

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: **March 31, 2022**

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number: **001-36278**

**NexGel, Inc.**

(Exact name of registrant as specified in its charter)

**Delaware**

**26-4042544**

(State or other jurisdiction of incorporation or organization)

(I.R.S. Employer Identification Number)

**2150 Cabot Blvd West, Suite B  
Langhorne, PA**

**19047**

(Address of principal executive office)

(Zip Code)

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

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, par value \$0.001	NXGL	The Nasdaq Capital Market LLC
Warrants to Purchase Common Stock	NXGLW	The Nasdaq Capital Market LLC

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 every Interactive Data File required to be submitted 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 such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See 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   
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 May 12, 2022, the registrant had 5,572,234 shares of common stock outstanding.

**NEXGEL, INC.**

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**PART I – FINANCIAL INFORMATION**

**ITEM 1. FINANCIAL STATEMENTS**

**NEXGEL, INC**

**CONDENSED CONSOLIDATED BALANCE SHEETS**

**AS OF MARCH 31, 2022 AND DECEMBER 31, 2021**

**(Unaudited)**

*(in thousands, except share and per share data)*

	<b>March 31, 2022</b>	<b>December 31, 2021</b>
<b>ASSETS:</b>		
Current Assets:		
Cash	\$ 10,520	\$ 13,350
Accounts receivable, net	132	209
Inventory	280	291
Prepaid expenses and other current assets	167	77
Total current assets	<u>11,099</u>	<u>13,927</u>
Goodwill	311	311
Intangibles, net	30	33
Property and equipment, net	698	723
Operating lease - right of use asset	1,879	1,926
Other assets	63	63
Total assets	<u>\$ 14,080</u>	<u>\$ 16,983</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current Liabilities:		
Accounts payable	\$ 183	\$ 254
Accrued expenses and other current liabilities	57	62
Deferred Revenue	—	—
Convertible notes payable	894	2,037
Note payable, current portion	14	10
Warrant liability	449	318
Operating lease liability, current portion	207	207
Total current liabilities	<u>1,804</u>	<u>2,888</u>
Long-Term Liabilities:		
Operating lease liability, net of current portion	1,707	1,744
Notes payable, net of current portion	265	266
Total long-term liabilities	<u>1,972</u>	<u>2,010</u>
Total liabilities	<u>3,776</u>	<u>4,898</u>
Commitments and Contingencies (Note 15)		
Preferred Stock, par value \$0.001 per share, 5,000,000 shares authorized, no shares issued and outstanding	—	—
Common Stock, par value \$0.001 per share, 750,000,000 shares authorized; 5,572,234 shares issued and outstanding as of March 31, 2022 and December 31, 2021, respectively	6	6
Additional paid-in capital	18,946	18,891
Accumulated deficit	(8,648)	(6,812)
Total stockholders' equity	<u>10,304</u>	<u>12,085</u>
Total liabilities and stockholders' equity	<u>\$ 14,080</u>	<u>\$ 16,983</u>

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

## NEXGEL, INC.

## CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

## FOR THE THREE MONTHS ENDED MARCH 31, 2022 AND 2021

(Unaudited)

*(in thousands, except share and per share data)*

	Three months ended	
	March 31,	
	2022	2021
Revenues, net	\$ 396	\$ 267
Cost of revenues	418	309
Gross loss	(22)	(42)
Operating expenses		
Research and development	24	7
Selling, general and administrative	766	471
Total operating expenses	790	478
Loss from operations	(812)	(520)
Other income (expense)		
Interest income (expense), net	(744)	(148)
Loss on debt extinguishment	(150)	(25)
Debt discount costs	—	(17)
Changes in fair value of warrant liability	(130)	6
Total other income (expense)	(1,024)	(184)
Loss before income taxes	(1,836)	(704)
Income tax expense	—	—
Net loss	\$ (1,836)	\$ (704)
Net loss per common share - basic	\$ (0.33)	\$ (0.25)
Net loss per common share - diluted	\$ (0.33)	\$ (0.25)
Weighted average shares used in computing net loss per common share - basic	5,572,234	2,873,008
Weighted average shares used in computing net loss per common share – diluted	5,572,234	2,873,008

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

NEXGEL, INC.

CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

FOR THE THREE MONTHS ENDED MARCH 31, 2022 AND 2021

(Unaudited)

(in thousands, except share data)

	Common Stock		Additional Paid-in Capital	Retained Earnings (Accumulated Deficit)	Total Stockholders' Equity (Deficit)
	Shares	Amount			
Balance, January 1, 2022	5,572,234	\$ 6	\$ 18,891	\$ (6,812)	\$ 12,085
Stock-based compensation	—	—	55	—	55
Net loss	—	—	—	(1,836)	(1,836)
Balance, March 31, 2022	<u>5,572,234</u>	<u>\$ 6</u>	<u>\$ 18,946</u>	<u>\$ (8,648)</u>	<u>\$ 10,304</u>
	Common Stock		Additional Paid-in Capital	Retained Earnings (Accumulated Deficit)	Total Stockholders' Equity (Deficit)
	Shares	Amount			
Balance, January 1, 2021	2,838,047	\$ 3	\$ 2,570	\$ (2,502)	\$ 71
Stock-based compensation	—	—	69	—	69
Restricted stock vesting	—	—	20	—	20
Issuances of common stock, net of issuance costs	101,800	—	285	—	285
Warrants issued for debt issuance	—	—	(17)	—	(17)
Beneficial conversion and warrant features of convertible debt	—	—	1,276	—	1,276
Net loss	—	—	—	(704)	(704)
Balance, March 31, 2021	<u>2,939,847</u>	<u>\$ 3</u>	<u>\$ 4,203</u>	<u>\$ (3,206)</u>	<u>\$ 1,000</u>

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

NEXGEL, INC.  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE THREE MONTHS ENDED MARCH 31, 2022 AND 2021**

(Unaudited)

(in thousands)

	Three Months Ended March 31,	
	2022	2021
<b>Operating Activities</b>		
Net loss	\$ (1,836)	\$ (704)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	28	27
Changes in ROU asset and operating lease liability	10	—
Share-based compensation	55	90
Changes in fair value of warrant liability	130	(6)
Amortization of deferred financing costs	741	108
Loss on extinguishment of debt	150	25
Beneficial conversion feature in excess of face value	—	51
Changes in operating assets and liabilities:		
Accounts receivable	77	(23)
Inventory	11	(19)
Prepaid expenses and other assets	(90)	121
Accounts payable	(71)	(14)
Accrued expenses and other liabilities	(2)	(1)
<b>Net Cash Used in Operating Activities</b>	<b>(797)</b>	<b>(345)</b>
<b>Investing Activities</b>		
Capital expenditures	—	(267)
<b>Net Cash Used in Investing Activities</b>	<b>—</b>	<b>(267)</b>
<b>Financing Activities</b>		
Issuance of common stock, net of issuance costs	—	285
Proceeds from notes payable	—	15
Principle payment of notes payable	(2,033)	(15)
Proceeds from notes payable (PPP)	—	128
Proceeds from convertible notes	—	1,337
Principal payment on convertible notes	—	(100)
<b>Net Cash Provided by Financing Activities</b>	<b>(2,033)</b>	<b>1,650</b>
<b>Net Increase in Cash</b>	<b>(2,830)</b>	<b>1,038</b>
Cash – Beginning of period	13,350	32
Cash – End of period	<u>\$ 10,520</u>	<u>\$ 1,070</u>
<b>Supplemental Disclosure of Cash Flows Information</b>		
Cash paid during the year for:		
Interest	—	—
Taxes	—	—
Supplemental Non-cash Investing and Financing activities		
Fair value of beneficial conversion and warrant features of Convertible Notes Payable	\$ —	\$ 1,276
Original issue discounts recognized on Convertible Notes Payable	\$ —	\$ 343
Warrants issued for debt and equity financing costs	\$ —	\$ 130

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

NEXGEL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(in thousands, except share and per share data)

**1. Description of Business, the Spin-off and Basis of Presentation**

*Description of Business*

NexGel, Inc. (“NexGel” or the “Company”) manufactures high water content, electron beam cross-linked, aqueous polymer hydrogels, or gels, used for wound care, medical diagnostics, transdermal drug delivery and cosmetics. The Company specializes in custom gels by capitalizing on proprietary manufacturing technologies. NexGel has historically served as a contract manufacturer, supplying our gels to third parties who incorporate them into their own products and have recently began producing the Company’s own consumer products using our gels focused on proprietary branded products and white label opportunities. Both the Company’s gels and consumer products are manufactured using proprietary and non-proprietary mixing, coating and cross-linking technologies. Together, these technologies enable NexGel to produce gels that can satisfy rigid tolerance specifications with respect to a wide range of physical characteristics (e.g., thickness, water content, adherence, absorption, moisture vapor transmission rate (a measure of the passage of water vapor through a substance) and release rate) while maintaining product integrity. Additionally, the Company has the manufacturing ability to offer broad choices in the selection of liners onto which the gels are coated. Consequently, NexGel and our customers are able to determine tolerances in moisture vapor transmission rate and active ingredient release rates while personalizing color and texture.

