

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended: **September 30, 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: **001-41173**

NexGel, Inc.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

26-4042544

(I.R.S. Employer
Identification Number)

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

(Address of principal executive office)

19047

(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 November 8, 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 SEPTEMBER 30, 2022 AND DECEMBER 31, 2021
(Unaudited)
(in thousands, except share and per share data)

	September 30, 2022	December 31, 2021
ASSETS:		
Current Assets:		
Cash and cash equivalents	\$ 1,427	\$ 13,350
Marketable securities	5,985	-
Accounts receivable, net	265	209
Inventory	399	291
Prepaid expenses and other current assets	239	77
Total current assets	8,315	13,927
Goodwill	311	311
Intangibles, net	23	33
Property and equipment, net	737	723
Operating lease - right of use asset	1,785	1,926
Other assets	63	63
Total assets	\$ 11,234	\$ 16,983
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	\$ 358	\$ 254
Accrued expenses and other current liabilities	164	62
Convertible notes payable	-	2,037
Notes payable, current portion	14	10
Warrant liability	372	318
Operating lease liability, current portion	207	207
Total current liabilities	1,115	2,888
Long-Term Liabilities:		
Operating lease liability, net of current portion	1,632	1,744
Notes payable, net of current portion	269	266
Total long-term liabilities	1,901	2,010
Total liabilities	3,016	4,898
Commitments and Contingencies (Note 14)	-	-
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, 25,000,000 shares authorized; 5,572,234 shares issued and outstanding as of both September 30, 2022 and December 31, 2021	6	6
Additional paid-in capital	19,122	18,891
Accumulated deficit	(10,910)	(6,812)
Total stockholders' equity	8,218	12,085
Total liabilities and stockholders' equity	\$ 11,234	\$ 16,983

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

NEXGEL, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2022 AND 2021
(Unaudited)
(in thousands, except share and per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Revenues, net	\$ 568	\$ 335	\$ 1,524	\$ 1,018
Cost of revenues	420	392	1,304	1,113
Gross (loss)/profit	148	(57)	220	(95)
Operating expenses				
Research and development	193	-	328	17
Selling, general and administrative	992	553	2,459	1,571
Total operating expenses	1,185	553	2,787	1,588
Loss from operations	(1,037)	(610)	(2,567)	(1,683)
Other expense, net				
Interest expense	(242)	(534)	(1,334)	(1,052)
Loss on debt extinguishment	-	-	(150)	(25)
Warrant modification expense	(57)	-	(57)	-
Debt discount costs	-	-	-	(68)
Other income	-	-	2	147
Gain on investments in marketable securities	5	-	5	-
Changes in fair value of warrant liability	104	2	3	10
Total other expense, net	(190)	(532)	(1,531)	(988)
Loss before income taxes	(1,227)	(1,142)	(4,098)	(2,671)
Income tax expense	-	-	-	-
Net loss	\$ (1,227)	\$ (1,142)	\$ (4,098)	\$ (2,671)
Net loss per common share - basic	\$ (0.22)	\$ (0.38)	\$ (0.74)	\$ (0.91)
Net loss per common share - diluted	\$ (0.22)	\$ (0.38)	\$ (0.74)	\$ (0.91)
Weighted average shares used in computing net loss per common share - basic	5,572,234	2,979,371	5,572,234	2,942,057
Weighted average shares used in computing net loss per common share - diluted	5,572,234	2,979,371	5,572,234	2,942,057

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

NEXGEL, INC.
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2022 AND 2021
(Unaudited)
(in thousands, except share data)

	<u>Common Stock</u>		<u>Additional Paid-in Capital</u>	<u>Accumulated Deficit</u>	<u>Total Stockholders' Equity</u>
	<u>Shares</u>	<u>Amount</u>			
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	5,572,234	6	18,946	(8,648)	10,304
Stock-based compensation	-	-	54	-	54
Restricted stock vesting	-	-	25	-	25
Net loss	-	-	-	(1,035)	(1,035)
Balance, June 30, 2022	5,572,234	6	19,025	(9,683)	9,348
Stock-based compensation	-	-	55	-	55
Restricted stock vesting	-	-	42	-	42
Net loss	-	-	-	(1,227)	(1,227)
Balance, September 30, 2022	<u>5,572,234</u>	<u>\$ 6</u>	<u>\$ 19,122</u>	<u>\$ (10,910)</u>	<u>\$ 8,218</u>

