one year. The Company leases its facilities and certain IT and office equipment under non-cancellable operating leases. All of the Company’s leasing arrangements are classified as operating leases with remaining lease terms ranging from 1 to 4 years, and one facility lease has a renewal option for two years. Renewal options have been excluded from the determination of the lease term as they are not reasonably certain of exercise. On May 1, 2019, the Company entered into an addendum with FR National Life, LLC for the Carlsbad, California facility for five years which began on October 1, 2019. Included in cash flows provided by operations for the nine months ended September 30, 2021, and 2020, there was amortization of right-of-use assets of \$261 and \$242, respectively.

Operating lease costs were \$108 and \$331, and \$112 and \$336 for the three and nine months ended September 30, 2021, and 2020, respectively. Cash paid for amounts included in the measurement of operating lease liabilities was \$113 and \$344 for the three and nine months ended September 30, 2021, and 2020, respectively. As of September 30, 2021, the incremental borrowing rate was 9.76% and the weighted average remaining lease term was 2.4 years. The following table summarizes the Company’s operating lease maturities as of September 30, 2021:

For the year ending December 31,	Amount
Remaining 2021	\$ 122
2022	371
2023	242
2024	186
Total remaining lease payments	921
Less: imputed interest	(117)
Total lease liabilities	\$ 804

Contingencies:

In the ordinary course of business, the Company is routinely defendants in or parties to pending and threatened legal actions and proceedings, including actions brought on behalf of various classes of claimants. These actions and proceedings are generally based on alleged violations of employment, contract and other laws. In some of these actions and proceedings, claims for substantial monetary damages are asserted against the Company. In the ordinary course of business, the Company is also subject to regulatory and governmental examinations, information gathering requests, inquiries, investigations, and threatened legal actions and proceedings. In connection with formal and informal inquiries by federal, state, local and foreign agencies, the Company receives numerous requests, subpoenas and orders for documents, testimony and information in connection with various aspects of its activities.

Note 16**Subsequent Events:**

In October 2021, the Company entered into an equity distribution agreement under which the Company may sell up to \$11.0 million of its shares of common stock in registered “at-the-market” offerings. If the Company chooses, the shares will be offered at prevailing market prices, and the Company will pay commissions of up to 3.0% of the gross proceeds from the sale of shares sold through the Company’s agent, which may act as an agent and/or principal. The Company has no obligation to sell any shares under this agreement and may, at any time, suspend solicitations under this agreement.

ITEM 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations.

The following discussion of our financial condition and results of operations should be read in conjunction with the condensed consolidated financial statements and notes to condensed consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q (this “Report”). This discussion contains forward-looking statements that involve risks and uncertainties. These forward-looking statements include, but are not limited to, statements about the plans, objectives, expectations and intentions of STRATA Skin Sciences, Inc., a Delaware corporation (referred to in this Report as “we,” “us,” “our,” “STRATA,” “STRATA Skin Sciences” or “registrant”) and other statements contained in this Report that are not historical facts. When reviewing the discussion below, you should keep in mind the substantial risks and uncertainties that characterize our business including the scope and duration of the COVID-19 outbreak and its impact on global economic systems. In particular, we encourage you to review the risks and uncertainties described in Part II-Item 1A “Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2020. These risks and uncertainties could cause actual results to differ materially from those projected in forward-looking statements contained in this report or implied by past results and trends. Forward-looking statements are statements that attempt to forecast or anticipate future developments in our business, financial condition or results of operations and statements — see “Cautionary Note Regarding Forward-Looking Statements” that appears at the end of this discussion. These statements, like all statements in this Report, speak only as of their date (unless another date is indicated), and we undertake no obligation to update or revise these statements in light of future developments.

The following financial data, in this narrative, are expressed in thousands, except for the earnings per share and prices per treatment.

Introduction, Outlook and Overview of Business Operations

STRATA Skin Sciences is a medical technology company in dermatology dedicated to developing, commercializing and marketing innovative products for the treatment of dermatologic conditions. Its products include the XTRAC® and now Pharos® excimer lasers and VTRAC® lamp systems utilized in the treatment of psoriasis, vitiligo and various other skin conditions.

The XTRAC ultraviolet light excimer laser system utilized to treat psoriasis, vitiligo and other skin diseases. The XTRAC excimer laser system received clearance from the United States Food and Drug Administration in 2000 and has since become a widely recognized treatment among dermatologists. The system delivers targeted 308nm ultraviolet light to affected areas of skin, leading to psoriasis clearing and vitiligo repigmentation, following a series of treatments. As of September 30, 2021, there were 880 XTRAC systems placed in dermatologists’ offices in the United States under our dermatology recurring procedure model, an increase from 832 at the end of December 31, 2020. Under the dermatology recurring procedure model, the XTRAC system is placed in a physician’s office and fees are charged on a per procedure basis or a fee is charged on a periodic basis not to exceed an agreed upon number of procedures. The XTRAC system’s use for psoriasis is covered by nearly all major insurance companies, including Medicare. The VTRAC Excimer Lamp system, offered internationally in addition to the XTRAC, provides targeted therapeutic efficacy demonstrated by excimer technology with the simplicity of design and reliability of a lamp system. We believe there are approximately 7.5 million people in the United States and up to 125 million people worldwide suffering from psoriasis, and 1% to 2% of the world’s population suffers from vitiligo.

In September 2020, we signed a direct distribution agreement with our Japanese distributor for a combination of direct capital sales and recurring revenue for the country of Japan.

In February 2021, we signed an agreement with our Chinese distributor for a combination of direct capital sales and recurring revenues for the country of China.

The Pharos excimer laser system holds FDA clearance to treat chronic skin diseases, including psoriasis, vitiligo, atopic dermatitis and leukoderma.

In late 2019, there was an outbreak of a new strain of coronavirus (“COVID-19”) which became a global pandemic. The COVID-19 pandemic has negatively impacted the global economy, disrupted global supply chains, constrained work force participation and created significant volatility and disruption of financial markets. In addition, the pandemic led to the suspension of elective procedures in the U.S. and to the temporary closure of many physician practices which are our primary customers. We do not know the extent of the impact on our customers including their potential for permanent closure. While many offices have reopened, the impact of the ongoing COVID-19 pandemic and its variants on our operational and financial performance, including its ability to execute its business strategies and initiatives in the expected time frames, will depend on future developments, including the duration and ongoing spread of the COVID-19 outbreak and its variants, continued or renewed restrictions on business operations and transport, any governmental and societal responses thereto, including legislative or regulatory as well as the distribution of vaccines and effectiveness of COVID-19 vaccines and the continued impact on worldwide economic and geopolitical conditions, all of which are uncertain and cannot be predicted.

Domestically, as the procedures in which our devices are used are elective in nature; and as social distancing, travel restrictions, quarantines and other restrictions became prevalent in the United States, this had a negative impact on our recurring revenue model and its financial position and cash flow. The virus has disrupted the supply chain from China and other countries that we depend upon to provide a steady source of components to manufacture and repair our devices.

To mitigate the impact of COVID-19, we have taken a variety of measures to ensure the availability and functioning of our critical infrastructure by implementing business continuity plans to promote the safety and security of our employees, while complying with various government mandates, including work-from-home arrangements and social-distancing initiatives to reduce the transmission of COVID-19, we are providing face masks for employees at facilities significantly impacted and requiring on-site body temperature monitoring before entering facilities. The Company implemented a policy whereby all Company employees are required to be vaccinated or complete weekly COVID-19 testing. In addition, we created and executed programs utilizing our direct to consumer advertising and call center to contact patients and partner clinics to restart our partners’ businesses.

In the event our own employees are impacted through direct or ancillary contact with a person who has the virus, we may need to devise other methods of transacting business in our offices by working from home and or potentially ceasing operations for a period of time.

Supply chain disruptions which began during the pandemic have continued and may continue for the foreseeable future. While the Company’s operations have not been materially impacted by the general trends in supply chain problems, the Company continues to monitor and assess potential risks.

The ongoing COVID-19 pandemic has had a negative impact on our results of operations and financial performance for the first three-quarters of fiscal 2021, and we expect it will continue to have a negative impact on revenues, earnings and cash flows in fiscal 2021. Some physician offices continue to experience staffing issues, and we believe these shortages of trained personnel have negatively impacted our business. Accordingly, current results and financial conditions discussed herein may not be indicative of future operating results and trends.

