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

FORM 10-Q

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

For the quarterly period ended September 30, 2022

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, INC.

(Exact name of registrant as specified in its charter)

Delaware	13-3986004
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

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

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

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

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

Indicate by check mark whether the registrant: (i) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (ii) has been subject to such filing requirements for the past 90 days.

Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).

Yes ☒ No ☐

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

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

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

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

The number of shares outstanding of the issuer's common stock as of November 4, 2022 was 34,723,046 shares.

STRATA SKIN SCIENCES, INC.

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PART I – Financial Information

ITEM 1. Financial Statements

STRATA Skin Sciences, Inc. and Subsidiary
Condensed Consolidated Balance Sheets
(in thousands, except share and per share amounts)

	September 30, 2022 (unaudited)	December 31, 2021
Assets		
Current assets:		
Cash and cash equivalents	$ 7,454	$ 12,586
Restricted cash	1,361	-
Accounts receivable, net of allowance for doubtful accounts of $299 and $275 at September 30, 2022 and December 31, 2021, respectively	3,655	3,433
Inventories	5,662	3,489
Prepaid expenses and other current assets	621	462
Total current assets	18,753	19,970
Property and equipment, net	6,566	6,883
Operating lease right-of-use assets	836	638
Intangible assets, net	18,110	10,083
Goodwill	8,803	8,803
Other assets	167	216
Total assets	$ 53,235	$ 46,593
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 4,369	$ 2,822
Accrued expenses and other current liabilities	6,075	6,377
Deferred revenues	2,968	3,285
Current portion of operating lease liabilities	246	318
Current portion of contingent consideration	500	-
Total current liabilities	14,158	12,802
Long-term debt	7,435	7,319
Deferred revenues and other liabilities	280	400
Deferred tax liability	266	266
Operating lease liabilities net of current portion	674	392
Contingent consideration, net of current portion	8,622	-
Total liabilities	31,435	21,179
Commitments and contingencies (Note 14)		
Stockholders' equity:		
Series C convertible preferred stock, $0.10 par value; 10,000,000 shares authorized; no shares issued and outstanding	-	-
Common stock, $0.001 par value, 150,000,000 shares authorized; 34,723,046 and 34,364,679 shares issued and outstanding at September 30, 2022 and December 31, 2021, respectively	35	34
Additional paid-in capital	248,833	247,059
Accumulated deficit	(227,068)	(221,679)
Total stockholders' equity	21,800	25,414
Total liabilities and stockholders' equity	$ 53,235	$ 46,593

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

STRATA Skin Sciences, Inc. and Subsidiary
Condensed Consolidated Statements of Operations
(in thousands, except share and per share amounts)
(unaudited)

	For the Three Months Ended September 30,	
	2022	2021
Revenues, net	$ 9,413	$ 7,711
Cost of revenues	3,614	2,335
Gross profit	5,799	5,376
Operating expenses:		
Engineering and product development	216	371
Selling and marketing	3,754	3,295
General and administrative	2,615	2,175
	6,585	5,841
Loss from operations	(786)	(465)
Other income (expense):		
Interest expense	(244)	(53)
Interest income	35	1
	(209)	(52)
Loss before income taxes	(995)	(517)
Income tax expense	-	(4)
Net loss	$ (995)	$ (521)
Net loss per share of common stock, basic and diluted	$ (0.03)	$ (0.02)
Weighted average shares of common stock outstanding, basic and diluted	34,723,046	34,150,438

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STRATA Skin Sciences, Inc. and Subsidiary
Condensed Consolidated Statements of Operations
(In thousands, except share and per share amounts)
(unaudited)

	For the Nine Months Ended September 30,	
	2022	2021
Revenues, net	$ 25,559	$ 20,920
Cost of revenues	10,639	7,070
Gross profit	14,920	13,850
Operating expenses:		
Engineering and product development	588	1,158
Selling and marketing	11,516	9,387
General and administrative	7,599	7,085
	19,703	17,630
Loss from operations	(4,783)	(3,780)
Other income (expense):		
Gain on debt extinguishment	-	2,028
Interest expense	(651)	(109)
Interest income	45	16
	(606)	1,935
Loss before income taxes	(5,389)	(1,845)
Income tax expense	-	(12)
Net loss	$ (5,389)	$ (1,857)
Net loss per share of common stock, basic and diluted	$ (0.16)	$ (0.05)
Weighted average shares of common stock outstanding, basic and diluted	34,708,606	33,944,321

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

STRATA Skin Sciences, Inc. and Subsidiary
Condensed Consolidated Statements of Changes in Stockholders' Equity
For the Nine Months Ended September 30, 2022 and 2021
(in thousands, except share amounts)
(unaudited)

	Common Stock		Additional Paid-In Capital	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount			
Balance at January 1, 2022	34,364,679	$ 34	$ 247,059	$ (221,679)	$ 25,414
Stock-based compensation	-	-	368	-	368
Issuance of common stock for acquisition	358,367	1	499	-	500
Net loss	-	-	-	(2,502)	(2,502)
Balance at March 31, 2022	34,723,046	35	247,926	(224,181)	23,780
Stock-based compensation	-	-	452	-	452
Net loss	-	-	-	(1,892)	(1,892)
Balance at June 30, 2022	34,723,046	35	248,378	(226,073)	22,340
Stock-based compensation	-	-	455	-	455
Net loss	-	-	-	(995)	(995)
Balance at September 30, 2022	34,723,046	$ 35	$ 248,833	$ (227,068)	$ 21,800

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

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

STRATA Skin Sciences, Inc. and Subsidiary
Condensed Consolidated Statements of Cash Flows
(in thousands)
(unaudited)

	For the Nine Months Ended September 30,	
	2022	2021
Cash flows from operating activities:		
Net loss	$ (5,389)	$ (1,857)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:		
Amortization of intangible assets	2,155	1,113
Amortization of operating lease right-of-use assets	248	261
Depreciation and amortization	1,816	1,576
Amortization of deferred financing costs and debt discount	116	-
Provision (recoveries) for doubtful accounts	24	(26)
Stock-based compensation	1,275	1,563
Loss on disposal of property and equipment	52	73
Gain on debt extinguishment	-	(2,028)
Deferred taxes	-	12
Changes in operating assets and liabilities:		
Accounts receivable	(246)	(181)
Inventories	(1,616)	219
Prepaid expenses and other assets	(110)	(243)
Accounts payable	1,547	(284)
Accrued expenses and other liabilities	(267)	858
Deferred revenues	(472)	58
Operating lease liabilities	(236)	(275)
Net cash (used in) provided by operating activities	(1,103)	839
Cash flows from investing activities:		
Purchase of property and equipment	(2,037)	(2,523)
Cash paid in connection with TheraClear asset acquisition	(631)	-
Cash paid in connection with Ra Medical asset acquisition	-	(3,473)
Net cash used in investing activities	(2,668)	(5,996)
Cash flows from financing activities:		
Proceeds from long-term debt	-	8,000
Payment of deferred financing costs	-	(133)
Repayment of note payable	-	(7,275)
Repayment of long-term debt	-	(500)
Net cash provided by financing activities	-	92
Net decrease in cash, cash equivalents and restricted cash	(3,771)	(5,065)
Cash, cash equivalents and restricted cash, beginning of period	12,586	18,112
Cash, cash equivalents and restricted cash, end of period	$ 8,815	$ 13,047
Cash and cash equivalents	$ 7,454	$ 13,047
Restricted cash	1,361	-
	$ 8,815	$ 13,047
Supplemental disclosure of cash flow information:		
Cash paid for interest	$ 523	$ 109
Supplemental disclosure of non-cash operating, investing and financing activities:		
Change in operating lease right-of-use assets and liability due to amended lease	$ 446	$ -
Inventories acquired in connection with TheraClear asset acquisition	$ 71	$ -
Intangible assets acquired in connection with TheraClear asset acquisition	$ 10,182	$ -
Contingent consideration issued in connection with TheraClear asset acquisition	$ 9,122	$ -
Common stock issued in connection with TheraClear asset acquisition	$ 500	$ -
Transfer of property and equipment to inventories	$ 486	$ -
Fair value of warrants issued in connection with debt	$ -	$ 585
Assumed deferred revenue in connection with Ra Medical asset acquisition	$ -	$ 1,841

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

STRATA Skin Sciences, Inc. and Subsidiary
Notes to Unaudited Condensed Consolidated Financial Statements
(in thousands, except share and per share amounts and number of lasers)
(unaudited)

Note 1
The Company:

Background
STRATA Skin Sciences, Inc. (the "Company") is a medical technology company in dermatology dedicated to developing, commercializing and marketing innovative products for the treatment of dermatologic conditions. Its products include the XTRAC® and Pharos® excimer lasers and VTRAC® lamp systems utilized in the treatment of psoriasis, vitiligo and various other skin conditions. In January 2022, the Company acquired the TheraClear Acne Treatment Device to broaden its opportunities with expansion potential in the acne care market. The Company markets the device under the brand name TheraClear® X.

The XTRAC is an ultraviolet light excimer laser system utilized to treat psoriasis, vitiligo and other skin diseases. The XTRAC excimer laser system received clearance from the United States Food and Drug Administration (the "FDA") in 2000. As of September 30, 2022, there were 899 XTRAC systems placed in dermatologists' offices in the United States and 39 systems internationally under the Company's recurring revenue business model. The XTRAC systems deployed under the recurring revenue model generate revenue on a per procedure basis or include a fixed payment over an agreed upon period with a capped number of treatments, which if exceeded would incur additional fees. The per-procedure charge is inclusive of the use of the system and the services provided by the Company to the customer, which includes system maintenance and other services. The VTRAC Excimer Lamp system, offered in addition to the XTRAC system internationally, provides targeted therapeutic efficacy demonstrated by excimer technology with a lamp system.

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

The TheraClear® Acne Clearing System combines intense pulse light with vacuum (suction) for the treatment of mild to moderate inflammatory acne (including acne vulgaris), comedonal acne and pustular acne.

Since 2019, the Company has been transitioning its international dermatology procedures equipment sales through its master distributor to a direct distribution model for equipment sales and recurring revenue on a country-by-country basis, primarily in the Middle East and Asia.