NEXGEL, INC.
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2022 AND 2021
(Unaudited)
(in thousands, except share data)

	<u>Common Stock</u>		<u>Additional Paid-in Capital</u>	<u>Accumulated Deficit</u>	<u>Total Stockholders' Equity</u>
	<u>Shares</u>	<u>Amount</u>			
Balance, January 1, 2021	2,838,047	\$ 3	\$ 2,570	\$ (2,502)	\$ 71
Stock-based compensation	-	-	69	-	69
Restricted stock vesting	-	-	21	-	21
Issuances of common stock, net of issuance costs	101,800	-	285	-	285
Warrants issued for debt issuance	-	-	(18)	-	(18)
Beneficial conversion and warrant features of convertible debt	-	-	1,276	-	1,276
Net loss	-	-	-	(704)	(704)
Balance, March 31, 2021	2,939,847	3	4,203	(3,206)	1,000
Stock-based compensation	-	-	74	-	74
Restricted stock vesting	39,524	-	21	-	21
Net loss	-	-	-	(825)	(825)
Balance, June 30, 2021	2,979,371	3	4,298	(4,031)	270
Stock-based compensation	-	-	24	-	24
Restricted stock vesting	-	-	21	-	21
Beneficial conversion and warrant features of convertible debt	-	-	1,311	-	1,311
Net loss	-	-	-	(1,142)	(1,142)
Balance, September 30, 2021	<u>2,979,371</u>	<u>\$ 3</u>	<u>\$ 5,654</u>	<u>\$ (5,173)</u>	<u>\$ 484</u>

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

NEXGEL, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2022 AND 2021
(Unaudited)
(in thousands)

	Nine Months Ended September 30,	
	2022	2021
Operating Activities		
Net loss	\$ (4,098)	\$ (2,671)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	84	206
Changes in ROU asset and operating lease liability	29	16
Share-based compensation	231	229
Changes in fair value of warrant liability	(3)	(10)
Amortization of deferred financing costs	1,325	1,058
Warrant modification expense	57	-
Loss on extinguishment of debt	150	25
Gain on investments in marketable securities	(5)	-
Forgiveness of debt	-	(147)
Beneficial conversion feature in excess of face value	-	52
Changes in operating assets and liabilities:		
Accounts receivable	(56)	(121)
Inventory	(108)	(28)
Prepaid expenses and other current assets	(162)	39
Accounts payable	104	(145)
Accrued expenses and other current liabilities	109	(21)
Deferred revenue	-	(38)
Net Cash Used in Operating Activities	(2,343)	(1,556)
Investing Activities		
Investment in marketable securities	(6,980)	-
Proceeds from sale of marketable securities	1,000	-
Capital expenditures	(88)	(390)
Net Cash Used in Investing Activities	(6,068)	(390)
Financing Activities		
Issuance of common stock, net of issuance costs	-	285
Proceeds from notes payable	-	15
Principal payment of notes payable	(3,512)	-
Proceeds from notes payable (PPP)	-	127
Proceeds from convertible notes	-	2,957
Payment of financing costs	-	(115)
Principal payment on convertible notes	-	(100)
Net Cash Provided by (Used In) Financing Activities	(3,512)	3,169
Net Increase (Decrease) in Cash and Cash Equivalents	(11,923)	1,223
Cash and Cash Equivalents – Beginning of period	13,350	32
Cash and Cash Equivalents – End of period	\$ 1,427	\$ 1,255
Supplemental Disclosure of Cash Flows Information		
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	\$ -	\$ 2,587
Original issue discounts recognized on convertible notes payable	\$ -	\$ 653
Warrants issued for debt and equity financing costs	\$ -	\$ 203
Operating lease, ROU assets and liabilities	\$ -	\$ 2,050

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 capability 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 condensed 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 interim unaudited condensed financial statements and footnotes of NexGel have been prepared in accordance with generally accepted accounting principles in the United States of America (“GAAP”) for interim financial information and the instructions to Rule 10-01 of Regulation S-X of the Securities and Exchange Commission (the “SEC”). Accordingly, they do *not* include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, these unaudited consolidated financial statements contain all adjustments, consisting of normal recurring adjustments, considered necessary for a fair presentation of the results of the interim periods, but are *not* necessarily indicative of the results of operations to be anticipated for the full year ending December 31, 2022. These financial statements should be read in conjunction with the audited financial statements and the notes thereto included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2021.

