

Citron Exposes History of FRAUD Behind PolarityTE.... That is right...we said it – FRAUD

The SEC should halt this stock immediately before insiders are allowed to enrich themselves even more as the company continues to deceive investors.

This is part 1 of a 2 part series. Citron will not discuss the science behind PolarityTE in this report because it is irrelevant. Once an SEC investigation commences, we expect all the “figureheads” who have prostituted their names for S-8 stock to immediately lawyer up and scatter like cockroaches.

For those of you unfamiliar with the story here is the pitch in two lines: PolarityTe is a development stage company that has developed revolutionary wound care treatments through the intellectual property of a group of John Hopkins doctors. This intellectual property was acquired by a group of serial stock promoters and comes in the form of a patent application. Think of Mimedx with no sales.

Premeditated Securities Fraud?

Here at a quick timeline:

On December 1, 2016, Majesco Entertainment whole owned by notorious investor Barry Honig entered into an agreement to acquire the assets of PolarityTe.

Polarity is the brainchild of Johns Hopkins doctor Denver Lough through his patent application #14/954,335. As described in correspondence to the SEC regarding the nature of the acquisition- IT IS ALL ABOUT THE PATENT.

“There was never any intent to acquire an ongoing business and no ongoing business was acquired. The asset is preserved in a stand-alone entity merely as a vehicle to provide the Company a seamless means to acquire the asset (a patent application) without undue cost, expense and time. Polarity NV has never had employees and therefore no employees will be acquired for the transaction.” [10Q Jan 31, 2017](#)

On [Apr 7, 2017](#), COOL announced the closing of the transaction where Majesco gave Dr. Lough over \$104 million in stock for the patent.

BUT WAIT

Just one week beforehand, on March 31, 2017, Dr Lough received a notice of non-final REJECTION of the patent and the actual letter from the USPTO was put in the mail on the same date the transaction closed April 7. All without being disclosed to shareholders.

Below is the timeline cut and pasted from the USPTO website patent # 14/954,335
<https://portal.uspto.gov/pair/PublicPair>

14/954,335		Methods for Development and Use of Minimally Polarized Function Cell Micro-Aggregate Units in Tissue Applications Using LGR4, LGR5 and LGR6 Expressing Epithelial Stem Cells		18000.0001USU1					
Select New Case	Application Data	Transaction History	Image File Wrapper	Continuity Data	Published Documents	Address & Attorney/Agent	Supplemental Content	Assignments	Display References
Transaction History		Date	Transaction Description						
04-27-2017	Email Notification								
04-27-2017	Email Notification								
04-27-2017	Filing Receipt - Replacement								
04-27-2017	Change in Power of Attorney (May Include Associate POA)								
04-25-2017	Correspondence Address Change								
04-14-2017	Mail Pre-Exam Notice								
04-07-2017	Mail Non-Final Rejection								
03-31-2017	Non-Final Rejection								
03-30-2017	Information Disclosure Statement considered								
03-30-2017	Information Disclosure Statement considered								
01-12-2017	Date Forwarded to Examiner								

Yet

The SEC, like they had a crystal ball, sent a letter to Polarity the next week that read:

April 14, 2017

Denver Lough
 Chief Executive Officer
 PolarityTE, Inc.
 4041-T Hadley Road
 S. Plainfield, NJ 07080

**Re: PolarityTE, Inc.
 Preliminary Proxy Statement on Schedule 14A
 Filed February 6, 2017
 File No. 000-51128**

Dear Mr. Lough:

We have completed our review of your filing. We remind you that the company and its management are responsible for the accuracy and adequacy of their disclosures, notwithstanding any review, comments, action or absence of action by the staff.

Yet, the company continued to promote themselves and raise money as if the rejection never occurred.

There was no 8-k, risk disclosure, or press release as the coveted patent entered the stock world dead on arrival.

PolarityTE would continue to correspond with the SEC for the next year and file registration statements, prospectus, and annual reports without EVER disclosing the rejection of the patent. Instead, they would use boilerplate language such as:

"Intellectual property risk: As a minimally manipulated therapy, SkinTE is developed through a series of trade secrets and pending patents that prevent full replication of the process."

