

**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 March 31, 2019

Commission File No. 000-51128

POLARITYTE, INC.

(Exact name of registrant as specified in its charter)

DELAWARE
(State or Other Jurisdiction of
Incorporation or Organization)

06-1529524
(I.R.S. Employer
Identification No.)

**123 Wright Brothers Drive
Salt Lake City, UT 84116**
(Address of principal executive offices)

Registrant's Telephone Number, Including Area Code: **(800) 560-3983**

(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (232.4.05 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input checked="" type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input checked="" type="checkbox"/>
Emerging growth company	<input type="checkbox"/>		

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

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

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

Title of each class	Trading Symbol	Name of each exchange on which registered
Common Stock, Par Value \$0.001	PTE	Nasdaq Capital Market

As of May 3, 2019, there were 24,722,212 shares of the Registrant's common stock outstanding.

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Forward-looking Statements

This Quarterly Report on Form 10-Q contains forward-looking statements. Risks and uncertainties are inherent in forward-looking statements. Furthermore, such statements may be based on assumptions that fail to materialize or prove incorrect. Consequently, our business development, operations, and results could differ materially from those expressed in forward-looking statements made in this Quarterly Report. We make such forward-looking statements pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995 and other federal securities laws. All statements other than statements of historical facts contained in this Quarterly Report are forward-looking statements. In some cases, you can identify forward-looking statements by words such as “anticipate,” “believe,” “contemplate,” “continue,” “could,” “estimate,” “expect,” “intend,” “may,” “plan,” “potential,” “predict,” “project,” “seek,” “should,” “target,” “would,” or the negative of these words or other comparable terminology. These forward-looking statements include, but are not limited to, statements about:

- the initiation, timing, progress, and results of our research and development programs;
- the timing or success of commercialization of our products;
- the pricing and reimbursement of our products;
- the initiation, timing, progress, and results of our preclinical and clinical studies;
- the scope of protection we can establish and maintain for intellectual property rights covering our product candidates and technology;
- estimates of our expenses, future revenues, and capital requirements;
- our need for, and ability to obtain, additional financing in the future;
- our ability to comply with regulations applicable to the manufacture, marketing, sale and distribution of our products;
- the potential benefits of strategic collaboration agreements and our ability to enter into strategic arrangements;
- our views about our prospects in ongoing litigation and SEC investigation;
- developments relating to our competitors and industry; and
- other risks and uncertainties, including those listed under Part I, Item 1A. Risk Factors of our Transition Report on Form 10-K filed with the Securities and Exchange Commission on March 18, 2019.

Given the known and unknown risks, uncertainties, and other factors that may cause our actual results, performance, or achievements to be materially different from any future results, performance, or achievements expressed or implied by our forward-looking statements, you should not place undue reliance on these forward-looking statements. Except as required by law, we assume no obligation to update or revise these forward-looking statements for any reason, even if new information becomes available in the future.

PART I - FINANCIAL INFORMATION
Item 1. Financial Statements:

POLARITYTE, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands, except share and per share amounts)

	<u>March 31, 2019</u> (Unaudited)	<u>December 31, 2018</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 34,948	\$ 55,673
Short-term investments	9,706	6,162
Accounts receivable	788	712
Inventory	309	336
Prepaid expenses and other current assets	1,844	1,432
Total current assets	<u>47,595</u>	<u>64,315</u>
Non-current assets:		
Property and equipment, net	16,528	13,736
Operating lease right-of-use assets	4,960	-
Intangible assets, net	873	924
Goodwill	278	278
Other assets	378	913
Total non-current assets	<u>23,017</u>	<u>15,851</u>
TOTAL ASSETS	<u>\$ 70,612</u>	<u>\$ 80,166</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	\$ 5,344	\$ 6,508
Other current liabilities	2,550	316
Current portion of long-term note payable	529	529
Deferred revenue	90	170
Total current liabilities	<u>8,513</u>	<u>7,523</u>
Long-term note payable, net	494	479
Operating lease liabilities	3,566	-
Other long-term liabilities	1,446	131
Total liabilities	<u>14,019</u>	<u>8,133</u>
Commitments and Contingencies		
STOCKHOLDERS' EQUITY:		
Preferred stock - 25,000,000 shares authorized, 0 shares issued and outstanding at March 31, 2019 and December 31, 2018	-	-
Common stock - \$.001 par value; 250,000,000 shares authorized; 21,749,239 and 21,447,088 shares issued and outstanding at March 31, 2019 and December 31, 2018, respectively	22	21
Additional paid-in capital	424,955	414,840
Accumulated other comprehensive income	53	36
Accumulated deficit	<u>(368,437)</u>	<u>(342,864)</u>
Total stockholders' equity	<u>56,593</u>	<u>72,033</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$ 70,612</u>	<u>\$ 80,166</u>

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

POLARITYTE, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited, in thousands, except share and per share amounts)

	For the Three Months Ended March 31,	
	2019	2018
Net revenues		
Products	\$ 297	\$ 3
Services	1,168	–
Total net revenues	<u>1,465</u>	<u>3</u>
Cost of sales:		
Products	273	1
Services	503	–
Total costs of sales	<u>776</u>	<u>1</u>
Gross profit	<u>689</u>	<u>2</u>
Operating costs and expenses		
Research and development	5,352	5,572
General and administrative	17,195	7,573
Sales and marketing	3,953	–
Total operating costs and expenses	<u>26,500</u>	<u>13,145</u>
Operating loss	<u>(25,811)</u>	<u>(13,143)</u>
Other income (expense)		
Interest income, net	70	36
Other income, net	168	–
Change in fair value of derivatives	–	1,850
Loss on extinguishment of warrant liability	–	(520)
Net loss	<u>(25,573)</u>	<u>(11,777)</u>
Deemed dividend – accretion of discount on Series F preferred stock	–	(698)
Deemed dividend – exchange of Series F preferred stock	–	(7,057)
Cumulative dividends on Series F preferred stock	–	(191)
Net loss attributable to common stockholders	<u>\$ (25,573)</u>	<u>\$ (19,723)</u>
Net loss per share, basic and diluted:		
Net loss	\$ (1.18)	\$ (1.26)
Deemed dividend – accretion of discount on Series F preferred stock	–	(0.07)
Deemed dividend – exchange of Series F preferred stock	–	(0.75)
Cumulative dividends on Series F preferred stock	–	(0.02)
Net loss attributable to common stockholders	<u>\$ (1.18)</u>	<u>\$ (2.10)</u>
Weighted average shares outstanding, basic and diluted:	<u>21,594,699</u>	<u>9,377,211</u>

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

POLARITYTE, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
(Unaudited, in thousands)

	For the Three Months Ended March 31,	
	2019	2018
Net loss	\$ (25,573)	\$ (11,777)
Other comprehensive income:		
Unrealized gain on available-for-sale securities	17	-
Comprehensive loss	\$ (25,556)	\$ (11,777)

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

POLARITYTE, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(Unaudited, in thousands, except share and per share amounts)

	For the Three Months Ended March 31, 2019					
	Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Income	Accumulated Deficit	Total Stockholders' Equity
	Number	Amount				
December 31, 2018	21,447,088	\$ 21	\$ 414,840	\$ 36	\$ (342,864)	\$ 72,033
Stock-based compensation expense	-	-	10,327	-	-	10,327
Stock option exercises, net	228,937	1	1,126	-	-	1,127
Vesting of restricted stock units, net	73,214	-	-	-	-	-
Shares withheld for tax withholding on vesting of restricted stock	-	-	(1,338)	-	-	(1,338)
Other comprehensive income	-	-	-	17	-	17
Net loss	-	-	-	-	(25,573)	(25,573)
March 31, 2019	<u>21,749,239</u>	<u>\$ 22</u>	<u>\$ 424,955</u>	<u>\$ 53</u>	<u>\$ (368,437)</u>	<u>\$ 56,593</u>

	For the Three Months Ended March 31, 2018						
	Preferred Stock		Common Stock		Additional Paid-in Capital	Accumulated Deficit	Total Stockholders' Equity
	Number	Amount	Number	Amount			
December 31, 2017	1,656,838	\$ 109,104	7,082,836	\$ 7	\$ 157,395	\$ (269,920)	\$ (3,414)
Issuance of common stock in connection with:							
Conversion of Series A preferred stock to common stock	(1,602,099)	(391)	363,036	-	391	-	-
Conversion of Series B preferred stock to common stock	(47,689)	(4,020)	794,820	1	4,019	-	-
Conversion of Series E preferred stock to common stock	(7,050)	(104,693)	7,050,000	7	104,686	-	-
Exchange of Series F preferred stock and dividends to common stock	-	-	1,003,393	1	13,060	-	13,061
Extinguishment of warrant liability	-	-	151,871	-	3,045	-	3,045
Stock-based compensation expense	-	-	-	-	7,445	-	7,445
Deemed dividend – accretion of discount on Series F preferred stock	-	-	-	-	(698)	-	(698)
Cumulative dividends on Series F preferred stock	-	-	-	-	(191)	-	(191)
Series F preferred stock dividends paid in common stock	-	-	11,708	-	306	-	306
Net loss	-	-	-	-	-	(11,777)	(11,777)
March 31, 2018	<u>-</u>	<u>\$ -</u>	<u>16,457,664</u>	<u>\$ 16</u>	<u>\$ 289,458</u>	<u>\$ (281,697)</u>	<u>\$ 7,777</u>

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

POLARITYTE, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited, in thousands)

	For the three months ended March 31,	
	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	\$ (25,573)	\$ (11,777)
Adjustments to reconcile net loss to net cash used in operating activities:		
Stock based compensation expense	10,289	7,445
Change in fair value of derivatives	–	(1,850)
Depreciation and amortization	676	318
Loss on extinguishment of warrant liability	–	520
Amortization of intangible assets	51	–
Amortization of debt discount	15	–
Change in fair value of contingent consideration	20	–
Other non-cash adjustments	(7)	–
Changes in operating assets and liabilities:		
Accounts receivable	(76)	–
Inventory	27	–
Prepaid expenses and other current assets	(412)	(108)
Operating lease right-of-use assets	355	–
Other assets	–	(137)
Accounts payable and accrued expenses	(1,929)	1,648
Other current liabilities	425	–
Deferred revenue	(80)	–
Operating lease liabilities	(343)	–
Other long-term liabilities	(4)	–
Net cash used in operating activities	<u>(16,566)</u>	<u>(3,941)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(1,539)	(3,042)
Purchase of available-for-sale securities	(5,220)	–
Proceeds from maturities of available-for-sale securities	1,700	–
Net cash used in investing activities	<u>(5,059)</u>	<u>(3,042)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from stock options exercised	1,127	–
Payment of contingent consideration liability	(109)	–
Principal payments on financing leases	(118)	–
Net cash provided by financing activities	<u>900</u>	<u>–</u>
Net (decrease) in cash and cash equivalents	(20,725)	(6,983)
Cash and cash equivalents - beginning of period	55,673	12,517
Cash and cash equivalents - end of period	<u>\$ 34,948</u>	<u>\$ 5,534</u>
Supplemental schedule of non-cash investing and financing activities:		
Conversion of Series A, B, E preferred stock to common stock	\$ –	\$ 109,104
Exchange of Series F preferred stock for common stock	–	13,061
Extinguishment of warrant liability	–	2,525
Unpaid liability for acquisition of property and equipment	170	363
Deemed dividend – accretion of discount on Series F preferred stock	–	698
Cumulative dividends on Series F preferred stock	–	191
Series F preferred stock dividends paid in common stock	–	306
Unpaid tax liability related to net share settlement of restricted stock units	1,338	–
Unrealized gain on short-term investments and cash equivalents	17	–
Reclassification of stock based compensation expense that was previously classified as a liability to paid-in capital	38	–

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

POLARITYTE, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1. PRINCIPAL BUSINESS ACTIVITY AND BASIS OF PRESENTATION

PolarityTE, Inc. and subsidiaries (the “Company”) is a commercial-stage biotechnology and regenerative biomaterials company focused on transforming the lives of patients by discovering, designing and developing a range of regenerative tissue products and biomaterials for the fields of medicine, biomedical engineering and material sciences.

Change in Fiscal Year end. On January 11, 2019, the Board approved an amendment to the Restated Bylaws of the Company changing the Company’s fiscal year end from October 31 to December 31. As such, the end of the quarters in the new fiscal year do not coincide with the end of the quarters in the Company’s previous fiscal years. The Company made this change to align its fiscal year end with other companies within its industry.

The accompanying interim condensed consolidated financial statements of the Company are unaudited, but in the opinion of management, reflect all adjustments, consisting of normal recurring accruals, necessary for a fair presentation of the results for the interim period. Accordingly, they do not include all information and notes required by generally accepted accounting principles for complete financial statements. The results of operations for interim periods are not necessarily indicative of results to be expected for the entire fiscal year. The balance sheet at December 31, 2018 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. These interim condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto for the two-month period ended December 31, 2018 included in the Company’s Transition Report on Form 10-KT filed with the Securities and Exchange Commission on March 18, 2019.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation. The accompanying consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. Significant intercompany accounts and transactions have been eliminated in consolidation.

Use of estimates. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (“U.S. GAAP”) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities or the disclosure of gain or loss contingencies at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Among the more significant estimates included in these financial statements is the extent of progress toward completion of contracts, stock-based compensation, the valuation allowances for deferred tax benefits, and the valuation of tangible and intangible assets included in acquisitions. Actual results could differ from those estimates.

Segments. The Company's operations are based in the United States and involve products and services which are managed separately. Accordingly, it operates in two segments: 1) regenerative medicine products and 2) contract services. The Chief Operating Decision Maker (CODM) is our Chief Executive Officer (CEO). The CODM allocates resources to and assesses the performance of each operating segment using information about its revenue and operating income (loss). Prior to the acquisition of IBEX, the Company operated in one segment.

Cash and cash equivalents. Cash equivalents consist of highly liquid investments with original maturities of three months or less from the date of purchase.

Investments. Investments in debt securities have been classified as available-for-sale and are carried at fair value, with unrealized gains and losses reported as a component of accumulated other comprehensive income. Realized gains and losses are included in other income, net. The cost of securities sold is based on the specific-identification method. Interest on marketable securities is included in interest income, net. Investments with original maturities of greater than three months but less than one year from the date of purchase are classified as current. Investments with original maturities of greater than one year from the date of purchase are classified as non-current.

Loss Per Share. Basic 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 for the period. Since the Company was in a loss position for all periods presented, basic net loss per share is the same as diluted net loss per share since the effects of potentially dilutive securities are antidilutive.

Leases. The Company determines if an arrangement is a lease at inception. Right-of-use ("ROU") assets represent the Company's right to use an underlying asset for the lease term and lease liabilities represent the Company's obligation to make lease payments arising from the lease. The classification of the Company's leases as operating or finance leases along with the initial measurement and recognition of the associated ROU assets and lease liabilities is performed at the lease commencement date. The measurement of lease liabilities is based on the present value of future lease payments over the lease term. As the Company's leases do not provide an implicit rate, the Company uses its incremental borrowing rate based on the information available at the lease commencement date in determining the present value of future lease payments. The ROU asset is based on the measurement of the lease liability and also includes any lease payments made prior to or on lease commencement and excludes lease incentives and initial direct costs incurred, as applicable. The lease terms may include options to extend or terminate the lease when it is reasonably certain the Company will exercise any such options. Rent expense for the Company's operating leases is recognized on a straight-line basis over the lease term. Amortization expense for the ROU asset associated with its finance leases is recognized on a straight-line basis over the term of the lease and interest expense associated with its finance leases is recognized on the balance of the lease liability using the effective interest method based on the estimated incremental borrowing rate.

The Company has lease agreements with lease and non-lease components. As allowed under Topic 842, the Company has elected not to separate lease and non-lease components for any leases involving real estate and office equipment classes of assets and, as a result, accounts for the lease and non-lease components as a single lease component. The Company has also elected not to apply the recognition requirement of Topic 842 to leases with a term of 12 months or less for all classes of assets.