2. Going Concern

As of September 30, 2022, the Company had a cash balance of \$1.4 million (including cash equivalents) and \$6.0 million of marketable securities (see Note 3 for details of our marketable securities). For the nine months ended September 30, 2022, the Company incurred a net loss of \$4.1 million and had a net usage of cash in operating activities of \$2.3 million. In addition, the Company had a working capital of \$7.2 million as of September 30, 2022. Additionally, we believe we have sufficient cash and marketable securities to operate our business plan through 2024.

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 \$14.2 million.

Proceeds from the Offering 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 our 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 an allowances 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.

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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 and Cash Equivalents

Cash and cash equivalents is comprised of cash in banks and highly liquid investments, including U.S. treasury bills purchased with an original maturity of three months or less. Cash equivalents consist of investments in money market funds for which the carrying amount approximates fair value, due to the short maturities of these investments.

Marketable Securities

The Company classifies its marketable securities as held-to-maturity, which include U.S. treasury bills with original maturities of greater than three months. These securities are carried at cost. The total unrecognized gain related to the marketable securities was inconsequential during the nine months ended September 30, 2022.

	September 30, 2022
Marketable Securities	
United States treasury bills (due December 29, 2022)	\$ 494
United States treasury bills (due February 23, 2023)	492
United States treasury bills (due June 15, 2023)	4,387
United States treasury bills (due July 13, 2023)	127
United States treasury bills (due August 10, 2023)	485
Total	<u>\$ 5,985</u>

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 \$10 thousand as of September 30, 2022 and \$4 thousand as of December 31, 2021.

Inventory and Cost of Revenues

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 \$285 thousand, \$87 thousand, and \$27 thousand on September 30, 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. Inventory is maintained at the Company's warehouse and at an Amazon fulfillment center.

The Company produces proprietary branded products and white label opportunities in our manufacturing of consumer products. In our contract manufacturing, the Company builds its products based on customer orders and immediately ships the products upon completion of the production process.

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The “Cost of Revenues” line item in the consolidated statements of operations 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 and Cost of revenues, respectively. 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 \$98 thousand and \$23 thousand of prepaid insurance, and \$141 thousand and \$54 thousand general prepaid expenses and other current assets as of September 30, 2022 and December 31, 2021, respectively.

Other Assets

Other assets is recorded at historical costs, and as of September 30, 2022 and December 31, 2021, the balance is primarily made up of spare parts for manufacturing equipment. Spare parts 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.

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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.

The following table sets forth the fair value of the Company's financial assets within the fair value hierarchy:

	September 30, 2022			
	Level 1	Level 2	Level 3	Fair Value
Assets				
Marketable securities:				
United States treasury bills	\$ 5,985	\$ —	\$ —	\$ 5,985
Total	\$ 5,985	\$ —	\$ —	\$ 5,985

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 values of the warrants are 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 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.

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The Company currently recognizes revenue predominately from three types of revenue, contract manufacturing, custom and white label finished goods manufacturing and our branded products. Revenues from manufactured products are 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 Amazon retail customers. Revenues are entirely 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 September 30,	
	2022	2021
Contract manufacturing	\$ 277	\$ 180
Custom and white label finished goods manufacturing	15	-
NexGel branded consumer products	231	155
Other	45	-
Total	<u>\$ 568</u>	<u>\$ 335</u>

	Nine months ending September 30,	
	2022	2021
Contract manufacturing	\$ 736	\$ 559
Custom and white label finished goods manufacturing	34	194
NexGel branded consumer products	623	265
Other	131	—
Total	<u>\$ 1,524</u>	<u>\$ 1,018</u>

As of September 30, 2022 and December 31, 2021, the Company did not have any contract assets or contract liabilities from contracts with customers. As of September 30, 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, as amended (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.

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In June 2018, the Financial Accounting Standards Board (“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.

Recently Issued Accounting Standards

From time to time, new accounting pronouncements are issued by the 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 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 January 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 January 1, 2021.

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 adopted ASU 2019-12 effective January 1, 2021 and the adoption of this guidance did not 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.