NexGel was previously known as AquaMed Technologies, Inc. (“AquaMed”) before changing its name to NexGel, Inc. on November 14, 2019.

The consolidated financial statements include the accounts of the Company and its consolidated wholly-owned subsidiary, NexGelRx, Inc.

*Stock Split*

On November 29, 2021, the Company effected a 1-for-35 reverse stock split of our issued and outstanding common stock (the “Reverse Stock Split”). As a result of the Reverse Stock Split, each issued and outstanding share of our common stock, and the per share exercise price of and number of shares of the Company’s common stock underlying our outstanding equity awards and warrants, was automatically proportionally adjusted based on the 1-for-35 Reverse Stock Split ratio. No fractional shares of common stock were issued in connection with the reverse stock split, and all such fractional interests were rounded up to the nearest whole number.

Except as otherwise provided herein, all share and per-share amounts of our common stock, equity awards and warrants, including the shares of common stock and warrants being offered hereby, have been adjusted to give effect to the Reverse Stock Split for all periods presented. The Reverse Stock Split did not alter the par value of the Company’s common stock, which remains at \$0.001 per share, modify any voting rights or other terms of our common stock, or impact the amount of preferred stock the Company is authorized to issue.

*Basis of Presentation*

The accompanying condensed consolidated financial statements contain all adjustments (consisting of normal recurring adjustments) necessary to present fairly our consolidated financial position as of March 31, 2022 and December 31, 2021, and the results of our consolidated operations for the interim periods presented. We follow the same accounting policies when preparing quarterly financial data as we use for preparing annual data. These statements should be read in conjunction with the consolidated financial statements and the notes included in our latest annual report on Form 10-K for the fiscal year ended December 31, 2021 (“Form 10-K”), and our other reports on file with the Securities and Exchange Commission (the “SEC”).

## **2. Going Concern**

As of March 31, 2022, the Company had a cash balance of \$10.5 million. For the three months ended March 31, 2022, the Company incurred a net loss of \$1.84 million and had a net usage of cash in operating activities of \$0.80 million. In addition, the Company had working capital of \$9.30 million as of March 31, 2022.

On December 27, 2021, the Company sold an aggregate of 2,585,000 units at a price to the public of \$5.50 per unit (the "Offering"), each unit consisting of one share of the Company's common stock, par value \$0.001 per share (the "Common Stock"), and a warrant to purchase one share of Common Stock at an exercise price of \$5.50 per share (the "Warrants"), for net proceeds of \$13.2 million.

Proceeds from the offerings are expected to be used for working capital, new product development and testing, and general business operations.

Management is exploring new product channel sales in adjacent industries, such as cosmetics, athletic products, and proprietary medical devices. The Company has increased focused on sales and developing a sales pipeline for potential customers. This customer base expansion will enable us to provide financial stability for the foreseeable future, expand our current processes, and position us for long-term shareholder value creation.

We have sufficient capital to maintain as a going concern due to the capital raise that occurred on December 27, 2021. We intend to maintain and attempt to grow our existing contract manufacturing business. We also plan to continue building and developing its catalog of consumer products for sale to branding partners and to use our in-house capabilities to create and test market additional branded products. These products will be target marketed and sold online through social media, television and online marketplaces. Furthermore, the Company plans to develop its own proprietary medical devices and explore drug delivery programs for its technology. Additionally, the Company continues to evaluate strategic initiatives (e.g., acquisitions) and additional capital raises through debt or equity may be necessary to achieve these objectives.

We expect to continue incurring losses for the near-term future. Our ability to continue to operate as a going concern in the long-term is dependent upon our ability to manage and grow our current products and to ultimately achieve profitable operations. Management may consider various options to raise capital to fund potential acquisitions through equity or debt offerings. There can be no assurances, however, that management will be able to obtain sufficient additional funds, if needed, or that such funds, if available, will be obtained on terms satisfactory to us. The consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded assets and liabilities that might be necessary should we be unable to continue as a going concern. Additionally, it is reasonably possible that estimates made in the consolidated financial statements have been, or will be, materially and adversely impacted in the near term as a result of these conditions, including the recoverability of long-lived assets.

## **3. Significant Accounting Policies and Estimates**

### *Use of Estimates*

The preparation of the consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. These estimates and assumptions include allowance for doubtful accounts, inventory reserves, deferred taxes, share-based compensation and related valuation allowances and fair value of long-lived assets. Actual results could differ from the estimates.

### *Reclassifications*

We have reclassified, combined or separately disclosed certain amounts in the prior years' condensed consolidated financial statements and accompanying footnotes to conform with the current period's presentation.

### *Cash*

Cash include cash on hand and highly liquid investments having an original maturity of three months or less.



*Accounts receivable, net*

Trade accounts receivable are stated at the amount the Company expects to collect and do not bear interest. The Company evaluates the collectability of accounts receivable and records a provision to the allowance for doubtful accounts based on factors including the length of time the receivables are past due, the current business environment and the Company's historical experience. Provisions to the allowances for doubtful accounts are recorded in selling, general and administrative expenses. Account balances are charged off against the allowance when it is probable that the receivable will not be recovered. The allowance for doubtful accounts was \$2 thousand as of March 31, 2022 and \$4 thousand as of December 31, 2021.

*Inventory and Cost of Goods Sold*

Inventory is stated at the lower of cost, the value determined by the first-in, first-out method, or net realizable value. The Company evaluates inventories for excess quantities, obsolescence, and shelf-life expiration. This evaluation includes an analysis of historical sales levels by product, projections of future demand, the risk of technological or competitive obsolescence for products, general market conditions, and a review of the shelf-life expiration dates for products. These factors determine when, and if, the Company adjusts the carrying value of inventory to estimated net realizable value.

The balance is made up of raw materials, work-in-progress, and finished goods of \$184 thousand, \$40 thousand, and \$56 thousand on March 31, 2022, respectively, and the balance was made up of raw materials, work-in-progress, and finished goods of \$266 thousand, \$0, and \$25 thousand on December 31, 2021, respectively.

As a contract manufacturer, the Company builds its products based on customer orders and immediately ships the products upon completion of the production process.

The "Cost of goods sold" line item in the consolidated statements of income is comprised of the book value of inventory sold to customers during the reporting period. When circumstances dictate that we use net realizable value as the basis for recording inventory, we base our estimates on expected future selling prices less expected disposal costs.

*Research and Development*

Our research and development activities focus on new and innovative products designed to support revenue growth. Research and development expenses consist primarily of contracted development and testing efforts associated with development of products.

*Shipping and Handling Revenue and Expense*

Shipping and handling revenue and expense are included in our consolidated statements of operations in Revenue, net. This is primarily through shipping fees incurred in the Amazon marketplace.

*Property and equipment, net*

Property and equipment is recorded at historical cost, net of accumulated depreciation and amortization. Depreciation is provided over the assets' useful lives on a straight-line basis. Leasehold improvements are amortized on a straight-line basis over the shorter of their estimated useful lives or lease terms. Repairs and maintenance costs are expensed as incurred.

Management periodically assesses the estimated useful life over which assets are depreciated or amortized. If the analysis warrants a change in the estimated useful life of property and equipment, management will reduce the estimated useful life and depreciate or amortize the carrying value prospectively over the shorter remaining useful life.

The carrying amounts of assets sold or retired and the related accumulated depreciation are eliminated in the period of disposal and the resulting gains and losses are included in the results of operations during the same period.

#### *Goodwill and Intangible Assets*

In applying the acquisition method of accounting, amounts assigned to identifiable assets and liabilities acquired were based on estimated fair values as of the date of acquisition, with the remainder recorded as goodwill. Identifiable intangible assets are initially recorded at fair value using generally accepted valuation methods appropriate for the type of intangible asset. Identifiable intangible assets with definite lives are amortized over their estimated useful lives and are reviewed for impairment if indicators of impairment arise. Intangible assets with indefinite lives are tested for impairment within one year of acquisitions or annually as of December 31, and whenever indicators of impairment exist. The fair value of intangible assets are compared with their carrying values, and an impairment loss would be recognized for the amount by which a carrying amount exceeds its fair value.

The Company performed the annual assessment and concluded it is more likely than not that the fair value exceeds the carrying value.

#### *Prepaid expenses and other current assets*

Prepaid expenses and other current assets is recorded at historical cost and is primarily made up of \$25 thousand and \$23 thousand of prepaid insurance, and \$141 thousand and \$54 thousand general prepaid expenses and other current assets as of March 31, 2022 and December 31, 2021, respectively.