Stock- Based Compensation. The Company measures all stock-based compensation to employees using a fair value method and records such expense in general and administrative and research and development expenses. Compensation expense for stock options with cliff vesting is recognized on a straight-line basis over the vesting period of the award, based on the fair value of the option on the date of grant. For stock options with graded vesting, the Company recognizes compensation expense over the service period for each separately vesting tranche of the award as though the award were in substance, multiple awards.

The fair value for options issued is estimated at the date of grant using a Black-Scholes option-pricing model. The risk-free rate is derived from the U.S. Treasury yield curve in effect at the time of the grant. The volatility factor is determined based on the Company's historical stock prices. Forfeitures are recognized as they occur.

The value of restricted stock grants is measured based on the fair market value of the Company's common stock on the date of grant and amortized over the vesting period of, generally, six months to three years.

The accounting for non-employee options and restricted stock is similar to that of employees. Stock-based compensation expense for nonemployee services has historically been subject to remeasurement at each reporting date as the underlying equity instruments vest and was recognized as an expense over the period during which services are received. Upon the adoption of ASU 2018-07, Compensation – Stock Compensation on January 1, 2019, the valuation was fixed at the implementation date and will be recognized as an expense on a straight-line basis over the remaining service period.

Revenue Recognition. Revenue is recognized when a customer obtains control of promised goods or services, in an amount that reflects the consideration which the entity expects to receive in exchange for those goods or services. To determine revenue recognition for arrangements that an entity determines are within the scope of ASC 606, the Company performs the following five steps: (i) identify the contract(s) with a customer; (ii) identify the performance obligations in the contract; (iii) determine the transaction price; (iv) allocate the transaction price to the performance obligations in the contract; and (v) recognize revenue when (or as) the entity satisfies a performance obligation.

In the regenerative medicine products segment, the Company records products revenues primarily from the sale of its regenerative tissue products. The Company sells its products to healthcare providers, primarily through direct sales representatives. Products revenues consists of a single performance obligation that the Company satisfies at a point in time. In general, the Company recognizes products revenues upon delivery to the customer.

In the contract services segment, the Company records service revenues from the sale of its contract research services, which includes delivery of preclinical studies and other research services to unrelated third parties. Service revenues generally consist of a single performance obligation that the Company satisfies over time using an input method based on costs incurred to date relative to the total costs expected to be required to satisfy the performance obligation. The Company believes that this method provides a faithful depiction of the transfer of services over the term of the performance obligation based on the remaining services needed to satisfy the obligation. This requires the Company to make reasonable estimates of the extent of progress toward completion of the contract. As a result, unbilled receivables and deferred revenue are recognized based on payment timing and work completed. Generally, a portion of the payment is due upfront and the remainder upon completion of the study, with most studies completing in less than a year. As of March 31, 2019 and December 31, 2018, the Company had unbilled receivables of \$225,000 and \$157,000 and deferred revenue of \$90,000 and \$170,000 respectively. The unbilled receivables balance is included in consolidated accounts receivable. Revenues of \$151,000 was recognized during the three months ended March 31, 2019 that was included in the deferred revenue balance as of December 31, 2018.

Costs to obtain the contract are incurred for products revenues as they are shipped and are expensed as incurred.

Recent Accounting Pronouncements

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement (Topic 820), Disclosure Framework-Changes to the Disclosure Requirements for Fair Value Measurement*. The ASU modifies the disclosure requirements for fair value measurements by removing, modifying or adding certain disclosures. The standard is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years with early adoption permitted. The Company is currently evaluating the impact that the standard will have on its consolidated financial statements and related disclosures.

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments-Credit Losses (Topic 326)*, which requires entities to measure all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. This replaces the existing incurred loss model and is applicable to the measurement of credit losses on financial assets measured at amortized cost. This standard is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years with early adoption permitted. The Company is currently evaluating the impact that the standard will have on its consolidated financial statements and related disclosures.

Recently Adopted Accounting Pronouncements

On January 1, 2019 the Company adopted ASU 2016-02, *Leases (ASC 842)* and related amendments, which require lease assets and liabilities to be recorded on the balance sheet for leases with terms greater than twelve months. The new standard requires lessees to apply a dual approach, classifying leases as either finance or operating leases based on the principle of whether or not the lease is effectively a financed purchase by the lessee. This classification will determine whether lease expense is recognized based on an effective interest method or on a straight-line basis over the term of the lease, respectively. The standard was adopted using the modified retrospective transition approach by applying the new standard to all leases existing at the date of the initial application and not restating comparative periods.

We elected the package of practical expedients permitted under the transition guidance, which allowed us to carryforward our historical lease classification, our assessment on whether a contract was or contains a lease, and our initial direct costs for any leases that existed prior to January 1, 2019. The impact of the adoption of ASC 842 on the accompanying Condensed Consolidated Balance Sheet as of January 1, 2019 was as follows (in thousands):

	December 31, 2018	Adjustments Due to the Adoption of ASC 842	January 1, 2019
Operating lease right-of-use assets	\$ —	\$ 5,305	\$ 5,305
Liabilities:			
Operating lease liabilities	\$ —	\$ 3,948	\$ 3,948
Other current liabilities	316	1,432	1,748
Accounts payable and accrued expenses	6,508	(75)	6,433

The adjustments due to the adoption of ASC 842 related to the recognition of operating lease right-of-use assets and operating lease liabilities for the existing operating leases. A cumulative-effect adjustment to beginning accumulated deficit was not required.

In June 2018, the FASB issued ASU 2018-07, *Compensation – Stock Compensation (Topic 718): Improvements to Nonemployee Share-based Payment Accounting*. The standard expands the scope of Topic 718 to include share-based payments issued to nonemployees for goods or services, simplifying the accounting for share-based payments to nonemployees by aligning it with the accounting for share-based payments to employees, with certain exceptions. The standard is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years with early adoption permitted, including adoption in an interim period. The Company adopted this ASU on January 1, 2019. The adoption of this ASU did not have a material impact on the Company's consolidated financial statements and related disclosures.

3. LIQUIDITY

The Company has experienced recurring losses and cash outflows from operating activities. For the three months ended March 31, 2019 and 2018, the Company incurred net losses of \$25.7 million and \$11.8 million, respectively, with cash used in operating activities of \$16.6 million and \$3.9 million, respectively.

On April 10, 2019, the Company completed an underwritten offering with Cantor Fitzgerald & Co., as underwriter, providing for the issuance and sale of 3,418,918 shares of the Company's common stock, par value \$0.001 per share, at an offering price of \$8.51 per share, for net proceeds of approximately \$28.7 million, after deducting offering expenses payable by the Company.

Based upon the current status of the Company's product development and commercialization plans, the Company believes that its existing cash, cash equivalents and short-term investments will be adequate to satisfy its capital needs for at least the next 12 months from the date of filing. However, the Company anticipates needing substantial additional financing to continue clinical deployment and commercialization of its lead product SkinTE, development of its other product candidates, and scaling the manufacturing capacity for its products and product candidates and prepare for commercial readiness. However, the Company will continue to pursue fundraising opportunities when available, but such financing may not be available in the future on terms favorable to the Company, if at all. If adequate financing is not available, the Company may be required to delay, reduce the scope of, or eliminate one or more of its product development programs. The Company plans to meet its capital requirements primarily through issuances of equity securities, debt financing, revenue from product sales and future collaborations. Failure to generate revenue or raise additional capital would adversely affect the Company's ability to achieve its intended business objectives.

4. FAIR VALUE

In accordance with *ASC 820, Fair Value Measurements and Disclosures*, financial instruments were measured at fair value using a three-level hierarchy which maximizes use of observable inputs and minimizes use of unobservable inputs:

- Level 1: Observable inputs such as quoted prices in active markets for identical instruments. This methodology applies to our Level 1 investments, which are composed of money market funds.
- Level 2: Quoted prices for similar instruments that are directly or indirectly observable in the market. This methodology applies to our Level 2 investments, which are composed of corporate debt securities, commercial paper, and U.S. government debt securities.
- Level 3: Significant unobservable inputs supported by little or no market activity. Financial instruments whose values are determined using pricing models, discounted cash flow methodologies, or similar techniques, for which determination of fair value requires significant judgment or estimation. This methodology applies to our Level 3 financial instruments, which are composed of contingent consideration.

Financial instruments measured at fair value are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. There were no transfers within the hierarchy for any of the periods presented.

In connection with the offering of Units in September 2017 (see Note 10), the Company issued warrants to purchase an aggregate of 322,727 shares of common stock. These warrants were exercisable at \$30.00 per share and expire in two years. The warrants were liabilities pursuant to ASC 815. The warrant agreement provided for an adjustment to the number of common shares issuable under the warrant or adjustment to the exercise price, including but not limited to, if: (a) the Company issues shares of common stock as a dividend or distribution to holders of its common stock; (b) the Company subdivides or combines its common stock (i.e., stock split); or (c) the Company issues new securities for consideration less than the exercise price. Under ASC 815, warrants that provide for down-round exercise price protection are recognized as derivative liabilities.

The Series F Preferred Shares contained an embedded conversion feature that was not clearly and closely related to the identified host instrument and, as such, was recognized as a derivative liability measured at fair value. The Company classified these derivatives on the consolidated balance sheet as a current liability.

As discussed in Note 10, both the warrants and the Series F Preferred Shares were exchanged for common stock on March 6, 2018.

The fair value of the bifurcated embedded conversion feature was estimated to be approximately \$7.2 million at March 5, 2018, as calculated using the Monte Carlo simulation with the following assumptions:

	Series F Conversion Feature	
	March 5, 2018	
Stock price	\$	20.05
Exercise price	\$	27.50
Risk-free rate		2.2%
Volatility		88.2%
Term		1.5

The fair value of the warrant liability was estimated to be approximately \$2.5 million at March 5, 2018 as calculated using the Monte Carlo simulation with the following assumptions:

	Warrant Liability	
	March 5, 2018	
Stock price	\$	20.05
Exercise price	\$	30.00
Risk-free rate		2.2%
Volatility		88.2%
Term		1.5

The following table sets forth the changes in the estimated fair value for our Level 3 classified derivative liabilities (in thousands):

	2017 Series F Preferred Stock – Warrant Liability	2017 Series F Preferred Stock – Embedded Derivative	Total Warrant and Derivative Liability
Fair value – December 31, 2017	\$ 3,388	\$ 8,150	\$ 11,538
Change in fair value	(863)	(987)	(1,850)
Exchange / conversion to common shares	\$ (2,525)	\$ (7,163)	\$ (9,688)
Fair value – March 31, 2018	–	–	–

The following table sets forth the fair value of the Company's financial assets and liabilities measured on a recurring basis by level within the fair value hierarchy as of March 31, 2019 and December 31, 2018 (in thousands):

	Fair Value Measurement as of March 31, 2019			
	Level 1	Level 2	Level 3	Total
Assets:				
Money market funds	\$ 5	\$ –	\$ –	\$ 5
Commercial paper	–	17,332	–	17,332
Corporate debt securities	–	7,992	–	7,992
U.S. government debt securities	–	4,932	–	4,932
Total	\$ 5	\$ 30,256	\$ –	\$ 30,261
Liabilities:				
Contingent consideration	\$ –	\$ –	\$ 203	\$ 203
Total	\$ –	\$ –	\$ 203	\$ 203
Fair Value Measurement as of December 31, 2018				
	Level 1	Level 2	Level 3	Total
Assets:				
Money market funds	\$ 7	\$ –	\$ –	\$ 7
Commercial paper	–	21,392	–	21,392
Corporate debt securities	–	5,448	–	5,448
U.S. government debt securities	–	3,226	–	3,226
Total	\$ 7	\$ 30,066	\$ –	\$ 30,073
Liabilities:				
Contingent consideration	\$ –	\$ –	\$ 261	\$ 261
Total	\$ –	\$ –	\$ 261	\$ 261

In May 2018, the Company purchased the assets of a preclinical research sciences business and related real estate from Ibex Group, L.L.C., a Utah liability company, and Ibex Preclinical Research, Inc., a Utah corporation (collectively, "IBEX"). The aggregate purchase price was \$3.8 million, of which \$2.3 million was paid at closing and the balance satisfied by a promissory note payable to IBEX with an initial fair value of \$1.2 million and contingent consideration with an initial fair value of \$0.3 million

The contingent consideration represents the estimated fair value of future payments due to the Seller of IBEX based on IBEX's revenue generated from studies quoted prior to but completed after the transaction. Contingent consideration was initially recognized at fair value as purchase consideration and is subsequently remeasured at fair value through earnings. The initial fair value of the contingent consideration was based on the present value of estimated future cash flows using a 20% discount rate. The contingent consideration is the payment of 15% of the actual revenues received for work on any study initiated within 18 months following the closing of the purchase on the basis of certain specific customer prospects that received service proposals prior to the closing, provided that the total payments will not exceed \$650,000. Adjustments to the fair value of the contingent consideration liability is included in general and administrative expense in the accompanying consolidated statements of operations.

The following table sets forth the changes in the estimated fair value of our contingent consideration liability (in thousands) which is included in other current liabilities:

	Contingent Consideration
Fair value – December 31, 2018	\$ 261
Change in fair value	20
Earned and paid	(78)
Fair value – March 31, 2019	<u>\$ 203</u>

5. CASH EQUIVALENTS AND AVAILABLE FOR SALE MARKETABLE SECURITIES

Cash equivalents and available-for-sale marketable securities consisted of the following as of March 31, 2019 and December 31, 2018 (in thousands):

	March 31, 2019			
	<u>Amortized Cost</u>	<u>Unrealized Gains</u>	<u>Unrealized Losses</u>	<u>Market Value</u>
Cash equivalents:				
Money market funds	\$ 5	\$ –	\$ –	\$ 5
Commercial paper	15,599	19	–	15,618
U.S. government debt securities	4,926	6	–	4,932
Total cash equivalents (1)	<u>20,530</u>	<u>25</u>	<u>–</u>	<u>20,555</u>
Short-term investments:				
Commercial paper	1,708	6	–	1,714
Corporate debt securities	7,970	22	–	7,992
Total short-term investments	<u>9,678</u>	<u>28</u>	<u>–</u>	<u>9,706</u>
Total	<u>\$ 30,208</u>	<u>\$ 53</u>	<u>\$ –</u>	<u>\$ 30,261</u>

(1) Included in cash and cash equivalents in the Company's consolidated balance sheet as of March 31, 2019 in addition to \$14.4 million of cash.

	December 31, 2018			
	<u>Amortized Cost</u>	<u>Unrealized Gains</u>	<u>Unrealized Losses</u>	<u>Market Value</u>
Cash equivalents:				
Money market funds	\$ 7	\$ –	\$ –	\$ 7
Commercial paper	20,648	30	–	20,678
U.S. government debt securities	3,224	2	–	3,226
Total cash equivalents (1)	<u>23,879</u>	<u>32</u>	<u>–</u>	<u>23,911</u>
Short-term investments:				
Commercial paper	714	–	–	714
Corporate debt securities	5,444	5	(1)	5,448
Total short-term investments	<u>6,158</u>	<u>5</u>	<u>(1)</u>	<u>6,162</u>
Total	<u>\$ 30,037</u>	<u>\$ 37</u>	<u>\$ (1)</u>	<u>\$ 30,073</u>

(1) Included in cash and cash equivalents in the Company's consolidated balance sheet as of December 31, 2018 in addition to \$31.8 million of cash.

All investments in debt securities held as of March 31, 2019 and December 31, 2018 had maturities of less than one year. For the three months ended March 31, 2019, the Company recognized no material realized gains or losses on available-for-sale marketable securities.