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The following table presents information about the amount and timing of the liability arising from the Company's operating lease as of September 30, 2022 (\$ in thousands):

Maturity of Lease Liability	Operating Lease Liability
2022	\$ 52
2023	207
2024	207
2025	207
2026	263
Thereafter	1,165
Total undiscounted operating lease payments	\$ 2,101
Less: Imputed interest	(262)
Present value of operating lease liability	\$ 1,839
Weighted average remaining lease term	8.25 years
Weighted average discount rate	3.0%

Total operating lease expense for the nine months ending September 30, 2022 and 2021 was \$155 thousand and \$192 thousand, respectively, and is recorded in cost of revenues and selling, general and administrative expenses on the statement of operations.

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

	September 30, 2022
Cash paid for amounts included in the measurement of lease liability:	
Operating cash flows from operating lease	\$ 155

5. Inventory

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

	September 30, 2022	December 31, 2021
Raw materials	\$ 285	\$ 266
Work-in-progress	87	-
Finished goods	27	25
	399	291
Less: Inventory reserve for excess and slow moving inventory	—	—
Total	\$ 399	\$ 291

Inventory is maintained at the Company's warehouse and at an Amazon fulfillment center. The Company builds its contract manufacturing 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)	September 30, 2022	December 31, 2021
Machinery and equipment	3 - 10	\$ 972	\$ 940
Office furniture and equipment	3 - 10	59	50
Leasehold improvements	6	228	228
Construction in progress	-	48	-
		1,307	1,218
Less: accumulated depreciation and amortization		(570)	(495)
Property and equipment, net		\$ 737	\$ 723

Depreciation expense for the nine months ended September 30, 2022 and 2021 was \$74 thousand and \$75 thousand, respectively.

7. Intangible Assets

The following provides a breakdown of identifiable intangible assets as of September 30, 2022 and December 31, 2021 (\$ in thousands):

	September 30, 2022	December 31, 2021
Product/Technology Related		
Identifiable intangible assets, gross	\$ 31	\$ 31
Accumulated amortization	(24)	(16)
Product/Technology related identifiable intangible assets, net	<u>7</u>	<u>15</u>
Marketing Related		
Customer related intangible asset, gross	17	17
Tradenname related intangible asset, gross	7	7
Accumulated amortization	(8)	(6)
Marketing related identifiable intangible assets, net	<u>16</u>	<u>18</u>
Total identifiable intangible assets, net	<u>\$ 23</u>	<u>\$ 33</u>

In connection with the acquisition of Sport Defense in 2020, 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 3.7 years and amortization expense amounted to \$10 thousand for each of the nine months periods ended September 30, 2022 and 2021.

As of September 30, 2022, the estimated annual amortization expense for each of the next five fiscal years is as follows (\$ in thousands):

2022 (remainder of the year)	\$ 4
2023	8
2024	2
2025	2
2026	2
Thereafter	5
Total	<u>\$ 23</u>

8. Accrued Expenses and Other Current Liabilities

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

	September 30, 2022	December 31, 2021
Salaries, benefits, and incentive compensation	\$ 48	\$ 54
Franchise tax accrual	107	-
Other	9	8
Total accrued expenses and other current liabilities	<u>\$ 164</u>	<u>\$ 62</u>

9. Common Stock

Share issuances

In connection with the Offering 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, 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 with respect to the Offering 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 December 27, 2021.

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 \$2.80 for an aggregate purchase price of \$285 thousand.

At September 30, 2022, the Company has reserved common stock for issuance in relation to the following:

Share-based compensation plan	329,937
Warrants to purchase common stock	3,637,190

10. Share-based Compensation

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 September 30, 2022:

	Awards Reserved for Issuance	Awards Issued	Awards Exercised	Awards Available for Grant
2019 Plan	571,429	329,937	7,183	234,309

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The following table summarizes the Company's incentive stock option activity and related information for the period ended September 30, 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	(105,002)	1.40	—
Expired	—	—	—
Outstanding at September 30, 2022	329,937	\$ 1.763503	7.83
Exercisable at September 30, 2022	318,508	\$ 1.726311	7.81

As of September 30, 2022, vested outstanding stock options had \$169 thousand intrinsic value as the exercise price is greater than the estimated fair value of the underlying common stock. As of September 30, 2022, there was approximately \$85 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 September 30, 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

Effective as of August 1, 2022, the Company granted a restricted stock award of 84,750 shares of the Company's common stock to the certain officers and employees, all of which shares vest in four equal installments on each of January 1, 2023, January 1, 2024, January 1, 2025 and January 1, 2026. Under ASC 718, *Compensation-Stock Compensation* ("ASC 718"), the Company has measured the value of the 84,750 shares granted based on the closing price of the Company's stock at the grant date of the RSU Grant (\$1.82 per share).