Key Technology

- *XTRAC® Excimer Laser*. XTRAC received FDA clearance in 2000 and has since become a widely recognized treatment among dermatologists for psoriasis and other skin diseases. The XTRAC System delivers ultra-narrowband ultraviolet B (“UVB”) light to affected areas of skin. Following a series of treatments typically performed twice weekly, psoriasis remission can be achieved, and vitiligo patches can be re-pigmented. XTRAC is endorsed by the National Psoriasis Foundation, and its use for psoriasis is covered by nearly all major insurance companies, including Medicare. We estimate that more than half of all major insurance companies now offer reimbursement for vitiligo as well, a figure that is increasing.
- In the third quarter of 2018, we announced the FDA granted clearance for our Multi Micro Dose (MMD) tip for our XTRAC excimer laser. The MMD Tip accessory is indicated for use in conjunction with the XTRAC laser system to filter the Narrow Band UVB (“NB-UVB”) light at delivery in order to calculate and individualize the maximum non-blistering dose for a particular patient.
- In January 2020, we announced the FDA granted clearance of our XTRAC Momentum Excimer Laser Platform.
- *VTRAC® Lamp*. VTRAC received FDA clearance in 2005 and provides targeted therapeutic efficacy demonstrated by excimer technology with the simplicity of design and reliability of a lamp system.

Recent Developments

Acquisition of the U.S. dermatology Pharos net assets of Ra Medical Systems

On August 16, 2021, we acquired certain net assets of Pharos dermatology from Ra Medical Systems, Inc. for a cash payment of \$3,757, inclusive of transaction costs of \$57, for certain assets and the assumption of estimated existing customer warranty and service agreement liabilities and certain other assumed liabilities. We also signed a services agreement under which Ra Medical Systems will provide certain services for the Company as it integrates the acquired assets into the Company. Ra Medical’s Pharos excimer laser system holds FDA clearance to treat chronic skin diseases, including psoriasis, vitiligo, atopic dermatitis and leukoderma. The acquisition of these assets and liabilities allows the Company to market its full business solutions to Ra Medical’s existing customer base comprised of 400 dermatology practices offering opportunities to increase its recurring revenue base and a pathway to gain additional placements for the Company’s XTRAC excimer laser system.

Senior Term Facility with MidCap Financial Trust

On September 30, 2021, we entered into a credit and security agreement with MidCap Financial Trust, also acting as the administrative agent, and the lenders identified therein and borrowed \$8.0 million in the form of a senior term loan. The term loan bears interest at LIBOR (with a LIBOR floor rate of 0.50%) plus 7.50% and matures on September 1, 2026, unless terminated earlier. We are obligated to make monthly interest-only payments through September 30, 2024. From October 1, 2024 to the date of maturity, we will make 24 equal monthly principal payments plus interest and all borrowings are secured by substantially all of our assets.

We may, at our option, prepay the outstanding term loan, with such prepayment at least \$5.0 million, at any time upon 30 days’ written notice. Upon prepayment, we will be required to pay a prepayment fee equal to (i) 4.00% of the outstanding principal prepaid or required to be prepaid (whichever is greater), if the prepayment is made within twelve months of September 30, 2021, (ii) 3.00% of the outstanding principal prepaid or required to be prepaid (whichever is greater), if the prepayment is made between twelve months and twenty-four months after September 30, 2021, (iii) 2.00% of the outstanding principal prepaid or required to be prepaid (whichever is greater), if the prepayment is made between twenty-four months and thirty-six months after September 30, 2021, or (iv) 1.00% of the outstanding principal prepaid or required to be prepaid (whichever is greater), if the prepayment is made after thirty-six months after September 30, 2021 and prior to the maturity date.

We are subject to customary affirmative and negative covenant requirements and also subject to a trailing twelve-month net revenue financial covenant requirement. In the event of default, including covenant violations, the lenders could request that all principal and unpaid interest and penalties be due upon demand.

In connection with entering into the credit facility, the Company issued an affiliate of MidCap a warrant to purchase 373,626 shares of the Company's common stock for an exercise price of \$1.82. The warrant is exercisable at any time on or prior to the tenth anniversary of its issue date.

Paycheck Protection Program

On April 22, 2020, we closed on a loan of \$2.0 million (the "PPP loan") from a commercial bank, pursuant to the Paycheck Protection Program ("PPP") of the Coronavirus Aid, Relief and Economic Security Act (the "Cares Act"). The PPP loan would have matured on May 1, 2022 and bore an interest rate of 1% per annum. Payments of principal and interest of any unforgiven balance was scheduled to commence December 1, 2020, but was deferred until the SBA approves of the forgiveness amount.

In the second quarter of 2021, we received notification the PPP loan had been forgiven and recorded a gain on forgiveness of debt in the amount of the loan of \$2,028.

Economic Injury Disaster Loan

On May 22, 2020, we executed the standard loan documents required for securing a loan (the "EIDL Loan") from the SBA under its Economic Injury Disaster Loan ("EIDL") assistance program in light of the impact of the COVID-19 pandemic on our business. The principal amount of the EIDL Loan is up to \$500, with proceeds to be used for working capital purposes and is collateralized by all of our assets. On June 12, 2020, we received these funds from the SBA. Interest accrues at the rate of 3.75% per annum. Installment payments, including principal and interest, were originally due monthly beginning March 26, 2021 (twelve months from the date of the promissory note) in the amount of \$2. In March 2021, the SBA deferred payments on the EIDL loans by an additional 12 months. The balance of principal and interest was payable over the next thirty years from the date of the promissory note. There are no penalties for prepayment. Based upon guidance issued by the SBA on June 19, 2020, the EIDL Loan was not required to be refinanced by the PPP loan. On September 30, 2021, we repaid the loan.

Note Payable

On December 30, 2020, the Company had renewed its \$7,275 loan with a commercial bank pursuant to a one-year Fixed Rate – Term Promissory Note (the "Note"). On September 30, 2021, we repaid our \$7,275 loan with a commercial bank with the proceeds from with the proceeds of a pledged time deposit held by this commercial bank.

Equity Distribution Agreement

In October 2021, we entered into an equity distribution agreement under which we may sell up to \$11.0 million of our shares of common stock in registered "at-the-market" offerings. The shares will be offered at prevailing market prices, and we will pay commissions of up to 3.0% of the gross proceeds from the sale of shares sold through our agent, which may act as an agent and/or principal. We have no obligation to sell any shares under this agreement and may, at any time, suspend solicitations under this agreement.

Critical Accounting Policies and Estimates

There have been no changes to our critical accounting policies in the nine months ended September 30, 2021. Critical accounting policies and the significant estimates made in accordance with such policies are regularly discussed with our Audit Committee. Those policies are discussed under "Critical Accounting Policies" in our "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in Item 7, as well as in our consolidated financial statements and the footnotes thereto for the fiscal year ended December 31, 2020, of our Annual Report on Form 10-K as filed with the SEC on March 25, 2021.

Results of Operations**Revenues**

The following table presents revenues from our segments for the periods indicated below:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2021	2020	2021	2020
Dermatology Recurring Procedures	\$ 5,710	\$ 3,835	\$ 15,841	\$ 12,332
Dermatology Procedures Equipment	2,001	1,778	5,079	4,041
Total Revenues	\$ 7,711	\$ 5,613	\$ 20,920	\$ 16,373

Dermatology Recurring Procedures

The ongoing COVID-19 pandemic has had a negative impact on our results for the third quarter of 2021 and 2020, and we expect it will have a negative impact on its revenue for as long as the pandemic continues. Recognized recurring treatment revenue for the three months ended September 30, 2021, was \$5,710, which we estimate is approximately 81,000 treatments, with prices between \$65 to \$95 per treatment compared to recognized recurring treatment revenue for the three months ended September 30, 2020 of \$3,835, which we estimate is approximately 55,000 treatments, with prices between \$65 to \$95 per treatment.

Recognized treatment revenue for the nine months ending September 30, 2021, was \$15,841, which we estimate is approximately 226,000 treatments with prices between \$65 and \$95 per treatment compared to recognized treatment revenue for the nine months ended September 30, 2020, of \$12,332, which is approximately 177,000 treatments with prices between \$65 and \$95 per treatment.

