

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

**FORM 10-Q**

(Mark One)

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

For the quarterly period ended: **March 31, 2024**

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 nonaccelerated 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

Non-accelerated filer

Smaller reporting company

Accelerated filer

Emerging growth company

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

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

As of May 13, 2024, the registrant had 6,227,624 shares of common stock outstanding.

NEXGEL, INC.

TABLE OF CONTENTS

PART I – FINANCIAL INFORMATION

ITEM 1.	<a href="#">Condensed Consolidated Financial Statements (Unaudited)</a>	3
	<a href="#">Condensed Consolidated Balance Sheets as of March 31, 2024 and December 31, 2023</a>	3
	<a href="#">Condensed Consolidated Statements of Operations for the Three Months Ended March 31, 2024 and 2023</a>	4
	<a href="#">Condensed Consolidated Statements of Stockholders' Equity for the Three Months Ended March 31, 2024 and 2023</a>	5
	<a href="#">Condensed Consolidated Statements of Cash Flows for the Three Months Ended March 31, 2024 and 2023</a>	6
	<a href="#">Notes to Condensed Consolidated Financial Statements</a>	7
ITEM 2.	<a href="#">Management's Discussion and Analysis of Financial Condition and Results of Operations</a>	28
ITEM 3.	<a href="#">Quantitative and Qualitative Disclosures About Market Risk</a>	34
ITEM 4.	<a href="#">Controls and Procedures</a>	34

PART II – OTHER INFORMATION

ITEM 1.	<a href="#">Legal Proceedings</a>	34
ITEM 1A.	<a href="#">Risk Factors</a>	34
ITEM 2.	<a href="#">Unregistered Sales of Equity Securities and Use of Proceeds</a>	35
ITEM 3.	<a href="#">Defaults Upon Senior Securities</a>	35
ITEM 4.	<a href="#">Mine Safety Disclosures</a>	35
ITEM 5.	<a href="#">Other Information</a>	35
ITEM 6.	<a href="#">Exhibits</a>	36
	<a href="#">Signatures</a>	37

**PART I – FINANCIAL INFORMATION**
**ITEM 1. FINANCIAL STATEMENTS**

**NEXGEL, INC**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**  
**AS OF MARCH 31, 2024 AND DECEMBER 31, 2023**  
**(Unaudited)**  
*(in thousands, except share and per share data)*

	<b>March 31, 2024</b>	<b>December 31, 2023</b>
<b>ASSETS:</b>		
Current Assets:		
Cash	\$ 2,419	\$ 2,700
Accounts receivable, net	739	633
Inventory	1,369	1,319
Prepaid expenses and other current assets	336	400
<b>Total current assets</b>	<b>4,863</b>	<b>5,052</b>
Goodwill	1,128	1,128
Intangibles, net	302	326
Property and equipment, net	2,194	1,499
Operating lease - right of use asset	1,803	1,855
Other assets	95	95
<b>Total assets</b>	<b>\$ 10,385</b>	<b>\$ 9,955</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current Liabilities:		
Accounts payable	\$ 1,053	\$ 1,233
Accrued expenses and other current liabilities	111	398
Deferred revenue	250	20
Current portion of note payable	87	80
Warrant liability	255	146
Contingent consideration liability	439	439
Financing lease liability, current portion	55	-
Operating lease liabilities, current portion	233	233
<b>Total current liabilities</b>	<b>2,483</b>	<b>2,549</b>
Operating lease liabilities, net of current portion	1,682	1,727
Financing lease liability, net of current portion	352	-
Notes payable, net of current portion	663	513
<b>Total liabilities</b>	<b>5,180</b>	<b>4,789</b>
Commitments and Contingencies (Note 16)	-	-
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; 6,227,624 and 5,741,838 shares issued and outstanding as of March 31, 2024 and December 31, 2023, respectively	6	6
Additional paid-in capital	20,350	19,406
Accumulated deficit	(15,568)	(14,715)
<b>Total NexGel stockholders' equity</b>	<b>4,788</b>	<b>4,697</b>
Non-controlling interest in joint venture	417	469
<b>Total stockholders' equity</b>	<b>5,205</b>	<b>5,166</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 10,385</b>	<b>\$ 9,955</b>

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

**NEXGEL, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**  
**FOR THE THREE MONTHS ENDED MARCH 31, 2024 AND 2023**  
**(Unaudited)**  
*(in thousands, except share and per share data)*

	Three months ended	
	March 31,	
	2024	2023
Revenues, net	\$ 1,266	\$ 620
Cost of revenues	989	677
Gross margin (loss)	277	(57)
Operating expenses		
Research and development	2	29
Selling, general and administrative	1,146	797
Total operating expenses	1,148	826
Loss from operations	(871)	(883)
Other income (expense)		
Interest income (expense), net	(15)	(1)
Changes in fair value of warrant liability and warrant modification expense	(53)	66
Gain on investment in marketable securities	34	7
Other income	—	4
Total other income (expense), net	(34)	76
Loss before income taxes	(905)	(807)
Income tax expense	—	—
Net loss	(905)	(807)
Less: Income (loss) attributable to non-controlling interest in joint venture	(52)	7
Net loss attributable to NexGel stockholders	\$ (853)	\$ (814)
Net loss per common share - basic	\$ (0.14)	\$ (0.15)
Net loss per common share - diluted	\$ (0.14)	\$ (0.15)
Weighted average shares used in computing net loss per common share - basic	5,982,062	5,586,326
Weighted average shares used in computing net loss per common share – diluted	5,982,062	5,586,326

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

**NEXGEL, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**  
**FOR THE THREE MONTHS ENDED MARCH 31, 2024 AND 2023**  
**(Unaudited)**  
*(in thousands, except share data)*

	<u>Common Stock</u>		<u>Additional Paid-in Capital</u>	<u>Non- controlling Interest</u>	<u>Accumulated Deficit</u>	<u>Total Stockholders' Equity</u>
	<u>Shares</u>	<u>Amount</u>				
Balance, January 1, 2024	5,741,838	\$ 6	\$ 19,406	\$ 469	\$ (14,715)	\$ 5,166
Share-based compensation and restricted stock vesting	—	—	54	—	—	54
Rights offering proceeds, net of expenses	485,786	—	946	—	—	946
Issuance of placement agent warrants in conjunction with the rights offering	—	—	(56)	—	—	(56)
Net loss	—	—	—	(52)	(853)	(905)
Balance, March 31, 2024	<u>6,227,624</u>	<u>\$ 6</u>	<u>\$ 20,350</u>	<u>\$ 417</u>	<u>\$ (15,568)</u>	<u>\$ 5,205</u>
	<u>Common Stock</u>		<u>Additional Paid-in Capital</u>	<u>Non- controlling Interest</u>	<u>Accumulated Deficit</u>	<u>Total Stockholders' Equity</u>
	<u>Shares</u>	<u>Amount</u>				
Balance, January 1, 2023	5,577,916	\$ 6	\$ 19,189	\$ -	\$ (11,558)	\$ 7,637
Restricted stock vesting	5,682	—	24	—	—	24
Exercise of warrants	30,430	—	—	—	—	—
Non-controlling interest in JV	—	—	—	500	—	500
Net income (loss)	—	—	—	7	(814)	(807)
Balance, March 31, 2023	<u>5,614,028</u>	<u>\$ 6</u>	<u>\$ 19,213</u>	<u>\$ 507</u>	<u>\$ (12,372)</u>	<u>\$ 7,354</u>

