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 June 30, 2016

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.)

100 Lakeside Drive, Suite 100, Horsham, Pennsylvania 19044
(Address of principal executive offices, including zip code)

(215) 619-3200
(Registrant's telephone number, including area code)

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 and posted on its corporate web site, if any, every Interactive Data File required to be submitted and posted 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 and post such files).
Yes ☒ No ☐

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

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

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

The number of shares outstanding of the issuer's common stock as of August 11, 2016 was 10,652,804 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)

	June 30, 2016 (unaudited)	December 31, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	$ 2,841	$ 3,303
Restricted cash	-	15
Accounts receivable, net of allowance for doubtful accounts of $120 and $45, respectively	2,708	4,068
Inventories, net	3,754	4,128
Prepaid expenses and other current assets	252	465
Total current assets	9,555	11,979
Property and equipment, net	11,635	13,851
Patents and licensed technologies, net	6,759	7,247
Other intangible assets, net	7,560	7,980
Goodwill	8,803	8,928
Other assets	94	94
Total assets	$ 44,406	$ 50,079
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Note payable	$ 93	$ 299
Accounts payable	2,623	4,446
Other accrued liabilities	1,474	2,161
Deferred revenues	204	173
Total current liabilities	4,394	7,079
Long-term liabilities:		
Long-term debt, net	11,345	9,851
Senior secured convertible debentures, net	10,824	9,839
Warrant liability	317	7,042
Deferred tax liability	239	119
Other liabilities	15	62
Total liabilities	27,134	33,992
Commitment and contingencies		
Stockholders' equity:		
Preferred Stock, $.10 par value, 10,000,000 shares authorized; 6,505 shares issued and outstanding	1	1
Common Stock, $.001 par value, 150,000,000 shares authorized; 10,612,804 and 10,283,393 shares issued and outstanding, respectively	11	10
Additional paid-in capital	225,436	223,315
Accumulated deficit	(208,179)	(207,240)
Accumulated other comprehensive income	3	1
Total stockholders' equity	17,272	16,087
Total liabilities and stockholders' equity	$ 44,406	$ 50,079

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

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

	For the Three Months Ended June 30, 2016	For the Three Months Ended June 30, 2015
Revenues	$ 7,739	$ 611
Cost of revenues	3,139	6,474
Gross profit (loss)	4,600	(5,863)
Operating expenses:		
Engineering and product development	634	282
Selling and marketing	3,523	910
General and administrative	1,901	1,950
	6,058	3,142
Operating loss before other income (expense), net	(1,458)	(9,005)
Other income (expense), net:		
Interest expense, net	(1,178)	(838)
Change in fair value of warrant liability	3,199	1,985
Other income, net	(4)	11
	2,017	1,158
Income (loss) before income taxes	559	(7,847)
Income tax expense	(61)	-
Net income (loss)	$ 498	$ (7,847)
Net income (loss) per share:		
Basic	$ 0.05	$ (0.97)
Diluted	$ (0.23)	$ (1.01)
Shares used in computing net income (loss) per share:		
Basic	10,589,485	8,067,991
Diluted	11,555,236	9,687,623
Other comprehensive income (loss):		
Foreign currency translation adjustments	2	1
Comprehensive income (loss)	$ 500	$ (7,846)

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

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

	For the Six Months Ended June 30, 2016	For the Six Months Ended June 30, 2015
Revenues	$ 15,359	$ 692
Cost of revenues	6,561	7,185
Gross profit (loss)	8,798	(6,493)
Operating expenses:		
Engineering and product development	1,159	521
Selling and marketing	7,233	1,937
General and administrative	4,002	3,686
	12,394	6,144
Operating loss before other income (expense), net	(3,596)	(12,637)
Other income (expense), net:		
Interest expense, net	(2,396)	(3,162)
Change in fair value of warrant liability	5,184	651
Other income, net	(4)	28
	2,784	(2,483)
Loss before income taxes	(812)	(15,120)
Income tax expense	(127)	-
Net loss	$ (939)	$ (15,120)
Net loss per share:		
Basic	$ (0.09)	$ (2.08)
Diluted	$ (0.55)	$ (2.08)
Shares used in computing net loss per share:		
Basic	10,464,571	7,274,358
Diluted	11,080,904	7,274,358
Other comprehensive loss:		
Foreign currency translation adjustments	2	1
Comprehensive loss	$ (937)	$ (15,119)

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 EQUITY
FOR THE SIX MONTHS ENDED JUNE 30, 2016
(In thousands, except share and per share amounts)

(unaudited)

	Convertible Preferred Stock		Common Stock		Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total
	Shares	Amount	Shares	Amount				
BALANCE, JANUARY 1, 2016	6,505	$ 1	10,283,393	$ 10	$ 223,315	$ (207,240)	$ 1	$ 16,087
Stock-based compensation	-	-	-	-	286	-	-	286
Conversion of senior secured convertible debentures	-	-	329,411	1	247	-	-	248
Warrants issued in connection with debt	-	-	-	-	47	-	-	47
Reclassification of warrants to equity	-	-	-	-	1,541	-	-	1,541
Other comprehensive income	-	-	-	-	-	-	2	2
Net loss for the six months ended June 30, 2016	-	-	-	-	-	(939)	-	(939)
BALANCE, JUNE 30, 2016	6,505	$ 1	10,612,804	$ 11	$ 225,436	$ (208,179)	$ 3	$ 17,272

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 Six Months Ended June 30,	
	2016	2015
Cash Flows From Operating Activities:		
Net loss	$ (939)	$ (15,120)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	3,323	641
Provision for doubtful accounts	85	-
Stock-based compensation	286	476
Deferred tax provision	120	-
Impairment of long-lived assets	-	920
Inventory write-offs	-	4,818
Loss on disposal of property, plant and equipment	124	-
Amortization of debt discount	1,239	2,662
Amortization of deferred financing costs	91	219
Change in fair value of warrant liability	(5,184)	(651)
Changes in operating assets and liabilities:		
Accounts receivable	1,275	239
Inventories	374	211
Prepaid expenses and other assets	168	63
Accounts payable and accrued expenses	(1,834)	204
Other accrued liabilities	(686)	46
Deferred financing costs	-	(382)
Other liabilities	(47)	(20)
Deferred revenues	31	119
Net cash used in operating activities	(1,574)	(5,555)
Cash Flows From Investing Activities:		
Lasers placed-in-service, net	(328)	(123)
Restricted cash	15	(100)
Reimbursement of purchase price	125	-
Acquisition costs, net of cash received	-	(42,500)
Net cash used in investing activities	(188)	(42,723)

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 Six Months Ended June 30,	
	2016	2015
Cash Flows From Financing Activities:		
Proceeds from long-term debt	1,500	-
Proceeds from convertible debentures	-	32,500
Proceeds from senior notes	-	10,000
Payments on notes payable	(207)	(5)
Expenses related to financing	-	(100)
Net cash provided by financing activities	1,293	42,395
Effect of exchange rate changes on cash	7	2
Net decrease in cash and cash equivalents	(462)	(5,881)
Cash and cash equivalents, beginning of period	3,303	11,434
Cash and cash equivalents, end of period	$ 2,841	$ 5,553
Supplemental information:		
Cash paid for interest	$ 980	$ 250
Supplemental information of non-cash investing and financing activities:		
Conversion of senior secured convertible debentures into common stock	$ 248	$ 2,308
Conversion of convertible preferred stock into common stock	$ -	$ 5,283
Reclassification of property and equipment to inventory, net	$ -	$ 107
Reclassification of warrants to equity	$ 1,541	$ -
Recognition of warrants issued as debt discount	$ 47	$ -

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

Note 1
The Company:

Background
STRATA Skin Sciences, Inc. (and its subsidiary) ("STRATA" or "we" or the "Company") is a medical technology company dedicated to developing and commercializing innovative products for the diagnosis and treatment of serious dermatological disorders. In June 2015 the Company completed the acquisition of the XTRAC Excimer Laser and the VTRAC excimer lamp businesses from PhotoMedex, Inc. which included a subsidiary in India, PhotoMedex India Ltd. The XTRAC® and VTRAC® products are FDA cleared devices for the treatment of psoriasis, vitiligo and other skin disorders. The purchase price was $42,500 plus the assumption of certain business-related liabilities. (See *Note 2*, **Acquisition**.)

The XTRAC is an ultraviolet light excimer laser system utilized to treat psoriasis, vitiligo and other skin diseases. The XTRAC received FDA clearance in 2000 and has since become a recognized treatment among dermatologists. The system delivers targeted 308um ultraviolet light to affected areas of the skin, leading to psoriasis clearing and vitiligo repigmentation, following a series of treatments. As of June 30, 2016, there were 748 XTRAC systems placed in dermatologists' offices in the United States under the Company's recurring revenue business model. The XTRAC systems employed under the recurring revenue model generate revenue on a per procedure basis. 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, reimbursement support service and participation in the direct to patient marketing programs employed by the Company. The XTRAC system's use for psoriasis is covered by nearly all major insurance companies, including Medicare. The VTRAC Excimer Lamp system, offered in addition to the XTRAC system internationally, provides targeted therapeutic efficacy demonstrated by excimer technology with the simplicity of design and reliability of a lamp system.

Liquidity
As of June 30, 2016, the Company had an accumulated deficit of $208,179 and has incurred losses and negative cash flows from operations since inception. To date, the Company has dedicated most of its financial resources to research and development, sales and marketing, and general and administrative expenses.

The Company has been dependent on raising capital from the sale of securities in order to continue to operate and to meet its obligations in the ordinary course of business. Management believes that its cash and cash equivalents as of June 30, 2016 combined with the anticipated revenues from the sale of the Company's products will be sufficient to satisfy its working capital needs, capital asset purchases, outstanding commitments and other liquidity requirements associated with its existing operations through the third quarter of 2017.

***Basis of Presentation*:**

Accounting Principles
The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("US GAAP").

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

Quarterly Financial Information and Results of Operations

The condensed consolidated financial statements as of June 30, 2016 and for the six months ended June 30, 2016 and 2015 are unaudited and, in the opinion of management, include all adjustments (consisting only of normal recurring adjustments) necessary to present fairly the financial position as of June 30, 2016, the results of operations for the three and six months ended June 30, 2016 and 2015, the statement of stockholders' equity for the six months ended June 30, 2016 and the statement of cash flows for the six months ended June 30, 2016 and 2015. The results of operations and cash flows for the three and six months ended June 30, 2016 are not necessarily indicative of the results to be expected for the entire year. The condensed consolidated balance sheet as of December 31, 2015 was derived from audited financial statements as of December 31, 2015. These condensed consolidated financial statements should be read in conjunction with audited consolidated financial statements and the footnotes thereto, together with Management's Discussion and Analysis of Financial Condition and Results of Operations, contained in the Company's Annual Report on Form 10-K for the year ended December 31, 2015.

Reclassification

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, net assets, results of operations or cash flows.

Use of Estimates

The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the US 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 June 30, 2016, the more significant estimates include (1) revenue recognition, including deferred revenues and valuation allowances of accounts receivable, (2) the fair value of assets acquired and liabilities assumed in the business combination, (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 and (6) the fair value of financial instruments, including derivative instruments.

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.

