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

FORM 10-Q

QUARTERLY REPORT

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

For the quarterly period ended June 30, 2019

Commission File No. 000-51128

POLARITYTE, INC.
(Exact name of registrant as specified in its charter)

DELAWARE	**06-1529524**
(State or Other Jurisdiction of Incorporation or Organization)	(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 [X] 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 [X] 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	[ ]	Accelerated filer	[X]
Non-accelerated filer	[ ]	Smaller reporting company	[X]
Emerging growth company	[ ]		

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

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

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 August 2, 2019, there were 25,824,862 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)

	June 30, 2019 (Unaudited)	December 31, 2018
ASSETS		
Current assets:		
Cash and cash equivalents	$ 45,887	$ 55,673
Short-term investments	12,342	6,162
Accounts receivable	1,336	712
Inventory	362	336
Prepaid expenses and other current assets	1,918	1,432
Total current assets	61,845	64,315
Non-current assets:		
Property and equipment, net	16,200	13,736
Operating lease right-of-use assets	5,454	–
Intangible assets, net	825	924
Goodwill	278	278
Other assets	353	913
Total non-current assets	23,110	15,851
TOTAL ASSETS	**$ 84,955**	**$ 80,166**
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	$ 5,977	$ 6,508
Other current liabilities	2,646	316
Current portion of long-term note payable	538	529
Deferred revenue	44	170
Total current liabilities	9,205	7,523
Long-term note payable, net	236	479
Operating lease liabilities	3,833	–
Other long-term liabilities	1,315	131
Total liabilities	14,589	8,133
Commitments and Contingencies		
STOCKHOLDERS' EQUITY:		
Preferred stock - 25,000,000 shares authorized, 0 shares issued and outstanding at June 30, 2019 and December 31, 2018	–	–
Common stock - $.001 par value; 250,000,000 shares authorized; 25,218,606 and 21,447,088 shares issued and outstanding at June 30, 2019 and December 31, 2018, respectively	25	21
Additional paid-in capital	461,491	414,840
Accumulated other comprehensive income	79	36
Accumulated deficit	(391,229)	(342,864)
Total stockholders' equity	70,366	72,033
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	**$ 84,955**	**$ 80,166**

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 June 30,		For the six months ended June 30,	
	2019	2018	2019	2018
Net revenues				
Products	$ 504	$ 189	$ 801	$ 192
Services	822	131	1,990	131
Total net revenues	1,326	320	2,791	323
Cost of sales				
Products	342	125	615	126
Services	254	41	757	41
Total cost of sales	596	166	1,372	167
Gross profit	730	154	1,419	156
Operating costs and expenses				
Research and development	4,764	2,915	10,116	8,488
General and administrative	15,060	11,290	32,255	18,863
Sales and marketing	3,981	–	7,934	–
Total operating costs and expenses	23,805	14,205	50,305	27,351
Operating loss	(23,075)	(14,051)	(48,886)	(27,195)
Other income (expenses)				
Interest income, net	29	51	99	88
Other income, net	254	–	422	–
Change in fair value of derivatives	–	–	–	1,850
Loss on extinguishment of warrant liability	–	–	–	(520)
Net loss	(22,792)	(14,000)	(48,365)	(25,777)
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	$ (22,792)	$ (14,000)	$ (48,365)	$ (33,723)
Net loss per share, basic and diluted:				
Net loss	$ (0.92)	$ (0.74)	$ (2.09)	$ (1.82)
Deemed dividend – accretion of discount on Series F preferred stock	–	–	–	(0.05)
Deemed dividend – exchange of Series F preferred stock	–	–	–	(0.50)
Cumulative dividends on Series F preferred stock	–	–	–	(0.01)
Net loss attributable to common stockholders	$ (0.92)	$ (0.74)	$ (2.09)	$ (2.38)
Weighted average shares outstanding, basic and diluted:	24,768,453	18,944,964	23,190,343	14,187,518

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 June 30,		For the six months ended June 30,	
	2019	2018	2019	2018
Net loss	$ (22,792)	$ (14,000)	$ (48,365)	$ (25,777)
Other comprehensive income:				
Unrealized gain on available-for-sale securities	26	–	43	–
Comprehensive loss	$ (22,766)	$ (14,000)	$ (48,322)	$ (25,777)

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 and six months ended June 30, 2019						
	Common Stock		Additional Paid-in	Accumulated Other Comprehensive	Accumulated	Total Stockholders'
	Number	Amount	Capital	Income	Deficit	Equity
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	283,250	1	528	–	–	529
Vesting of restricted stock units	100,912	–	–	–	–	–
Shares withheld for tax withholding	(82,011)	–	(740)	–	–	(740)
Other comprehensive income	–	–	–	17	–	17
Net loss	–	–	–	–	(25,573)	(25,573)
March 31, 2019	**21,749,239**	**$ 22**	**$ 424,955**	**$ 53**	**$ (368,437)**	**$ 56,593**
Proceeds received from issuance of common stock, net of issuance costs of $1,146	3,418,918	3	27,945	–	–	27,948
Stock-based compensation expense	–	–	8,618	–	–	8,618
Stock option exercises	9,167	–	–	–	–	–
Shares issued under the ESPP	7,260	–	35	–	–	35
Vesting of restricted stock units	51,440	–	–	–	–	–
Shares withheld for tax withholding	(17,418)	–	(62)	–	–	(62)
Other comprehensive income	–	–	–	26	–	26
Net loss	–	–	–	–	(22,792)	(22,792)
June 30, 2019	**25,218,606**	**$ 25**	**$ 461,491**	**$ 79**	**$ (391,229)**	**$ 70,366**

	For the three and six months ended June 30, 2018						
	Preferred Stock		Common Stock		Additional Paid-in	Accumulated	Total Stockholders'
	Number	Amount	Number	Amount	Capital	Deficit	Equity
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	**–**	**$ –**	**16,457,664**	**$ 16**	**$ 289,458**	**$ (281,697)**	**$ 7,777**
Proceeds received from issuance of common stock, net of issuance costs of $2,782	–	–	4,791,819	4	92,672	–	92,676
Stock-based compensation expense	–	–	175,887	–	8,344	–	8,344
Stock option exercises	–	–	20,000	–	64	–	64
Net loss	–	–	–	–	–	(14,000)	(14,000)
June 30, 2018	**–**	**$ –**	**21,445,370**	**$ 20**	**$ 390,538**	**$ (295,697)**	**$ 94,861**

