

STRATA SKIN SCIENCES, INC.		
<b>Title:</b>	FRAUD RISK MANAGEMENT POLICY	Policy #: COM: 006
<b>Department Ownership:</b>	Compliance	
<b>Approved by and Title:</b>	Board of Directors	
<b>Initial Issue Date:</b>	October 26, 2017	Revised Date: March 11, 2019

## SCOPE

“STRATA” (the “Company”) as used throughout this Policy, refers to the entire Corporate Group and is meant to include all subsidiaries and business offices of the Parent Company, both domestic and international, and all individuals employed therein. This Policy is applicable to any fraud or misconduct, or suspected fraud and misconduct involving any person or entity acting on behalf of or representing the Company. This includes any member of the Board of Directors (the “Board”), executive, officer, manager, supervisor, employee, agent (including temporary employee or independent contractor/subcontractor) or affiliate of the Parent Company and third parties with a business relationship with the Company or any of its Subsidiaries worldwide. All individuals subject to this Policy are expected to read and sign it acknowledging their receipt and understanding of the contents herein.

## INTRODUCTION

STRATA Skin Sciences, Inc. is committed to ethical business practices within its worldwide operations. Under no circumstances is Management tolerant of fraud and misconduct, either through the actions of its personnel or those working on its behalf. This Policy establishes Management’s framework of internal controls for the prevention and detection of fraud and misconduct (collectively, the “Fraud Risk Management Program” or the “Program”) within the Company, as well as protocols for conducting internal investigations.

## DEFINITIONS

**Fraud:** defined as any intentional act or omission designed to deceive others, resulting in the Company suffering a loss and/or the perpetrator achieving a gain. Management personnel are expected to be familiar with the types of fraud that could occur within their specific areas of responsibility and report any suspected or known instances of fraud within the company.

**Misconduct:** defined as any intentional violation, or suspected violation, of the Company’s policies and procedures, as well as applicable laws and regulations with which the Company must comply.

**Retaliation:** defined as any direct or indirect detrimental action recommended, threatened or taken, because an individual provided a good faith report of fraud or misconduct to the Company or cooperated in assigned fact-finding activities.

## FRAUD AND CONTROL STRATEGY

### Roles and Responsibilities

All personnel, regardless of their level, are responsible for helping deter and defend the Company from fraud and misconduct. Certain Management and Employees have specific antifraud control responsibilities which are further defined within job descriptions and/or other Company policies. The section below highlights the roles and responsibilities of the Board and Audit Committee, Management, the internal Legal Department, Human Resources and Employees with the Company’s Fraud Risk Management Program:

## **Board and Audit Committee**

To set the appropriate tone for the Company, the Board is responsible for ensuring that Management designs an effective Fraud Risk Management Program by:

- Understanding and discussing fraud and corruption risks that could impact the Company;
- Developing the Chief Executive Officer's ("CEO") job description and overseeing evaluations and succession of planning processes, which may be done through the various Board committees;
- Periodically reviewing applicable Company policies and procedures designed to help mitigate fraud risk;
- Ensuring that fraud risk has been considered as part of Management's strategic objectives and risk assessment activities;
- Overseeing Management's fraud risk assessment activities;
- Assessing the risk of fraud by Management, including the risk of Management's override of controls, and ensuring that controls are designed and function to deter, prevent and detect fraud by Management;
- Monitoring Management's reports on fraud risks, policies and control activities;
- Supporting the fraud risk monitoring plans and ensuring accessibility to information, data, and Employees;
- Ensuring that all Employees have access to the Board, Audit Committee, and internal audit department;
- Empowering the Audit Committee to focus on fraud deterrence, prevention and detection;
- Being fully informed about instances of fraud that occur within the organization, in particular, instances involving the Company's Executive or senior-level Management or Employees about whom significant internal control issues are uncovered;
- Ensuring that Management has assigned sufficient resources to execute fraud risk management activities; and
- Retaining outside advisors and counsel, as necessary.