(In thousands, except share and per share amounts and number of lasers)

The Company's recurring fair value measurements at June 30, 2016 and December 31, 2015 are as follows:

	Fair Value as of June 30, 2016	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Liabilities:				
Warrant liability (Note 10)	$ 317	$ -	$ -	$ 317

	Fair Value as of December 31, 2015	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Liabilities:				
Warrant liability (Note 10)	$ 7,042	$ -	$ -	$ 7,042

The fair value of cash and cash equivalents are based on their respective demand value, which are equal to the carrying value. The fair value of derivative warrant liabilities is estimated using option pricing models that are based on the individual characteristics of the Company's warrants, preferred and common stock, the derivative warrant liability on the valuation date as well as assumptions for volatility, remaining expected life, risk-free interest rate and, in some cases, credit spread. The derivative warrant liabilities are the only recurring Level 3 fair value measures. The carrying value of all other short-term monetary assets and liabilities is estimated to be approximate to their fair value due to the short-term nature of these instruments. The Company assessed its convertible debentures and long-term debt and determined that the fair value of total debt was $18,890 as of June 30, 2016. As of December 31, 2015 the fair value of total debt approximated the recorded value of $15,958.

Several of the warrants have non-standard terms as they relate to a fundamental transaction and require a net-cash settlement upon change in control of the Company and other warrants contain full ratchet provisions that reduce the exercise price of the warrants in the event of a transaction resulting in the issuance of equity below the current price of the warrants. Therefore these warrants are classified as derivatives. These warrants have been recorded at their fair value using a binomial option pricing model and will be recorded at their respective fair value at each subsequent balance sheet date. See *Note 10*, **Warrants**, for additional discussion.

Accrued Warranty Costs
The Company offers a standard warranty on product sales generally for a one to two-year period 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 balance sheet. The activity in the warranty accrual during the six months ended June 30, 2016 is summarized as follows:

	June 30, 2016 (unaudited)
Accrual at beginning of year	$ 226
Additions charged to warranty expense	112
Expiring warranties/claimed satisfied	(206)
Total	132
Less: current portion	(119)
	$ 13

(In thousands, except share and per share amounts and number of lasers)

Earnings Per Share

Basic net loss per common share excludes dilution for potentially dilutive securities and is computed by dividing net loss attributable to common stockholders by the weighted average number of common shares outstanding during the period. Diluted net loss per common share gives effect to dilutive options, warrants and other potential common shares outstanding during the period and their potential diluted effect is considered using the treasury method.

For the three and six months ended June 30, 2016 diluted earnings per common share are computed by the numerator effected by the gain on the change in fair value of the warrant liability and the denominator is increased to include the number of additional potential common shares from the warrants underlying the warrant liability.

Diluted earnings per common share were calculated using the following net income (loss) and weighted average shares outstanding for the three and six months ended June 30, 2016 and for the three months ended June 30, 2015:

	Three Months Ended June 30, 2016	Six Months Ended June 30, 2016	Three Months Ended June 30, 2015
Net income (loss)	$ 498	$ (939)	$ (7,847)
Gain on the change in fair value of the warrant liability	(3,199)	(5,184)	(1,985)
Diluted earnings	$ (2,701)	$ (6,123)	$ (9,832)
Weighted average number of common and common equivalent shares outstanding:			
Basic number of common shares outstanding	10,589,485	10,464,571	8,067,991
Dilutive effect of warrants	965,751	616,333	1,619,632
Diluted number of common and common stock equivalent shares outstanding	11,555,236	11,080,904	9,687,623

For the six months ended June 30, 2015, diluted net loss per common share is equal to the basic net loss per common share since all potentially dilutive securities are anti-dilutive.

Potential common stock equivalents outstanding as of June 30, 2016 and 2015 consist of common stock equivalents of common stock purchase warrants, senior secured convertible debentures, convertible preferred stock and common stock options, which are summarized as follows:

	June 30, 2016	June 30, 2015
Common stock equivalents of convertible debentures	46,105,715	47,661,800
Common stock purchase warrants	16,729,362	16,078,920
Common stock equivalents of convertible preferred stock	2,535,866	4,007,406
Common stock options	3,009,252	1,293,701
Total	68,380,195	69,041,827

Adoption of New Accounting Standards

In April 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2015-03, "*Simplifying the Presentation of Debt Issuance Costs*" *(Subtopic 835-30)*. ASU No. 2015-03 provides guidance that will require debt issuance costs related to a recognized debt liability to be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, in the same manner as debt discounts, rather than as an asset. The standard was effective for reporting periods beginning after December 15, 2015 and early adoption was permitted. The Company adopted this ASU effective January 1, 2016. (See *Note 9*, ***Convertible Debt***.)

In September 2015, the FASB issued ASU No. 2015-16, "*Business Combinations (Topic 805): Simplifying the Accounting for Measurement-Period Adjustments.*" The amendments in ASU 2015-16 require that an acquirer recognize adjustments to estimated amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined, rather than retrospectively adjusting amounts previously reported. The amendments require that the acquirer record, in the same period's financial statements, the effect on earnings of changes in depreciation, amortization, or other income effects, if any, as a result of the change to the estimated amounts, calculated as if the accounting had been completed at the acquisition date. Effective for public business entities for fiscal years beginning after December 15, 2015, including interim periods within those fiscal years. The amendments should be applied prospectively to adjustments to provisional amounts that occur after the effective date with earlier application permitted for financial statements that have not been issued. The adoption of this ASU did not have a significant impact on the condensed consolidated financial statements.

Recently Issued Accounting Standards

In March 2016, the FASB issued ASU No. 2016-09, Improvements to Employee Share-Based Payment Accounting (Topic 718), to simplify various aspects of the accounting and presentation of share-based payments, including the income tax effects of awards and forfeiture assumptions. Currently, tax deductions in excess of compensation costs (excess tax benefits) are recorded in equity and tax deduction shortfalls (tax deficiencies), to the extent of previous excess tax benefits, are recorded in equity and then to income tax expense. Under the new guidance, all excess tax benefits and tax deficiencies will be recorded to income tax expense in the income statement, which could create volatility in the Company's income statement. The new guidance will also change the classification of excess tax benefits in the cash flow statement and impact the diluted earnings per share calculation. The guidance will be effective for interim and annual periods beginning after December 15, 2016, and early adoption is permitted. Different components of the guidance require prospective, retrospective and/or modified retrospective adoption. The Company is currently evaluating the impact on its consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, Leases, This statement requires lessees to present right-of-use assets and lease liabilities on the balance sheet. The standard is effective for public companies for annual periods beginning after December 15, 2018, including interim periods within those fiscal years. The Company is currently evaluating the effect the guidance will have on its financial condition and results of operations.

In November 2015, the FASB issued ASU 2015-17, Income Taxes, Balance Sheet Classification of Deferred Taxes topic of the Codification. This standard requires all deferred tax assets and liabilities to be classified as non-current on the balance sheet instead of separating deferred taxes into current and non-current amounts. In addition, valuation allowance allocations between current and non-current deferred tax assets are no longer required because those allowances also will be classified as non-current. This standard is effective for public companies for annual periods beginning after December 15, 2016. The Company's deferred tax assets are provided with full valuation allowance as of December 31, 2015. As such, the Company does not expect that this standard will have a significant impact on its consolidated financial statements and disclosures upon adoption.

In July, 2015, The FASB issued Accounting Standards Update No. 2015-11, *Simplifying the Measurement of Inventory (Topic 330)* ("ASU 2015-11"). ASU 2015-11 outlines that inventory within the scope of its guidance be measured at the lower of cost and net realizable value. Inventory measured using last-in, first-out (LIFO) are not impacted by the new guidance. Prior to the issuance of ASU 2015-11, inventory was measured at the lower of cost or market (where market was defined as replacement cost, with a ceiling of net realizable value and floor of net realizable value less a normal profit margin). For a public entity, the amendments in ASU 2015-11 are effective, in a prospective manner, for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period (the first quarter of fiscal year 2017 for the Company). Early adoption is permitted as of the beginning of an interim or annual reporting period. The Company does not expect that this standard will have a significant impact on its consolidated financial statements and disclosures upon adoption.

In May 2014, The FASB issued Accounting Standards Update No. 2014-09, *Revenue from Contracts with Customers (Topic 606)* ("ASU 2014-09"). ASU 2014-09 outlines a single comprehensive model to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. ASU 2014-09 also requires entities to disclose sufficient information, both quantitative and qualitative, to enable users of financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. An entity should apply the amendments in this ASU using one of the following two methods: 1. Retrospectively to each prior reporting period presented with a possibility to elect certain practical expedients, or, 2. Retrospectively with the cumulative effect of initially applying ASU 2014-09 recognized at the date of initial application. If an entity elects the latter transition method, it also should provide certain additional disclosures. For a public entity, the amendments in ASU 2014-09 were to be effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. In July 2015, the FASB voted for a one year deferral of the effective date of ASU 2014-09 and issued an exposure draft. The new guidance will be effective for annual and interim periods beginning on or after December 15, 2017. Early application is not permitted. The Company is evaluating this standard and expects to have its analysis completed by mid-2017, however, preliminarily the Company does not expect that this new guidance will have a material impact on its revenue recognition.

In August 2014, the FASB issued Accounting Standards Update No. 2014-15, *Presentation of Financial Statements—Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern* ("ASU 2014-15"). ASU 2014-15 provides guidance on management's responsibility in evaluating whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the entity's ability to continue as a going concern within one year after the date that the financial statements are issued (or within one year after the date that the financial statements are available to be issued when applicable). ASU 2014-15 also provides guidance related to the required disclosures as a result of management evaluation. The amendments in ASU 2014-15 are effective for the annual period ending after December 15, 2016, and for annual periods and interim periods thereafter. Early application is permitted. The adoption of the new guidance will not impact the Company's results of operations, cash flows or financial condition.

Note 2
Acquisition:

On June 22, 2015, the Company entered into an asset purchase agreement (the "Asset Purchase Agreement") with PhotoMedex Inc. and PhotoMedex Technology, Inc. pursuant to which the Company has purchased the XTRAC and VTRAC laser businesses from PhotoMedex, Inc. (the "Asset Purchase") for $42,528 in cash and assumed certain business-related liabilities. In June 2016, the Company received a return from the escrow account of $125 of the purchase price related to the assets in the purchased Indian subsidiary. The purchased assets include all of the accounts receivable, inventory and fixed and intangible assets of the business.

(In thousands, except share and per share amounts and number of lasers)

The fair value of the assets acquired and liabilities assumed were based on management's assessment. The significant intangible assets to be recognized in the valuation are core and product technologies, tradenames and customer relationships. The estimated useful lives over which these assets will be amortized, utilizing the straight line method, are five years for product technologies and ten years for core technologies, tradenames and customer relationships. The following allocation of the aggregate fair value is subject to adjustment based on the fair value of the assets acquired and the liabilities assumed. The Company estimated fair value of the intangibles and lasers placed in service was based on the income approach which estimated cash flow that utilize appropriate discount and capitalization rates and available market information. Estimates of future cash flows are based on a number of factors including the historical operating results, known trends and specific market and economic conditions. The fair value of the Company's remaining fixed assets was estimated based on the cost approach which estimated the cost to replace.

	Fair Value
Current assets	$ 7,233
Property, plant and equipment	14,340
Identifiable intangible assets	16,100
Other assets	45
Total assets assumed	37,718
Current liabilities	(3,945)
Note payable	(57)
Other long term liabilities	(116)
Total liabilities assumed	(4,118)
Net assets acquired	$ 33,600

The purchase price exceeded the fair value of the net assets acquired by $8,803, which was recorded as goodwill.