Effective as of January 1, 2022, the Company granted a restricted stock award of 11,364 shares of the Company's common stock to Adam Levy for his service as our Chief Executive Officer pursuant to the terms of his Executive Employment Agreement dated November 4, 2021, all of which shares vested monthly from January 1, 2022 through December 31, 2022. Under ASC 718, the Company has measured the value of the 11,364 shares granted based on the closing price of the Company's stock at the grant date of the RSU Grant (\$4.40 per share).

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On March 8, 2021, the Company granted a restricted stock award of 39,524 shares of the Company’s common stock to 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, the Company has measured the value of the 39,524 shares granted based on the closing price of the Company’s stock at the grant date of the RSU Grant (\$2.10 per share).

	Number of Units	Weighted Average Grant Date Fair Value
Outstanding at January 1, 2022	—	\$ —
Granted	96,114	1.60
Exercised and converted to common shares	—	—
Forfeited	—	—
Outstanding at September 30, 2022	96,114	\$ 1.60
Exercisable at September 30, 2022	8,523	\$ 4.40

Warrants

The following table shows a summary of common stock warrants through September 30, 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 September 30, 2022	3,637,190	\$ 5.16281	3.90
Exercisable at September 30, 2022	3,637,190	\$ 5.16281	3.90

As of September 30, 2022, vested outstanding warrants had \$158 thousand intrinsic value as the exercise price is greater than the estimated fair value of the underlying common stock.

11. Notes Payable

PPP Loan

On April 22, 2020, the Company, entered into a promissory note with PNC Bank, N.A. (the “PNC 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. 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 Small Business Administration (“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 thousand 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. The SBA has since extended the repayment start to 30 months from the date of the SBA Note. The balances of the principal and accrued interest amounted to \$283 thousand and \$276 thousand as of September 30, 2022 and December 31, 2021, respectively.

12. Convertible Notes Payable

On December 24, 2020, the Company issued a \$100 thousand 6% Secured Convertible Promissory Note which was convertible into shares of the Company's common stock at a price per share of \$2.80. The note was fully repaid (including all accrued but unpaid interest) on March 14, 2021.

On January 19, 2021, the Company issued a \$15 thousand Secured Convertible Promissory Note which was convertible into shares of the Company's common stock at a price per share of \$1.05. The note was fully repaid (including all accrued but unpaid interest) on March 14, 2021.

Auctus Fund Financing

On March 11, 2021, the Company and Auctus Fund, LLC, a Delaware limited liability company ("Auctus") entered into a senior secured convertible promissory note in the principal amount of \$1,680 thousand, which includes \$180 thousand of interest which was deemed fully earned as of the issuance date (the "Auctus Note"). The Auctus Note was fully repaid (including all principal and interest) on March 15, 2022 with a one-time cash payment of \$1,680 thousand.

Investor Private Placement Offering

On September 2, 2021, the Company closed a private placement offering with twenty accredited investors (the "September 2 Investors") whereby the Company issued to the September 2 Investors subordinated secured convertible promissory notes in the aggregate principal amount of \$1,814 thousand, which includes \$194 thousand of interest which was deemed fully earned as of the issuance date (the "September 2 Notes").

On January 25, 2022, the Company repaid a September 2 Investor in full with a one-time cash payment of \$300 thousand of outstanding principal and accrued but unpaid interest. 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 September 6, 2022, the September 2 Notes remaining outstanding balance was repaid in full which consisted of principal and interest of \$1,478 thousand.

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, 7,428, 7,286, 44,286, 35,714 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, *Derivatives and Hedging*. 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 expense, net in the statement of operations.

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On September 6, 2022, the Company agreed to extend the September 10, 2019 and November 6, 2019 warrants an additional six months until March 9, 2023 and May 5, 2023, respectively. The warrants were remeasured as of September 6, 2022 and consequently resulted in a warrant modification expense of \$57 thousand.

