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

FORM 10-Q

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

For the quarterly period ended: September 30, 2017

OR

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

For the transition period from __________ to ___________

Commission file number: **001-36278**

Alliqua BioMedical, Inc.

(Exact name of registrant as specified in its charter)

Delaware	**58-2349413**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)
1010 Stony Hill Road **Yardley, PA**	**19067**
(Address of principal executive office)	(Zip Code)

Registrant's telephone number, including area code: **(215) 702-8550**

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☑ No ☐

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

Large accelerated filer	☐	Accelerated filer	☐
Non-accelerated filer	☐	(Do not check if a smaller reporting company)	
Smaller reporting company	☑	Emerging growth company	☐

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

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

As of November 8, 2017, the registrant had 4,986,034 shares of common stock outstanding.

ALLIQUA BIOMEDICAL, INC.

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ITEM 1. FINANCIAL STATEMENTS

ALLIQUA BIOMEDICAL, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands, except share and per share data)

	September 30, 2017 (Unaudited)	December 31, 2016
ASSETS:		
Current Assets:		
Cash and cash equivalents	$ 2,106	$ 5,580
Accounts receivable, net	2,926	2,453
Inventory, net	1,985	2,153
Prepaid expenses and other current assets	296	735
Current assets of discontinued operations	464	857
Total current assets	7,777	11,778
Improvements and equipment, net	1,692	2,092
Intangible assets, net	23,202	26,604
Goodwill, net	11,959	11,959
Other assets	173	173
Assets of discontinued operations - noncurrent	-	1,893
Total assets	$ 44,803	$ 54,499
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	$ 1,603	$ 2,614
Accrued expenses and other current liabilities	3,876	5,224
Contingent consideration, current	-	675
Senior secured term loan, net	10,736	11,541
Warrant liability	419	20
Current liabilities of discontinued operations	37	60
Total current liabilities	16,671	20,134
Contingent consideration, long-term	-	1,141
Deferred tax liability	758	749
Other long-term liabilities	316	385
Total liabilities	17,745	22,409
Commitments and Contingencies		
Stockholders' Equity		
Preferred Stock, par value $0.001 per share, 1,000,000 shares authorized, no shares issued and outstanding	-	-
Common Stock, par value $0.001 per share, 95,000,000 shares authorized; 4,988,244 and 2,966,904 shares issued and outstanding as of September 30, 2017 and December 31, 2016, respectively	5	3
Additional paid-in capital	165,256	156,390
Accumulated deficit	(138,203)	(124,303)
Total stockholders' equity	27,058	32,090
Total liabilities and stockholders' equity	$ 44,803	$ 54,499

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

ALLIQUA BIOMEDICAL, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)
(in thousands, except share and per share data)

	Three Months Ended September 30, 2017	Three Months Ended September 30, 2016	Nine Months Ended September 30, 2017	Nine Months Ended September 30, 2016
Revenue, net of returns, allowances and discounts	$ 4,901	$ 4,375	$ 14,108	$ 11,851
Cost of revenues	1,538	1,608	4,765	4,493
Gross profit	3,363	2,767	9,343	7,358
Operating expenses				
Selling, general and administrative	7,004	8,458	21,729	27,019
Royalties	200	271	593	746
Research and product development	1	164	121	692
Milestone expense to licensor	-	1,000	-	1,000
Acquisition-related	-	715	635	819
Change in fair value of contingent consideration liability	-	97	35	(8,634)
Total operating expenses	7,205	10,705	23,113	21,642
Loss from operations	(3,842)	(7,938)	(13,770)	(14,284)
Other (expense) income				
Interest expense	(577)	(685)	(1,746)	(1,957)
Interest income	1	9	5	24
Change in fair value of warrant liability	35	135	404	797
Warrant modification expense	-	-	(803)	-
Loss on early extinguishment of debt, net	(214)	(373)	(214)	(373)
Other income	67	100	67	100
Total other expense	(688)	(814)	(2,287)	(1,409)
Loss from continuing operations before tax	(4,530)	(8,752)	(16,057)	(15,693)
Income tax expense	(3)	(3)	(9)	(9)
Loss from continuing operations	(4,533)	(8,755)	(16,066)	(15,702)
Discontinued operations:				
Income from discontinued operations, net of tax of $0 for the three and nine months ended September 30, 2017 and 2016	133	167	466	1,293
Gain on sale of assets, net of tax of $0 for the three and nine months ended September 30, 2017 and 2016	1,700	-	1,700	3,311
Income from discontinued operations, net of tax	1,833	167	2,166	4,604
Net loss	$ (2,700)	$ (8,588)	$ (13,900)	$ (11,098)
Net loss per basic and diluted common share:				
Loss from continuing operations	$ (0.95)	$ (3.11)	$ (3.89)	$ (5.63)
Income from discontinued operations	0.03	0.06	0.11	0.46
Gain on sale of assets	0.36	-	0.41	1.19
Total from discontinued operations	0.39	0.06	0.52	1.65
Net loss per basic and diluted common share	$ (0.56)	$ (3.05)	$ (3.37)	$ (3.98)
Weighted average shares used in computing net loss per basic and diluted common share	4,753,789	2,819,567	4,125,653	2,788,696

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

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

	Nine Months Ended September 30, 2017	Nine Months Ended September 30, 2016
Operating Activities		
Net loss	$ (13,900)	$ (11,098)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	4,111	3,124
Amortization of deferred lease incentive	(34)	(23)
Deferred income tax expense	9	9
Provision for doubtful accounts	169	37
Reserve for note receivable	350	-
Provision for excess and slow moving inventory	12	(54)
Stock-based compensation expense	1,604	4,268
Deferred rent	2	84
Accrued interest receivable	-	(3)
Amortization of debt issuance and discount costs	631	636
Loss on early extinguishment of debt	182	321
Warrant modification expense	803	-
Change in fair value of warrant liability	(404)	(797)
Fair value adjustment of contingent consideration liability	35	(8,634)
Gain on sale of assets	(1,700)	(3,311)
Changes in operating assets and liabilities:		
Accounts receivable	(499)	(254)
Inventory	414	(643)
Prepaid expenses and other assets	439	55
Accounts payable	(1,023)	(48)
Accrued expenses and other current liabilities	(1,000)	1,297
Other long-term liabilities	-	1,000
Net Cash Used in Operating Activities	(9,799)	(14,034)
Investing Activities		
Proceeds from sale of assets	3,412	4,103
Purchase of improvements and equipment	(126)	(573)
Issuance of bridge loan	(350)	(500)
Net Cash Provided by Investing Activities	2,936	3,030
Financing Activities		
Contingent purchase price payments	(675)	(2,573)
Repayment of long-term debt	(1,618)	(1,748)
Loss on early extinguishment of debt	(32)	(52)
Net proceeds from issuance of common stock	5,865	-
Payment of withholding taxes related to stock-based employee compensation	(151)	(2)
Net Cash Provided by (Used in) Financing Activities	3,389	(4,375)
Net Decrease in Cash and Cash Equivalents	(3,474)	(15,379)
Cash and Cash Equivalents - Beginning of period	5,580	26,080
Cash and Cash Equivalents - End of period	$ 2,106	$ 10,701
Supplemental Disclosure of Cash Flows Information		
Cash paid during the period for:		
Interest	$ 1,008	$ 1,221
Non-cash investing and financing activities:		
2016 Accrued bonus awarded in equity	$ 374	$ -
2015 Accrued bonus awarded in equity	-	474
Common stock issued for contingent purchase price payments	1,175	2,574

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

ALLIQUA BIOMEDICAL, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Description of Business and Basis of Presentation

Alliqua BioMedical, Inc. (the "Company") is a regenerative technologies company that commercializes differentiated regenerative medical products which assist the body in the repair of human tissue.

Basis of Presentation

The condensed consolidated financial statements contained in this report are unaudited. In the opinion of management, the condensed consolidated financial statements include all adjustments, which are of a normal recurring nature, necessary to present fairly the Company's financial position as of September 30, 2017 and results of operations and cash flows for the three and nine months ended September 30, 2017 and 2016. While management believes that the disclosures presented are adequate to make the information not misleading, these unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and the notes thereto in the Company's latest year-end financial statements, which are included in the Company's Annual Report on Form 10-K for the year ended December 31, 2016 (the "2016 Annual Report"). The results of the Company's operations for any interim period are not necessarily indicative of the results of operations for any other interim period or for the full year.

Principles of Consolidation

The accompanying condensed consolidated financial statements include the financial statements of the Company and its wholly-owned subsidiary, AquaMed Technologies, Inc. All significant inter-company transactions and accounts have been eliminated in consolidation.

Reclassifications

Certain amounts in prior periods have been reclassified to conform to the current year presentation. Such reclassifications did not have a material effect on the Company's financial condition or results of operations as previously reported.

Reverse Stock Split

The Company effected a 1-for-10 reverse stock split of its outstanding common stock on October 5, 2017. The accompanying condensed consolidated financial statements and accompanying notes to the condensed consolidated financial statements give retroactive effect to the reverse stock split for all periods presented. The shares of common stock retained a par value of $0.001 per share. Accordingly, stockholders' equity reflects the reverse stock split by reclassifying from common stock to additional paid-in capital an amount equal to the par value of the decreased shares resulting from the reverse stock split.

Discontinued Operations

In order to add capital and to focus on future investments on commercializing its own regenerative technologies effective August 31, 2017, the Company entered into an Asset Purchase Agreement ("the Asset Purchase Agreement") with Argentum Medical, LLC. ("Argentum") whereby the Company agreed to sell to Argentum all of the Company's rights, including (i) all distribution rights, exclusivity rights, intellectual property rights and marketing rights to the TheraBond product line and (ii) the unsold inventory of TheraBond products and work in process previously purchased by the Company in existence as of the closing, which occurred upon execution and delivery of the Asset Purchase Agreement. In consideration for the sale of the TheraBond product line and the unsold TheraBond inventory to Argentum by the Company, Argentum agreed to pay (i) $3.6 million for the TheraBond product line and certain other agreements between the parties and (ii) up to $112,000 for the unsold TheraBond inventory upon the Company's completion of its obligations to deliver all remaining and qualifying unsold TheraBond inventory, as specified in the Asset Purchase Agreement. Of the $3.6 million of consideration, $300,000 is deposited in an indemnity escrow account under standard terms and conditions. This amount is classified under current assets of discontinued operations on the Company's balance sheet as of September 30, 2017.

Additionally, effective June 30, 2016, the Company entered into a purchase agreement with BSN medical, Inc. ("BSN") whereby the Company agreed to sell to BSN all of the Company's rights, including all distribution rights, exclusivity rights, intellectual property rights and marketing rights to the sorbion product line pursuant to its distribution agreement with Sorbion GmbH & Co KG.

The results of operations for the three and nine months ended September 30, 2017 and 2016 reflect the Company's continuing operations.

Summarized operating results of discontinued operations for the three and nine months ended September 30, 2017 and 2016 are presented in the following table (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Revenue, net of returns, allowances and discounts	$ 346	$ 499	$ 1,255	$ 3,155
Cost of revenues	113	157	397	999
Gross profit	233	342	858	2,156
Selling, general and administrative	100	175	392	863
Income from discontinued operations, net of tax	$ 133	$ 167	$ 466	$ 1,293

Non-cash amortization expense of $43,000 and $74,000 is included in selling, general and administrative expense for the three months ended September 30, 2017 and 2016, respectively. Non-cash amortization expense of $185,000 and $260,000 is included in selling, general and administrative expense for the nine months ended September 30, 2017 and 2016, respectively.