#### *Other Assets*

Other assets is recorded at historical costs, and as of March 31, 2022 and December 31, 2021, the balance is entirely made up of spare parts for manufacturing equipment. Other assets are stated at cost and are not subject to depreciation, until such time that they are placed into service and the part that is being replaced is disposed.

#### *Fair value measurements*

The Company utilizes the fair value hierarchy to apply fair value measurements. The fair value hierarchy is based on inputs to valuation techniques that are used to measure fair values that are either observable or unobservable. Observable inputs reflect assumptions market participants would use in pricing an asset or liability based on market data obtained from independent sources, while unobservable inputs reflect a reporting entity's pricing based upon its own market assumptions. The basis for fair value measurements for each level within the hierarchy is described below:

*Level 1* — Quoted prices for identical assets or liabilities in active markets.

*Level 2* — Quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; or model-derived valuations whose inputs are observable or whose significant value drivers are observable.

*Level 3* — Valuations derived from valuation techniques in which one or more significant inputs to the valuation model are unobservable.

The Company considers the carrying amounts of its financial instruments (cash, accounts receivable and accounts payable, notes payable and convertible notes payable) in the balance sheet to approximate fair value because of the short-term or highly liquid nature of these financial instruments.

#### *Warrant Liability*

Warrants to purchase common stock were issued in connection with equity financing raises, which occurred on September 2, 2021, March 11, 2021, February 3, 2021, December 24, 2020, March 18, 2020, September 10, 2019 and November 6, 2019. The fair values of the warrants are estimated as of the date of issuance and again at each period end using a Black-Scholes option valuation model. At issuance, the fair value of the warrant is recognized as an equity issuance cost within additional paid-in-capital. Fair value adjustments to the warrant liability are recognized in other income (expense) in the statements of operations.

### Revenue recognition

On January 1, 2018, the Company adopted Accounting Standards Codification (“ASC”) Topic 606, *Revenue from Contracts with Customers* (“ASC 606”). The core principle of ASC 606 requires that an entity recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services. ASC 606 defines a five-step process to achieve this core principle and, in doing so, it is possible more judgment and estimates may be required within the revenue recognition process than required under existing accounting principles generally accepted in the United States of America (“U.S. GAAP”) including identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation. The Company adopted ASC 606 for all applicable contracts using the modified retrospective method, which would have required a cumulative-effect adjustment, if any, as of the date of adoption. The adoption of ASC 606 did not have a material impact on the Company’s consolidated financial statements as of the date of adoption. As a result, a cumulative-effect adjustment was not required.

The Company recognizes revenue predominately from one type of revenue, contract manufacturing. Revenue from contract manufacturing is recognized at the point where the customer obtains control of the goods and the Company satisfies its performance obligation, which generally is at the time the customer receives the product.

The Company’s customers consist of other life sciences companies and revenues are concentrated in the United States. Payment terms vary by the type and location of customer and may differ by jurisdiction and customer but payment is generally required in a term ranging from 30 to 60 days from date of shipment.

Estimates for product returns, allowances and discounts are recorded as a reduction of revenue and are established at the time of sale. Returns are estimated through a comparison of historical return data and are determined for each product and adjusted for known or expected changes in the marketplace specific to each product, when appropriate. Historically, sales return provisions have not been material. Amounts accrued for sales allowances and discounts are based on estimates of amounts that are expected to be claimed on the related sales and are based on historical data. Payments for allowances and discounts have historically been immaterial.

Disaggregated revenue by sales type:

	Three months ending	
	March 31,	
	2022	2021
Contract manufacturing	\$ 135	\$ 226
Custom and white label finished goods manufacturing	—	—
NexGel branded consumer products	213	36
Other	48	5
Total	\$ 396	\$ 267

As of March 31, 2022 and December 31, 2022, the Company did not have any contract assets or contract liabilities from contracts with customers. As of March 31, 2022 and December 31, 2021, there were no remaining performance obligations that the Company had not satisfied.

### Share-based compensation

On August 28, 2019, the Company adopted the 2019 Long-Term Incentive Plan (the “2019 Plan”). See Note 10 below for further details regarding the 2019 Plan.

The 2019 Plan provides certain employees, contractors, and outside directors with share-based compensation in the form of incentive stock options, nonqualified stock options, stock appreciation rights, restricted stock, restricted stock units, performance awards, dividend equivalent rights and other awards. The fair values of incentive stock option award grants are estimated as of the date of grant using a Black-Scholes option valuation model. Compensation expense is recognized in the statements of operations on a straight-line basis over the requisite service period, which is generally the vesting period required to obtain full vesting. Forfeitures are accounted for when they occur.

In June 2018, the FASB issued Accounting Standards Update (“ASU”) No. 2018-07, *Compensation - Stock Compensation (Topic 718) - Improvements to Nonemployee Share-Based Payment Accounting*. These amendments expand the scope of Topic 718, *Compensation - Stock Compensation*, to include share-based payments issued to nonemployees for goods or services. Consequently, the accounting for share-based payments to nonemployees and employees will be substantially aligned. This new standard is effective for the Company on January 1, 2020. The Company early adopted this new standard in the third quarter of 2019 and it did not have material impact to its consolidated financial statements.

#### *Income taxes*

Income taxes are accounted for using an asset and liability approach that requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the financial statement and tax bases of assets and liabilities at the applicable tax rates. Deferred tax assets are reduced by a valuation allowance when it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates.

#### *Leases*

ASC 842 requires recognition of leases on the consolidated balance sheets as right-of-use (“ROU”) assets and lease liabilities. ROU assets represent the Company’s right to use underlying assets for the lease terms and lease liabilities represent the Company’s obligation to make lease payments arising from the leases. Operating lease ROU assets and operating lease liabilities are recognized based on the present value and future minimum lease payments over the lease term at commencement date. As the Company’s leases do not provide an implicit rate, the Company used its estimated incremental borrowing rate based on the information available at commencement date in determining the present value of lease payments. A number of the lease agreements contain options to renew and options to terminate the leases early. The lease term used to calculate ROU assets and lease liabilities only includes renewal and termination options that are deemed reasonably certain to be exercised.

The Company recognized lease liabilities, with corresponding ROU assets, based on the present value of unpaid lease payments for existing operating leases longer than twelve months. The ROU assets were adjusted per ASC 842 transition guidance for existing lease-related balances of accrued and prepaid rent, and unamortized lease incentives provided by lessors. Operating lease cost is recognized as a single lease cost on a straight-line basis over the lease term and is recorded in selling, general and administrative expenses. Variable lease payments for common area maintenance, property taxes and other operating expenses are recognized as expense in the period when the changes in facts and circumstances on which the variable lease payments are based occur. The Company has elected not to separate lease and non-lease components for all property leases for the purposes of calculating ROU assets and lease liabilities.

#### *Segment reporting*

The Company operates in one business segment as a contract manufacturer of aqueous polymer hydrogels. As a result, the Company’s operations are a single reportable segment, which is consistent with the Company’s internal management reporting.

#### *Comprehensive loss*

Comprehensive loss consists of net loss and changes in equity during a period from transactions and other equity and circumstances generated from non-owner sources. The Company’s net loss equals comprehensive loss for all periods presented.

#### *Recently Issued Accounting Standards*

From time to time, new accounting pronouncements are issued by the Financial Accounting Standards Board, or FASB, or other standard setting bodies and adopted by us as of the specified effective date. Unless otherwise discussed, the impact of recently issued standards that are not yet effective will not have a material impact on our financial position or results of operations upon adoption.

In June 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2016-13, Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. ASU 2016-13 significantly changes the impairment model for most financial assets and certain other instruments. ASU 2016-13 will require immediate recognition of estimated credit losses expected to occur over the remaining life of many financial assets, which will generally result in earlier recognition of allowances for credit losses on loans and other financial instruments. ASU 2016-13 is effective for the Company’s fiscal year beginning March 1, 2023 and subsequent interim periods. The Company is currently evaluating the impact the adoption of ASU 2016-13 will have on the Company’s consolidated financial statements.

In January 2017, the FASB issued ASU 2017-04, Intangibles—Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment. ASU 2017-04 simplifies the manner in which an entity is required to test goodwill for impairment by eliminating Step 2 from the goodwill impairment test. Under the amendments in ASU 2017-04, an entity should (1) perform its annual or interim goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount, and (2) recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit’s fair value, with the understanding that the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. Additionally, ASU 2017-04 requires any reporting unit with a zero or negative carrying amount to perform Step 2 of the goodwill impairment test. We adopted ASU 2017-04 effective March 1, 2020 (the first quarter of our 2021 fiscal year).