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 six months ended June 30,	
	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	$ (48,365)	$ (25,777)
Adjustments to reconcile net loss to net cash used in operating activities:		
Stock based compensation expense	18,907	15,789
Change in fair value of derivatives	–	(1,850)
Depreciation and amortization	1,446	672
Loss on extinguishment of warrant liability	–	520
Amortization of intangible assets	99	33
Amortization of debt discount	28	11
Change in fair value of contingent consideration	(48)	20
Other non-cash adjustments	30	–
Changes in operating assets and liabilities:		
Accounts receivable	(624)	(332)
Inventory	(26)	(249)
Prepaid expenses and other current assets	(486)	2
Operating lease right-of-use assets	791	–
Other assets	25	(137)
Accounts payable and accrued expenses	(17)	448
Other current liabilities	367	–
Deferred revenue	(126)	–
Operating lease liabilities	(670)	–
Other long-term liabilities	(120)	89
Net cash used in operating activities	(28,789)	(10,761)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(2,110)	(4,163)
Purchase of available-for-sale securities	(15,445)	–
Proceeds from maturities of available-for-sale securities	9,278	–
Acquisition of IBEX	–	(2,258)
Net cash used in investing activities	(8,277)	(6,421)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net proceeds from the sale of common stock	27,948	92,676
Proceeds from stock options exercised	529	64
Proceeds from ESPP purchase	35	–
Cash paid for tax withholdings related to net share settlement	(636)	–
Payment of contingent consideration liability	(109)	–
Principal payments on financing leases	(225)	–
Principal payments on term note payable	(262)	–
Net cash provided by financing activities	27,280	92,740
Net (decrease) increase in cash and cash equivalents	(9,786)	75,558
Cash and cash equivalents - beginning of period	55,673	12,517
Cash and cash equivalents - end of period	$ 45,887	$ 88,075
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	63	441
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	43	–
Unrealized gain on short-term investments and cash equivalents	43	–
Reclassification of stock-based compensation expense that was previously classified as a liability to paid-in capital	38	–
Contingent consideration for IBEX acquisition	–	278
Contingent consideration earned and recorded in accounts payable	–	30
Note payable issued as partial consideration for IBEX acquisition	–	1,220

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

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 Office of the Chief Executive consisting of the Chief Operating Officer, the Chief Financial Officer, and the President of Corporate Development. 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. 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 based on the fair value on the date of grant.

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.

Research and Development Expenses. Costs incurred for research and development are expensed as incurred.

Nonrefundable advance payments for goods or services that have the characteristics that will be used or rendered for future research and development activities pursuant to executory contractual arrangements with third party research organizations are deferred and recognized as an expense as the related goods are delivered or the related services are performed.

Accruals for Research and Development Expenses and Clinical Trials. As part of the process of preparing its financial statements, the Company is required to estimate its expenses resulting from its obligations under contracts with vendors, clinical research organizations and consultants and under clinical site agreements in connection with conducting clinical trials. The financial terms of these contracts are subject to negotiations, which vary from contract to contract and may result in payment terms that do not match the periods over which materials or services are provided under such contracts. The Company's objective is to reflect the appropriate expenses in its financial statements by matching those expenses with the period in which services are performed and efforts are expended. The Company accounts for these expenses according to the timing of various aspects of the expenses. The Company determines accrual estimates by taking into account discussion with applicable personnel and outside service providers as to the progress of clinical trials, or the services completed. During the course of a clinical trial, the Company adjusts its clinical expense recognition if actual results differ from its estimates. The Company makes estimates of its accrued expenses as of each balance sheet date based on the facts and circumstances known to it at that time. The Company's clinical trial accruals are dependent upon the timely and accurate reporting of contract research organizations and other third-party vendors. Although the Company does not expect its estimates to be materially different from amounts actually incurred, its understanding of the status and timing of services performed relative to the actual status and timing of services performed may vary and may result in it reporting amounts that are too high or too low for any particular period.

Prior Quarter Adjustment. Previously reported amounts for the three months ended March 31, 2019 have been corrected in the Company's Condensed Consolidated Statement of Stockholders' Equity related to the overstatement of "Stock option exercises, net" offset by the overstatement of "Shares withheld for tax withholding" in the amount of $598,000. The change is due to the Company correcting its accounting for cashless exercises of stock options. Such correction does not impact the ending balance of "Additional paid-in capital" on the Condensed Consolidated Balance Sheets, or "Net loss" on the Condensed Consolidated Statement of Operations as of and for the three months ended March 31, 2019. This correction is also reflected in the "Proceeds from stock options exercised" presented in the Cash Flows from Financing Activities and "Changes in operating assets and liabilities: Accounts payable and accrued expenses" presented in the Cash Flows from Operating Activities in the Condensed Consolidated Statement of Cash Flows for the six months ended June 30, 2019. The Company evaluated this correction considering both quantitative and qualitative factors and concluded it was immaterial to previously issued condensed consolidated financial statements.

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 services revenues from the sale of its contract research services, which includes delivery of preclinical studies and other research services to unrelated third parties. Services 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 June 30, 2019 and December 31, 2018, the Company had unbilled receivables of $220,000 and $157,000 and deferred revenue of $44,000 and $170,000, respectively. The unbilled receivables balance is included in consolidated accounts receivable. Revenues of $164,000 were recognized during the six months ended June 30, 2019 that were included in the deferred revenue balance at the beginning of the period.

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:			
Accounts payable and accrued expenses	$ 6,508	$ (75)	$ 6,433
Other current liabilities	316	1,432	1,748
Operating lease liabilities	–	3,948	3,948

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. Since inception through June 30, 2019, the Company has an accumulated deficit of $391.2 million. As of June 30, 2019, the Company had cash and cash equivalents and short-term investments of $58.2 million.

On April 10, 2019, the Company completed an underwritten offering 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 $27.9 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 Series F Preferred Shares and warrants to purchase an aggregate of 322,727 shares of common stock. 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. The 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.