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

NEXGEL, INC.  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE THREE MONTHS ENDED MARCH 31, 2024 AND 2023**  
(Unaudited)  
(in thousands)

	Three Months Ended March 31,	
	2024	2023
<b>Operating Activities</b>		
Net loss	\$ (853)	\$ (814)
Adjustments to reconcile net loss to net cash used in operating activities:		
Income (loss) attributable to non-controlling interest in joint venture	(52)	7
Depreciation and amortization	62	31
Share-based compensation and restricted stock vesting	54	24
Gain on investment in marketable securities	(34)	7
Changes in fair value of warrant liability	53	(66)
Amortization of right of use asset	52	49
Changes in operating assets and liabilities:		
Accounts receivable	(106)	(158)
Inventory	(50)	(466)
Prepaid expenses and other assets	64	11
Accounts payable	(180)	722
Accrued expenses and other current liabilities	(287)	(18)
Deferred revenue	230	—
Operating lease liability	(45)	(38)
<b>Net Cash Used in Operating Activities</b>	<b>(1,092)</b>	<b>(709)</b>
<b>Investing Activities</b>		
Proceeds from sales of marketable securities	34	485
Capital expenditures	(152)	(88)
<b>Net Cash Provided by (Used in) Investing Activities</b>	<b>(118)</b>	<b>397</b>
<b>Financing Activities</b>		
Proceeds from rights offering, net of expenses	946	—
Principal payment on financing lease liability	(9)	—
Principal payments of notes payable	(8)	(2)
<b>Net Cash Provided by (Used in) Financing Activities</b>	<b>929</b>	<b>(2)</b>
<b>Net Decrease in Cash</b>	<b>(281)</b>	<b>(314)</b>
Cash – Beginning of period	2,700	1,101
Cash – End of period	<u>\$ 2,419</u>	<u>\$ 787</u>
<b>Supplemental Disclosure of Cash Flows Information</b>		
Cash paid during the year for:		
Interest	\$ 10	\$ —
Taxes	\$ —	\$ —
Supplemental Non-cash Investing and Financing activities		
Property and equipment financed under notes payable	\$ 165	\$ —
Property and equipment financed under financing leases	\$ 416	\$ —
Property and equipment contributed as capital investment to JV	\$ —	\$ 500
ROU asset and operating lease liabilities recognized upon consolidation of JV	\$ —	\$ 334

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 and Basis of Presentation**

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. The Company has historically served as a contract manufacturer, supplying our gels to third parties who incorporate them into their own products. Beginning in 2020, we created two new lines of business for the Company. First, we launched our own line of branded consumer products sold direct to consumers. Second, we expanded into custom and white label opportunities, which focuses on combining our gels with proprietary branded products and white label opportunities. All of our gel products are manufactured using proprietary and non-proprietary mixing, coating and cross-linking technologies. Together, these technologies enable us to produce gels that can satisfy rigid tolerance specifications with respect to a wide range of physical characteristics (e.g., thickness, water content, adherence, absorption, moisture vapor transmission rate [a measure of the passage of water vapor through a substance] and release rate) while maintaining product integrity. Additionally, we have the manufacturing ability to offer broad choices in the selection of liners onto which the gels are coated. Consequently, the Company and its 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.

On March 1, 2023, the Company acquired a 50% interest in a newly formed joint venture (“JV”), CG Converting and Packaging, LLC (“CGN”), with C.G. Laboratories Inc. (“CG Labs”) for its converting and packaging business. The JV is effective March 1, 2023. As a result of this transaction, the Company owns 50% of the JV, with the remaining 50% held by CG Labs.

Beginning in December 2023, the Company expanded their product portfolio to include the Kenkoderm brand. Kenkoderm is a skincare line focused on reducing symptoms associated with psoriasis. Kenkoderm products do not utilize our gel technology and are manufactured by third parties.

**Basis of Presentation**

The accompanying interim unaudited condensed consolidated 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 (“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 condensed 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, 2024. These condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and the notes thereto included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2023.

**Principles of Consolidation**

The accompanying condensed consolidated financial statements include the accounts of the Company and its condensed consolidated wholly-owned subsidiary, NexGelRx, Inc. and the fifty percent (50%) owned JV (see Note 5).

**2. Going Concern**

As of March 31, 2024, the Company had a cash balance of \$2.4 million. For the three months ended March 31, 2024, the Company incurred a net loss of \$0.9 million and had a net usage of cash in operating activities of \$1.1 million. In addition, the Company had a working capital of \$2.4 million as of March 31, 2024. Additionally, we believe we have sufficient cash and marketable securities to operate our business plan into 2025.

## [Table of Contents](#)

On February 15, 2024, the Company, entered into subscription agreements with investors, the Company's Chief Financial Officer and certain members of its board of directors for a registered direct offering ("RDO") of the Company's common stock. The RDO sold an aggregate 242,891 units at a price to the public of \$4.22 per unit, with each unit consisting of two shares of the Company's common stock, and a warrant to purchase one share of common stock at an exercise price of \$4.00 per share. The \$4.22 purchase price equals two times the last reported sale price of \$2.11 per share of the Company's common stock on February 15, 2024 on The Nasdaq Capital Market. The gross proceeds to the Company from the RDO were \$1.025 million, before deducting the placement agent's fees and other offering expenses payable by the Company, and excluding the proceeds, if any, from the exercise of the warrants. The Company intends to use the net proceeds from the RDO for working capital and for general corporate purposes.

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

We have sufficient capital to maintain as a going concern due to the recent capital raise. 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 condensed consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded assets and liabilities that might be necessary should we be unable to continue as a going concern. Additionally, it is reasonably possible that estimates made in the condensed 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 condensed consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the condensed consolidated financial statements and accompanying notes. These estimates and assumptions include allowances for credit losses, inventory reserves, deferred taxes, share-based compensation and related valuation allowances and fair value of long-lived assets. Actual results could differ from the estimates.

#### *Reclassifications*

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

#### *Segment Reporting*

The Financial Accounting Standards Board ("FASB") Accounting Standard Codification ("ASC") Topic 280, *Segment Reporting*, requires that an enterprise report selected information about reportable segments in its financial reports issued to its stockholders. The Company has two reportable segments - the NexGel segment and the CGN segment.

The NexGel segment is comprised of the manufacturing of ultra-gentle, high-water-content hydrogel products for healthcare and consumer applications, which is based in Langhorne, Pennsylvania.



[Table of Contents](#)

The CGN segment is comprised of the JV used for the Company's converting and packaging business, which is based in Granbury, Texas.

*Cash*

Cash 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 as well as investments in money market funds for which the carrying amount approximates fair value, due to the short maturities of these investments.