Increases in procedures are dependent upon building market acceptance through marketing programs with our physician partners and their patients to show that the XTRAC procedures will be of clinical benefit and will be generally reimbursed by insurers. We believe that several factors have an impact on the prescribed use of XTRAC treatments for psoriasis and vitiligo patients. Specifically, we believe that there is a lack of awareness of the positive effects of XTRAC treatments among both sufferers and providers; and the treatment regimen, which can sometimes require up to 12 or more treatments, has limited XTRAC use to certain patient populations. Therefore, our strategy is to continue to execute a direct-to-patient program for XTRAC advertising in the United States, targeting psoriasis and vitiligo patients through a variety of media including television and radio; and through our use of social media such as Facebook and Twitter. We monitor the results of our advertising expenditures in this area to reach the more than 10 million patients in the United States we believe are afflicted with these diseases. During 2020, we reduced our direct to consumer advertising spend, however as the country began to adapt to COVID-19 and vaccines became available during 2021, we increased spending in the direct-to-patient programs to drive patients to our partner clinics to increase recurring revenue and increase spend in marketing activities as well. The increase in spending on these programs usually precedes the recurring revenue in our past experience as there is a lag between our advertising and patients then receiving treatment, which we estimate to be three to nine months. Subject to governmental responses to variants of COVID-19 we may curtail spending again in certain areas or redirect spending to less impacted areas. Revenues from Dermatology Recurring Procedures are recognized as revenue over the estimated usage period of the agreed upon number of treatments, as the treatments are being used. As of September 30, 2021, and 2020, we deferred net revenues of \$2,107 and \$1,391, respectively, which will be recognized as revenue over the remaining usage period for domestic placements. Lower deferred revenue from the fourth quarter 2020 negatively impacted the first half of 2021 as compared to the first half of 2020 when higher deferred revenue favorable impacted that period.

We have recently signed direct distribution contracts with our international distributors for a combination of direct capital sales and recurring revenue. If the recurring model is accepted in these countries and the business model can be executed by these distributors, these agreements are expected to increase recurring revenue over time, but will have an initial impact of reducing sales of dermatology procedures equipment.

Dermatology Procedures Equipment

The ongoing COVID-19 pandemic has had a negative impact on our results for the first nine months of 2021 and 2020, and we expect it will have a negative impact on its revenue for as long as the pandemic continues. For the three months ended September 30, 2021, dermatology equipment revenues were \$2,001. Internationally, we sold 11 systems (3 XTRAC and 8 VTRAC). Domestically, there were no systems sold during the three months ended September 30, 2021.

For the three months ended September 30, 2020, dermatology equipment revenues were \$1,778. Internationally, we sold 19 systems (8 XTRAC and 11 VTRAC). Domestically, we sold one XTRAC system during the three months ended September 30, 2020.

For the nine months ended September 30, 2021, dermatology equipment revenues were \$5,079. Internationally, we sold 27 systems (19 XTRAC and 8 VTRAC). Domestically, we sold 5 XTRAC systems during the nine months ended September 30, 2021.

For the nine months ended September 30, 2020, dermatology equipment revenues were \$4,041. Internationally, we sold 29 systems (10 XTRAC and 19 VTRAC). Domestically, we sold 2 XTRAC systems for the nine months ended September 30, 2020.

Cost of Revenues

The following table illustrates cost of revenues from our two business segments for the periods listed below:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2021	2020	2021	2020
	Dermatology Recurring Procedures	\$ 1,512	\$ 1,368	\$ 4,648
Dermatology Procedures Equipment	823	1,015	2,422	2,246
Total Cost of Revenues	\$ 2,335	\$ 2,383	\$ 7,070	\$ 6,780

Gross Profit Analysis

The following tables present changes in our gross margin for the periods presented below:

Company Profit Analysis	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2021	2020	2021	2020
	Revenues	\$ 7,711	\$ 5,613	\$ 20,920
Cost of revenues	2,335	2,383	7,070	6,780
Gross profit	\$ 5,376	\$ 3,230	\$ 13,850	\$ 9,593
Gross profit percentage	69.7%	57.5%	66.2%	58.6%

Gross profit increased to \$5,376 for the three months ended September 30, 2021 from \$3,230 during the same period in 2020. As a percent of revenue, the gross margin was 69.7% for the three months ended September 30, 2021, as compared to 57.5% for the same period in 2020.

Gross profit increased to \$13,850 for the nine months ended September 30, 2021 from \$9,593 during the same period in 2020. As a percent of revenue, the gross margin was 66.2% for the nine months ended September 30, 2021, as compared to 58.6% for the same period in 2020 and the increase was primarily the result of higher sales due to a reduction of cases in the COVID-19 pandemic as well as the recognition of deferred service contract revenue assumed in connection with the asset acquisition of RA Medical.

The following tables present changes in our gross margin, by segment for the periods presented below:

<u>Dermatology Recurring Procedures</u>	For the Three Months Ended		For the Nine Months Ended	
	September 30,		September 30,	
	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
Revenues	\$ 5,710	\$ 3,835	\$ 15,841	\$ 12,332
Cost of revenues	1,512	1,368	4,648	4,534
Gross profit	<u>\$ 4,198</u>	<u>\$ 2,467</u>	<u>\$ 11,193</u>	<u>\$ 7,798</u>
Gross profit percentage	73.5%	64.3%	70.7%	63.2%

The primary reasons for the increase in gross profit for the three and nine months ended September 30, 2021 was the result of higher sales, partially offset by higher depreciation expenses in the third quarter of 2021 and partially offset by an unfavorable impact of deferred revenue in 2021 as compared to 2020.

<u>Dermatology Procedures Equipment</u>	For the Three Months Ended		For the Nine Months Ended	
	September 30,		September 30,	
	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
Revenues	\$ 2,001	\$ 1,778	\$ 5,079	\$ 4,041
Cost of revenues	823	1,015	2,422	2,246
Gross profit	<u>\$ 1,178</u>	<u>\$ 763</u>	<u>\$ 2,657</u>	<u>\$ 1,795</u>
Gross profit percentage	58.9%	42.9%	52.3%	44.4%

The primary reason for the change in gross margin percent for the three and nine months ended September 30, 2021 as compared to the same period in 2020 was the result of product mix and higher sales margins and the recognition of deferred service revenue associated with assumed service contracts from RA Medical.

Engineering and Product Development

For the three months ended September 30, 2021, engineering and product development expenses were \$371 as compared to \$411 for the three months ended September 30, 2020. Engineering and product development costs for the nine months ending September 30, 2021 were \$1,158, compared to \$950 for the nine months ended September 30, 2020. Engineering and product development costs during the nine-month period were higher primarily as a result of consulting costs associated with certain development projects.

Selling and Marketing Expenses

As of September 30, 2021, our sales and marketing personnel consisted of 61 full-time positions, inclusive of a vice president of sales, direct sales organization as well as an in-house call center staffed with patient advocates and a reimbursement group that provides necessary insurance information to our physician partners and their patients.

For the three months ended September 30, 2021, selling and marketing expenses were \$3,295 compared to \$2,051 for the three months ended September 30, 2020. For the nine months ended September 30, 2021 selling and marketing costs were \$9,387 as compared to \$6,446 for the nine months ended September 30, 2020. Sales and marketing expenses for the three and nine months ended September 30, 2021 were higher, as compared to the same periods in 2020, as we made investments in sales and marketing and direct to consumer advertising, while in 2020 we managed our costs due to the downturn in business as a result of the COVID-19 pandemic, with lower tradeshow costs, compensation costs, commissions, travel and direct-to-consumer advertising costs.

General and Administrative Expenses

For the three months ended September 30, 2021, general and administrative expenses increased to \$2,175 from \$1,929 for the three months ended September 30, 2020. For the nine months ended September 30, 2021 general and administration costs were \$7,085 compared to \$5,921 for the nine months ended September 30, 2020. General and administrative expenses were higher for the three and nine months ended September 30, 2021, as compared to the same periods in 2020. The increase is primarily due to higher compensation, severance and stock option costs as a result of the CEO transition in the first quarter of 2021.

Gain on Forgiveness of Debt

During the nine months ended September 30, 2021, we received notification our PPP loan had been forgiven and we recorded a gain on forgiveness of debt of \$2,028.