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 – June 30, 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 June 30, 2019 and December 31, 2018 (in thousands):

	Fair Value Measurement as of June 30, 2019			
	Level 1	**Level 2**	**Level 3**	**Total**
Assets:				
Money market funds	$ 37	$ –	$ –	$ 37
Commercial paper	–	19,984	–	19,984
Corporate debt securities	–	12,342	–	12,342
U.S. government debt securities	–	8,105	–	8,105
Total	$ 37	$ 40,431	$ –	$ 40,468
Liabilities:				
Contingent consideration	$ –	$ –	$ 135	$ 135
Total	$ –	$ –	$ 135	$ 135

	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 limited 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	(48)
Earned and paid	(78)
Fair value – June 30, 2019	$ 135

5. CASH EQUIVALENTS AND AVAILABLE FOR SALE MARKETABLE SECURITIES

Cash equivalents and available-for-sale marketable securities consisted of the following as of June 30, 2019 and December 31, 2018 (in thousands):

	June 30, 2019			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Market Value
Cash equivalents:				
Money market funds	$ 37	$ –	$ –	$ 37
Commercial paper	19,960	24	–	19,984
U.S. government debt securities	8,074	31	–	8,105
Total cash equivalents (1)	28,071	55	–	28,126
Short-term investments:				
Corporate debt securities	12,318	24	–	12,342
Total short-term investments	12,318	24	–	12,342
Total	$ 40,389	$ 79	$ –	$ 40,468

(1) Included in cash and cash equivalents in the Company's consolidated balance sheet as of June 30, 2019 in addition to $17.8 million of cash.

	December 31, 2018			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Market Value
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)	23,879	32	–	23,911
Short-term investments:				
Commercial paper	714	–	–	714
Corporate debt securities	5,444	5	(1)	5,448
Total short-term investments	6,158	5	(1)	6,162
Total	$ 30,037	$ 37	$ (1)	$ 30,073

(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 June 30, 2019 and December 31, 2018 had maturities of less than one year. For the three and six months ended June 30, 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):

	June 30, 2019	December 31, 2018
Machinery and equipment	$ 11,735	$ 8,276
Land and buildings	2,000	2,000
Computers and software	1,759	1,372
Leasehold improvements	2,272	1,230
Construction in progress	1,582	2,402
Furniture and equipment	470	614
Total property and equipment, gross	19,818	15,894
Accumulated depreciation	(3,618)	(2,158)
Total property and equipment, net	$ 16,200	$ 13,736

Depreciation and amortization expense for property and equipment, including assets acquired under financing leases for the three and six months ended June 30, 2019 and 2018 was as follows (in thousands):

	For the three months ended June 30,		For the six months ended June 30,	
	2019	**2018**	**2019**	**2018**
General and administrative expense	$ 407	$ 9	$ 764	$ 9
Research and development expense	363	345	682	663
Total depreciation and amortization expense	$ 770	$ 354	$ 1,446	$ 672

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.

In April 2019, the Company entered into an operating lease to obtain 6,307 square feet of manufacturing, laboratory, and office space. The lease expires April 2024 and requires monthly lease payments subject to annual increases. During the six months ended June 30, 2019, the Company also increased office space under an existing lease, which requires additional monthly lease payments.

As of June 30, 2019, the maturities of our operating and finance lease liabilities were as follows (in thousands):

	Operating leases	Finance leases
2019 (excluding the six months ended June 30, 2019)	$ 1,166	$ 301
2020	2,114	596
2021	1,731	593
2022	1,345	328
2023	133	253
Thereafter	79	42
Total lease payments	6,568	2,113
Less:		
Imputed interest	(917)	(351)
Total	$ 5,651	$ 1,762

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

Finance leases

	As of June 30, 2019
Finance lease right-of-use assets included within property and equipment, net	$ 2,280
Current finance lease liabilities included within other current liabilities	$ 447
Non-current finance lease liabilities included within other long-term liabilities	1,315
Total	$ 1,762

Operating leases

	As of June 30, 2019
Current operating lease liabilities included within other current liabilities	$ 1,818
Operating lease liabilities – non current	3,833
Total	$ 5,651

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

	Three months ended June 30, 2019	Six months ended June 30, 2019
Operating lease costs included within operating costs and expenses	$ 546	$ 1,061
Finance lease costs:		
Amortization of right of use assets	$ 170	$ 309
Interest on lease liabilities	44	67
Total	$ 214	$ 376

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

	Six months ended June 30, 2019
Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash flows from operating leases	$ 941
Operating cash flows from finance leases	67
Financing cash flows from finance leases	225
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
Remeasurement of finance lease liability due to lease modification	(22)
Operating leases	939

As of June 30, 2019, the weighted average remaining operating lease term is 3.2 years and the weighted average discount rate used to determine the operating lease liability was 9.81%. The weighted average remaining finance lease term is 3.8 years and the weighted average discount rate used to determine the finance lease liability was 9.69%.

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):

	June 30, 2019	December 31, 2018
Accounts payable	$ 2,122	$ 2,918
Salaries and other compensation	1,655	1,280
Legal and accounting	1,382	640
Other accruals	818	1,670
Total accounts payable and accrued expenses	$ 5,977	$ 6,508

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

Other current liabilities are 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 $0.2 million as of June 30, 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 $41,000 and $68,000 at June 30, 2019 and December 31, 2018, respectively. Amortization of debt discount of $13,000 and $28,000 was included in interest income, net for the three and six months ended June 30, 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. Prior to the adoption of ASU 2017-11, warrants that provide for down-round exercise price protection were 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	$	7,057,129

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 six months ended June 30, 2018.

The Company recognized accretion of the discount to the stated value of the Series F Preferred Shares of approximately $698,000 during the six months ended June 30, 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 June 30, 2019 with no designation as to series.

There was no convertible preferred stock outstanding as of June 30, 2019 and December 31, 2018.

11. STOCK-BASED COMPENSATION

For the three and six months ended June 30, 2019 and 2018, the Company recorded stock-based compensation expense related to stock options and restricted stock awards as follows (in thousands):

	For the three months ended June 30,		For the six months ended June 30,	
	2019	**2018**	**2019**	**2018**
General and administrative expense	$ 6,892	$ 7,035	$ 15,929	$ 12,807
Research and development expense	1,481	1,309	2,565	2,982
Sales and marketing expense	245	–	413	-
Total stock-based compensation expense	$ 8,618	$ 8,344	$ 18,907	$ 15,789

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 June 30, 2019, the Company had approximately 1,857,972 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 June 30, 2019, the Company had approximately 374,038 shares available for future issuances under the 2017 Plan.

Stock Options

A summary of the Company's employee and non-employee stock option activity for the six months ended June 30, 2019 is presented below:

	Number of shares	Weighted-Average Exercise Price
Outstanding – December 31, 2018	6,499,885	$ 14.02
Granted	767,201	$ 14.36
Exercised (1)	(292,417)	$ 3.99
Forfeited	(370,208)	$ 7.81
Outstanding – June 30, 2019	6,604,461	$ 14.30
Options exercisable – June 30, 2019	4,567,527	$ 12.11
Weighted-average grant date fair value of options granted during the six months ended June 30, 2019		$ 10.28

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

Restricted Stock

A summary of the Company's employee and non-employee restricted-stock activity for the six months ended June 30, 2019 is presented below:

	Number of shares	Weighted-Average Grant-Date Fair Value
Unvested - December 31, 2018	651,110	$ 23.65
Granted	75,000	$ 10.97
Vested (1)	(187,663)	$ 28.83
Forfeited	(45,000)	$ 22.46
Unvested – June 30, 2019	493,447	$ 22.66

(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.