## **Management**

Management has overall responsibility for the design and implementation of the Company's Fraud Risk Management Program, including:

- Ensuring that fraud is addressed in the Company's strategic objectives and risk assessment activities;
- Appointing the Fraud Control Officer, who has the overall responsibility for the coordination and implementation of this Program, as well as reporting to the Board about fraud risk matters;
- Identifying and assigning personnel responsible for antifraud control activities and maintaining records that verify that those processes and controls have been properly executed;
- Providing defined, proactive processes and control activities and maintaining records that verify those processes and controls have been properly executed;
- Implementing internal controls designed to prevent and/or detect fraud within each business unit;
- Maintaining an open-door policy and other mechanisms to report fraud and misconduct; and
- Monitoring the successful completion of disciplinary and corrective action, when assigned.

## **Legal Department**

The Legal Department advises Management on the legal ramifications of the Fraud Risk Management Program, which includes:

- Participating in the creation of key Company policies and procedures;
- Guiding the escalation, assessment, investigation and closure of allegations involving fraud and misconduct;
- Participating in the flow of information about investigations to Senior Management and the Audit Committee, as well as regulators and law enforcement, as appropriate;
- Assisting in the recovery of lost assets due to fraud and misconduct;
- Analyzing case management activities pertaining to matters involving fraud and misconduct;
- Providing communication regarding litigation and other asset recovery efforts on a periodic basis to the Audit Committee;
- Managing fraud prevention and detection control activities, as assigned;
- Participating in Management's fraud risk assessment, as well as fraud risk awareness and training
- Implementing, tracking and communicating new legislative and regulatory requirements; and
- Developing training and awareness activities to promote understanding and compliance with the Code of Business Conduct and Ethics, Fraud Risk Management Policy, Whistleblower Hotline Policy, Domestic and Foreign Anti-Corruption Policy, Insider-Trading Policy and other corporate policies including the annual review and affirmation of these key policies.

## **Human Resources**

The Human Resources Manager assists Management and Employees by executing key antifraud control activities through on-boarding, training, counseling and issue resolution activities and processes, including:

- Screening of employee candidates and periodic updates to employee background investigations;
- Facilitating new employee orientation and other employee training activities;
- Conducting, analyzing and reporting on the results of employee satisfaction and fraud awareness surveys;
- Escalating issues involving potential fraud and misconduct reported by Management and Employees;
- Participating in Management's fraud risk assessment activities;
- Providing Management with information about employee hires and departures;
- Reviewing resignation letters and conducting exit interviews in order to identify and escalate any potential concerns or complaints involving fraud and misconduct;
- Supporting internal investigation activities, as needed; and
- Monitoring the disposition of disciplinary or correction action, when administered.

## **Audit**

The Company's Internal Auditors provide independent, objective assurance regarding the design and operating effectiveness of Management's antifraud controls including:

- Evaluating the potential for the occurrence of fraud and how the Company manages fraud risk through walk-throughs and review of the Company's Fraud Risk Management Program;

- Assisting in the deterrence and prevention of fraud by examining and evaluating the effectiveness of controls commensurate with the extent of potential exposure/risk in various segments of the Company's operations;
- Ensuring that Management has reviewed its risk exposure and identified the possibility of fraud as a business risk through a fraud risk assessment;
- Incorporating information about fraud obtained through the fraud risk assessment process, reporting mechanisms and investigations with the annual internal audit plan; and
- Delivering information about the adequacy of Management's arrangements for mitigating fraud risk and ensuring that the Company promotes an antifraud culture.