Interest Expense, net

Interest expense is primarily attributable to our debt obligations offset by the interest income we receive on our cash, cash equivalents and restricted cash held with financial institutions. Interest expense, net of interest income, was not material during the three and nine months ended September 30, 2021, and 2020.

Income Taxes

We recognized income tax expense of \$4 for the three months ended September 30, 2021 as compared to \$72 for the three months ended September 30, 2020, all of which were comprised primarily of changes in deferred tax liability related to goodwill. There are no federal and state taxes on the PPP loan forgiveness so therefore there was no impact on our income taxes. We recognized an income tax expense of \$12 for the nine months ended September 30, 2021 as compared to \$207 for the nine months ended September 30, 2020 all of which were comprised primarily of changes in deferred tax liability related to goodwill.

Non-GAAP adjusted EBITDA

We have determined to supplement our condensed consolidated financial statements, prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"), presented elsewhere within this report, with certain non-GAAP measures of financial performance. These non-GAAP measures include non-GAAP adjusted EBITDA, "Earnings Before Interest, Taxes, Depreciation, and Amortization."

This non-GAAP disclosure has limitations as an analytical tool, should not be viewed as a substitute for Net Earnings (Loss) determined in accordance with U.S. GAAP, and should not be considered in isolation or as a substitute for analysis of the Company's results as reported under U.S. GAAP, nor is it necessarily comparable to non-GAAP performance measures that may be presented by other companies. We consider these non-GAAP measures in addition to our results prepared under current accounting standards, but they are not a substitute for, nor superior to, U.S. GAAP measures. These non-GAAP measures are provided to enhance readers' overall understanding of our current financial performance and to provide further information for comparative purposes. This supplemental presentation should not be construed as an inference that the Company's future results will be unaffected by similar adjustments to Net Earnings (Loss) determined in accordance with U.S. GAAP. Specifically, we believe the non-GAAP measures provide useful information to management and investors by isolating certain expenses, gains and losses that may not be indicative of our core operating results and business outlook. In addition, we believe non-GAAP measures enhance the comparability of results against prior periods. Reconciliation to the most directly comparable U.S. GAAP measure of all non-GAAP measures included in this report is as follows:

	For the Three Months Ended		For the Nine Months Ended	
	September 30,		September 30,	
	2021	2020	2021	2020
Net loss	\$ (521)	\$ (1,254)	\$ (1,857)	\$ (3,969)
Adjustments:				
Depreciation and amortization	983	807	2,689	2,793
Amortization of right-of-use-asset	87	83	261	242
Loss (gain) on disposal of property and equipment	10	4	73	23
Income taxes	4	72	12	207
Gain on forgiveness of debt	-	-	(2,028)	-
Interest expense, net	52	21	93	38
Non-GAAP EBITDA	615	(267)	(757)	(666)
Stock compensation	320	403	1,563	1,243
Non-GAAP adjusted EBITDA	\$ 935	\$ 136	\$ 806	\$ 577

Liquidity and Capital Resources

As of September 30, 2021, we had \$7,892 of working capital compared to \$5,993 as of December 31, 2020. The change in working capital was primarily the result of an increase in cash and cash equivalents and the settlement of current debt obligations that were offset by increases in other accrued liabilities and deferred revenue assumed in connection with our asset acquisition with RA Medical. Cash, cash equivalents and restricted cash were \$13,047 as of September 30, 2021, as compared to \$18,112 as of December 31, 2020.

On April 22, 2020, we closed on the PPP loan of \$2.0 million from a commercial bank, pursuant to the Paycheck Protection Program of the Coronavirus Aid, Relief and Economic Security Act (the "CARES Act"). The PPP loan would have matured on May 1, 2022 and bore an interest rate of 1% per annum. Payments of principal and interest of any unforgiven balance was scheduled to commence December 1, 2020, but was deferred until the SBA approves of the forgiveness amount.

In the second quarter of 2021, we received notification the PPP loan had been forgiven. We recorded a gain on forgiveness of debt in the amount of the loan of \$2,028.

In June 2020, we obtained an EIDL loan with principal amount of \$500. Interest accrues at the rate of 3.75% per annum. Installment payments, including principal and interest, were originally due monthly beginning March 26, 2021 (twelve months from the date of the promissory note) in the amount of \$2. In March of 2021, the SBA deferred payments on the EIDL loans by an additional 12 months. The balance of principal and interest is payable over the next thirty years from the date of the promissory note. There are no penalties for prepayment. Based upon guidance issued by the SBA on June 19, 2020, the EIDL Loan was not required to be refinanced by the PPP loan. On September 30, 2021, we repaid the loan.

On September 30, 2021, we repaid our \$7,275 loan with a commercial bank with the proceeds from the pledged time deposit held by this commercial bank.

Senior Term Facility with MidCap Financial Trust

In September 2021, we entered into a credit and security agreement with MidCap Financial Trust, also acting as the administrative agent, and the lenders identified therein and borrowed \$8.0 million in the form of a senior term loan. The term loan bears interest at LIBOR (with a LIBOR floor rate of 0.50%) plus 7.50% and matures on September 1, 2026, unless terminated earlier. We are obligated to make monthly interest-only payments through September 30, 2024. From October 1, 2024 to the date of maturity, we will make 24 equal monthly principal payments plus interest and all borrowings are secured by substantially all of our assets.

We may, at our option, prepay the outstanding term loan, with such prepayment at least \$5.0 million, at any time upon 30 days' written notice. Upon prepayment, we will be required to pay a prepayment fee equal to (i) 4.00% of the outstanding principal prepaid or required to be prepaid (whichever is greater), if the prepayment is made within twelve months of September 30, 2021, (ii) 3.00% of the outstanding principal prepaid or required to be prepaid (whichever is greater), if the prepayment is made between twelve months and twenty-four months after September 30, 2021, (iii) 2.00% of the outstanding principal prepaid or required to be prepaid (whichever is greater), if the prepayment is made between twenty-four months and thirty-six months after September 30, 2021, or (iv) 1.00% of the outstanding principal prepaid or required to be prepaid (whichever is greater), if the prepayment is made after thirty-six months after September 30, 2021 and prior to the maturity date.

We are subject to customary affirmative and negative covenant requirements and also subject to a trailing twelve-month net revenue financial covenant requirement. In the event of default, including covenant violations, the lenders could request that all principal and unpaid interest and penalties be due upon demand.

COVID-19

We have been negatively impacted by the ongoing COVID-19 pandemic, have historically experienced recurring losses and have been dependent on raising capital from the sale of securities in order to continue to operate and meet our obligations in the ordinary course of business. During the COVID-19 pandemic, we received cash proceeds from the PPP loan, which was forgiven, and the EIDL loan which has been repaid. Additionally, in October 2021, the Company entered into an equity distribution agreement with an investment bank under which the Company may sell up to \$11,000 of its common stock in registered "at-the-market" offerings. Management believes that the Company's cash and cash equivalents, combined with the anticipated revenues from the sale or use of the Company's products, will be sufficient to satisfy our working capital needs, capital asset purchases, outstanding commitments and other liquidity requirements associated with its existing operations through the next 12 months following the date of the issuance of these unaudited interim condensed consolidated financial statements. However, the negative impact of the ongoing COVID-19 outbreak and its variants on the financial markets could interfere with our ability to access financing and on favorable terms.

Net cash and cash equivalents and restricted cash provided by operating activities was \$839 for the nine months ended September 30, 2021, compared to cash provided by operating activities of \$1,750 for the nine months ended September 30, 2020. The decrease in cash flows provided by operating activities for the nine months ended September 30, 2021 was the result of a lower change in our net assets of \$992 and primarily attributable to COVID-19 and its impact on billings and delayed vendor payments.

Net cash and cash equivalents and restricted cash used in investing activities was \$5,996 for the nine months ended September 30, 2021, compared to cash used in investing activities of \$1,447 for the nine months ended September 30, 2020. The increase is the result of the cost of lasers placed in service in 2021 as compared to 2020, and the asset purchase of Ra Medical.

During the nine months ended September 30, 2021, we received net proceeds of \$7,867 from our senior term facility with MidCap offset by debt repayments of \$7,775 associated with our note payable and EIDL loan. For the nine months ended September 30, 2020, we received \$2,528 in proceeds from borrowings under our PPP loan and EIDL loan.