6. PROPERTY AND EQUIPMENT, NET

The following table presents the components of property and equipment, net (in thousands):

	March 31, 2019	December 31, 2018
Machinery and equipment	\$ 11,529	\$ 8,276
Land and buildings	2,000	2,000
Computers and software	1,591	1,372
Leasehold improvements	2,174	1,230
Construction in progress	1,604	2,402
Furniture and equipment	470	614
Total property and equipment, gross	<u>19,368</u>	<u>15,894</u>
Accumulated depreciation	<u>(2,840)</u>	<u>(2,158)</u>
Total property and equipment, net	<u>\$ 16,528</u>	<u>\$ 13,736</u>

Depreciation and amortization expense for property and equipment, including assets acquired under financing leases for the three months ended March 31, 2019 and March 31, 2018 was as follows (in thousands):

	For the Three Months Ended March 31,	
	2019	2018
General and administrative expense	\$ 357	\$ –
Research and development expense	319	318
Total depreciation and amortization expense	<u>\$ 676</u>	<u>\$ 318</u>

7. LEASES

The Company leases facilities and certain equipment under noncancelable leases that expire at various dates through November 2024. These leases require monthly lease payments that may be subject to annual increases throughout the lease term. Certain of these leases may include options to extend or terminate the lease at the election of the Company. These optional periods have not been considered in the determination of the right-of-use-assets or lease liabilities associated with these leases as the Company did not consider it reasonably certain it would exercise the options.

As of March 31, 2019, the maturities of our operating and finance lease liabilities were as follows (in thousands):

	Operating leases	Finance leases
2019 (excluding the three months ended March 31, 2019)	\$ 1,419	\$ 459
2020	1,815	605
2021	1,458	602
2022	1,216	327
2023	–	255
2024	–	42
Total lease payments	<u>5,908</u>	<u>2,290</u>
Less:		
Imputed interest	(860)	(399)
Total	<u>\$ 5,048</u>	<u>\$ 1,891</u>

Supplemental balance sheet information related to leases was as follows (in thousands):

Finance leases

	As of March 31, 2019
Finance lease right-of-use assets included within property and equipment, net	<u>\$ 2,472</u>
Current finance lease liabilities included within other current liabilities	\$ 445
Non-current finance lease liabilities included within other long-term liabilities	1,446
Total	<u>\$ 1,891</u>

Operating leases

	As of March 31, 2019
Current operating lease liabilities included within other current liabilities	\$ 1,482
Operating lease liabilities – non current	3,566
Total	<u>\$ 5,048</u>

The components of lease expense were as follows (in thousands):

	Three Months Ended March 31, 2019
Operating lease costs included within operating costs and expenses	<u>\$ 482</u>
Finance lease costs:	
Amortization of right of use assets	\$ 138
Interest on lease liabilities	23
Total	<u>\$ 161</u>

Supplemental cash flow information related to leases was as follows (in thousands):

	Three Months Ended March 31, 2019
Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash flows from operating leases	\$ 470
Operating cash flows from finance leases	23
Financing cash flows from finance leases	118
Lease liabilities arising from obtaining right-of-use assets:	
Finance leases	\$ 1,824
Lease payments made in prior period reclassified to property and equipment	535
Operating leases	9

As of March 31, 2019, the weighted average remaining operating lease term is 3.3 years and the weighted average discount rate used to determine the operating lease liability was 9.90%. The weighted average remaining finance lease term is 4.0 years and the weighted average discount rate used to determine the finance lease liability was 9.68%.

8. ACCOUNTS PAYABLE AND ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

The following table presents the major components of accounts payable and accrued expenses (in thousands):

	<u>March 31, 2019</u>	<u>December 31, 2018</u>
Accounts payable	\$ 1,967	\$ 2,918
Salaries and other compensation	1,323	1,280
Other accruals	1,302	1,670
Legal and accounting	752	640
Total accounts payable and accrued expenses	<u>\$ 5,344</u>	<u>\$ 6,508</u>

Salaries and other compensation include accrued payroll expense, accrued bonus, and estimated employer 401(k) plan contributions.

Other current liabilities is comprised of the current portion of operating lease liabilities and finance lease liabilities, contingent consideration, and short term debt. The short term debt had a balance of \$0.4 million as of March 31, 2019, while the other components are disclosed in the footnotes above.

9. LONG TERM NOTE PAYABLE

In connection with the IBEX Acquisition in May 2018, the Company issued a promissory note payable to the Seller with an initial fair value of \$1.2 million. The promissory note has a principal balance of \$1.3 million and bears interest at a rate of 3.5% interest per annum. Principal and interest are payable in five equal installments that began on November 3, 2018 and continuing on each six-month anniversary thereafter ("Payment Date"). The promissory note may be prepaid by the Company at any time and becomes due and payable at the earlier of the maturity date of November 3, 2020 or upon an event of default, which includes failure to pay any installment on each Payment Date, breach of any negative covenants, insolvency or bankruptcy. Upon the occurrence of an event of default, the promissory note will bear an accelerated interest rate of 7% per annum from the date of the event of default.

The Company initially recognized the promissory note at its fair value, using an estimated market rate of interest for the Company, which was higher than the promissory note's stated rate. The result of imputing a market rate of interest resulted in an initial discount to the principal balance of approximately \$113,000, which is being amortized to interest expense over the term of the promissory note using the effective interest method. The unamortized debt discount was \$53,000 and \$68,000 at March 31, 2019 and December 31, 2018, respectively. Amortization of debt discount of \$15,000 was included in interest income, net for the three months ended March 31, 2019

10. PREFERRED SHARES AND COMMON SHARES

Exchange of 100% of Outstanding Series F Preferred Stock Shares and Warrants

On September 20, 2017, the Company sold an aggregate of \$17,750,000 worth of units of the Company's securities (the "Units") to accredited investors at a purchase price of \$2,750 per Unit. Each Unit consisted of (i) one share of the Company's newly authorized 6% Series F Convertible Preferred Stock, par value \$0.001 per share (the "Series F Preferred Shares"), convertible into one hundred (100) shares of the Company's common stock, and (ii) a two-year warrant to purchase up to 322,727 shares of the Company's common stock, at an exercise price of \$30.00 per share.

The Series F Preferred Shares were convertible into shares of the Company's common stock based on a conversion calculation equal to the stated value of the Series F Preferred Shares, plus all accrued and unpaid dividends, if any, on such Series F Preferred Shares, as of such date of determination, divided by the conversion price. The stated value of each Series F Preferred Share was \$2,750 and the initial conversion price was \$27.50 per share, each subject to adjustment for stock splits, stock dividends, recapitalizations, combinations, subdivisions or other similar events.

On the two-year anniversary of the initial issuance date, any Series F Preferred Shares outstanding and not otherwise already converted, would, at the option of the holder, either (i) automatically convert into common stock of the Company at the conversion price then in effect or (ii) be repaid by the Company based on the stated value of such outstanding Series F Preferred Shares.

The warrants issued in connection with the Series F Preferred Shares were determined to be liabilities pursuant to ASC 815. The warrant agreement provided for an adjustment to the number of common shares issuable under the warrant or adjustment to the exercise price, including but not limited to, if: (a) the Company issued shares of common stock as a dividend or distribution to holders of its common stock; (b) the Company subdivided or combined its common stock (i.e., stock split); or (c) the Company issues new securities for consideration less than the exercise price. Under ASC 815, warrants that provide for down-round exercise price protection are recognized as derivative liabilities.

The conversion feature within the Series F Preferred Shares was determined to not be clearly and closely related to the identified host instrument and, as such, was recognized as a derivative liability measured at fair value pursuant to ASC 815.

The initial fair value of the warrants and bifurcated embedded conversion feature, estimated to be approximately \$4.3 million and \$9.3 million, respectively, was deducted from the gross proceeds of the Unit offering to arrive at the initial discounted carrying value of the Series F Preferred Shares. The resulting discount to the aggregate stated value of the Series F Preferred Shares of approximately \$13.6 million was recognized as accretion using the effective interest method similar to preferred stock dividends, over the two-year period prior to optional redemption by the holders.

On March 6, 2018, the Company entered into separate exchange agreements (the “Exchange Agreements”) with holders (each a “Holder”, and collectively the “Holders”) of 100% of the Company’s outstanding Series F Preferred Shares, and the Company’s warrants to purchase shares of the Company’s common stock issued in connection with the Series F Preferred Shares (such “Warrants” and Series F Preferred Shares collectively referred to as the “Exchange Securities”) to exchange the Exchange Securities and unpaid dividends on the Series F Preferred Shares for common stock (the “Exchange”).

The Exchange resulted in the following issuances: (A) all outstanding Series F Preferred Shares were converted into 972,070 shares of restricted common stock at an effective conversion price of \$18.26 per share of common stock (the closing price of Common Stock on the NASDAQ Capital Market on February 26, 2018); (B) the right to receive 6% dividends underlying Series F Preferred Shares was terminated in exchange for 31,321 shares of restricted common stock; (C) 322,727 Warrants to purchase common stock were exchanged for 151,871 shares of restricted common stock; and (D) the Holders of the Warrants relinquished any and all other rights pursuant to the Warrants, including exercise price adjustments.

As part of the Exchange, the Holders also relinquished all other rights related to the issuance of the Exchange Securities, the respective governing agreements and certificates of designation, including any related dividends, adjustment of conversion and exercise price, and repayment option. The existing registration rights agreement with the holders of the Series F Preferred Shares was also terminated and the holders of the Series F Preferred Shares waived the obligation of the Company to register the common shares issuable upon conversion of Series F Preferred Shares or upon exercise of the warrants, and waived any damages, penalties and defaults related to the Company failing to file or have declared effective a registration statement covering those shares.

The exchange of all outstanding Series F Preferred Shares, and the holders’ right to receive 6% dividends, for common stock of the Company was recognized as follows:

Fair market value of 1,003,393 shares of common stock issued at \$20.05 (Company’s closing stock price on March 5, 2018) in exchange for Series F Preferred Shares and accrued dividends	\$ 20,117,990
Carrying value of Series F Preferred Shares at March 5, 2018, including dividends	(5,898,274)
Carrying value of bifurcated conversion option at March 5, 2018	(7,162,587)
Deemed dividend on Series F Preferred Shares exchange	<u>\$ 7,057,129</u>

As the Warrants were classified as a liability, the exchange of the Warrants for common shares was recognized as a liability extinguishment. As of March 5, 2018, the fair market value of the 151,871 common shares issued in the Exchange was \$3,045,034 and the fair value of the common stock warrant liability was \$2,525,567 resulting in a loss on extinguishment of warrant liability of \$519,467 during the three months ended March 31, 2018.

The Company recognized accretion of the discount to the stated value of the Series F Preferred Shares of approximately \$698,000 during the three months ended March 31, 2018, as a reduction of additional paid-in capital and an increase in the carrying value of the Series F Preferred Shares. The accretion is presented in the Statement of Operations as a deemed dividend, increasing net loss to arrive at net loss attributable to common stockholders.

Preferred Stock Conversion and Elimination

On February 6, 2018, 15,756 shares of Series B Convertible Preferred Stock (“Series B Preferred Shares”) were converted into 262,606 shares of common stock.

On March 6, 2018, the Company received conversion notices (in accordance with original terms) from holders of 100% of the outstanding shares of Series A Convertible Preferred Stock (the “Series A Preferred Shares”), Series B Preferred Shares and Series E Convertible Preferred Stock (the “Series E Preferred Shares”) and issued an aggregate of 7,945,250 shares of common stock to such holders.

The shares of Series E Preferred Stock were held by Dr. Denver Lough, the Company’s Chief Executive Officer. On March 6, 2018, the Company entered into a new registration rights agreement (the “Lough Registration Rights Agreement”) with Dr. Lough, pursuant to which the Company agreed to file a registration statement to register the resale of 7,050,000 shares of Common Stock issued upon conversion of the Series E Preferred Shares within six months, to cause such registration statement to be declared effective by the Securities and Exchange Commission as promptly as possible following its filing and, with certain exceptions set forth in the Lough Registration Rights Agreement, to maintain the effectiveness of the registration statement until all of such shares have been sold or are otherwise able to be sold pursuant to Rule 144 under the Securities Act without restriction. On March 14, 2019, the Company’s registration obligation was waived, and the Lough Registration Rights Agreement amended to provide that Dr. Lough may demand registration by written request to the Company. Dr. Lough has not made a demand for filing a registration statement.

On March 7, 2018, the Company filed a Certificate of Elimination with the Secretary of State of the State of Delaware terminating the Company’s Series A, Series B, Series C, Series D, Series E and Series F Preferred Stock. As a result, the Company has 25,000,000 shares of authorized and unissued preferred stock as of March 31, 2019 with no designation as to series.

There was no convertible preferred stock outstanding as of March 31, 2019 and December 31, 2018.

11. STOCK-BASED COMPENSATION

For the three months ended March 31, 2019 and 2018, the Company recorded stock-based compensation expense related to restricted stock awards and stock options as follows (in thousands):

	For the Three Months Ended March 31	
	2019	2018
General and administrative expense	\$ 9,037	\$ 5,772
Research and development expense	1,084	1,673
Sales and marketing expense	168	-
Total stock-based compensation expense	\$ 10,289	\$ 7,445

Incentive Compensation Plans

2019 Plan

On October 5, 2018, the Company's Board of Directors (the "Board") approved the Company's 2019 Equity Incentive Plan (the "2019 Plan"). The 2019 Plan provides for the grant of incentive stock options, nonqualified stock options, restricted stock, restricted stock units, stock appreciation rights and other types of stock-based awards to the Company's employees, officers, directors and consultants. The Compensation Committee of the Board will administer the 2019 Plan, including determining which eligible participants will receive awards, the number of shares of common stock subject to the awards and the terms and conditions of such awards. Up to 3,000,000 shares of common stock are issuable pursuant to awards under the 2019 Plan. Unless earlier terminated by the Board, the 2019 Plan shall terminate at the close of business on October 5, 2028. As of March 31, 2019, the Company had approximately 2,032,001 shares available for future issuances under the 2019 Plan.

2017 Plan

On December 1, 2016, the Company's Board of Directors (the "Board") approved the Company's 2017 Equity Incentive Plan (the "2017 Plan"). The purpose of the 2017 Plan is to promote the success of the Company and to increase stockholder value by providing an additional means through the grant of awards to attract, motivate, retain and reward selected employees, consultants and other eligible persons. The 2017 Plan provides for the grant of incentive stock options, nonqualified stock options, restricted stock, restricted stock units, stock appreciation rights and other types of stock-based awards to the Company's employees, officers, directors and consultants. The Compensation Committee of the Board will administer the 2017 Plan, including determining which eligible participants will receive awards, the number of shares of common stock subject to the awards and the terms and conditions of such awards. Up to 7,300,000 (increased from 3,450,000 in October 2017) shares of common stock are issuable pursuant to awards under the 2017 Plan. Unless earlier terminated by the Board, the 2017 Plan shall terminate at the close of business on December 1, 2026. As of March 31, 2019, the Company had approximately 171,767 shares available for future issuances under the 2017 Plan.

2014 Plan

In the fiscal year ended October 31, 2015, the Company adopted the 2014 Plan, an omnibus equity incentive plan administered by the Company's board of directors, or by one or more committees of directors appointed by the Board, pursuant to which the Company may issue up to 2,250,000 shares of the Company's common stock under equity-linked awards to certain officers, employees, directors and consultants. The 2014 Plan permits the grant of stock options, including incentive stock options and nonqualified stock options, stock appreciation rights, restricted shares, restricted share units, cash awards, or other awards, whether at a fixed or variable price, upon the passage of time, the occurrence of one or more events, or the satisfaction of performance criteria or other conditions, or any combination thereof. As of March 31, 2019, the Company had approximately 1,927,453 shares available for future issuances under the 2014 Plan.

Stock Options

A summary of the Company's employee and non-employee stock option activity for three months ended March 31, 2019 is presented below:

	Number of shares	Weighted-Average Exercise Price
Outstanding – December 31, 2018	6,499,885	\$ 14.02
Granted	578,701	\$ 15.93
Exercised (1)	(283,250)	\$ 3.99
Forfeited	(218,520)	\$ 11.98
Outstanding – March 31, 2019	<u>6,576,816</u>	\$ 14.56
Options exercisable, March 31, 2019	<u>4,233,763</u>	\$ 11.21
Weighted-average grant date fair value of options granted during the three months ended March 31, 2019		\$ 11.44

(1) The number of exercised options includes shares withheld on behalf of employees to satisfy minimum statutory tax withholding requirements.