In late 2019, there was an outbreak of a new strain of coronavirus ("COVID-19") which became a global pandemic. The COVID-19 pandemic has negatively impacted the global economy, disrupted global supply chains and created significant volatility and disruption of financial markets. In addition, the pandemic led to the suspension of elective procedures in the U.S. and to the temporary closure of many physician practices which are our primary customers. While many offices reopened, some practices closed and never reopened, and the ongoing impact of the COVID-19 pandemic and its variants on the Company's operational and financial performance, including its ability to execute its business strategies and initiatives in the expected time frames, will depend on future developments, including the duration and ongoing spread of the COVID-19 outbreak and its variants, continued or renewed restrictions on business operations and transportation, any governmental and societal responses thereto, including legislative or regulatory changes as well as the percentage of the populace vaccinated and the effectiveness of COVID-19 vaccines and the continued impact on worldwide economic and geopolitical conditions and inflation, all of which are uncertain and cannot be predicted.

Domestically, as the procedures for which the Company's devices are used are elective in nature; and as social distancing, travel restrictions, and other restrictions became prevalent in the United States, this had a negative impact on the Company's recurring revenue model and its financial position and cash flow. The virus has disrupted the supply chains world-wide which the Company depends upon to provide a steady source of components to manufacture and repair the Company's devices. To mitigate the impact of COVID-19, the Company took a variety of measures to ensure the availability and functioning of its critical infrastructure by implementing business continuity plans. To promote the safety and security of its employees, while complying with various government mandates including work-from-home arrangements and social-distancing initiatives to reduce the transmission of COVID-19, the Company is complying with federal and local regulations at its facilities. In addition, the Company created and executed programs utilizing its direct-to-consumer advertising and call center to contact patients and partner clinics to restart the Company's partners' businesses. In October 2021, the Company implemented a policy whereby all Company employees are required to be vaccinated or complete weekly COVID-19 testing.

See Note 2, **Liquidity** for discussion on Company liquidity.

STRATA Skin Sciences, Inc. and Subsidiary
Notes to Unaudited Condensed Consolidated Financial Statements
(in thousands, except share and per share amounts and number of lasers)
(unaudited)

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

Basis of Presentation:

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

Unaudited Interim Condensed Consolidated Financial Statements
The accompanying unaudited interim condensed consolidated financial statements have been prepared pursuant to the rules and regulations of the United States Securities and Exchange Commission ("SEC") for interim financial reporting. These condensed consolidated statements are unaudited and, in the opinion of management, include all adjustments (consisting of normal recurring adjustments and accruals) necessary to fairly present the results of the interim periods. The condensed consolidated balance sheet at December 31, 2021 has been derived from the audited consolidated financial statements at that date. Operating results and cash flows for the three and nine months ended September 30, 2022 are not necessarily indicative of the results that may be expected for the fiscal year ending December 31, 2022 or any other future period. Certain information and footnote disclosures normally included in annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") have been omitted in accordance with the rules and regulations for interim reporting of the SEC. These interim condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2021 (the "2021 Form 10-K"), and other forms filed with the SEC from time to time. Dollar amounts included herein are in thousands, except share and per share data and number of lasers.

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

Significant Accounting Policies
The significant accounting policies used in preparation of these condensed consolidated financial statements are disclosed in the Company's 2021 Form 10-K, and there have been no changes to the Company's significant accounting policies during the nine months ended September 30, 2022.

Use of Estimates
The preparation of the condensed consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect amounts reported of assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting periods. Actual results could differ from those estimates and be based on events different from those assumptions. As of September 30, 2022, the more significant estimates include revenue recognition with respect to deferred revenues and the contract term and valuation allowances of accounts receivable, inputs used when evaluating goodwill for impairment, inputs used in the valuation of acquired intangible assets, state sales and tax accruals, the estimated useful lives of intangible assets, and the valuation allowance related to deferred tax assets.

Restricted Cash
As discussed more fully in Note 14, an administrative state judge in the State of New York issued an opinion in January 2021 finding in favor of the Company that the sale of XTRAC treatment codes was not taxable as sales tax with respect to that state's first assessment. The relevant taxing authority filed an appeal of the administrative law judge's finding and, following the submission of legal briefs by both sides and oral argument held in January 2022, on May 6, 2022, the Company received a written decision from the State of New York Tax Appeals Tribunal ("Tribunal") overturning the favorable sales tax determination of the administrative law judge. The Company filed an appeal of the Tribunal's decision, and posted the required appellate bond requiring the posting of cash collateral, with the New York State Appellate Division, and is awaiting for the appellate court to set a briefing and oral argument schedule. The cash collateral is recorded as restricted cash on the condensed consolidated balance sheet. As of September 30, 2022, the Company had a restricted cash balance of $1,361.

STRATA Skin Sciences, Inc. and Subsidiary
Notes to Unaudited Condensed Consolidated Financial Statements
(in thousands, except share and per share amounts and number of lasers)
(unaudited)

Fair Value Measurements

The Company measures financial assets and liabilities at fair value at each reporting period using a fair value hierarchy that requires the use of observable inputs and minimizes the use of unobservable inputs. The Company defines fair value as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is estimated by applying the following hierarchy, which prioritizes the inputs used to measure fair value into three levels and bases the categorization within the hierarchy upon the lowest level of input that is available and significant to the fair value measurement:

- Level 1 – quoted market prices in active markets for identical assets or liabilities.
- Level 2 – observable inputs other than quoted prices in active markets for identical assets and liabilities, quoted prices for identical or similar assets or liabilities in inactive markets, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3 – inputs that are generally unobservable and typically reflect the Company's estimate of assumptions that market participants would use in pricing the asset or liability.

The fair values of cash and cash equivalents and restricted cash are based on their respective demand values, which are equal to the carrying values. The carrying values of all short-term monetary assets and liabilities are estimated to approximate their fair values due to the short-term nature of these instruments. As of September 30, 2022 and December 31, 2021, the carrying value of the Company's long-term debt approximated its fair value due to its variable interest rate.

Net Loss Per Share

Basic net loss per share of common stock is computed by dividing net loss attributable to common stockholders by the weighted-average number of shares of common stock outstanding during each period. Diluted loss per share of common stock includes the effect, if any, from the potential exercise or conversion of securities such as unvested restricted stock awards, stock options and warrants for common stock which would result in the issuance of incremental shares of common stock. For diluted net loss per share, the weighted-average number of shares of common stock is the same as for basic net loss per share due to the fact that when a net loss exists, dilutive securities are not included in the calculation as the impact is anti-dilutive.

The following potentially dilutive securities have been excluded from the computation of diluted weighted-average shares of common stock outstanding as of September 30, 2022 and 2021, as they would be anti-dilutive:

	September 30,	
	2022	2021
Restricted stock units	278,004	144,497
Stock options	4,544,714	3,963,889
Common stock warrants	373,626	373,626
Total	5,196,344	4,482,012

Accounting Pronouncements Recently Adopted

In May 2021, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2021-04, *Earnings per Share (Topic 260), Debt – Modifications and Extinguishments (Subtopic 470-50), Compensation – Stock Compensation (Topic 718), and Derivatives and Hedging – Contracts in Entity's Own Equity (Subtopic 815-40): Issuer's Accounting for Certain Modifications or Exchanges or Freestanding Equity-Classified Written Call Options.* The pronouncement outlines how an entity should account for modifications made to equity-classified written call options, including stock options and warrants to purchase the entity's own common stock. The guidance in the ASU requires an entity to treat a modification of an equity-classified written call option that does not cause the option to become liability-classified as an exchange of the original option for a new option. This guidance applies whether the modification is structured as an amendment to the terms and conditions of the equity-classified written call option or as termination of the original option and issuance of a new option. The guidance is effective prospectively for fiscal years beginning after December 15, 2021. The adoption of this guidance on January 1, 2022 did not have a material effect on the condensed consolidated financial statements.

STRATA Skin Sciences, Inc. and Subsidiary
Notes to Unaudited Condensed Consolidated Financial Statements
(in thousands, except share and per share amounts and number of lasers)
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Recent Accounting Pronouncements Not Yet Adopted

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, as amended subsequently by ASUs 2018-19, 2019-04, 2019-05, 2019-10, 2019-11 and 2020-03. The guidance in the ASUs requires that credit losses be reported using an expected losses model rather than the incurred losses model that is currently used. The standard also establishes additional disclosures related to credit risks. This standard is effective for fiscal years beginning after December 15, 2022 and early adoption is permitted. The Company does not believe this will have a material effect on its condensed consolidated financial statements.

In March 2020, the FASB issued ASU 2020-04, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting* and in January 2021, the FASB issued ASU 2021-01, *Reference Rate Reform (Topic 848): Scope*. These pronouncements provide temporary optional expedients and exceptions for applying U.S. GAAP to contract modifications and hedging relationships to ease the financial reporting burdens of the expected market transition from LIBOR and other interbank offered rates to alternative reference rates. The transition period for adopting these ASUs is March 2020 through December 31, 2022. The Company continues to evaluate the temporary expedients and options available under this guidance and the effects of these pronouncements and, as the Company does not have any hedging activities, does not believe this will have a material effect on its condensed consolidated financial statements.

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

Note 2
Liquidity:

The Company has been negatively impacted by the ongoing COVID-19 pandemic, has historically experienced recurring losses, has been dependent on raising capital from the sale of securities in order to continue to operate, was required to restrict cash for potential sales tax liabilities (see Notes 1 and 14) and refinanced its debt at a lower interest rate. During the COVID-19 pandemic, the Company received cash proceeds from a Paycheck Protection Program ("PPP") loan, which was forgiven, and an Economic Injury Disaster Loan (the "EIDL loan") that was repaid at the time the Senior Term Facility was entered into with MidCap Financial Trust in September 2021 (Note 9). Additionally, in October 2021, the Company entered into an equity distribution agreement with an investment bank under which the Company may sell up to $11,000 of its common stock in registered "at-the-market" offerings. Management believes that the Company's cash and cash equivalents, combined with the anticipated revenues from the sale or use of its products, will be sufficient to satisfy the Company's working capital needs, capital asset purchases, outstanding commitments and other liquidity requirements associated with its existing operations for at least the next 12 months following the date of the issuance of these unaudited interim condensed consolidated financial statements. However, market conditions, including the negative impact of the ongoing COVID-19 outbreak on the financial markets, supply chain disruptions and rising interest rates, could interfere with the Company's ability to access financing and on favorable terms.