In December 2019, the FASB issued ASU 2019-12, Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes, which simplifies the accounting for income taxes. This guidance will be effective for entities for the fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020 on a prospective basis, with early adoption permitted. We will adopt ASU 2019-12 effective March 1, 2021 and do not expect the adoption of this guidance to have a material impact on our consolidated financial statements.

#### 4. Leases

The Company has one operating lease for a commercial manufacturing facility and administrative offices located in Langhorne, Pennsylvania that runs through January 2031.

The following table presents information about the amount and timing of the liability arising from the Company’s operating lease as of March 31, 2022 (\$ in thousands):

<b>Maturity of Lease Liability</b>	<b>Operating Lease Liability</b>
2022	\$ 155
2023	207
2024	207
2025	207
2026	263
Thereafter	1,165
Total undiscounted operating lease payments	\$ 2,204
Less: Imputed interest	(290)
Present value of operating lease liability	<u>\$ 1,914</u>
Weighted average remaining lease term	8.8 years
Weighted average discount rate	3.0 %

Total operating lease expense for the three months ending March 31, 2022 and 2021, respectively, was \$52 thousand, and is recorded in cost of goods sold and selling, general and administrative expenses on the statement of operations.

Supplemental cash flows information related to leases was as follows (\$ in thousands):

	<b>March 31, 2022</b>
Cash paid for amounts included in the measurement of lease liability:	
Operating cash flows from operating lease	\$ 52

## 5. Inventory

Inventory consists of the following (\$ in thousands):

	March 31, 2022	December 31, 2021
Raw materials	\$ 184	\$ 266
Work-in-progress	40	—
Finished goods	56	25
	<u>280</u>	<u>291</u>
Less: Inventory reserve for excess and slow moving inventory	—	—
Total	<u>\$ 280</u>	<u>\$ 291</u>

As a contract manufacturer, the Company builds its products based on customer orders and immediately ships the products upon completion of the production process.

## 6. Property and Equipment, Net

Property and equipment consist of the following (\$ in thousands):

	Useful Life (Years)	March 31, 2022	December 31, 2021
Machinery and equipment	3 - 10	\$ 940	\$ 940
Office furniture and equipment	3 - 10	50	50
Leasehold improvements	6	228	228
Construction in progress	N/A	—	—
		<u>1,218</u>	<u>1,218</u>
Less: accumulated depreciation and amortization		(520)	(495)
Property and equipment, net		<u>\$ 698</u>	<u>\$ 723</u>

Depreciation expense for the three months ended March 31, 2022 and 2021 was \$25 thousand and \$24 thousand, respectively.

## 7. Intangible Assets

The following provides a breakdown of identifiable intangible assets as of March 31, 2022 and December 31, 2021:

	March 31, 2022	December 31, 2021
<b>Product/Technology Related</b>		
Identifiable intangible assets, gross	\$ 31	\$ 31
Accumulated amortization	(18)	(16)
Product/Technology Related identifiable intangible assets, net	<u>13</u>	<u>15</u>
<b>Marketing Related</b>		
Customer related intangible asset, gross	17	17
Tradenname related intangible asset, gross	7	7
Accumulated amortization	(7)	(6)
Marketing related identifiable intangible assets, net	<u>17</u>	<u>18</u>
<b>Total identifiable intangible assets, net</b>	<u>\$ 30</u>	<u>\$ 33</u>

In connection with the acquisitions of Sport Defense, the Company identified intangible assets of \$55 thousand representing technology related and customer related intangibles. These assets are being amortized on a straight-line basis over their weighted average estimated useful life of 4.5 years and amortization expense amounted to \$3 and \$3 for the three months ended March 31, 2022 and 2021, respectively.

As of March 31, 2022, the estimated annual amortization expense for each of the next five fiscal years is as follows:

2022	\$	11
2023		8
2024		2
2025		2
2026		2
Thereafter		5
Total	\$	<u>30</u>

#### 8. Accrued Expenses and Other Current Liabilities

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

	March 31, 2022	December 31, 2021
Salaries, benefits, and incentive compensation	\$ 57	\$ 54
Other	—	8
Total accrued expenses and other current liabilities	\$ <u>57</u>	\$ <u>62</u>

#### 9. Common Stock

##### Share issuances

On December 27, 2021, the Company sold an aggregate of 2,585,000 units at a price to the public of \$5.50 per unit (the "Offering"), each unit consisting of one share of our common stock, and a warrant to purchase one share of our common stock at an exercise price of \$5.50 per share. In addition, the Company granted the Underwriter a 45-day option to purchase up to 387,750 additional shares of our common stock, and/or 387,750 additional warrants, to cover over-allotments in connection with the Offering, which the Underwriter partially exercised to purchase 387,750 Warrants on the Closing Date.

From January 1, 2021 through March 31, 2021, the Company entered into Securities Purchase Agreements with certain accredited investors whereby we sold 101,800 shares of our common stock at a price per share equal to \$0.80 for an aggregate purchase price of \$285,000.

At March 31, 2022, the Company has reserved common stock for issuance in relation to the following:

Share-based compensation plan	434,939
Warrants to purchase common stock	3,637,190

#### 10. Share-based Compensation

On August 28, 2019, the Company adopted the 2019 Long-Term Incentive Plan (the "2019 Plan"). The 2019 Plan provides for the granting of incentive stock options, nonqualified stock options, restricted stock, stock appreciation rights ("SARs"), restricted stock units, performance awards, dividend equivalent rights and other awards, which may be granted singly, in combination, or in tandem, and which may be paid in cash, shares of common stock of the Company or a combination of cash and shares of common stock of the Company. The Company initially reserved a total of 57,143 shares of the Company's common stock for awards under the 2019 Plan. Effective as of May 26, 2020 and May 3, 2021, respectively, the Board approved an increase of the number of authorized shares of common stock reserved under the 2019 Plan from 57,143 shares of common stock to 485,715 and from 485,715 shares of common stock to 571,429 shares of common stock, all of which may be delivered pursuant to incentive stock options. Subject to adjustments pursuant to the 2019 Plan, the maximum number of shares of common stock with respect to which stock options or SARs may be granted to an executive officer during any calendar year is 14,286 shares of common stock.

*Incentive stock options*

The following table contains information about the 2019 Plan as of March 31, 2022:

	Awards Reserved for Issuance	Awards Issued	Awards Available for Grant
2019 Plan	571,429	434,939	136,490

The following table summarizes the Company's incentive stock option activity and related information for the period ended March 31, 2022:

	Number of Options	Weighted Average Exercise Price	Weighted Average Contractual Term in Years
Outstanding at January 1, 2022	434,939	\$ 1.675747	8.56
Granted	—	—	—
Exercised	—	—	—
Forfeited	—	—	—
Cancelled	—	—	—
Expired	—	—	—
Outstanding at March 31, 2022	434,939	\$ 1.675747	8.31
Exercisable at March 31, 2022	366,364	\$ 2.134036	8.44

As of March 31, 2022, vested outstanding stock options had \$210 thousand intrinsic value as the exercise price is greater than the estimated fair value of the underlying common stock. As of March 31, 2022, there was approximately \$138 thousand of total unrecognized share-based compensation related to unvested stock options, which the Company expects to recognize over the next 12 months.

The Company recognizes compensation expense for stock option awards on a straight-line basis over the applicable service period of the award. The service period is generally the vesting period. The following assumptions were used to calculate share-based compensation expense for year ended March 31, 2022:

Volatility	171.12% - 183.48 %
Risk-free interest rate	0.46% - 0.86 %
Dividend yield	0.0 %
Expected term	5.0 – 5.75 years

The Company does not have sufficient historical information to develop reasonable expectations about future exercise patterns and post-vesting employment termination behavior. Accordingly, the Company has elected to use the "simplified method" to estimate the expected term of its share-based awards. The simplified method computes the expected term as the sum of the award's vesting term plus the original contractual term divided by two.

Based on the lack of historical data of volatility for the Company's common stock, the Company based its estimate of expected volatility on a weighted-average of the historical volatility of comparable public companies that manufacture similar products and are similar in size, stage of life cycle, and financial leverage.



*Restrictive stock awards*

On March 8, 2021, the Company granted a restricted stock award of 39,524 shares of the Company's common stock to the Adam Levy for his service as our Chief Executive Officer and Chief Financial Officer from October 1, 2020 through September 30, 2021, all of which shares vested immediately. Under ASC 718, Compensation-Stock Compensation ("ASC 718"), the Company has measured the value of the 39,924 shares granted based on a closing price of the closing price of the Company's stock at the grant date of the RSU Grant (\$2.10 per share).