During the three and nine months ended September 30, 2017, the Company recorded a gain of approximately $1.7 million (net of tax of $0) on the sale of the assets related to the purchase agreement with Argentum, pursuant to the following (in thousands):

Proceeds from sale		
Consideration for inventory	$ 112	
Consideration for intangible assets	3,600	
Total Consideration		3,712
Less: Net book value of assets sold to Argentum		
Inventory, net	(303)	
Intangibles, net	(1,709)	
Total net book value of assets		(2,012)
Gain on sale of assets		$ 1,700

During the nine months ended September 30, 2016, the Company recorded a gain of approximately $3.3 million (net of tax of $0) on the sale of the assets related to the purchase agreement with BSN, pursuant to the following (in thousands):

Proceeds from sale		
Consideration for inventory	$ 603	
Consideration for intangible assets	3,500	
Total Consideration		4,103
Less: Net book value of assets sold to BSN		
Inventory, net	(603)	
Intangibles, net	(189)	
Total net book value of assets		(792)
Gain on sale of assets		$ 3,311

Summarized assets and liabilities of discontinued operations are presented in the following table (in thousands):

	September 30, 2017	December 31, 2016
Accounts receivable, net	$ 164	$ 307
Escrow	300	-
Inventory, net	-	550
Total current assets	464	857
Intangible assets, net	-	1,893
Total assets	464	2,750
Accounts payable	19	19
Accrued expenses and other current liabilities	18	41
Total current liabilities	$ 37	$ 60

On August 31, 2017, the Company entered into a ninety-day transition services agreement with Argentum ("Transition Agreement"). Under the Transition Agreement, the Company is required to perform certain services related to the communication with distributors, wholesalers and customers in respect of transition of the TheraBond product line to Argentum, as specified in the Transition Agreement. As compensation, Argentum will pay the Company $200,000 for the services completed during the period from the closing of the purchase for three months ended November 30, 2017. One-third of this compensation ($67,000) was recognized and is included in other income for the three and nine months ended September 30, 2017.

Significant Accounting Policies and Estimates

The Company's significant accounting policies are disclosed in Note 2 — *Summary of Significant Accounting Policies* in the 2016 Annual Report. Since the date of the 2016 Annual Report, there have been no material changes to the Company's significant accounting policies. The preparation of the condensed consolidated 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 amounts reported in the condensed consolidated financial statements and accompanying notes. These estimates and assumptions include valuing equity securities and derivative financial instruments issued in financing transactions, allowance for doubtful accounts, inventory reserves, deferred taxes and related valuation allowances, and the fair values of long lived assets, intangibles, goodwill and contingent consideration. Actual results could differ from the estimates.

Recent Accounting Principles

In May 2014, the FASB issued ASU 2014-09, "Revenue from Contracts with Customers (Topic 606)" ("ASU 2014-09"). ASU 2014-09 supersedes the revenue recognition requirements in ASC Topic 605, "Revenue Recognition" and some cost guidance included in ASC Subtopic 605-35, "Revenue Recognition - Construction-Type and Production-Type Contracts." The core principle of ASU 2014-09 is that revenue is recognized when the transfer of goods or services to customers occurs in an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services. ASU 2014-09 requires the disclosure of sufficient information to enable readers of the Company's financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts. ASU 2014-09 also requires disclosure of information regarding significant judgments and changes in judgments, and assets recognized from costs incurred to obtain or fulfill a contract. ASU 2014-09 provides two methods of retrospective application. The first method would require the Company to apply ASU 2014-09 to each prior reporting period presented. The second method would require the Company to retrospectively apply ASU 2014-09 with the cumulative effect recognized at the date of initial application. ASU 2014-09 will be effective for the Company beginning in fiscal 2019 as a result of ASU 2015-14, "Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date," which was issued by the FASB in August 2015 and extended the original effective date by one year. The Company is currently evaluating the impact of adopting the available methodologies of ASU 2014-09 and 2015-14 upon its financial statements in future reporting periods. The Company has not yet selected a transition method. The Company is in the process of evaluating the new standard against its existing accounting policies, including the timing of revenue recognition, and its contracts with customers to determine the effect the guidance will have on its financial statements and what changes to systems and controls may be warranted.

There have been four new ASUs issued amending certain aspects of ASU 2014-09, ASU 2016-08, "Principal versus Agent Considerations (Reporting Revenue Gross Versus Net)," was issued in March 2016 to clarify certain aspects of the principal versus agent guidance in ASU 2014-09. In addition, ASU 2016-10, "Identifying Performance Obligations and Licensing," issued in April 2016, amends other sections of ASU 2014-09 including clarifying guidance related to identifying performance obligations and licensing implementation. ASU 2016-12, "Revenue from Contracts with Customers - Narrow Scope Improvements and Practical Expedients" provides amendments and practical expedients to the guidance in ASU 2014-09 in the areas of assessing collectability, presentation of sales taxes received from customers, noncash consideration, contract modification and clarification of using the full retrospective approach to adopt ASU 2014-09. Finally, ASU 2016-20, "Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers," was issued in December 2016, and provides elections regarding the disclosures required for remaining performance obligations in certain cases and also makes other technical corrections and improvements to the standard. With its evaluation of the impact of ASU 2014-09, the Company will also consider the impact on its financial statements related to the updated guidance provided by these four new ASUs.

In May 2017, the FASB issued ASU 2017-09, Compensation-Stock Compensation (Topic 718) Scope of Modification Accounting ("ASU 2017-09"). This ASU clarifies which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting in Topic 718. The standard is effective for the Company on January 1, 2018, with early adoption permitted. The impact of this new standard will depend on the extent and nature of future changes to the terms of Company's share-based payment awards.

2. Going Concern

The Company's financial statements are prepared using accounting principles generally accepted in the United States of America applicable to a going concern that contemplates the realization of assets and liquidation of liabilities in the normal course of business.

As of September 30, 2017, the Company had a cash balance of approximately $2.1 million. The Company has experienced recurring losses since its inception. The Company incurred a net loss of $13.9 million and utilized $9.8 million in cash from operations for the nine months ended September 30, 2017, and had an accumulated deficit of $138.2 million as of September 30, 2017. As of September 30, 2017, the Company was in default of a covenant pertaining to trailing twelve-month revenue under the Credit Agreement (as defined in *Note 7- Debt*) as a result of the Company's failure to achieve $24,600,000, $27,200,000, $30,300,000, and $33,800,000 of gross revenue for the twelve-month periods ended December 31, 2016, March 31, 2017, June 30, 2017, and September 30, 2017, respectively. Under an agreement dated January 26, 2017, as amended March 7, 2017, April 27, 2017 and August 9, 2017, the lender agreed to forbear from exercising any rights and remedies related to the default until the earlier of September 30, 2017 or the date when the lender becomes aware of any other default.

On August 31, 2017, in connection with the Asset Purchase Agreement with Argentum, the Company and Perceptive Credit Opportunities Fund, L.P. ("Perceptive") entered into a Consent, Forbearance and Amendment Agreement (the "Consent and Forbearance Agreement"), pursuant to which the Company agreed to pay $1,650,000 of the proceeds from the Asset Purchase Agreement to Perceptive, of which approximately $1,618,000 was applied towards the outstanding principal amount of the term loan under the credit agreement and approximately $32,000 was used to pay an early prepayment fee. This payment was made on August 31, 2017. During the three and nine months ended September 30, 2017, the Company recorded a loss on early extinguishment of debt of $214,000 related to the Consent and Forbearance Agreement. This amount consisted of the $32,000 prepayment penalty, the write-off of $129,000 of unamortized discount, and the write-off of $53,000 of unamortized debt issuance costs.

Under the Consent and Forbearance Agreement the lender agreed to: (a) release its liens on assets purchased by Argentum; (b) defer the commencement of the Company's remaining principal payments until January 31, 2018, and agreed to extend the forbearance period and to forbear from exercising any rights and remedies related to the Company's default of a covenant pertaining to (i) trailing twelve-month revenue under the Credit Agreement as of (A) September 30, 2016, (B) December 31, 2016 (C) March 31, 2017 and (D) June 30, 2017 and (ii) failure to maintain on a consolidated basis, a monthly minimum cash balance of at least $2,000,000, until the earlier of October 13, 2017 or the date when the lender becomes aware of any other default. On November 7, 2017, the lender agreed to extend the forbearance period and to forbear from exercising any rights and remedies to the Company's default of the aforementioned covenants, including the trailing twelve-month revenue as of September 30, 2017, until the earlier of December 31, 2017 or the date when the lender becomes aware of any other default.

The lender reserved the rights, commencing with the occurrence of any of these events, to pursue any rights and remedies available to it, including, but not limited to, declaring all or any portion of the outstanding principal amount to be immediately due and payable, imposing a default rate of interest as specified in the credit agreement, or pursing the lender's rights and remedies as a secured party under the UCC as a secured lender. In addition, the lender has a lien on substantially all of the Company's assets and, as a result of the default, the lender may seek to foreclose on some or substantially all of the Company's assets after the expiration of the forbearance. Such action could hinder the Company's ability to recover the remaining carrying value of some or all of its intangible assets including goodwill that aggregated approximately $35.2 million at September 30, 2017. These factors raise substantial doubt as to the Company's ability to continue as a going concern within one year from the date of this filing. The ability of the Company to continue as a going concern is dependent upon the Company's successful efforts to raise sufficient capital and attain profitable operations.

Management is evaluating all options to raise sufficient funds to meet its outstanding debt obligations and to fund the Company's working capital requirements. There can be no assurances, however, that management will be able to obtain sufficient additional funds when needed, or that such funds, if available, will be obtained on terms satisfactory to the Company. There is no assurance that the Company will be successful in achieving profitable operations. The condensed consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded assets and liabilities that might be necessary should the Company be unable to continue as a going concern.

3. Net Loss Per Common Share

Basic (loss) income per share data for each period presented is computed using the weighted-average number of shares of common stock outstanding during each such period. Diluted (loss) income per share data is computed using the weighted-average number of common and dilutive common-equivalent shares outstanding during each period. Dilutive common-equivalent shares consist of: (a) shares that would be issued upon the exercise of stock options and warrants, computed using the treasury stock method; and (b) shares of non-vested restricted stock.

The following securities are excluded from the calculation of weighted average dilutive common shares because their inclusion would have been anti-dilutive:

	Nine Months Ended Ended September 30,	
	2017	2016
Options	879,182	733,862
Warrants	514,561	336,541
Non-vested restricted stock	194,674	147,322
Total potentially dilutive shares	1,588,417	1,217,725

4. Termination of Merger Agreement

On October 5, 2016, the Company entered into a merger agreement to acquire the business of Soluble Systems, LLC ("Soluble") through a series of transactions. On February 27, 2017, the Company terminated this agreement.

In connection with the merger agreement to acquire the business of Soluble, the Company provided Soluble with bridge loans in the form of subordinated promissory notes totaling approximately $1.4 million. The Company advanced Soluble $1.0 million during the year ended December 31, 2016 and $350,000 on January 30, 2017. Pursuant to the terms of the merger agreement, the amount was to be repaid in full upon termination of the agreement. As of September 30, 2017, the Company fully reserved the amount due. As of December 31, 2016, the Company had provided for a full reserve for the amount that had been advanced to Soluble as of that date. The Company recorded bad debt expense of $350,000 during the nine months ended September 30, 2017. This expense is included in acquisition related expense. The Company also incurred approximately $285,000 of other acquisition related expenses related to the Soluble transaction during the nine months period ended September 30, 2017. The net balance of the note receivable is $0 and is included in prepaid and other current assets as of September 30, 2017 and December 31, 2016. See Note 12 - Subsequent Event.