Commitments and Contingencies

There were no items, except as described above, that significantly impacted our commitments and contingencies as discussed in the notes to our 2020 annual financial statements included in our Annual Report on Form 10-K.

Off-Balance Sheet Arrangements

At September 30, 2021, we had no off-balance sheet arrangements.

ITEM 3. Quantitative and Qualitative Disclosure about Market Risk

Not applicable.

ITEM 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the design and operation of our disclosure controls and procedures, (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (the "Exchange Act"), as of September 30, 2021. Based on that evaluation, management has concluded that, as of such date, our disclosure controls and procedures were effective.

Limitations on the Effectiveness of Controls

A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Because of inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues, if any, within an organization have been detected. Accordingly, our disclosure controls and procedures are designed to provide reasonable, not absolute, assurance that the objectives of our disclosure control system are met and, as set forth above, our Chief Executive Officer and Chief Financial Officer have concluded, based on their evaluation as of the end of the period covered by this report, that our disclosure controls and procedures were effective to provide reasonable assurance that the objectives of our disclosure control system were met.

Changes in Internal Control over Financial Reporting

There have been no changes in our internal control over financial reporting in our most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II - Other Information

ITEM 1. Legal Proceedings

From time to time in the ordinary course of our business, we may be a party to certain legal proceedings, incidental to the normal course of our business. These may include controversies relating to contract claims and employment related matters, some of which claims may be material, in which case, we will make separate disclosure as required.

ITEM 1A. Risk Factors

A description of the risks associated with our business, financial conditions and results of operations is set forth in Item 1A of our Annual Report on Form 10-K for the fiscal year ended December 31, 2020, and filed with the SEC on March 25, 2021.

ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds

None

ITEM 3. Defaults Upon Senior Securities.

None.

ITEM 4. Mine Safety Disclosures

None.

ITEM 5. Other Information

None.

ITEM 6. Exhibits

- 3.1 [Fifth Amended and Restated Certificate of Incorporation of the Company \(Incorporated by reference to Exhibit 3.1 contained in our Registration Statement on Form S-3 \(File No. 333-258814\), as filed on August 13, 2021\).](#)
- 3.2 [Fourth Amended and Restated Bylaws of the Company \(Incorporated by reference to Exhibit 3.2 contained in our Current Report on Form 8-K as filed on January 8, 2016\).](#)
- 10.1 [Asset Purchase Agreement, dated as of August 16, 2021, between STRATA Skin Sciences, Inc. and Ra Medical Systems, Inc. \(Incorporated by reference to Exhibit 10.1 contained in our Current Report on Form 8-K as filed on August 17, 2021\).](#)
- 10.2 [Credit and Security Agreement, dated as of September 30, 2021, among STRATA Skin Sciences, Inc., MidCap Financial Trust, as administrative agent, and the lenders identified therein \(Incorporated by reference to Exhibit 10.1 contained in our Current Report on Form 8-K as filed on October 4, 2021\).](#)
- 10.3 [Intellectual Property Security Agreement, dated as of September 30, 2021, between STRATA Skin Sciences, Inc. and MidCap Financial Trust \(Incorporated by reference to Exhibit 10.2 contained in our Current Report on Form 8-K as filed on October 4, 2021\).](#)
- 10.4 [Warrant Agreement to Purchase Shares of the Common Stock of STRATA Skin Sciences, Inc., dated as of September 30, 2021, between STRATA Skin Sciences, Inc. and MidCap Funding XXVII Trust \(Incorporated by reference to Exhibit 10.3 contained in our Current Report on Form 8-K as filed on October 4, 2021\).](#)
- 10.5 [Registration Rights Agreement, dated as of September 30, 2021, between STRATA Skin Sciences, Inc. and MidCap Funding XXVII Trust \(Incorporated by reference to Exhibit 10.4 contained in our Current Report on Form 8-K as filed on October 4, 2021\).](#)
- 10.6 [Form of Management Change in Control Agreement](#)

- 31.1 [Rule 13a-14\(a\) Certificate of Chief Executive Officer](#)
- 31.2 [Rule 13a-14\(a\) Certificate of Chief Financial Officer](#)
- 32.1* [Certifications of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002](#)
- 101.INS XBRL Instance Document
- 101.SCH XBRL Taxonomy Schema
- 101.CAL XBRL Taxonomy Calculation Linkbase
- 101.DEF XBRL Taxonomy Definition Linkbase
- 101.LAB XBRL Taxonomy Label Linkbase
- 101.PRE XBRL Taxonomy Presentation Linkbase

* The certifications attached as Exhibit 32.1 accompany this Quarterly Report on Form 10-Q pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, and shall not be deemed “filed” by the Registrant for purposes of Section 18 of the Securities Exchange Act of 1934, as amended.

SIGNATURES

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

STRATA SKIN SCIENCES, INC.

Date November 12, 2021

By: /s/ Robert J. Moccia

Name Robert J. Moccia

Title President & Chief Executive Officer

Date November 12, 2021

By: /s/ Christopher Lesovitz

Name Christopher Lesovitz

Title Chief Financial Officer

Date _____

EMPLOYEE NAME
ADDRESS

Re: Severance Agreement

Dear FIRST NAME:

STRATA Skin Sciences, Inc., a Delaware corporation (the “Company”) considers it essential and in the best interests of its stockholders to foster the continuous employment of key management personnel. In this regard, the Board of Directors of the Company (the “Board”) recognizes that the possibility of a termination of employment related to a change in control of the Company may exist and that such possibility, and the uncertainty and questions that it may raise among management, may result in the departure or distraction of management personnel to the detriment of the Company and its stockholders.

The Board has determined that appropriate steps should be taken to reinforce and encourage the continued attention and dedication of members of the Company’s senior management, including you, to their assigned duties without distraction in the face of potentially disturbing circumstances arising from the possibility of a termination of employment.

In order to induce you to remain in the employ of the Company, the Company agrees that you will receive the severance benefits set forth in this letter agreement (the “Agreement”) in the event your employment with the Company is terminated under the circumstances described below.

1. Term of Agreement.

The term of this Agreement will commence on the date above (the “Effective Date”) and will continue until termination of your employment in accordance with the terms of this Agreement. Notwithstanding the foregoing, if a Change in Control occurs after the Effective Date and during the term of this Agreement, this Agreement will continue in effect for a limited period of two (2) years after the date of such Change in Control, unless terminated sooner in accordance with this Agreement.

1.1 You acknowledge that your employment with the Company constitutes “at-will” employment and that, because you are an at-will employee, either you or the Company may terminate your employment at any time, upon written notice of termination within a reasonable period of time before the effective date of the termination, subject to the procedures and consequences set forth in this Agreement.

2. **Severance Benefits.**

2.1 Termination by the Company without Cause or by You with Good Reason in connection with a Change in Control: If your employment hereunder is terminated by the Company other than for death, disability, or Cause or by you for Good Reason, in each case (i) during the six (6) month period prior to a Change in Control and it is reasonably demonstrated by you that your termination of employment was at the request of a third party who has taken steps reasonably calculated to effect a Change in Control or otherwise arose in connection with or anticipation of a Change in Control or (ii) on or within twenty-four (24) months after a Change in Control (such time periods, the "Protection Period"), you will be entitled to receive:

- a. Severance in an amount equal to your then annual base compensation then in effect (or immediately prior to any reduction resulting in a termination for Good Reason) for nine (9) months payable in equal installments, less applicable taxes and withholdings, pursuant to the Company's normal payroll procedures over nine (9) months.
- b. A pro-rata payment from the Company's annual bonus plan for the fiscal year in which your termination occurred, equal to the payment you would have received had you remained in the employment of the Company through the end of such fiscal year, multiplied by a fraction, the numerator of which is the number of full months elapsed from the start of such fiscal year to the date of your termination of employment, and the denominator of which is 12. Such amount, if any, will be paid at the time such award would otherwise have been paid to other participants had your employment not terminated, but in no event later than two and one-half months following the end of such fiscal year.
- c. For a period of nine (9) months following your termination, you and your beneficiaries will remain eligible to participate, on the same terms and conditions as apply from time to time to the Company's senior management generally, in the health, vision and dental programs of the Company; provided, however, that such eligibility will cease at such time as you become eligible to participate in comparable programs of a subsequent employer; and further provided that if you are precluded from participating in any such plan or program by its terms or applicable law, you will receive a dollar amount equal to the cost (estimated in good faith by the Company) of obtaining such benefits, or substantially similar benefits, within thirty (30) days following the date of your termination.