*Warrants*

The following table shows a summary of common stock warrants through March 31, 2022:

	Number of Warrants	Weighted Average Exercise Price	Weighted Average Contractual Term in Years
Outstanding at January 1, 2022	3,637,190	\$ 5.16281	4.63
Granted	—	—	—
Exercised	—	—	—
Forfeited	—	—	—
Cancelled	—	—	—
Expired	—	—	—
Outstanding at March 31, 2022	<u>3,637,190</u>	<u>\$ 5.16281</u>	<u>4.39</u>
Exercisable at March 31, 2022	<u>3,637,190</u>	<u>\$ 5.16281</u>	<u>4.39</u>

As of March 31, 2022, vested outstanding warrants had \$139 thousand intrinsic value as the exercise price is greater than the estimated fair value of the underlying common stock.

**11. Note Payable***PPP Loan*

On April 22, 2020, the Company, entered into a promissory note (the "Promissory Note") with PNC Bank, N.A. (the "Bank"), which provides for a loan in the amount of \$147,300 (the "PPP Loan") pursuant to the Paycheck Protection Program under the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act"). On March 4, 2021, the Company received a second PPP Loan in the amount of \$127,400 thousand under Phase II of the Paycheck Protection Program. On June 2, 2021, the Company received notice from PNC Bank that its initial loan of \$147,300 had been forgiven in its entirety by the SBA. On November 16, 2021, the Company received notice from PNC Bank that its second PPP loan of \$127,400 had been forgiven in its entirety by the SBA.

*Economic Injury Disaster Loan*

On May 28, 2020, the Company entered into the standard loan documents required for securing a loan (the "EIDL Loan") from the SBA under its Economic Injury Disaster Loan ("EIDL") assistance program in light of the impact of the COVID-19 pandemic on the Company's business. Pursuant to that certain Loan Authorization and Agreement (the "SBA Loan Agreement"), the principal amount of the EIDL Loan is up to \$ 260,500, with proceeds to be used for working capital purposes. Interest accrues at the rate of 3.75% per annum. Installment payments, including principal and interest, are due monthly beginning May 28, 2021 (twelve months from the date of the SBA Note) in the amount of \$1,270. The balance of principal and interest is payable thirty years from the date of the SBA Note. In connection therewith, the Company received an \$8,000 advance, which does not have to be repaid. On March 26, 2021, the SBA announced that all EIDL loans issued in 2020 will start repayment 24 months from the date of the SBA Note.

**12. Convertible Notes Payable**

On December 24, 2020, the Company entered into two Securities Purchase Agreement, dated December 24, 2020 (the "Purchase Agreement") pursuant to which the Company issued the following (i) \$100,000 6% Secured Convertible Promissory Note which was convertible into shares of the Company's common stock at a price per share of \$2.80 and (ii) Common Stock purchase warrants to

purchase up to 8,929 shares of common stock with an exercise price of \$2.80. The notes are secured by all of the assets and equipment owned by the Company. The notes were due on or before June 24, 2021 and fully-repaid (including all accrued but unpaid interest) on March 14, 2021.

On January 19, 2021, the Company entered into a Securities Purchase Agreement, (the “2021 Purchase Agreement”) pursuant to which the Company issued the following (i) \$15,000 Secured Convertible Promissory Note which was convertible into shares of the Company’s common stock at a price per share of \$1.05. The notes were due on or before March 19, 2021 and fully-repaid (including all accrued but unpaid interest) on March 14, 2021.

#### *Auctus Fund Financing*

On March 11, 2021 (the “Issuance Date”), the Company entered into a securities purchase agreement (the “Auctus Purchase Agreement”) with Auctus Fund, LLC, a Delaware limited liability company (“Auctus”), pursuant to which the Company issued to Auctus a senior secured convertible promissory note in the principal amount of \$1,680,000, which includes \$180,000 of interest which was deemed fully earned as of the Issuance Date (the “Auctus Note”). The net proceeds received by the Company were \$1,337,000 (after deducting fees and expenses related to the transaction, including a payment to Alere (as defined and discussed below).

As of December 31, 2021, the Auctus Note outstanding balance was \$1,357,808, which consisted of principal of \$1,680,000, net of unamortized balance of \$256,410 of a beneficial conversion and warrant features, unamortized original issue discount of \$34,521. and unamortized debt issuance costs of \$31,261. The Auctus Note was fully-repaid (including all principal and interest) on March 15, 2022 with a one-time cash payment of \$1,680,000.

In connection with the issuance of the Auctus Note, Auctus was also issued two five-year warrants as follows: the first warrant was to purchase up to an aggregate of 171,429 shares of the Company’s common stock at an exercise price of \$4.375 per share (the “First Auctus Warrant”) and the second warrant was to purchase up to an aggregate of 142,858 shares of the Company’s common stock at an exercise price of \$5.25 per share (the “Second Auctus Warrant”). The First Auctus Warrant and the Second Auctus Warrant are referred to herein as the “Auctus Warrants” and the shares of the Company’s common stock underlying the Auctus Warrants are referred to as the “Auctus Warrant Shares”.

Auctus may not exercise the Auctus Warrants with respect to any number of Auctus Warrant Shares that would cause it to beneficially own in excess of 4.99% of the Company’s common stock. The Auctus Warrants may be exercised for cash, or, if the “market price” of the Company’s common stock is greater than the Auctus Warrant’s exercise price, and there is not an effective registration statement covering the Auctus Warrant Shares, the Auctus Warrants may be exercised on a cashless basis. The number of shares of common stock to be deliverable upon exercise of the Auctus Warrants is subject to adjustment for subdivision or consolidation of shares and other standard dilutive events, or in the event the Company effects a reorganization, reclassification, merger, consolidation, disposition of assets, or other fundamental transaction.

Alere Financial, A Division of Cova Capital Partners, LLC (“Alere”), served as the placement agent for the Auctus Note and received a total cash fee equal to \$120,000 (or 8% of the principal amount of the Auctus Note). Additionally, Alere received warrants to purchase 654,545 and 545,455 shares of common stock at an exercise price equal to \$4.375 and \$5.25, respectively, for such services rendered. Alere’s warrants are in a customary form reasonably acceptable to Alere and exercisable for 3 years.

#### *Investor Private Placement Offering*

On September 2, 2021, the Company conducted a closing of a private placement offering (the “September 2 Offering”) with twenty accredited investors (the “September 2 Investors”) whereby the Company entered into a securities purchase agreement (the “September 2 Purchase Agreement”) with the September 2 Investors pursuant to which the Company issued to the Investors subordinated secured convertible promissory notes in the aggregate principal amount of \$1,620,000 (the “September 2 Notes”). The net proceeds received by the Company were \$1,504,400 (after deducting fees owed to its placement agent, Alere (as defined and discussed below)). The Company intends to use the net proceeds for working capital and general corporate purposes.

The Notes have a maturity date of one year from September 2, 2021. The Notes bear interest at a rate of 12% per annum, which is also payable on maturity, with the understanding that the first 12 months of interest (equal to an aggregate of \$194,400) is guaranteed and deemed to be earned in full as of September 2, 2021. In the event the Company fails to pay any amount when due under the September 2 Notes, the interest rate will increase to the greater of 18% or the maximum amount permitted by law. The September 2 Notes may be prepaid during the first 180 calendar days from September 2, 2021 subject to a 110% prepayment penalty on all principal and accrued but unpaid interest then outstanding. The September 2 Notes may not be prepaid in whole or in part after 180 calendar days from September 2, 2021. The September 2 Investors may convert any amount due under the September 2 Notes at any time, and from time to time, into shares of the Company's common stock at a conversion price of \$5.25 per share; provided, however, that the September 2 Investors may not convert any portion of the September 2 Notes that would cause such Investor to beneficially own in excess of 4.99% of the Company's common stock. The conversion price and number of shares of the Company's common stock issuable upon conversion of the September 2 Notes will be subject to adjustment from time to time for any subdivision or consolidation of shares and other dilutive events. If the Company issues common stock or securities convertible into common stock at a per share price lower than the conversion price of \$5.25 (the "Base Price"), then the conversion price of the September 2 Notes will be reduced to the new Base Price at the option of the holder.

In connection with the issuance of the September 2 Notes, the Investors were also issued five-year warrants to purchase up to an aggregate of 308,571 shares of the Company's common stock (the "September 2 Warrant Shares") at an exercise price of \$5.25 per share (the "September 2 Warrants").