5. Inventory

Inventory consists of the following (in thousands):

	September 30, 2017	December 31, 2016
Raw materials	$ 115	$ 135
Work in process	39	173
Finished goods	1,843	1,845
Less: Inventory reserve for excess and slow moving inventory	(12)	-
Total	$ 1,985	$ 2,153

6. Accrued Expenses and Other Current Liabilities

Accrued expenses and other current liabilities consist of the following (in thousands):

	September 30, 2017	December 31, 2016
Salaries, benefits and incentive compensation	$ 1,713	$ 3,007
Milestone payment to licensor	1,000	1,000
Professional fees	483	692
Royalty fees	200	197
Deferred revenue	339	181
Other	141	147
Total accrued expenses and other current liabilities	$ 3,876	$ 5,224

7. Debt

Senior Secured Term Loan Facility

On May 29, 2015, the Company entered into a Credit Agreement and Guaranty (the “Credit Agreement”) with Perceptive Credit Opportunities Fund, L.P. (“Perceptive”). The Credit Agreement provided a senior secured term loan in a single borrowing to the Company in the principal amount of $15.5 million. The Credit Agreement (i) has a four-year term, (ii) accrues interest at an annual rate equal to the greater of (a) one-month LIBOR or 1% plus (b) 9.75%, (iii) is interest only until June 30, 2017, followed by monthly amortization payments of $225,000, with the remaining unpaid balance due on the maturity date and (iv) is secured by a first priority lien on substantially all of the Company’s assets. The payment of principal under the Credit Agreement has been deferred until January 31, 2018, see Consent and Forbearance Agreement below. The Company is required to pay an exit fee when the term loan is paid in full equal to the greater of 2% of the outstanding principal balance immediately prior to the final payment or $200,000. The interest rate at September 30, 2017 was 11.00%.

In connection with the Credit Agreement, the Company incurred approximately $1.3 million of debt issuance costs. The debt issuance costs are being amortized over the term of the loan on a straight-line basis, which approximates the effective interest method. For the three months ended September 30, 2017 and 2016, the Company recorded amortization of debt issuance costs of $61,000 and $64,000, respectively, which is included in interest expense for the periods presented. For the nine months ended September 30, 2017 and 2016, the Company recorded amortization of debt issuance costs of $190,000 and $209,000, respectively, which is included in interest expense.

In connection with the entry into the Credit Agreement, a five-year warrant (the “Warrant”) to purchase 75,000 shares of common stock, par value of $0.001 per share at an exercise price of $55.138 per share (the “Exercise Price”) was issued to Perceptive. The Company granted Perceptive customary demand and piggy-back registration rights with respect to the shares of common stock issuable upon exercise of the Warrant. The Warrant contains a weighted average anti-dilution feature whereby the Exercise Price is subject to reduction if the Company issues shares of common stock (or securities convertible into common stock) in the future at a price below the current Exercise Price. As a result, the Warrant was determined to be a derivative liability. The Warrant had an issuance date fair value of approximately $2.7 million which was recorded as a debt discount. For the three months ended September 30, 2017 and 2016, the Company recorded amortization of debt discount of $144,000 and $143,000, respectively, which is included in interest expense for the periods presented. For the nine months ended September 30, 2017 and 2016, the Company recorded amortization of debt discount of $441,000 and $427,000, respectively, which is included in interest expense for the periods presented. See Note 11 – *Fair Value Measurement* for additional details.

As of September 30, 2017, the Company was in default of a covenant pertaining to trailing twelve-month revenue under the Credit Agreement as a result of the Company’s failure to achieve $24,600,000, $27,200,000, $30,300,000, and $33,800,000 of gross revenue for the twelve-month periods ended December 31, 2016, March 31, 2017, June 30, 2017 and September 30, 2017, respectively. The Company has classified the entire principal balance as a current liability in its balance sheet as of September 30, 2017 and December 31, 2016.

The Company amended and restated the Warrant on each of October 25, 2016, January 26, 2017, March 7, 2017 and April 6, 2017. In addition, on June 1, 2017, the Company further amended the Warrant. The amended and restated Warrant, as amended, is exercisable for 210,000 shares of the Company’s common stock at an exercise price of $4.70. The amended and restated Warrant, as amended, contains a weighted average anti-dilution feature whereby the exercise price of the amended and restated warrant is subject to reduction if the Company issues shares of common stock (or securities convertible into common stock) in the future at a price below the current exercise price of such warrant. Perceptive will not have the right to exercise the warrant to the extent that after giving effect to such exercise, Perceptive would beneficially own in excess of 9.99% of the common stock outstanding immediately after giving effect to such exercise. See Note 11 – *Fair Value Measurement* for additional details.

Debt consists of the following (in thousands):

	September 30, 2017	December 31, 2016
Principle balance	$ 12,135	$ 13,752
Unamortized debt issuance and discount costs	(1,399)	(2,211)
Total	$ 10,736	$ 11,541

Consent and Forbearance Agreement

Under an agreement dated January 26, 2017, as amended March 7, 2017, April 27, 2017 and August 9, 2017, the lender agreed to forbear from exercising any rights and remedies related to the default until the earlier of September 30, 2017 or the date when the lender becomes aware of any other default.

On August 31, 2017, in connection with the Asset Purchase Agreement with Argentum, the Company and Perceptive entered into a Consent, Forbearance and Amendment Agreement (the "Consent and Forbearance Agreement"), pursuant to which the Company agreed to pay $1,650,000 of the proceeds from the Asset Purchase Agreement to Perceptive, of which approximately $1,618,000 was applied towards the outstanding principal amount of the term loan under the credit agreement and approximately $32,000 was used to pay an early prepayment fee. This payment was made on August 31, 2017. During the three and nine months ended September 30, 2017, the Company recorded a loss on early extinguishment of debt of $214,000 related to the Consent and Forbearance Agreement. This amount consisted of the $32,000 prepayment penalty, the write-off of $129,000 of unamortized discount, and the write-off of $53,000 of unamortized debt issuance costs.

Under the Consent and Forbearance Agreement the lender agreed to: (a) release its liens on assets purchased by Argentum; (b) defer the commencement of the Company's remaining principal payments until January 31, 2018, and agreed to extend the forbearance period and to forbear from exercising any rights and remedies related to the Company's default of a covenant pertaining to (i) trailing twelve-month revenue under the Credit Agreement as of (A) September 30, 2016, (B) December 31, 2016 (C) March 31, 2017 and (D) June 30, 2017 and (ii) failure to maintain on a consolidated basis, a monthly minimum cash balance of at least $2,000,000, until the earlier of October 13, 2017 or the date when the lender becomes aware of any other default. On November 7, 2017, the lender agreed to extend the forbearance period and to forbear from exercising any rights and remedies to the Company's default of the aforementioned covenants, including the trailing twelve-month revenue as of September 30, 2017, until the earlier of December 31, 2017 or the date when the lender becomes aware of any other default.

The lender reserved the rights, commencing with the occurrence of any of these events, to pursue any rights and remedies available to it, including, but not limited to, declaring all or any portion of the outstanding principal amount to be immediately due and payable, imposing a default rate of interest as specified in the credit agreement, or pursing the lender's rights and remedies as a secured party under the UCC as a secured lender. In addition, the lender has a lien on substantially all of the Company's assets and, as a result of the default, the lender may seek to foreclose on some or substantially all of the Company's assets after the expiration of the forbearance.

8. Commitments and Contingencies

Agreements for Human Placental Based Products

Human Longevity, Inc.

In November 2013, the Company entered into a License, Marketing and Development Agreement (the "License Agreement") and Supply Agreement (the "Biovance Supply Agreement") with Celgene Cellular Therapeutics ("CCT"), an affiliate of Celgene Corporation ("Celgene"). The agreements grant the Company an exclusive, royalty-bearing license in CCT's intellectual property for certain placental based products, including ECM and Biovance ®, as well as provide the Company with the its requirements of Biovance for distribution. In January 2016, HLI Cellular Therapeutics, LLC ("HLI"), a genomics-based, technology-driven company, announced the purchase of LifebankUSA and other select assets from CCT. CCT assigned and HLI assumed the license and supply agreements the Company entered into with CCT, for certain placental based products. In June 2017, Celularity, Inc. ("Celularity") acquired all of the assets of HLI, including the agreements between HLI and the Company. The Company is required to pay Celularity annual license fees, designated amounts when certain milestone events occur and royalties on all sales of licensed products, with such amounts being variable and contingent on various factors. For the three months ended September 30, 2017 and 2016, the Company incurred royalties of approximately $199,000 and $121,000, respectively, in connection with this agreement. For the nine months ended September 30, 2017 and 2016, the Company incurred royalties of approximately $591,000 and $296,000, respectively, in connection with this agreement. Approximately $199,000 and $197,000 is included in accrued expenses as of September 30, 2017 and December 31, 2016, respectively, in connection with this agreement. The initial term of the License Agreement ends on November 14, 2023, unless sooner terminated pursuant to the termination rights under the License Agreement, and will extend for additional two-year terms unless either party gives written notice within a specified period prior to the end of a term.

The License Agreement with Celularity is terminable on a product-by-product basis if the Company fails to meet certain minimum sales thresholds in the second year or any subsequent year of commercial sales of each licensed product. Each year of commercial sales are referred to in the License Agreement as "launch years" and the calendar period constituting each launch year for each licensed product is determined in accordance with the terms of the License Agreement. To maintain its license for Biovance, the Company must meet a minimum gross sales amount for Biovance in the second year and third year of commercial sales. If the Company fails to meet the minimum threshold in the second year of commercial sales of product, it would be able to cure such failure by making a cure payment specified in the License Agreement to Celularity; provided, however, the Company does not have the option to make a cure payment, should it fail to meet the minimum threshold for such product in the third year of commercial sales and Celularity may terminate the License Agreement with respect to such product.

In September 2014, the Company entered into a First Amendment to the License Agreement (the "Amended License Agreement"), pursuant to which the Company received the right to market Biovance for podiatric and orthopedic applications. The Amended License Agreement also amends certain terms and the related schedule for milestone payments to CCT. In May 2015, the Company amended its exclusive licensing agreement with CCT, which granted the Company the right to develop and market CCT's connective tissue matrix product, also known as Interfyl.

In April 2016, the Company entered into a Supply Agreement with HLI (now Celularity), pursuant to which Celularity supplies the Company with the Company's entire requirement of Interfyl™ Human Connective Tissue Matrix. Additionally, the Company agreed to make certain future milestone payments upon the achievement of certain milestones. The Company initiated sales and marketing efforts of Interfyl Human Connective Tissue Matrix in September 2016 and achieved two milestones under the license agreement. The Company is required to pay Celularity $500,000 related to the first commercial sale of Interfyl in the flowable matrix configuration and $500,000 related to the first commercial sale of Interfyl in the particulate form. Commercial sales of both configurations occurred in September 2016, and as such, the Company recorded $1.0 million of milestone expense during the year ended December 31, 2016. The milestone has been included in accrued expenses and other current liabilities as of September 30, 2017 and December 31, 2016.

Contingent Consideration

Celleration, Inc.

On May 29, 2015, the Company acquired all outstanding equity interest of Celleration, Inc. ("Celleration"), a medical device company focused on developing and commercializing the MIST Therapy® therapeutic ultrasound platform for the treatment of acute and chronic wounds. The Company agreed to pay contingent consideration of 3.5 times revenue from acquired MIST Therapy products in excess of certain revenue targets for the years ending December 31, 2015 and 2016, payable in equal amounts of cash and the Company's common stock. This contingent consideration was payable in two installments in March 2016 and March 2017.

The first installment consisted of $2.6 million of cash and approximately 98,600 shares of the Company's common stock valued at approximately $2.6 million and was paid in March 2016. This payment was based on 3.5 times of the excess of 2015 MIST Therapy revenue of approximately $10.2 million over 2014 MIST Therapy revenue of approximately $8.7 million.