2.2 Good Reason: You will be considered to have terminated employment hereunder for Good Reason if such termination of employment is on account of any of the following actions by the Company, which occur during the Protection Period, without your express written consent:

- a. A reduction of your annual base compensation;
 - b. Any material diminution of your positions, duties, or responsibilities;
 - c. Any permanent reassignment of you to a location greater than sixty (60) miles from your primary residence; or
 - d. A material breach by the Company of its obligations under this Agreement.
-

Notwithstanding the foregoing, a termination by you will not be for "Good Reason," unless you have given the Company at least ten (10) business days written notice specifying the grounds upon which you intend to terminate your employment hereunder for "Good Reason". In addition, any action or inaction by the Company which is remedied within thirty (30) days following such written notice will not constitute "Good Reason" for termination hereunder and will render such notice null and void.

2.3 Change in Control. The term "Change of Control" is defined as: (i) any "person," as such term is used in sections 13(d) and 14(d) of Securities Exchange Act of 1934, as amended (the "Exchange Act"), becomes the beneficial owner (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of the Company representing 75% or more of the total voting power represented by the Company's then outstanding voting securities; provided, however, that no Change of Control shall be deemed to occur by reason of the acquisition of securities of the Company by one or more investors in the Company in capital-raising transactions; (ii) the direct or indirect sale or exchange by the stockholders of the Company of all or substantially all of the outstanding capital stock of the Company; (iii) a merger or consolidation in which the Company is a party and in which the stockholders of the Company before such Change of Control do not retain, directly or indirectly, at least a majority of the beneficial interest in the voting stock of the Company after such transaction; or (iv) an agreement for the sale or disposition by the Company of all or substantially all the Company's assets.

2.4 Cause. "Cause" is defined as: (i) the conviction for (or your plea of *nolo contendere* to) a felony or a crime involving moral turpitude; (ii) your material violation of any written Company policy or the material terms of this Agreement after written notice of such failure and failure to cure within ten (10) days; (iii) your failure to follow a lawful direction of the Board after written notice of such failure and failure to cure within ten (10) days; (iv) a breach of a fiduciary responsibility owing to the Company or any of its affiliates; (v) your failure to perform such duties as are reasonably delegated or assigned to you after written notice of such failure and failure to cure within ten (10) days; (vi) drug or alcohol abuse, but in the first instance of such drug or alcohol abuse, only if you fail to seek appropriate counseling or fails to complete a prescribed counseling program to the satisfaction of the Board; and (vii) a breach of any obligation relating to non-competition, non-solicitation of employees, customers, licensees or licensors, confidentiality, or ownership and/or rights as to creations and/or proprietary information or property, under any written agreement in effect from time to time, in favor of the Company.

2.5 Accrued Benefits. Upon your termination of employment for any reason, you, or your estate, as applicable, will receive your accrued but unpaid annual base compensation and any accrued but unpaid or otherwise vested benefits under any Company benefit or incentive plan.

3. Parachute Provisions. Payments under this Agreement shall be made without regard to whether the deductibility of such payments (or any other payments) would be limited or precluded by Section 280G of the Code, and without regard to whether such payments would subject Employee to the federal excise tax levied on certain "excess parachute payments" under Section 4999 of the Code; provided, however, that if the Total After-Tax Payments (as defined below) would be increased by the limitation or elimination of any amount payable under this Agreement, then the amount payable under this Agreement will be reduced to the extent necessary to maximize the Total After-Tax Payments. The determination of whether and to what extent payments under this Agreement are required to be reduced in accordance with the

preceding sentence will be made by the Company's independent auditors. In the event of any underpayment or overpayment under this Agreement (as determined after the application of this Section 5(f)), the amount of such underpayment or overpayment will be immediately paid by the Company to Employee or refunded by Employee to the Company, as the case may be, with interest at the applicable federal rate provided for in Section 7872(f)(2) of the Code. For purposes of this Agreement, "Total After-Tax Payments" means the total of all "parachute payments" (as that term is defined in Section 280G(b)(2) of the Code) made to or for the benefit of Employee (whether made hereunder or otherwise), after reduction for all applicable federal taxes (including, without limitation, the tax described in Section 4999 of the Code).

4. *Covenant Not to Compete; Nonsolicitation; Confidential Information; Nondisparagement.*

4.1 You agree with the Company that you will not at any time, except in performance of your obligations to the Company or with the prior written consent of the Company, directly or indirectly, reveal to any "Person" (as defined in Section 3(9) of the Employee Retirement Income Security Act of 1974, as amended) (other than the Company, or its employees, officers, directors, shareholders, or agents) or use for your own benefit any information deemed to be confidential by the Company or any of its subsidiaries or affiliates (such subsidiaries and affiliates, collectively "Affiliates") ("Confidential Information") relating to the assets, liabilities, employees, goodwill, business affairs of the Company or any of its Affiliates, including, without limitation, any information concerning past, present, or prospective customers, manufacturing processes, marketing, operating, or financial data, or other confidential information used by, or useful to, the Company or any of its Affiliates and known (whether or not known with the knowledge and permission of the Company or any of its Affiliates and whether or not at any time prior to the Effective Date developed, devised, or otherwise created in whole or in part by your efforts) to you by reason of your employment by, shareholdings in or other association with the Company or any of its Affiliates. You further agree that you will retain all copies and extracts of any written or electronic Confidential Information acquired or developed by you during any such employment, shareholding, or association in trust for the sole benefit of the Company, its Affiliates, and their successors and assigns. You further agree that you will not, without the prior written consent of the Company, remove or take from the Company's or any of its Affiliate's premises (or if previously removed or taken, you will promptly return) any written or electronic Confidential Information or any copies or extracts thereof. Upon the request and at the expense of the Company, you will promptly make all disclosures, execute all instruments and papers, and perform all acts reasonably necessary to vest and confirm in the Company and its Affiliates, fully and completely, all rights created or contemplated by this Section 4.1. The term "Confidential Information" will not include information that is or becomes generally available to the public other than as a result of a disclosure by, or at the direction of, you. Your agreements set forth in this Section 4.1 regarding Confidential Information are independent of, and in addition to, your agreements set forth in the rest of Section 4 and will not be construed either to enlarge or to contract the scope of such other agreements.

4.2 You agree with the Company that, for so long as you are employed by the Company or any of its Affiliates and continuing for the Restricted Period (as defined below), you will not, without the prior written consent of the Company, directly or indirectly, and whether as principal or investor or as an employee, officer, director, manager, partner, consultant, agent, or otherwise, alone or in association with any other Person, become involved in a Competing Business (as defined below) in any geographic area in which the Company or any of its Affiliates has engaged

during such period in any of the activities which comprise a Competing Business, or in which you have knowledge of the Company's plans to engage in any of the activities which comprise a Competing Business (including, without limitation, any area in which any customer of the Company or any of its Affiliates may be located). This Section 4.2 will not be violated, however, by owning in the aggregate less than one percent of any class of securities listed on a national securities exchange or traded publicly in the over-the-counter market.

4.3 As a separate and independent covenant, you agree with the Company that, for so long as you are employed by the Company or any of its Affiliates and continuing for the Restricted Period (as defined below), you will not in any way, (a) solicit, encourage or entice any client, customer, vendor, licensee, licensor, consultant or supplier of or to the Company to cease to do business with, or to reduce or modify the business such person or entity has done with or intends to do with, or to end, reduce or modify any relationship or proposed relationship of such person or entity with, the Company, or (b) interfere with, disrupt or attempt to disrupt or otherwise jeopardize any relationship of the Company with any client, customer, vendor, licensee, licensor, consultant or supplier or any other person or entity with whom the Company has a business relationship.

4.4 For purposes of this Section 4, a "Competing Business" means a business or enterprise (other than Company or its subsidiaries) that competes directly or indirectly with the business conducted by the Company or proposed to be conducted by the Company during the time you were employed by the Company or during the Restricted Period, within the geographical areas in which the Company is doing business or proposes to do business at the time of your termination of employment.

4.5 You confirm that all Confidential Information is and will remain the exclusive property of the Company and its Affiliates. All business records, papers, and documents kept or made by you relating to the business of the Company will be and remain the property of the Company and its Affiliates.