The September 2 Investors may not exercise the September 2 Warrants with respect to any number of September 2 Warrant Shares that would cause such September 2 Investor to beneficially own in excess of 4.99% of the Company's common stock. The September 2 Warrants may be exercised for cash, or, if the "market price" of the Company's common stock is greater than the September 2 Warrant's exercise price, and there is not an effective registration statement covering the September 2 Warrant Shares, the September 2 Warrants may be exercised on a cashless basis. The number of shares of common stock to be deliverable upon exercise of the September 2 Warrants is subject to adjustment for subdivision or consolidation of shares and other standard dilutive events, or in the event the Company effects a reorganization, reclassification, merger, consolidation, disposition of assets, or other fundamental transaction. In the event that the Company issues common stock, securities convertible into common stock, or the right to acquire common stock at an effective per share price less than \$5.25 (the "Base Price"), the per share price of the September 2 Warrants are adjustable down to the new Base Price at the option of the holder. If such adjustment occurs, the number of warrant shares issuable under the September 2 Warrants shall also be increased such that the aggregate exercise price of the warrants shall be the same of the aggregate price prior to the adjustment.

Pursuant to the September 2 Purchase Agreement, the Company agreed that, while any amount remains unpaid under the September 2 Notes, it would not sell securities on more favorable terms than those provided to the Investors, without adjusting the Investors' terms accordingly. This right will terminate as of the Post Lock-Up Termination Date (as defined in the September 2 Purchase Agreement). Further, among other things, the Company agreed that, while any amount remains unpaid under the September 2 Notes, it would not enter into any variable rate transactions.

Alere Financial, a division of Cova Capital Partners, LLC ("Alere"), served as the placement agent for the September 2 Notes and received a total cash fee equal to \$115,600 and warrants to purchase up to 770,667 shares of the Company's common stock, with a term of five years, at a per share exercise price of \$5.25.

On January 25, 2022, the Company repaid a September 2 Investor in full with a one-time cash payment of \$300,000 of outstanding principal and accrued but unpaid interest the September 2 Offering. The Company did incur a 105% pre-payment penalty of \$16,800 with respect to the repayment of the investor's note and the repayment extinguished the note in its entirety.

As of March 31, 2022, the September 2 Notes' outstanding balance was \$894,429, which consisted of principal of \$1,478,400, net of unamortized balance of \$477,105 of a beneficial conversion and warrant features, unamortized original issue discount of \$67,015 and unamortized debt issuance costs of \$39,851.

### 13. Warrant Liability

On September 2, 2021, March 11, 2021, February 3, 2021, December 24, 2020, March 18, 2020, September 10, 2019, and November 6, 2019, the Company issued 22,019, 34,286, 7,429, 7,286, 44,286, 35,715 and 114,286 warrants, respectively, as equity issuance consideration, in connection with a private placement of the Company's common stock. The warrants entitle the holder to purchase one share of our common stock at an exercise price equal to \$0.49 to \$5.25 per share at any time on or after their issuance date and on or prior to the close of business 3 years after the issuance date (the "Termination Date"). The Company determined that these warrants are free standing financial instruments that are legally detachable and separately exercisable from the common stock included in the public share offering. Management also determined that the warrants required classification as a liability pursuant to ASC 815. In accordance with the accounting guidance, the outstanding warrants are recognized as a warrant liability on the balance sheet and are measured at their inception date fair value and subsequently re-measured at each reporting period with changes being recorded as a component of other income in the statement of operations.

The warrants outstanding and fair values at each of the respective valuation dates are summarized below:

<b>Warrant Liability</b>	<b>Warrants Outstanding</b>	<b>Fair Value per Share</b>	<b>Fair Value</b>
<b>Fair Value as of period ending 12/31/2021</b>	<b>265,305</b>		<b>\$ 318</b>
Change in fair value of warrant liability			131
<b>Fair Value as of period ending 3/31/2022</b>	<b>265,305</b>		<b>\$ 449</b>

The warrant liabilities are considered Level 3 liabilities on the fair value hierarchy as the determination of fair value includes various assumptions about of future activities and the Company's stock prices and historical volatility of Guideline Public Companies as inputs. As of March 31, 2022, none of the warrants have been exercised.

### 14. Commitments and Contingencies

#### *Litigation*

The Company may be subject to legal proceedings and claims that arise in the ordinary course of business. Management is not currently aware of any matters that will have a material effect on the financial position, results of operations, or cash flows of the Company.

### 15. Concentrations of Risk

The Company's revenues are concentrated in a small group of customers with some individually having more than 10% of total revenues.

Revenues from three customers that exceeded 10% of total revenues for the three months ended March 31, 2022 were 52%, 12%, and 12%. The accounts receivable from the top three customers were 0%, 0%, and 40% as well as 16% and 22% from two other customers of the total accounts receivable as of March 31, 2022.

Revenues from three customers that exceeded 10% of total revenues for the three months ended March 31, 2021 were 28%, 24%, and 16%. The accounts receivable from the top three customers were 13%, 0%, and 44% as well as 25% from one other customer of the total accounts receivable as of March 31, 2021.

The Company's financial instruments that are exposed to concentrations of credit risk consist primarily of cash. Cash balances are maintained principally at major U.S. financial institutions and are insured by the Federal Deposit Insurance Corporation ("FDIC") up to regulatory limits. Such cash balances are currently in excess of the FDIC insurance limit of \$250,000. As of March 31, 2022, the total amount exceeding such limit was \$10,270,000. The Company has not experienced any credit losses associated with its cash balances in the past.

## 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 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;
- inadequate or an inability to raise sufficient capital to execute our business plan;
- our ability to comply with current good manufacturing practices;
- 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;
- adverse economic conditions and/or intense competition;
- loss of a key customer or supplier;
- entry of new competitors;
- adverse federal, state and local government regulation;
- technological obsolescence of our manufacturing process and equipment;
- 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 our business 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 elsewhere in this Quarterly Report on Form 10-Q. 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 manufacture high water content, electron beam cross-linked, aqueous polymer hydrogels, or gels, used for wound care, medical diagnostics, transdermal drug delivery and cosmetics. We specialize in custom gels by capitalizing on proprietary manufacturing technologies. We have historically served as a contract manufacturer, supplying our gels to third parties who incorporate them into their own products and have recently began producing our own consumer products using our gels focused on proprietary branded products and white label opportunities. Both our gels and our consumer products are manufactured using proprietary and non-proprietary mixing, coating and cross-linking technologies. Together, these technologies enable us to produce gels that can satisfy rigid tolerance specifications with respect to a wide range of physical characteristics (e.g., thickness, water content, adherence, absorption, moisture vapor transmission rate [a measure of the passage of water vapor through a substance] and release rate) while maintaining product integrity. Additionally, we have the manufacturing ability to offer broad choices in the selection of liners onto which the gels are coated. Consequently, we and our customers are able to determine tolerances in moisture vapor transmission rate and active ingredient release rates while personalizing color and texture.

## Results of Operations

The following sections discuss and analyze the changes in the significant line items in our statements of operations for the comparison periods identified.

### *Comparison of the Three Months ended March 31, 2022 and 2021*

#### Revenues, net.

For the three months ended March 31, 2022 revenues were \$396 thousand and increased by \$129 thousand, or 48%, when compared to \$267 thousand for the three months ended March 31, 2021. The increase in our overall revenues was due to sales growth of new products as well as our initiatives in custom label manufacturing and branded consumer product.

**Gross profit (loss).** Our gross loss was \$22 thousand for the three months ended March 31, 2022 compared to a gross loss of \$42 thousand for the three months ended March 31, 2021. The decrease of \$20 thousand in gross loss quarter over quarter was primarily due to the higher volume of contract manufacturing sales against fixed costs partially offset by higher manufacturing labor costs. Gross loss was approximately (6%) for the three months ended March 31, 2022 compared to a gross loss of (16.0%) for the three months ended March 31, 2021. The components of cost of revenues are as follows for the three months ended March 31, 2022 and 2021 (\$ in thousands):

	Three Months Ended	
	March 31,	
	2022	2021
<b>Cost of revenues</b>		
Materials and finished products	\$ 94	\$ 60
Compensation and benefits	171	128
Depreciation and amortization	21	21
Equipment, production and other expenses	132	100
Total cost of revenues	<u>\$ 418</u>	<u>\$ 309</u>

Cost of revenues increased by \$109 thousand, or 35%, to \$418 thousand for the three months ended March 31, 2022, as compared to \$309 thousand for the three months ended March 31, 2021. The increase in cost of revenues is primarily aligned with the new product line growth and an increase in compensation and benefits in the current year.

**Selling, general and administrative expenses.** The following table highlights Selling, general and administrative expenses by type for the three months ended March 31, 2022 and 2021 (\$ in thousands):

	Three Months Ended March 31,	
	2022	2021
<b>Selling, general and administrative expenses</b>		
Compensation and benefits	\$ 152	\$ 89
Share-based compensation	—	90
Depreciation and amortization	3	27
Other expenses and professional fees	611	265
Total Selling, general and administrative expenses	<u>\$ 766</u>	<u>\$ 471</u>

Selling, general and administrative expenses increased by \$295 thousand, or 63%, to \$766 thousand for the three months ended March 31, 2022, as compared to \$471 thousand for the three months ended March 31, 2021. The increase in Selling, general and administrative expenses is primarily attributable to the factors described below.