*Margin Line of Credit*

The Company has a brokerage account through which it can buy and sell U.S. treasury bills. The provisions of the account allow us to borrow on certain securities held in the account and to purchase additional securities based on the account equity (including cash). Amounts borrowed are collateralized by the securities held in the account and bear interest at a negotiated rate payable monthly. Securities pledged to secure margin balances cannot be specifically identified as a portion of all securities held in a brokerage account are used as collateral. As of December 31, 2023, there was \$245 thousand outstanding under this short-term credit line which is included in accrued expenses and other current liabilities within the accompanying condensed consolidated balance sheet (see Note 10). The margin line credit line was repaid in January 2024 and there is no outstanding balance under the credit line as of March 31, 2024.

*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 credit losses based on factors including the length of time the receivables are past due, the customer's payment history, the credit quality of the customer and other factors that may affect the customers' ability to pay. 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 credit losses was \$12 thousand as of March 31, 2024 and \$11 thousand as of December 31, 2023.

*Inventory and Cost of Revenues*

The inventory balance 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 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.

The inventory balance is made up of raw materials, work-in-progress, and finished goods. Inventory is maintained at the Company's warehouses and at fulfillment centers owned by Amazon, Walmart and CVS.

The "Cost of revenues" line item in the condensed 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 condensed consolidated statements of operations in revenues and cost of revenues, respectively. Shipping revenue and expense are primarily generated through 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 year of disposal and any resulting gains and losses are included in the results of operations during the same year.

*Impairment of Long-Lived Assets*

The Company reviews its property and equipment and any identifiable intangibles for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to the future undiscounted operating cash flow expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the asset exceeds the fair value of the asset. Long-lived assets to be disposed of are reported at the lower of carrying amount or fair value less costs to sell.

*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 the acquisition date or annually as of December 31, and whenever indicators of impairment exist. The fair value of intangible assets is 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 and no impairments were recognized in the year ended December 31, 2023.

*Prepaid Expenses and Other Current Assets*

Prepaid expenses and other current assets are recorded at historical cost and are primarily made up of \$38 thousand and \$64 thousand of prepaid insurance, and \$298 thousand and \$336 thousand general prepaid expenses and other current assets as of March 31, 2024 and December 31, 2023, respectively.

*Other Assets*

Other assets are recorded at historical costs, and as of March 31, 2024 and December 31, 2023, the balance is primarily comprised of spare parts for manufacturing equipment. Spare parts are not subject to depreciation until such time that they are placed into service and the part that is being replaced is disposed.

*Fair Value Measurements*

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

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

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

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

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

*Warrant Liability*

Warrants to purchase common stock were issued in connection with equity financing raises, which occurred during 2019 through 2024. The fair values of the warrants are estimated as of the date of issuance and again at each year end using a Black-Scholes option valuation model. At issuance, the fair values of the warrant 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 condensed consolidated statements of operations.

*Revenue Recognition*

The Company records revenue in accordance with 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 currently recognizes revenue predominately from three sources, 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.

[Table of Contents](#)

Disaggregated revenue by sales type (\$ in thousands):

	Three months ended	
	March 31,	
	2024	2023
Contract manufacturing	\$ 601	\$ 380
Custom and white label finished goods manufacturing	31	4
Consumer branded products	617	222
Other	17	14
Total	\$ 1,266	\$ 620

As of March 31, 2024 and December 31, 2023, the Company did not have any contract assets or contract liabilities from contracts with customers and there were no remaining performance obligations that the Company had not satisfied except for deferred revenue of \$250 thousand and \$20 thousand at March 31, 2024 and December 31, 2023, respectively, that the Company had not satisfied as of the end of the respective period.

The Company has four distinct lines of business; Contract Manufacturing, Custom & White Label, Consumer Branded Products, and Medical Devices/Other.

#### *Contract Manufacturing*

Customers order rolls of gel (“rollstock”). The rollstock is shipped to our customers, which they package into finished goods. Historically, this has been the Company’s primary source of revenue.

#### *Custom and White Label*

These products often infuse various ingredients into our base gel to develop unique product offerings to satisfy market demand (e.g. aloe infused into the gel for a beauty mask). The rollstock is converted and packaged into salable units. The finished goods are shipped to the customer, who is ultimately responsible for product distribution. Frequently these products started as development deals, in which the customer paid the Company a small fee to develop a specific product. Once completed, the customer places a large order for newly developed product.

#### *Consumer Branded Products*

These products are finished goods marketed and sold directly to the customer by the Company through online and retail channels. The Company is responsible for sales, marketing, and distribution. These products carry the Company’s brand names, which include Medagel, Lumagel Beauty, and Kenkoderm.

#### *Medical Devices*

Medical Devices are a hybrid business, combining elements of Custom and White Label and Consumer Branded Products. Medical Devices, which are not yet marketed, are expected to be distributed through strategic partnerships. The Company will manufacture and possibly convert/package the device while the strategic partner brings the product to market. Small market Medical Devices could be launched by the Company, but also be offered to a distributor to reach the full scale of the market.

#### *Share-based Compensation*

On August 28, 2019, the Company adopted the 2019 Long-Term Incentive Plan, as amended (the “2019 Plan”). See Note 13 below for further details regarding the 2019 Plan.

## [Table of Contents](#)

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 condensed consolidated statements of operations on a straight-line basis over the requisite service period, which is generally the vesting period.

### *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.

Tax benefits are recognized from an uncertain tax position only if it is more likely than not that the tax position will be sustained upon examination by a tax authority and based upon the technical merits of the tax position. The tax benefit recognized in the condensed consolidated financial statements for a particular tax position is based on the largest benefit that is more likely than not to be realized upon settlement. An unrecognized tax benefit, or a portion thereof, is presented in the condensed consolidated financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward if such settlement is required or expected in the event the uncertain tax position is disallowed.

### *Leases*

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

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

### *Variable Interest Entity*

The Company reviews each legal entity formed by parties related to the Company to determine whether or not the Company has a variable interest in the entity and whether or not the entity would meet the definition of a variable interest entity (“VIE”) in accordance with ASC Topic 810, *Consolidation*. In assessing whether the Company has a variable interest in the entity as a whole, the Company considers and makes judgements regarding the purpose and design of the entity, the value of the licensed assets to the entity, the value of the entity’s total assets and the significant activities of the entity. If the Company has a variable interest in the entity as a whole, the Company assesses whether or not the Company is a primary beneficiary of that VIE, based on a number of factors, including: (i) which party has the power to direct the activities that most significantly affect the VIE’s economic performance, (ii) the parties’ contractual rights and responsibilities pursuant to the collaboration agreement, and (iii) which party has the obligation to absorb losses of or the right to receive benefits from the VIE that could be significant to the VIE.

## [Table of Contents](#)

If the Company determines that it is the primary beneficiary of a VIE at the onset of the collaboration, the collaboration is treated as a business combination and the Company consolidates the financial statements of the VIE into the Company's condensed consolidated financial statements. As of December 31, 2023, and on a quarterly basis thereafter, the Company will evaluate whether it continues to be the primary beneficiary of the consolidated VIE. If the Company determines that it is no longer the primary beneficiary of a consolidated VIE, it deconsolidates the VIE in the period in which the determination is made.

Assets and liabilities recorded as a result of consolidating the financial results of the VIE into the Company's condensed consolidated balance sheet do not represent additional assets that could be used to satisfy claims against the Company's general assets or liabilities for which creditors have recourse to the Company's general assets.