Employee Stock Purchase Plan (ESPP)

In May 2018, the Company adopted the Employee Stock Purchase Plan ("ESPP"). The Company has initially reserved 500,000 shares of common stock for purchase under the ESPP. The initial offering period began January 1, 2019 and ended on June 30, 2019 with the first purchase date. Subsequent offering periods will automatically commence on each January 1 and July 1 and will have a duration of six months ending with a purchase date June 30 and December 31 of each year. On each purchase date, ESPP participants will purchase shares of common stock at a price per share equal to 85% of the lesser of (1) the fair market value per share of the common stock on the offering date or (2) the fair market value of the common stock on the purchase date. Total stock-based compensation related to the ESPP for the three and six months ended June 30, 2019 was immaterial to the condensed consolidated financial statements. A total of 7,260 shares of common stock were purchased pursuant to the ESPP during the six months ended June 30, 2019 for total proceeds of $35,000.

12. INCOME TAXES

The Company has evaluated its income tax positions and determined that no material uncertain tax positions existed at June 30, 2019. The Company does not expect a significant change in its unrecognized tax benefits within the next twelve months.

As of June 30, 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:

	As of June 30,	
	2019	2018
Stock options	6,604,461	5,523,068
Restricted stock	493,447	332,089

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 filed a motion to dismiss the consolidated complaint on June 3, 2019. Plaintiffs' opposition to the Company's motion to dismiss was filed on August 2, 2019, and the Company expects to file a reply to the opposition on or about September 13, 2019. 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 June 30, 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 57th 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. 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.

The Company is using 1,648 square feet, and Cohen LLC is using approximately 4,584 square feet as of June 30, 2019. The monthly lease payment for 6,232 square feet is $31,160. Of this amount $22,920 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. Once the space is fully occupied, the Company will reduce the overall annual lease rate for the Cohen LLC space to $58.60 per square foot. The Company recognized $51,000 and $126,000 of sublease income related to this agreement for the three and six months ended June 30, 2019, respectively. The sublease income is included in other income, net in the statement of operations. As of June 30, 2019 and December 31, 2018, there was $102,000 and $0 due from the related party under this agreement.

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.

Certain information concerning our segments for the three and six months ended June 30, 2019 and 2018 is presented in the following table (in thousands):

	For the three months ended June 30,		For the six months ended June 30,	
	2019	2018	2019	2018
Net revenues				
Reportable segments:				
Regenerative medicine	$ 504	$ 189	$ 801	$ 192
Contract services	822	131	1,990	131
Total net revenues	$ 1,326	$ 320	$ 2,791	$ 323
Net (loss)/income:				
Reportable segments:				
Regenerative medicine	$ (23,014)	$ (13,843)	$ (48,782)	$ (25,620)
Contract services	222	(157)	417	(157)
Total net loss	$ (22,792)	$ (14,000)	$ (48,365)	$ (25,777)

17. SUBSEQUENT EVENTS

On June 28, 2019, the Company entered into amendments of employment agreements with the members of its Office of the Chief Executive, which includes Richard Hague, Chief Operating Officer, Paul Mann, Chief Financial Officer, and David Seaburg, President of Corporate Development. Mr. Hague agreed to reduce his base cash salary by 50% from $370,000 to $185,000 per year over a two-year period beginning July 1, 2019. Mr. Mann agreed to reduce his base cash salary by 50% from $400,000 to $200,000 per year over a two-year period beginning July 1, 2019. Mr. Seaburg agreed to reduce his base cash salary by 50% from $325,000 to $162,500 per year over a two-year period beginning July 1, 2019. For each of them, after the expiration of the two-year period ending June 30, 2021, the term of employment will automatically renew at the pre-July 1, 2019 salary level unless the Company elects to terminate the agreement by written notice given not less than three months prior to June 30, 2021. In consideration for the agreement by each member of the Office of the Chief Executive to reduce his cash salary, the Compensation Committee of the Board of Directors approved granting restricted stock awards to them on July 1, 2019, under the Company’s 2019 Equity Incentive Plan. Mr. Hague’s restricted stock award is for 129,825 common shares that are restricted from transfer by reference to continued employment by the Company, and the restriction on transfer lapses with respect to 10,819 shares in August 2019 and the remainder in monthly installments through June 2021. Mr. Mann’s restricted stock award is for 140,351 common shares that are restricted from transfer by reference to continued employment by the Company, and the restriction on transfer lapses with respect to 29,240 shares in December 2019 and the remainder in monthly installments through June 2021. Mr. Seaburg’s restricted stock award is for 114,035 common shares that are restricted from transfer by reference to continued employment by the Company, and the restriction on transfer lapses with respect to 23,814 shares in December 2019 and the remainder in monthly installments through June 2021.

On August 6, 2019, the Company’s Board of Directors approved the grant of restricted stock awards under the 2019 Equity Incentive Plan to Richard Hague, Chief Operating Officer, Paul Mann, Chief Financial Officer, and David Seaburg, President of Corporate Development. Each of them received an award of 175,000 shares that vests in six installments every six months over a period of three years subject to continued employment.

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, Ibex 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 in 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 graded vesting is recognized 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 June 30, 2019 versus three months ended June 30, 2018

Net Revenues. For the three-month period ended June 30, 2019, total net revenues were $1.3 million. Products revenues from the sale of SkinTE were $0.5 million for the three months ended June 30, 2019 compared to $0.2 million for the three months ended June 30, 2018. Net revenues from services for the three months ended June 30, 2019 were $0.8 million from the contract research segment operations driven primarily by the IBEX preclinical research business. The IBEX business was acquired in May 2018 and contributed $0.1 million to revenue in the three-months ending June 30, 2018.

Cost of Sales. For the three-month period ended June 30, 2019, total cost of sales was approximately $0.6 million and approximately 45% of total net revenues. Products cost of sales were $0.3 million or 68% of products revenues primarily due to fixed overhead costs. Services cost of sales were $0.3 million or 31% of services revenues. Product cost of sales for the three-month period ended June 30, 2018 were $0.1 million or 66% of products revenues. Services cost of sales for the three-month period ended June 30, 2018 were $0.04 million or 31% of services revenues.