The consolidated results of operations do not include any revenues or expenses related to XTRAC and VTRAC businesses on or prior to June 22, 2015, the date of the asset purchase. The Company's unaudited pro-forma results for the three and six months ended June 30, 2015 summarize the combined results in the following table, assuming the asset purchase had occurred on January 1, 2015 and after giving effect to the acquisition adjustments, including amortization of the tangible and long-lived intangible assets acquired in the transaction:

	Three Months Ended June 30,2015 (unaudited)	Six Months Ended June 30, 2015 (unaudited)
Net revenues	$ 7,803	$ 15,361
Net loss	$ (11,309)	$ (21,466)
Net loss per basic and diluted share:	$ (1.40)	$ (2.87)
Shares used in calculating net loss per basic and diluted share:	8,067,991	7,474,358

These unaudited pro-forma results have been prepared for comparative purposes only and do not purport to be indicative of the results of operations which would have actually resulted had the acquisition occurred on January 1, 2015, nor to be indicative of future results of operations.

(In thousands, except share and per share amounts and number of lasers)

Note 3
Inventories, net:

	June 30, 2016 (unaudited)	December 31, 2015
Raw materials and work in progress	$ 3,416	$ 3,706
Finished goods	338	422
Total inventories	$ 3,754	$ 4,128

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

Note 4
Property and Equipment, net:

	June 30, 2016 (unaudited)	December 31, 2015
Lasers placed-in-service	$ 16,079	$ 15,782
Equipment, computer hardware and software	161	1,219
Furniture and fixtures	111	2,080
Leasehold improvements	24	931
	16,375	20,012
Accumulated depreciation and amortization	(4,740)	(6,161)
Property and equipment, net	$ 11,635	$ 13,851

Depreciation and related amortization expense was $2,415 and $638 for the six months ended June 30, 2016 and 2015, respectively. For the three and six months ended June 30, 2016, the Company disposed of leasehold improvements, machinery and equipment and furniture and fixtures with a recorded cost of $3,933 and accumulated depreciation and amortization of $3,809, related to the closing of its Irvington, New York facility. The net book value of $124 was written off to general and administrative expense.

Note 5
Patents and Licensed Technologies, net:

	June 30, 2016 (unaudited)	December 31, 2015
Core technology	$ 5,974	$ 5,974
Product technology	2,000	2,000
	7,974	7,974
Accumulated amortization	(1,215)	(727)
Patents and licensed technologies, net	$ 6,759	$ 7,247

Related amortization expense was $488 and $3 for the six months ended June 30, 2016 and 2015, respectively.

(In thousands, except share and per share amounts and number of lasers)

Estimated amortization expense for amortizable patents and licensed technologies assets for the future periods is as follows:

Remaining 2016	$ 487
2017	975
2018	975
2019	975
2020	775
Thereafter	2,572
Total	$ 6,759

Note 6
Other Intangible Assets:

Set forth below is a detailed listing of other definite-lived intangible assets:

	June 30, 2016 (unaudited)	December 31, 2015
Customer relationships	$ 6,900	$ 6,900
Tradenames	1,500	1,500
	8,400	8,400
Accumulated amortization	(840)	(420)
Other intangible assets, net	$ 7,560	$ 7,980

Related amortization expense was $420 and $ 0 for the six months ended June 30, 2016 and 2015, respectively.

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

Remaining 2016	$ 420
2017	840
2018	840
2019	840
2020	840
Thereafter	3,780
Total	$ 7,560

Note 7
Other Accrued Liabilities:

	June 30, 2016 (unaudited)	December 31, 2015
Accrued warranty, current, see Note 1	$ 119	$ 168
Accrued compensation, including commissions and vacation	696	1,336
Accrued sales and other taxes	391	349
Accrued professional fees	267	265
Other accrued liabilities	1	43
Total other accrued liabilities	$ 1,474	$ 2,161

(In thousands, except share and per share amounts and number of lasers)

Note 8
Convertible Debentures:

In the following table is a summary of the Company's convertible debentures.

	June 30, 2016 (unaudited)	December 31, 2015
Senior secured 2.25% convertible debentures, net of unamortized debt discount of $25,252 and $26,267, respectively; and deferred financing costs of $544 and $522, respectively	$ 6,234	$ 5,489
Senior secured 4% convertible debentures, net of unamortized debt discount of $3,707 and $3,922, respectively; and deferred financing costs of $419 and $443, respectively	4,590	4,350
Total convertible debt	$ 10,824	$ 9,839

The Company issued $32,500 aggregate principal amount of Debentures (June 2015 Debentures) that, subject to certain ownership limitations and stockholder approval conditions, will be convertible into 43,333,334 shares of Company common stock at an initial conversion price of $0.75 per share. The Debentures bear interest at the rate of 2.25% per year, and, unless previously converted, will mature on the five-year anniversary of the date of issuance, June 22, 2020.

The June 2015 Debentures include a beneficial conversion feature valued at $27,300 that was recorded as a discount to the debentures. On the date of issuance the beneficial conversion feature value was calculated as the difference resulting from subtracting the conversion price of $0.75 from $1.38, the opening market value of the Company's common stock following the announcement of the transaction, multiplied by the number of common shares into which the June 2015 Debentures are convertible. This discount is being amortized over the five year life of the June 2015 Debentures using the effective interest method. The embedded conversion feature contains an anti-dilution provision that allows for downward exercise price adjustments in certain situations. The embedded conversion feature was not bifurcated as it did not meet all of the elements of a derivative.

On July 21, 2014, the Company entered into a definitive Securities Purchase Agreement (the "Purchase Agreement") with institutional investors (the "Investors") providing for the issuance of Senior Secured Convertible Debentures in the aggregate principal amount of $15,000, due, subject to the terms therein, in July 2019 (the "July 2014 Debentures"), and warrants (the "July 2014 Series A Warrants") to purchase up to an aggregate of 6,198,832 shares of common stock, $0.001 par value per share, at an exercise price of $2.45 per share expiring in July 2019. The July 2014 Debentures bear interest at an annual rate of 4%, payable quarterly or upon conversion into shares of common stock. The Debentures are convertible at any time into an aggregate of 5,847,955 shares of common stock at an initial conversion price of $2.565 per share. The Company's obligations under the July 2014 Debentures are secured by a first priority lien on all of the Company's intellectual property pursuant to the terms of a security agreement ("Security Agreement") dated July 21, 2014 among the Company and the Investors. In connection with the Purchase Agreement, the Company entered into a Registration Rights Agreement with the Investors pursuant to which the Company was obligated to file a registration statement to register for resale the shares of Common Stock issuable upon conversion of the Series B Preferred Stock (See *Note 10*, **Warrants**) and Debentures and upon exercise of the Warrants. Under the terms of the Registration Rights Agreement, the Company filed a registration statement on August 19, 2014, which was declared effective by the SEC on October 20, 2014 (File No. 333-198249).

For financial reporting purposes, the $15,000 funded by the Investors on July 21, 2014 was allocated first to the fair value of the obligation to issue the Warrants, amounting to $5,296, then to the intrinsic value of the beneficial conversion feature on the July 2014 Debentures of $4,565. The balance was further reduced by the fair value of warrants issued to the placement agent for services rendered of $491, resulting in an initial carrying value of the Debentures of $4,647. The initial debt discount on the July 2014 Debentures totaled $10,353 and is being amortized using the effective interest method over the five year life of the July 2014 Debentures.

(In thousands, except share and per share amounts and number of lasers)

During the six months ended June 30, 2016, the investors converted June 2015 debentures amounting to $248 into 329,411 shares of common stock. The debt discount and deferred financing cost adjustment resulting from the conversions increased interest expense by $202 for the six months ended June 30, 2016.

As a condition of the new note facility (See *Note 9*, **Long-term Debt**) the Debentures from both the 2014 and 2015 financings were amended. The Debentures holders' first priority lien was subordinated to the new term note facility. Additionally, as a condition of the term note facility, the maturity date of both Debentures was extended to June 30, 2021. The Company evaluated the modifications to determine if there was an extinguishment of debt. Based on the valuation, the discounted cash flows did not change by more than 10%, thus they were treated as a modification.

As of June 30, 2016, the total outstanding amount of Debentures was $40,746.

Note 9
Long-term Debt:

Term-Note Credit Facility
On December 30, 2015, the Company entered into a $12,000 credit facility pursuant to a Credit and Security Agreement (the "Agreement") and related financing documents with MidCap Financial Trust ("MidCap") and the lenders listed therein. Under the Agreement, the credit facility may be drawn down in two tranches, the first of which was drawn for $10,500 on December 30, 2015. The proceeds of this first tranche were used to repay $10,000 principal amount of short-term senior secured promissory notes, plus associated interest, loan fees and expenses. The second tranche was drawn for $1,500 on January 29, 2016. The Company's obligations under the credit facility are secured by a first priority lien on all of the Company's assets. This credit facility includes both financial and non-financial covenants, including a minimum net revenue covenant, beginning in January 2016. The Company is in compliance with these covenants as of June 30, 2016. On August 9, 2016, the minimum net revenue covenant was amended prospectively. The Interest rate on the credit facility is one month LIBOR plus 8.25%, subject to a LIBOR floor of 0.5%. The Company's existing debentures from its 2014 and 2015 financings were amended as a condition of this new term note facility, including subordination agreements and maturity extensions. Unamortized discount on the long term debt was $655 and $649 as of June 30, 2016 and December 31, 2015, respectively. As of June 30, 2016 the net balance of long-term debt is $11,345.

In connection with the issuance of the Term Note the Company issued MidCap (and the lenders), on December 30, 2015, a warrant to purchase 650,442 shares of the Company's common stock for an exercise price of $1.13. Additionally, the Company issued MidCap (and the lenders), on January 29, 2016, a warrant to purchase 99,057 shares of the Company's common stock for an exercise price of $1.06. The warrants are exercisable at any time on or prior to the fifth anniversary of its issue date. The warrants are treated as a discount to the debt and are accreted under the effective interest method over the repayment term of 60 months. The Company has accounted for these warrants as equity instruments since there is no option for cash or net-cash settlement when the warrants are exercised and since they are indexed to the Company's common stock. The Company computed the value of the warrants using the Black-Scholes method. The key assumptions used to value the warrants are as follows:

	December 31, 2015	January 29, 2016
Number of shares underlying warrants	650,442	99,057
Exercise price	$ 1.13	$ 1.06
Stock price on date of issuance	$ 1.11	$ 1.05
Fair value of warrants	$ 321	$ 47
Volatility	50.0%	50.0%
Risk-free interest rate	1.8%	1.8%
Expected dividend yield	0%	0%
Expected warrant life	5 years	5 years

(In thousands, except share and per share amounts and number of lasers)

Note 10
Warrants:

The Company accounts for warrants that have provisions that protect holders from a decline in the issue price of its common stock (or "down-round" provisions) as liabilities instead of equity. Down-round provisions reduce the exercise or conversion price of a warrant or convertible instrument if a company either issues equity shares for a price that is lower than the exercise or conversion price of those instruments or issues new warrants or convertible instruments that have a lower exercise or conversion price. Net settlement provisions allow the holder of the warrant to surrender shares underlying the warrant equal to the exercise price as payment of its exercise price, instead of physically exercising the warrant by paying cash. The Company evaluated whether warrants to acquire its common stock contain provisions that protect holders from declines in the stock price or otherwise could result in modification of the exercise price and/or shares to be issued under the respective warrant agreements based on a variable that is not an input to the fair value of a "fixed-for-fixed" option. As of June 22, 2016, the down-round provision expired on 12,083,821 warrants and as such these warrants were reclassified to equity.