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

Warrant Liability	Warrants Outstanding	Fair Value per Share	Fair Value
Fair Value as of period ending 12/31/2021	265,305		\$ 318
Modification of warrants			57
Change in fair value of warrant liability			(3)
Fair Value as of period ending 9/30/2022	265,305		\$ 372

The warrant liabilities are considered Level 3 liabilities on the fair value hierarchy as the determination of fair value includes various assumptions about future activities and the Company's stock prices and historical volatility of other comparable public companies used as inputs. As of September 30, 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 two customers that exceeded 10% of total revenues for the nine months ended September 30, 2022 were 39% and 27%. The accounts receivable from the top two customers by revenue were 6%, and 53%, respectively, as well as 17% and 19% from two other customers of the total accounts receivable as of September 30, 2022.

Revenues from three customers that exceeded 10% of total revenues for the nine months ended September 30, 2021 were 33%, 38%, and 24%. The accounts receivable from the top three customers by revenue were 16%, 17%, and 0%, respectively, as well as 18% from one other customer of the total accounts receivable as of September 30, 2021.

The Company's financial instruments that are exposed to concentrations of credit risk consist primarily of cash, cash equivalents and marketable securities. 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 thousand. As of September 30, 2022, the total amount exceeding such limit was \$1,156 thousand. The Company has not experienced any credit losses associated with its cash balances in the past. The Company invests its cash equivalents in U.S. treasury bills with original maturities of three months or less.

Marketable securities are comprised of U.S. treasury bills with original maturities greater than three months. The Company has not experienced any losses in such accounts. The Company believes it is not exposed to any significant credit risk on cash, cash equivalents, and marketable securities and performs periodic evaluations of the credit standing of such institutions.

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.

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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 capability 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 September 30, 2022 and 2021

Revenues, net.

For the three months ended September 30, 2022 revenues were \$568 thousand and increased by \$233 thousand, or 69.6%, when compared to \$335 thousand for the three months ended September 30, 2021. The increase in our overall revenues was primarily due to sales growth in branded consumer products and our contract manufacturing products.

Gross profit (loss). Our gross profit was \$148 thousand for the three months ended September 30, 2022 compared to a gross loss of \$57 thousand for the three months ended September 30, 2021. The profit recorded for the three months ended September 30, 2022, as compared to a loss recorded for the three months ended September 30, 2021, was primarily due to the higher volume of contract manufacturing sales against fixed costs. Gross profit was approximately 26% for the three months ended September 30, 2022 compared to a gross loss of (17)% for the three months ended September 30, 2021. The Company anticipates continued improvement in gross margins due to both increased revenue against fixed facility expenses and larger productions runs on commercially proven products.

The components of cost of revenues are as follows for the three months ended September 30, 2022 and 2021 (\$ in thousands):

	Three Months Ended September 30,	
	2022	2021
Cost of revenues		
Materials and finished products	\$ 113	\$ 121
Compensation and benefits	176	157
Depreciation and amortization	20	22
Equipment, production and other expenses	111	92
Total cost of revenues	<u>\$ 420</u>	<u>\$ 392</u>

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Cost of revenues increased by \$28 thousand, or 7.1%, to \$420 thousand for the three months ended September 30, 2022, as compared to \$392 thousand for the three months ended September 30, 2021. The increase in cost of revenues is primarily aligned with the revenue growth 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 September 30, 2022 and 2021 (\$ in thousands):

	Three Months Ended September 30,	
	2022	2021
Selling, general and administrative expenses		
Compensation and benefits	\$ 118	\$ 87
Share-based compensation	85	45
Depreciation and amortization	4	3
Other expenses and professional fees	785	418
Total Selling, general and administrative expenses	<u>\$ 992</u>	<u>\$ 553</u>

Selling, general and administrative expenses increased by \$439 thousand, or 79.4%, to \$992 thousand for the three months ended September 30, 2022, as compared to \$553 thousand for the three months ended September 30, 2021. The increase in selling, general and administrative expenses is primarily attributable to an increase of franchise tax expense, increased research and development investment and the costs for professional fees and other administrative expenses in the current period associated with public company governance requirements. The exceptionally high franchise tax charge of \$220 thousand was due to the company's IPO and related increase in gross assets. In August of 2022 the Company reduced its authorized shares at its annual stockholders' meeting. The result of this reduction, assuming a similar asset base as the Company currently has will reduce the 2023 franchise tax liability to approximately \$28 thousand.