## **Employees**

Strong controls against fraud are the responsibility of everyone in the organization. All levels of personnel within the Company will:

- Have a basic understanding of fraud, be aware of red flags, be familiar with the types of fraud that might occur within their areas of responsibility, and be alert to any indications of fraud;
- Understand their roles within the internal control framework. Personnel must understand how their job procedures are designed to manage fraud risks and when non-compliance may create an opportunity for fraud to occur or go undetected;
- Read, understand and affirm Company policies and procedures designed to mitigate fraud and misconduct (e.g., the *Code of Business Conduct and Ethics*, *Fraud Risk Management Policy*, *Whistleblower Hotline Policy*, *Domestic and Foreign Anti-Corruption Policy*, *Insider-Trading Policy*);
- As required, participate in the process of creating a strong control environment and designing and implementing fraud control activities, as well as participate in monitoring activities;
- Report concerns, suspicions or incidences of fraud; and
- Cooperate in investigations.

## **FRAUD RISK MANAGEMENT PROGRAM**

The Company's Fraud Risk Management Program (the "Program") is administered by internal Corporate Counsel who has been designated as the Fraud Control Officer and reports to the Board on matters involving fraud risk. The Program reflects the concepts of governance, risk assessment, fraud prevention and detection, investigations and corrective action.

Each component of the Program is designed to help mitigate potential fraud and misconduct identified during Management's fraud risk assessment. Each component is documented within the Policy and periodically updated to reflect the evolving nature of fraud risk within the Company's operations.

### **Relationship to Code of Business Conduct and Ethics and Other Company Policies**

The Board and Management have adopted this Policy as a complement to other company policies designed to foster and promote the highest standards of ethical business practices amongst the Company's operations. Personnel at every level have responsibility for ensuring that the Company's business activities align with the Code of Business Conduct and Ethics, as well as other policies designed to ensure compliance with laws, rules, and regulations in the jurisdictions in which the Company operates.

These include the Whistleblower Hotline Policy, Domestic and Foreign Anti-Corruption Policy, Insider-Trading Policy, all of which are available on the Company's e-Learning System.

## 1. Fraud Risk Assessment

The Company is committed to the timely prevention and detection of fraud and misconduct. Management, with the assistance of Auditors, conducts an annual fraud risk assessment for the purpose of identifying, analyzing and responding to key fraud risks across all its geographic locations.

The fraud risk assessment process considers key factors that drive fraud – opportunities, incentives and pressures, and attitudes and rationalization. It also addresses four (4) key types of fraud – corruption, asset misappropriation, fraudulent reporting and Management override of controls. The risk assessment methodology consists of identifying entity- and process-level fraud risks utilizing common fraud scenarios; prioritizing the significance and likelihood of such risks on an inherent and residual basis; mapping fraud risks to internal controls; and identifying potential gaps or enhancement opportunities related to Management’s antifraud control activities. The results of Management’s fraud risk assessment are addressed within an action plan and shared with the Fraud Control Officer who will share with the Board, as needed.

## 2. Fraud Prevention and Detection Controls

Management has designed a combination of preventative and detective antifraud control activities which occur at various levels of the Company and are intended to help mitigate the occurrence of fraud and misconduct, as well as ensure the timely detection of fraud risk events within business operations.

The Company’s high-level fraud prevention control activities include:

- Business process control activities that set authority and responsibility limits, as well as Human Resource procedures including employee background investigations, training, employee surveys and exit interviews;
- Physical access controls which limit admittance to the Company’s facilities and right to use physical assets (such as computers and documents);
- Logical access controls that limit and monitor access rights to sensitive information;
- Transaction control activities which address procurement procedures and managerial approval requirements; and
- Technological control activities that involve electronic third-party screening activities and automated restrictions on certain payments that present elevated risk to the Company or do not comply with prescribed Company policy requirements.

The Company’s high-level fraud detection control activities include:

- Data analytics (both overt and covert) utilized by finance and accounting, as well as data analytics used during audit in performance of operational and financial audits; and
- Multiple automated and manual reporting mechanisms created by the Board and implemented by Management to receive, retain and treat concerns, complaints and information about potential violations of fraud and misconduct across the Company’s business operations.