Stock options are generally granted to employees or non-employees at exercise prices equal to the fair market value of the Company's stock of the day prior to the grant. Stock options generally vest over one to three years and have a term of five to ten years. The total fair value of all options granted during the three months ended March 31, 2019 was approximately \$6.6 million. The intrinsic value of options outstanding at March 31, 2019 was \$18.5 million. The intrinsic value of options exercised during the three months ended March 31, 2019 was \$1.9 million. The weighted average remaining contractual term of outstanding and exercisable options at March 31, 2019 was 8.6 years and 8.1 years, respectively.

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following assumptions for the three months ended March 31, 2019:

Risk free annual interest rate	2.2%-2.7%
Expected volatility	80.8%-97.5%
Expected term of options (years)	5.0-6.0
Assumed dividends	None

The fair value of employee and non-employee stock option grants is recognized over the vesting period of, generally, one to three years. As of March 31, 2019, there was approximately \$17.0 million of unrecognized compensation cost related to non-vested employee and non-employee stock option awards, which is expected to be recognized over a remaining weighted-average vesting period of 0.7 years.

Restricted-stock activity for employees and non-employees for the three months ended March 31, 2019:

	Number of shares	Weighted-Average Grant-Date Fair Value
Unvested - December 31, 2018	651,110	\$ 23.65
Granted	40,000	16.43
Vested (1)	(129,235)	21.14
Forfeited	(45,000)	24.43
Unvested – March 31, 2019	<u>516,875</u>	23.98

(1) The number of vested restricted stock units includes shares that were withheld on behalf of employees to satisfy the minimum statutory tax withholding requirements.

The total fair value of restricted stock vested during the three months ended March 31, 2019, was approximately \$2.7 million.

The value of restricted stock grants is measured based on the fair market value of the Company's common stock on the date of grant and recognized over the vesting period of, generally, six months to three years. As of March 31, 2019, there was approximately \$6.6 million of unrecognized compensation cost related to unvested restricted stock awards, which is expected to be recognized over a remaining weighted-average vesting period of 1.0 year.

12. INCOME TAXES

The Company has evaluated its income tax positions and determined that no material uncertain tax positions existed at March 31, 2019. The Company does not expect a significant change in its unrecognized tax benefits within the next twelve months.

As of March 31, 2019 and December 31, 2018, the Company maintained a valuation allowance to fully offset its net deferred tax assets primarily attributable to operations in the United States, as the realization of such assets was not considered more likely than not.

The Company files income tax returns in the U.S. Federal and various state and local jurisdictions.

13. LOSS PER SHARE

The following outstanding potentially dilutive shares have been excluded from the calculation of diluted net loss per share for the periods presented due to their anti-dilutive effect:

	For the Three Months Ended March 31	
	2019	2018
Shares issuable upon exercise of stock options	6,576,816	4,814,568
Non-vested shares under restricted stock grants	516,875	199,375

14. COMMITMENTS AND CONTINGENCIES

Contingencies

On June 26, 2018, a class action complaint alleging violations of the Federal securities laws was filed in the United States District Court, District of Utah, by Jose Moreno against the Company and two directors of the Company, Case No. 2:18-cv-00510-JNP (the "Moreno Complaint"). On July 6, 2018, a similar complaint was filed in the same court against the same defendants by Yedid Lawi, Case No. 2:18-cv-00541-PMW (the "Lawi Complaint"). Both the Moreno Complaint and Lawi Complaint allege that the defendants made or were responsible for, disseminating information to the public through reports filed with the Securities and Exchange Commission and other channels that contained material misstatements or omissions in violation of Sections 10 and 20(a) of the Exchange Act and Rule 10b-5 adopted thereunder. Specifically, both complaints allege that the defendants misrepresented the status of one of the Company's patent applications while touting the unique nature of the Company's technology and its effectiveness. Plaintiffs are seeking damages suffered by them and the class consisting of the persons who acquired the publicly-traded securities of the Company between March 31, 2017, and June 22, 2018. Plaintiffs have filed motions to consolidate and for appointment as lead plaintiff. On November 28, 2018, the Court consolidated the Moreno and Lawi cases under the caption *In re PolarityTE, Inc. Securities Litigation* (the "Consolidated Securities Litigation"), and requested the appointment of the plaintiff in Lawi as the lead plaintiff. On January 16, 2019, the Court granted the motion of Yedid Lawi for appointment as lead plaintiff, and on February 1, 2019, the Court granted the lead plaintiff's motion for approval of lead counsel and liaison counsel. The Court ordered that the lead plaintiff file and serve a consolidated complaint no later than 60 days after February 1, 2019, the defendants shall have 60 days after filing and service of the consolidated complaint to answer or otherwise respond, and the lead plaintiff must file a motion for class certification within 90 days of service of the consolidated complaint. The Lead Plaintiff filed a consolidated complaint on April 2, 2019, and asserted essentially the same violations of Federal securities laws recited in the original complaints. The Company believes the allegations in the consolidated complaint are without merit, and intends to defend the litigation, vigorously. The Company expects its first response will be to file a motion to dismiss the consolidated complaint. At this early stage of the proceedings the Company is unable to make any prediction regarding the outcome of the litigation.

In the ordinary course of business, we may become involved in lawsuits, claims, investigations, proceedings, and threats of litigation relating to intellectual property, commercial arrangements, regulatory compliance, and other matters. Except as noted above, at March 31, 2019, we were not party to any legal or arbitration proceedings that may have significant effects on our financial position or results of operations. We are not a party to any material proceedings in which any director, member of senior management or affiliate of ours is either a party adverse to us or our subsidiaries or has a material interest adverse to us or our subsidiaries.

Commitments

The Company has entered into employment agreements with key executives that contain severance terms and change of control provisions.

15. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

In October 2018, the Company entered into an office lease covering approximately 7,250 square feet of rental space in the building located at 40 West 5th Street in New York City. The lease is for a term of three years. The annual lease rate is \$60 per square foot. Initially the Company will occupy and pay for only 3,275 square feet of space, and the Company is not obligated under the lease to pay for the remaining 3,975 square feet covered by the lease unless we elect to occupy that additional space. Comparable annual lease rates for similar office space in the area range between \$67 and \$110 per square foot. The Company believes the terms of the lease are very favorable to us, and the Company obtained these favorable terms through the assistance of Peter A. Cohen, a director, which he provided so that the company he owns, Peter A. Cohen, LLC (“Cohen LLC”), could sublease a portion of the office space.

Initially, the Company is using three offices and two work stations in the office and share common areas representing approximately 2,055 square feet. Cohen LLC is using approximately 1,220 square feet. The monthly lease payment for 3,275 square feet is \$16,377. Of this amount \$6,103 is allocated pro rata to Cohen LLC based on square footage occupied. Additional lease charges for operating expenses and taxes are allocated under the sublease based on the ratio of rent paid by the Company and Cohen LLC to total rent.

Cohen LLC identified two associated entities that may wish to occupy an additional 2,753 square feet of space in the office. Under the terms of the sublease Cohen LLC can add this additional space to the 1,220 square feet occupied, which would bring the total space occupied by us and Cohen LLC to 6,028 square feet. Because a portion of the additional space subleased to Cohen LLC is less private and attractive, the Company agreed to reduce the overall annual lease rate for the Cohen LLC space to \$58.60 per square foot, which means the Company will be paying an annual lease rate for the space the Company uses of \$62.70. Assuming Cohen LLC subleases the additional office space, our annual lease payment to the lessor would be \$361,680, and Cohen LLC would pay to the Company \$232,830 under the sublease. During the three months ended March 31, 2019, the Company recognized \$51,000 of sublease income related to this agreement. As of March 31, 2019, there was \$28,000 due from the related party under this agreement.

In August 2018 David Seaburg was elected by the Board of Directors to serve as a director of the Company. Subsequently the Company entered into a written consulting agreement with Mr. Seaburg pursuant to which he will provide investor relations and other services to the Company over a period of two years for a fee consisting of (i) quarter-annual cash payment of \$10,000, (ii) 60,000 restricted stock units issued under the Company equity incentive plan that vest in four equal installments every six months during the term of the agreement subject to continued service, and (iii) an annual award under the Company equity incentive plan of options exercisable over a term of 10 years to purchase common stock in number equal to the number of shares of common stock with a value of \$150,000 at the time of the award based on a Black-Scholes calculation. The agreement terminated effective March 11, 2019, when he joined the Company as President of Corporate Development. Upon termination of the consulting agreement, Mr. Seaburg was issued new awards. The new awards related to his employment were entered into concurrently with the cancellation of the original awards under his consulting agreement. The modification is accounted for by calculating the incremental value of the new award as of the modification date. The incremental value will be expensed over the new award service period while the original value will continue to be expensed over the original term. As of the date the consulting agreement terminated 15,000 restricted stock units were vested and \$6,667 of cash payments were accrued. The total value of Mr. Seaburg’s consulting agreement was approximately \$1.7 million, which was being recognized as expense over the 24-month consulting period. Under this consulting agreement, the Company recognized approximately \$121,000 of expense prior to the termination of the consulting agreement during the three months ended March 31, 2019.

16. SEGMENT REPORTING

The Company's current operations involve products and services which are managed separately. Accordingly, it operates in two segments: 1) regenerative medicine and 2) contract services.

There was only one segment for the three months ended March 31, 2018. Certain information concerning our segments for the three months ended March 31, 2019 is presented in the following table (in thousands):

	For the Three Months Ended March 31, 2019	
Net revenues:		
Reportable segments:		
Regenerative medicine	\$	297
Contract services		1,168
Total net revenues	\$	1,465
Net (loss)/income:		
Reportable segments:		
Regenerative medicine	\$	(25,768)
Contract services		195
Total net loss	\$	(25,573)

17. SUBSEQUENT EVENTS

On April 10, 2019, the Company completed an underwritten offering with Cantor Fitzgerald & Co., as underwriter, providing for the issuance and sale of 3,418,918 shares of the Company's common stock, par value \$0.001 per share, at an offering price of \$8.51 per share, for net proceeds of approximately \$28.7 million, after deducting offering expenses payable by the Company.

On April 22, 2019, PolarityTE MD, Inc., a subsidiary of PolarityTE, Inc., entered into a sublease agreement with Joseph M. Still Burn Centers, Inc., for 6,307 square feet of manufacturing, laboratory, and office space located at 3647 J. Dewey Grey Circle, Augusta, Georgia (the "Facility"). The initial term of the sublease for the Facility is five years commencing April 22, 2019, and the Company has an option to renew for three years after the initial term and a second option to renew for an additional two years thereafter. The annual base rental rate during the initial term is \$9,986 per month, or a total of \$119,833 per year, with a 3% annual increase as determined by a third-party fair market value analysis. In addition, the Company is obligated to pay (i) maintenance, repairs, replacements, and restorations to the Facility, (ii) its own utilities, and (iii) its share of operating expenses for the building based on the ratio of space leased by the Company to the total leasable square footage of the building. The Company intends to use the Facility to establish a manufacturing node for SkinTE™, with the potential to manufacture other regenerative tissue products in the Company's pipeline.

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

The following information should be read in conjunction with the consolidated financial statements and related notes thereto included in this *Quarterly Report on Form 10-Q*.

In addition to historical information, this report contains forward-looking statements that involve risks and uncertainties that may cause our actual results to differ materially from plans and results discussed in forward-looking statements. We encourage you to review the risks and uncertainties discussed in the section entitled "Forward-Looking Statements" included at the beginning of this *Quarterly Report on Form 10-Q* and under Part I, Item 1A. Risk Factors of our Transition Report on Form 10-K filed with the Securities and Exchange Commission on March 18, 2019. The risks and uncertainties can cause actual results to differ significantly from those in our forward-looking statements or implied in historical results and trends. We caution readers not to place undue reliance on any forward-looking statements made by us, which speak only as of the date they are made. We disclaim any obligation, except as specifically required by law and the rules of the SEC, to publicly update or revise any such statements to reflect any change in our expectations or in events, conditions, or circumstances on which any such statements may be based, or that may affect the likelihood that actual results will differ from those set forth in the forward-looking statements.

Overview

We are a commercial-stage biotechnology and regenerative biomaterials company focused on transforming the lives of patients by discovering, designing and developing a range of regenerative tissue products and biomaterials for the fields of medicine, biomedical engineering and material sciences. We operate two segments; the regenerative medicine business segment and the contract research segment.

Segment Reporting

The regenerative medicine business segment over the last year has established and advanced our core "TE" program, which includes our first commercial product, SkinTE. The commercial launch of SkinTE has included the build out of commercial, manufacturing, and corporate structure to support the growth of SkinTE revenue and deployments in 2019 and beyond. This includes equipment, personnel, systems, and leased properties. Research and development continue to expand to advance the product development pipeline.

In May 2018 we acquired assets of a preclinical research and veterinary sciences business and related real estate, which we now operate through our subsidiary, Ibx Preclinical Research, Inc. The aggregate purchase price was \$3.8 million, of which \$2.3 million was paid at closing and the balance satisfied by a promissory note payable to the Seller with an initial fair value of \$1.2 million and contingent consideration with an initial fair value of approximately \$0.3 million. As a result, we have significant research facilities and a well-educated and skilled team of scientists and researchers that comprise the contract research segment of our business. These resources are highly beneficial to the work we are doing on our TE products and other research initiatives. We also offer research services to unrelated third parties on a contract basis, which we offer under the trademark POLARITYRD. Contract research services help us defray the costs of maintaining a first-rate research facility and allow us to meet companies pursuing new technologies that may be opportunities for collaborative or strategic relationships going forward.

Research and Development Expenses. Research and development expenses primarily represent employee related costs, including stock compensation, for research and development executives and staff, lab and office expenses and other overhead charges.

General and Administrative Expenses. General and administrative expenses primarily represent employee related costs, including stock compensation, for corporate executive and support staff, general office expenses, professional fees and various other overhead charges. Professional fees, including legal and accounting expenses, typically represent one of the largest components of our general and administrative expenses. These fees are partially attributable to our required activities as a publicly traded company, such as filings with the Securities and Exchange Commission (SEC), and corporate- and business-development initiatives.

Income Taxes. Income taxes consist of our provisions for income taxes, as affected by our net operating loss carryforwards. Future utilization of our net operating loss, or NOL, carryforwards may be subject to a substantial annual limitation due to the "change in ownership" provisions of the Internal Revenue Code. The annual limitation may result in the expiration of NOL carryforwards before utilization. Due to our history of losses, a valuation allowance sufficient to fully offset our NOL and other deferred tax assets has been established under current accounting pronouncements, and this valuation allowance will be maintained unless sufficient positive evidence develops to support its reversal.

Critical Accounting Estimates

Our discussion and analysis of the financial condition and results of operations is based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America, or GAAP.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities or the disclosure of gain or loss contingencies at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Among the more significant estimates included in these financial statements are the valuation of warrant liability, valuation of derivative liability, stock-based compensation, the valuation allowances for deferred tax benefits, and the valuation of tangible and intangible assets included in acquisitions. Actual results could differ from those estimates.

We have identified the policies below as critical to our business operations and to the understanding of our financial results. The impact and any associated risks related to these policies on our business operations is discussed throughout management's discussion and analysis of financial condition and results of operations when such policies affect our reported and expected financial results.

Goodwill and Intangible Assets. Goodwill represents the excess acquisition cost over the fair value of net tangible and intangible assets acquired. Goodwill is not amortized and is subject to annual impairment testing or between annual tests if an event or change in circumstance occurs that would more likely than not reduce the fair value of a reporting unit below its carrying value. In testing for goodwill impairment, the Company has the option to first assess qualitative factors to determine whether the existence of events or circumstances lead to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If, after assessing the totality of events and circumstances, the Company concludes that it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, then performing the two-step impairment test is not required. If the Company concludes otherwise, the first step of the two-step process must be performed. The goodwill impairment test is performed at the reporting unit level by comparing the estimated fair value of a reporting unit with its respective carrying value. If the estimated fair value exceeds the carrying value, goodwill at the reporting unit level is not impaired and the second step of the impairment test is unnecessary. If the estimated fair value is less than carrying value, the second step of the impairment test must be performed. The second step of the goodwill impairment test would be to record an impairment charge, if any, based on the excess of a reporting unit's carrying amount over its fair value.