Note 3
Revenue Recognition:

Revenues from the Company's dermatology recurring procedures customers are earned by providing physicians with its laser products and charging the physicians a fee for a fixed number of treatment sessions or a fixed fee for a specified period of time not to exceed an agreed upon number of treatments; if that number is exceeded additional fees will have to be paid. The placement of the laser products at physician locations represents embedded leases which are accounted for as operating leases. For the lasers placed-in service under these arrangements, the terms of the domestic arrangements are generally 36 months with automatic one-year renewals and include a termination clause that can be effected at any time by either party with 30 to 60 day notice. Amounts paid are generally non-refundable. Sales of access codes for a fixed number of treatment sessions are considered variable treatment code payments and are recognized as revenue over the estimated usage period of the agreed upon number of treatments. Sales of access codes for a specified period of time are recognized as revenue on a straight-line basis as the lasers are being used over the term period specified in the agreement. Variable treatment code payments that will be paid only if the customer exceeds the agreed upon number of treatments are recognized only when such treatments are being exceeded and used. Internationally, the Company generally sells access codes for a fixed amount on a monthly basis to its distributors and the terms are generally 48 months, with termination in the event of the customers' failure to remit payments timely, and include a potential buy-out at the end of the term of the contract. Currently, this is the only foreign recurring revenue. Prepaid amounts recorded in deferred revenue and customer deposits recorded in accounts payable are recognized as revenue over the lease term in the patterns described above. Pricing is fixed with the customer. With respect to lease and non-lease components, the Company adopted the practical expedient to account for the arrangement as a single lease component.

STRATA Skin Sciences, Inc. and Subsidiary
Notes to Unaudited Condensed Consolidated Financial Statements
(in thousands, except share and per share amounts and number of lasers)
(unaudited)

Revenues from the sales of the Company's dermatology procedures equipment are recognized when control of the promised goods or services is transferred to its customers or distributors, in an amount that reflects the consideration to which it expects to be entitled in exchange for those goods or services. Accordingly, the Company determines revenue recognition through the following steps:

- identification of the contract, or contracts, with a customer;
- identification of the performance obligations in the contract;
- determination of the transaction price;
- allocation of the transaction price to the performance obligations in the contract; and
- recognition of revenue when, or as, performance obligations are satisfied.

Accounting for the Company's contracts involves the use of significant judgments and estimates including determining the separate performance obligations, allocating the transaction price to the different performance obligations and determining the method to measure the entity's performance toward satisfaction of performance obligations that most faithfully depicts when control is transferred to the customer. The Company allocates the contract's transaction price to each performance obligation using the Company's best estimate of the standalone selling price for each distinct good or service in the contract. The Company maximizes the use of observable inputs by beginning with average historical contractual selling prices and adjusting as necessary and on a consistent and rational basis for other inputs such as pricing trends, customer types, volumes and changing cost and margins.

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

The following table summarizes the Company's expected future undiscounted fixed treatment code payments from international recurring revenue customers as of September 30, 2022 :

Remaining 2022	$	313
2023		1,193
2024		835
2025		218
2026		4
Total	$	2,563

Remaining performance obligations related to Accounting Standards Codification ("ASC") 606, *Revenue from Contracts with Customers*, represent the aggregate transaction price allocated to performance obligations with an original contract term greater than one year, which are fully or partially unsatisfied at the end of the period. Remaining performance obligations include the potential obligation to perform under extended warranties but exclude any equipment accounted for as leases. As of September 30, 2022, the aggregate amount of the transaction price allocated to remaining performance obligations was $583 and the Company expects to recognize $358 of the remaining performance obligations within one year and the balance over one to three years. Contract assets primarily relate to the Company's rights to consideration for work completed in relation to its services performed but not billed at the reporting date. The contract assets are transferred to receivables when the rights become unconditional. Currently, the Company does not have any contract assets which have not transferred to a receivable.

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Contract liabilities primarily relate to extended warranties where the Company has received payments but has not yet satisfied the related performance obligations. The allocations of the transaction price are based on the price of stand-alone warranty contracts sold in the ordinary course of business. The advance consideration received from customers for the warranty services is a contract liability that is recognized ratably over the warranty period. As of September 30, 2022, the $358 of short-term contract liabilities is presented as deferred revenues and the $225 of long-term contract liabilities is presented within deferred revenues and other liabilities on the condensed consolidated balance sheet. For the three months ended September 30, 2022 and 2021, the Company recognized $152 and $19, respectively, as revenue from amounts classified as contract liabilities (e.g. deferred revenues) as of December 31, 2021 and 2020. For the nine months ended September 30, 2022 and 2021, the Company recognized $790 and $73, respectively, as revenue from amounts classified as contract liabilities (e.g. deferred revenues) as of December 31, 2021 and 2020.

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

Note 4
Acquisitions:

TheraClear Asset Acquisition
In January 2022, the Company acquired certain assets related to the TheraClear Devices from Theravant Corporation ("Theravant"). The TheraClear asset acquisition will allow the Company to further develop, commercialize and market the TheraClear Devices that are used for acne treatment, as well as advance the TheraClear technology into multiple other devices that can be used to treat a range of additional indications.

The Company made an upfront cash payment of $500 and issued to Theravant 358,367 shares of common stock with an aggregate value of $500 as of the closing date in connection with the TheraClear asset acquisition. Theravant is eligible to receive up to $3,000 in future earnout payments upon the achievement of certain annual net revenue milestones, up to $20,000 in future royalty payments based upon a percentage of gross profit from future domestic sales ranging from 10-20%, 25% of gross profit from international sales over the subsequent four-year period, and up to $1,000 in future milestone payments upon the achievement of certain development and commercialization related targets.

The Company determined this transaction represented an asset acquisition as substantially all of the value was in the TheraClear technology intangible asset as defined by ASC 805, *Business Combinations* ("ASC 805").

The purchase price was allocated, on a relative fair value basis, to the technology intangible asset and acquired inventories as follows:

Consideration:		
Cash payment	$	500
Common stock issued		500
Transaction costs		131
Contingent consideration		9,122
Total consideration	$	10,253
Assets acquired:		
Technology intangible asset	$	10,182
Inventories		71
Total assets acquired	$	10,253

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The technology intangible asset is being amortized on a straight-line basis over a period of ten years, to be updated for subsequent changes in the contingent consideration that is allocated to its carrying value. The intangible asset was valued using the relief from royalty method. Significant assumptions used in the relief from royalty method include a 14.5% weighted average cost of capital and 15.0% of revenues for the royalty rate. The net book value of acquired inventories approximated its fair value. To calculate the fair value of the earnout using Monte Carlo simulations, Company projections were utilized to develop expected revenues and gross profits based on the risk inherent in the projections using the Geometric-Brownian motion for the earnout periods and related earnout payments. Significant assumptions used in the Geometric-Brownian motion analysis include projected revenues, projected gross profit, risk free rate of return of 1.6%, revenue volatility of 45.0%, and a cost of equity of 10.5%. Due to uncertainties associated with the development of a new product line and the use of estimates and assumptions to determine the fair value of the contingent consideration, the amount ultimately paid in connection with the earnout may differ from the estimated fair value at the acquisition date. A revaluation of the contingent consideration would only be required if there is a significant change to the underlying valuation assumptions. The contingent consideration will be adjusted when the contingency is resolved and the consideration is paid or becomes payable. Any difference between the cash payment and the amount accrued for contingent consideration will result in an adjustment to the technology intangible asset. Contingent consideration expected to be paid within the next year, which consists of $500 paid in October 2022, is classified as current on the condensed consolidated balance sheet.

Pharos Asset Acquisition

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

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

Consideration:		
Cash payment	$	3,700
Transaction costs		57
Total consideration	$	3,757
Assets acquired:		
Inventories	$	284
Customer lists intangible asset		5,314
Total assets acquired		5,598
Liabilities assumed:		
Deferred revenues – service contracts		1,841
Total liabilities assumed		1,841
Net assets acquired	$	3,757

The customer lists intangible asset is being amortized on a straight-line basis over a period of 12 years. As the transaction was accounted for as an asset acquisition, the Company allocated consideration paid to the inventories acquired and the deferred revenues assumed with the remaining consideration paid allocated to the customer lists intangible asset, which also equals its estimated fair value. The intangible asset was valued using an excess earnings model. Significant assumptions used in the excess earnings model include estimated customer sales growth, customer attrition, and weighted average cost of capital of 3%, 5% and 17%, respectively.

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Note 5
Inventories:

Inventories consist of the following:

	September 30, 2022	December 31, 2021
Raw materials and work-in-process	$ 5,426	$ 3,201
Finished goods	236	288
Total inventories	$ 5,662	$ 3,489

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

Note 6
Property and Equipment, net:

Property and equipment consist of the following:

	September 30, 2022	December 31, 2021
Lasers placed-in-service	$ 27,360	$ 25,949
Equipment, computer hardware and software	293	238
Furniture and fixtures	235	213
Leasehold improvements	80	254
	27,968	26,654
Accumulated depreciation and amortization	(21,402)	(19,771)
Property and equipment, net	$ 6,566	$ 6,883

Depreciation and amortization expense was $592 and $575 for the three months ended September 30, 2022 and 2021, respectively. Depreciation and amortization expense was $1,816 and $1,576 for the nine months ended September 30, 2022 and 2021, respectively.

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Note 7
Intangible Assets, net:

Intangible assets consist of the following as of September 30, 2022:

	Balance	Accumulated Amortization	Intangible Assets, net
Core technology	$ 5,700	$ (4,133)	$ 1,567
Product technology	12,182	(2,764)	9,418
Customer relationships	6,900	(5,003)	1,897
Tradenames	1,500	(1,088)	412
Pharos customer lists	5,314	(498)	4,816
	$ 31,596	$ (13,486)	$ 18,110

Intangible assets consist of the following as of December 31, 2021:

	Balance	Accumulated Amortization	Intangible Assets, net
Core technology	$ 5,700	$ (3,705)	$ 1,995
Product technology	2,000	(2,000)	-
Customer relationships	6,900	(4,485)	2,415
Tradenames	1,500	(975)	525
Pharos customer lists	5,314	(166)	5,148
	$ 21,414	$ (11,331)	$ 10,083

Amortization expense was $719 and $408 for the three months ended September 30, 2022 and 2021, respectively. Amortization expense was $2,155 and $1,113 for the nine months ended September 30, 2022 and 2021, respectively.

Finite-lived intangible assets are tested for impairment when events or changes in circumstances indicate that the carrying value of the asset group may not be recoverable. The Company recognizes an impairment loss when and to the extent that the recoverable amount of an asset group is less than its carrying value. There were no impairment charges for the three and nine months ended September 30, 2022 or 2021.