Compensation and benefits increased by \$31 thousand, or 35.6%, to \$118 thousand for the three months ended September 30, 2022, as compared to \$87 thousand for the three months ended September 30, 2021. The number of employees increased compared to the prior period and officer compensation increased in conjunction with contract renewals.

Share-based compensation increased by \$40 thousand, or 88.9%, to \$85 thousand for the three months ended September 30, 2022, as compared to \$45 thousand for the three months ended September 30, 2021. The share-based compensation related to the issuance of restricted stock awards and options to our CEO, restricted stock awards to all employees and options to board members, employees, and advisors.

Other expenses and professional fees increased by \$367 thousand, or 87.8%, to \$785 thousand for the three months ended September 30, 2022 from \$418 thousand for the three months ended September 30, 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. 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 primarily due to the increase in professional fees in connection with our in the NASDAQ up-listing on December 27, 2021.

Research and development expenses. Research and development expenses increased by \$193 thousand for the three months ended September 30, 2022 from \$0 for the three months ended September 30, 2021. The increase is due to the initiation of two proof of concept studies for drug delivery candidates utilizing our hydrogel technology.

Comparison of the Nine Months ended September 30, 2022 and 2021

Revenues, net.

For the nine months ended September 30, 2022 revenues were \$1,524 thousand and increased by \$506 thousand, or 49.7%, when compared to \$1,018 thousand for the nine months ended September 30, 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 profit was \$220 thousand for the nine months ended September 30, 2022 compared to a gross loss of \$(95) thousand for the nine months ended September 30, 2021. The profit recorded for the nine months ended September 30, 2022, as compared to a loss recorded for the nine months ended September 30, 2021, was primarily due to the higher volume of contract manufacturing sales against fixed costs. Gross profit was approximately 14.4% for the nine months ended September 30, 2022 compared to a gross loss of (9.3)% for the nine months ended September 30, 2021. The components of cost of revenues are as follows for the nine months ended September 30, 2022 and 2021 (\$ in thousands):

	Nine Months Ended September 30,	
	2022	2021
Cost of revenues		
Materials and finished products	\$ 403	\$ 351
Compensation and benefits	518	419
Depreciation and amortization	63	65
Equipment, production and other expenses	320	278
Total cost of revenues	<u>\$ 1,304</u>	<u>\$ 1,113</u>

Cost of revenues increased by \$191 thousand, or 17.2%, to \$1,304 thousand for the nine months ended September 30, 2022, as compared to \$1,113 thousand for the nine months ended September 30, 2021. The increase in cost of revenues is primarily aligned with the new product line growth in the current year.

Selling, general and administrative expenses. The following table highlights selling, general and administrative expenses by type for the nine months ended September 30, 2022 and 2021 (\$ in thousands):

	Nine Months Ended September 30,	
	2022	2021
Selling, general and administrative expenses		
Compensation and benefits	\$ 379	\$ 259
Share-based compensation	219	230
Depreciation and amortization	11	10
Other expenses and professional fees	1,850	1,072
Total Selling, general and administrative expenses	<u>\$ 2,459</u>	<u>\$ 1,571</u>

Selling, general and administrative expenses increased by \$888 thousand, or 56.5%, to \$2,459 thousand for the nine months ended September 30, 2022, as compared to \$1,571 thousand for the nine months ended September 30, 2021. The increase in selling, general and administrative expenses is primarily attributable to our costs for professional fees and other administrative expenses in the current period associated with public company governance requirements.

Compensation and benefits increased by \$120 thousand, or 46.3%, to \$379 thousand for the nine months ended September 30, 2022, as compared to \$259 thousand for the nine months ended September 30, 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 \$11 thousand, or 4.8%, to \$219 thousand for the nine months ended September 30, 2022, as compared to \$230 thousand for the nine months ended September 30, 2021. The share-based compensation related to the issuance of restricted stock awards and options to our CEO, restricted stock awards to all employees and options to board members, employees, and advisors.

Other expenses and professional fees increased by \$778 thousand, or 72.6%, to \$1.9 million for the nine months ended September 30, 2022 from \$1.1 million for the nine months ended September 30, 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. 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 primarily due to the increase in professional fees in connection with our in the NASDAQ up-listing on December 27, 2021.

Research and development expenses. Research and development expenses increased by \$311 thousand to \$328 thousand for the nine months ended September 30, 2022 from \$17 thousand for the nine months ended September 30, 2021. The increase is due to the initiation of two proof of concept studies for drug delivery candidates utilizing our hydrogel technology as well as continuing development on the NEXDrape medical device.