The fair value of reporting units is based on widely accepted valuation techniques that the Company believes market participants would use, although the valuation process requires significant judgment and often involves the use of significant estimates and assumptions. The Company utilizes a market cap approach in estimating the fair value of reporting units. The estimates and assumptions used in determining fair value could have a significant effect on whether or not an impairment charge is recorded and the magnitude of such a charge. Adverse market or economic events could result in impairment charges in future periods.

Intangible assets deemed to have finite lives are amortized on a straight-line basis over their estimated useful lives, which generally range from one to eleven years. The useful life is the period over which the asset is expected to contribute directly, or indirectly, to its future cash flows. Intangible assets are reviewed for impairment when certain events or circumstances exist. For amortizable intangible assets, impairment exists when the undiscounted cash flows exceed its carrying value. At least annually, the remaining useful life is evaluated.

Impairment of Long-Lived Assets. The Company reviews long-lived assets, including property and equipment, for impairment whenever events or changes in business circumstances indicate that the carrying amount of the assets may not be fully recoverable. Factors that the Company considers in deciding when to perform an impairment review include significant underperformance of the business in relation to expectations, significant negative industry or economic trends, and significant changes or planned changes in the use of the assets. If an impairment review is performed to evaluate a long-lived asset for recoverability, the Company compares forecasts of undiscounted cash flows expected to result from the use and eventual disposition of the long-lived asset to its carrying value. An impairment loss would be recognized when estimated undiscounted future cash flows expected to result from the use of an asset are less than its carrying amount. The impairment loss would be based on the excess of the carrying value of the impaired asset over its fair value, determined based on discounted cash flows. No impairment loss has been recognized.

Income Taxes. The Company accounts for income taxes under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. The Company evaluates the potential for realization of deferred tax assets at each quarterly balance sheet date and records a valuation allowance for assets for which realization is not more likely than not.

Stock Based Compensation. The Company measures all stock-based compensation using a fair value method and records such expense in research and development, general and administrative and sales and marketing expenses. Compensation expense for stock options with cliff vesting is recognized on a straight-line basis over the vesting period of the award, based on the fair value of the option on the date of grant. For stock options with graded vesting, the Company recognizes compensation expense over the service period for each separately vesting tranche of the award as though the award were in substance, multiple awards.

The fair value for options issued is estimated at the date of grant using a Black-Scholes option-pricing model. The risk-free rate is derived from the U.S. Treasury yield curve in effect at the time of the grant. The volatility factor is determined based on the Company's historical stock prices. Forfeitures are recognized as they occur.

The value of restricted stock grants is measured based on the fair market value of the Company's common stock on the date of grant and amortized over the vesting period of, generally, six months to three years.

Revenue Recognition. In the regenerative medicine products segment, the Company records product revenues primarily from the sale of its regenerative tissue products. The Company sells its products to healthcare providers, primarily through direct sales representatives. Product revenues consist of a single performance obligation that the Company satisfies at a point in time. In general, the Company recognizes product revenue upon delivery to the customer. In the contract services segment, the Company earns service revenues from the provision of contract research services, which includes delivery of preclinical studies and other research services to unrelated third parties. Service revenues generally consist of a single performance obligation that the Company satisfies over time using an input method based on costs incurred to date relative to the total costs expected to be required to satisfy the performance obligation.

Leases. On January 1, 2019 the Company adopted ASU 2016-02, *Leases (ASC 842)* and related amendments, which require lease assets and liabilities to be recorded on the balance sheet for leases with terms greater than twelve months. The new standard requires lessees to apply a dual approach, classifying leases as either finance or operating leases based on the principle of whether or not the lease is effectively a financed purchase by the lessee. This classification will determine whether lease expense is recognized based on an effective interest method or on a straight-line basis over the term of the lease, respectively. The standard was adopted using the modified retrospective transition approach by applying the new standard to all leases existing at the date of the initial application and not restating comparative periods. The most significant impact was the recognition of ROU assets and lease liabilities for operating leases, while our accounting for finance leases remained substantially unchanged. See Note 2 – Summary of Significant Accounting Policies and Note 7 – Leases in the notes to the condensed consolidated financial statements included in Part I, Item 1, of this Quarterly Report on Form 10-Q for additional information regarding the adoption.

Results of Operations

Three months ended March 31, 2019 versus three months ended March 31, 2018

Net Revenues. For the three-month period ended March 31, 2019, total net revenues were \$1.465 million including net revenues from products sales of \$0.3 million from the sale of the Company's core product SkinTE in the regenerative medicine business segment. Regenerative medicine revenues for the three-month period ended March 31, 2018 were \$0.003 million. Net revenues from services sales were \$1.168 million from the contract research segment operations driven primarily by the Ibex preclinical research business, which was acquired in the second quarter of 2018 and, therefore, not a contributor to revenue in the first quarter of 2018.

Cost of Sales. For the three-month period ended March 31, 2019, cost of sales was approximately \$0.776 million and approximately 53% of net revenues. Products cost of sales were \$0.273 million or 92% of products sales due to fixed overhead costs. Services cost of sales were \$0.503 million or 43% of service sales. Regenerative medicine cost of sales for the three-month period ended March 31, 2018 were \$0.001 million.

Research and Development Expenses. Research and development expenses decreased \$0.2 million, or 4%, in the three-month period ended March 31, 2019, compared to the three-month period ended March 31, 2018. The decrease is primarily driven by a shift in mix between commercial and operational infrastructure build out in the current period as well as research and development costs in the prior period.

General and Administrative Expenses. General and administrative expenses increased \$9.6 million, or 127%, in the three-month period ended March 31, 2019 compared to the three-month period ended March 31, 2018. The Company expanded its infrastructure to support the commercial launch of SkinTE. The resulting increase in expenses is driven primarily by employee-related costs, including stock-based compensation, salaries, and benefits, and increased outside services expense, including legal and accounting fees and consulting expenses.

Sales and Marketing Expenses. For the three-month period ended March 31, 2019, sales and marketing expenses were \$4.0 million. This represents sales personnel and marketing costs primarily driven by the initial regional release of SkinTE. There were no sales personnel and marketing costs during the three-month period ended March 31, 2018.

Other Income (Expenses). For the three-month period ended March 31, 2019, other income (expenses) decreased \$1.1 million or 83% compared to the three-month period ended March 31, 2018. This decrease was primarily driven by a change in the fair value of derivatives of \$1.9 million recorded, offset by loss on extinguishment of warrant liability of \$0.5 million in the three months ended March 31, 2018. There were no warrants outstanding for the three-month period ended March 31, 2019.

Net loss. Net loss for the three-month period ended March 31, 2019 was approximately \$25.6 million compared to a net loss of approximately \$11.8 million for the three-month period ended March 31, 2018, primarily reflecting the increase in sales and operating expenses driven by expanding operations discussed above.

Liquidity and Capital Resources

As of March 31, 2019, our cash, cash equivalents and short-term investments balance was approximately \$44.7 million and our working capital was approximately \$39.1 million, compared to cash and cash equivalents and short term investments of \$61.8 million and working capital of \$56.8 million at December 31, 2018.

As reflected in the condensed consolidated financial statements, we had an accumulated deficit of approximately \$368.4 million at March 31, 2019, and approximately \$16.6 million net cash used in operating activities for the three-month period then ended. At December 31, 2018, we had an accumulated deficit of approximately \$342.9 million and approximately \$3.9 million net cash used in operating activities for the three-months ended March 31, 2018.

On April 12, 2018, we completed a public offering of 2,335,937 shares of our common stock at an offering price of \$16.00 per share, resulting in net proceeds of \$34.6 million, after deducting offering expenses. On June 7, 2018, we completed an underwritten offering of 2,455,882 shares of our common stock at an offering price of \$23.65 per share, resulting in net proceeds of approximately \$58.0 million, after deducting offering expenses. On April 10, 2019, the Company completed an underwritten offering with Cantor Fitzgerald & Co., as underwriter, providing for the issuance and sale of 3,418,918 shares of the Company's common stock, par value \$0.001 per share, at an offering price of \$8.51 per share, for net proceeds of approximately \$28.7 million, after deducting offering expenses payable by the Company.

Based upon the current status of our product development and commercialization plans, we believe that our existing cash, cash equivalents and short-term investments will be adequate to satisfy our capital needs for at least the next 12 months from the date of filing. Nevertheless, it is likely in the future we may need additional financing to continue clinical deployment and commercialization of our TE products, development of our other product candidates, and scaling the manufacturing capacity for our products and product candidates. Accordingly, we will continue to pursue fundraising opportunities when available, however, such financing may not be available on terms favorable to us, if at all. If adequate funds are not available in the future, we may be required to delay, reduce the scope of, or eliminate one or more of our operational or development programs. We plan to meet our future capital requirements primarily through issuances of equity securities, debt financing, revenue from product sales and future collaborations. Failure to generate revenue or raise additional capital as needed in the future would adversely affect our ability to achieve our business objectives.

Our actual capital requirements will depend on many factors, including among other things: our ability to scale the manufacturing for and to commercialize successfully our lead product, SkinTE; the progress and success of clinical evaluation and acceptance of SkinTE; our ability to develop our other product candidates; and the costs and timing of obtaining any required regulatory registrations or approvals. Our statements regarding the period of time through which our financial resources will be adequate to support our operations is a forward-looking statement that involves risks and uncertainties, and actual results could vary materially. The foregoing factors, along with the other factors described in Part I, Item 1A. Risk Factors of our Transition Report on Form 10-K filed with the SEC on March 18, 2019 will impact our future capital requirements and the adequacy of our available funds. If we are required to raise additional funds, any additional equity financing may be highly dilutive, or otherwise disadvantageous, to existing stockholders, and debt financing, if available, may involve restrictive covenants. If we elect to pursue collaborative arrangements, the terms of such arrangements may require us to relinquish rights to certain of our technologies, products or marketing territories. Our failure to raise capital when needed, and on acceptable terms, would require us to reduce our operating expenses and would limit our ability to respond to competitive pressures or unanticipated requirements to develop our product candidates and to continue operations, any of which would have a material adverse effect on our business, financial condition and results of operation.

Off-Balance Sheet Arrangements

As of March 31, 2019, we had no off-balance sheet arrangements.

Inflation

Our management currently believes that inflation has not had, and does not currently have, a material impact on continuing operations.

Cash Flows

Cash, cash equivalents and short-term investments were approximately \$44.7 million as of March 31, 2019, compared to cash and cash equivalents and short term investments of approximately \$61.8 million as of December 31, 2018. Working capital was approximately \$39.1 million as of March 31, 2019, compared to working capital of approximately \$56.8 million as of December 31, 2018.

Operating Cash Flows

Cash used in operating activities for the three-month period ended March 31, 2019, was approximately \$16.6 million. Approximately \$3.9 million of cash was used in operating activities for the three-month period ended March 31, 2018. The increase in net cash used in operating activities mostly relates to the expansion of infrastructure and sales and marketing expenses related to the commercial launch of SkinTE.

Investing Cash Flows

Cash used in investing activities for the three-month period ended March 31, 2019, was approximately \$5.1 million. Cash used in investing activities for the three-month period ended March 31, 2018 amounted to approximately \$3.0 million. For the three-month period ended March 31, 2019, the activity relates to the net purchase of available-for-sale securities and the purchase of property and equipment. For the three-month period ended March 31, 2018, the activity relates to the purchase of property and equipment.

Financing Cash Flows

Net cash provided by financing activities for the three-month period ended March 31, 2019, was approximately \$0.9 million. There was no cash provided by or used in financing activities for the three-month period ended March 31, 2018. For the three-month period ended March 31, 2019, the activity relates to proceeds from stock options exercised offset by principal payments on finance leases and contingent consideration liability payments.

Recent Accounting Pronouncements

Refer to our discussion of recent accounting pronouncements in Note 2 - Summary of Significant Accounting Policies to the accompanying condensed consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q.

Item 3. Quantitative and Qualitative Disclosure about Market Risk

Not applicable.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures.

We maintain disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) that are designed to ensure that information required to be disclosed in our reports filed under the Exchange Act, is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our principal executive officer and principal financial and accounting officer, as appropriate, to allow timely decisions regarding required disclosure.

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report. Based on the evaluation of the effectiveness of our disclosure controls and procedures as of March 31, 2019, our Chief Executive Officer and Chief Financial Officer concluded that, as of such date, were not effective due to the material weaknesses in our internal control over financial reporting identified below. To address the material weaknesses, management performed additional analyses and other procedures to determine whether the financial statements included herein fairly present our financial results. Subject to the limitations above, management believes that the consolidated financial statements and other financial information contained in this report, fairly present in all material respects our financial condition, results of operations, and cash flows for the periods presented.

Internal Control Over Financial Reporting.

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. Our internal control over financial reporting is designed 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 in the United States of America, or GAAP. Our management does not expect that our disclosure controls and procedures or our internal controls will prevent all errors and all fraud. 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 the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of a simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control.

On January 1, 2019, the Company adopted Accounting Standards Codification Topic 842, Leases, and implemented appropriate changes to its internal controls to support the changes in required reporting, including updated procedures related to lease accounting and contract review controls and added documentation processes related to accounting for the new standard.

There have been no other changes in the Company's internal control over financial reporting during the quarter ended March 31, 2019 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Two material weaknesses previously identified as of December 31, 2018, continued to exist as of March 31, 2019, which include (1) insufficient internal controls related to information technology general controls in the areas of user access and user provisioning, over certain systems that support the financial reporting process; and (2) ineffective controls related to the documentation and completeness of the Company's stock-based compensation expense.

Changes in Internal Control over Financial Reporting

We have taken several steps to remediate the material weaknesses identified above. These steps include the following:

- *Stock-Based Compensation System* – The Company is in the process of implementing a systemic solution to our stock-based compensation accounting, including internal processes and an external compensation account management tool. The tool was launched during the first quarter of 2019. The system implementation and additional procedures enable the Company to properly document the stock-based compensation expense. The Company expects this issue to be remediated during 2019 after adequate test sampling to evaluate operating effectiveness.
- *IT Systems & Controls* – The Company has hired additional IT personnel and adopted access restrictions and protocols to prevent unauthorized access and unauthorized changes to data and records. We are evaluating these changes and whether they address the system control issues

As we continue to evaluate and work to improve our internal control over financial reporting, management may determine to take additional measures to address the material weaknesses or determine to modify the remediation plan described above. Until the remediation steps set forth above are fully implemented and operating for a sufficient period of time, the material weakness described above will continue to exist.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

There have been no material changes to legal proceedings for the period ended March 31, 2019 except as noted below.

Shareholder Litigation

On June 26, 2018, a class action complaint alleging violations of the Federal securities laws was filed in the United States District Court, District of Utah, by Jose Moreno against the Company and two directors of the Company, Case No. 2:18-cv-00510-JNP (the "Moreno Complaint"). On July 6, 2018, a similar complaint was filed in the same court against the same defendants by Yedid Lawi, Case No. 2:18-cv-00541-PMW (the "Lawi Complaint"). Both the Moreno Complaint and Lawi Complaint allege that the defendants made or were responsible for, disseminating information to the public through reports filed with the Securities and Exchange Commission and other channels that contained material misstatements or omissions in violation of Sections 10 and 20(a) of the Exchange Act and Rule 10b-5 adopted thereunder. Specifically, both complaints allege that the defendants misrepresented the status of one of the Company's patent applications while touting the unique nature of the Company's technology and its effectiveness. Plaintiffs are seeking damages suffered by them and the class consisting of the persons who acquired the publicly-traded securities of the Company between March 31, 2017, and June 22, 2018. Plaintiffs have filed motions to consolidate and for appointment as lead plaintiff. On November 28, 2018, the Court consolidated the *Moreno* and *Lawi* cases under the caption *In re PolarityTE, Inc. Securities Litigation* (the "Consolidated Securities Litigation"), and requested the appointment of the plaintiff in *Lawi* as the lead plaintiff. On January 16, 2019, the Court granted the motion of Yedid Lawi for appointment as lead plaintiff, and on February 1, 2019, the Court granted the lead plaintiff's motion for approval of lead counsel and liaison counsel. The Court ordered that the lead plaintiff file and serve a consolidated complaint no later than 60 days after February 1, 2019, the defendants shall have 60 days after filing and service of the consolidated complaint to answer or otherwise respond, and the lead plaintiff must file a motion for class certification within 90 days of service of the consolidated complaint. The Lead Plaintiff filed a consolidated complaint on April 2, 2019, and asserted essentially the same violations of Federal securities laws recited in the original complaints. The Company believes the allegations in the consolidated complaint are without merit, and intends to defend the litigation, vigorously. The Company expects its first response will be to file a motion to dismiss the consolidated complaint. At this early stage of the proceedings the Company is unable to make any prediction regarding the outcome of the litigation.