The following table summarizes the estimated future amortization expense for the above intangible assets for the next five years:

Remaining 2022	$ 717
2023	2,871
2024	2,871
2025	2,166
2026	1,461

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Note 8
Accrued Expenses and Other Current Liabilities:

Accrued expenses and other current liabilities consist of the following:

	September 30, 2022	December 31, 2021
Warranty obligations	$ 118	$ 59
Compensation and related benefits	1,379	2,052
State sales, use and other taxes	3,742	3,697
Professional fees and other	836	569
Total accrued expenses and other current liabilities	$ 6,075	$ 6,377

Note 9
Long-term Debt:

Senior Term Facility
On September 30, 2021, the Company entered into a credit and security agreement with MidCap Financial Trust, also acting as the administrative agent, and the lenders identified therein ("Senior Term Facility"). The Senior Term Facility provides for an $8,000 senior term loan that was drawn upon by the Company upon executing the agreement. Borrowings under the Senior Term Facility bear interest at LIBOR (with a LIBOR floor rate of 0.50%) plus 7.50% per year and mature on September 1, 2026, unless terminated earlier. The Company is obligated to make monthly interest-only payments through September 30, 2024. From October 1, 2024 to the date of maturity, the Company will make 24 equal monthly principal payments plus interest, and all borrowings are secured by substantially all of the Company's assets. The Senior Term Facility was amended on January 10, 2022 to permit the acquisition of TheraClear Devices (Note 4).

The Company may voluntarily prepay the outstanding term loan, with such prepayment at least $5,000, at any time upon 30 days' written notice. Upon prepayment, the Company will be required to pay a prepayment fee equal to (i) 4.00% of the outstanding principal prepaid or required to be prepaid (whichever is greater), if the prepayment is made within 12 months of September 30, 2021, (ii) 3.00% of the outstanding principal prepaid or required to be prepaid (whichever is greater), if the prepayment is made between 12 months and 24 months after September 30, 2021, (iii) 2.00% of the outstanding principal prepaid or required to be prepaid (whichever is greater), if the prepayment is made between 24 months and 36 months after September 30, 2021, or (iv) 1.00% of the outstanding principal prepaid or required to be prepaid (whichever is greater), if the prepayment is made after 36 months after September 30, 2021 and prior to the maturity date.

The Senior Term Facility contains certain customary representations and warranties, affirmative covenants and conditions. The Senior Term Facility also contains a number of negative covenants that subject the Company to certain exceptions and waivers and restrictions, as defined in the agreement. In addition, the Senior Term Facility contains a quarterly financial covenant that requires the Company to have a specified minimum amount of net revenue for the trailing 12-month period, with compliance measured on the last day of each fiscal quarter beginning on September 30, 2021. At September 30, 2022, the minimum net revenue threshold was $27,000. The minimum net revenue threshold will increase to $30,000 by December 31, 2023. At September 30, 2022, the Company was in compliance with all financial and nonfinancial covenants within the Senior Term Facility.

The Senior Term Facility contains customary indemnification obligations and customary events of default, including, among other things, (i) nonpayment, (ii) breach of warranty, (iii) nonperformance of covenants and obligations, (iv) default on other indebtedness, (v) judgments, (iv) change of control, (vii) bankruptcy and insolvency, (viii) impairment of security, (xi) regulatory matters, (xii) failure to remain a publicly traded company and (xiii) material adverse event. Where an event of default arises from certain bankruptcy events, the commitments shall automatically and immediately terminate and the principal of, and interest then outstanding on, all of the loans shall become immediately due and payable. Subject to certain notice requirements and other conditions, upon the occurrence of other events of default, including the occurrence of a condition having or reasonably likely to have a material adverse effect, commitments may be terminated and the principal of, and interest then outstanding on, all of the loans may become immediately due and payable. On September 30, 2022, no event of default had occurred and the Company believed that events or conditions having a material adverse effect, giving rise to an acceleration of any amounts outstanding under the Senior Term Facility, had not occurred and was remote.

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In connection with entering into the Senior Term Facility, the Company issued an affiliate of the lender a warrant to purchase 373,626 shares of the Company's common stock at an initial exercise price of $1.82 per share. The warrants are equity classified and are exercisable at any time on or prior to the tenth anniversary of their issue date. The estimated fair value of the warrants was $585 and determined using the Black-Scholes option pricing model. The key assumptions used in the Black-Scholes option pricing model were (i) an expected term of ten years, (ii) expected volatility of 88.6%, (iii) a risk-free rate of 1.50% and (iv) no estimated dividend yield. In addition, the Company incurred third party costs and lender fees of $133. The proceeds were allocated on a basis that approximates the relative fair value method. The fair value of the warrants and fees incurred were recorded as a debt discount and are being recognized as interest expense over the life of the Senior Term Facility using the effective-interest method. The unamortized debt discount was $565 as of September 30, 2022. The Company recognized interest expense of $244 and $651 during the three and nine months ended September 30, 2022, of which $40 and $116 was related to the amortization of the debt discount for the three and nine months ended September 30, 2022.

Future minimum principal payments at September 30, 2022 are as follows:

2024	$ 1,000
2025	4,000
2026	3,000
Total	$ 8,000

Note 10
Stock-based Compensation:

The Company's 2016 Omnibus Incentive Stock Plan ("2016 Plan"), as amended, has reserved up to 7,832,651 shares of common stock for future issuance. As of September 30, 2022, there were 3,123,706 shares of common stock remaining available for issuance for awards under the 2016 Plan.

The Company measures stock-based awards at their grant-date fair value and records compensation expense on a straight-line basis over the requisite service period of the awards. The Company recorded stock-based compensation expense of $455 and $320 for the three months ended September 30, 2022 and 2021, respectively, and $1,275 and $1,563 for the nine months ended September 30, 2022 and 2021, respectively, and stock-based compensation was included within general and administrative expenses in the accompanying condensed consolidated statements of operations.

Stock Options

The following table summarizes stock option activity for the nine months ended September 30, 2022:

	Number of shares	Weighted average exercise price per share	Weighted average remaining contractual term (years)
Outstanding at January 1, 2022	3,938,613	$ 1.90	
Granted	970,000	$ 1.43	
Exercised	(15,000)	$ 1.29	
Forfeited and expired	(348,899)	$ 2.97	
Outstanding at September 30, 2022	4,544,714	$ 1.72	8.3
Exercisable at September 30, 2022	1,771,742	$ 1.88	7.4
Vested and expected to vest	4,544,714	$ 1.72	8.3

The weighted-average grant date fair value of options granted was $1.07 per share during the nine months ended September 30, 2022. As of September 30, 2022, the total unrecognized compensation expense related to unvested stock option awards was $2,678, which the Company expects to recognize over a weighted-average period of approximately 2.2 years. There was no aggregate intrinsic value of options outstanding and options exercisable at September 30, 2022.

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For the nine months ended September 30, 2022, the fair value of each option was estimated on the date of grant using the weighted average assumptions in the table below:

Expected volatility	89.6%
Risk-free interest rate	2.5%
Expected term (in years)	6.1
Expected dividend yield	0.0%

On March 30, 2022, the Company granted 160,000 stock-based options to the Chief Executive Officer. The vesting of these awards is contingent upon meeting one or more financial goals (a performance condition) or a common stock share price (a market condition). The fair value of stock-based awards is determined at the date of grant. Stock-based compensation expense is recorded ratably for market condition awards during the requisite service period and is not reversed, except for forfeitures, at the vesting date regardless of whether the market condition is met. Stock-based compensation expense for performance condition awards is re-evaluated at each reporting period based on the probability of the achievement of the goal.

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

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

Restricted Stock Units

Restricted stock units have been issued to certain board members. Restricted stock units unvested are summarized in the following table:

	Number of shares		Weighted average grant date fair value
Unvested at January 1, 2022	90,540	$	1.45
Granted	187,464	$	0.96
Vested	(118,543)	$	1.37
Unvested at September 30, 2022	159,461	$	0.93

As of September 30, 2022, the total unrecognized compensation expense related to unvested restricted stock units was $111, which the Company expects to recognize over a weighted-average period of 0.75 years.

Note 11
Income Taxes:

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

No income tax expense was incurred for the three and nine months ended September 30, 2022. Income tax expense of $4 and $12 for the three and nine months ended September 30, 2021, respectively, was comprised primarily of changes in deferred tax liability related to goodwill. Goodwill is an amortizing asset according to tax regulations.

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

On August 16, 2022, the U.S. enacted the Inflation Reduction Act of 2022 ("IRA"). The IRA contains certain tax measures, including a corporate alternative minimum tax of 15% on some large corporations and an excise tax of 1% on corporate stock repurchases. The Company is currently evaluating the various provisions of the IRA and does not anticipate a material impact on its condensed consolidated financial statements.

Note 12
Business Segments:

The Company has organized its business into two 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 usage of its equipment by dermatologists to perform XTRAC procedures. The Dermatology Procedures Equipment segment generates revenues from the sale of equipment, such as lasers and lamp products. Management reviews financial information presented on an operating segment basis for the purposes of making certain operating decisions and assessing financial performance.