The second installment consisted of $675,000 of cash and approximately 100,000 shares of the Company's common stock valued at approximately $675,000 and was paid in March 2017. This payment was based on 3.5 times of the excess of 2016 MIST Therapy revenue of approximately $10.5 million over 2015 MIST Therapy revenue of approximately $10.2 million. There are no further contingent payments due in connection with the Celleration acquisition.

Choice Therapeutics, Inc.

On May 5, 2014, the Company acquired all outstanding equity interest of Choice Therapeutics, Inc., a provider of innovative wound care products using proprietary TheraBond 3D® Antimicrobial Barrier Systems. The Company agreed to pay contingent consideration based upon the Company achieving specific performance metrics over the three twelve-month periods, ended April 30, 2017. The Company issued approximately 130,000 shares of its common stock valued at approximately $500,000 in June 2017. There are no further contingent payments due in connection with the Choice acquisition.

Litigation, Claims and Assessments

The Company is subject to periodic lawsuits, investigations and claims that arise in the ordinary course of business. The Company is not party to any material litigation as of September 30, 2017.

9. Stockholders' Equity

Private Placement

On February 27, 2017, the Company entered into a securities purchase agreement (the "Securities Purchase Agreement") with certain accredited investors, pursuant to which the Company agreed to issue and sell to the investors in a private placement (the "Private Placement") an aggregate of 554,000 shares of the Company's common stock at a purchase price of $5.00 per share. The Company closed the Private Placement on the same day as it entered into the Securities Purchase Agreement and received aggregate gross proceeds of approximately $2.8 million. In connection with the Private Placement, the Company paid an aggregate of $196,000 of financial advisory fees and $40,000 of administrative fees, which were recorded as a reduction of additional paid-in capital.

The Securities Purchase Agreement contains a "most-favored nation" provision that provides that if the Company, during 120 days from February 27, 2017, issues or sells any common stock or common stock equivalents reasonably believed to be more favorable in terms or conditions than those in the Private Placement, then the Company must amend the terms of the Securities Purchase Agreement to give the private investors the benefit of such favorable terms or conditions. In connection with the common stock sold in the Public Offering (as defined below) and in accordance with this provision, on April 11, 2017, the Company issued an aggregate of 38,072 shares of its common stock to these investors. On June 23, 2017, the Company held its 2017 annual meeting of stockholders during which the stockholders approved the issuance of the remaining 100,429 additional shares of common stock to be issued to the investors, and, following the meeting, on June 23, 2017, the Company issued the remaining shares.

Underwritten Public Offering

On April 3, 2017, the Company closed an underwritten public offering (the "Public Offering") of 947,325 shares of its common stock at a price to the public of $4.00 per share. The Company received aggregate gross proceeds of approximately $3.8 million. In connection with the Public Offering, the Company paid an aggregate of $365,000 of financial advisory fees and $92,000 of administrative fees, which were recorded as a reduction of additional paid-in capital. The shares of common stock were issued pursuant to the Company's shelf registration statement on Form S-3 previously filed with the Securities and Exchange Commission and declared effective on September 25, 2014.

On April 3, 2017, the Company issued warrants to purchase an aggregate of 23,684 shares of the Company's common stock to the underwriter of this offering. These warrants are immediately exercisable, have an exercise price of $4.40, and expire on March 29, 2022. The warrants had an aggregate issuance date fair value of $78,000 which was recorded as both a debit and credit to additional paid in capital.

Pursuant to an anti-dilution provision provided in the warrants dated November 8, 2012 to purchase common stock at an initial exercise price of $21.90, the exercise price of these warrants was adjusted to the public offering price of $4.00. As of April 3, 2017, November 2012 warrants to purchase 36,230 shares of the Company's common stock were outstanding. These warrants expire in November 2017.

Stock-Based Compensation

For the three months ended September 30, 2017 and 2016, the Company recognized $686,000 and $1.2 million of stock-based compensation expense, of which, ($1,000) and $5,000 is included in cost of revenues and $687,000 and $1.2 million is included in selling, general and administrative expenses in the condensed consolidated statements of operations, respectively. For the nine months ended September 30, 2017 and 2016, the Company recognized $1.6 million and $4.3 million of stock-based compensation expense, of which, $25,000 and $134,000 is included in cost of revenues and $1.6 million and $4.1 million is included in selling, general and administrative expenses in the condensed consolidated statements of operations, respectively. As of September 30, 2017, there was $1.4 million of unrecognized stock-based compensation expense which will be amortized over a weighted average period of 0.8 years.

Stock Options

On June 27, 2017, the Company granted non-executive employees ten-year options to purchase an aggregate of 208,050 shares of common stock at an exercise price of $3.50 per share. The aggregate grant date value of the options is $519,000. The options vest in one-fourth increments every six months over a period of two years.

Restricted Stock

During the nine months ended September 30, 2017, the Company granted an aggregate of 181,936 shares of restricted stock to employees with an aggregate grant date value of $621,000 which will be recognized proportionate to the vesting period. The shares vest as follows: (i) 66,936 shares vested on September 21, 2017, (ii) 5,000 shares vest on December 31, 2017, (iii) 50,000 shares vest on June 23, 2018, and (iv) 60,000 shares vest pursuant to the satisfaction of certain performance conditions.

10. Related Party

In November 2015, the Company entered into a manufacturing supply agreement with a company where a Company director was then a member of the Board of Directors. During the three months ended September 30, 2017 and 2016, the Company incurred costs of approximately \$28,000 and \$100,000, respectively, from this vendor. During the nine months ended September 30, 2017 and 2016, the Company incurred costs of approximately \$286,000 and \$358,000, respectively, from this vendor. Approximately \$39,000 and \$102,000 is included in accounts payable related to this related party as of September 30, 2017 and December 31, 2016, respectively.

11. Fair Value Measurement

Fair value is defined as the price that would be received upon selling an asset or the price paid to transfer a liability on the measurement date. It focuses on the exit price in the principal or most advantageous market for the asset or liability in an orderly transaction between willing market participants. A three-tier fair value hierarchy is established as a basis for considering such assumptions and for inputs used in the valuation methodologies in measuring fair value. This hierarchy requires entities to maximize the use of observable inputs and minimize the use of unobservable inputs. The three levels of inputs used to measure fair values are as follows:

Level 1: Observable prices in active markets for identical assets and liabilities.

Level 2: Observable inputs other than quoted prices in active markets for identical assets and liabilities.

Level 3: Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets and liabilities.

Warrant Liabilities

The Company amended and restated the Warrant on each of October 25, 2016, January 26, 2017, March 7, 2017 and April 6, 2017. In addition, on June 1, 2017, the Company further amended the amended and restated Warrant. The amended and restated Warrant, as amended, is exercisable for 210,000 shares of the Company's common stock at an exercise price of \$4.70 per share. See Note 7 – *Debt* for additional details. In connection with the amendments of January, March, April and June 2017, the Company recomputed the fair value of the original warrant and amended warrant using the Binomial option pricing model (Level 3 inputs) using the following assumptions: expected volatility of 65.33%-78.98%, risk-free rate of 1.49%-1.95%, expected term of 3.34-5.00 years, and expected dividends of 0.00%. As a result, the Company recorded warrant modification expense of \$0 and \$803,000 during the three and nine months ended September 30, 2017, respectively, which represents the incremental value of the amended warrant as compared to the original warrant, both valued as of the respective amendment dates.

On September 30, 2017, the Company recomputed the fair value of its warrant liability of outstanding warrants to purchase an aggregate of 246,231 shares of common stock as \$419,000 using the Binomial option pricing model (Level 3 inputs) using the following assumptions: expected volatility of 72.63%-131.85%, risk-free rate of 0.96%-1.77%, expected term of 0.10-4.32 years, and expected dividends of 0.00%. The Company recorded a gain on the change in fair value of these warrant liabilities of \$35,000 and \$404,000 during the three and nine months ended September 30, 2017, respectively.

The issuance of common stock in connection with the Private Placement and Public Offering triggered an adjustment to the exercise price of certain warrants originally issued in November 2012 from \$55.10 per share to \$5.00 per share to \$4.00 per share with a corresponding adjustment to the number of shares underlying such warrants from 6,629 shares to 29,034 shares to 36,231 shares. The impact of such adjustment is included in the change in fair value of the warrant liabilities during the nine months ended September 30, 2017.

Warrants that contain exercise reset provisions and contingent consideration liabilities are Level 3 derivative liabilities measured at fair value on a recurring basis using pricing models for which at least one significant assumption is unobservable as defined in ASC 820. The fair value of contingent consideration liabilities that are classified as Level 3 were estimated using a discounted cash flow technique with significant inputs that are not observable in the market and thus represents a Level 3 fair value measurement as defined in ASC 820. The significant inputs in the Level 3 measurement not supported by market activity include the probability assessments of expected future cash flows related to the acquisitions, appropriately discounted considering the uncertainties associated with the obligation, and as calculated in accordance with the terms of the acquisition agreements. The development and determination of the unobservable inputs for Level 3 fair value measurements and the fair value calculations are the responsibility of the Company's Chief Financial Officer and are approved by the Chief Executive Officer.

The following table sets forth a summary of the changes in the fair value of Level 3 warrant liabilities that are measured at fair value on a recurring basis (in thousands):

	Nine Months Ended September 30,	
	2017	2016
Warrant Liabilities		
Beginning balance	$ 20	$ 861
Change in fair value of warrant liability	(404)	(797)
Warrant modification expense	803	-
Ending balance	$ 419	$ 64

	Nine Months Ended September 30,	
	2017	2016
Contingent Consideration		
Beginning balance	$ 1,816	$ 17,028
Payments of contingent consideration	(1,851)	(5,147)
Change in fair value of contingent consideration	35	(8,634)
Ending balance	$ -	$ 3,247

Assets and liabilities measured at fair value on a recurring basis are as follows (in thousands):

	September 30, 2017		
	Level 1	Level 2	Level 3
Liabilities:			
Warrant liabilities	$ -	$ -	$ 419
Total liabilities	$ -	$ -	$ 419

	December 31, 2016		
	Level 1	Level 2	Level 3
Liabilities:			
Warrant liabilities	$ -	$ -	$ 20
Contingent consideration	-	-	1,816
Total liabilities	$ -	$ -	$ 1,836

12. Subsequent Event

The Company advanced Soluble $1.4 million, $1.0 million during the year ended December 31, 2016 and $350,000 on January 30, 2017.

On October 27, 2017, the Company received $1 million under an agreement with Soluble in connection with amounts advanced to Soluble by the Company. With the receipt of this $1 million, the Company acknowledged that all amounts due to the Company from Soluble are paid in full.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with the condensed consolidated financial statements and related notes above.

Forward-Looking Statements

This Quarterly Report on Form 10-Q contains "forward-looking statements," which include information relating to future events, future financial performance, strategies, expectations, competitive environment and regulation. Words such as "may," "should," "could," "would," "predict," "potential," "continue," "expect," "anticipate," "future," "intend," "plan," "believe," "estimate," and similar expressions, as well as statements in future tense, identify forward-looking statements. Forward-looking statements should not be read as a guarantee of future performance or results and may not be accurate indications of when such performance or results will actually be achieved. Forward-looking statements are based on information we have when those statements are made or our management's good faith belief as of that time with respect to future events, and are subject to risks and uncertainties that could cause actual performance or results to differ materially from those expressed in or suggested by the forward-looking statements. Important factors that could cause such differences include, but are not limited to:

- our ability to continue as a going concern;
- inadequate capital;
- the uncertainty regarding the adequacy of our liquidity to pursue our complete business objectives;
- our ability to recover the carrying value of some or all of our intangible assets including goodwill;
- our ability to obtain reimbursement from third party payers for our products;
- our ability to achieve and maintain minimum sales requirements under our license agreements;
- our ability to obtain and maintain regulatory approval of our existing products and any future products we may develop;
- our ability to cure or obtain forbearance or waivers for existing covenant defaults under our outstanding indebtedness and to remain in compliance with our debt covenants;
- market acceptance of our existing and future products;
- loss or retirement of key executives;
- our plans to make significant additional outlays of working capital before we expect to generate significant revenues and the uncertainty regarding when we will begin to generate significant revenues, if we are able to do so;
- an unfavorable decision on product reimbursement;
- adverse economic conditions and/or intense competition;
- loss of a key customer or supplier;
- entry of new competitors and products;
- adverse federal, state and local government regulation;
- technological obsolescence of our products;
- technical problems with our research and products;
- risks of mergers and acquisitions including the time and cost of implementing transactions and the potential failure to achieve expected gains, revenue growth or expense savings;
- price increases for supplies and components; and
- the inability to carry out research, development and commercialization plans.