Item 6. Exhibits

Except as otherwise noted, the following exhibits are included in this filing:

10.1	Executive Employment Agreement with Richard Hague effective April 8, 2019
31.1	Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32	Certification of Principal Executive Officer and Principal Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document.
101.SCH	XBRL Schema Document.
101.CAL	XBRL Calculation Linkbase Document.
101.DEF	XBRL Definition Linkbase Document.
101.LAB	XBRL Label Linkbase Document.
101.PRE	XBRL Presentation Linkbase Document.

SIGNATURES

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

POLARITYTE, INC.

/s/ Denver Lough

Denver Lough
Chief Executive Officer
(Principal Executive Officer)

Date: March 10, 2019

/s/ Paul Mann

Paul Mann
Chief Financial Officer
(Principal Financial and Accounting Officer)

Date: May 10, 2019

EMPLOYMENT AGREEMENT

This Employment Agreement ("Agreement") is entered into effective as of April 8, 2019 between Richard Hague ("Executive") and PolarityTE, Inc., a Delaware corporation (the "Company").

RECITALS:

The Company desires to employ Executive as the Chief Operating Officer of the Company, and Executive desires to be so employed by the Company on the terms and subject to the conditions provided below.

A G R E E M E N T S

In consideration of the covenants set forth in this Agreement, the parties agree as follows:

1. Employment. The Company hereby employs Executive, and Executive agrees to serve, as the Chief Operating Officer of the Company pursuant to the terms and conditions of this Agreement.

2. Duties. During the Employment Term (as herein defined), Executive shall perform such services as are commensurate with Executive's position as the Chief Operating Officer of the Company, including such duties and responsibilities as may from time to time be assigned to Executive by the Chief Executive Officer of the Company (the "CEO"). Executive shall report to the CEO or otherwise as determined by the board of directors of the Company (the "Board") from time to time. Executive shall (i) faithfully, diligently and competently perform such services; and (ii) devote Executive's full business time and attention to the affairs of the Company.

3. No Other Employment. While employed by the Company, Executive shall not, directly or indirectly, render services to any other Person (as herein defined) without the prior approval of the CEO. Without the explicit written permission of the Company, Executive may not serve, or continue to serve, on the board of directors (or other equivalent governing body) of, or hold any other offices or positions in or with, other business organizations, or engage in other employment or business activity. Nothing in this Agreement shall restrict Executive from providing (or require Executive to obtain approval for) inconsequential services without compensation in connection with civic or charitable activities or the management of Executive's personal investments, provided in each case that such services do not violate any of the provisions of any agreement between the Company and Executive and do not interfere with Executive's duties under this Agreement. "Person" means any natural person, corporation, partnership, limited liability company, trust, estate, association, governmental authority or other entity of any kind.

4. Employment Term. The period during which Executive is employed under this Agreement shall begin on the date of this Agreement and end on April 8, 2020 (the "Initial Employment Term"), unless terminated sooner as provided herein. The Initial Employment Term shall be automatically extended for successive one-year periods unless either party provides prior written notification to the contrary at least thirty days prior to the end of the Initial Employment Term or any renewal term (the Initial Employment Term and any renewal term(s) shall collectively be referred to as the "Employment Term"). If, following the Employment Term, Executive remains employed by the Company as an at-will employee without a written employment agreement, the provisions of Sections 3 and 9 hereof shall remain in effect throughout such period of at-will employment and (to the extent provided therein) after employment.

5. Compensation. All compensation shall be paid through the payroll service established by the Company, and all tax withholding and other benefits shall similarly be managed through the payroll and benefits services established by the Company.

(a) Base Salary. During the Employment Term, the Company shall pay to Executive a salary (“Base Salary”), which shall initially be at a rate of \$370,000 per annum (prorated for any partial year or pay period) and shall be increased (but may not be decreased) on each anniversary of the date hereof during the Employment Term by a percentage equal to the greater of (i) a percentage increase determined by the Board, or (ii) a percentage increase (if any) of the Consumer Price Index for All Urban Consumers (the “CPI Index”), as determined by the U.S. Department of Labor Bureau of Labor Statistics for the most recently ended 12-month period available prior to the anniversary date of the year in which the increase in Base Salary is being calculated over the CPI Index for the 12-month period ended as of the same time in the prior calendar year. The Base Salary shall be payable in accordance with the Company’s ordinary payroll practices, but in no event less frequently than monthly.

(b) Bonus. During the Term, in addition to the base salary specified in Section 5(a), Executive shall be eligible to receive an annual bonus in an amount determined at the sole discretion of the Board, with a target of 50% of the Base Salary. In addition, Executive shall be entitled to a signing bonus of \$30,000, to be paid in two installments: one payment of \$15,000 on the Effective Date, and a second payment of \$15,000 on September 1, 2019 subject to continued employment on that date. Finally, Executive shall be entitled to reimbursement for certain relocation expenses pursuant to Company policies.

(c) Equity Compensation. During the Term, in addition to the base salary specified in Section 5(a), Executive shall be eligible to receive equity compensation in such form and amount determined at the sole discretion of the Board. Subject to approval by the Board of Directors, as of the Effective Date, the Company grants to the Executive as compensation for service to the Company equity awards under the Company’s 2019 Equity Incentive Plan consisting of 35,000 Restricted Stock Units (“RSUs”) and 10-year options to purchase 65,000 shares of common stock (“Options”) at the fair market value thereof on the Effective Date (as determined under the 2019 Equity Incentive Plan). The RSUs and Options shall be governed by ancillary agreements between the Company and Executive.

(d) Treatment of Base Salary, Bonus, and Equity Compensation. All payments (excluding payments made pursuant to Section 7 below) made to Executive pursuant to this Agreement (whether during Executive’s employment or thereafter) shall be treated as wages for withholding and employment tax purposes as provided by law.

6. Benefits.

(a) During the Employment Term, Executive shall be entitled to participate in such employee benefit plans and programs as are maintained from time to time for salaried employees of the Company, to the extent that Executive’s position, tenure, compensation, age, health and other qualifications make Executive (and Executive’s dependents) eligible to participate. The Company shall not be obligated to adopt or continue any particular plan or program during the Employment Term, and Executive’s (and Executive’s dependents’) participation in any such plan or program shall be subject to the provisions, rules, regulations, and laws applicable thereto.

(b) During the Employment Term, Executive shall be entitled to 20 days paid time off per year (prorated for partial years), to be taken at times mutually acceptable to Executive and the Company, and to such paid holidays as are observed by the Company from time to time. No portion of paid time off (prorated for partial years) that is not used in a year may be carried over to the subsequent year. For purposes of this Section 6(b), “year” means the 12-month period the Company uses administratively for purposes of vacation records.

7. Reimbursement of Expenses. Executive shall be entitled to reimbursement for ordinary, necessary and reasonable out-of-pocket business expenses that Executive incurs in connection with performing Executive's duties under this Agreement, including reasonable travel and meal expenses. The reimbursement of all such expenses shall be made in accordance with the Company's customary practices and policies (including presentation of evidence reasonably satisfactory to the Company of the amounts and nature of such expenses).

8. Termination.

(a) Definitions. "Cause" means any of the following, as determined by the Board in its reasonable judgment: (i) the commission by Executive of any felony (or any crime involving fraud or moral turpitude or otherwise having a material adverse effect on the Company or any of its affiliates); (ii) theft, conversion, embezzlement or misappropriation by Executive of funds or other assets of the Company or any of its affiliates or any other act involving fraud or dishonesty with respect to the Company (including acceptance of any bribes or kickbacks or other acts of self-dealing); (iii) intentional, grossly negligent or unlawful misconduct by Executive which causes harm to the Company or its affiliates or exposes the Company or its affiliates to a substantial risk of harm; (iv) the violation by Executive of any law regarding employment discrimination or sexual harassment as reasonably determined by the Board after a reasonable investigation into any allegation, charge or lawsuit (and not merely based solely on the existence of such allegation, charge or lawsuit); (v) the failure by Executive to comply with any material policy generally applicable to Company employees; (vi) Executive's repeated failure to follow the reasonable directives of the CEO; (vii) the failure to devote full business time to the Company's affairs; (viii) any other material breach by Executive of this Agreement or any other agreement (including, without limitation, the Proprietary Information, Invention Assignment, and Restrictive Covenant Agreement) or policy relating to employment with the Company or any of its affiliates to which Executive is a party or bound (including the failure by Executive to devote adequate on-site time at the Company's principal offices); or (ix) the Company's discovery that, prior to Executive's employment, Executive engaged in any conduct prohibited by clauses (i) through (iv) immediately above. "Disability" means the determination by the CEO (in its sole and absolute discretion) that Executive is unable to perform Executive's duties in a manner consistent with the terms hereof. "Termination Date" means the date on which Executive's employment with the Company ends for any reason, including termination by the Company, resignation, Disability, or death.

(b) Termination. Executive may resign from employment with the Company at any time upon thirty days' prior written notice to the Company. The Company may terminate Executive's employment at any time (for any reason or no reason) immediately upon notice to Executive. Executive's employment shall terminate automatically upon Executive's death or Disability.

(c) Compensation Upon Termination.

(i) If Executive's employment with the Company ends for any reason, then Executive shall be entitled to: (1) Executive's Base Salary through the Termination Date; (2) any Bonus payable to Executive under Section 5(b) of this Agreement; (3) benefits (including accrued vacation) as provided in Section 6 through the Termination Date; and (4) reimbursement of expenses incurred by Executive through the Termination Date as provided in Section 7.

(ii) If the Company terminates Executive's employment without Cause, then, in addition to the compensation described in Section 8(c)(i), the Company shall continue to pay Executive's Base Salary for the period starting on the first day after the Termination Date and ending nine months after the Termination Date.

(iii) The payments described in the preceding sentences are referred to in this Agreement as the "Severance Payments," and the applicable period of time in which the Severance Payments are to be paid is referred to in this Agreement as the "Severance Period." All Severance Payments shall be payable in accordance with the Company's ordinary payroll practices, but in no event less frequently than monthly. Notwithstanding any provision to the contrary herein, and without limitation of any remedies to which the Company may be entitled (including under this Agreement or applicable law) and except for termination by reason of Executive's death: (1) the Company shall not be required to make any Severance Payments unless and until Executive signs and delivers to the Company a Release and the statutory period (if any) during which such Release can be revoked expires, provided that if any Severance Payment constitutes "nonqualified deferred compensation" for purposes of Code Section 409A (as defined in Section 10(m) hereof), any such payment scheduled to occur during the first 60 days following the Termination Date shall not be paid until the 60th day following such termination and shall include payment of any amount that was otherwise scheduled to be paid prior thereto; (2) Severance Payments shall be reduced by the gross amount of any compensation paid to Executive pursuant to any disability insurance policy of the Company during the Severance Period; (3) Executive shall not be entitled to Severance Payments if, at the time that Executive's employment is terminated, grounds existed for the termination of Executive's employment for Cause; and (4) Executive shall not be entitled to any Severance Payments with respect to any portion of the Severance Period during which Executive is violating any of Executive's obligations under the Proprietary Information, Invention Assignment, and Restrictive Covenant Agreement. "Release" means a written release, in form and substance reasonably satisfactory to the Company, whereby Executive waives and releases the Company and its affiliates and related parties from any and all claims that Executive may have against them (including claims in connection with Executive's employment or the termination thereof), provided that the Release will not apply to the Company's obligation, if any, to make Severance Payments (as defined herein), or obligations under any equity compensation agreement that is not terminated on the Termination Date.

(iv) Except as expressly provided in this Section 8(c) and benefits to the extent required under employee benefit plans or applicable law, Executive shall not be entitled to any compensation or benefits upon termination of employment.

9. Notices. Any notice provided for in this Agreement must be in writing and must be (a) personally delivered, (b) mailed by first class mail (postage prepaid and return receipt requested), or (c) sent by reputable overnight courier service (charges prepaid) to the recipient at the following address:

(1) if to Executive, addressed to Richard Hague, XXXXXXXXXXXXXXXX, e-mail: XXXXXXXXXXX; and

(2) if to Company, addressed to PolarityTE, Inc., 123 N Wright Brothers Drive, Attn: General Counsel, Salt Lake City, UT 84116; and/or

(3) to such other respective addresses and/or addressees as may be designated by notice given in accordance with the provisions of this Section 9.

Notices delivered by mail shall be deemed given three business days after being deposited in the United States mail, postage prepaid, registered or certified mail. Notices delivered by hand shall be deemed given on the day of delivery. Notices delivered by reputable overnight courier service shall be deemed given two business days after being sent.

10. General Provisions.

(a) Applicable Law. This Agreement shall be governed by the internal laws of the state of Utah, without giving effect to any choice of laws rules that would require the application of the laws of any other jurisdiction.

(b) Severability. If any provision of this Agreement or portion thereof is determined by a court or other tribunal to be wholly or partially unenforceable in any jurisdiction, then (for purposes of such jurisdiction) such provision or portion thereof shall be struck from the remainder of this Agreement, which shall remain in full force and effect.

(c) Remedies. The remedies of each party hereunder shall be cumulative and concurrent, and may be pursued singularly, successively, or together, in such party's discretion. If either party brings an action against the other party for breach of any term of this Agreement, the losing party in such action shall pay the reasonable attorneys' fees and costs incurred in the action by the other party.

(d) Proprietary Information Agreement. Concurrently with the execution of this Agreement the Executive is executing and delivering to the Company the Proprietary Information, Invention Assignment, and Restrictive Covenant Agreement in the form attached hereto as Exhibit A.

(e) Complete Agreement; Amendments. This Agreement (and any other written agreement(s) of even date herewith between the parties concerning the subject matter hereof, including the Proprietary Information, Invention Assignment, and Restrictive Covenant Agreement): (i) contains the complete agreement of the parties regarding the subject matter hereof; and (ii) supersedes any prior agreements, representations or warranties between the parties regarding the subject matter hereof. Each exhibit hereto shall be deemed part of this Agreement. No amendment hereto shall be enforceable unless in writing and signed and delivered by the party against whom it is to be enforced.

(f) Counterparts and Electronic Signatures. This Agreement may be executed in one or more counterparts, each of which shall be deemed an original and all of which together shall constitute a single instrument. Execution and delivery of this Agreement by electronic exchange bearing the copies of a party's signature shall constitute a valid and binding execution and delivery of this Agreement by such party. Such electronic copies shall constitute enforceable original documents and shall be considered to have the same binding legal effect as if it were the original signed version thereof delivered in person. At the request of any party hereto, the other party hereto shall re-execute an original form thereof and deliver it to the requesting party. No party hereto shall raise the use of electronic mail attachment in "pdf" or similar format to deliver a signature, or the fact that any signature was transmitted or communicated as an attachment to an electronic mail message, as a defense to the formation of a contract and each party forever waives any such defense. An electronically scanned copy of a signature shall constitute and shall be deemed to be sufficient evidence of a party's execution of this Agreement, without necessity of further proof. It shall not be necessary in making proof of this Agreement to produce or account for more than one such counterpart.

(g) Successors; Assignment. This Agreement shall be for the benefit of and binding upon: (i) Executive's heirs, legatees and personal representatives; and (ii) the Company's successors and assigns. This Agreement is not assignable by Executive. The Company may assign this Agreement without the consent of Executive in connection with a sale of the Company (whether by sale of equity, sale of substantially all of its assets, change of control, merger or otherwise).