Research and Development Expenses. Research and development expenses increased $1.8 million, or 63%, in the three-month period ended June 30, 2019, compared to the three-month period ended June 30, 2018. The increase is primarily driven by an increase in research and clinical support personnel with associated wage and benefits cost year over year.

General and Administrative Expenses. General and administrative expenses increased $3.8 million, or 33%, in the three-month period ended June 30, 2019 compared to the three-month period ended June 30, 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 June 30, 2019, sales and marketing expenses were $4.0 million. This represents sales personnel and marketing costs primarily driven by the commercialization of SkinTE. There were no sales personnel and marketing costs during the three-month period ended June 30, 2018.

Other Income (Expenses). For the three-month period ended June 30, 2019, other income (expenses) increased $0.2 million or 455% compared to the three-month period ended June 30, 2018. This increase was due to an increase of other income driven by investment income and rental income.

Net loss. Net loss for the three-month period ended June 30, 2019 was approximately $22.8 million compared to a net loss of approximately $14.0 million for the three-month period ended June 30, 2018, primarily reflecting the increase in operating costs and expenses driven by expanding operations discussed above.

Six months ended June 30, 2019 versus six months ended June 30, 2018

Net Revenues. For the six-month period ended June 30, 2019, total net revenues were $2.8 million. Products revenues from the sale of SkinTE were $0.8 million for the six months ended June 30, 2019 compared to $0.2 million for the six months ended June 30, 2018. Net revenues from services were $2.0 million from the contract research segment operations driven primarily by the Ibex preclinical research business. The IBEX business was acquired in May 2018 and contributed $0.1 million to revenues in the six months ending June 30, 2018.

Cost of Sales. For the six-month period ended June 30, 2019, total cost of sales was approximately $1.4 million and approximately 49% of total net revenues. Products cost of sales were $0.6 million or 77% of products revenues primarily due to fixed overhead costs. Services cost of sales were $0.8 million or 38% of services revenues. Products cost of sales for the six-month period ended June 30, 2018 were $0.1 million.

Research and Development Expenses. Research and development expenses increased $1.6 million, or 19%, in the six-month period ended June 30, 2019, compared to the six-month period ended June 30, 2018. The increase is primarily driven by an increase in research and clinical support personnel with associated wage and benefits cost, offset 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 $13.4 million, or 71%, in the six-month period ended June 30, 2019 compared to the six-month period ended June 30, 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 six-month period ended June 30, 2019, sales and marketing expenses were $7.9 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 six-month period ended June 30, 2018.

Other Income (Expenses). For the six-month period ended June 30, 2019, other income (expenses) decreased $0.9 million or 63% compared to the six-month period ended June 30, 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 six months ended June 30, 2018. There were no warrants outstanding for the six-month period ended June 30, 2019.

Net loss. Net loss for the six-month period ended June 30, 2019 was approximately $48.4 million compared to a net loss of approximately $25.8 million for the six-month period ended June 30, 2018, primarily reflecting the increase in operating costs and expenses driven by expanding operations discussed above.

Liquidity and Capital Resources

As of June 30, 2019, our cash, cash equivalents and short-term investments balance was approximately $58.2 million and our working capital was approximately $52.6 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 $391.2 million at June 30, 2019, and approximately $28.8 million net cash used in operating activities for the six-month period then ended. At December 31, 2018, we had an accumulated deficit of approximately $342.9 million and approximately $10.8 million net cash used in operating activities for the six-months ended June 30, 2018.

On April 10 and May 6, 2019, the Company completed an underwritten offering 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 $27.9 million, after deducting offering expenses payable by the Company.

The Company has taken numerous steps to further reduce its cash burn during the three months ended June 30, 2019, including outsourcing various aspects of our business, conducting a thorough budget review by department, enhancing fiscal discipline and prioritizing resource allocation to those areas of the business that are most likely to generate revenue in the near term.

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 June 30, 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 $58.2 million as of June 30, 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 $52.6 million as of June 30, 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 six-month period ended June 30, 2019, was approximately $28.8 million. Approximately $10.8 million of cash was used in operating activities for the six-month period ended June 30, 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 six-month period ended June 30, 2019, was approximately $8.3 million. Cash used in investing activities for the six-month period ended June 30, 2018 amounted to approximately $6.4 million. For the six-month period ended June 30, 2019, the activity relates to the net purchase of available-for-sale securities and the purchase of property and equipment. For the six-month period ended June 30, 2018, the activity relates to the purchase of property and equipment and the acquisition of IBEX.

Financing Cash Flows

Net cash provided by financing activities for the six-month period ended June 30, 2019, was approximately $27.3 million. $92.7 million of cash was provided by financing activities for the six-month period ended June 30, 2018. For the six-month period ended June 30, 2019, the activity relates to proceeds from stock options exercised and the Company completed an underwritten offering 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 $27.9 million, after deducting offering expenses payable by the Company, offset by principal payments on finance leases and contingent consideration liability payments. For the six-month period ended June 30, 2018, the activity relates to 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 and another 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.

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 principal executive and financial officers, 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 June 30, 2019, our principal executive and financial officers 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.

Two material weaknesses previously identified as of December 31, 2018, continued to exist as of June 30, 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 to Internal Control over Financial Reporting

During the second quarter of 2019, we completed the integration of IBEX onto our Enterprise Resource Planning platform thereby enhancing accounting systems and controls. There were no other significant changes in the Company's internal control over financial reporting during our most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, our 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 and we continue to run parallel tests, including data reconciliations. 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.
- *I T 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

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 filed a motion to dismiss the consolidated complaint on June 3, 2019. Plaintiffs' opposition to the Company's motion to dismiss was filed on August 2, 2019, and the Company expects to file a reply to the opposition on or about September 13, 2019. 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 June 30, 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.

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

Unregistered Sale of Securities

As of June 30, 2019, the Company accepted the exercise in March 2019 of a stock option in reliance on the exemption from registration set forth in Section 4(a)(2) of the Securities Act of 1933, as amended, pursuant to which the option holder elected Company withholding of the shares required to exercise the option and cover the tax liability associated with the exercise. The option exercise was for the purchase of 9,167 shares at a purchase price of $14.25 per share, and based on a market value of $16.43 on the date of exercise the Company issued a net total of 795 shares of common stock to the option holder, which includes shares withheld for taxes.