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

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

Three Months Ended September 30, 2022

	Dermatology Recurring Procedures	Dermatology Procedures Equipment	TOTAL
Revenues, net	$ 5,847	$ 3,566	$ 9,413
Costs of revenues	2,057	1,557	3,614
Gross profit	3,790	2,009	5,799
Gross profit %	*64.8%*	*56.3%*	*61.6%*
Allocated operating expenses:			
Engineering and product development	139	77	216
Selling and marketing	3,296	458	3,754
Unallocated operating expenses	-	-	2,615
	3,435	535	6,585
Income (loss) from operations	355	1,474	(786)
Interest expense	-	-	(244)
Interest income	-	-	35
Income (loss) before income taxes	$ 355	$ 1,474	$ (995)

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Nine Months Ended September 30, 2022

	Dermatology Recurring Procedures	Dermatology Procedures Equipment	TOTAL
Revenues, net	$ 16,496	$ 9,063	$ 25,559
Costs of revenues	6,387	4,252	10,639
Gross profit	10,109	4,811	14,920
Gross profit %	*61.3%*	*53.1%*	*58.4%*
Allocated operating expenses:			
Engineering and product development	398	190	588
Selling and marketing	10,225	1,291	11,516
Unallocated operating expenses	-	-	7,599
	10,623	1,481	19,703
(Loss) income from operations	(514)	3,330	(4,783)
Interest expense	-	-	(651)
Interest income	-	-	45
(Loss) income before income taxes	$ (514)	$ 3,330	$ (5,389)

Three Months Ended September 30, 2021

	Dermatology Recurring Procedures	Dermatology Procedures Equipment	TOTAL
Revenues, net	$ 5,710	$ 2,001	$ 7,711
Costs of revenues	1,512	823	2,335
Gross profit	4,198	1,178	5,376
Gross profit %	*73.5%*	*58.9%*	*69.7%*
Allocated operating expenses:			
Engineering and product development	333	38	371
Selling and marketing	3,094	201	3,295
Unallocated operating expenses	-	-	2,175
	3,427	239	5,841
Income (loss) from operations	771	939	(465)
Interest expense	-	-	(53)
Interest income	-	-	1
Income (loss) before income taxes	$ 771	$ 939	$ (517)

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Nine Months Ended September 30, 2021

	Dermatology Recurring Procedures	Dermatology Procedures Equipment	TOTAL
Revenues, net	$ 15,841	$ 5,079	$ 20,920
Costs of revenues	4,648	2,422	7,070
Gross profit	11,193	2,657	13,850
Gross profit %	*70.7%*	*52.3%*	*66.2%*
Allocated operating expenses:			
Engineering and product development	1,013	145	1,158
Selling and marketing	8,805	582	9,387
Unallocated operating expenses	-	-	7,085
	9,818	727	17,630
Income (loss) from operations	1,375	1,930	(3,780)
Gain on debt extinguishment	-	-	2,028
Interest expense	-	-	(109)
Interest income	-	-	16
Income (loss) before income taxes	$ 1,375	$ 1,930	$ (1,845)

The following tables present the Company's revenue disaggregated by geographical region for the three and nine months ended September 30, 2022 and 2021, respectively. Domestic refers to revenue from customers based in the United States, and foreign recurring revenue is derived from sales to the Company's distributors, primarily in Asia.

Three Months Ended September 30, 2022

	Dermatology Recurring Procedures	Dermatology Procedures Equipment	TOTAL
Domestic	$ 5,527	$ 572	$ 6,099
Foreign	320	2,994	3,314
Total	$ 5,847	$ 3,566	$ 9,413

Nine Months Ended September 30, 2022

	Dermatology Recurring Procedures	Dermatology Procedures Equipment	TOTAL
Domestic	$ 15,393	$ 1,814	$ 17,207
Foreign	1,103	7,249	8,352
Total	$ 16,496	$ 9,063	$ 25,559

Three Months Ended September 30, 2021

	Dermatology Recurring Procedures	Dermatology Procedures Equipment	TOTAL
Domestic	$ 5,370	$ 519	$ 5,889
Foreign	340	1,482	1,822
Total	$ 5,710	$ 2,001	$ 7,711

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Nine Months Ended September 30, 2021

	Dermatology Recurring Procedures	Dermatology Procedures Equipment	TOTAL
Domestic	$ 14,923	$ 1,113	$ 16,036
Foreign	918	3,966	4,884
Total	$ 15,841	$ 5,079	$ 20,920

The assets acquired from Theravant in January 2022 (see Note 4) will be primarily attributed to the dermatology recurring procedures business segment, resulting in a material increase in total assets for that segment at September 30, 2022 as compared to the 2021 Form 10-K.

Note 13
Significant Customer Concentrations:

For the three months ended September 30, 2022 revenues from sales to two of the Company's distributors were $2,280, or 24.2%, of total revenues for such period. For the three months ended September 30, 2021, there were no customers representing more than 10% of revenues. For the nine months ended September 30, 2022 and 2021, revenues from sales to two and one of the Company's distributors were $6,053, or 23.7%, and $2,220, or 10.6%, respectively, of total revenues for such periods.

No customer represented more than 10% of total accounts receivable as of September 30, 2022 or December 31, 2021.

Note 14
Commitments and Contingencies:

Leases
The Company recognizes right-of-use assets ("ROU assets") and operating lease liabilities when it obtains the right to control an asset under a leasing arrangement with an initial term greater than 12 months. The Company adopted the short-term accounting election for leases with a duration of less than one year. The Company leases its facilities and certain IT and office equipment under non-cancellable operating leases. All of the Company's leasing arrangements are classified as operating leases with remaining lease terms ranging from one to four years, and one facility lease had a renewal option for two years. The renewal option was initially excluded from the determination of the lease term as it was not reasonably certain of exercise. In August 2022, the Company exercised the renewal option and amended the terms of the option, which has been accounted for as a lease modification. The ROU assets and operating lease liability were remeasured at the modification date, resulting in an increase to both balances of $446 during the nine months ended September 30, 2022. There were no lease modifications during the nine months ended September 30, 2021.

Operating lease costs were $86 and $108 for the three months ended September 30, 2022 and 2021, respectively. Operating lease costs were $298 and $331 for the nine months ended September 30, 2022 and 2021, respectively. Cash paid for amounts included in the measurement of operating lease liabilities was $93 and $113 for the three months ended September 30, 2022 and 2021, respectively. Cash paid for amounts included in the measurement of operating lease liabilities was $320 and $344 for the nine months ended September 30, 2022 and 2021, respectively. As of September 30, 2022, the weighted average incremental borrowing rate was 8.91% and the weighted average remaining lease term was 3.0 years.

STRATA Skin Sciences, Inc. and Subsidiary
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(in thousands, except share and per share amounts and number of lasers)
(unaudited)

The following table summarizes the Company's operating lease maturities as of September 30, 2022:

	Amount
Remaining 2022	$ 98
2023	369
2024	328
2025	146
2026	76
Total remaining lease payments	1,017
Less: imputed interest	(97)
Total lease liabilities	$ 920

Accrued State Sales and Use Tax

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

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

In the ordinary course of business, the Company is, from time to time, subject to audits performed by state taxing authorities. These actions and proceedings are generally based on the position that the arrangements entered into by the Company are subject to sales and use tax rather than exempt from tax under applicable law. Several states have assessed the Company an aggregate of $2,375 including penalties and interest for the period from March 2014 through April 2020. An administrative state judge in the State of New York issued an opinion in January 2021 finding in favor of the Company that the sale of XTRAC treatment codes was not taxable as sales tax with respect to that state's first assessment. This ruling covers $1,484 of the total $2,375 of assessments. The relevant taxing authority filed an appeal of the administrative law judge's finding and, following the submission of legal briefs by both sides and oral argument held in January 2022, on May 6, 2022, the Company received a written decision from the State of New York Tax Appeals Tribunal ("Tribunal") overturning the favorable sales tax determination of the administrative law judge. The Company filed an appeal of the Tribunal's decision, and posted the required appellate bond requiring posting cash collateral, with the New York State Appellate Division, and is awaiting for the appellate court to set a briefing and oral argument schedule.

The Company is also in another jurisdiction's administrative process of appeal with respect to the remaining $891 of assessments, and the timing of the process has been impacted by the COVID-19 pandemic. If there is a determination that the true object of the Company's recurring revenue model is not exempt from sales taxes and is not a prescription medicine, or the Company does not have other defenses where the Company prevails, the Company may be subject to sales taxes in those particular states for previous years and in the future, plus potential interest and penalties.

The precise scope, timing and time periods at issue, as well as the final outcomes of the investigations and judicial proceedings, remain uncertain. Accordingly, the Company's estimate may change from time to time, and actual losses could vary.

Milestone Payments

In January 2022, the Company entered into a Development Agreement (the "Development Agreement") with Theravant Corporation ("Theravant"). Under the Development Agreement, the Company will reimburse Theravant for costs incurred in further developing certain TheraClear technology and other healthcare products and methods for the medical aesthetic marketplace. In connection with the development of three devices, Theravant is eligible to receive $500 upon FDA clearance for each device and $500 upon achievement of certain net revenue targets for each device, aggregating to $3,000 of potential future milestone payments under the Development Agreement. The Development Agreement has a three-year term, unless terminated sooner by either party, and is being accounted for separately from the TheraClear asset acquisition discussed in Note 4.

STRATA Skin Sciences, Inc. and Subsidiary
Notes to Unaudited Condensed Consolidated Financial Statements
(in thousands, except share and per share amounts and number of lasers)
(unaudited)

Legal Matters

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

On April 1, 2022, a proposed representative class action under California's Private Attorneys General Act ("PAGA") was filed in Superior Court of California, County of San Diego against the Company and an employment agency ("Co-Defendant") which provided the Company with temporary employees. The complaint alleges various violations of the California Labor Code, including California's wage and hour laws, relating to current and former non-exempt employees of the Company. The complaint seeks class status and payments for allegedly unpaid compensation and attorney's fees. In a related matter, the attorneys in this matter and the proposed class representative, in a letter dated March 12, 2022, to the California Labor & Workforce Development Agency made nearly identical claims seeking the right to pursue a PAGA action against the Company and the employment agency. On or about May 16, 2022, the plaintiff filed a First Amended Complaint adding a PAGA claim to the action. On or about June 2, 2022, the plaintiff filed an Application to Dismiss Class and Individual Claim without prejudice, in an attempt to pursue a PAGA only complaint. On or about June 30, 2022, the parties entered into a stipulation to allow the plaintiff to file a Second Amended Complaint to clarify the PAGA claim and to stay the pending action to allow an attempt at resolution at a mediation scheduled for February 23, 2023. Litigation, including discovery matters, has been stayed pending the outcome of the mediation. No amount has been accrued for this matter as of September 30, 2022, as the likelihood of a loss has not been deemed probable nor is the amount of any loss estimable.

Note 15
Subsequent Events:

On October 26, 2022, the Company received written notification (the "Notice") from The NASDAQ Stock Market ("NASDAQ") that the closing bid price of its common stock had been below the minimum $1.00 per share for the previous 30 consecutive business days and that the Company, therefore, is not in compliance with the requirements for continued listing on the NASDAQ Capital Market. The Notice provides the Company with an initial period of 180 calendar days, or until April 24, 2023, to regain compliance with the listing rules. The Company will regain compliance if the closing bid price of its common stock is $1.00 per share or higher for a minimum period of ten consecutive business days during this compliance period.