4.6 You agree to refrain during the Restricted Period and at all times thereafter from, disparaging, criticizing or making statements which may be perceived as negative, detrimental or injurious to the Company, or any of the management, owners, business, policies or practices of the Company.

4.7 Without intending to limit the remedies available to the Company and its Affiliates, you agree that a breach of any of the covenants contained in this Section 4 may result in material and irreparable injury to the Company or its Affiliates for which there is no adequate remedy at law, that it will not be possible to measure damages for such injuries precisely and that, in the event of such a breach or threat thereof, the Company and its Affiliates will be entitled to seek a temporary restraining order or a preliminary or permanent injunction, or both, without bond or other security, restraining you from engaging in activities prohibited by this Section 4 or such other relief as may be required specifically to enforce any of the covenants in this Section 4. Such injunctive relief in any court will be available to the Company and its Affiliates in lieu of, or prior to or pending determination in, any arbitration proceeding.

4.8 Although you and the Company consider the restrictions contained in this Section 4 to be the minimum restriction reasonable for the purposes of preserving the Company's goodwill and other proprietary rights, if a final determination is made by a court that the time or territory, or

any other restriction contained in this Section 4 is an unreasonable or otherwise unenforceable restriction against you, the provisions of this Section 4 will not be rendered void, but will be deemed amended to apply as to such maximum time and territory and to such other extent as the court may determine to be reasonable.

4.9 Notwithstanding anything to the contrary in Section 2.1, in the event that you breach any of the covenants contained in this Section 4:

- a. Any remaining payments or benefits to be provided under Section 2.1 will not be paid or will cease immediately upon such breach; and
- b. The Company will be entitled to the immediate repayment of all payments and benefits provided under Section 2.1.

4.10 You agree that the covenants contained in this Section 4 may be assigned by the Company, as needed, to affect its purpose and intent and that the Company's assignee will be entitled to the full benefit of the restrictions enjoyed by the Company under the terms of these covenants.

4.11 The term "Restricted Period" means one (1) year following the termination of your employment for any reason; provided, however, that the Restricted Period will be extended by a period of time equal to any period during which you are in breach of any of the covenants set forth in this Section 4.

4.12 *Binding Effect and Benefit.*

4.13 The Company will require any successor (whether direct or indirect, by purchase, merger, consolidation, or otherwise) to all or substantially all of the business or assets of the Company to expressly assume and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform it if no such succession had taken place. Failure by the Company to obtain such assumption and agreement prior to the effectiveness of any such succession will constitute a material breach of this Agreement. As used in this Agreement, "the Company" means the Company as defined above and any successor to the respective business or assets of the Company as abovementioned which assumes and agrees to perform this Agreement by operation of law, or otherwise.

4.14 This Agreement will inure to the benefit of and be enforceable by your personal or legal representatives, executors, administrators, heirs, distributees, devisees, and legatees. If you should die while any amount is payable to you under this Agreement if you had continued to live, all such amounts, unless otherwise provided herein, will be paid in accordance with the terms of this Agreement to your devisee, legatee, or other designee, or, if there is no such designee, to your estate.

5. **Assignment.** This Agreement will not be assignable by either party hereto, except as provided in Section 4.10 and by the Company to any successor in interest to the business of the Company, provided that the Company (if it remains a separate entity) will remain fully liable under this Agreement for all obligations, payments, and otherwise.

6. **Governing Law; Venue.** This Agreement and the legal relations among the parties shall be governed by the internal laws of the Commonwealth of Pennsylvania, without regard to principles of conflict of laws. Any litigation arising in connection with or related to this

Agreement or any of the subject hereof shall be tried solely by and in the United States District Court for the Eastern District of Pennsylvania, provided that, if such litigation shall not be permitted to be tried by such court, then such litigation shall be held solely in the state courts of Pennsylvania sitting in Montgomery County. Each party hereto irrevocably consents to and confers personal jurisdiction on the United States District Court for the Eastern District of Pennsylvania, or, if (but only if) the litigation in question shall not be permitted to be tried by such court, or the state courts of Pennsylvania sitting in Montgomery County, and expressly waives any objection to the venue of such court, as the case may be and any argument that any case filed should be transferred to a more convenient forum. . EACH PARTY HERETO HEREBY WAIVES THE RIGHT TO TRIAL BY JURY IN ANY ACTION OR PROCEEDING BASED UPON, ARISING OUT OF, OR IN ANY WAY RELATING TO THIS AGREEMENT, OR THE EMPLOYMENT OF EMPLOYEE, WHETHER SOUNDING IN CONTRACT OR TORT OR OTHERWISE. EACH PARTY HERETO AGREES THAT EITHER OF THEM MAY FILE A COPY OF THIS AGREEMENT UNDER SEAL WITH THE COURT AS WRITTEN EVIDENCE OF THE KNOWING, VOLUNTARY, AND BARGAINED AGREEMENT BETWEEN THE PARTIES IRREVOCABLY TO WAIVE TRIAL BY JURY, AND THAT ANY DISPUTE OR CONTROVERSY WHATSOEVER BETWEEN THEM SHALL INSTEAD BE TRIED IN A COURT OF COMPETENT JURISDICTION BY A JUDGE SITTING WITHOUT A JURY.

7. **No Mitigation or Offset.** In the event of termination of your employment, you will be under no obligation to seek other employment and there will be no offset against any payment or benefit provided for in this Agreement on account of any remuneration or benefits from any subsequent employment that you may obtain.

8. **Application of Code Section 409A.** This Agreement shall be interpreted and administered to the extent practicable in a manner consistent with the following statement of intent: All benefits and compensation payable to Employee pursuant to this Agreement are intended to be exempt from the definition of "nonqualified deferred compensation plan" or "deferral of compensation" under Code Section 409A in accordance with one or more exemptions available under the Treasury Regulations promulgated under Code Section 409A. To the extent that any benefit or payment is or becomes subject to Code Section 409A, this Agreement is intended to comply with the requirements of Code Section 409A as applicable to such benefit or payment.

9. **Miscellaneous.**

9.1 The invalidity or unenforceability of any provision of this Agreement will not affect the validity or enforceability of any other provision of this Agreement, which will remain in full force and effect.

9.2 No waiver by you or the Company at any time of any breach of, or compliance with, any provision of this Agreement to be performed by the Company or you, respectively, will be deemed a waiver of that or any other provision at any subsequent time.

9.3 Upon any termination of employment that entitles you to payments and benefits under Section 2, you must, within 60 days of your termination of employment, execute a legally enforceable release agreement substantially in the form of Exhibit A attached hereto prior to the receipt of such payments and benefits. If such 60 day period begins in one taxable year and ends in a second taxable year, the payments and benefits will be provided or commence being provided, if at all, in the second taxable year. Any payments made to you will be paid net of any applicable withholding required under federal, state, local, or foreign law.

9.4 This Agreement is the exclusive agreement with respect to the severance benefits payable to you in the event of a termination of your employment. All prior negotiations and agreements are hereby merged into this Agreement. You acknowledge and agree that any employment agreement, offer letter, and/or any agreement regarding change in control or termination benefits, previously entered into between you and the Company is immediately null and void.

9.5 Notwithstanding the termination of this Agreement, the provisions which specify continuing obligations, compensation and benefits, and rights will remain in effect until such time as all such obligations are discharged, all such compensation and benefits are received, and no party or beneficiary has any remaining actual or contingent rights under this Agreement.

10. **Legal Fees.** In the event of a dispute following a Change in Control, the Company, or its successor, will reimburse you for all reasonable legal fees and expenses incurred by you in attempting to obtain or enforce rights or benefits provided by this Agreement, if, with respect to any such right or benefit, you are successful in obtaining or enforcing such right or benefit (including by negotiated settlement).

If you agree to the terms of this Agreement, please sign on the line provided below and return two signed copies to the Company. A fully executed copy will be returned to you for your files after it is signed by the Company.

Sincerely,

STRATA Skin Sciences, Inc.

By: _____

Title: _____

Agreed to and accepted:

NAME

Dated: _____

APPENDIX A

FORM OF GENERAL RELEASE

Reference is made to the Severance Agreement dated as of _____ (the "Severance Agreement"), between STRATA Skin Sciences, Inc., a Delaware corporation (the "Company"), and Shmuel Gov (the "Executive"). Capitalized terms used herein without definition shall have the meanings assigned to them in the Severance Agreement, a copy of which is attached hereto.