Item 6. Exhibits

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

10.1	Amendment No. 1 to Employment Agreement with Richard Hague dated June 28, 2019
10.2	Amendment No. 1 to Employment Agreement with David Seaburg dated June 28, 2019
10.3	Amendment No. 1 to Employment Agreement with Paul Mann dated June 28, 2019
10.4	Form of Notice and Agreement for Restricted Stock Grant (1)
31.1	Certification Pursuant to Rule 13a-14(a)
31.2	Certification Pursuant to Rule 13a-14(a).
31.3	Certification Pursuant to Rule 13a-14(a)
32.1	Certification Pursuant to Rule 13a-14(b) and Section 1350, Chapter 63 of Title 18, United States Code
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.

(1) Form for granting restricted stock awards, including restricted stock awards granted on July 1, 2019 to: (a) Richard Hague, Chief Operating Officer, for 129,825 common shares that are restricted from transfer by reference to continued employment by the Company, and the restriction on transfer lapses with respect to 10,819 shares in August 2019 and the remainder in monthly installments through June 2021; (b) Paul Mann, Chief Financial Officer, for 140,351 common shares that are restricted from transfer by reference to continued employment by the Company, and the restriction on transfer lapses with respect to 29,240 shares in December 2019 and the remainder in monthly installments through June 2021; and (c) David Seaburg for 114,035 common shares that are restricted from transfer by reference to continued employment by the Company, and the restriction on transfer lapses with respect to 23,814 shares in December 2019 and the remainder in monthly installments through June 2021.

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/ Paul Mann

Paul Mann
Chief Financial Officer
Duly Authorized Officer

Date: August 8, 2019

AMENDMENT NO. 1
EXECUTIVE EMPLOYMENT AGREEMENT

This is Amendment No. 1 (the "Amendment") to the Executive Employment Agreement ("Agreement") dated April 8, 2019, by and between PolarityTE, Inc., a Delaware corporation ("Parent") and Richard Hague, an individual ("Executive"). Capitalized terms not defined herein, but defined in the Employment Agreement, shall have the meaning stated in the Employment Agreement.

1. Section 4 of the Agreement is superseded and replaced in its entirety by the following:

4. Employment Term. The term of this Agreement shall commence on the Effective Date and shall continue through June 30, 2021 and shall be automatically renewed for successive one (1) year periods thereafter unless either party provides the other party with written notice of his or its intention not to renew this Agreement at least three (3) months prior to the expiration of the initial term or any renewal term of this Agreement. "Employment Period" shall mean the initial term ending June 30, 2021, plus one (1) year renewals, if any.

2. Section 5 of the Agreement is superseded and replaced in its entirety by the following:

5. Base Salary and Board Fees. The Parent agrees to pay the Executive a base salary ('Base Salary") for the position of Chief Operating Officer as follows:

(a) from the Effective Date through June 30, 2019, $370,000 per annum,
(b) from July 1, 2019, through June 30, 2021, $185,000 per annum, and
(c) during any renewal term after June 30, 2021, $370,000 per annum.

The Base Salary shall be paid in periodic installments in accordance with the Parent' s regular payroll practices. Executive shall, subject to policies and procedures of the Parent's Board of Directors, be eligible for additional fees for service on the Parent's Board

3. Section 5 of the Agreement is amended by the addition of the following Section 5(c):

(c) Effective July 1, 2019, the Company grants to the Executive restricted shares under the 2019 Equity Incentive Plan (the "2019 Plan") for a number of shares equal to $740,000 divided by the Fair Market Value on June 28, 2019, rounded to the nearest whole share, which will vest in one installment of approximately 8.3% on August 31, 2019, and the remainder in twenty-two (22) consecutive monthly installments beginning in September 2019, all as provided for in a written restricted share agreement.

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4. For purposes of notice and other communications given under Section 15(f) of the Agreement, the address for the Parent is:

PolarityTE, Inc.
Attn: General Counsel
123 Wright Brothers Drive
Salt Lake City, UT 84116

And the address for the Executive is:

Richard Hague
1542 Harvard Ave
Salt Lake City, UT. 84105

5. Except for the changes stated above, this Amendment does not make any change or modification to the Agreement, and the Agreement remains in full force and effect with the changes made by this Amendment.

Agreed and entered into this 28th day of June 2019.

POLARITYTE, INC.

By *_/s/ Paul Mann_*
Name: Paul Mann
Title: CFO

EXECUTIVE

/s/ Richard Hague
Richard Hague

AMENDMENT NO. 1
EXECUTIVE EMPLOYMENT AGREEMENT

This is Amendment No. 1 (the "Amendment") to the Executive Employment Agreement ("Agreement") dated March 1, 2019, by and between PolarityTE, Inc., a Delaware corporation ("Parent") and David Seaburg, an individual ("Executive"). Capitalized terms not defined herein, but defined in the Employment Agreement, shall have the meaning stated in the Employment Agreement.

1. Section 4 of the Agreement is superseded and replaced in its entirety by the following:

2. Term. The term of this Agreement shall commence on the Effective Date and shall continue through June 30, 2021 and shall be automatically renewed for successive one (1) year periods thereafter unless either party provides the other party with written notice of his or its intention not to renew this Agreement at least three (3) months prior to the expiration of the initial term or any renewal term of this Agreement. "Employment Period" shall mean the initial term ending June 30, 2021, plus one (1) year renewals, if any.

2. Section 5 of the Agreement is superseded and replaced in its entirety by the following:

5. Compensation. The Parent agrees to pay the Executive a base salary ('Base Salary") for the position of President as follows:

(a) from the Effective Date through June 30, 2019, $325,000 per annum,
(b) from July 1, 2019, through June 30, 2021, $162,500 per annum, and
(c) during any renewal term after June 30, 2021, $325,000 per annum.

The Base Salary shall be paid in periodic installments in accordance with the Parent's regular payroll practices. Executive shall, subject to policies and procedures of the Parent's Board of Directors, be eligible for additional fees for service on the Parent's Board

3. Section 5 of the Agreement is amended by the addition of the following Section 5(b):

(c) Effective July 1, 2019, the Company grants to the Executive restricted shares under the 2019 Equity Incentive Plan (the "2019 Plan") for a number of shares equal to $650,000 divided by the Fair Market Value on June 28, 2019, rounded to the nearest whole share. Five twenty fourths (5/24) shall vest on Dec 6, 2019 following which the shares will vest in monthly installments beginning December 31, 2019, all as provided for in a written restricted share agreement.