For those that do contain such provisions, the Company recognizes the warrants as liabilities at the fair value on each reporting date. The Company computed the value of the warrants using the binomial method. A summary of quantitative information with respect to the valuation methodology and significant unobservable inputs used for the Company's warrant liabilities that are categorized within Level 3 of the fair value hierarchy as of June 30, 2016, June 22, 2016 and December 31, 2015 is as follows:

	June 30, 2016	June 22, 2016	December 31, 2015
Number of shares underlying the warrants	2,015,446	14,099,267	14,099,267
Stock price	$ 0.61	$ 0.65	$ 1.11
Volatility	50.00%	35.00 - 50.00%	35.90 – 50.00%
Risk-free interest rate	0.83% – 0.86%	0.25% – 1.04%	0.02% - 1.63%
Expected dividend yield	0%	0%	0%
Expected warrant life	2.62 – 2.85 years	0.09– 4.0 years	0.07 – 4.48 years

Recurring Level 3 Activity and Reconciliation

The tables below provide a reconciliation of the beginning and ending balances for the liability measured at fair value using significant unobservable inputs (Level 3). The table reflects gains and losses for the six-month periods ended June 30, 2016 and 2015, for all financial liabilities categorized as Level 3 as of June 30, 2016 and, 2015, respectively.

Fair Value Measurements Using Significant Unobservable Inputs (Level 3):

Issuance Date	December 31, 2015	Decrease in Fair Value	Reclassification to Equity	June 30, 2016
10/31/2013	$ 379	$ (267)	$ -	$ 112
2/5/2014	715	(510)	-	205
7/24/2014 Series A	2,415	(1,573)	(842)	-
7/24/2014 Series B	1,726	(1,713)	(13)	-
6/22/2015	1,807	(1,121)	(686)	-
Total	$ 7,042	$ (5,184)	$ (1,541)	$ 317

(In thousands, except share and per share amounts and number of lasers)

Issuance Date	December 31, 2014	Initial Measurement	Increase (Decrease) in Fair Value	June 30, 2015
10/31/2013	$ 233	$ -	$ (96)	$ 137
2/5/2014	266	-	13	279
6/22/2015	-	2,958	(568)	2,390
Total	$ 499	$ 2,958	$ 651	$ 2,806

Number of Warrants Subject to Remeasurement:

Issuance Date	December 31, 2015	Reductions	June 30, 2016
10/31/2013	685,715	-	685,715
2/5/2014	1,329,731	-	1,329,731
7/24/2014 Series A	4,288,500	(4,288,500)	-
7/24/2014 Series B	4,795,321	(4,795,321)	-
6/22/2015	3,000,000	(3,000,000)	-
Total	14,099,267	(12,083,821)	2,015,446

Note 11
Stockholders' Equity:

Common Stock and Warrants
Common stock warrants outstanding at June 30, 2016 consist of the following:

Issue Date	Expiration Date	Total Warrants	Exercise Price
4/26/2013	4/26/2018	69,321	$ 11.18
10/31/2013	4/30/2019	685,715	$ 0.75
2/5/2014	2/5/2019	1,329,731	$ 0.75
7/24/2014	7/24/2019	6,198,832	$ 0.75 - $ 2.45
7/24/2014	7/24/2016	4,795,321	$ 0.75
6/22/2015	6/22/2020	3,000,000	$ 0.75
12/30/2015	12/30/2020	650,442	$ 1.13
1/29/2016	1/29/2021	99,057	$ 1.06
		16,828,419	

Note 12
Stock-based compensation:

At June 30, 2016, the Company had 3,009,252 common stock options outstanding with a weighted-average exercise price of $1.50. 1,939,752 common stock options are vested and exercisable.

Stock-based compensation expense, primarily included in general and administration, for the three and six months ended June 30, 2016 was $116 and $286, respectively. For the three and six months ended June 30, 2015 stock-based compensation was $246 and $476 respectively. As of June 30, 2016 there was $406 in unrecognized compensation expense, which will be recognized over a weighted average period of 4 years.

Note 13
Income taxes:

The Company accounts for income taxes using the asset and liability method for deferred income taxes. 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 $61 and $127 for the three and six months ended June 30, 2016 was comprised of the change in deferred tax liability related to goodwill. Goodwill is an amortizing asset according to tax regulations. This generates a deferred tax liability that is not used to offset deferred tax assets for valuation allowance considerations. There was no such expense for the three and six months ended June 30, 2015.

Note 14
Business Segments and Geographic Data:

The Company organized its business into three operating segments to better align 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 XTRAC procedures performed by dermatologists. The Dermatology Procedures Equipment segment generates revenues from the sale of equipment, such as lasers and lamp products. The Dermatology Imaging segment generates revenues from the sale and usage of imaging devices. Management reviews financial information presented on an operating segment basis for the purposes of making certain operating decisions and assessing financial performance. On June 22, 2015, the Company acquired the XTRAC and VTRAC businesses and has classified the revenues and expenses of this business to the two Dermatology Procedures segments.

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 and other financing income (expense), net is also not allocated to the operating segments.

(In thousands, except share and per share amounts and number of lasers)

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

Three Months Ended June 30, 2016 (unaudited)

	Dermatology Recurring Procedures	Dermatology Procedures Equipment	Dermatology Imaging	TOTAL
Revenues	$ 6,093	$ 1,634	$ 12	$ 7,739
Costs of revenues	2,258	812	69	3,139
Gross profit	3,835	822	(57)	4,600
Gross profit %	*63.0%*	*50.3%*	*(475.0%)*	*59.4%*
Allocated operating expenses:				
Engineering and product development	323	54	257	634
Selling and marketing expenses	3,349	96	78	3,523
Unallocated operating expenses	-	-	-	1,901
	3,672	150	335	6,058
Income (loss) from operations	163	672	(392)	(1,458)
Interest expense, net	-	-	-	(1,178)
Change in fair value of warrant liability	-	-	-	3,199
Other income (expense), net	-	-	-	(4)
Income (loss) before income taxes	$ 163	$ 672	$ (392)	$ 559

Three Months Ended June 30, 2015 (unaudited)

	Dermatology Recurring Procedures	Dermatology Procedures Equipment	Dermatology Imaging	TOTAL
Revenues	$ 104	$ 449	$ 58	$ 611
Costs of revenues	62	284	6,128	6,474
Gross profit	42	165	(6,070)	(5,863)
Gross profit %	*40.4%*	*36.7%*	*(10465.5%)*	*(959.6%)*
Allocated operating expenses:				
Engineering and product development	7	31	244	282
Selling and marketing expenses	170	30	710	910
Unallocated operating expenses	-	-	-	1,950
	177	61	954	3,142
Loss from operations	(135)	104	(7,024)	(9,005)
Interest expense, net	-	-		(838)
Change in fair value of warrant liability	-	-	-	1,985
Other income (expense), net	-	-	-	11
Net loss	$ (135)	$ 104	$ (7,024)	$ (7,847)

(In thousands, except share and per share amounts and number of lasers)

Six Months Ended June 30, 2016 (unaudited)

	Dermatology Recurring Procedures	Dermatology Procedures Equipment	Dermatology Imaging	TOTAL
Revenues	$ 11,621	$ 3,624	$ 114	$ 15,359
Costs of revenues	4,561	1,764	236	6,561
Gross profit	7,060	1,860	(122)	8,798
Gross profit %	*60.8%*	*51.3%*	*(107.0%)*	*57.3%*
Allocated operating expenses:				
Engineering and product development	634	116	409	1,159
Selling and marketing expenses	6,860	203	170	7,233
Unallocated operating expenses	-	-	-	4,002
	7,494	319	579	12,394
Income (loss) from operations	(434)	1,541	(701)	(3,596)
Interest expense, net	-	-	-	(2,396)
Change in fair value of warrant liability	-	-	-	5,184
Other income (expense), net	-	-	-	(4)
Income (loss) before income taxes	$ (434)	$ 1,541	$ (701)	$ (812)

Six Months Ended June 30, 2015 (unaudited)

	Dermatology Recurring Procedures	Dermatology Procedures Equipment	Dermatology Imaging	TOTAL
Revenues	$ 104	$ 449	$ 139	$ 692
Costs of revenues	62	284	6,839	7,185
Gross profit	42	165	(6,700)	(6,493)
Gross profit %	*40.4%*	*36.7%*	*(4820.0%)*	*(938.3%)*
Allocated operating expenses:				
Engineering and product development	7	31	483	521
Selling and marketing expenses	169	30	1,738	1,937
Unallocated operating expenses	-	-	-	3,686
	176	61	2,221	6,144
Loss from operations	(134)	104	(8,921)	(12,637)
Interest expense, net	-	-		(3,162)
Change in fair value of warrant liability	-	-	-	651
Other income (expense), net	-	-	-	28
Net loss	$ (134)	$ 104	$ (8,921)	$ (15,120)

(In thousands, except share and per share amounts and number of lasers)

For the three and six months ended June 30, 2016 and 2015 there were no material net revenues attributable to any individual foreign country. Net revenues by geographic area were, as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Domestic	$ 6,265	$ 104	$ 12,158	$ 122
Foreign	1,474	507	3,201	570
	$ 7,739	$ 611	$ 15,359	$ 692

Note 15
Significant Customer Concentration:

For the three months ended June 30, 2016, revenues from sales to the Company's international master distributor (GlobalMed Technologies) were $1,461, or 18.9%, of total revenues for such period. For the six months ended June 30, 2016, revenues from sales to the Company's international master distributor were $3,147, or 20.5%, of total revenues for such period. At June 30, 2016, the accounts receivable balance from GlobalMed Technologies was $416, or 15.4%, of total net accounts receivable. For the three and six months ended June 30, 2015, revenues from sales to the Company's international master distributor were $449, or 73.5% and 64.9%, respectively, of total revenues for such periods. No other customer represented more than 10% of total company revenues for the three and six months ended June 30, 2016 and 2015. No other customer represented more than 10% of total accounts receivable as of June 30, 2016.

Note 16
Subsequent Events:

On July 28, 2016, investors converted series A preferred stock amounting to $51 into 20,000 shares of common stock. On August 3, 2016, investors converted series A preferred stock amounting to $51 into 20,000 shares of common stock.

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 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. In particular, we encourage you to review the risks and uncertainties described in Item 1A "Risk Factors" included elsewhere in this report, in our Annual Report on Form 10-K for the year ended December 31, 2015 and on Form 10-Q for the quarter ended March 31, 2016. 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.

Introduction, Outlook and Overview of Business Operations

STRATA Skin Sciences, Inc. ("STRATA" or "we" or the "Company") is a medical technology company dedicated to developing and commercializing innovative products for the diagnosis and treatment of serious dermatological disorders. In June 2015 we completed the acquisition of the XTRAC system and the VTRAC system businesses. The XTRAC and VTRAC products are FDA cleared devices for the treatment of psoriasis, vitiligo and other skin disorders. The purchase price was $42,528 plus the assumption of certain business-related liabilities. These products generated $32,874 in revenues in 2015 with a gross margin of 60.7% on a pro forma basis. Management believes that these businesses acquired create a platform on which to transform STRATA into a leading medical dermatology company.