### *Comprehensive loss*

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

### *Recently Issued Accounting Standards*

From time to time, new accounting pronouncements are issued by the 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 condensed consolidated 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 adopted this new standard during the year ended December 31, 2023 and it did not have a material impact to its condensed consolidated financial statements.

### *Accounting Pronouncements Issued But Not Yet Adopted*

In December 2023, the FASB issued ASU 2023-09, *Income Taxes (Topic 740): Improvements to Income Tax Disclosures*. The ASU requires that an entity disclose specific categories in the effective tax rate reconciliation as well as reconciling items that meet a quantitative threshold. Further, the ASU requires additional disclosures on income tax expense and taxes paid, net of refunds received, by jurisdiction. The new standard is effective for annual periods beginning after December 15, 2024 on a prospective basis with the option to apply it retrospectively. Early adoption is permitted. The adoption of this guidance will result in the Company being required to include enhanced income tax related disclosures. The Company is currently evaluating the impact this standard will have on its condensed consolidated financial statements.

In November 2023, the FASB issued ASU 2023-07, *Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures*. This ASU includes amendments that expand the existing reportable segment disclosure requirements and requires disclosure of (i) significant expense categories and amounts by reportable segment as well as the segment's profit or loss measure(s) that are regularly provided to the chief operating decision maker (the "CODM") to allocate resources and assess performance; (ii) how the CODM uses each reported segment profit or loss measure to allocate resources and assess performance; (iii) the nature of other segment balances contributing to reported segment profit or loss that are not captured within segment revenues or expenses; and (iv) the title and position of the individual or name of the group or committee identified as the CODM. This guidance requires retrospective application to all prior periods presented in the financial statements and is effective for fiscal years beginning after December 15, 2023 and interim periods within fiscal years beginning after December 15, 2024. Early adoption is permitted. The adoption of this guidance will result in the Company being required to include enhanced disclosures relating to its reportable segments. The Company is currently evaluating the impact this standard will have on its condensed consolidated financial statements.

#### 4. Business Segments

The Company's CODM evaluates the financial performance of the Company's segments based upon segment adjusted operating income or (loss) as the profitability measure. Items outside of adjusted operating income or (loss) are not reported by segment, since they are excluded from the single measure of segment profitability reviewed by the CODM.

Summarized financial information concerning the Company's reportable segments for each of the quarters ended March 31, 2024 and 2023 is presented below.

##### **For Quarter Ended March 31, 2024 (\$ in thousands)**

	<b><u>NexGel</u></b>	<b><u>CGN JV</u></b>	<b><u>Total</u></b>
Revenue			
Contract Manufacturing	\$ 190	\$ 448	\$ 638
Custom and White Label Finished Goods	31	-	31
Branded Consumer Products	580	-	580
Other income	12	5	17
Total revenue	<u>813</u>	<u>453</u>	<u>1,266</u>
Cost of sales	642	347	989
Operating expenses	987	161	1,148
Loss from operations	<u>\$ (816)</u>	<u>\$ (55)</u>	<u>\$ (871)</u>

##### **For Quarter Ended March 31, 2023 (\$ in thousands)**

	<b><u>NexGel</u></b>	<b><u>CGN JV</u></b>	<b><u>Total</u></b>
Revenue			
Contract Manufacturing	\$ 380	\$ -	\$ 380
Custom and White Label Finished Goods	4	-	4
Branded Consumer Products	222	-	222
Other income	14	-	14
Total revenue	<u>620</u>	<u>-</u>	<u>620</u>
Cost of sales	677	-	677
Operating expenses	826	-	826
Loss from operations	<u>\$ (883)</u>	<u>\$ -</u>	<u>\$ (883)</u>

**As of March 31, 2024 (\$ in thousands)**

	<u>NexGel</u>	<u>CGN JV</u>	<u>Total</u>
<b>Assets:</b>			
Current assets:			
Cash	\$ 2,197	\$ 222	\$ 2,419
Accounts receivable, net	97	642	739
Inventory	978	391	1,369
Prepaid expenses and other current assets	294	42	336
Total current assets	<u>3,566</u>	<u>1,297</u>	<u>4,863</u>
Goodwill	1,128	-	1,128
Intangibles, net	112	190	302
Property and equipment, net	883	1,311	2,194
Operating lease – right of use asset	1,494	309	1,803
Other assets	95	-	95
Total Assets	<u>\$ 7,278</u>	<u>\$ 3,107</u>	<u>\$ 10,385</u>
<b>Liabilities</b>			
Current liabilities:			
Accounts payable	\$ 479	\$ 574	\$ 1,053
Accrued expenses and other current liabilities	103	8	111
Deferred revenue	-	250	250
Current portion of note payable	12	75	87
Warrant liability	255	-	255
Contingent consideration liability	439	-	439
Financing lease liability, current portion	-	55	55
Operating lease liabilities, current portion	207	26	233
Total current liabilities	<u>1,495</u>	<u>988</u>	<u>2,483</u>
Financing lease liability, net of current portion	-	352	352
Operating lease liabilities, net of current portion	1,398	284	1,682
Notes payable, net of current portion	277	386	663
Total liabilities	<u>\$ 3,170</u>	<u>\$ 2,010</u>	<u>\$ 5,180</u>



**As of December 31, 2023 (\$ in thousands)**

	<b>NexGel</b>	<b>CGN JV</b>	<b>Total</b>
<b>Assets:</b>			
Current assets:			
Cash	\$ 2,458	\$ 242	\$ 2,700
Accounts receivable, net	26	607	633
Inventory	622	697	1,319
Prepaid expenses and other current assets	312	88	400
Total current assets	<u>3,418</u>	<u>1,634</u>	<u>5,052</u>
Goodwill	1,128	-	1,128
Intangibles, net	122	204	326
Property and equipment, net	898	601	1,499
Operating lease – right of use asset	1,543	312	1,855
Other assets	95	-	95
Total Assets	<u>\$ 7,204</u>	<u>\$ 2,751</u>	<u>\$ 9,955</u>
<b>Liabilities</b>			
Current liabilities:			
Accounts payable	\$ 509	\$ 724	\$ 1,233
Accrued expenses and other current liabilities	137	261	398
Deferred revenue	20	-	20
Current portion of note payable	6	74	80
Warrant liability	146	-	146
Contingent consideration liability	439	-	439
Operating lease liability, current portion	207	26	233
Total current liabilities	<u>1,464</u>	<u>1,085</u>	<u>2,549</u>
Operating lease liability, net of current portion	1,438	289	1,727
Notes payable, net of current portion	272	241	513
Total liabilities	<u>\$ 3,174</u>	<u>\$ 1,615</u>	<u>\$ 4,789</u>

## 5. Acquisition

### *Kenkoderm Acquisition*

On December 1, 2023, the Company closed a transaction related to an Asset Purchase Agreement dated November 30, 2023 (the “Purchase Agreement”) with Olympus Trading Company, LLC, a Virginia limited liability company (the “Seller”), whereby the Company purchased all assets related to the Seller’s skincare line focused on reducing symptoms associated with psoriasis operating under the tradename “Kenkoderm” (“Kenkoderm acquisition”).