For a discussion of these and other risks that relate to our business and investing in shares of our common stock, you should carefully review the risks and uncertainties described under the heading "Part II – Item 1A. Risk Factors" and elsewhere in this Quarterly Report on Form 10-Q and in our Annual Report on form 10-K for the year ended December 31, 2016. The forward-looking statements contained in this Quarterly Report on Form 10-Q are expressly qualified in their entirety by this cautionary statement. We do not undertake any obligation to publicly update any forward-looking statement to reflect events or circumstances after the date on which any such statement is made or to reflect the occurrence of unanticipated events.

Overview

We are a regenerative technologies company that commercializes differentiated regenerative medical products which assist the body in the repair or replacement of soft tissue. Through our sales and distribution network, together with our proprietary products, we believe we offer solutions that allow clinicians to utilize the latest advances in regenerative technologies to bring improved patient outcomes to their practices. Our contract manufacturing business provides custom hydrogels to the OEM market.

Recent Events

Termination of Merger Agreement

On October 5, 2016, we entered into a merger agreement to acquire the business of Soluble Systems, LLC ("Soluble") through a series of transactions. On February 27, 2017, we terminated this agreement.

We advanced Soluble $1.4 million, $1.0 million during the year ended December 31, 2016 and $350,000 on January 30, 2017.

On October 27, 2017, we received $1 million under an agreement with Soluble in connection with amounts advanced to Soluble by us. With the receipt of this $1 million, we acknowledged that all amounts due to us from Soluble are paid in full.

Private Placement

On February 27, 2017, we issued and sold an aggregate of 554,000 shares of our common stock at a purchase price of $5.00 per share issued to certain accredited investors in a private placement (the "Private Placement"), pursuant to a Securities Purchase Agreement (the "Securities Purchase Agreement"). Proceeds from the Private Placement, net of underwriting and administrative fees, were approximately $2.5 million.

Underwritten Public Offering

On April 3, 2017, we closed an underwritten public offering of 947,325 shares of our common stock at a price to the public of $4.00 per share. Proceeds from this offering, net of underwriting and administrative fees were approximately $3.3 million. The shares of common stock were issued pursuant to our shelf registration statement on Form S-3 previously filed with the Securities and Exchange Commission and declared effective on September 25, 2014.

On April 3, 2017, we issued warrants to purchase an aggregate of 23,684 shares of our common stock to the underwriter of this offering. These warrants are immediately exercisable, have an exercise price of $4.40, and expire on March 29, 2022.

Pursuant to an anti-dilution provision provided in the warrants dated November 8, 2012 to purchase common stock at an initial exercise price of $21.90, the exercise price of these November 2012 warrants was adjusted to the public offering price of $4.00. As of April 3, 2017, November 2012 warrants to purchase 36,230 shares of the Company's common stock were outstanding. These warrants expire in November 2017.

Amendment and Adjustments of the Perceptive Warrant

On April 6, 2017, we and Perceptive Credit Opportunities Fund, L.P. ("Perceptive") entered into an amendment and restatement of a warrant to reduce the exercise price from $5.00 to $4.70, reflecting the impact of the public offering price of $4.00 per share at which we sold our common stock in the underwritten public offering that closed on April 3, 2017 as described above. The warrant was exercisable for 200,000 shares of our common stock. Perceptive will not have the right to exercise the warrant to the extent that after giving effect to such exercise, Perceptive would beneficially own in excess of 9.99% of the common stock outstanding immediately after giving effect to such exercise. On June 1, 2017, we and Perceptive entered into an amendment to increase the warrant from 200,000 to 210,000 shares of our common stock as well as delay the principal payments due under the Credit Agreement beginning June 30, 2017 until August 31, 2017.

Senior Secured Term Loan Facility

As of September 30, 2017, we are in default of a covenant pertaining to trailing twelve-month revenue under the Credit Agreement as a result of our failure to achieve $24,600,000, $27,200,000, $30,300,000, and $33,800,000 of gross revenue for the twelve-month periods ended December 31, 2016, March 31, 2017, June 30, 2017 and September 30, 2017, respectively. Under an agreement dated January 26, 2017, as amended on March 7, 2017, April 27, 2017 and August 9, 2017, the lender agreed to forbear from exercising any rights and remedies related to the default until the earlier of September 30, 2017 or the date when the lender becomes aware of any other default.

On August 31, 2017, in connection with the Asset Purchase Agreement with Argentum, we entered into a Consent, Forbearance and Amendment Agreement (the "Consent and Forbearance Agreement") with Perceptive, pursuant to which we agreed to pay $1,650,000 of the proceeds from the Asset Purchase Agreement to Perceptive, of which approximately $1,618,000 was applied towards the outstanding principal amount of the term loan under the credit agreement and approximately $32,000 was used to pay an early prepayment fee. This payment was made on August 31, 2017. During the three and nine months ended September 30, 2017, we recorded a loss on early extinguishment of debt of $214,000 related to the Consent and Forbearance Agreement. This amount consisted of the $32,000 prepayment penalty, the write-off of $129,000 of unamortized discount, and the write-off of $53,000 of unamortized debt issuance costs.

Under the Consent and Forbearance Agreement the lender agreed to: (a) release its liens on assets purchased by Argentum; (b) defer the commencement of our remaining principal payments until January 31, 2018, and agreed to extend the forbearance period and to forbear from exercising any rights and remedies related to our default of a covenant pertaining to (i) trailing twelve-month revenue under the Credit Agreement as of (A) September 30, 2016, (B) December 31, 2016 (C) March 31, 2017 and (D) June 30, 2017 and (ii) failure to maintain on a consolidated basis, a monthly minimum cash balance of at least $2,000,000, until the earlier of October 13, 2017 or the date when the lender becomes aware of any other default. On November 7, 2017, the lender agreed to extend the forbearance period and to forbear from exercising any rights and remedies to our default of the aforementioned covenants, including the trailing twelve-month revenue as of September 30, 2017, until the earlier of December 31, 2017 or the date when the lender becomes aware of any other default.

The lender has the rights to pursue any rights and remedies available to it, including, but not limited to, declaring all or any portion of the outstanding principal amount to be immediately due and payable, imposing a default rate of interest as specified in the credit agreement, or pursing the lender's rights and remedies as a secured party under the UCC as a secured lender. In addition, the lender has a lien on substantially all of our assets and, as a result of the default, may seek to foreclose on some or substantially all of our assets after the expiration of the forbearance. We are in negotiations with other financing parties to refinance this debt. However, no assurance can be given that we will be able to obtain additional debt to refinance our existing obligations on commercially reasonable terms or at all.

Asset Sale

In order to add capital and to focus on future investments on commercializing our own regenerative technologies effective August 31, 2017, we entered into a purchase agreement with Argentum Medical, LLC. ("Argentum") whereby we agreed to sell to Argentum all of our rights, including (i) all distribution rights, exclusivity rights, intellectual property rights and marketing rights to the TheraBond product line and (ii) the unsold inventory of TheraBond products and work in process previously purchased in existence as of the closing, which occurred upon execution and delivery of the Purchase Agreement. In consideration for the sale of the TheraBond product line and the unsold TheraBond inventory to Argentum, Argentum agreed to pay (i) $3.6 million for the TheraBond product line and certain other agreements between the parties and (ii) up to $112,000 for to the unsold TheraBond inventory upon our completion of our obligations to deliver all remaining and qualifying unsold TheraBond inventory, as specified in the purchase agreement. Of the $3.6 million of consideration, $300,000 is deposited in an indemnity escrow account under standard terms and conditions. This amount is classified under current assets of discontinued operations on our balance sheet as of September 30, 2017.

Reverse Stock Split

On October 5, 2017, we effected a 1-for-10 reverse stock split of our outstanding common stock. The accompanying consolidated financial statements and accompanying notes to the consolidated financial statements give retroactive effect to the reverse stock split for all periods presented. The shares of common stock retained a par value of $0.001 per share. Accordingly, stockholders' equity reflects the reverse stock split by reclassifying from common stock to additional paid-in capital an amount equal to the par value of the decreased shares resulting from the reverse stock split.

Results of Operations

Three Months Ended September 30, 2017 Compared to the Three Months Ended September 30, 2016

Revenues, net. For the three months ended September 30, 2017 revenues increased by $526,000, or 12%, to $4.9 million from $4.4 million for the three months ended September 30, 2016. The increase in our overall revenue was due to a 14% increase in product sales, primarily attributable to growth in our biologic products. During the third quarter, the hurricanes in Texas and Florida had a negative impact on sales of our biologics products.

The components of revenue were as follows for the three months ended September 30, 2017 and 2016 (in thousands):

	Three Months Ended September 30,			
	2017		2016	
Revenues				
Product	$	4,406	$	3,856
Contract manufacturing		495		519
Total revenues, net	$	4,901	$	4,375

Gross profit. Our gross profit was $3.4 million for the three months ended September 30, 2017 compared to gross profit of $2.8 million for the three months ended September 30, 2016. The improved results for the three months ended September 30, 2017, as compared to the three months ended September 30, 2016 was primarily due to the greater volume of product sales as product revenue typically commands higher gross profit margins. Gross margin on our product sales was approximately 77%, while our overall gross margin was approximately 69% for the three months ended September 30, 2017. Gross margin on our product sales was approximately 76%, while our overall gross margin was approximately 63% for the three months ended September 30, 2016.

The components of cost of revenues are as follows for the three months ended September 30, 2017 and 2016 (in thousands):

	Three Months Ended September 30,			
	2017		2016	
Cost of revenues				
Materials and finished products	$	961	$	940
Stock-based compensation		(1)		5
Compensation and benefits		135		220
Depreciation and amortization		211		201
Equipment, production and other expenses		232		242
Total cost of revenues	$	1,538	$	1,608

Selling, general and administrative expenses. The following table highlights selling, general and administrative expenses by type for the three months ended September 30, 2017 and 2016 (in thousands):

	Three Months Ended September 30,			
	2017		2016	
Selling, general and administrative expenses				
Compensation and benefits	$	2,974	$	3,746
Stock-based compensation		687		1,184
Professional fees		638		880
Marketing		371		520
Depreciation and amortization		1,101		764
Other expenses		1,233		1,364
Total selling, general and administrative expenses	$	7,004	$	8,458

Selling, general and administrative expenses decreased by $1.5 million to $7.0 million for the three months ended September 30, 2017, as compared to $8.5 million for the three months ended September 30, 2016. The decrease in selling, general and administrative expenses is consistent with our goal of decreasing our operating expenditures.

Compensation and benefits decreased by $772,000 to $3.0 million for the three months ended September 30, 2017, as compared to $3.7 million for the three months ended September 30, 2016. The decrease in compensation and benefits was primarily due to the decrease in the average number of full-time employees in 2017 compared to 2016, offset by an increase in sales based commission due to the increase in product revenue. We expect our average headcount for the full year of 2017 to be lower than the full year of 2016.