Meanwhile, the hubris of the stock promoters and management didn't stop, as press releases and interviews continued to refer to this alleged "patented" invention. For those who want to see it just got to 1:55 of this interview

<https://www.youtube.com/watch?v=iPdulQ8gips>

Citron will make a dossier of the misrepresentations and turn them over to the SEC and the class action attorneys once they get subpoenaed.

Now you have read the nice part – but it only gets worse.

It gets worse!!

If the company and its promoters had to defend themselves they might say, 'It was only a preliminary rejection and we thought we could win on appeal' (despite the odds being in the low single digits).

On [May 29, 2018](#) the company filed an S-8 registration, which would allow management and promoters to sell hundreds of millions of dollars in stock.

Management, Board, Advisor Shares Being Sold via S-8 (May 29, 2018)					
Name	Title	Shares Held Prior to S-8	Shares Being Sold	Shares Held After	% being sold
John Stetson	Chief Investment Officer	592,313	457,500	134,813	77%
Cameron Hoyler	Chief Legal Officer/GC	225,000	100,000	125,000	44%
Jennifer Burdman	Chief Intellectual Property Officer	100,000	100,000	-	100%
Holly Kramen	Chief Compliance/Privacy Officer	100,000	100,000	-	100%
Caroline Garrett	Chief Veterinary Officer	100,000	100,000	-	100%
Howard Heckler	Chief Business Officer	84,887	84,887	-	100%
Maurice Nahabedian	Chief Surgical Officer	2,000	2,000	-	100%
Edward Swanson	Chief Operating Officer	946,000	946,000	-	100%
Nikolai Sopko	Chief Scientific Officer	152,000	152,000	-	100%
Stephen Milner**	Chief Clinical Officer	140,000	140,000	-	100%
Michael Neumeister	Chief Medical Officer	141,000	141,000	-	100%
Denver Lough	CEO/Chairman	8,450,000	1,400,000	7,050,000	17%
Steve Gorlin	Director	110,000	110,000	-	100%
Jon Mogford	Director	110,000	110,000	-	100%
Jeff Dyer	Director	162,522	151,000	11,522	93%
Clinical Board Advisors		47,000	47,000	-	100%
Total (without CEO)		3,012,722	2,741,387	271,335	91%
Total (with CEO)		11,462,722	4,141,387	7,321,335	36%

**John has just stepped away from the business and is about to be the former CFO; Paul Mann to be the new CFO
 **Sometimes spelled Steven and sometimes Stephen, investor beware*

Note that former COOL CFO John Stetson was the CFO of the same “gang's” last patent stock \$MARA...which now trades at \$1, despite it once trading at \$39 a share with the winds of a strong promotion.

In only four working days after the S-8 was filed, on June 4, 2018, the **USPTO gave a final rejection for “the patent”**. Citron believes that Dr. Lough was very aware of the likelihood of the upcoming rejection and rushed to submit the S-8 filing. Below is the timeline from the USPTO:

14/954,335 Methods for Development and Use of Minimally Polarized Function Cell Micro-Aggregate Units in Tissue Applications Using LGR4, LGR5 and LGR6 Expressing Epithelial Stem Cells 18000.0001USU1									
Select New Case	Application Data	Transaction History	Image File Wrapper	Continuity Data	Published Documents	Address & Attorney/Agent	Supplemental Content	Assignments	Display References
Transaction History									
Date	Transaction Description								
06-14-2018	Electronic Review								
06-14-2018	Email Notification								
06-14-2018	Mail Final Rejection (PTOL - 326)								
06-04-2018	Final Rejection								
06-04-2018	Information Disclosure Statement considered								
06-04-2018	Information Disclosure Statement considered								
02-06-2018	Substitute Specification Filed								
03-05-2018	Date Forwarded to Examiner								
02-06-2018	Response after Non-Final Action								
01-19-2018	Electronic Review								
01-19-2018	Email Notification								
01-19-2018	Mail Miscellaneous Communication to Applicant								

Despite the fact that the final rejection had been issued and never disclosed to the public, on June 5, 2018 PolarityTE issued 2.1M shares priced at \$25.50 where Cantor Fitzgerald acted as sole book running manager for the offering.