Under the terms of the Kenkoderm acquisition, the Company paid the Seller a cash payment of \$546,500. Additionally, the Company shall pay the Seller a cash earn-out of the same amount each quarter, payable in the subsequent month following quarter end, of \$136,625. The cash earn-out can fluctuate higher or lower based on the quarterly results of the Kenkoderm business during 2024 according to the formula contained in the Purchase Agreement.

The Purchase Agreement and the transaction contemplated thereby were not subject to approval by the shareholders of the Company. The Purchase Agreement contains standard representations and warranties regarding the Seller and the Kenkoderm business and certain limited representations and warranties regarding the Company. The Purchase Agreement also contains indemnification provisions for the benefit of the Company and the Seller. Neither the Company nor the Seller shall be liable for more than the Purchase Price under the indemnification provisions except in the case of fraud or willful misconduct. The Seller and the Seller’s President and owner agreed to 3-year non-compete provisions as part of the Purchase Agreement.

The provisional fair value of the purchase consideration issued to the Seller was allocated to the net tangible assets acquired. The Company accounted for the Kenkoderm acquisition as the purchase of a business under GAAP under the acquisition method of accounting, and the assets and liabilities acquired were recorded as of the acquisition date, at their respective fair values and condensed consolidated with those of the Company. The fair value of the net assets acquired was approximately \$169 thousand. The excess of the aggregate fair value of the net tangible assets has been allocated to goodwill.

[Table of Contents](#)

The table below shows a preliminary analysis for the Kenkoderm acquisition (\$ in thousands):

<b>Provisional purchase consideration at preliminary fair value:</b>	
Purchase price	\$ 547
Contingent consideration liability	439
Amount of consideration	<u>\$ 986</u>
<b>Assets acquired and liabilities assumed at preliminary fair value</b>	
Inventory	56
Product/technology related intangibles	77
Marketing related intangibles	36
Net tangible assets acquired	<u>\$ 169</u>
Total net assets acquired	\$ 169
Consideration paid	986
Preliminary goodwill	<u>\$ 817</u>

*Non-controlling Interest in Joint Venture – CG Labs*

On March 1, 2023, the Company acquired a 50% interest in the JV (see Note 1). The JV is owned 50% by the Company and 50% by CG Labs. CG Labs contributed its existing converting and packaging division to the JV, including, but not limited to, its facilities, equipment, employees, and customers. The Company will contribute \$500,000 to the JV, on a schedule to be determined, to be used for equipment and facility upgrades as well as general corporate purposes for the JV.

The JV is considered to be a VIE and we have consolidated the JV.

The recorded assets acquired and liabilities assumed in connection with the formation of the JV based on their estimated fair values as of the March 1, 2023. The purchase price allocation is as follow (\$ in thousands):

<b>Purchase consideration at fair value:</b>	
Cash contributed by the Company	\$ 500
Noncontrolling interest portion of CG Labs contributed business	500
Amount of consideration	<u>\$ 1,000</u>
<b>Assets acquired and liabilities assumed at fair value</b>	
Cash contributed by the Company	500
Fixed assets	213
Product/technology related intangibles	217
Marketing related intangibles	70
Net tangible assets acquired	<u>\$ 1,000</u>
Total net assets acquired	\$ 1,000
Consideration paid	1,000
Goodwill	<u>\$ -</u>

The allocation of the purchase price to identifiable assets is based on the preliminary valuations performed to determine the fair value of the net assets as of the acquisition date. The measurement period for the valuation of net assets acquired ends as soon as information on the facts and circumstances that existed as of the acquisition dates becomes available, but not to exceed 12 months following the acquisition date. Adjustments in purchase price allocations may require a change in the amounts allocated to net assets acquired during the periods in which the adjustments are determined.

[Table of Contents](#)

The unaudited pro-forma condensed consolidated results of operations are presented for information purposes only. The unaudited pro-forma condensed consolidated results of operations are not intended to present actual results that would have been attained had the Kenkoderm acquisition and the JV been completed as of January 1, 2023 or to project potential operating results as of any future date or for any future periods (\$ in thousands except share and per share amounts):

	March 31, March 31,	
	2024	2023
Revenues, net	\$ 1,266	\$ 1,140
Net loss allocable to common shareholders	\$ (871)	\$ (717)
Net loss per share	\$ (0.15)	\$ (0.13)
Weighted average number of shares outstanding	5,982,062	5,586,326

**6. Operating Leases**

The Company has an operating lease for a commercial manufacturing facility and administrative offices located in Langhorne, Pennsylvania that runs through January 2031. There are two options that can extend the lease term for five years each. The exercise of the lease options to renew is solely at the Company's discretion.

The Company also has a sublease for office and manufacturing space in Granbury, Texas that runs through February 2028. There is an option that can extend the lease term for an additional five years through February 2033. The exercise of the lease options to renew is solely at the Company's discretion.

The following table presents information about the amount and timing of the liability arising from the Company's operating lease as of March 31, 2024 (\$ in thousands):

Maturity of Lease Liability	Operating Lease Liabilities
2024 (Remainder of year)	\$ 183
2025	245
2026	301
2027	315
2028	324
Thereafter	790
Total undiscounted operating lease payments	2,158
Less: Imputed interest	(243)
Present value of operating lease liabilities	\$ 1,915
Weighted average remaining lease term	7.2 years
Weighted average discount rate	3.0%

Total operating lease expense for the three months ended March 31, 2024 and 2023, was \$71 thousand and \$65 thousand, respectively, and is recorded in cost of goods sold and selling, general and administrative expenses in the accompanying condensed consolidated statements of operations.

Supplemental cash flows information related to leases was as follows:

	March 31, 2024
Cash paid for amounts included in the measurement of lease liability (\$ in thousands):	
Operating cash flows from operating lease	\$ 61

## 7. Financing Lease

In February 2024, the JV entered into a lease agreement for certain equipment under separate non-cancelable equipment loan and security agreements. The agreement matures in January 2030. The agreements require monthly payments of principal and interest through maturity and are secured by the assets under the lease. As of March 31, 2024, \$416 thousand is included in the property and equipment on the balance sheet. The weighted average interest rate was 9.1% at March 31, 2024.

The following table presents information about the amount and timing of the liability arising from the Company's financing lease as of March 31, 2024 (\$ in thousands):

<b>Maturity of Lease Liability</b>	<b>Operating Lease Liability</b>
2024 (Remainder of year)	\$ 67
2025	90
2026	91
2027	91
2028	91
Thereafter	98
Total undiscounted operating lease payments	528
Less: Imputed interest	(121)
Present value of operating lease liability	<u>\$ 407</u>
Weighted average remaining lease term	5.8 years
Weighted average discount rate	9.1%

## 8. Inventory

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

	<b>March 31, 2024</b>	<b>December 31, 2023</b>
Raw materials	\$ 828	\$ 899
Work-in-progress	30	12
Finished goods	511	408
	<u>1,369</u>	<u>1,319</u>
Less: Inventory reserve for excess and slow moving inventory	-	-
Total	<u>\$ 1,369</u>	<u>\$ 1,319</u>

Inventory is maintained at the Company's warehouses and at fulfillment centers owned by Amazon, Walmart and CVS. The Company builds its contract manufacturing products based on customer orders and immediately ships the products upon completion of the production process.