Liquidity and Capital Resources**Cash Flow
(in thousands)**

	September 30, 2022	September 30, 2021
Net cash used in operating activities	\$ (2,343)	\$ (1,556)
Net cash used in investing activities	(6,068)	(390)
Net cash provided by (used in) financing activities	(3,512)	3,169
Net increase (decrease) in cash and cash equivalents	(11,923)	1,223
Cash and cash equivalents at beginning of period	13,350	32
Cash and cash equivalent at end of period	\$ 1,427	\$ 1,255

As of September 30, 2022, we had \$1.4 million of cash and cash equivalents and \$6.0 million of marketable securities, compared to \$13.4 million of cash at December 31, 2021. Net cash used in operating activities was \$2.3 million and \$1.6 million for the nine months ended September 30, 2022 and 2021, respectively. See Notes 2 and 3 of our financial statements above for a more detailed discussion of our marketable securities.

Net cash used in investing activities was \$6,068 thousand and \$390 thousand for the nine months ended September 30, 2022 and 2021, respectively, consisting of investments in marketable securities of \$6,980 thousand, the sale of marketable securities for \$1,000 thousand, and purchases of capital equipment of \$88 thousand for the nine months ended September 30, 2022 and purchases of capital equipment of \$390 thousand in the prior year period.

Net cash used by financing activities for the nine months ended September 30, 2022 was \$3.5 million which is attributable to the principal payments of convertible notes of \$3.5 million. For the nine months ended September 30, 2021 cash flows from financing activities were \$3.2 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 \$127 thousand and convertible notes payable, net of \$2.8 million, net of costs and principal payments of convertible notes of \$100 thousand.

At September 30, 2022, current assets totaled \$8.3 million and current liabilities totaled \$1.1 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 \$7.2 million at September 30, 2022, compared to a working capital of \$11.0 million at December 31, 2021. The decrease in the working capital as of September 30, 2022 is primarily attributable to the repayment of convertible notes payable of \$3.5 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 December 27, 2021. On December 27, 2021, 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.

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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 Condensed 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. Furthermore, the remaining September 2 Notes' were fully repaid (including all principal and interest) on September 6, 2022 with a one-time cash payment of \$1.5 million.

On March 11, 2021, the Company and Auctus entered into a senior secured convertible promissory note in the principal amount of \$1,680 thousand, which includes \$180 thousand of interest which was deemed fully earned as of the issuance date. The Auctus Note was fully repaid (including all principal and interest) on March 15, 2022 with a one-time cash payment of \$1,680 thousand.

We have never declared or paid any cash dividends on our common stock. For the foreseeable future, we anticipate that all available funds 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 believe we have sufficient cash and marketable securities to operate our business plan through 2024. We intend to maintain and attempt to grow our existing contract manufacturing business. We also plan to continue building and developing our 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 September 30, 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 (v) 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 September 30, 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 September 30, 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 September 30, 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, we may become involved in lawsuits, investigations and claims that arise in the ordinary course of business. As of the date of this filing, we are neither a party to any litigation nor are we aware of any such threatened or pending litigation that might result in a material adverse effect to our business.

ITEM 1A. RISK FACTORS

There have been no material changes to our risk factors as previously disclosed in our most recent Form 10-K filing.

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

Exhibit No.	Description
3.1	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).
3.2	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).
3.3	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).
3.4	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)
3.5	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)
3.6	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)
3.7	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).
31.1*	Certification of Chief Executive Officer Pursuant to Section 302 of Sarbanes-Oxley Act of 2002.
31.2*	Certification of Chief Financial Officer Pursuant to Section 302 of Sarbanes-Oxley Act of 2002.
32.1*	Certification of Chief Executive Officer Pursuant to Section 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2*	Certification of Chief Financial Officer Pursuant to Section 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101*	The following materials from the Company’s Quarterly Report on Form 10-Q for the fiscal quarter June 30, 2021, 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: November 8, 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: November 8, 2022

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

**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: November 8, 2022

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

**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 September 30, 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: : November 8, 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.

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

This certification is furnished solely pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350) and accompanies the Quarterly Report on Form 10-Q (the "Form 10-Q") for the three months ended September 30, 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: November 8, 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.