Cantor should be sanctioned at their level of due diligence completed on COOL.

A History of Questionable Stock Promotion

In case our readers have any doubt about the character of the promoters behind COOL, we point you to the below chart summarizing the long history of the failed companies that they have promoted and dumped on the market:

Company	Business	Current Share Price	Down From Peak	Shareholders / Involvement				
				Honig	Brauser	Frost	Groussman	Stetson
Marathon Patent Group	Crypto	\$1.11	(97.1%)	☑	☑	☑	☑	☑
Orbital Tracking	Data Tracking	\$1.60	(99.9%)	☑	☑	☑	☑	☑
Muscle Pharm	Health Supplements	\$0.72	(94.9%)	☑	☑	☑	☑	☑
Document Security Systems	Security Tech	\$1.25	(94.4%)	☑	☑	☑	☑	☑
Passport Potash	Mining	\$0.00	(100.0%)	☑	☑	☑	☑	☑
Pershing Gold	Mining	\$1.89	(82.4%)	☑	☑	☑	☑	☑
Vapor Group	E-Cigs	\$0.00	(100.0%)	☑	☑	☑	☑	
Mabvax	Biotech	\$0.99	(99.4%)	☑	☑	☑		☑
Sevion Therapeutics	Biotech	\$18.20	(95.9%)	☑	☑	☑		
Izea Inc	Digital Marketing	\$1.12	(92.1%)	☑	☑	☑		
Usell.com	Cell Phone Recycling	\$0.10	(98.2%)	☑	☑	☑		
Cocrystal Pharma	Biotech	\$3.68	(91.7%)	☑	☑	☑		
Riot Blockchain	Crypto	\$6.69	(82.7%)	☑			☑	☑
PolarityTE	Biotech	\$36.78	???	☑	☑	☑	☑	☑

Are there any doubts about how COOL's story ends?

How Is This Not Stock Fraud?

As questionable as people might think the promoters are behind COOL, we believe management is more to blame. Dr Lough is extremely familiar with the patent process and Citron believes he has orchestrated this whole scheme to enrich himself. As described in his bio:

“Dr. Lough is experienced with IP and patent evolution, investment strategy, regulatory pathway systems, CLIA/ GLP manufacturing platforms, legal due diligence and business development.”

<https://www.polarityte.com/about/management-team>

In both cases when he received notice of a rejection, Dr. Lough did not miss the opportunity to raise money/sell stock and not disclose the most material development.

The Only Thing That Matters!!!

From the moment PolarityTE acquired "the patent" to now COOL has submitted over thirty 8-k filings to the SEC regarding everything from presenting at a conference to filing for a trademark.....yet not one of them ever disclosed the only thing that matters:

They have been rejected for patent status for their technology.

Who cares if the science works if you do not own it and are not generating any sales from it?

The continued omission of the only relevant fact regarding the company and its "technology" combined with the sales of securities by insiders is not only securities fraud, but we believe constitutes criminal and not just civil fraud.

The SEC Is Not Far Behind

Recently, an article appeared in Forbes that seemed nothing short of stock promotion that compared Polairty to the next Amazon or Tesla:

<https://www.forbes.com/sites/innovatorsdna/2017/08/08/polarityte-will-this-biotech-be-the-next-amazon-or-tesla/#3c340a95363a>

PolarityTE board member Jeff Dyer wrote the article and the SEC has contacted the company about the article and the dissemination of this information during a quiet period (e.g. "gun jumping").

<https://www.sec.gov/Archives/edgar/data/1076682/000149315217009535/filename1.htm>

It should not surprise you that Jeff Dyer has filed to sell 93% of his holdings in the S-8

Conclusion

In 2018, it is rare that Citron is able to identify such a blatant fraud by simple use of government databases. The SEC should halt this stock before any of the insiders/promoters are able to sell stock to investors who have been deceived by a well-educated yet sleazy management team.

Cautious Investing To All

* As an aside for a matter of reference, even the highly controversial and fraudulent MiMedx, has 69 patents granted. Compared to 0 for PolarityTE