## 9. Property and Equipment, Net

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

	<b>Useful Life (Years)</b>	<b>March 31, 2024</b>	<b>December 31, 2023</b>
Machinery and equipment	3 - 10	\$ 1,329	\$ 1,280
Office furniture and equipment	3 - 10	139	139
Leasehold improvements	6	531	419
Construction in progress	N/A	959	387
		<u>2,958</u>	<u>2,225</u>
Less: accumulated depreciation and amortization		(764)	(726)
Property and equipment, net		<u>\$ 2,194</u>	<u>\$ 1,499</u>

[Table of Contents](#)

Depreciation expense for the three months ended March 31, 2024 and 2023 was \$38 thousand and \$27 thousand, respectively.

#### 10. Intangible Assets

The following provides a breakdown of identifiable intangible assets as of March 31, 2024 and December 31, 2023 (\$ in thousands):

	<b>March 31, 2024</b>	<b>December 31, 2023</b>
<b>Product/Technology Related</b>		
Identifiable intangible assets, gross	\$ 325	\$ 325
Accumulated amortization	(118)	(98)
Product/technology related identifiable intangible assets, net	<u>207</u>	<u>227</u>
<b>Marketing Related</b>		
Customer related intangible asset, gross	17	17
Tradenam e related intangible asset, gross	113	113
Accumulated amortization	(35)	(31)
Marketing related identifiable intangible assets, net	<u>95</u>	<u>99</u>
<b>Total identifiable intangible assets, net</b>	<u>\$ 302</u>	<u>\$ 326</u>

In connection with the May 29, 2020 acquisition of Sports Defense, the Company identified intangible assets of \$55 thousand representing technology related and customer related intangibles.

In connection with the March 1, 2023 JV, the Company identified intangible assets of \$287 thousand representing technology related and customer related intangibles.

In connection with the December 1, 2023 acquisition of Kenkoderm, the Company identified intangible assets of \$113 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 2.6 years and amortization expense amounted to \$24 and \$4 thousand for the three months ended March 31, 2024 and 2023, respectively.

As of March 31, 2024, the estimated annual amortization expense for each of the next five fiscal years is as follows (\$ in thousands):

2024 (remainder of the year)	\$ 95
2025	126
2026	63
2027	13
2028	2
Thereafter	3
Total	<u>\$ 302</u>

**11. Accrued Expenses and Other Current Liabilities**

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

	<b>March 31, 2024</b>	<b>December 31, 2023</b>
Salaries, benefits, and incentive compensation	\$ 55	\$ 61
Margin line of credit	-	245
Other	56	92
Total accrued expenses and other current liabilities	<u>\$ 111</u>	<u>\$ 398</u>

**12. Common Stock**

At March 31, 2024, the Company has reserved common stock for issuance in relation to the following:

Share-based compensation plan	546,364
Warrants to purchase common stock	3,713,519
Restricted stock units	86,784

On February 15, 2024 (the “Closing Date”), the Company, entered into subscription agreements with investors, the Company’s Chief Financial Officer and certain members of its board of directors for a RDO of the Company’s common stock. The RDO sold an aggregate 242,891 units at a price to the public of \$4.22 per unit, with each unit consisting of two shares of the Company’s common stock, and a warrant to purchase one share of common stock at an exercise price of \$4.00 per share. The \$4.22 purchase price equals two times the last reported sale price of \$2.11 per share of the Company’s common stock on February 15, 2024 on The Nasdaq Capital Market. The Company issued 485,782 shares of common stock and warrants to purchase up to 242,891 shares of common stock.

Subject to certain ownership limitations, each of the warrants will become exercisable on the Closing Date, will have an exercise price of \$4.00 per share and will expire five years after the Closing Date. The warrants may only be exercised on a cashless basis if there is no registration statement registering, or the prospectus contained in the registration statement is not available for, the issuance or resale of shares of common stock underlying the warrants to or by the holder. The holder of a warrant is prohibited from exercising of any such warrants to the extent that such exercise would result in the number of shares of common stock beneficially owned by such holder and its affiliates exceeding 4.99% of the total number of shares of common stock outstanding immediately after giving effect to the exercise, which percentage may be increased or decreased at the holder’s election not to exceed 9.99%.

The net proceeds to the Company from the RDO were \$0.9 million, after deducting the placement agent’s fees and other offering expenses payable by the Company, and excluding the proceeds, if any, from the exercise of the warrants. The Company intends to use the net proceeds from the RDO for working capital and for general corporate purposes.

The Company retained Alere Financial Partners, LLC (A division of Cova Capital Partners, LLC) to act as the placement agent for the RDO. The Company agreed to pay the placement agent a cash fee of 6% of the aggregate gross proceeds in the RDO received from non-affiliates of the Company and 3% of the aggregate gross proceeds in the RDO received from affiliates of the Company. Additionally, and upon the closing of the RDO, the Company agreed to issue to the placement agent warrants exercisable for a period of five years to purchase up to 6% of the number of shares sold in this offering, or up to 27,725 shares, at a per share exercise price of \$4.00.

**13. 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.

[Table of Contents](#)

On March 23, 2023, the Board approved an additional 300,000 shares of common stock to be reserved under the 2019 Plan, such that total of number of shares underlying the Plan is 871,429 of which 609,687 shares have already been awarded or exercised. 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.

The following table contains information about the 2019 Plan as of March 31, 2024:

	<b>Awards Reserved for Issuance</b>	<b>Awards Issued &amp; Outstanding</b>	<b>Awards Exercised</b>	<b>Awards Available for Grant</b>
2019 Plan <sup>(1)</sup>	871,429	610,926	17,916	242,587
Awards issued in excess of 2019 Plan <sup>(2)</sup>	-	70,623	70,623	-

(1) Includes incentive stock options and restricted stock units discussed below.

(2) Includes shares of restricted common stock granted outside of the 2019 Plan to our Chief Executive Officer, Adam Levy.

*Incentive stock options*

The following table summarizes the Company's incentive stock option activity and related information for the period ended March 31, 2024:

	<b>Number of Options</b>	<b>Weighted Average Exercise Price</b>	<b>Weighted Average Contractual Term in Years</b>
Outstanding at January 1, 2024	560,650	\$ 2.350742	7.95
Granted	—	—	—
Exercised	—	—	—
Forfeited	—	—	—
Cancelled	—	—	—
Expired	(14,286)	5.25	—
Outstanding at March 31, 2024	546,364	\$ 2.274933	7.45
Exercisable at March 31, 2024	406,364	\$ 1.721835	7.06

As of March 31, 2024, vested outstanding stock options had \$342 thousand intrinsic value as the exercise price is greater than the estimated fair value of the underlying common stock, respectively. As of March 31, 2024, there was approximately \$31 thousand of total unrecognized share-based compensation related to unvested stock options, which the Company expects to recognize over the next 3 months excluding options fully contingent upon certain sales-based milestones being achieved within 18 to 36 months of commercial release.