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4. For purposes of notice and other communications given under Section 15(f) of the Agreement, the address for the Parent is:

PolarityTE, Inc.
Attn: General Counsel
123 Wright Brothers Drive
Salt Lake City, UT 84116

And the address for the Executive is:

David Seaburg
170 East 78th Street, Apt 3F.
New York, NY 10075

5. Except for the changes stated above, this Amendment does not make any change or modification to the Agreement, and the Agreement remains in full force and effect with the changes made by this Amendment.

Agreed and entered into this 28th day of June 2019.

POLARITYTE, INC.

By * /s/ Paul Mann*
Name: Paul Mann
Title: CFO

EXECUTIVE

/s/ David Seaburg
David Seaburg

AMENDMENT NO. 1
EXECUTIVE EMPLOYMENT AGREEMENT

This is Amendment No. 1 (the "Amendment") to the Executive Employment Agreement ("Agreement") dated May 12, 2018, by and between PolarityTE, Inc., a Delaware corporation ("Parent") and Paul Mann, an individual ("Executive"). Capitalized terms not defined herein, but defined in the Employment Agreement, shall have the meaning stated in the Employment Agreement.

1. Section 2 of the Agreement is superseded and replaced in its entirety by the following:

2. Term. The term of this Agreement shall commence on the Effective Date and shall continue through June 30, 2021 and shall be automatically renewed for successive one (1) year periods thereafter unless either party provides the other party with written notice of his or its intention not to renew this Agreement at least three (3) months prior to the expiration of the initial term or any renewal term of this Agreement. "Employment Period" shall mean the initial term ending June 30, 2021, plus one (1) year renewals, if any.

2. Section 4 of the Agreement is superseded and replaced in its entirety by the following:

4. Base Salary and Board Fees. The Parent agrees to pay the Executive a base salary ('Base Salary") for the position of Chief Financial Officer as follows:

(a) from the Effective Date through June 30, 2019, $400,000 per annum,
(b) from July 1, 2019, through June 30, 2021, $200,000 per annum, and
(c) during any renewal term after June 30, 2021, $400,000 per annum.

The Base Salary shall be paid in periodic installments in accordance with the Parent's regular payroll practices. Executive shall, subject to policies and procedures of the Parent's Board of Directors, be eligible for additional fees for service on the Parent's Board

3. Section 5 of the Agreement is amended by the addition of the following Section 5(b):

(b) Effective July 1, 2019, the Company grants to the Executive restricted shares under the 2019 Equity Incentive Plan (the "2019 Plan") for a number of shares equal to $800,000 divided by the Fair Market Value on June 28, 2019, rounded to the nearest whole share. Five twenty fourths (5/24) shall vest on Dec 6, 2019 following which the shares will vest in monthly installments beginning December 2019, all as provided for in a written restricted share agreement.

4. For purposes of notice and other communications given under Section 15(f) of the Agreement, the address for the Parent is:

PolarityTE, Inc.
Attn: General Counsel
123 Wright Brothers Drive
Salt Lake City, UT 84116

And the address for the Executive is:

Paul Mann
1108 SE Strathmore Dr.
Port Saint Lucie, FL 34952

5. Except for the changes stated above, this Amendment does not make any change or modification to the Agreement, and the Agreement remains in full force and effect with the changes made by this Amendment.

Agreed and entered into this 28th day of June 2019.

POLARITYTE, INC.

By *1/s/ Cameron Hoyler*
Name: Cameron Hoyler
Title: General Counsel

EXECUTIVE

/s/ Paul Mann
Paul Mann

PolarityTE, Inc.
2019 Equity Incentive Plan

Notice of Restricted Stock Grant

You (the "Grantee") have been granted by PolarityTE, Inc., a Delaware corporation (the "Company") the following award of its restricted Common Stock (the "Restricted Stock"), par value $0.001 per share (the "Shares"), pursuant to the PolarityTE, Inc., 2019 Equity Incentive Plan (the "Plan"):

Name of Grantee:	[NAME]
Number of Shares of Restricted Stock Granted:	[NUMBER]
Effective Date of Grant:	[DATE]
Vesting and Period of Restriction:	[VESTING SCHEDULE]

By your signature and the signature of the Company's representative below, you and the Company agree and acknowledge that this grant of Restricted Stock is granted under and governed by the terms and conditions of the Plan and the attached Restricted Stock Award Agreement, which are incorporated herein by reference, and that you have been provided with a copy of the Plan and Restricted Stock Agreement.

Grantee:	**PolarityTE, Inc.**
By: ______________________	By: ______________________
Name: [NAME]	Name: Richard Hague
	Title: Chief Operating Officer

PolarityTE, Inc.
2019 Equity Incentive Plan

Restricted Stock Award Agreement

Section 1. Grant of Restricted Stock

(a) **Restricted Stock.** On the terms and conditions set forth in the Notice of Restricted Stock Grant (the "Grant Notice") and this Restricted Stock Award Agreement (the "Agreement"), the Company grants to the Grantee on the Effective Date of Grant the Shares of Restricted Stock (the "Restricted Stock") set forth in the Grant Notice.

(b) **Plan and Defined Terms.** The Restricted Stock is granted pursuant to the Plan. All terms, provisions, and conditions applicable to the Restricted Stock set forth in the Plan and not set forth herein are hereby incorporated by reference herein. To the extent any provision hereof is inconsistent with a provision of the Plan, the provisions of the Plan will govern. All capitalized terms that are used in the Grant Notice or this Agreement and not otherwise defined therein or herein shall have the meanings ascribed to them in the Plan.

Section 2. Forfeiture and Transfer Restrictions

(a) **Forfeiture Restrictions.**

(i) If the Grantee's employment or service is terminated for any reason other than (A) death, (B) "disability" (as defined in a written employment agreement between the Grantee and the Company), (C) by the Company without "cause" (as defined in a written employment agreement between the Grantee and the Company), or (D) by the Grantee for "good reason" (as defined in a written employment agreement between the Grantee and the Company), the Grantee shall, for no consideration, forfeit to the Company the Shares of Restricted Stock to the extent such Shares are subject to a Period of Restriction at the time of such termination.

(ii) If the Grantee's employment or service is terminated (A) due to death, (B) due to "disability" (as defined in a written employment agreement between the Grantee and the Company), (C) by the Company without "cause" (as defined in a written employment agreement between the Grantee and the Company), or (D) by the Grantee for "good reason" (as defined in a written employment agreement between the Grantee and the Company), while Shares of Restricted Stock are subject to a Period of Restriction, the Period of Restriction with respect to such Shares shall lapse, and the Shares shall vest and become free of the forfeiture and transfer restrictions described in this Section 2, on the date of the Grantee's termination of employment or service.