SECTION 1. Mutual Release.

(a) General Waiver and Release. In consideration of their respective obligations under the Severance Agreement in connection with and following the Executive's termination of employment with the Company and its affiliates, and subject to the limitations set forth in Section 2 hereof, the Company, on the one hand, does hereby release and forever discharge the Executive, and the Executive, on the other hand, does hereby release and forever discharge the Company, its present, former, and future shareholders, affiliates, direct and indirect parents, subsidiaries, successors, directors, officers, employees, agents, attorneys, heirs, and assigns (the "Company Parties" and, together with the Executive, the "Released Parties"), from any and all claims, actions, causes of action, suits, costs, controversies, judgments, decrees, verdicts, damages, liabilities, attorneys' fees, covenants, contracts, and agreements that the Executive may have against the Company Parties or the Company Parties may have against the Executive, or in the future may possess based on events occurring during the term of the Executive's employment with the Company arising out of (i) the Executive's employment relationship with or service as an employee or officer of the Company and its affiliates or the termination of such relationship or service or (ii) any event, condition, circumstance or obligation that occurred, existed or arose on or prior to the date the Executive signs this Release, with respect to each other, including, but not limited to, any claims arising under Title VII of the Civil Rights Act of 1964, the Rehabilitation Act of 1973, the Americans with Disabilities Act of 1990, the Civil Rights Act of 1866, the Civil Rights Act of 1991, the Employee Retirement Income Security Act of 1974, the Family Medical Leave Act of 1993, or any other federal or state or local law or any foreign jurisdiction, whether such claim arises under statute, common law, or in equity, and whether or not any of the Released Parties are presently aware of the existence of such claim, damage, action or cause of action, suit, or demand (collectively, including claims, actions, and causes of action set forth in Section 1(b) below, the "Claims"). The Executive and the Company Parties also do forever release, discharge, and waive any right the Executive or the Company Parties may have to recover in any proceeding brought by any federal, state, or local agency against the Company Parties and the Executive, respectively, to enforce any laws. Each of the parties hereto agrees that the value received or to be received in the future as described in the Severance Agreement shall be in full satisfaction of any and all claims, actions, or causes of action for payment or other benefits of any kind that the Executive may have against the Company Parties and that the Company Parties may have against the Executive; provided, however, that nothing in this Agreement shall preclude the Company from recouping, or refusing to pay, (i) severance benefits under the Severance Agreement in accordance with Section 2.5 thereof or (ii) cash or equity incentive-based compensation paid or payable to the Executive in the event of a restatement of the Company's financial statements pursuant to applicable law or regulation or Company policy adopted consistent with applicable law or regulation.

(b) ADEA Release. In further recognition of the above, the Executive hereby releases and forever discharges each of the Company Parties from any and all claims, actions and causes of action that the Executive may have as of the date the Executive signs and delivers to the Company this Release arising under the federal Age Discrimination in Employment Act of 1967, as amended, and the applicable rules and regulations promulgated thereunder (“ADEA”).

SECTION 2. Limitations.

(a) No Impact on Obligations under the Severance Agreement or the Shareholder Agreement. The releases contained herein do not, are not intended to, and shall not be interpreted to serve as a release or waiver by the Executive or the Company Parties with respect to their respective rights and obligations set forth in the Severance Agreement. In particular, and without limiting the generality of the preceding sentence, the Executive does not waive or release any claim the Executive might now or in the future have to be paid or receive the payments and benefits provided for in Section 2 of the Severance Agreement, and the Company Parties do not waive or release any claim they might now or in the future have under Section 4 of the Severance Agreement.

(b) No Impact on Indemnification Rights. The releases contained herein do not, are not intended to, and shall not be interpreted to serve as a release or waiver by the Executive with respect to any indemnification rights the Executive may have and such indemnification rights shall not be affected, modified, or extinguished by the Executive’s execution of this Release.

SECTION 3. No Pending Litigation.

The Executive represents and agrees that the Executive has not filed, and will not file, any action, complaint, charge, grievance, or arbitration against any Company Party, except that such agreement shall not apply to any claim based on any matter which, pursuant to Section 2, is excluded from the scope of this Release. The Company hereby represents and agrees that no Company Party has filed, and no Company Party will file, any action, complaint, charge, grievance, or arbitration against the Executive except that such agreement shall not apply to any claim based on any matter which, pursuant to Section 2, is excluded from the scope of this Release.

SECTION 4. Acknowledgment.

The Executive acknowledges and confirms that (i) the Executive has been advised in writing by the Company in connection with the Executive’s termination to consult with an attorney of the Executive’s choice prior to signing this Release and to have such attorney explain to the Executive the terms of the Release, including, without limitation, the terms relating to the Executive’s release of Claims arising under ADEA; (ii) the Executive has read this Release carefully and completely and understands each of the terms hereof; and (iii) the Executive was given not less than twenty-one (21) days to consider the terms of the Release and to consult with an attorney of the Executive’s choosing with respect thereto, and that for a period of seven (7) days following the Executive’s signing of this Agreement, the Executive shall have the option to revoke this Agreement in accordance with the terms set forth in Section 6 below.

SECTION 5. Successors.

The rights and obligations under this Agreement shall inure to any and all successors of the Company.

SECTION 6. Revocation.

The Executive shall have the right to revoke this Release during the seven-day period commencing immediately following the date the Executive signs and delivers this Agreement to the Company (the "Revocation Period"). The period shall expire at 5:00 p.m., Eastern Standard Time, on the last day of the seven-day period; provided, however, that if such seventh day is not a business day, the period shall extend to 5:00 p.m. on the next succeeding business day. In the event of any such revocation by the Executive, the obligations of the Company under this Release shall terminate and be of no further force and effect as of the date of such revocation. No such revocation by the Executive shall be effective unless it is in writing and signed by the Executive and received by a representative of the Company prior to the expiration of the Revocation Period.

SECTION 7. Counterparts.

This Release may be executed in two or more counterparts, each of which shall be deemed to be an original but all of which together will constitute one and the same instrument.

STRATA Skin Sciences, Inc.

By: _____
Name:

Title:

ACCEPTED AND AGREED:

[Name]

Dated: _____

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, Robert J. Moccia, certify that:

- (1) I have reviewed this quarterly report on Form 10-Q of STRATA Skin Sciences, 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(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) designed such internal control over financial reporting or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
- (5) The registrant's other certifying officer(s) 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: November 12, 2021

By: /s/ Robert J. Moccia

Name: Robert J. Moccia

Title: Chief Executive Officer

CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, Christopher Lesovitz, certify that:

- (1) I have reviewed this quarterly report on Form 10-Q of STRATA Skin Sciences, 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(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) designed such internal control over financial reporting or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
- (5) The registrant's other certifying officer(s) 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.

Dated: November 12, 2021

By: /s/ Christopher Lesovitz
Christopher Lesovitz
Chief Financial Officer

SECTION 906 CERTIFICATION

CERTIFICATION (1)

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. § 1350, as adopted), Robert J. Moccia, the Chief Executive Officer of STRATA Skin Sciences, Inc. (the “Company”), and Christopher Lesovitz, the Chief Financial Officer of the Company, each hereby certifies that, to the best of their knowledge:

1. The Company’s Quarterly Report on Form 10-Q for the quarter ended September 30, 2021, to which this Certification is attached as Exhibit 32.1 (the “Periodic Report”), fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934, as amended, and
2. The information contained in the Periodic Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: November 12, 2021

/s/ Robert J. Moccia

Name: Robert J. Moccia
Title: Chief Executive Officer

/s/ Christopher Lesovitz

Name: Christopher Lesovitz
Title: Chief Financial Officer

-
- (1) This certification accompanies the Quarterly Report on Form 10-Q to which it relates, is not deemed filed with the Securities and Exchange Commission and is not to be incorporated by reference into any filing of STRATA Skin Sciences, Inc. under the Securities Act of 1933, as amended, or the Exchange Act (whether made before or after the date of the Form 10-Q), irrespective of any general incorporation language contained in such filing. A signed original of this written statement required by Section 906 of the Sarbanes-Oxley Act of 2002 has been provided to STRATA Skin Sciences, Inc. and will be retained by STRATA Skin Sciences, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.