## 3. Fraud Monitoring Activity

The design of the components within this Program will be evaluated during Management’s annual fraud risk assessment, or sooner, should a fraud risk event occur. The operating effectiveness of related antifraud controls will be tested annually as part of Management’s Sarbanes-Oxley (“SOX”) compliance activities. Periodically, the Company may conduct an independent evaluation of this Program utilizing authoritative guidance and leading practices. Any findings will be reported to the Board and Management. The Fraud Control Officer is responsible for ensuring that any deficiencies, weaknesses, or enhancements involving antifraud controls are addressed in a timely and effective manner. In addition,

auditor activity will consider the risk of fraud and misconduct as part of its financial and operational audits conducted throughout the course of the year.

## **REPORTING FRAUDULENT ACTIVITY**

Taking action to prevent problems is part of this Company's culture. This Policy cannot address all situations which Employees might encounter. It may be possible that the Company is unaware of a situation in which actual or attempted fraud are occurring in which its Board Members, Executives, Officers, Directors, Managers, Supervisors, Employees, Agents or third parties are involved. Therefore, STRATA relies on the assistance of individuals to report such instances as they happen so that timely investigations and proper actions can be taken to curtail these offenses. If an individual observes what is believed to be fraudulent activity as outlined above, they are encouraged to report their concerns. Employees and others involved with the Company are urged to come forward with any such information, without regard to the identity or position of the suspected offender.

Any employee may submit a good faith concern or potential violation involving fraud without fear of dismissal or retaliation. Investigations will be conducted without regard to suspected personnel or third party's length of service, position/title, or relationship to the Company. Disposition of matters, as well as decisions to prosecute or refer to regulatory agencies and/or law enforcement will be made in conjunction with the Legal Department, Management, and the Board of Directors, as appropriate.

### **In-House Legal Department**

Employees should promptly report violations of laws, rules, regulations or this Policy to the Company's in-house Legal Department. Any report or allegation of a violation of applicable laws, rules, regulations or this Policy need not be signed and may be sent anonymously. All reports of violations of this Policy, including reports sent anonymously, will be promptly investigated and, if found to be accurate, will be acted upon in a timely and according manner.

Compliance issues should be brought to the attention of the Company's in-house counsel, who is also the Fraud Control Officer and may be contacted as follows:

Jay Sturm, Esq.  
General Counsel (*Fraud Control Officer*)  
STRATA Skin Sciences, Inc.  
5 Walnut Grove Drive, Suite 140  
Horsham, PA 19044  
215-619-3285  
jsturm@srata-skin.com

### **Whistleblower / Compliance Hotline**

STRATA has established a Whistleblower / Compliance Hotline to provide a way for board members, executives, officers, employees, agents and third-parties of STRATA to anonymously report a concern or obtain information or advice. Employees and others may communicate suspected violations of law, policy, or other wrongdoing, as well as any concerns regarding questionable accounting or auditing matters (including deficiencies in internal controls) by contacting Lighthouse Services, Inc., a third-party contractor STRATA has engaged to receive communications about suspected violations, wrongdoing or questionable accounting matters. Reporters can be assured that any information will be treated with confidence to the best extent possible.

Lighthouse will receive anonymous reports, as well as reports in which the caller chooses to give his or her name. Calls to the Compliance Hotline will not be traced or recorded and callers may remain anonymous if they so choose. Representatives of the Compliance Hotline will listen to concerns, ask

questions and review the information provided. They will then forward your matter to the Chairman of the Audit Committee of the Board of Directors and the appropriate Designated Recipient within the Company, who will take action appropriate and compliant with applicable legal requirements, including the requirements of the Sarbanes-Oxley Act of 2002.

The Hotline is available 24 hours a day, 7 days a week, and 365 days a year. You may contact Lighthouse through any of the following methods:

<b>English speaking USA and Canada:</b>	1-844-280-0005
<b>Spanish speaking USA and Canada:</b>	1-800-216-1288
<b>French speaking Canada:</b>	1-855-725-0002
<b>Spanish speaking Mexico:</b>	01-800-681-5340
<b>All other Countries North America:</b>	1-800-603-2869 ( <a href="#">click here</a> for access codes and dialing <b>outside of</b> instructions)
<b>Website:</b>	<a href="http://www.lighthouse-services.com/Strataskin">www.lighthouse-services.com/Strataskin</a>
<b>Email:</b>	<a href="mailto:reports@lighthouse-services.com">reports@lighthouse-services.com</a>
<b>Fax (USA):</b>	215-689-3885 (must include Company name with report)
<b>Mail:</b>	Lighthouse Services, Inc., 1710 Walton Road, Suite 204 Blue Bell, PA 19422.