Stock-based compensation decreased by $497,000, to $687,000 for the three months ended September 30, 2017, as compared to $1.2 million for the three months ended September 30, 2016. The decrease in stock-based compensation is primarily due to the lower weighted average estimated fair value of options vested during the three months ended September 30, 2017 as compared to the three months ended September 30, 2016.

Nine Months Ended September 30, 2017 Compared to the Nine Months Ended September 30, 2016

Revenues, net. For the nine months ended September 30, 2017 revenues increased by $2.3 million, or 19%, to $14.1 million from $11.9 million for the nine months ended September 30, 2016. The increase in our overall revenue was due to a 28% increase in product sales, primarily attributable to growth in our biologic products.

The components of revenue were as follows for the nine months ended September 30, 2017 and 2016 (in thousands):

	Nine Months Ended September 30, 2017	Nine Months Ended September 30, 2016
Revenues		
Product	$ 12,778	$ 9,970
Contract manufacturing	1,330	1,881
Total revenues, net	$ 14,108	$ 11,851

Gross profit. Our gross profit was $9.3 million for the nine months ended September 30, 2017 compared to gross profit of $7.4 million for the nine months ended September 30, 2016. The improved results for the nine months ended September 30, 2017, as compared to the nine months ended September 30, 2016 was primarily due to the greater volume of product sales as product revenue typically commands higher gross profit margins. Gross margin on our product sales was approximately 76%, while our overall gross margin was approximately 66% for the nine months ended September 30, 2017. Gross margin on our product sales was approximately 77%, while our overall gross margin was approximately 62% for the nine months ended September 30, 2016.

The components of cost of revenues are as follows for the nine months ended September 30, 2017 and 2016 (in thousands):

	Nine Months Ended September 30, 2017	Nine Months Ended September 30, 2016
Cost of revenues		
Materials and finished products	$ 2,903	$ 2,425
Stock-based compensation	25	134
Compensation and benefits	550	723
Depreciation and amortization	626	574
Equipment, production and other expenses	661	637
Total cost of revenues	$ 4,765	$ 4,493

Selling, general and administrative expenses. The following table highlights selling, general and administrative expenses by type for the nine months ended September 30, 2017 and 2016 (in thousands):

	Nine Months Ended September 30, 2017	Nine Months Ended September 30, 2016
Selling, general and administrative expenses		
Compensation and benefits	$ 9,883	$ 11,513
Stock-based compensation	1,579	4,142
Professional fees	2,099	2,820
Marketing	1,205	1,616
Depreciation and amortization	3,305	2,290
Other expenses	3,658	4,638
Total selling, general and administrative expenses	$ 21,729	$ 27,019

Selling, general and administrative expenses decreased by $5.3 million to $21.7 million for the nine months ended September 30, 2017, as compared to $27.0 million for the nine months ended September 30, 2016. The decrease in selling, general and administrative expenses is consistent with our goal of decreasing our operating expenditures.

Compensation and benefits decreased by $1.6 million to $9.9 million for the nine months ended September 30, 2017, as compared to $11.5 million for the nine months ended September 30, 2016. The decrease in compensation and benefits was primarily due to the decrease in the average number of full-time employees in 2017 compared to 2016, offset by an increase in sales based commission due to the increase in product revenue. We expect our average headcount for the full year of 2017 to be lower than the full year of 2016.

Stock-based compensation decreased by $2.5 million, to $1.6 million for the nine months ended September 30, 2017, as compared to $4.1 million for the nine months ended September 30, 2016. The decrease in stock-based compensation is primarily due to the lower weighted average estimated fair value of options vested during the nine months ended September 30, 2017 as compared to the nine months ended September 30, 2016.

Professional fees decreased by $721,000 to $2.1 million for the nine months ended September 30, 2017, as compared to $2.8 million for the nine months ended September 30, 2016. The decrease in professional fees was primarily due to a decrease in legal and consulting expenses offset by an increase in commissions paid to independent sales representatives.

Other expenses decreased by $981,000 to $3.7 million for the nine months ended September 30, 2017 from $4.6 million for the nine months ended September 30, 2016. Other selling, general and administrative expenses consist of costs associated with our selling efforts and general management, including information technology, travel, training and recruiting. The decrease in other expenses is primarily due to a decrease in the average number of full-time employees in the nine months ended September 30, 2017 compared to the same period in 2016, as well as our goal of decreasing operating expenses.

Acquisition-related expenses. During the nine months ended September 30, 2017, we incurred $635,000 in acquisition-related costs related to acquisition of Soluble, which we terminated in February 2017. The incurred costs during the nine months ended September 30, 2017 include bad debt expense of $350,000 related to a subordinated promissory note receivable made to Soluble in connection with the terminated acquisition, as well as professional costs associated with terminating the acquisition. Subsequent to September 30, 2017, we received $1,000,000 in connection with the subordinated promissory note receivable.

Warrant modification expense. During the nine months ended September 30, 2017, we recognized $803,000 of warrant modification expense in connection with the amendment of the warrant issued to Perceptive. In connection with entry into the January 2017 forbearance agreement, as amended March and June 2017, we also amended and restated the warrant issued to Perceptive in connection with the closing of the Credit Agreement in May 2015. The amended and restated warrant is exercisable for 210,000 shares of our common stock. The expense recorded during the nine months ended September 30, 2017 represents the incremental value of the modified warrant as compared to the original warrant, both valued as of the respective modification dates.

Liquidity and Capital Resources

As of September 30, 2017, we had cash and cash equivalents totaling approximately $2.1 million compared to $5.6 million at December 31, 2016. The decrease was largely attributable to cash used in operating activities of approximately $9.8 million, $1.6 million paid to Perceptive for the early extinguishment of debt, $675,000 to pay a portion of the contingent consideration related to the Celleration acquisition, and $350,000 issued as a bridge loan to Soluble in connection with the terminated acquisition. This decrease was offset by $5.9 million received from net proceeds from the issuance of common stock and the proceeds of $3.4 million from the sale of TheraBond.

Net cash used in operating activities was $9.8 million and $14.0 million for the nine months ended September 30, 2017 and 2016, respectively. Net cash used in operating activities for both periods was principally to fund our net cash loss. The net cash flow used in operating activities for the nine months ended September 30, 2017 and 2016 included $1.6 million of compensation and royalty payments that were accrued at December 31, 2016 and 2015, respectively. The nine months ended September 30, 2017 also includes $711,000 of payments in connection with the terminated acquisition of Soluble.

Net cash provided by investing activities was $2.9 million and $3.0 million for the nine months ended September 30, 2017 and 2016, respectively. Cash provided by investing activities during the nine months ended September 30, 2017 included $3.4 million received from the sale of the rights to the TheraBond product from Argentum, offset by $350,000 provided to Soluble as a bridge loan and $126,000 in purchases of improvements and equipment. Cash provided by investing activities during the nine months ended September 30, 2016 included $4.1 million received from the sale of the rights to the sorbion product from BSN, offset by purchases of improvements and equipment of $573,000 and $500,000 provided to Soluble as a bridge loan.

Net cash provided by financing activities for the nine months ended September 30, 2017 consisted of $5.9 million of net proceeds received from the issuance of our common stock offset by $675,000 utilized to pay the cash portion of the contingent consideration related to the Celleration acquisition and the early extinguishment of debt of $1.6 million. Net cash used in financing activities for the nine months ended September 30, 2016 consisted of $2.6 million utilized to pay the cash portion of the contingent consideration related to the Celleration acquisition and the early extinguishment of debt of $1.7 million.

At September 30, 2017, current assets totaled $7.8 million and current liabilities totaled $16.7 million, as compared to current assets totaling $11.8 million and current liabilities totaling $20.1 million at December 31, 2016. As a result, we had negative working capital of $8.9 million at September 30, 2017 compared to negative working capital of $8.3 million at December 31, 2016.

Our cash requirements have historically been needed for mergers and acquisitions, post-market clinical trials, marketing and sales activities, finance and administrative costs, capital expenditures and overall working capital. We have experienced negative operating cash flows since inception and have funded our operations primarily from sales of common stock and other securities.

Liquidity Outlook

Our financial statements have been prepared assuming we will continue as a going concern. We have experienced recurring losses since our inception. We incurred a net loss of $13.9 million and used $9.8 million in cash from operations for the nine months ended September 30, 2017, and had an accumulated deficit of $138.2 million as of September 30, 2017. At September 30, 2017, we had approximately $2.1 million of cash and cash equivalents.

On October 27, 2017, we received $1,000,000 as repayment of amounts advanced to Soluble in 2016 and 2017.

We are currently in default of a covenant pertaining to trailing twelve-month revenue under the Credit Agreement as a result of our failure to achieve $24,600,000, $27,200,000, $30,300,000, and $33,800,000 of gross revenue for the twelve-month periods ended December 31, 2016, March 31, 2017, June 30, 2017, and September 30, 2017 respectively. Under an agreement dated January 26, 2017, as amended on March 7, 2017, April 27, 2017 and August 9, 2017, the lender agreed to forbear from exercising any rights and remedies related to the default until the earlier of September 30, 2017 or the date when the lender becomes aware of any other default.

On August 31, 2017 we entered in a Consent, Forbearance and Amendment Agreement with the lender. Under this agreement, the lender agreed to: (a) release its liens on the TheraBond assets purchased by Argentum; (b) defer the commencement of our principal payments until January 31, 2018, and agreed to extend the forbearance period and to forbear from exercising any rights and remedies related to our default of a covenant pertaining to (i) trailing twelve-month revenue under the Credit Agreement as of (A) September 30, 2016, (B) December 31, 2016 (C) March 31, 2017 and (D) June 30, 2017 and (ii) failure to maintain on a consolidated basis, a monthly minimum cash balance of at least $2,000,000, until the earlier of October 13, 2017 or the date when the lender becomes aware of any other default.

On November 7, 2017, the lender agreed to extend the forbearance period and to forbear from exercising any rights and remedies to the default of the aforementioned covenants, including the trailing twelve-month revenue as of September 30, 2017, until the earlier of December 31, 2017 or the date when the lender becomes aware of any other default.

The lender has the rights to pursue any rights and remedies available to it, including, but not limited to, declaring all or any portion of the outstanding principal amount to be immediately due and payable, imposing a default rate of interest as specified in the credit agreement, or pursing the lender's rights and remedies as a secured party under the UCC as a secured lender. In addition, the lender has a lien on substantially all of our assets and, as a result of the default, may seek to foreclose on some or substantially all of our assets after the expiration of the forbearance. We are in discussions with our lender to refinance this debt. However, no assurance can be given that we will be able to refinance our existing obligations on commercially reasonable terms or at all.

Even though we have taken steps to reduce our operating expenditures, we expect to continue incurring losses and negative cash flows from operations until our products reach commercial profitability. Our cash used from operating activities for the three months ended September 30, 2017 was approximately $1.8 million. We do not expect our cash used in operations to change significantly over the next several fiscal quarters. We, therefore, believe we do not have sufficient resources to fund operations beyond the first fiscal quarter of 2018 and we will need to raise additional capital to finance our losses and negative cash flows from operations. In addition, the lender may declare due and payable our current outstanding principal balance of $12.1 million in full following the termination of a forbearance agreement.

Therefore, due to our history of recurring losses and our negative working capital, there is substantial doubt about our ability to continue operating as a going concern within one year from the date of this filing. Our plans include the continued commercialization of our products, raising capital through the sale of additional equity and/or debt securities, and exploring other strategic alternatives. There can be no assurances, however, that we will be successful in obtaining the level of financing needed for our operations. If we are unsuccessful in raising additional capital, we may need to reduce activities, curtail or cease operations.