*Restrictive stock awards*

Effective as of January 1, 2024, the Company granted an aggregated restricted stock award of 22,222 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 December 31, 2023, all of which shares vested monthly from April 1, 2024 through December 31, 2024. Under ASC 718, Compensation—Stock Compensation, the Company has measured the value of the 22,222 shares granted based on the closing price of the Company's stock at the grant date of the RSU Grant (\$2.25 per share).

	Number of Units	Weighted Average Grant Date Fair Value
Outstanding at January 1, 2024	64,562	\$ 1.82
Granted	22,222	2.25
Exercised and converted to common shares	—	—
Forfeited	—	—
Outstanding at March 31, 2024	86,784	\$ 1.93
Exercisable at March 31, 2024	30,688	\$ 1.82

Compensation expense will be recognized ratably over the total vesting schedule. The Company will periodically adjust the cumulative compensation expense for forfeited awards. Stock based compensation of \$54 thousand and \$24 thousand has been recorded for the three months ended March 31, 2024 and 2023, respectively. As of March 31, 2024, there was \$50 thousand unrecognized share-based compensation related to unvested RSUs, which the Company expects to recognize through December 2024.

*Warrants*

The following table shows a summary of common stock warrants through March 31, 2024:

	Number of Warrants	Weighted Average Exercise Price	Weighted Average Contractual Term in Years
Outstanding at January 1, 2024	3,442,904	\$ 5.414793	2.87
Granted	270,615	4.00	5.00
Exercised	—	—	—
Forfeited	—	—	—
Cancelled	—	—	—
Expired	—	—	—
Outstanding at March 31, 2024	3,713,519	\$ 5.311694	2.79
Exercisable at March 31, 2024	3,713,519	\$ 5.311694	2.79

As of March 31, 2024 and 2023, vested outstanding warrants had \$0 and \$90 thousand, respectively, intrinsic value as the exercise price is greater than the estimated fair value of the underlying common stock.

**14. Notes Payable**

*JV Notes Payable*

The JV has entered into a \$231 thousand promissory note agreement for certain equipment. The equipment was installed in December 2023. The promissory note has a term of five years beginning on March 13, 2024. The promissory note accrues interest at 8% and requires interest only payments through March 13, 2024 and monthly payments of \$4 thousand thereafter. The principal balance amounted to \$227 thousand and \$231 thousand as of March 31, 2024 and December 31, 2023, respectively.

The JV has entered into a \$242 thousand promissory note agreement for certain equipment. The funding advances of \$153 thousand and \$84 thousand have been issued in February 2024 and December 2023, respectively. The promissory note has a term of five years beginning on March 13, 2024. The promissory note accrues interest at 8% and requires interest only payments through March 13, 2024 and monthly payments of \$5 thousand thereafter. The principal balance amounted to \$234 thousand and \$84 thousand as of March 31, 2024 and December 31, 2023, respectively.



*NexGel*

The Company has entered into a \$13 thousand promissory note agreement for LED energy efficient lighting. The installation was certified complete in February 2024. The promissory note has a term of two years beginning on February 11, 2024. The promissory note accrues interest at 0% and requires monthly payments of \$545. The principal balance amounted to \$13 thousand as of March 31, 2024.

*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 Company made its first payment in December 2022. The balances of the principal and accrued interest amounted to \$276 and \$279 thousand as of March 31, 2024 and December 31, 2023, respectively.

The future annual principal amounts and accrued interest to be paid as of March 31, 2024 are as follows:

	Amount
For the year ending December 31 (\$ in thousands):	
2024	\$ 69
2025	96
2026	96
2027	103
2028	111
Thereafter	275
Total	\$ 750

**15. Warrant Liability**

On February 21, 2024, 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 27,725, 22,019, 34,285, 7,429, 7,286, 44,286, 35,714 and 114,286 warrants, respectively, as equity issuance consideration, in connection with equity offering 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 income (expense) in the condensed consolidated statements of operations.

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

<b>Warrant Liability</b>	<b>Warrants Outstanding</b>	<b>Fair Value per Share</b>	<b>Fair Value</b>
<b>Fair value as of year ended 12/31/2023</b>	<b>71,019</b>		<b>\$ 146</b>
Fair value at initial measurement date	27,725	\$ 2.01	56
Change in fair value of warrant liability	-		53
<b>Fair value as of year ended 3/31/2024</b>	<b>98,744</b>		<b>\$ 255</b>

The following assumptions were used to calculate the warrant liability for three months ended March 31, 2024 and 2023:

	<b>2024</b>	<b>2023</b>
Exercise price	\$2.80 to \$5.25	\$0.49 - \$5.25
Share price	\$1.99 - \$2.73	\$ 1.28
Volatility	237.08% - 277.25%	137.02 - 287.87%
Risk-free interest rate	4.21% - 5.03%	3.81 % - 4.74%
Dividend yield	0.0%	0.0%
Expected term	1.5 to 5.0 years	0.1 to 3.4 years

The warrant liabilities are considered Level 3 liabilities on the fair value hierarchy as the determination of fair value includes various assumptions about of future activities and the Company's stock prices and historical volatility of Guideline Public Companies as inputs.

**16. 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 condensed consolidated financial position, results of operations, or cash flows of the Company.

*Service Agreement*

On March 21, 2023, the Company entered into a Services Agreement with GlaxoSmithKline Consumer Healthcare Holdings (US) LLC ("Haleon") to supply material for a consumer product to be developed and released in the future. There can be no guaranty that a consumer product will be released or, if released, that it will be successful.

## **17. 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.

For the three months ended March 31, 2024, the Company had revenue from one customer that approximated 10% of total revenue. For the three months ended March 31, 2023, the Company had revenue from three customers that exceeded 10% of total revenues which were 52%, 21%, and 13%.

The Company had two customers with accounts receivable balances that were 24% and 44% of total accounts receivable as of March 31, 2024. The Company had three customers with accounts receivable balances that were 25%, 31%, and 10% of total accounts receivable as of March 31, 2023.

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 March 31, 2024, the total amount exceeding such limit was \$98 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.

## **18. Related Party Transactions**

### Advances

Dr. Jerome Zeldis, a member of the Company board of directors, has an outstanding balance due of \$25,000 for services as of March 31, 2024 and December 31, 2023, included in accounts payable in the accompanying condensed consolidated balance sheets.

## **19. Subsequent Events**

Management of the Company has performed a review of events and transactions occurring after the condensed consolidated balance sheet date to determine if there were any such events or transactions requiring adjustment to or disclosure in the accompanying condensed consolidated financial statements, noting no such events or transactions.