The XTRAC device is utilized to treat psoriasis, vitiligo and other skin diseases. The XTRAC device received FDA clearance in 2000 and has since become a widely recognized treatment among dermatologists. The system delivers targeted 308um ultraviolet light to affected areas of skin, leading to psoriasis clearing and vitiligo repigmentation, following a series of treatments. As of June 30, 2016, there were 748 XTRAC systems placed in dermatologists' offices in the United States under our recurring revenue model, up from 664 at June 30, 2015. Under the recurring revenue model, the XTRAC system is placed in a physician's office and revenue is recognized on a per procedure basis. 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 system, provides targeted therapeutic efficacy demonstrated by excimer technology with the simplicity of design and reliability of a lamp system. 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 2015, over 354,000 XTRAC laser treatments were performed on approximately 22,000 patients in the United States. To date in 2016, over 155,000 XTRAC laser treatments were performed on approximately 9,700 patients in the United States.

The financial results of the XTRAC and VTRAC businesses have been included in the results of operations subsequent to June 22, 2015, the date of the acquisition. The assets of the businesses purchased and liabilities assumed have been consolidated as of June 22, 2015.

MelaFind is a non-invasive, point-of-care (i.e., in the doctor's office) instrument designed to aid in the dermatologists' decision to biopsy pigmented skin lesions, particularly melanoma. The successful commercialization of MelaFind is dependent on many factors, one of which is the establishment of reimbursement policies that include the use of the MelaFind's capabilities to assist in the biopsy decision. Management anticipates that it may require several years of continued effort for insurance companies to establish such policies.

In July 2015, the CPT® Editorial Panel of the American Medical Association posted to the AMA's website the list of Category III codes that became effective January 16, 2016. These codes included T0400 and T0401, which apply to our MelaFind system. This action followed from our application submitted in July 2014 for a Current Procedural Terminology ("CPT") code, which is necessary for Medicare Part B reimbursement by the Centers for Medicare and Medicaid Services ("CMS").

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.

- *VTRAC® Lamp.* VTRAC received FDA clearance in 2005 and provides targeted therapeutic efficacy, as demonstrated by excimer technology with the simplicity of design and reliability of a lamp system.

- *MelaFind*®. MelaFind received a Pre-Market Approval, or PMA, from the FDA, in November 2011, having already received in September 2011 Conformité Européenne ("CE") Mark approval. MelaFind is a non-invasive, point–of-care, (i.e. in the doctor's office) instrument to aid dermatologists in their decision to biopsy suspicious pigmented lesions, (e.g. melanoma). MelaFind aids in the evaluation of clinically atypical pigmented skin lesions, when a dermatologist chooses to obtain additional information before making a final decision to biopsy in order to rule out melanoma. MelaFind acquires and displays multi-spectral (from blue to near infrared) images and dermoscopic Red Green Blue ("RGB") digital data from pigmented skin lesions.

Sales and Marketing

As of June 30, 2016, our sales and marketing personnel consisted of 49 full-time positions, inclusive of a 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.

Critical Accounting Policies and Estimates

There have been no changes to our critical accounting policies in the three and six months ended June 30, 2016. 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, 2015, as filed with the SEC with our Annual Report on Form 10-K filed on March 15, 2016.

Results of Operations (The following financial data, in this narrative, are expressed in thousands, except for the earnings per share.)

Revenues

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2016	2015	2016	2015
Dermatology Recurring Procedures	$ 6,093	$ 104	$ 11,621	$ 104
Dermatology Procedures Equipment	1,634	449	3,624	449
Dermatology Imaging	12	58	114	139
Total Revenues	$ 7,739	$ 611	$ 15,359	$ 692

We completed the asset purchase of the XTRAC and VTRAC businesses on June 22, 2015 and as such, there are eight days of corresponding revenues for the three and six months ended June 30, 2015.

Dermatology Recurring Procedures

Recognized treatment revenue for the three months ended June 30, 2016 was $6,093, which approximates 81,000 treatments, with prices between $65 to $95 per treatment. Recognized treatment revenue for the six months ended June 30, 2016 was $11,621, which approximates 155,000 treatments. 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 have a direct to patient program for XTRAC advertising in the United States targeted at 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. Our advertising expenditures in this area are aimed at reaching the more than 10 million patients in the United States afflicted with these diseases.

Recognized treatment revenue for the three and six months ended June 30, 2015 was $104, which approximates 1,000 treatments. We completed the asset purchase of the XTRAC and VTRAC businesses on June 22, 2015 and as such, there are eight days of corresponding revenues for the three and six months ended June 30, 2015.

We defer substantially all sales of treatment codes ordered by and delivered to the customer within the last two weeks of the period in determining the amount of procedures performed by our physician-customers. Management believes this approach closely approximates the actual amount of unused treatments that existed at the end of a period. For the three months ended June 30, 2016, we deferred net revenues of $137 under this approach.

Dermatology Procedures Equipment

For the three months ended June 30, 2016 dermatology equipment revenues were $1,634. Internationally, we sold 22 systems for the three months ended June 30, 2016, 13 XTRAC and 9 VTRAC systems. For the six months ended June 30, 2016 dermatology equipment revenues were $3,624. Internationally, we sold 46 systems for the six months ended June 30, 2016, 30 XTRAC and 16 VTRAC systems.

For the three and six months ended June 30, 2015 dermatology equipment revenues were $449. Internationally, we sold 8 systems for the three and six months ended June 30, 2015, 7 XTRAC and 1 VTRAC systems. We completed the asset purchase of the XTRAC and VTRAC businesses on June 22, 2015 and as such, there are eight days of corresponding revenues for the three and six months ended June 30, 2015.

Dermatology Imaging

For the three months ended June 30, 2016 and 2015, imaging revenues were $12 and $57, respectively. For the six months ended June 30, 2016 and 2015, imaging revenues were $114 and $138, respectively. Imaging revenues are generated from the MelaFind systems, through direct capital equipment sales and through a leasing model. Under the leasing model, there is an upfront installation fee and a monthly usage fee based on the number of lesions examined.

Cost of Revenues

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2016	2015	2016	2015
Dermatology Recurring Procedures	$ 2,258	$ 62	$ 4,561	$ 62
Dermatology Procedures Equipment	812	284	1,764	284
Dermatology Imaging	69	6,128	236	6,839
Total Cost of Revenues	$ 3,139	$ 6,474	$ 6,561	$ 7,185

As we completed the asset purchase of XTRAC and VTRAC businesses on June 22, 2015, there were eight days of corresponding cost of revenues for the three and six months ended June 30, 2015.

Cost of revenues decreased to $3,139 for the three months ended June 30, 2016 compared to $6,474 for the three months ended June 30, 2015. Cost of revenues have decreased to $6,561 for the six months ended June 30, 2016 compared to $7,185 for the six months ended June 30, 2015. During the three and six months ended June 30, 2015 we initiated plans to develop an updated version of the MelaFind system and, accordingly, determined that a majority of our existing inventory of MelaFind systems and related parts exceeded our requirements. As a result, we wrote-off the excess and obsolete inventory on our MelaFind systems and related components and incurred a charge of $4,818. We also had an impairment charge of $920 of property and equipment related to the MelaFind systems.

Gross Profit Analysis

Gross profit increased to $4,600 for the three months ended June 30, 2016 from ($5,863) during the same period in 2015. As a percentage of revenues, the gross margin was 59.4% for the three months ended June 30, 2016 from (959.6%) during the same period in 2015.

Gross profit increased to $8,798 for the six months ended June 30, 2016 from ($6,493) during the same period in 2015. As a percentage of revenues, the gross margin was 57.3% for the six months ended June 30, 2016 from (938.3%) during the same period in 2015.

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

	For the Three Months Ended June 30, 2016				
	Dermatology Recurring Procedures	Dermatology Procedures Equipment	Dermatology Imaging	Total	For the Three Months Ended June 30, 2015
Revenues	$ 6,093	$ 1,634	$ 12	$ 7,739	$ 611
Cost of revenues	2,258	812	69	3,139	6,474
Gross profit	$ 3,835	$ 822	$ (57)	$ 4,600	$ (5,863)
Gross margin percentage	63.0%	50.3%	(475.0%)	59.4%	(959.6%)

	For the Six Months Ended June 30, 2016				
	Dermatology Recurring Procedures	Dermatology Procedures Equipment	Dermatology Imaging	Total	For the Six Months Ended June 30, 2015
Revenues	$ 11,621	$ 3,624	$ 114	$ 15,359	$ 692
Cost of revenues	4,561	1,764	236	6,561	7,185
Gross profit	$ 7,060	$ 1,860	$ (122)	$ 8,798	$ (6,493)
Gross margin percentage	60.8%	51.3%	(107.0%)	57.3%	(938.3%)

The primary reason for the changes in gross profit for the three and six months ended June 30, 2016, compared to the same period in 2015, was the acquisition of the XTRAC and VTRAC businesses on June 22, 2015. The gross profit related to these businesses was allocated to the two Dermatology Procedures segments. There was only eight days of corresponding gross profit for the three months ended June 30, 2015.

Engineering and Product Development

Engineering and product development expenses for the three months ended June 30, 2016 increased to $634 from $282 for the three months ended June 30, 2015. Engineering and product development expenses for the six months ended June 30, 2016 increased to $1,159 from $521 for the six months ended June 30, 2015. The increases were due to $377 and $750 in engineering and product development expenses related to the XTRAC and VTRAC businesses for the three and six months ended June 30, 2016, respectively. As the XTRAC and VTRAC acquisition was completed on June 22, 2015, there was only eight days of corresponding expense for the three and six months ended June 30, 2015. Offsetting this increase was planned reductions in the ongoing research and development efforts for MelaFind.

Selling and Marketing Expenses

For the three months ended June 30, 2016, selling and marketing expenses increased to $3,523 from $910 for the three months ended June 30, 2015. For the six months ended June 30, 2016, selling and marketing expenses increased to $7,233 from $1,937 for the six months ended June 30, 2015. The increases were related to the XTRAC and VTRAC businesses of $3,445 and $7,064, respectively. As the XTRAC and VTRAC acquisition was completed on June 22, 2015, there was only eight days of corresponding expense for the three and six months ended June 30, 2015. Offsetting some of the increases, were decreases in the MelaFind Division primarily related to salary and headcount decreases and overall impact of cost reduction initiatives.

General and Administrative Expenses

For the three months ended June 30, 2016, general and administrative expenses decreased to $1,901 from $1,950 for the three months ended June 30, 2015. For the six months ended June 30, 2016, general and administrative expenses increased to $4,002 from $3,686 for the six months ended June 30, 2015. The changes were due to the acquisition of the XTRAC and VTRAC businesses on June 22, 3015. Some General and Administrative expenses were brought over with this acquisition including finance, IT and other administrative personnel. These increases were offset, in part, by decreases in the MelaFind Division primarily related to salary and headcount changes and other cost reduction initiatives.