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

The following discussion of our financial condition and results of operations should be read in conjunction with the condensed consolidated financial statements and notes to condensed consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q (this "Report"). This discussion contains forward-looking statements that involve risks and uncertainties. These forward-looking statements include, but are not limited to, statements about the plans, objectives, expectations and intentions of STRATA Skin Sciences, Inc., a Delaware corporation (referred to in this Report as "we," "us," "our," "STRATA," "STRATA Skin Sciences" or "registrant") and other statements contained in this Report that are not historical facts. When reviewing the discussion below, you should keep in mind the substantial risks and uncertainties that characterize our business including the scope and duration of the COVID-19 outbreak and its impact on global economic systems. In particular, we encourage you to review the risks and uncertainties described in Part II-Item 1A "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2021. 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 These statements, like all statements in this Report, speak only as of their date (unless another date is indicated), and we undertake no obligation to update or revise these statements in light of future developments.

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

Introduction, Outlook, Overview of Business Operations and Recent Developments

STRATA Skin Sciences, Inc. is a medical technology company in dermatology dedicated to developing, commercializing and marketing innovative products for the treatment of dermatologic conditions. Its products include the XTRAC® and now Pharos® excimer lasers and VTRAC® lamp systems utilized in the treatment of psoriasis, vitiligo and various other skin conditions. Its products also include the TheraClear® Acne Clearing System utilized in the treatment of mild to moderate inflammatory, comedonal and pustular acne.

The XTRAC ultraviolet light excimer laser system is utilized to treat psoriasis, vitiligo and other skin diseases. The XTRAC excimer laser system received clearance from the United States Food and Drug Administration in 2000 and has since become a widely recognized treatment among dermatologists. The system delivers targeted 308nm ultraviolet light to affected areas of skin, leading to psoriasis clearing and vitiligo repigmentation, following a series of treatments. As of September 30, 2022, there were 899 XTRAC systems placed in dermatologists' offices in the United States under our dermatology recurring procedures model, an increase from 890 at the end of December 31, 2021. Under the dermatology recurring procedures model, the XTRAC system is placed in a physician's office and fees are charged on a per procedure basis or a fee is charged on a periodic basis not to exceed an agreed upon number of procedures. The XTRAC system's use for psoriasis is covered by nearly all major insurance companies, including Medicare. The VTRAC Excimer Lamp system, offered internationally in addition to the XTRAC, provides targeted therapeutic efficacy demonstrated by excimer technology with the simplicity of design and reliability of a lamp system. We believe there are approximately 7.5 million people in the United States and up to 125 million people worldwide suffering from psoriasis, and 1% to 2% of the world's population suffers from vitiligo.

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

The TheraClear® Acne Clearing System combines intense pulse light with vacuum (suction) for the treatment of mild to moderate inflammatory acne (including acne vulgaris), comedonal acne and pustular acne.

In late 2019, there was an outbreak of a new strain of coronavirus ("COVID-19") which became a global pandemic. The COVID-19 pandemic has negatively impacted the global economy, disrupted global supply chains and created significant volatility and disruption of financial markets. In addition, the pandemic led to the suspension of elective procedures in the U.S. and to the temporary closure of many physician practices which are our primary customers. While many offices have reopened, some physician practices closed and never reopened, and the impact of the ongoing COVID-19 pandemic and its variants on our operational and financial performance, including our ability to execute our business strategies and initiatives in the expected time frames, will depend on future developments, including the duration and ongoing spread of the COVID-19 outbreak and its variants, continued or renewed restrictions on business operations and transportation, any governmental and societal responses thereto, including legislative or regulatory as well as the percentage of the populace vaccinated and effectiveness of COVID-19 vaccines and the continued impact on worldwide economic and geopolitical conditions and inflation, all of which are uncertain and cannot be predicted.

Domestically, as the procedures in which our devices are used are elective in nature and as social distancing, travel restrictions, and other restrictions became prevalent in the United States, this had a negative impact on our recurring revenue model and our financial position and cash flow. The virus has disrupted the supply chains world-wide that we depend upon to provide a steady source of components to manufacture and repair our devices. To mitigate the impact of COVID-19, we have taken a variety of measures to ensure the availability and functioning of our critical infrastructure by implementing business continuity plans to promote the safety and security of our employees, while complying with various government mandates, including work-from-home arrangements and social-distancing initiatives to reduce the transmission of COVID-19, and complying with federal and local regulations at our facilities. The Company implemented a policy whereby all Company employees are required to be vaccinated or complete weekly COVID-19 testing. In addition, we created and executed programs utilizing our direct-to-consumer advertising and call center to contact patients and partner clinics to restart our partners' businesses.

In the event our own employees are impacted through direct or ancillary contact with a person who has the virus, we may need to devise other methods of transacting business in our offices by working from home and or potentially ceasing operations for a period of time. Supply chain disruptions which began during the pandemic have continued and may continue for the foreseeable future. While the Company's operations have not been materially impacted by the general trends in supply chain problems, the Company continues to monitor and assess potential risks.

The COVID-19 pandemic has had an impact on our results of operations and financial performance through fiscal 2022. We experienced a significant number of cases of a COVID-19 variant among our employees in January 2022 and some physician offices continue to experience staffing issues, and we believe these shortages of trained personnel have negatively impacted our business. Accordingly, current results and financial conditions discussed herein may not be indicative of future operating results and trends.

In August 2021, we acquired certain assets and assumed certain liabilities related to the Pharos U.S. dermatology business of Ra Medical Systems, Inc. ("Ra Medical") for an upfront cash payment of $3,700. The Pharos asset acquisition provides us with the opportunity to market our full business solutions to Ra Medical's existing customer base of 400 dermatology practices and increase our recurring revenue base. The Pharos transaction also provides a potentially synergistic path to gain additional placements for our XTRAC excimer laser system.

In January 2022, we acquired certain assets of TheraClear Devices from Theravant Corporation ("Theravant"). The TheraClear asset acquisition will allow us to further develop, commercialize and market the TheraClear Devices that are used for acne treatment, as well as advance the TheraClear technology into multiple other devices that can be used to treat a range of additional indications. We made an upfront cash payment of $500 in connection with the asset acquisition. In addition, Theravant received 358,367 shares of our common stock with an aggregate value of $500 as of the closing date and is eligible to receive up to $3,000 in future earnout payments upon the achievement of certain annual net revenue milestones, up to $20,000 in future royalty payments based upon a percentage of gross profit from future domestic sales ranging from 10-20%, 25% of gross profit from international sales over the subsequent four-year period, and up to $1,000 in future milestone payments upon the achievement of certain development and commercialization related targets.

In January 2022, we entered into a Development Agreement (the "Development Agreement") with Theravant. Under the Development Agreement, the Company will reimburse Theravant for costs incurred in further developing certain TheraClear technology and other healthcare products and methods for the medical aesthetic marketplace. In connection with the development of three devices, Theravant is eligible to receive $500 upon FDA clearance for each device and $500 upon achievement of certain net revenue targets for each device, aggregating to $3,000 of potential future milestone payments under the Development Agreement. The Development Agreement has a three-year term, unless terminated sooner by either party.

Key Technology

- *XTRAC® Excimer Laser.* XTRAC received FDA clearance in 2000 and has since become a widely recognized treatment among dermatologists for psoriasis and other skin diseases. The XTRAC System delivers ultra-narrowband ultraviolet B ("UVB"**)** light to affected areas of skin. Following a series of treatments typically performed twice weekly, psoriasis remission can be achieved, and vitiligo patches can be re-pigmented. XTRAC is endorsed by the National Psoriasis Foundation, and its use for psoriasis is covered by nearly all major insurance companies, including Medicare. We estimate that more than half of all major insurance companies now offer reimbursement for vitiligo as well, a figure that is increasing. In February 2022, we announced the commercial launch, with the first installation in the U.S. market, of our next generation excimer laser system, XTRAC Momentum™ 1.0.

- In the third quarter of 2018, we announced the FDA granted clearance for our Multi Micro Dose (MMD) tip for our XTRAC excimer laser. The MMD Tip accessory is indicated for use in conjunction with the XTRAC laser system to filter the Narrow Band UVB ("NB-UVB") light at delivery in order to calculate and individualize the maximum non-blistering dose for a particular patient.

- In January 2020, we announced the FDA granted clearance of our XTRAC Momentum Excimer Laser Platform.

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

- *TheraClear Acne Treatment Device.* The TheraClear® Acne Clearing System combines intense pulse light with vacuum (suction) for the treatment of mild to moderate inflammatory acne (including acne vulgaris), comedonal acne and pustular acne.

Critical Accounting Policies and Estimates

There have been no changes to our critical accounting policies in the nine months ended September 30, 2022 except for contingent consideration as described below. 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, 2021 of our Annual Report on Form 10-K as filed with the SEC on March 21, 2022.

Contingent Consideration

The purchase price for certain assets acquired related to TheraClear Devices during January 2022 includes earnout payments, or contingent consideration. Estimates that involve a significant level of estimation uncertainty include the valuation of contingent consideration, which was determined using forecasted financial information available at the acquisition date, a discount rate and various other assumptions as described in more detail in Note 4 to our condensed consolidated financial statements. Due to uncertainties associated with the development of a new product line and the use of estimates and assumptions to determine the fair value of the contingent consideration, the amount ultimately paid in connection with the earnout may differ from the estimated fair value at the acquisition date. A revaluation of the contingent consideration would only be required if there is a significant change to the underlying valuation assumptions. The contingent consideration will be adjusted when the contingency is resolved and the consideration is paid or becomes payable. Any difference between the cash payment and the amount accrued for contingent consideration will result in an adjustment to the technology intangible asset.

Results of Operations

Revenues

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

	For the Three Months Ended September 30,	
	2022	2021
Dermatology Recurring Procedures	$ 5,847	$ 5,710
Dermatology Procedures Equipment	3,566	2,001
Total Revenues	$ 9,413	$ 7,711

	For the Nine Months Ended September 30,	
	2022	2021
Dermatology Recurring Procedures	$ 16,496	$ 15,841
Dermatology Procedures Equipment	9,063	5,079
Total Revenues	$ 25,559	$ 20,920

Dermatology Recurring Procedures

The COVID-19 pandemic had an impact on our results during 2021 and through fiscal 2022. Recognized recurring treatment revenue for the three months ended September 30, 2022 was $5,847, which we estimate is approximately 90,000 treatments with prices between $65 to $95 per treatment, compared to recognized recurring treatment revenue for the three months ended September 30, 2021 of $5,710, which we estimate is approximately 81,000 treatments, with prices between $65 to $95 per treatment. Recognized recurring treatment revenue for the nine months ended September 30, 2022 was $16,496, which we estimate is approximately 254,000 treatments with prices between $65 to $95 per treatment, compared to recognized recurring treatment revenue for the nine months ended September 30, 2021 of $15,841, which we estimate is approximately 226,000 treatments, with prices between $65 to $95 per treatment.