Compensation and benefits increased by \$63 thousand, or 71%, to \$152 thousand for the three months ended March 31, 2022, as compared to \$89 thousand for the three months ended March 31, 2021. The number of employees increased compared to the prior period and officer compensation increased in conjunction with contract renewals.

Share-based compensation decreased by \$90 thousand, or 100%, to \$0 thousand for the three months ended March 31, 2022, as compared to \$90 thousand for the three months ended March 31, 2021. The share-based compensation related to the issuance of stock options and restricted awards to our officers, employees, and advisors in the prior year period.

Other Expenses and professional fees increased by \$346 thousand, or 131%, to \$611 thousand for the three months ended March 31, 2022 from \$265 thousand for the three months ended March 31, 2021. Other Selling, general and administrative expenses generally consist of costs associated with our selling efforts and general management, including information technology, travel, training and recruiting. Furthermore, an increase of on-line sales commissions is reflective of sales growth through Amazon. We continued to incur legal, accounting and consulting fees associated with public company governance requirements, however, the increase in professional fees compared to the prior year period was the primary an increase in professional fees in connections with our in the NASDAQ up-listing on December 27, 2021. However, for the remainder of the year, the Company anticipates managing general and administrative cost at current or potentially decreased costs compared to this current quarter.

**Research and development expenses.** Research and development expenses were \$24 thousand and \$7 for the three months ended March 31, 2022 and March 31, 2021, respectively.

**Liquidity and Capital Resources**

**Cash Flow**

(in thousands)

	March 31, 2022	March 31, 2021
Net cash used in operating activities	\$ (797)	\$ (345)
Net cash used in investing activities	—	(267)
Net cash provided by financing activities	(2,033)	1,650
Net increase (decrease) in cash and cash equivalents	(2,830)	1,038
Cash and cash equivalents at beginning of year	13,350	32
Cash and cash equivalent at end of year	<u>\$ 10,520</u>	<u>\$ 1,070</u>

As of March 31, 2022, we had \$10.5 million of cash, compared to \$13.4 million of cash at December 31, 2021. Net cash used in operating activities was \$797 thousand and \$345 thousand for the three months ended March 31, 2022 and 2021, respectively.

Net cash used in investing activities was \$0 thousand and \$267 thousand for the three months ended March 31, 2022 and 2021, respectively.

Net cash used by financing activities for the three months ended March 31, 2022 was \$2.0 million which is attributable to the principal payments of convertible notes of \$2.0 million. For the three months ended March 31, 2021 cash flows from financing activities were \$1.7 million which is attributable to the issuance of common stock of \$285 thousand and proceeds of a notes payable of \$15 thousand and proceeds from the PPP loan of \$128 thousand and convertible notes payable of \$1.34 million, offset by repayments of notes payable of \$115 thousand.

At March 31, 2022, current assets totaled \$11.1 million and current liabilities totaled \$1.8 million, as compared to current assets totaling \$13.9 million and current liabilities totaling \$2.9 million at December 31, 2021. As a result, we had working capital of \$9.3 million at March 31, 2022, compared to a working capital of \$11.0 million at December 31, 2021. The decrease in the working capital as of March 31, 2022 is primarily attributable to the repayment of convertible notes payable of \$2.0 million in the current period.

On December 27, 2021, the Company sold an aggregate of 2,585,000 units at a price to the public of \$5.50 per unit (the "Offering"), each unit consisting of one share of the Company's common stock, par value \$0.001 per share (the "Common Stock"), and a warrant to purchase one share of Common Stock at an exercise price of \$5.50 per share (the "Warrants"), pursuant to that certain Underwriting Agreement, dated as of December 21, 2021 (the "Underwriting Agreement"), between the Company and Maxim Group LLC (the "Underwriter"). In addition, pursuant to the Underwriting Agreement, the Company granted the Underwriter a 45-day option to purchase up to 387,750 additional shares of Common Stock, and/or 387,750 additional Warrants, to cover over-allotments in connection with the Offering, which the Underwriter partially exercised to purchase 387,750 Warrants on the Closing Date.

The Common Stock and the Warrants were offered and sold to the public pursuant to the Company's registration statement on Form S-1 (File No. 333-260897), filed by the Company with the Securities and Exchange Commission (the "SEC") under the Securities Act of 1933, as amended (the "Securities Act"), on November 9, 2021, as amended, and the Company's registration statement on Form S-1MEF (File No. 333-261821), filed by the Company with the SEC on December 21, 2021, each of which became effective on December 21, 2021.

On the Closing Date, the Company received gross proceeds of approximately \$14.2 million, before deducting underwriting discounts and commissions of seven percent (7%) of the gross proceeds and estimated Offering expenses.

Pursuant to the Underwriting Agreement, the Company also agreed to issue to the Underwriter warrants (the "Underwriter's Warrants") to purchase up to a total of 155,100 shares of Common Stock (6% of the shares of Common Stock sold in the Offering). The Underwriter's Warrants are exercisable at \$6.1875 per share of Common Stock and have a term of five years. The Underwriter's Warrants are subject to a lock-up for 180 days from the commencement of sales in the Offering, including a mandatory lock-up period in accordance with FINRA Rule 5110(e), and will be non-exercisable for six (6) months after December 21, 2021.

On September 2, 2021, the Company entered into a securities purchase agreement pursuant to which the Company issued to twenty investors a 12% senior secured convertible promissory note in the principal amount of \$1.8 million, including \$194 thousand (which represents the twelve months of guaranteed interest which was earned in full as of September 2, 2021), which is convertible into shares of the Company's common stock at a price per share of \$5.25 subject to certain adjustments as discussed herein in Note 13 in the Notes to the Consolidated Financials. The net proceeds received by the Company were \$1.5 million after deducting fees and expenses related to the transaction. The purchasers in the September 2021 securities purchase agreement also received warrants to purchase shares of our common stock. On January 25, 2022, the Company repaid an investor in full with a one-time cash payment of \$300 thousand of outstanding principal and accrued but unpaid interest the September 2 Offering. The Company did incur a 105% pre-payment penalty of \$16,800 with respect to the repayment of the investor's note and the repayment extinguished the note in its entirety.

On March 11, 2021, the Company entered into a securities purchase agreement with Auctus Fund, LLC, a Delaware limited liability company ("Auctus"), pursuant to which the Company issued to Auctus a 12% senior secured convertible promissory note in the principal amount of \$1.6 million, including \$180 thousand (which represents the twelve months of guaranteed interest which was earned in full as of March 11, 2021), which is convertible into shares of the Company's common stock at a price per share of \$3.50 subject to certain adjustments as discussed herein in Note 13 in the Notes to the Consolidated Financials. The net proceeds received by the Company were \$1.3 million after deducting fees and expenses related to the transaction. Auctus also received warrants to purchase shares of our common stock. The \$1.6 million note payable was repaid in full in March 2022.



On March 4, 2021, the Company received a second PPP Loan in the amount of \$127 thousand under Phase II of the Paycheck Protection Program which commenced on January 13, 2021 and allowed certain businesses that received an initial PPP Loan to seek a second draw PPP Loan.

From January 1, 2021 through March, 2021, the Company entered into Securities Purchase Agreements with certain accredited investors whereby we sold 101,786 shares of our common stock at a price per share equal to \$2.80 for an aggregate purchase price of \$285,000.

Proceeds from these offerings are expected to be used for working capital, new product development and testing, and general business operations.

We have never declared or paid any cash dividends on our common stock. For the foreseeable future, we anticipate that all available fund and any earnings generated in our business will be used to finance the growth of our business and will not be paid out as dividends to our shareholders. Any future determination related to our dividend policy will be made at the discretion of our Board of Directors and will depend upon, among other factors, our results of operations, financial condition, capital requirements, contractual restrictions, business prospects and other factors our Board of Directors may deem relevant.

Management is exploring new product channel sales in consumer products, such as cosmetics, athletic products, and proprietary medical devices. The Company has increased its focus on sales and developing a sales pipeline for potential customers. This customer base expansion will enable us to provide financial stability for the foreseeable future, expand our current processes, and position us for long-term shareholder value creation.

We have sufficient capital to maintain as a going concern due to the capital raise that occurred on December 27, 2021. We intend to maintain and attempt to grow our existing contract manufacturing business. We also plan to continue building and developing its catalog of consumer products for sale to branding partners and to use our in-house capabilities to create and test market additional branded products. These products will be target marketed and sold online through social media, television and online marketplaces. Furthermore, the Company plans to develop its own proprietary medical devices and explore drug delivery programs for its technology. Additionally, the Company continues to evaluate strategic initiatives (e.g., acquisitions) and additional capital raises through debt or equity may be necessary to achieve these objectives.