(iii) In the event there is a Change in Control as defined in the Plan while Shares of Restricted Stock are subject to a Period of Restriction, the Period of Restriction with respect to such Shares shall lapse, and the Shares shall vest and become free of the forfeiture and transfer restrictions described in this Section 2 immediately prior to the Change in Control event.

(b) **Transfer Restrictions.** During the Period of Restriction, the Restricted Stock may not be sold, assigned, pledged, exchanged, hypothecated or otherwise transferred, encumbered or disposed of to the extent such Shares are subject to a Period of Restriction.

(c) **Lapse of Restrictions.** The Period of Restriction shall lapse as to the Restricted Stock in accordance with the Grant Notice. Subject to the terms of the Plan and Section 4(a) hereof, upon lapse of the Period of Restriction, the Grantee shall own the Shares that are subject to this Agreement free of all restrictions otherwise imposed by this Agreement.

Section 3. Stock Certificates

As soon as practicable following the grant of Restricted Stock, the Shares of Restricted Stock shall be registered in the Grantee’s name in certificate or book-entry form. If a certificate is issued, it shall bear an appropriate legend referring to the restrictions and it shall be held by the Company, or its agent, on behalf of the Grantee until the Period of Restriction has lapsed. If the Shares are registered in book-entry form, the restrictions shall be placed on the book-entry registration. The Grantee may be required to execute and return to the Company a blank stock power for each Restricted Stock certificate (or instruction letter, with respect to Shares registered in book-entry form), which will permit transfer to the Company, without further action, of all or any portion of the Restricted Stock that is forfeited in accordance with this Agreement.

Except for the transfer restrictions, and subject to such other restrictions, if any, as determined by the Administrator (or its designee), the Grantee shall have all other rights of a holder of Shares, including the right to receive dividends paid (whether in cash or property) with respect to the Restricted Stock and the right to vote (or to execute proxies for voting) such Shares. Unless otherwise determined by the Administrator (or its designee), if all or part of a dividend in respect of the Restricted Stock is paid in Shares or any other security issued by the Company, such Shares or other securities shall be held by the Company subject to the same restrictions as the Restricted Stock in respect of which the dividend was paid.

Section 4. Miscellaneous Provisions

(a) **Tax Withholding.** Pursuant to Section 8.5 of the Plan, the Company shall have the power and right to deduct or withhold, or require the Grantee to remit to the Company, an amount sufficient to satisfy any federal, state and local taxes (including the Grantee’s FICA obligations) required by law to be withheld with respect to this Award. The Administrator (or its designee) may condition the delivery of Shares upon the Grantee’s satisfaction of such withholding obligations. The Company may, at its sole discretion, accept as satisfaction of all or part of such withholding requirement Grantee’s tender of previously-owned Shares or Grantee’s request that the Company withhold Shares having a Fair Market Value equal to the minimum statutory withholding (based on minimum statutory withholding rates for federal, state and local tax purposes, as applicable, including payroll taxes) that could be imposed on the transaction subject to any restrictions or limitations that the Administrator (or its designee), in its sole discretion, deems appropriate, and, to the extent the Administrator (or its designee) so permits, amounts in excess of the minimum statutory withholding to the extent it would not result in additional accounting expense.

(b) **Ratification of Actions.** By accepting this Agreement, the Grantee and each person claiming under or through the Grantee shall be conclusively deemed to have indicated the Grantee's acceptance and ratification of, and consent to, any action taken under the Plan or this Agreement and Grant Notice by the Company, the Board or the Administrator (or its designee).

(c) **Notice.** Any notice required to be delivered to the Company under this Agreement shall be in writing and addressed to the Corporate Secretary of the Company at the Company's principal corporate offices. Any notice required to be delivered to the Grantee under this Agreement shall be in writing and addressed to the Grantee at the Grantee's address as shown in the records of the Company. Either party may designate another address in writing (or by such other method approved by the Company) from time to time.

(d) **Section 83(b) Election.** If Grantee makes an election pursuant to section 83(b) of the Code with respect to this Award, Grantee shall be required to promptly file a copy of such election with the Administrator (or its designee), file notice of the election with the Internal Revenue Service within thirty (30) days of the date of the grant and shall provide the required withholding to the Company pursuant to Section 4(a). Grantee is solely responsible for any filing and notification required pursuant to regulations issued under Section 83(b) of the Code.

(e) **Choice of Law.** This Agreement and the Grant Notice shall be governed by, and construed in accordance with, the laws of the State of Delaware, without regard to any conflicts of law or choice of law rule or principle that might otherwise cause the Plan, this Agreement or the Grant Notice to be governed by or construed in accordance with the substantive law of another jurisdiction.

(f) **Modification or Amendment.** This Agreement may only be modified or amended by written agreement executed by the parties hereto; provided, however, that the adjustments permitted pursuant to Section 4.3 of the Plan may be made without such written agreement.

(h) **Severability.** In the event any provision of this Agreement shall be held illegal or invalid for any reason, the illegality or invalidity shall not affect the remaining provisions of this Agreement, and this Agreement shall be construed and enforced as if such illegal or invalid provision had not been included.

(i) **References to Plan.** All references to the Plan shall be deemed references to the Plan as may be amended from time to time.

(j) **Section 409A Compliance.** To the extent applicable, it is intended that the Plan and this Agreement comply with the requirements of Code Section 409A and any related regulations or other guidance promulgated with respect to such Section by the U.S. Department of the Treasury or the Internal Revenue Service and the Plan and the Award Agreement shall be interpreted accordingly.

EXHIBIT 31.1

CERTIFICATION

I, Richard Hague, 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: August 8, 2019

/s/ Richard Hague

Richard Hague
Chief Operating Officer

EXHIBIT 31.2

CERTIFICATION

I, David Seaburg, 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: August 8, 2019

/s/ David Seaburg

David Seaburg
President of Corporate Development

EXHIBIT 31.3

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: August 8, 2019

/s/ Paul Mann

Paul Mann

Chief Financial Officer

EXHIBIT 32

Certification Pursuant to Rule 13a-14(b) and Section 1350, Chapter 63 of Title 18, United States Code

Pursuant to 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 June 30, 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: August 8, 2019

/s/ Richard Hague
Richard Hague
Chief Operating Officer

/s/ David Seaburg
David Seaburg
President of Corporate Development

/s/ Paul Mann
Paul Mann
Chief Financial Officer