Off Balance Sheet Arrangements

As of September 30, 2017, we had no off-balance sheet arrangements in the nature of guarantee contracts, retained or contingent interests in assets transferred to unconsolidated entities (or similar arrangements serving as credit, liquidity or market risk support to unconsolidated entities for any such assets), or obligations (including contingent obligations) arising out of variable interests in unconsolidated entities providing financing, liquidity, market risk or credit risk support to us, or that engage in leasing, hedging or research and development services with us.

Critical Accounting Policies

There have been no significant changes to our critical accounting policies and estimates from the information provided in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," included in the Annual Report on Form 10-K for the year ended December 31, 2016.

Recent Accounting Pronouncements

Recently issued accounting pronouncements are addressed in Note 1 in the Notes to Condensed Consolidated Financial Statements.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not required.

ITEM 4. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures.

As of September 30, 2017, we conducted an evaluation of the effectiveness of our "disclosure controls and procedures" ("Disclosure Controls"), as defined by Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). The Disclosure Controls evaluation was done under the supervision and with the participation of management, including our chief executive officer and chief financial officer. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives. Based upon this evaluation, our chief executive officer and chief financial officer have concluded that our Disclosure Controls were effective at the reasonable assurance level as of September 30, 2017.

Changes in Internal Control over Financial Reporting

There have been no changes in our internal control over financial reporting during the fiscal quarter ended September 30, 2017 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

From time to time, we may become involved in lawsuits, investigations and claims that arise in the ordinary course of business. As of the date of this filing, we are not party to any material litigation nor are we aware of any such threatened or pending legal proceedings that we believe could have a material adverse effect on our business, financial condition or operating results.

There are no material proceedings in which any of our directors, officers or affiliates or any registered or beneficial shareholder of more than 5% of our common stock is an adverse party or has a material interest adverse to our interest.

ITEM 1A. RISK FACTORS

During the three months ended September 30, 2017, there were no material changes to the risk factors previously discussed in Part I, Item 1A "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2016, and Form 10-Q for the quarter ended March 31, 2017 and June 30, 2017, except for the following:

We are currently in default under the Credit Agreement, which allows the lender to exercise certain rights and remedies, including, without limitation, declaring the entire outstanding indebtedness under the Credit Agreement of approximately $12.1 million immediately due and payable, imposing a default rate of interest and/or foreclosing on some or substantially all of our assets.

We are currently in default of the Credit Agreement, as a result of our failure to achieve $24,600,000, $27,000,000, $30,300,000 and $33,800,000 of gross revenue for the twelve-month periods ended December 31, 2016, March 31, 2017, June 30, 2017 and September 30, 2017, respectively. Under an agreement dated November 7, 2017, Perceptive Credit Opportunities Fund, L.P., the lender, agreed to forbear from exercising any rights and remedies related to the default until the earlier of December 31, 2017, or the date when the lender becomes aware of any other default. The remedies available for the lender include, among others, the ability to accelerate and immediately demand payment of the outstanding debt of approximately $12.1 million under the Credit Agreement, to impose a default rate of interest, to foreclose on some or all of our assets, and/or to take possession of or sell some or all of our assets. Were the lender to demand payment of the outstanding debt after expiration of the forbearance period, we would currently have insufficient funds to satisfy that obligation, and the lender's exercise of its other remedies would have a material adverse effect on our operations and financial condition.

We are exploring initiatives to address solutions to our credit issues, which include a restructuring of the Credit Agreement with the lender and the evaluation and pursuit of various sources of financing including a refinancing. However, no assurance can be given that we can restructure our Credit Agreement or that additional financing will be available on commercially reasonable terms or at all.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

(a) Unregistered Sales of Equity Securities

None

(b) Issuer Purchases of Equity Securities

The following table sets forth information with respect to purchases by us of our equity securities during the three months ended September 30, 2017:

Issuer's Purchases of Equity Securities

Period	Total number of shares (or units) purchased	Average price paid per share (or unit)(1)	Total number of shares (or units) purchased as part of publicly announced plans or programs	Maximum number (or approximate dollar value) of shares (or units) that may yet be purchased under the plans or programs
7/1/2017 to 7/31/2017	-	$ -	-	-
8/1/2017 to 8/31/2017	-		-	-
9/1/2017 to 9/30/2017	22,296(2)	4.20	-	-
Total	22,296	$ 4.20	-	-

(1) For purposes of determining the number of shares to be surrendered to meet tax withholding obligations, the price per share deemed to be paid was the closing price of our common stock on the NASDAQ Capital Market on the applicable vesting date.

(2) Includes 22,296 shares of our common stock surrendered by employees to pay tax withholding obligations incurred in connection with the vesting of restricted stock on September 21, 2017.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

Not applicable.

ITEM 6. EXHIBITS

See "Index to Exhibits" for a description of our exhibits.

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.

ALLIQUA BIOMEDICAL, INC.

Date: November 9, 2017

By: /s/ David Johnson
Name: David Johnson
Title: Chief Executive Officer
(Principal Executive Officer)

By: /s/ Brian M. Posner
Name: Brian M. Posner
Title: Chief Financial Officer
(Principal Financial Officer)

Index to Exhibits

Exhibit No.	Description
3.1	Certificate of Incorporation of Alliqua BioMedical, Inc. (incorporated by reference to Exhibit 3.1 to the Current Report on Form 8-K filed on June 11, 2014).
3.2	Bylaws of Alliqua BioMedical, Inc. (incorporated by reference to Exhibit 3.2 to the Current Report on Form 8-K filed on June 11, 2014).
3.3	Certificate of Amendment to Certificate of Incorporation of Alliqua BioMedical, Inc. (incorporated by reference to Exhibit 3.3 to the Current Report on Form 8-K filed on June 11, 2014).
3.4	Certificate of Amendment to Certificate of Incorporation of Alliqua BioMedical, Inc. (incorporated by reference to Exhibit 3.1 to the Current Report on Form 8-K filed on May 6, 2016).
3.5	Certificate of Amendment of Certificate of Incorporation of Alliqua BioMedical, Inc. dated October 5, 2017 (incorporated by reference in Exhibit 3.1 to the Current Report on Form 8-K filed on October 5, 2017).
4.1	Form of Underwriter Warrant, dated April 3, 2017, incorporated by reference to Exhibit 4.1 to the Current Report on Form 8-K filed with the Securities and Exchange Commission on April 4, 2017.
10.1	Second Forbearance Agreement, dated August 9, 2017, by and among Alliqua BioMedical, Inc., Aquamed Technologies, Inc. and Perceptive Credit Opportunities Fund, LP (incorporated by reference to the Current Report on Form 8-K filed on August 10, 2017).
10.2	Asset Purchase Agreement, dated August 31, 2017, by and between Alliqua BioMedical, Inc. and Argentum Medical, LLP (incorporated by reference to the Current Report on Form 8-K filed on September 5, 2017).
10.3	Consent, Forbearance and Amendment Agreement, dated August 31, 2017, by and among Alliqua BioMedical, Inc. and Perceptive Credit Opportunities Fund, LP (incorporated by reference to the Current Report on Form 8-K filed on September 5, 2017).
10.4*	Third Forbearance Agreement, dated November 7, 2017, by and between Alliqua BioMedical, Inc., Aquamed Technologies, Inc. and Perceptive Credit Holdings, L.P.
31.1*	Certification of Chief Executive Officer Pursuant to Section 302 of Sarbanes-Oxley Act of 2002.
31.2*	Certification of Chief Financial Officer Pursuant to Section 302 of Sarbanes-Oxley Act of 2002.
32.1*	Certification of Chief Executive Officer Pursuant to Section 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2*	Certification of Chief Financial Officer Pursuant to Section 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101*	The following materials from the Company's Quarterly Report on Form 10-Q for the fiscal quarter September 30, 2017, formatted in XBRL (eXtensible Business Reporting Language), (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Operations, (iii) Consolidated Statements of Stockholders' Equity, (iv) Consolidated Statements of Cash Flows, and (v) Notes to the Consolidated Financial Statements.

* Filed herewith.

Exhibit 10.4

Execution Copy

THIRD FORBEARANCE AGREEMENT

This THIRD FORBEARANCE AGREEMENT, dated as of November 7, 2017 (this "***Agreement***"), is made by and among ALLIQUA BIOMEDICAL, INC., a Delaware Corporation (the "***Borrower***"), AQUAMED TECHNOLOGIES, INC., a Delaware corporation (the "***Guarantor***"; the Borrower and the Guarantor are each also referred to herein individually as a "***Loan Party***" and collectively as the "***Loan Parties***") and PERCEPTIVE CREDIT HOLDINGS, L.P., a Delaware limited partnership (the "***Lender***"). Unless otherwise defined herein or the context otherwise requires, terms used in this Agreement, including its preamble and recitals, have the meanings provided in the Credit Agreement (defined below).

W I T N E S S E T H:

WHEREAS, the Borrower, the Guarantor and the Lender are parties to that certain Credit Agreement and Guaranty, dated as of May 29, 2015 (as amended, restated, supplemented or otherwise modified from time to time, the "***Credit Agreement***");

WHEREAS, pursuant to Sections 8.4(a) and (b) of the Credit Agreement, (a) the Loan Parties are required to maintain, on a consolidated basis, a monthly minimum balance of $2,000,000 in unrestricted, unencumbered cash in one or more Controlled Accounts that are free and clear of all Liens, subject to certain exceptions, (b) Consolidated Total Revenue of the Borrower for the twelve consecutive month period ended September 30, 2016 was required to be $22,250,000, (c) Consolidated Total Revenue of the Borrower for the twelve consecutive month period ended December 31, 2016 was required to be $24,600,000, (d) Consolidated Total Revenue of the Borrower for the twelve consecutive month period ended March 31, 2017 was required to be $27,200,000, (e) Consolidated Total Revenue of the Borrower for the twelve consecutive month period ended June 30, 2017 was required to be $30,300,000 and (f) Consolidated Total Revenue of the Borrower for the twelve month period ended September 30, 2017 was required to be $33,800,000;

WHEREAS, the Loan Parties have failed to satisfy and comply with requirements of Sections 8.4(a) and (b) set forth in the previous recital;

WHEREAS, the Borrower has requested that the Lender temporarily forbear from exercising or pursuing its available remedies as further described herein; and

WHEREAS, the Lender is willing to agree to such temporary forbearance subject to the terms and conditions set forth herein.

NOW, THEREFORE, in consideration of the mutual agreements, provisions and covenants contained herein, the parties agree as follows:

ARTICLE I
DEFINITIONS

SECTION 1.1. Certain Terms. The following terms (whether or not highlighted in bold and/or italics) when used in this Agreement, including its preamble and recitals, shall have the following meanings (such definitions to be equally applicable to the singular and plural forms thereof):

"***Agreement***" is defined in the preamble.

"***Borrower***" is defined in the preamble.

"***Credit Agreement***" is defined in first recital.

"***Forbearance Effective Date***" is defined in Article III.

"***Guarantor***" is defined in the preamble.

"***Lender***" is defined in the preamble.

"***Loan Party***" is defined in the preamble.

"***Specified Defaults***" is defined in Section 2.1(a).

"***Termination Date***" is defined in Section 2.1(b).

ARTICLE II
FORBEARANCE, ETC.

SECTION 2.1. Forbearance, etc.