(h) Waivers. No waiver of any of the provisions of this Agreement shall constitute a waiver of any other provisions, whether or not similar, nor shall any waiver constitute a continuing waiver. No course of dealing will be deemed to amend, waive or discharge any part of this Agreement or any of the rights or obligations of any Person under this Agreement.

(i) Jurisdiction and Venue. Each party hereto irrevocably submits to the exclusive jurisdiction of any state or federal court within the State of Utah with respect to any cause or claim arising under or relating to this Agreement. Each party hereto irrevocably consents to the service of process by registered mail or personal service, irrevocably waives any objection based on forum non conveniens with respect to such a court, and irrevocably waives any objection to venue in such court. Nothing in this Section 10(i) shall affect any person's right (i) to serve process in any other manner permitted by applicable law, or (ii) to enforce any judgment in any court or jurisdiction.

(j) Construction. The headings contained in this Agreement are for convenience of reference only and shall not affect the meaning or interpretation of this Agreement. Unless this Agreement expressly provides otherwise, each definition herein applies (i) for purposes of this entire Agreement; and (ii) to both the singular and plural forms (and other grammatical variations) of the defined term. Unless the context clearly indicates otherwise, each pronoun herein shall be deemed to include the masculine, feminine, neuter, singular and plural forms thereof. The terms "including", "includes", "include" and words of like import shall be construed broadly as if followed by the words "without limitation". The terms "herein", "hereunder", "hereof" and words of like import refer to this entire Agreement instead of just the provision in which they are found. This Agreement shall be construed as if drafted jointly by all the parties, and no presumption, burden of proof or rule of construction shall be applied that favors or disfavors any party by virtue of the authorship of any provision of this Agreement.

(k) Other Obligations. Without implication that the contrary would otherwise be true, Executive's obligations under the Proprietary Information, Invention Assignment, and Restrictive Covenant Agreement are in addition to, and not in limitation of, any obligations that Executive may have under applicable law (including any law regarding trade secrets, duty of loyalty, fiduciary duty, unfair competition, unjust enrichment, conversion, misappropriation or fraud).

(l) Notification to Subsequent Employers. Executive hereby authorizes the Company at its discretion to contact Executive's prospective or subsequent employers and inform them of this Agreement or any other policy or agreement between Executive and the Company that may be in effect at the time that Executive's employment with the Company ends.

(m) Section 409A Compliance.

(i) The intent of the parties to this Agreement is that payments and benefits under this Agreement comply with Internal Revenue Code Section 409A and the regulations and guidance promulgated thereunder (collectively "Code Section 409A") and, accordingly, to the maximum extent permitted, this Agreement shall be interpreted to be in compliance therewith. To the extent that any provision hereof is modified in order to comply with Code Section 409A, such modification shall be made in good faith and shall, to the maximum extent reasonably possible, maintain the original intent and economic benefit to Executive and the Company of the applicable provision without violating the provisions of Code Section 409A. In no event whatsoever shall the Company be liable for any additional tax, interest or penalty that may be imposed on Executive by Code Section 409A or damages for failing to comply with Code Section 409A.

(ii) A termination of employment shall not be deemed to have occurred for purposes of any provision of this Agreement providing for the payment of any amounts or benefits upon or following a termination of employment unless such termination is also a "separation from service" within the meaning of Code Section 409A and, for purposes of any such provision of this Agreement, references to a "termination," "termination of employment" or like terms shall mean "separation from service."

(iii) To the extent that reimbursements or other in-kind benefits under this Agreement constitute "nonqualified deferred compensation" for purposes of Code Section 409A, (A) all expenses or other reimbursements hereunder shall be made on or prior to the last day of the taxable year following the taxable year in which such expenses were incurred by Executive, (B) any right to reimbursement or in-kind benefits shall not be subject to liquidation or exchange for another benefit, and (C) no such reimbursement, expenses eligible for reimbursement, or in-kind benefits provided in any taxable year shall in any way affect the expenses eligible for reimbursement, or in-kind benefits to be provided, in any other taxable year.

(iv) For purposes of Code Section 409A, Executive's right to receive any continued payments pursuant to this Agreement shall be treated as a right to receive a series of separate and distinct payments. Whenever a payment under this Agreement specifies a payment period with reference to a number of days, the actual date of payment within the specified period shall be within the sole discretion of the Company.

(v) Notwithstanding any other provision of this Agreement to the contrary, in no event shall any payment under this Agreement that constitutes "nonqualified deferred compensation" for purposes of Code Section 409A be subject to offset by any other amount unless otherwise permitted by Code Section 409A.

[Remainder of page intentionally blank]

Intending to be legally bound, the parties execute this Employment Agreement as of the date first written above.

EXECUTIVE

/s/ Richard Hague

POLARITYTE, INC.

/s/ Denver Lough

By: Denver M. Lough, MD, PhD

Its: Chairman & Chief Executive Officer

**PROPRIETARY INFORMATION, INVENTION ASSIGNMENT, AND
RESTRICTIVE COVENANT AGREEMENT**

This PROPRIETARY INFORMATION, INVENTION ASSIGNMENT, AND RESTRICTIVE COVENANT AGREEMENT (the “**Agreement**”) is made _____, between PolarityTE, Inc., a Delaware corporation (“**POLARITYTE**” or the “**Company**”) and _____ (“**Employee**”), a resident of the State of Utah (POLARITYTE and Employee hereinafter referred to individually as a “Party” and collectively as the “Parties”).

In consideration of Employee’s employment with POLARITYTE, any compensation now and hereinafter paid to Employee and Employee’s receipt of Trade Secret and/or Proprietary Information, Employee hereby declares and agrees as follows:

1. DEFINITIONS

a. For purposes of this Agreement, the term “**Business Activities**” means the activities of the business, as currently conducted by POLARITYTE, which include developing its own inventions, improvements, works of authorship and discoveries, including but not limited to tissue regeneration, products, methods, programs, systems, business affairs, artwork, text, copyrights, trade secrets, software, hardware, and databases, relating to technology in the field of tissue regeneration technology, and other activities relating to the foregoing.

b. For purpose of this Agreement, the terms “**Group Company**” and “**Group Companies**” mean (i) any parent or holding company of POLARITYTE; (ii) any subsidiary of POLARITYTE or of POLARITYTE’s parent or holding company; and (iii) any other company or other form of business entity identified in writing by POLARITYTE as being a Group Company.

c. For purposes of this Agreement, the term “**Proprietary Information**” means any and all information relating to the business of POLARITYTE (including, but not limited to, Confidential Information, patents, patent applications, copyrights, and trademarks) that has value to POLARITYTE and its Group Companies.

d. For purposes of this Agreement, the term “**Confidential Information**” means information and materials that are valuable and not generally known or readily ascertainable by POLARITYTE’s competitors, including POLARITYTE Trade Secrets. Confidential Information includes without limitation:

i. Any and all information concerning or relating to POLARITYTE, any of its Group Companies, or their current or proposed business, including financial statements, budgets and projections, customer-identifying information, potential and intended customers, vendors, and suppliers, personnel information, computer programs, specifications, manuals, software, analyses, strategies, marketing plans, business plans, and other confidential information;

ii. Any and all information and materials relating to POLARITYTE’s current, future, or proposed products, including but not limited to, research, formulas, production parameters, designs, devices, drawings, specifications, laboratory notebook entries, technical notes, graphs, computer printouts, technical memoranda; correspondence, product development agreements, and other agreements; and

iii. Any and all notes, analyses, compilations, studies, summaries, and other material, regardless of author, whether provided orally, in writing, or by any other media, that contain or are based on all or part of the information described in subsections 1(d)(i) and/or 1(d)(ii) above.

e. For purposes of this Agreement, the term Confidential Information shall not include any data or information that has been voluntarily disclosed to the public by POLARITYTE, its Group Companies or that has been independently developed and disclosed by others, or that otherwise enters the public domain through lawful means.

f. For purposes of this Agreement, the term “**POLARITYTE**” shall include all subsidiaries and related, associated or affiliated companies of POLARITYTE as well as any successors in interest to POLARITYTE.

g. For purposes of this Agreement, the term “**Proprietary Rights**” shall mean all trade secret, patent, copyright, trademark, trade dress, mask work and other intellectual property rights in the United States and any and all other countries throughout the world.

h. For purposes of this Agreement, the term “**Territory**” means the United States of America, including all 50 states.

i. For purposes of this Agreement, the term “**Trade Secret**” means any and all information, including, without limitation, technical or non-technical data, formulas, patterns, compilations, programs, devices, methods, techniques, drawings, processes, or other information similar to any of the foregoing, that derives economic value, actual or potential, from not being generally known to, and not being readily ascertainable by proper means by, other persons who can derive economic value from its disclosure or use and is the subject of efforts that are reasonable under the circumstances to maintain its secrecy.

2. OBLIGATION TO MAINTAIN CONFIDENTIALITY

a. Employee acknowledges and agrees not to use or disclose without prior written consent of an authorized representative of POLARITYTE (a) any Trade Secret of POLARITYTE, its Group Companies, and/or their customers, vendors, and suppliers for so long as such item or information constitutes a Trade Secret under applicable law; or (b) any Confidential Information of POLARITYTE, its Group Companies, and/or their customers, vendors, and suppliers for so long as such item or information constitutes Confidential Information.

b. At no time during any period that Employee is employed with POLARITYTE may Employee disclose, use, store on any of POLARITYTE's or any Group Company's systems, or bring onto POLARITYTE's or any Group Company's premises any trade secrets or confidential information belonging to any of Employee's prior employers. EMPLOYEE further represents and warrants that he/she is not a party to any existing contract relating to the granting or assignment to others of any interest in POLARITYTE's current or future Proprietary Information, Proprietary Rights, or Work Product.

3. COVENANT NOT-TO-COMPETE. Employee expressly agrees that during his/her employment with POLARITYTE and/or any Group Company and for a period of one (1) year following the date his/her employment with POLARITYTE and/or any Group Company terminates, he/she will not, directly or by assisting others, conduct Business Activities in the Territory or otherwise engage in, have an equity or profit interest in, loan money to or render services of an executive, management, marketing, sales, research and development, business development, strategic planning, administrative, financial, or consulting nature to or on behalf of any Person that engages, or plans to engage, in Business Activities in the Territory. Notwithstanding anything in this Agreement to the contrary, Employee may acquire up to five percent (5%) of any class of securities of any company engaged in Business Activities in the Territory where such securities are publicly-traded on a national securities exchange or in the over-the-counter market so long as Employee holds such securities as a passive investment and does not take an active part in the management or direction of such company and does not act as a consultant therefore or in any way render services thereto.

4. NON-SOLICITATION OF EMPLOYEES. Employee hereby covenants that, without the prior written consent of POLARITYTE, Employee will not during his/her employment or for 12 months after his/her last date of employment, directly or indirectly solicit or attempt to solicit for employment with Employee or any other individual, corporation, partnership, venture or other business entity, any employee of POLARITYTE or any Group Company who, on the last day of Employee's employment with POLARITYTE or any Group Company or within 12 months prior to that date, is someone with whom Employee had material business-related contact (whether or not such person would commit a breach of contract).

5. USE OF NAME. Employee shall not at any time after the date his employment with POLARITYTE or any Group Company terminates employ or use any business or trade name which is identical to or similar to POLARITYTE's or any Group Company's business or trade name, in such a manner as is likely to be confused with any business or trade name used by POLARITYTE or any Group Company or which might suggest a connection with POLARITYTE or any Group Company. The Employee shall not after termination of his/her employment represent himself as being employed by or a representative of POLARITYTE or any Group Company.

6. OWNERSHIP OF WORK PRODUCT.

a. Employee agrees to promptly report and disclose to POLARITYTE all developments, discoveries, methods, processes, designs, inventions, ideas, improvements, or other work product conceived, developed, created, or reduced to practice by Employee, whether alone or acting with others, during Employee's period of employment by POLARITYTE and/or any Group Company and for a period of 12 months following the end of that employment, that are:

i. conceived, developed, created, or reduced to practice by Employee, whether alone or acting with others, (a) within the scope of his/her employment; (b) on POLARITYTE's and/or any Group Company's time; or (c) with the aid, assistance, or use of any of POLARITYTE's and/or any Group Company's property, equipment, facilities, supplies, resources, and/or any or all of its intellectual property (meaning patents, trade secrets, know-how, technology, confidential information, ideas, copyrights, trademarks, and service marks and any and all rights, applications, and registrations relating to them);

- ii. the result of any work, services, or duties performed by an employee for POLARITYTE and/or any Group Company;
- iii. related to the industry or trade of POLARITYTE and/or any Group Company; or
- iv. related to the current or demonstrably anticipated business, research, or development of POLARITYTE and/or any Group Company.

(hereinafter collectively "**Work Product**"). Employee agrees that all Work Product shall be regarded as made and held by him/her in a fiduciary capacity and solely for the benefit of POLARITYTE and/or any Group Company, shall not be disclosed to others without POLARITYTE's and/or any Group Company's written consent, and shall be the sole and exclusive property of POLARITYTE and/or any Group Company. Employee hereby assigns to POLARITYTE his/her entire right, title and interest in and to any and all Work Product (including without limitation any Proprietary Rights thereto).

b. Notwithstanding the provisions of section 6(a) above, Employee understands that this Agreement does not apply to an invention which qualifies fully as a nonassignable invention under the Utah Employment Inventions Act, Utah Code §§ 34-39-1, *et seq.* (hereinafter the "EIA").

c. Work Product, if any, patented or unpatented, which Employee made prior to the commencement of Employee's employment with POLARITYTE and/or any Group Company is excluded from the scope of this Agreement. To preclude any possible uncertainty, Employee has set forth on **Appendix "A"** (Prior Work Product) attached hereto and incorporated herein by reference a complete list of all previous Work Product that Employee has, solely or jointly with others, conceived, developed, or reduced to practice or caused to be conceived, developed, or reduced to practice prior to the commencement of Employee's employment with POLARITYTE and/or any Group Company, that Employee considers to be Employee's property or the property of third parties and that Employee wishes to have excluded from the scope of this Agreement (collectively referred to as "**Prior Work Product**"). If disclosure of any such Prior Work Product would cause Employee to violate any prior confidentiality agreement, Employee understands that Employee is not to list such Prior Work Product in Appendix "A" but is only to disclose a cursory name for such Prior Work Product, a listing of the party(ies) to whom it belongs and the fact that full disclosure as to such Prior Work Product has not been made for that reason. A space is provided on Appendix "A" for such purpose. If no such disclosure is attached or if the disclosure is incomplete or blank, Employee represents that there is no such Prior Work Product. If, in the course of Employee's employment with POLARITYTE and/or any Group Company, Employee incorporates Prior Work Product into a POLARITYTE and/or any Group Company product, process or machine, POLARITYTE and/or the relevant Group Company is hereby granted and shall have a nonexclusive, royalty-free, irrevocable, perpetual, worldwide license (with rights to sublicense through multiple tiers of sublicensees) to make, have made, modify, use, and sell such Prior Work Product as part of or in connection POLARITYTE and/or Group Company property. Notwithstanding the foregoing, Employee agrees that Employee will not incorporate, or permit to be incorporated, Prior Work Product in any POLARITYTE and/or any Group Company Work Product without POLARITYTE's prior written consent.

d. Employee agrees to perform, upon the reasonable request of POLARITYTE and/or any Group Company, during or after employment, such further acts as may be necessary or desirable to transfer, perfect and defend POLARITYTE's and/or any Group Company's ownership of the Work Product, including but not limited to: Employee agrees to assist POLARITYTE and/or any Group Company and their respective agents in preparing registration filings and/or patent applications, United States and foreign, covering the same; agrees to sign and deliver all said applications and assignments of the same to POLARITYTE and/or any Group Company, and agrees to provide all information and testimony, sign all papers and do all things which may be needed or requested by POLARITYTE and/or any Group Company so that they may obtain, extend, reissue, maintain and enforce United States and foreign registrations and/or patents covering said Work Product.

e. In the event POLARITYTE and/or any Group Company is unable for any reason, after reasonable effort, to secure Employee's signature on any document needed in connection with the actions specified in this Section 6, then Employee hereby irrevocably designates and appoints POLARITYTE and its duly-authorized officers and agents as Employee's agent and attorney in fact, which appointment is coupled with an interest, to act for and on Employee's behalf to execute, verify and file any such documents and to do all other lawfully permitted acts to further the purposes of this Agreement with the same legal force and effect as if executed by Employee. The designation and appointment of POLARITYTE and its duly-authorized officers and agents as Employee's agent and attorney in fact shall be deemed to be coupled with an interest and therefore irrevocable. Employee hereby waives and quitclaims to POLARITYTE any and all claims, of any nature whatsoever, which Employee now or may hereafter have for infringement of any Proprietary Rights assigned hereunder to POLARITYTE and/or any Group Company.

f. Employee will keep and maintain adequate and current written records of Work Product in the form of notes, electronic/ machine readable media, hard-copy or screen printouts, drawings, reports, studies, tests, or other documents relating thereto, which records shall be, remain the exclusive property of, and be available to, POLARITYTE at all times regardless of its location. All such records (electronic or written), associated documents or things in Employee's custody or possession, regardless of location, shall be the exclusive property of POLARITYTE, shall not be copied, transmitted, or removed from POLARITYTE except as specifically authorized by POLARITYTE pursuant to the business of POLARITYTE, and shall be delivered to POLARITYTE, without retaining any copies in any form upon the termination of employment.