Increases in procedures are dependent upon building market acceptance through marketing programs with our physician partners and their patients to show that the XTRAC procedures will be of clinical benefit and will be generally reimbursed by insurers. We believe that several factors have an impact on the prescribed use of XTRAC treatments for psoriasis and vitiligo patients. Specifically, we believe that there is a lack of awareness of the positive effects of XTRAC treatments among both sufferers and providers; and the treatment regimen, which can sometimes require up to 12 or more treatments, has limited XTRAC use to certain patient populations. Therefore, our strategy is to continue to execute a direct-to-patient program for XTRAC advertising in the United States, targeting psoriasis and vitiligo patients through a variety of media including television and radio; and through our use of social media such as Facebook and Twitter. We monitor the results of our advertising expenditures in this area to reach the more than 10 million patients in the United States we believe are afflicted with these diseases. Furthermore, we increased our presence at trade shows throughout the United States during 2022, and we held our national sales meeting for the first time since the onset of the COVID-19 pandemic during the second quarter of 2022.

Revenues from dermatology recurring procedures are recognized over the estimated usage period of the agreed upon number of treatments, as the treatments are being used. As of September 30, 2022 and 2021, we deferred net revenues of $2,310 and $2,107 respectively, which will be recognized as revenue over the remaining usage period for domestic placements. Higher deferred revenue from the second quarter of 2022 favorably impacted the third quarter of 2022 as compared to the same period in 2021.

Dermatology Procedures Equipment

For the three and nine months ended September 30, 2022, dermatology procedures equipment revenues were $3,566 and $9,063, respectively. Internationally, we sold 27 systems (25 XTRAC and 2 VTRAC) and 76 systems (66 XTRAC and 10 VTRAC), respectively, during the three and nine months ended September 30, 2022. Domestically, there were 2 and 3 XTRAC systems sold during the three and nine months ended September 30, 2022, respectively. In addition to equipment sales, we recognized approximately $152 and $772, respectively, of deferred service revenue associated with assumed service contracts from Ra Medical during the three and nine months ended September 30, 2022.

For the three and nine months ended September 30, 2021, dermatology procedures equipment revenues were $2,001 and $5,079, respectively. Internationally, we sold 11 systems (3 XTRAC and 8 VTRAC) and 27 systems (19 XTRAC and 8 VTRAC), respectively, during the three and nine months ended September 30, 2021. Domestically, there were zero and 5 XTRAC systems sold during the three and nine months ended September 30, 2021.

Cost of Revenues

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

	For the Three Months Ended September 30,	
	2022	2021
Dermatology Recurring Procedures	$ 2,057	$ 1,512
Dermatology Procedures Equipment	1,557	823
Total Cost of Revenues	$ 3,614	$ 2,335

	For the Nine Months Ended September 30,	
	2022	2021
Dermatology Recurring Procedures	$ 6,387	$ 4,648
Dermatology Procedures Equipment	4,252	2,422
Total Cost of Revenues	$ 10,639	$ 7,070

Gross Profit Analysis

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

Company Profit Analysis	For the Three Months Ended September 30,	
	2022	2021
Revenues	$ 9,413	$ 7,711
Cost of revenues	3,614	2,335
Gross profit	$ 5,799	$ 5,376
Gross profit percentage	61.6%	69.7%

Company Profit Analysis	For the Nine Months Ended September 30,	
	2022	2021
Revenues	$ 25,559	$ 20,920
Cost of revenues	10,639	7,070
Gross profit	$ 14,920	$ 13,850
Gross profit percentage	58.4%	66.2%

Gross profit increased to $5,799 for the three months ended September 30, 2022 from $5,376 during the same period in 2021. As a percent of revenues, the gross profit was 61.6% for the three months ended September 30, 2022, as compared to 69.7% for the same period in 2021. The decrease in gross profit percentage was primarily the result of an increase in amortization of intangible assets due to the Pharos and TheraClear asset acquisitions and a change in product mix with higher sales of dermatology procedures equipment, which has a lower margin than dermatology recurring procedures.

Gross profit increased to $14,920 for the nine months ended September 30, 2022 from $13,850 during the same period in 2021. As a percent of revenues, the gross profit was 58.4% for the nine months ended September 30, 2022, as compared to 66.2% for the same period in 2021. The decrease in gross profit percentage was primarily the result of an increase in amortization of intangible assets due to the Pharos and TheraClear asset acquisitions and a change in product mix with higher sales of dermatology procedures equipment, which has a lower margin than dermatology recurring procedures.

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

Dermatology Recurring Procedures	For the Three Months Ended September 30,	
	2022	2021
Revenues	$ 5,847	$ 5,710
Cost of revenues	2,057	1,512
Gross profit	$ 3,790	$ 4,198
Gross profit percentage	64.8%	73.5%

Dermatology Recurring Procedures	For the Nine Months Ended September 30,	
	2022	2021
Revenues	$ 16,496	$ 15,841
Cost of revenues	6,387	4,648
Gross profit	$ 10,109	$ 11,193
Gross profit percentage	61.3%	70.7%

The primary reasons that gross profit percentage decreased for the three and nine months ended September 30, 2022 as compared to the same periods in 2021 were higher amortization of intangible assets due to the Pharos and TheraClear asset acquisitions and higher depreciation expenses and labor costs in 2022 compared to the same periods of 2021, partially offset by higher recurring procedures sales.

Dermatology Procedures Equipment	For the Three Months Ended September 30,	
	2022	2021
Revenues	$ 3,566	$ 2,001
Cost of revenues	1,557	823
Gross profit	$ 2,009	$ 1,178
Gross profit percentage	56.3%	58.9%

Dermatology Procedures Equipment	For the Nine Months Ended September 30,	
	2022	2021
Revenues	$ 9,063	$ 5,079
Cost of revenues	4,252	2,422
Gross profit	$ 4,811	$ 2,657
Gross profit percentage	53.1%	52.3%

The primary reasons for the decrease in gross profit percentage for the three months ended September 30, 2022 as compared to the same period in 2021 were higher amortization of intangible assets due to the Pharos and TheraClear asset acquisitions, partially offset by a change in product mix resulting in greater sales of equipment with higher sales margins and the recognition of deferred service revenue associated with assumed service contracts from Ra Medical. The amount of deferred service revenue associated with assumed service contracts from Ra Medical recognized during the third quarter of 2022 compared to the first half of 2022 has decreased as the related service contracts have expired.

The primary reasons for the increase in gross profit percentage for the nine months ended September 30, 2022 as compared to the same period in 2021 were a change in product mix resulting in greater sales of equipment with higher sales margins and recognition of deferred service revenue associated with assumed service contracts from Ra Medical, partially offset by higher amortization of intangible assets due to the Pharos and TheraClear asset acquisitions.

Engineering and Product Development

For the three months ended September 30, 2022, engineering and product development expenses were $216 as compared to $371 for the three months ended September 30, 2021. For the nine months ended September 30, 2022, engineering and product development expenses were $588 as compared to $1,158 for the nine months ended September 30, 2021. Engineering and product development costs during the three and nine-month periods in 2022 were lower primarily as a result of reduction of costs incurred in connection with developing XTRAC Momentum™ 1.0, our next generation excimer laser system that was commercially launched in February 2022.

Selling and Marketing Expenses

For the three months ended September 30, 2022, selling and marketing expenses were $3,754 as compared to $3,295 for the three months ended September 30, 2021. Sales and marketing expenses for the three months ended September 30, 2022 were higher as compared to the same period in 2021 primarily due to investments we made in sales and marketing and direct-to-consumer and dermatologists advertising, as well as increased head count and employee-related expenses.

For the nine months ended September 30, 2022, selling and marketing expenses were $11,516 as compared to $9,387 for the nine months ended September 30, 2021. Sales and marketing expenses for the nine months ended September 30, 2022 were higher as compared to the same period in 2021 primarily due to investments we made in sales and marketing and direct-to-consumer and dermatologists advertising, as well as increased head count and employee-related expenses. Increased spending in the first nine months of 2022 compared to the same period in 2021 also consisted of our national sales meeting, held in the second quarter of 2022, and increased attendance at trade shows.

General and Administrative Expenses

For the three months ended September 30, 2022, general and administrative expenses increased to $2,615 from $2,175 for the three months ended September 30, 2021. General and administrative expenses were higher for the three months ended September 30, 2022 as compared to the same period in 2021, primarily due to higher consulting services.

For the nine months ended September 30, 2022, general and administrative expenses increased to $7,599 from $7,085 for the nine months ended September 30, 2021. General and administrative expenses increased during the nine months ended September 30, 2022 as compared to the same period in 2021, primarily due to higher consulting services, offset by higher compensation, severance and recruiting expenses incurred during the first quarter of 2021 as a result of the CEO transition.

Gain on Debt Extinguishment

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

Interest Expense

Interest expense is primarily attributable to our debt obligations. Interest expense increased to $244 for the three months ended September 30, 2022 from $53 for the three months ended September 30, 2021. Interest expense increased to $651 for the nine months ended September 30, 2022 from $109 for the nine months ended September 30, 2021. The increases were primarily the result of a higher interest rate on the Senior Term Facility entered into in September 2021.

Non-GAAP Financial Measures

We have determined to supplement our condensed consolidated financial statements, prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"), presented elsewhere within this Report, with certain non-GAAP measures of financial performance. These non-GAAP measures include non-GAAP gross profit, which excludes the non-cash expense of amortization of acquired intangible assets classified as cost of revenues, and non-GAAP adjusted EBITDA, "Earnings Before Interest, Taxes, Depreciation, and Amortization."