Interest Expense, Net

Interest expense for the three months ended June 30, 2016 was $1,178 compared to $838 in the three months ended June 30, 2015. Interest expense for the six months ended June 30, 2016 was $2,396 compared to $3,162 in the six months ended June 30, 2015. Interest expense during the periods of 2016 and 2015 relate to the 4% senior convertible debentures issued in July 2014, which includes amortization of the related debt discount and deferred financing fees. The 2016 period also includes interest expense related to both the senior note and the 2.25% senior convertible debentures issued on June 22, 2015. Additionally, approximately $203 of interest expense was recognized as a result of the conversion of $248 of debentures into common stock during the six months ended June 30, 2016.

Change in Fair Value of Warrant Liability

In accordance with FASB ASC 815, ("ASC Topic 815") and FASB ASC 820, *Fair Value Measurements and Disclosures* ("ASC Topic 820") and further discussed in Note 10 to the financial statements, we measured the fair value of our warrants that were recorded at their fair value and recognized as liabilities as of June 30, 2016, and recorded $3,199 and $5,184 in other income for the three and six months ended June 30, 2016. We measured the fair value of these warrants as of June 30, 2015, and recorded $1,985 and $651 in other income for the three and six months ended June 30, 2015, respectively.

Other Income (Expense), net

Other expense, net for the three months ended June 30, 2016 was $4 compared to other income, net of $11 for the three months ended June 30, 2015. Other expense, net for the six months ended June 30, 2016 was $4 compared to other income, net $28 for the six months ended June 30, 2015. Other income mainly represents royalty income we earn each quarter from Kavo Dental GmbH on the licensing of certain technology patents.

Income Taxes

Income tax expense for the three months ended June 30 2016 was $61 compared to $0 for the three months ended June 30, 2015. Income tax expense for the six months ended June 30 2016 was $127 compared to $0 for the six months ended June 30, 2015. The expense is comprised of the change in deferred tax liability related to goodwill. Goodwill is an amortizing asset according to tax regulations. This generates a deferred tax liability that is not used to offset deferred tax assets for valuation allowance considerations.

Net Loss

The factors described above resulted in net income of $498 during the three months ended June 30, 2016, as compared to net loss of $7,847 during the three months ended June 30, 2015. The factors described above resulted in net loss of $939 during the six months ended June 30, 2016, as compared to $15,120 during the six months ended June 30, 2015.

Non-GAAP adjusted EBITDA

As a result of our acquisition of the XTRAC and VTRAC products, we have determined to supplement our condensed consolidated financial statements, prepared in accordance with GAAP, presented elsewhere within this report, we will provide certain non-GAAP measures of financial performance. These non-GAAP measures include non-GAAP adjusted EBITDA.

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, 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.

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 GAAP measure of all non-GAAP measures included in this report is as follows:

	For the Three Months Ended June 30,		
	2016	2015	Change
Net income (loss)	$ 498	$ (7,847)	$ 8,345
Adjustments:			
Income taxes	61	-	61
Depreciation and amortization	1,640	322	1,318
Interest expense, net	535	151	384
Non-cash interest expense	643	687	(44)
EBITDA	3,377	(6,687)	10,064
Stock-based compensation expense	116	246	(130)
Change in fair value of warrants	(3,199)	(1,985)	(1,214)
Acquisition costs	-	456	(456)
Impairment of property and equipment	-	920	(920)
Inventory valuation reserves	-	4,818	(4,818)
Non-GAAP adjusted EBITDA	$ 294	$ (2,232)	$ 2,526

	For the Six Months Ended June 30,		
	2016	2015	Change
Net loss	$ (939)	$ (15,120)	$ 14,181
Adjustments:			
Income taxes	127	-	127
Depreciation and amortization	3,323	641	2,682
Interest expense, net	1,067	290	777
Non-cash interest expense	1,329	2,872	(1,543)
EBITDA	4,907	(11,317)	16,224
Stock-based compensation expense	286	476	(190)
Change in fair value of warrants	(5,184)	(651)	(4,533)
Acquisition costs	-	456	(456)
Impairment of property and equipment	-	920	(920)
Inventory valuation reserves	-	4,818	(4,818)
Non-GAAP adjusted EBITDA	$ 9	$ (5,298)	$ 5,307

Liquidity and Capital Resources

As of June 30, 2016 we had $5,161 of working capital compared to $4,900 as of December 31, 2015. Cash and cash equivalents were $2,841 as of June 30, 2016, as compared to $3,318 as of December 31, 2015.

In June 2015, we raised additional gross proceeds of approximately $42,500 through the issuance of $32,500 of 2.25% senior secured convertible debentures due June 2020, $10,000 of Senior secured notes and warrants to purchase common stock. The debentures are convertible at any time into an aggregate of approximately 43.3 million shares of our common stock at a price of $0.75 per share. Our obligations under the debentures are secured by a subordinated first priority lien on all of our assets. Through the six months of 2016, $248 of debentures were converted into common stock.

On December 30, 2015, the Company entered into a $12,000 credit facility pursuant to a Credit and Security Agreement (the "Agreement") and related financing documents with MidCap Financial Trust ("MidCap") and the lenders listed therein. Under the Agreement, the credit facility may be drawn down in two tranches, the first of which was drawn for $10,500 on December 30, 2015. The proceeds of this first tranche were used to repay $10,000 principal amount of short-term senior secured promissory notes, plus associated interest, loan fees and expenses. The second tranche was drawn for $1,500 on January 29, 2016. The Company's obligations under the credit facility are secured by a first priority lien on all of the Company's assets. Other financing documents included subordination agreements and other amendments with the Company's existing debenture holders from its 2014 and 2015 financings.

We have experienced recurring losses and negative cash flow from operations since inception. Historically, we have been dependent on raising capital from the sale of securities in order to continue to operate and to meet our obligations in the ordinary course of business. We believe that our cash as of June 30, 2016 combined with the anticipated revenues from the sale of our products will be sufficient to satisfy our working capital needs, capital asset purchases, outstanding commitments and other liquidity requirements associated with our existing operating through the third quarter of 2017.

Net cash and cash equivalents used in operating activities was $1,587 for the six months ended June 30, 2016 compared to cash used in operating activities of $5,555 for the six months ended June 30, 2015.

Net cash and cash equivalents used in investing activities was $175 for the six months ended June 30, 2016 compared to cash used in investing activities of $42,723 for the six months ended June 30, 2015. The primary reason for the change was the asset purchase of XTRAC and VTRAC business during the six months ended June 30, 2015.

Net cash and cash equivalents provided by financing activities was $1,293 for the six months ended June 30, 2016 compared to cash provided by financing activities of $42,395 for the six months ended June 30, 2015. In the six months ended June 30, 2016, we drew down $1,500 on a long-term debt facility. In the six months ended June 30, 2015, we completed a financing consisting of senior notes amounting to $10,000 and convertible debentures of $32,500.

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 2015 annual financial statements included in our Annual Report on Form 10-K.

Off-Balance Sheet Arrangements

At June 30, 2016, we had no off-balance sheet arrangements.

Cautionary Note Regarding Forward-Looking Statements

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, which are subject to the "safe harbor" created by those sections. Forward-looking statements are based on our management's beliefs and assumptions and on information currently available to our management. In some cases, you can identify forward-looking statements by terms such as "may," "will," "should," "could," "would," "expect," "plan," "anticipate," "believe," "estimate," "project," "predict," "intend," "potential" and similar expressions intended to identify forward-looking statements. These statements, including statements relating to our anticipated revenue streams and our belief that the cash flow generated by these businesses will be sufficient to finance our operations, involve known and unknown risks, uncertainties and other factors which may cause our actual results, performance, time frames or achievements to be materially different from any future results, performance, time frames or achievements expressed or implied by the forward-looking statements. We discuss many of these risks, uncertainties and other factors in our Annual Report on Form 10-K for the year ended December 31, 2015, and in this Quarterly Report on Form 10-Q in greater detail under Item 1A. "Risk Factors." Given these risks, uncertainties and other factors, you should not place undue reliance on these forward-looking statements. Also, these forward-looking statements represent our estimates and assumptions only as of the date of this filing. You should read this Quarterly Report on Form 10-Q completely and with the understanding that our actual future results may be materially different from what we expect. We hereby qualify our forward-looking statements by our cautionary statements. Except as required by law, we assume no obligation to update these forward-looking statements publicly, or to update the reasons actual results could differ materially from those anticipated in these forward-looking statements, even if new information becomes available in the future.

ITEM 3. Quantitative and Qualitative Disclosure about Market Risk

Our exposure to market risk is confined to our cash, cash equivalents, and short-term investments. We invest in high-quality financial instruments, primarily money market funds, with the average effective duration of the portfolio within one year which we believe are subject to limited credit risk. We currently do not hedge interest rate exposure. Due to the short-term nature of our investments, we do not believe that we have any material exposure to interest rate risk arising from our investments. We are exposed to credit risks in the event of default by the financial institutions or issuers of investments in excess of FDIC insured limits. We perform periodic evaluations of the relative credit standing of these financial institutions and limit the amount of credit exposure with any institution.

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 June 30, 2016. Based on that evaluation, management has concluded that, as of such date, our disclosure controls and procedures were effective at the reasonable assurance level described below.

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 change 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 involved in certain other legal actions and claims, 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 1 A. Risk Factors

We are not currently in compliance with the $1.00 minimum bid Nasdaq listing requirement. Failure to maintain the listing of our common stock on the NASDAQ Capital Market could adversely affect us, including our ability to maintain compliance with certain debt covenants and to raise funds.

On April 27, 2016, we received a letter (the "Notice") from the Listing Qualifications Staff of the NASDAQ Stock Market (the "Staff") notifying us that we are not in compliance with the $1.00 minimum closing bid price requirement under the NASDAQ Listing Rules (the "Listing Rules"). The Listing Rules require listed securities to maintain a minimum bid price of $1.00 per share. If a NASDAQ-listed company trades below the minimum bid price requirement for 30 consecutive business days, it is notified of the deficiency. Based upon the Staff's review, we no longer satisfy this requirement. The Listing Rules provide us with a compliance period of 180 calendar days, or until October 24, 2016, to regain compliance with this requirement.

To regain compliance with the minimum bid price requirement, we must have a closing bid price of $1.00 per share or more for a minimum of ten consecutive business days during this compliance period. In the event that we do not regain compliance within this period, we may be eligible for additional time to regain compliance by satisfying certain requirements. However, if it appears to the Staff that we will not be able to cure the deficiency, or if we are otherwise not eligible, the Staff will notify us that our common stock will be delisted from the NASDAQ Capital Market. We may appeal the Staff's determination to delist our common stock to a Hearing Panel. During any appeal process, our common stock would continue to trade on the NASDAQ Capital Market. The Notice has no immediate effect on the listing or trading of our common stock on the NASDAQ Capital Market.

We will continue to monitor the closing bid price for our common stock and to assess our options for maintaining the listing of its common stock on the NASDAQ Capital Market in light of the Notice. Failure to maintain the listing of our common stock on the NASDAQ Capital Market could lead to an event of default under the debentures issued in our 2015 financing. Also, if delisting were to occur, selling our common stock could be more difficult because smaller quantities of shares would likely be bought and sold, transactions could be delayed, and security analysts' coverage of us may be reduced. Furthermore, while we believe that our common stock would trade on the OTC Bulletin Board, we would lose various advantages attendant to listing on a national securities exchange, including but not limited to, eligibility to register the sale or resale of our shares on Form S-3 and the automatic exemption from registration under state securities laws for exchange-listed securities, which could have a negative effect on our ability to raise funds. Additionally it would be deemed a default under the 2015 debentures.