7. PUBLICITY. During the period of employment with POLARITYTE, Employee grants permission to POLARITYTE, to take and use visual/audio images of Employee made in connection with employment activities. Visual/audio images may be of any type of recording, including but not limited to photographs, digital images, drawings, renderings, voices, sounds, video recordings, audio clips as well as accompanying written descriptions. POLARITYTE will not materially alter the Employee's appearance in the original images or recordings. Employee agrees that POLARITYTE owns the images and recordings as well as all moral rights and other rights related to them. The images recordings may be used at any time during or after employment by POLARITYTE in any manner or media without notifying Employee, in POLARITYTE-sponsored websites, publications, promotions, broadcasts, advertisements, posters and presentation slides. Employee expressly waives any right to inspect or approve the finished images or recordings as well as any printed or electronic matter that may be used with them, as well as any claim for compensation from use or publication thereof. Employee also releases POLARITYTE and any entity authorized by POLARITYTE during the term of employment and thereafter to publish, broadcast and/or distribute any product containing the images or recordings, from any claims, damages or liability to which Employee may be entitled under the law of any jurisdiction in connection with the taking or use of the images or recordings.

8. RETURN OF PROPERTY.

- a. Upon the request of POLARITYTE and, in any event, upon the termination of Employee's employment with POLARITYTE, Employee shall deliver to POLARITYTE all memoranda, notes, records, manuals or other documents (including, but not limited to, written instruments, voice or data recordings, or computer tapes, disks or files of any nature), including all copies of such materials and all documentation prepared or produced in connection therewith, pertaining to the performance of Employee's services for POLARITYTE, the business of POLARITYTE, or containing Trade Secrets or Proprietary Information regarding POLARITYTE's business, whether made or compiled by Employee or furnished to Employee by virtue of Employee's employment with POLARITYTE. Employee shall also deliver to POLARITYTE or its authorized representative such of the following as are in Employee's possession or control:
- all keys, access cards, security codes, and computer passes;
 - all computers, computer hardware, software, telephones, smartphones, telecommunications equipment, or other equipment belonging to the Group;
 - all credit cards and charge cards provided for Employee's use by POLARITYTE;
 - any company car provided and all keys and documents relating to it; and
 - all other property of the POLARITYTE, any Group Company or their respective customers, vendors, and suppliers.
- b. Employee acknowledges and agrees that all documents, data, e-mails or other communications or information, whether residing on POLARITYTE's or Group Company's systems, servers, computers, files or otherwise, or which Employee created or received on behalf of POLARITYTE or any Group Company, are the property of POLARITYTE and/or any Group Company. Employee acknowledges and agrees that he/she has no expectation of privacy in POLARITYTE's or any Group Company's systems, servers, computers, files, or otherwise.

9. INJUNCTIVE RELIEF.

a. Because Employee's services are personal and unique and because Employee will have access to and become acquainted with the Proprietary Information, Trade Secrets, and/or Work Product of POLARITYTE and/or its Group Companies. Employee acknowledges and agrees that his/her obligations under this Agreement are reasonable and necessary to protect the legitimate business interests of POLARITYTE, its Group Companies, and/or their customers, vendors, and suppliers. Employee understands and agrees that in the event of a breach or threatened breach of any of the covenants and promises in this Agreement, the harm that POLARITYTE and/or its Group Companies will suffer will necessarily result in irreparable and immediate damage to their business interests for which there is no adequate remedy at law. Accordingly, Employee agrees that POLARITYTE and/or its Group Companies should be awarded temporary, preliminary, and permanent injunctive, equitable and other legal relief they deem appropriate, without necessity of a bond, to enjoin Employee from engaging in acts or omissions in breach of this Agreement. This right shall be in addition to any other remedy available to POLARITYTE and/or its Group Companies at law or equity. Employee agrees that in the event POLARITYTE and/or its Group Companies is awarded any injunctive, equitable and/or other equitable relief, Employee shall be responsible for paying POLARITYTE's and/or its Group Companies' attorney's fees and costs associated with any action taken by POLARITYTE and/or its Group Companies to enforce their rights and/or Employee's obligations under this Agreement.

b. Employee acknowledges and agrees that for twelve (12) months from the date his/her employment with POLARITYTE and/or any Group Company ends, Employee will inform any new employer of Employee's obligations under this Agreement.

c. The Parties acknowledge and agree that the covenants contained in this Agreement have been negotiated in good faith by the Parties, and are reasonable and are not more restrictive or broader than necessary to protect the interests of POLARITYTE and its business, and would not achieve their intended purpose if they were on different terms or for periods of time shorter than the periods of time provided herein or applied in more restrictive geographical areas than are provided herein.

10. PROTECTED RIGHTS; LIMITED TRADE SECRET IMMUNITY.

a. Notwithstanding any other provision of this Agreement, nothing contained in this agreement limits Employee's ability to file a charge or complaint with the Equal Employment Opportunity Commission, the National Labor Relations Board, the Occupational Safety and Health Administration, the Securities and Exchange Commission or any other federal, state or local governmental agency or commission (collectively, "Government Agencies"), or prevents Employee from providing truthful information in response to a lawfully-issued subpoena or court order. Further, this Agreement does not limit Employee's ability to communicate with any Government Agencies or otherwise participate in any investigation or proceeding that may be conducted by any Government Agencies, including providing documents or other information, without notice to POLARITYTE.

b. Employee is hereby notified that under the Defend Trade Secrets Act: (i) no individual will be held criminally or civilly liable under federal or state trade secret law for disclosure of a trade secret (as defined in the Economic Espionage Act) that is: (A) made in confidence to a federal, state, or local government official, either directly or indirectly, or to an attorney, and made solely for the purpose of reporting or investigating a suspected violation of law; or, (B) made in a complaint or other document filed in a lawsuit or other proceeding, if such filing is made under seal so that it is not made public; and (ii) an individual who pursues a lawsuit for retaliation by an employer for reporting a suspected violation of the law may disclose the trade secret to the attorney of the individual and use the trade secret information in the court proceeding, if the individual files any document containing the trade secret under seal, and does not disclose the trade secret, except as permitted by court order.

11. NO CONFLICTING AGREEMENTS; NON-DISCLOSURE OF THIRD PARTY CONFIDENTIAL OR PROPRIETARY INFORMATION. EMPLOYEE represents and warrants that he/she is not party to any other agreement that conflicts, constitute a breach of, or otherwise violate the terms of this Agreement, including but not limited to any employment, consulting, noncompete, or confidentiality agreement(s) with any third party that contain restrictive covenants or otherwise precludes EMPLOYEE from entering into this Agreement. EMPLOYEE will not disclose or use during the period of employment with POLARITYTE, any Confidential Information or Proprietary Information as defined by law or by agreement with a previous employer which EMPLOYEE acquired because of employment with an employer other than POLARITYTE, whether such information is in machine readable media (optical, magnetic, etc) or embodied in a writing or other physical form.

12. MISCELLANEOUS PROVISIONS.

a. **Headings.** The headings in this Agreement are for convenience only and shall not affect its interpretation or construction.

b. **Statutory References.** A reference to any statutory or legislative provision includes a reference to that provision as modified, replaced, amended and/or re-enacted from time to time.

c. **Rights Not Diminished.** The covenants in this Agreement are in addition to, and in no way limit or modify, Employee's ongoing obligations under applicable law. Nothing in this Agreement is intended to or shall be interpreted as diminishing or otherwise limiting POLARITYTE's right under applicable law to protect its trade secrets, confidential information, and intellectual property.

d. **Survival.** This Agreement is binding upon Employee's heirs, executors, administrators and other legal representatives and is for the benefit of POLARITYTE, the Group Companies, and their successors, and its assigns. The provisions of this Agreement shall survive the termination of Employee's employment. The provisions of this Agreement shall also survive the assignment of this Agreement by POLARITYTE and/or any Group Company to any successor in interest or other assignee, which is expressly permitted.

e. **Non-Disparagement.** Employee agrees and covenants that following Employee's employment, Employee will not at any time make, publish, or communicate to any person or entity or in any public forum any defamatory or disparaging remarks, comments, or statements concerning the Employer or its businesses, or any of its employees, officers, and existing and prospective customers, suppliers, investors, and other associated third parties. This Section does not, in any way, restrict or impede the Employee from exercising his/her rights under Section 7 of the National Labor Relations Act to the extent that such rights cannot be waived by agreement or from complying with any applicable law or regulation or a valid order of a court of competent jurisdiction or an authorized government agency, provided that such compliance does not exceed that required by the law, regulation, or order. The Employee shall promptly provide written notice of any such order to an authorized officer of the Employer within 3 days of receiving such order, but in any event sufficiently in advance of making any disclosure to permit the Employer to contest the order or seek confidentiality protections, as determined in the Employer's sole discretion.

f. **Notices.** All notices and other communications hereunder shall be in writing and shall be deemed duly given (a) on the date of receipt, if delivered personally, (b) on the date of receipt, if delivered by facsimile or e-mail during normal business hours on a Business Day or, if delivered outside of normal business hours on a Business Day, on the first Business Day thereafter, (c) on the first Business Day following the date of dispatch if delivered utilizing a next-day service by a recognized next-day courier, or (d) on the earlier of confirmed receipt or the fifth (5th) Business Day following the date of mailing if delivered by registered or certified mail, return receipt requested, postage prepaid. All notices hereunder to Employee shall be delivered to the Employee's last known address, or pursuant to such other instructions as may be designated in writing by Employee. All notices hereunder to POLARITYTE shall be delivered to the address set forth below, or pursuant to such other instructions as may be designated in writing by POLARITYTE:

PolarityTE, Inc.
Attn: Human Resources
123 Wright Brothers Drive
Salt Lake City, Utah 84116

g. **Entire Agreement.** Except for any other confidentiality or nondisclosure agreement between Employee and POLARITYTE and any employment agreement, if any, which shall remain in full force and effect, this Agreement is the final, complete and exclusive agreement of the Parties with respect to the subject matter hereof and supersedes and merges all prior discussions between the Parties. Any amendment to or modification of this Agreement must be recorded in writing and signed by the Parties to be effective. Any subsequent change or changes in Employee's duties, salary or compensation will not affect the validity or scope of this Agreement. The provisions of this Agreement may not be explained, supplemented, or qualified by evidence of trade usage or a prior course of dealings. Neither Party was induced to enter this Agreement by, and neither Party is relying on, any statement, representation, warranty, or agreement of the other Party except those set forth expressly in this Agreement. Except as set forth expressly in this Agreement, there are no conditions precedent to this Agreement's effectiveness.

h. **Severability.** If a court of competent jurisdiction adjudicates any covenant or obligation under this Agreement void or unenforceable, then the Parties intend that the court modify such provision only to the extent necessary to render the covenant or obligation enforceable as modified or, if the covenant or obligation cannot be so modified, the Parties intend that the court sever such covenant or obligation, and that the remainder of this Agreement, and all remaining covenants, obligations and provisions as so modified, shall remain valid, enforceable, and in full force and effect.

i. **Choice of Law and Forum.** This Agreement shall be construed and interpreted in accordance with the laws of the State of Utah, excepting choice of law provisions, and any legal proceeding based on a dispute(s) arising hereunder will be maintained exclusively in federal or state courts with jurisdiction over Salt Lake County in the State of Utah.

j. **No Waiver.** No waiver of a breach, failure of any condition, or any right or remedy contained in or granted by the provisions of this Agreement will be effective unless it is in writing and signed by the Party waiving the breach, failure, right, or remedy. No waiver of any breach, failure, right, or remedy will be deemed a waiver of any other breach, failure, right, or remedy, whether or not similar, and no waiver will constitute a continuing waiver, unless the writing so specifies.

k. **Necessary Acts; Further Assurances.** Each Party shall use all reasonable efforts to take, or cause to be taken, all actions necessary or desirable to carry out the intent and purpose of this Agreement.

l. **Counterparts.** The Parties may execute this Agreement in any number of counterparts, each of which is an original but all of which constitute one and the same instrument. This Agreement, agreements ancillary to this Agreement, and related documents entered into in connection with this Agreement are signed when a Party's signature is delivered by facsimile, email, scan, PDF, or other electronic medium. A facsimile, scanned, or other signature delivered via electronic medium shall be deemed in all respects as having the same force and effect as an original signature.

By signing below, Employee acknowledges and agrees that he/she has read this Agreement carefully and understands its terms. This Agreement provides for title to POLARITYTE of certain intellectual property Employee might make as a result of his/her employment. Employee may wish to consult legal counsel of his/her choice to advise him/her of his/her rights and obligations.

DATE

EMPLOYEE

DATE

PolarityTE, Inc., a Delaware corporation
Name: _____
Title: _____

APPENDIX "A"

Prior Work Product

1. Except as listed in Section 2 below, the following is a complete list of all Work Product that have been made or conceived or first reduced to practice by me alone or jointly with others prior to my employment by the Company:

Check appropriate lines below

No Work Product.

See description of Work Product below:

See additional sheets attached with description of Work Product below.

2. Due to a prior confidentiality agreement, I cannot complete the disclosure under Section 1 above with respect to Work Product generally listed below, the proprietary rights and duty of confidentiality with respect to which I owe to the following party(ies):

	<u>Work Product</u>	<u>Party(ies)</u>	<u>Relationship</u>
1.			
2.			
3.			

Check box if additional sheets attached.

CERTIFICATION

I, Denver Lough, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of PolarityTE, 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 Rule 13a-15(f) and 15(d)-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: May 10, 2019

/s/ Denver Lough

Denver Lough
Chief Executive Officer
(Principal Executive Officer)

CERTIFICATION

I, Paul Mann, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of PolarityTE, 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 Rule 13a-15(f) and 15(d)-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: May 10, 2019

/s/ Paul Mann

Paul Mann
Chief Financial Officer
(Principal Financial Officer)

Certification
Pursuant to Section 906 of the Sarbanes-Oxley Act Of 2002
(Subsections (A) And (B) Of Section 1350, Chapter 63 of Title 18, United States Code)

Pursuant to section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of section 1350, chapter 63 of title 18, United States Code), the undersigned officers of PolarityTE, Inc. (the "Company"), do hereby certify, to such officers' knowledge, that:

The Quarterly Report on Form 10-Q for the period ending March 31, 2019 (the "Form 10-Q") of the Company fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, and the information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 10, 2019

/s/ Denver Lough

Denver Lough
Chief Executive Officer
(Principal Executive Officer)

/s/ Paul Mann

Paul Mann
Chief Financial Officer
(Principal Financial and Accounting Officer)