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

	For the Three Months Ended September 30,	
	2022	2021
Gross profit	$ 5,799	$ 5,376
Amortization of acquired intangible assets	507	144
Non-GAAP gross profit	$ 6,306	$ 5,520
Gross profit percentage	61.6%	69.7%
Non-GAAP gross profit percentage	67.0%	71.6%

	For the Nine Months Ended September 30,	
	2022	2021
Gross profit	$ 14,920	$ 13,850
Amortization of acquired intangible assets	1,523	428
Non-GAAP gross profit	$ 16,443	$ 14,278
Gross profit percentage	58.4%	66.2%
Non-GAAP gross profit percentage	64.3%	68.3%

	For the Three Months Ended September 30,	
	2022	2021
Net loss	$ (995)	$ (521)
Adjustments:		
Depreciation and amortization	1,311	983
Amortization of right-of-use asset	67	87
Loss on disposal of property and equipment	17	10
Income tax expense	-	4
Interest expense, net	209	52
Non-GAAP EBITDA	609	615
Stock-based compensation	455	320
Non-GAAP adjusted EBITDA	$ 1,064	$ 935

	For the Nine Months Ended September 30,	
	2022	2021
Net loss	$ (5,389)	$ (1,857)
Adjustments:		
Depreciation and amortization	3,971	2,689
Amortization of right-of-use asset	248	261
Loss on disposal of property and equipment	52	73
Income tax expense	-	12
Gain on debt extinguishment	-	(2,028)
Interest expense, net	606	93
Non-GAAP EBITDA	(512)	(757)
Stock-based compensation	1,275	1,563
Non-GAAP adjusted EBITDA	$ 763	$ 806

Liquidity and Capital Resources

As of September 30, 2022, we had $4,595 of working capital compared to $7,168 as of December 31, 2021. The change in working capital was primarily the result of a decrease in cash and cash equivalents and an increase in accounts payable, offset by an increase in inventories, as we invested in capital assets, completed the asset acquisition of TheraClear, and bolstered inventories to avoid supply chain disruptions. Cash, restricted cash and cash equivalents were $8,815 as of September 30, 2022, as compared to $12,586 as of December 31, 2021.

In September 2021, we entered into a credit and security agreement with MidCap Financial Trust, also acting as the administrative agent, and the lenders identified therein and borrowed $8,000 in the form of a senior term loan. The term loan bears interest at LIBOR (with a LIBOR floor rate of 0.50%) plus 7.50% per year and matures on September 1, 2026, unless terminated earlier. We are obligated to make monthly interest-only payments through September 30, 2024. From October 1, 2024 to the date of maturity, we will make 24 equal monthly principal payments plus interest, and all borrowings are secured by substantially all of our assets.

In October 2021, we entered into an equity distribution agreement with an investment bank under which we may sell up to $11,000 of our shares of common stock in registered “at-the-market” offerings. The shares will be offered at prevailing market prices, and we will pay commissions of up to 3.00% of the gross proceeds from the sale of shares sold through our agent, which may act as an agent and/or principal. We have no obligation to sell any shares under this agreement and may, at any time, suspend solicitations under this agreement. No shares of our common stock have been sold under this distribution agreement through September 30, 2022.

We cannot predict our revenues and expenses in the short term as a result of the COVID-19 pandemic and related governmental responses. Based on our current business plan, we believe that our cash and cash equivalents, combined with the anticipated revenues from the sale or use of our products, will be sufficient to satisfy our working capital needs, capital asset purchases, outstanding commitments and other liquidity requirements associated with its existing operations for at least the next 12 months following the date of the issuance of these unaudited interim condensed consolidated financial statements. However, if these sources are insufficient to satisfy our liquidity requirements, we may seek to sell additional debt or equity securities or enter into a new credit facility or another form of third-party funding or seek other debt financing. If we raise additional funds by issuing equity or equity-linked securities, our stockholders would experience dilution and any new equity securities could have rights, preferences and privileges superior to those of holders of our common stock. Debt financing, if available, may involve covenants restricting our operations or our ability to incur additional debt. We cannot be assured that additional equity, equity-linked or debt financing will be available on terms favorable to us or our stockholders, or at all. It is also possible that we may allocate significant amounts of capital towards products or technologies for which market demand is lower than expected and, as a result, abandon such efforts. If we are unable to maintain our current financing or obtain adequate additional financing when we require it, or if we obtain financing on terms which are not favorable to us, or if we expend capital on products or technologies that are unsuccessful, our ability to continue to support our business growth and to respond to business challenges could be significantly limited, or we may be required to delay the development, commercialization and marketing of our products.

Net cash, cash equivalents and restricted cash used in operating activities was $1,103 for the nine months ended September 30, 2022, compared to net cash provided by operating activities of $839 for the nine months ended September 30, 2021. The decrease in cash flows from operating activities for the nine months ended September 30, 2022 was primarily driven by an increase in inventories to avoid supply chain disruptions and a decrease in accrued compensation, offset by an increase in accounts payable.

Net cash, cash equivalents and restricted cash used in investing activities was $2,668 for the nine months ended September 30, 2022, compared to net cash used in investing activities of $5,996 for the nine months ended September 30, 2021. The decrease is primarily the result of the asset purchase of Ra in 2021, offset by the asset purchase of TheraClear in 2022.

During the nine months ended September 30, 2021, we received net proceeds of $7,867 from our Senior Term Facility with MidCap, offset by debt repayments of $7,775 associated with our note payable and EIDL loan. There were no financing activities in 2022.

Commitments and Contingencies

There were no items, except as described above with respect to the potential future earnout payments related to the TheraClear asset acquisition and Development Agreement, that significantly impacted our commitments and contingencies as discussed in the notes to our 2021 annual financial statements included in our Annual Report on Form 10-K.

ITEM 3. Quantitative and Qualitative Disclosure about Market Risk

Not applicable.

ITEM 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (the “Exchange Act”)), as of September 30, 2022. Based on that evaluation, management has concluded that, as of such date, our disclosure controls and procedures were effective.

Limitations on the Effectiveness of Controls

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

Changes in Internal Control over Financial Reporting

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

PART II - Other Information

ITEM 1. Legal Proceedings

On April 1, 2022, a proposed representative class action under California's Private Attorneys General Act ("PAGA") was filed in Superior Court of California, County of San Diego against the Company and an employment agency ("Co-Defendant") which provided the Company with temporary employees. The complaint alleges various violations of the California Labor Code, including California's wage and hour laws, relating to current and former non-exempt employees of the Company. The complaint seeks class status and payments for allegedly unpaid compensation and attorney's fees. In a related matter, the attorneys in this matter and the proposed class representative, in a letter dated March 12, 2022, to the California Labor & Workforce Development Agency made nearly identical claims seeking the right to pursue a PAGA action against the Company and the employment agency. On or about May 16, 2022, the plaintiff filed a First Amended Complaint adding a PAGA claim to the action. On or about June 2, 2022, the plaintiff filed an Application to Dismiss Class and Individual Claim without prejudice, in an attempt to pursue a PAGA only complaint. On or about June 30, 2022, the parties entered into a stipulation to allow the plaintiff to file a Second Amended Complaint to clarify the PAGA claim and to stay the pending action to allow an attempt at resolution at a mediation scheduled for February 23, 2023. Litigation, including discovery matters, has been stayed pending the outcome of the mediation.

In the ordinary course of business, the Company is, from time to time, subject to audits performed by state taxing authorities. These actions and proceedings are generally based on the position that the arrangements entered into by the Company are subject to sales and use tax rather than exempt from tax under applicable law. Several states have assessed the Company an aggregate of $2,375 including penalties and interest for the period from March 2014 through April 2020. An administrative state judge in the State of New York issued an opinion in January 2021 finding in favor of the Company that the sale of XTRAC treatment codes was not taxable as sales tax with respect to that state's first assessment. This ruling covers $1,484 of the total $2,375 of assessments. The relevant taxing authority filed an appeal of the administrative law judge's finding and, following the submission of legal briefs by both sides and oral argument held in January 2022, on May 6, 2022, the Company received a written decision from the State of New York Tax Appeals Tribunal ("Tribunal") overturning the favorable sales tax determination of the administrative law judge. The Company filed an appeal of the Tribunal's decision, and posted the required appellate bond requiring posting cash collateral, with the New York State Appellate Division, and is awaiting for the appellate court to set a briefing and oral argument schedule.

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

ITEM 1A. Risk Factors

A description of the risks associated with our business, financial conditions and results of operations is set forth in Item 1A of our Annual Report on Form 10-K for the fiscal year ended December 31, 2021, and filed with the SEC on March 21, 2022.

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

None

ITEM 3. Defaults Upon Senior Securities.

None.

ITEM 4. Mine Safety Disclosures

None.

ITEM 5. Other Information

None.

ITEM 6. Exhibits

31.1	Rule 13a-14(a) Certificate of Chief Executive Officer (attached hereto)
31.2	Rule 13a-14(a) Certificate of Chief Financial Officer (attached hereto)
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 (attached hereto)
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Schema
101.CAL	XBRL Taxonomy Calculation Linkbase
101.DEF	XBRL Taxonomy Definition Linkbase
101.LAB	XBRL Taxonomy Label Linkbase
101.PRE	XBRL Taxonomy Presentation Linkbase

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

SIGNATURES

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

STRATA SKIN SCIENCES, INC.

Date November 9, 2022

By: /s/ Robert J. Moccia
Name Robert J. Moccia
Title President & Chief Executive Officer

Date November 9, 2022

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

Exhibit 31.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, Robert J. Moccia, certify that:

(1) I have reviewed this quarterly report on Form 10-Q of STRATA Skin Sciences, Inc.;

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

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

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

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

(b) designed such internal control over financial reporting or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

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

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

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

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

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

Date: November 9, 2022

By: /s/ Robert J. Moccia

Name: Robert J. Moccia
Title: Chief Executive Officer

Exhibit 31.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, Christopher Lesovitz, certify that:

(1) I have reviewed this quarterly report on Form 10-Q of STRATA Skin Sciences, Inc.;

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

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

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

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

(b) designed such internal control over financial reporting or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

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

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

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

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

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

Dated: November 9, 2022

By: /s/ Christopher Lesovitz
Christopher Lesovitz
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), Robert J. Moccia, the Chief Executive Officer of STRATA Skin Sciences, Inc. (the "Company"), and Christopher Lesovitz, the Chief Financial Officer of the Company, each hereby certifies that, to the best of their knowledge:

1. The Company's Quarterly Report on Form 10-Q for the quarter ended Septmber 30, 2022, to which this Certification is attached as Exhibit 32.1 (the "Periodic Report"), fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934, as amended, and

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

Dated: November 9, 2022

/s/ Robert J. Moccia
Name: Robert J. Moccia
Title: Chief Executive Officer

/s/ Christopher Lesovitz
Name: Christopher Lesovitz
Title: Chief Financial Officer

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