We expect to continue incurring losses for the near-term future. Our ability to continue to operate as a going concern in the long-term is dependent upon our ability to manage and grow our current products and to ultimately achieve profitable operations. Management may consider various options to raise capital to fund potential acquisitions through equity or debt offerings. There can be no assurances, however, that management will be able to obtain sufficient additional funds, if needed, or that such funds, if available, will be obtained on terms satisfactory to us. The financial statements do not include any adjustments relating to the recoverability and classification of recorded assets and liabilities that might be necessary should we be unable to continue as a going concern.

Additionally, it is reasonably possible that estimates made in the financial statements have been, or will be, materially and adversely impacted in the near term as a result of these conditions, including the recoverability of long-lived assets.

#### **Off Balance Sheet Arrangements**

As of March 31, 2022, we had no off-balance sheet arrangements in the nature of guarantee contracts, retained or contingent interests in assets transferred to entities (or similar arrangements serving as credit, liquidity or market risk support to entities for any such assets), or obligations (including contingent obligations) arising out of variable interests in 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 and Estimates**

The preparation of our Financial Statements in accordance with generally accepted accounting principles is based on the selection and application of accounting policies that require us to make significant estimates and assumptions about the effects of matters that are inherently uncertain. We consider the accounting policies discussed below to be critical to the understanding of our Financial Statements. Actual results could differ from our estimates and assumptions, and any such differences could be material to our Financial Statements.

*Share-based compensation* – We utilize share-based compensation in the form of incentive stock options. The fair values of incentive stock option award grants are estimated as of the date of grant using a Black-Scholes option valuation model. Compensation expense is recognized in the statements of operations on a straight-line basis over the requisite service period, which is generally the vesting period required to obtain full vesting. The expected term of the awards granted is estimated using the simplified method which computes the expected term as the sum of the award’s vesting term plus the original contractual term divided by two.

*Warrant Liability* – Warrants to purchase common stock were issued in connection with equity financing raises which occurred on September 2, 2021, March 11, 2021, February 3, 2021, December 24, 2020, March 18, 2020, September 10, 2019 and November 6, 2019. The fair values of the warrants are estimated as of the date of issuance and again at each period end using a Black-Scholes option valuation model. At issuance, the fair value of the warrant is recognized as an equity issuance cost within additional paid-in-capital. Fair value adjustments to the warrant liability are recognized in other income (expense) in the statements of operations. The expected term of the awards granted are based on the 3 year contractual expiration date.

*Black Scholes Inputs* - The fair value of each stock option award and warrant issued was estimated on the date of grant using a Black-Scholes option-valuation model, which requires management to make certain assumptions regarding: (i) fair value of the common stock that underlies the stock option; (ii) the expected volatility in the market price of our common stock; (iii) dividend yield; (iv) risk-free interest rates; and (iv) the period of time employees are expected to hold the award prior to exercise (referred to as the expected term). Under the Black-Scholes option-valuation model, entities typically estimate the expected volatility based on historical volatilities of the entity’s own common stock. Based on the lack of historical data of volatility for the Company’s common stock, the Company based its estimate of expected volatility on a weighted average of the historical volatility of comparable public companies that manufacture similar products and are similar in size, stage of life cycle, and financial leverage. The fair value of the common stock that underlies the stock option is estimated by the Company considering the price of the most recent issuance of the Company’s common stock. The dividend yield is based upon the assumption that the Company will not declare a dividend over the life of the options. The risk-free interest rate is based on the U.S. Treasury yield curve in effect at the time of grant for bonds with maturities consistent with the expected term of the related award.

### **ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

Not required.

### **ITEM 4. CONTROLS AND PROCEDURES**

#### ***Disclosure Controls and Procedures.***

As of March 31, 2022, 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 and Procedures were effective as of March 31, 2022 at a reasonable level of assurance.

#### ***Changes in Internal Control over Financial Reporting***

There have been no changes in our internal control over financial reporting during the fiscal quarter ended March 31, 2022 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, the Company may become involved in lawsuits, investigations and claims that arise in the ordinary course of business. The Company believes it has meritorious defenses against all pending claims and intends to vigorously pursue them. While it is not possible to predict or determine the outcomes of any pending actions, the Company believes the amount of liability, if any, with respect to such actions, would not materially affect its financial position, results of operations or cash flows.

**ITEM 1A. RISK FACTORS**

Not required for smaller reporting companies.

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

**(a) Unregistered Sales of Equity Securities**

None.

**(b) Issuer Purchases of Equity Securities**

None.

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

None.

**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.

**Index to Exhibits**

<b>Exhibit No.</b>	<b>Description</b>
<a href="#">3.1</a>	<a href="#">Certificate of Incorporation of AquaMed Technologies, Inc. (incorporated by reference to Exhibit 3.1 to Form S-1, filed with the SEC on January 9, 2019).</a>
<a href="#">3.2</a>	<a href="#">Certificate of Amendment to Certificate of Incorporation of AquaMed Technologies, Inc. (incorporated by reference to Exhibit 3.2 to Form S-1, filed with the SEC on January 9, 2019).</a>
<a href="#">3.3</a>	<a href="#">Amended and Restated Certificate of Incorporation of AquaMed Technologies, Inc. (incorporated by reference to Exhibit 3.3 to Amendment No. 1 to Form S-1, filed with the SEC on March 11, 2019).</a>
<a href="#">3.4</a>	<a href="#">Certificate of Amendment to the Amended and Restated Certificate of Incorporation of AquaMed Technologies, Inc. (incorporated by reference to Exhibit 3.1 to the Current Report on Form 8-K, filed with the SEC on November 14, 2019)</a>
<a href="#">3.5</a>	<a href="#">Certificate of Amendment to the Amended and Restated Certificate of Incorporation of NexGel, Inc. (incorporated by reference to Exhibit 3.1 to the Current Report on Form 8-K, filed with the SEC on May 29, 2020)</a>
<a href="#">3.6</a>	<a href="#">Certificate of Amendment to the Amended and Restated Certificate of Incorporation of NexGel, Inc. (incorporated by reference to Exhibit 3.1 to the Current Report on Form 8-K, filed with the SEC on August 2, 2021)</a>
<a href="#">3.7</a>	<a href="#">Amended and Restated Bylaws of AquaMed Technologies, Inc. (incorporated by reference to Exhibit 3.5 to Amendment No. 1 to Form S-1, filed with the SEC on March 11, 2019).</a>
<a href="#">31.1*</a>	<a href="#">Certification of Chief Executive Officer Pursuant to Section 302 of Sarbanes-Oxley Act of 2002.</a>
<a href="#">31.2*</a>	<a href="#">Certification of Chief Financial Officer Pursuant to Section 302 of Sarbanes-Oxley Act of 2002.</a>
<a href="#">32.1*</a>	<a href="#">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.</a>
<a href="#">32.2*</a>	<a href="#">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.</a>
101*	The following materials from the Company’s Quarterly Report on Form 10-Q for the fiscal quarter March 31, 2022, formatted in iXBRL (Inline eXtensible Business Reporting Language), (i) Balance Sheets, (ii) Statements of Operations, (iii) Statements of Stockholders’ Equity, (iv) Statements of Cash Flows, and (v) Notes to the Financial Statements.
104*	Cover Page Interactive Data File (Embedded within the Inline XBRL document and included in Exhibit).

\* Filed herewith.

\*\* Certain exhibits and schedules have been omitted and the Company agrees to furnish supplementary to the Securities and Exchange Commission a copy of any omitted exhibits upon request.

**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.

Date: May 12, 2022

**NEXGEL, INC.**

By: /s/ Adam Levy

Name: Adam Levy

Title: Chief Executive Officer  
(Principal Executive Officer)

By: /s/ Adam E. Drapczuk III

Name: Adam E. Drapczuk III

Title: Chief Financial Officer  
(Principal Financial Officer)

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

I, Adam Levy, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of NexGel, 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 subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and
5. The registrant’s other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):
  - a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and
  - b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: May 12, 2022

By: /s/ Adam Levy  
Adam Levy  
Chief Executive Officer  
(Principal Executive Officer)

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

I, Adam E. Drapczuk III, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of NexGel, 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 subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 12, 2022

By: /s/ Adam E. Drapczuk III  
Adam E. Drapczuk III  
Chief Financial Officer  
(Principal Financial Officer)

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**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 nine months ended March 31, 2022, of NexGel, Inc. (the "Company"). I, Adam Levy, 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: May 12, 2022

By: /s/ Adam Levy

Name: Adam Levy

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.

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**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 nine months ended March 31, 2022 of NexGel, Inc. (the "Company"). I, Adam E. Drapczuk III, 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-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: May 12, 2022

By: /s/ Adam E. Drapczuk III

Name: Adam E. Drapczuk III

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.

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