Our risk factors have not changed materially from the risk factors previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2015.

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

On August 8, 2016, the Company entered into a First Amendment to Credit and Security Agreement (the "Amendment") to the December 30, 2015, $12.0 million credit facility pursuant to a Credit and Security Agreement (the "Agreement") and related financing documents with MidCap Financial Trust ("MidCap") and the lenders listed therein. Pursuant to the Agreement, the credit facility was drawn down in two tranches, the first of which was drawn for $10.5 million on December 30, 2015. The proceeds of this first tranche were used to repay $10 million principal amount of short-term senior secured promissory notes, plus associated interest, loan fees and expenses. The second tranche was drawn for $1.5 million on January 29, 2016.

Under the terms of the Amendment, the Financial Covenant Schedule to the Agreement was modified in a manner beneficial to the Company by reducing the cumulative monthly revenue thresholds which the Company must meet to remain in compliance with the Agreement.

In connection with the Amendment, the Company also entered into an amended and restated Fee Letter (the "Amended Fee Letter") with Midcap Financial Trust, as Agent for the lenders. Under the original terms of the fee letter the Company was to have paid an Exit Fee Base Amount equal to two and 75/100 Percent (2.75%). Under the terms of the Amendment the Exit Fee Base Amount has been changed to four and 25/100 percent (4.25%).

The "Exit Fee Base Amount" means the total aggregate maximum principal amount of all applicable commitments for all credit facilities specified on the Credit Facility Schedule as set forth in the Agreement (without giving effect to any reduction in or elimination of such applicable commitments upon the occurrence of a Default or Event of Default), including the principal amounts of all undisbursed tranches.

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. 333-167113), as filed on May 26, 2010).
3.2	Fourth Amended and Restated Bylaws of the Company (Incorporated by reference to Exhibit 3.2 contained in our Form 8-K current report as filed on July 21, 2015).
3.3	Certificate of Amendment to Fifth Amended and Restated Certificate of Incorporation of the Company (Incorporated by reference to Exhibit 3.1 contained in our Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2013 filed on August 7, 2014).
3.4	Certificate of Amendment to Fifth Amended and Restated Certificate of Incorporation of the Company (Incorporated by reference to Exhibit 3.1 contained in our Current Report on Form 8-K, filed on July 10, 2014).
3.5	Certificate of Designation of Preferences, Rights and Limitations of Series A Convertible Preferred Stock (Incorporated by reference to Exhibit 3.1 contained in our Current Report on Form 8-K, filed on February 3, 2014).
3.6	Certificate of Designation of Preferences, Rights and Limitations of Series B Convertible Preferred Stock (Incorporated by reference to Exhibit 3.1 contained in our Current Report on Form 8-K, filed on July 23, 2014).
3.7	Certificate of Amendment to Fifth Amended and Restated Certificate of Incorporation of the Company (Incorporated by reference to Exhibit 3.1 contained in our Current Report on Form 8-K, as filed on September 30, 2015).
10.40	Extension Agreement dated as of July 20, 2016 between Strata Skin Sciences, Inc. and Jeffrey F. O'Donnell, Sr. (Incorporated by reference to Exhibit 3.1 contained in our Current Report on Form 8-K, as filed on July 22, 2016).
10.41	Extension Agreement dated as of July 20, 2016 between Strata Skin Sciences, Inc. and Samuel E. Navarro (Incorporated by reference to Exhibit 3.1 contained in our Current Report on Form 8-K, as filed on July 22, 2016).

10.42	First Amendment to Credit and Security Agreement dated as of August 9, 2016 among MidCap Financial Trust, as administrative agent, the Lenders as listed on the signature pages thereto and the Company.
10.43	Amended and Restated Fee Letter Agreement dated as of August 9, 2016, by and between Midcap Financial Trust as Agent and the Company.
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 August 12, 2016	By:	/s/ Michael R. Stewart
		Name Michael R. Stewart
		Title Chief Executive Officer
Date August 12, 2016	By:	/s/ Christina L. Allgeier
		Name Christina L. Allgeier
		Title Chief Financial Officer

EXHIBIT 10.40

EXTENSION AGREEMENT

EXTENSION AGREEMENT dated as of July 20, 2016 between Strata Skin Sciences, Inc. (the "Company"), a Delaware corporation, and Jeffrey F. O'Donnell, Sr. (the "Consultant") effective as of July 1, 2016 (the "Effective Date").

Recitals:

The parties entered into a Consulting Agreement dated as of November 4, 2015 (the "Agreement"), under which the Consultant provided consulting services to the Company. The Consulting Agreement continued in effect through June 30, 2016. The parties wish to extend the term of the Agreement through September 30, 2016, as provided in this Amendment.

NOW, THEREFORE, in consideration of the premises and covenants set forth herein, and intending to be legally bound hereby, the parties agree as follows:

1. Section 3 of the Agreement is hereby amended to extend the termination date of the Agreement to September 30, 2016.

2. The parties acknowledge and agree that all of the terms, provisions, covenants and conditions of the Agreement shall hereafter continue in full force and effect in accordance with their terms, except to the extent amended, modified or revised herein.

IN WITNESS WHEREOF, the parties have caused this Amendment to be executed as of the date first written above.

STRATA SKIN SCIENCES, INC.

By: /s/ David K. Stone	/s/ Jeffrey F. O'Donnell
Title: Board Member Nominating and Governance Committee Chair	Jeffrey F. O'Donnell, Sr.

EXHIBIT 10.41

EXTENSION AGREEMENT

EXTENSION AGREEMENT dated as of July 20, 2016 between Strata Skin Sciences, Inc. (the "Company"), a Delaware corporation, and Samuel E. Navarro (the "Consultant") effective as of July 1, 2016 (the "Effective Date").

Recitals:

The parties entered into a Consulting Agreement dated as of November 4, 2015 (the "Agreement"), under which the Consultant provided consulting services to the Company. The Consulting Agreement continued in effect through June 30, 2016. The parties wish to extend the term of the Agreement through September 30, 2016, as provided in this Amendment.

NOW, THEREFORE, in consideration of the premises and covenants set forth herein, and intending to be legally bound hereby, the parties agree as follows:

1. Section 3 of the Agreement is hereby amended to extend the termination date of the Agreement to September 30, 2016.

2. The parties acknowledge and agree that all of the terms, provisions, covenants and conditions of the Agreement shall hereafter continue in full force and effect in accordance with their terms, except to the extent amended, modified or revised herein.

IN WITNESS WHEREOF, the parties have caused this Amendment to be executed as of the date first written above.

STRATA SKIN SCIENCES, INC.

By: /s/ David K. Stone	/s/ Samuel E. Navarro
Title: Board Member Nominating and Governance Committee Chair	Samuel E. Navarro

EXHIBIT 10.42

FIRST AMENDMENT TO CREDIT AND SECURITY AGREEMENT

THIS FIRST AMENDMENT TO CREDIT AND SECURITY AGREEMENT (this "***Amendment***") is entered into as of August 9, 2016 by and among Strata Skin Sciences, Inc. (formerly Mela Sciences, Inc.), a Delaware corporation (the "***Borrower***"), MidCap Financial Trust, a Delaware statutory trust, as agent ("***Agent***") and the lenders signatory hereto (the "***Lenders***").

RECITALS

A. Borrower, Agent and the Lenders are parties to that certain Credit and Security Agreement, dated as of December 30, 2015 (as amended hereby and as may be further amended, restated, supplemented, revised, restated, replaced or otherwise modified from time to time, the "***Credit Agreement***"; capitalized terms used herein and not otherwise defined shall have the meanings assigned to such terms in the Credit Agreement), pursuant to which the Lenders have made certain financial accommodations available to Borrower;

B. Borrower has requested that the Agent and Lenders amend certain provisions of the Credit Agreement, and subject to the terms and conditions hereof, the Agent and the Lenders executing this Amendment are willing to do so.

NOW, THEREFORE, in consideration of the premises and the mutual covenants hereinafter contained, and intending to be legally bound, the parties hereto agree as follows:

A. AMENDMENTS

Subject to the satisfaction of the conditions precedent set forth in Section B below, the parties hereto agree that the Credit Agreement is amended as follows:

1. The Financial Covenant Schedule is hereby replaced in its entirety with the Financial Covenant Schedule attached to this Amendment as Exhibit A.

B. CONDITIONS TO EFFECTIVENESS

Notwithstanding any other provision of this Amendment and without affecting in any manner the rights of the Lenders hereunder, it is understood and agreed that this Amendment shall not become effective, and Borrower shall have no rights under this Amendment, until Agent shall have received:

1. reimbursement or payment of its costs and expenses incurred in connection with this Amendment (including reasonable fees, charges and disbursements of counsel to Agent and the Lenders);

2. duly executed signature pages to this Amendment from the Lenders, the Borrower and Agent; and

3. a duly executed amendment and restatement of the fee letter agreement, dated as of the Closing Date, by and between Borrower and Agent, in form and substance acceptable to Agent.

C. REPRESENTATIONS

To induce the Lenders and Agent to enter into this Amendment, each Credit Party hereby represents and warrants to the Lenders and Agent that:

1. The execution, delivery and performance by such Credit Party of this Amendment do not (i) conflict with any of such Credit Party's organizational documents; (ii) contravene, conflict with, constitute a default under or violate any Law; (iii) contravene, conflict or violate any applicable order,

writ, judgment, injunction, decree, determination or award of any Governmental Authority by which such Credit Party or any of its property or assets may be bound or affected; (iv) require any action by, filing, registration, or qualification with, or Required Permit from, any Governmental Authority (except such Required Permits which have already been obtained and are in full force and effect); or (v) constitute a default under or conflict with any Material Agreement.

2. This Amendment has been duly authorized, executed and delivered by each Credit Party and constitutes a legal, valid and binding agreement enforceable in accordance with its terms. The execution, delivery and performance by each Credit Party of this Amendment is within such Credit Party's powers.

3. After giving effect to this Amendment, the representations and warranties contained in the Credit Agreement and the other Financing Documents are true and correct in all material respects (but in all respects if such representation or warranty is qualified by "material" or "Material Adverse Effect"), except to the extent such representations and warranties expressly relate to an earlier date, in which case such representations and warranties were true and correct in all material respects (but in all respects if such representation or warranty is qualified by "material" or "Material Adverse Effect") on and as of such earlier date, and no Default or Event of Default has occurred and is continuing as of the date hereof.

D. OTHER AGREEMENTS

1. Continuing Effectiveness of Financing Documents. As amended hereby, all terms of the Credit Agreement and the other Financing Documents shall be and remain in full force and effect and shall constitute the legal, valid, binding and enforceable obligations of the Credit Parties party thereto. To the extent any terms and conditions in any of the other Financing Documents shall contradict or be in conflict with any terms or conditions of the Credit Agreement, after giving effect to this Amendment, such terms and conditions are hereby deemed modified and amended accordingly to reflect the terms and conditions of the Credit Agreement as modified and amended hereby. Upon the effectiveness of this Amendment such terms and conditions are hereby deemed modified and amended accordingly to reflect the terms and conditions of the Credit Agreement as modified and amended hereby. This Amendment shall constitute a Financing Document for all purposes of the Credit Agreement.