(a) The Borrower acknowledges and agrees that it was in Default of (i) Section 8.4(a) of the Credit Agreement as of the date hereof and (ii) Section 8.4(b) of the Credit Agreement as of each of (v) September 30, 2016, (w) December 31, 2016, (x) March 31, 2017, (y) June 30, 2017 and (z) September 30, 2017 (such Defaults being herein referred to as the "***Specified Defaults***"). The Lender hereby agrees that, with respect to the Specified Defaults (but only the Specified Defaults), it will refrain and forebear from exercising or pursuing any rights or remedies under the Credit Agreement or otherwise (including imposing a default rate of interest in respect of the Specified Defaults pursuant to Section 3.6 of the Credit Agreement) or any other Loan Document until (but only until) the Termination Date. Any term or provision hereof to the contrary notwithstanding, the Lender is not waiving any of its rights or remedies with respect to the Specified Defaults or any other Default, but instead is simply agreeing not to take remedial action with respect to the Specified Defaults until the Termination Date.

(b) The "***Termination Date***" means the earlier of (i) December 31, 2017 and (ii) the date when the Lender becomes aware that any other Default (other than any Specified Default) has occurred and is continuing. Upon the occurrence of the Termination Date, the Lender may, with respect to any or all of the Specified Defaults, pursue any rights and remedies available to it under the Credit Agreement or any other Loan Document, or pursuant to law or otherwise, with respect to any Defaults that have then occurred and are outstanding (including the Specified Defaults), including, but not limited to, declaring all or any portion of the outstanding principal amount of the Loan and other Obligations to be immediately due and payable, imposing a default rate of interest in respect of the Obligations in accordance with Section 3.6 of the Credit Agreement, or pursuing any or all other rights and remedies of the Lender as a secured party under the UCC, the Pledge and Security Agreement or any other Loan Document.

(c) Notwithstanding any provision of this Agreement or any Loan Document to the contrary, each Loan Party hereby acknowledges and agrees that, due to the occurrence and ongoing continuance of the Specified Defaults, the re-investment option set forth in Section 3.4 of the Credit Agreement is not available to any Loan Party, and no Loan Party may re-invest or use any Net Cash Proceeds of any Disposition or Event of Loss as would otherwise be permitted under Section 3.4 of the Credit Agreement if no Default or Event of Default had occurred and was continuing.

ARTICLE III
CONDITIONS PRECEDENT

This Agreement shall become effective upon, and shall be subject to, the prior or simultaneous satisfaction of each of the following conditions in a manner reasonably satisfactory to the Lender (the date when all such conditions are so satisfied being the "***Forbearance Effective Date***"):

SECTION 3.1. Counterparts. The Lender shall have received counterparts of this Agreement executed on behalf of the Borrowers, the Guarantor, and the Lender.

SECTION 3.2. Effective Date Certificate. The Lender shall have received a certificate, dated as of the Forbearance Effective Date and duly executed and delivered by an Authorized Officer of the Borrower and each Guarantor certifying as to the matters set forth in Articles IV and V hereof, in form and substance satisfactory to the Lender.

SECTION 3.3. Costs and Expenses, etc. The Lender shall have received all fees, costs and expenses due and payable pursuant to Section 11.3 of the Credit Agreement (including without limitation the reasonable fees and expenses of Morrison & Foerster LLP, counsel to the Lender), if then invoiced, together with any other fees separately agreed to by the Borrower and the Lender, such fees, costs and expenses; provided, however, that the Borrower shall be not be required to reimburse Lender for fees and expenses of Morrison & Foerster LLP in excess of $8,000 .

SECTION 3.4. Satisfactory Legal Form, etc. All legal matters incident to the effectiveness of this Agreement shall be reasonably satisfactory to the Lender and its counsel.

ARTICLE IV
REPRESENTATIONS AND WARRANTIES

To induce the Lender to enter into this Agreement, each Loan Party represents and warrants to the Lender as set forth below.

SECTION 4.1. Validity, etc. This Agreement and the Credit Agreement (after giving effect to this Agreement) each constitutes the legal, valid and binding obligation of each Loan Party, enforceable in accordance with its respective terms, subject to the effects of bankruptcy, insolvency, fraudulent conveyance, reorganization, moratorium and other similar laws relating to or affecting creditors' rights generally, general equitable principles (whether considered in a proceeding in equity or at law) and an implied covenant of good faith and fair dealing.

SECTION 4.2. Representations and Warranties, etc. Immediately prior to, and immediately after giving effect to, this Agreement the following statements shall be true and correct:

(a) the representations and warranties set forth in each Loan Document (as defined in the Credit Agreement) shall, in each case, be, in the case of representations and warranties qualified as to knowledge, materiality, Material Adverse Effect (as defined in the Credit Agreement) or any similar qualification, true and correct in all respects, and, in the case of those representations and warranties that are not so qualified, in all material respects, with the same effect as if then made (unless stated to relate solely to an earlier date, in which case such representations and warranties shall be true and correct in all material respects as of such earlier date); and

(b) no Default (other than the Specified Defaults) shall have then occurred and be continuing.

ARTICLE V
CONFIRMATION

SECTION 5.1. Reaffirmation. Each Loan Party hereby consents to this Agreement and hereby agrees that, after giving effect to this Agreement, each Loan Document to which it is a party, and all Obligations thereunder (including the guarantees made pursuant to Article X of the Credit Agreement), are and shall continue to be in full force and effect and the same are hereby ratified in all respects.

SECTION 5.2. Validity, etc. Each Loan Party hereby represents and warrants, as of the Forbearance Effective Date, that immediately after giving effect to this Agreement, each Loan Document, in each case as modified by this Agreement (where applicable and whether directly or indirectly), to which it is a party continues to be a legal, valid and binding obligation of such Loan Party, enforceable against such Person in accordance with its terms, subject to the effects of bankruptcy, insolvency, fraudulent conveyance, reorganization, moratorium and other similar laws relating to or affecting creditors' rights generally, general equitable principles (whether considered in a proceeding in equity or at law) and an implied covenant of good faith and fair dealing.

ARTICLE VI
MISCELLANEOUS

SECTION 6.1. No Waiver. The Lender's agreement not to pursue its rights and remedies until the occurrence of the Termination Date as described in Section 2.1 herein is temporary and limited in nature. Except as expressly provided herein, (i) nothing contained herein shall be deemed to constitute a waiver of the Specified Defaults or any other Default or Event of Default or compliance with any term or condition contained in the Credit Agreement or any of the other Loan Documents or constitute a course of conduct or dealing among the parties and (ii) the Lender reserves all rights, privileges and remedies under the Credit Agreement and the other Loan Documents.

SECTION 6.2. Severability. In case any provision of or obligation under this Agreement shall be invalid, illegal or unenforceable in any jurisdiction, the validity, legality and enforceability of the remaining provisions or obligations, or of such provision or obligation in any other jurisdiction, shall not in any way be affected or impaired thereby.

SECTION 6.3. Integration. This Agreement, together with the other Loan Documents, incorporates all negotiations of the parties hereto with respect to the subject matter hereof and is the final expression and agreement of the parties hereto with respect to the subject matter hereof.

SECTION 6.4. Cross-References; Headings. References in this Agreement to any Article or Section are, unless otherwise specified, to such Article or Section of this Agreement. Headings and captions used in this Agreement are included for convenience of reference only and shall not be given any substantive effect.

SECTION 6.5. Loan Document Pursuant to Credit Agreement. This Agreement is a Loan Document executed pursuant to the Credit Agreement and shall (unless otherwise expressly indicated therein) be construed, administered and applied in accordance with all of the terms and provisions of the Credit Agreement, including Article XI thereof and all rules of interpretation set forth in Article I thereof.

SECTION 6.6. Successors and Assigns. This Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and permitted assigns.

SECTION 6.7. Counterparts. This Agreement may be executed in any number of counterparts, all of which taken together shall constitute one and the same instrument and any of the parties hereto may execute this Agreement by signing any such counterpart. Delivery of an executed counterpart of a signature page to this Agreement by facsimile (or other electronic transmission) shall be effective as delivery of a manually executed counterpart of this Agreement.

SECTION 6.8. Governing Law. **THIS AGREEMENT SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE INTERNAL LAWS OF THE STATE OF NEW YORK WITHOUT REGARD TO PRINCIPLES OF CONFLICTS OF LAWS THAT WOULD RESULT IN THE APPLICATION OF THE LAWS OF ANY OTHER JURISDICTION; PROVIDED THAT SECTION 5-1401 OF THE NEW YORK GENERAL OBLIGATIONS LAW SHALL APPLY.**

SECTION 6.9. Full Force and Effect. The Loan Parties each jointly and severally agree that all of the representations, warranties, terms, covenants, conditions and other provisions of the Credit Agreement and the other Loan Documents shall remain unmodified and shall continue to be, and shall remain, in full force and effect in all respects.

[Signature pages to follow]

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed and delivered as of the day and year first above written.

BORROWER:

ALLIQUA BIOMEDICAL, INC.,

By ___________________________
Name:
Title:

GUARANTOR:

AQUAMED TECHNOLOGIES, INC.,

By ___________________________
Name:
Title:

LENDER:

PERCEPTIVE CREDIT HOLDINGS, LP

By Perceptive Credit Opportunities GP, LLC,
its general partner

By ______________________________
Sandeep Dixit
Chief Credit Officer

By ______________________________
Name:
Title:

EXHIBIT 31.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER
PURSUANT TO RULES 13a-14(A) AND 15d-14(A)
OF THE SECURITIES EXCHANGE ACT OF 1934

I, David Johnson, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Alliqua BioMedical, Inc. (the "registrant");

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

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

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

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

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

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

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

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

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

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

Date: November 9, 2017

By: /s/ David Johnson
David Johnson
Chief Executive Officer
(Principal Executive Officer)

EXHIBIT 31.2

**CERTIFICATION OF CHIEF FINANCIAL OFFICER
PURSUANT TO RULES 13a-14(A) AND 15d-14(A)
OF THE SECURITIES EXCHANGE ACT OF 1934**

I, Brian M. Posner, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Alliqua BioMedical, Inc.;

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

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

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

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

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

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

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

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

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

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

Date: November 9, 2017

By: /s/ Brian M. Posner
Brian M. Posner
Chief Financial Officer
(Principal Financial Officer)

EXHIBIT 32.1

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER
PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

This certification is furnished solely pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350) and accompanies the Quarterly Report on Form 10-Q (the “Form 10-Q”) for the three months ended September 30, 2017, of Alliqua BioMedical, Inc. (the “Company”). I, David Johnson, the Chief Executive Officer and Principal Executive Officer of the Company, certify that, based on my knowledge:

(1) The Form 10-Q fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company as of and for the periods covered in this report.

Date: November 9, 2017	By:	/s/ David Johnson
	Name:	David Johnson
	Title:	Chief Executive Officer (Principal Executive Officer)

The foregoing certification is being furnished as an exhibit to the Form 10-Q pursuant to Item 601(b)(32) of Regulation S-K and Section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code) and, accordingly, is not being filed as part of the Form 10-Q for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and is not incorporated by reference into any filing of the Company, whether made before or after the date hereof, regardless of any general incorporation language in such filing.

EXHIBIT 32.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER
PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

This certification is furnished solely pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350) and accompanies the Quarterly Report on Form 10-Q (the "Form 10-Q") for the three months ended September 30, 2017 of Alliqua BioMedical, Inc. (the "Company"). I, Brian M. Posner, the Chief Financial Officer and Principal Financial Officer of the Company, certify that, based on my knowledge:

(1) The Form 10-Q fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Form 10-K fairly presents, in all material respects, the financial condition and results of operations of the Company as of and for the periods covered in this report.

Date: November 9, 2017

By: /s/ Brian M. Posner
Name: Brian M. Posner
Title: Chief Financial Officer
(Principal Financial Officer)

The foregoing certification is being furnished as an exhibit to the Form 10-Q pursuant to Item 601(b)(32) of Regulation S-K and Section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code) and, accordingly, is not being filed as part of the Form 10-Q for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and is not incorporated by reference into any filing of the Company, whether made before or after the date hereof, regardless of any general incorporation language in such filing.