### **Fraud Investigation Procedures**

Upon receipt of a report, the matter will be evaluated by the Company's Legal Department to determine the nature and treatment of the complaint in accordance with the procedures established by the Board and outlined in the Company's Code of Business Conduct and Ethics and Whistleblower Hotline Policy. Supervisory personnel, as well as those in the Human Resource and Legal Departments who receive a report of fraud or misconduct, are required to immediately report the event through the Whistleblower Hotline. The Legal Department will record the report along with information about the disposition of the matter.

If an investigation is warranted, the Legal Department will take the steps to:

- Assign internal resources and consult with the Board regarding the need to retain external counsel or consultants in order to conduct the investigation;
- Consider requirements for notification to regulators, law enforcement and other third parties, such as the Company's external auditors and insurance company;
- Notify Employees regarding document preservation and securing data systems, considering data privacy and other pertinent laws and regulations in the jurisdiction(s) where the investigation will occur;
- Develop an investigation work plan;
- Conduct the investigation while protecting confidentiality or anonymity and safeguarding evidence;

- Report the results of the investigation to the Board and others as appropriate (e.g. Management, external auditors, etc.);
- Adhere to policies regarding retention of reports, documents, work papers, and other information;
- Assess root causes and commence remediation and corrective action, involving other necessary parties, as warranted;
- Commence disciplinary, termination, asset recovery and restitution actions in conjunction with the fraud officer and human resources department based upon the audit departments; and
- Conduct case analysis to assess investigation performance and enhance future investigations procedures.

Investigation resources will be provided with unrestricted access to all Company records and premises, whether owned or rented. Investigation results will not be disclosed or discussed with anyone other than those who have a legitimate need to know. Performance metrics for investigators may vary and can include the average number of days to evaluate and resolve an issue, as well as internal resource hours, costs associated with external assistance, type(s) of remediation and corrective action, and repeated number of incidents involving either an individual, department, or geographic location.

## **DISSEMINATION AND AMENDMENT**

This Policy will be assessed by Management and reviewed by the Company’s Board on an annual basis. This Policy shall be distributed to each new executive, officer, manager, supervisor, employee and agent of the Company upon commencement of his or her employment or other relationship with the Company and shall also be distributed annually to each executive, officer, manager, supervisor, employee and agent of the Company, and each shall certify that he or she has received, read and understood the Policy and has complied with its terms. Dissemination of the Policy will take place electronically.

In accordance with the requirements of the Sarbanes-Oxley Act of 2002 and COSO 2014, this Policy will also be distributed to the Company’s key affiliated third-party vendors and contractors, both domestically and internationally. Dissemination to all such third-parties will take place electronically, where possible.

The Company reserves the right to amend or alter this Policy at any time for any reason. If this Policy is amended or altered, it will be redistributed to all pertinent individuals.

## **QUESTIONS**

If you have any questions regarding this Policy, please contact:

**Name:** Jay Sturm  
**Title:** General Counsel  
**Address:** STRATA Skin Sciences, Inc.  
 5 Walnut Grove Drive  
 Suite 140  
 Horsham, PA 19044  
  
**Phone:** 215-619-3285  
**Fax:** 215-619-3209  
**Email:** [jsturm@strataskin.com](mailto:jsturm@strataskin.com)

*Adopted by the STRATA Skin Sciences, Inc. Board of Directors on October 26, 2017  
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 Last amended by the STRATA Skin Sciences, Inc. Board of Directors: March 11, 2019*