2. Reaffirmation. Each of the Credit Parties as debtor, grantor, pledgor, guarantor, assignor, or in other any other similar capacity in which such Credit Party grants liens or security interests in its property or otherwise acts as accommodation party or guarantor, as the case may be, hereby ratifies and reaffirms all of its payment and performance obligations, contingent or otherwise, under each of the Financing Documents to which it is a party (after giving effect hereto). Each Credit Party hereby acknowledges that, as of the date hereof, the security interests and liens granted to Agent and the Lenders under the Credit Agreement and the other Financing Documents are in full force and effect, are properly perfected and are enforceable in accordance with the terms of the Credit Agreement and the other Financing Documents.

3. No Waiver or Novation. The execution, delivery and effectiveness of this Amendment shall not, except as expressly provided herein, operate as a waiver of any right, power or remedy of the Lenders under the Credit Agreement, nor constitute a waiver of any provision of the Credit Agreement. This Amendment is not intended by the parties to be, and shall not be construed to be, a novation of the Credit Agreement and the other Financing Documents or an accord and satisfaction in regard thereto.

4. Governing Law**.** This Amendment shall be governed by, and construed in accordance with, the internal laws of the State of Maryland and all applicable federal laws of the United States of America.

5. Costs and Expenses. Borrower agrees to pay on demand all reasonable costs and expenses of Agent and the Lenders in connection with the preparation, execution and delivery of this Amendment, including, without limitation, the reasonable fees and out-of-pocket expenses of outside counsel for Agent and the Lenders with respect thereto.

6. Counterparts. This Amendment may be executed in any number of counterparts and by different parties on separate counterparts, each of which, when executed and delivered, is an original, and all taken together, constitute one agreement. Delivery of an executed signature page of this Amendment by facsimile transmission or electronic transmission shall be as effective as delivery of a manually executed counterpart hereof.

7. Binding Nature. This Amendment binds and is for the benefit of the successors and permitted assigns of each party hereto. No third party beneficiaries are intended in connection with this Amendment.

8. Integration. This Amendment and the Financing Documents represent the entire agreement about this subject matter and supersede prior negotiations or agreements. All prior agreements, understandings, representations, warranties, and negotiations between the parties about the subject matter of this Amendment and the Financing Documents merge into this Amendment and the Financing Documents.

9. Release. Each Credit Party hereby releases, acquits, and forever discharges Agent and each of the Lenders, and each and every past and present subsidiary, affiliate, stockholder, officer, director, agent, servant, employee, representative, and attorney of Agent and the Lenders, from any and all claims, causes of action, suits, debts, liens, obligations, liabilities, demands, losses, costs and expenses (including reasonable attorneys' fees) of any kind, character, or nature whatsoever, known or unknown, fixed or contingent, which such Credit Party may have or claim to have now or which may hereafter arise out of or connected with any act of commission or omission of Agent or the Lenders existing or occurring prior to the date of this Amendment or any instrument executed prior to the date of this Amendment including, without limitation, any claims, liabilities or obligations arising with respect to the Credit Agreement or the other of the Financing Documents, other than claims, liabilities or obligations caused by Agent's or any Lender's own gross negligence or willful misconduct. The provisions of this paragraph shall be binding upon each Credit Party and shall inure to the benefit of Agent, the Lenders, and their respective heirs, executors, administrators, successors and assigns.

[*Signature pages follow*]

IN WITNESS WHEREOF, this Amendment has been duly executed as of the date first written above.

BORROWER:

STRATA SKIN SCIENCES, INC.

By:/s/ Christina L. Allgeier ________(SEAL)
Name: Christina L. Allgeier
Title: CFO

AGENT:

MIDCAP FINANCIAL TRUST

By: Apollo Capital Management, L.P.,
its investment manager

By: Apollo Capital Management GP, LLC,
its general partner

By: /s/ Maurice Amsellem ________________(SEAL)
Name: Maurice Amsellem
Title: Authorized Signatory

LENDERS:

MIDCAP FUNDING XIII TRUST

By: Apollo Capital Management, L.P.,
its investment manager

By: Apollo Capital Management GP, LLC,
its general partner

By: /s/ Maurice Amsellem (SEAL)
Name: Maurice Amsellem
Title: Authorized Signatory

FLEXPOINT MCLS HOLDINGS LLC

By: /s/ Daniel Edelman
Name: Daniel Edelman
Title: Vice President

EXHIBIT A

FINANCIAL COVENANT SCHEDULE

Borrower shall not Permit consolidated net revenue of Borrower and its Subsidiaries determined on a consolidated basis in accordance with GAAP for the twelve month period ending on the last day of each calendar month set forth below to be less than the minimum amount set forth below for such period.

Minimum Net Revenue - Covenant Level

TTM Period Ending (to be reported to Agent within 30 days after such date)	Number of Months in Testing Period	Minimum Net Revenue for Such Period
31-Jul-16	7	15,031,000
31-Aug-16	8	17,331,000
30-Sep-16	9	20,781,000
31-Oct-16	10	22,926,000
30-Nov-16	11	25,499,000
31-Dec-16	12	29,359,000
31-Jan-17	12	29,595,000
28-Feb-17	12	29,878,000
31-Mar-17	12	30,302,000
30-Apr-17	12	30,458,000
31-May-17	12	30,645,000
30-Jun-17	12	30,925,000
31-Jul-17	12	31,258,000
31-Aug-17	12	31,592,000
30-Sep-17	12	31,925,000
31-Oct-17	12	32,258,000
30-Nov-17	12	32,592,000
31-Dec-17	12	32,925,000
31-Jan-18	12	33,258,000
28-Feb-18	12	33,592,000
31-Mar-18	12	33,925,000
30-Apr-18	12	34,258,000
31-May-18	12	34,592,000
30-Jun-18	12	34,925,000
31-Jul-18	12	35,258,000
31-Aug-18	12	35,592,000
30-Sep-18	12	35,925,000
31-Oct-18	12	36,258,000
30-Nov-18	12	36,592,000
31-December-18 and the last day of each month occurring thereafter	12	36,785,000

EXHIBIT 10.43

c/o MidCap Financial Services, LLC, as servicer
7255 Woodmont Avenue, Suite 200
Bethesda, Maryland 20814
www.midcapfinancial.com

August 9, 2016

Strata Skin Sciences, Inc.
100 Lakeside Drive, Suite 100
Horsham, Pennsylvania 19044
Attn: Michael Stewart, CEO

Re: Credit and Security Agreement with Agent and Lenders

Ladies and Gentlemen:

This is one of the "Fee Letters" referred to in that certain Credit and Security Agreement dated as of December 30, 2015, as amended by that certain First Amendment to Credit And Security Agreement, dated as of even date herewith (as so amended and as may be further amended, restated, supplemented, replaced or otherwise modified from time to time, the "**Credit Agreement**"), by and among Strata Skin Sciences, Inc. (formerly MELA Sciences, Inc.) and the other entities shown as signatories thereto as a Borrower (collectively in the singular, "**Borrower**"), the financial institutions or other entities from time to time parties thereto as lenders (the "**Lenders**"), and MidCap Financial Trust, a Delaware statutory trust ("**MidCap**"), individually as a Lender and as Agent (in such capacity, "**Agent**"). Capitalized terms used herein without definition shall have the meanings contained in the Credit Agreement. This fee letter agreement amends and restates in its entirety that certain fee letter agreement, dated as of December 30, 2015, by and between Borrower and Agent. All references in the Credit Agreement and other Financing Documents to the Fee Letters shall include this fee letter agreement as amended and restated hereby.

In addition to any fees, expenses or other amounts payable by the Borrower to Agent and the Lenders under the terms of the Credit Agreement, to induce Agent and the Lenders to enter into the Credit Agreement and to extend to the Borrower the Credit Facilities, and as consideration for Agent and Lenders making the Credit Facilities available to Borrower, the Borrower agrees to pay to MidCap, or any affiliate thereof as directed by MidCap, the following fees at the following times:

1. on the Closing Date, an origination fee equal to the sum of $60,000. Such fee shall be non-refundable.

2. on the Maturity Date, or on any earlier date on which the Obligations become due and payable in full, an amount equal to (a) four and 25/100 Percent (4.25%) of the "**Exit Fee Base Amount**" (as defined below) less (b) any "**Partial Exit Fee**" (as defined below) previously paid. The "**Exit Fee Base Amount**" means the total aggregate maximum principal amount of all Applicable Commitments for all Credit Facilities specified on the Credit Facility Schedule (without giving effect to any reduction in or elimination of such Applicable Commitments upon the occurrence of a Default or Event of Default), including the principal amounts of all undisbursed tranches.

3. on the date of any full or partial prepayment of the Credit Facilities (or, in the case of a mandatory full or partial prepayment under the Credit Agreement, on the date such mandatory prepayment becomes due and payable), an amount equal to four and 25/100 Percent (4.25%) of the principal amount of the Credit Facilities paid or prepaid (or in the case of a mandatory prepayment, required to be paid) on such date (such fee is herein referred to as the "**Partial Exit Fee**").

All of the fees payable hereunder or pursuant hereto shall be payable to MidCap for its own account; *provided*, *however*, that MidCap may allocate among its affiliates any of such fees in its sole discretion.

Each Borrower agrees not to disclose any or all of the terms of this Fee Letter to any person other than such Borrower's affiliates, employees, attorneys or accountants, in each case, to whom it is necessary to disclose the information (and whom, in each case, shall be made aware of this agreement not to disclose) or as may be required by law or any court or regulatory agency having jurisdiction over such Borrower.

This Fee Letter may be executed in any number of counterparts, each of which shall be deemed an original, and all of which together shall constitute one document. Delivery of an executed counterpart of this Fee Letter by facsimile or other electronic transmission shall constitute valid delivery of an executed counterpart hereof.

Agent requests the Borrower to indicate its agreement and acceptance to the foregoing by signing below and returning this Fee Letter to Agent. The parties hereto intend that this is an instrument executed and delivered under seal.

[*Signature pages follow*]

Very truly yours,

MIDCAP FINANCIAL TRUST
As Agent for Lenders

By: Apollo Capital Management, L.P.,
its investment manager

By: Apollo Capital Management GP, LLC,
its general partner

By: /s/ Maurice Amsellem (SEAL)
Name: Maurice Amsellem
Its: Authorized Signatory

AGREED AND ACCEPTED AS OF August 9, 2016:

BORROWER:

STRATA SKIN SCIENCES, INC.

By: /s/ Christina L. Allgeier (SEAL)
Name: Christina L. Allgeier
Title: CFO

Exhibit 31.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, Michael R. Stewart, 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: August 12, 2016

By: /s/ Michael R. Stewart
Name: Michael R. Stewart
Title: Chief Executive Officer

Exhibit 31.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, Christina Allgeier, 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: August 12, 2016

By: /s/ Christina Allgeier
Christina Allgeier
Chief Financial Officer

EXHIBIT 32.1

SECTION 906 CERTIFICATION

CERTIFICATION (1)

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. § 1350, as adopted), Michael R. Stewart, the Chief Executive Officer of STRATA Skin Sciences, Inc. (the "Company"), and Christina Allgeier, 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 June 30, 2016, 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: August 12, 2016

/s/ Michael R. Stewart
Name: Michael R. Stewart
Title: Chief Executive Officer

/s/ Christina Allgeier
Name: Christina Allgeier
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.