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

*The following discussion and analysis are intended to help prospective investors understand our business, financial condition, results of operations, liquidity and capital resources. You should read this discussion in conjunction with our condensed consolidated financial statements and related notes thereto included elsewhere in this information statement.*

*The statements in this discussion regarding industry outlook, expectations regarding our future performance, liquidity and capital resources and other non-historical statements are forward-looking statements. These forward-looking statements are subject to numerous risks and uncertainties, including, but not limited to, the risks and uncertainties described in "Special Note Regarding Forward-Looking Statements." Actual results may differ materially from those contained in any forward-looking statements.*

*The NexGel Financial Statements, discussed below, reflect the NexGel financial condition, results of operations, and cash flows. The financial information discussed below and included in this information statement, however, may not necessarily reflect what the NexGel financial condition, results of operations, or cash flows would have been had NexGel been operated as a separate, independent entity during the years presented, or what the NexGel financial condition, results of operations, and cash flows may be in the future.*

### 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;

## [Table of Contents](#)

- adverse federal, state and local government regulation;
- technological obsolescence of our manufacturing process and equipment;
- technical problems with our research and products;
- risks of mergers and acquisitions including the time and cost of implementing transactions and the potential failure to achieve expected gains, revenue growth or expense savings;
- price increases for supplies and components; and
- the inability to carry out our business plans.

For a discussion of these and other risks that relate to our business and investing in shares of our common stock, you should carefully review the risks and uncertainties described elsewhere in this Quarterly Report on Form 10-Q. The forward-looking statements contained in this Quarterly Report on Form 10-Q are expressly qualified in their entirety by this cautionary statement. We do not undertake any obligation to publicly update any forward-looking statement to reflect events or circumstances after the date on which any such statement is made or to reflect the occurrence of unanticipated events.

### **Overview**

We manufacture high water content, electron beam cross-linked, aqueous polymer hydrogels, or gels, used for wound care, medical diagnostics, transdermal drug delivery and cosmetics. We specialize in custom gels by capitalizing on proprietary manufacturing technologies. We have historically served as a contract manufacturer, supplying our gels to third parties who incorporate them into their own products. Beginning in 2020, we created two new lines of business for the company. First, our own line of branded consumer products sold direct to consumers. Second, we expanded into custom and white label opportunities, which focuses on combining our gels with proprietary branded products and white label opportunities. All of our gel products are manufactured using proprietary and non-proprietary mixing, coating and cross-linking technologies. Together, these technologies enable us to produce gels that can satisfy rigid tolerance specifications with respect to a wide range of physical characteristics (e.g., thickness, water content, adherence, absorption, moisture vapor transmission rate [a measure of the passage of water vapor through a substance] and release rate) while maintaining product integrity. Additionally, we have the manufacturing ability to offer broad choices in the selection of liners onto which the gels are coated. Consequently, we and our customers are able to determine tolerances in moisture vapor transmission rate and active ingredient release rates while personalizing color and texture.

Beginning in December 2023, the Company expanded their product portfolio to include the Kenkoderm brand. Kenkoderm is a skincare line focused on reducing symptoms associated with psoriasis. Kenkoderm products do not utilize our gel technology and are manufactured by third parties.

### ***Joint Venture***

On March 1, 2023, the Company acquired a 50% interest in its newly formed JV for its converting and packaging business. The JV agreement is effective March 1, 2023. As a result of this transaction, the Company owns 50% of the JV, with the remaining 50% held by CG Labs.

### ***Acquisition***

On December 1, 2023, we purchased substantially all of the assets Olympus Trading Company, LLC (the “Seller”) related to the Seller’s skincare line focused on reducing symptoms associated with psoriasis operating under the tradename “Kenkoderm” (“Kenkoderm acquisition”).

Under the terms of the Kenkoderm acquisition, the Company paid the Seller a cash payment of \$546,500.

Additionally, the Company shall pay the Seller a cash earn-out of the same amount each quarter, payable in the subsequent month flowing quarter end, of \$136,625. The cash earn-out can fluctuate higher or lower based on the quarterly results of the Kenkoderm business during 2024 according to the formula contained in the Asset Purchase Agreement relating to the Kenkoderm acquisition.

## Results of Operations

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

### *Comparison of the Three Months ended March 31, 2024 and 2023 (\$ in thousands)*

#### **Revenues, net.**

For the three months ended March 31, 2024 revenues were \$1,266 and increased by \$646, or 104.2%, when compared to \$620 for the three months ended March 31, 2023. The increase in our overall revenues was primarily due to sales growth in both our contract manufacturing and branded products.

The Company has four distinct lines of business; Contract Manufacturing, Custom and White Label, Consumer Branded Products, and Medical Devices.

#### *Contract Manufacturing*

Customers order rolls of gel (“rollstock”). The rollstock is shipped to our customers, which they package into finished goods. Historically, this has been the Company’s primary source of revenue.

#### *Custom and White Label*

These products often infuse various ingredients into our base gel to develop unique product offerings to satisfy market demand (e.g. aloe infused into the gel for a beauty mask). The rollstock is converted and packaged into salable units. The finished goods are shipped to the customer, who is ultimately responsible for product distribution. Frequently these products started as development deals, in which the customer paid the company a small fee to develop a specific product. Once completed, the customer places a large order for newly developed product.

#### *Consumer Branded Products*

These products are finished goods marketed and sold directly to the customer by the Company through online and retail channels. The Company is responsible for sales, marketing, and distribution. These products carry the Company’s brand names, which include Medagel, Lumagel Beauty, and Kenkoderm.

#### *Medical Devices*

Medical Devices are a hybrid business, combining elements of Custom and White Label and Consumer Branded Products. Medical Devices, which are not yet marketed, are expected to be distributed through strategic partnerships. The Company will manufacture and possibly convert/package the device while the strategic partner brings the product to market. Small market Medical Devices could be launched by the Company, but also be offered to a distributor to reach the full scale of the market.

**Gross profit (loss).** Our gross profit was \$277 for the three months ended March 31, 2024 compared to a gross loss of \$57 for the three months ended March 31, 2023. The increase of \$334 in gross loss quarter over quarter was primarily due to the increase in consumer branded products. Gross profit was 21.9% for the three months ended March 31, 2024 compared to a gross loss of (9.2%) for the three months ended March 31, 2023.

[Table of Contents](#)

The components of cost of revenues are as follows for the three months ended March 31, 2024 and 2023 (\$ in thousands):

	Three Months Ended March 31,	
	2024	2023
<b>Cost of revenues</b>		
Materials and finished products	\$ 611	\$ 355
Share Based Compensation	3	-
Compensation and benefits	181	171
Depreciation and amortization	31	20
Equipment, production and other expenses	163	131
<b>Total cost of revenues</b>	<b>\$ 989</b>	<b>\$ 677</b>

Cost of revenues increased by \$312, or 46.1%, to \$989 for the three months ended March 31, 2024, as compared to \$677 for the three months ended March 31, 2023. The increase in cost of revenues is primarily aligned with the increase in revenue growth.

**Selling, general and administrative expenses.** The following table highlights Selling, general and administrative expenses by type for the three months ended March 31, 2024 and 2023 (\$ in thousands):

	Three Months Ended March 31,	
	2024	2023
<b>Selling, general and administrative expenses</b>		
Compensation and benefits	\$ 252	\$ 161
Share-based compensation	51	19
Depreciation and amortization	31	10
Advertising, marketing, & Amazon fees	253	94
Investor & shareholder services	62	96
Franchise tax & corporate insurance	58	44
Professional & consulting fees	364	263
Other expenses and professional fees	75	110
<b>Total Selling, general and administrative expenses</b>	<b>\$ 1,146</b>	<b>\$ 797</b>

Selling, general and administrative expenses increased by \$349, or 43.8%, to \$1,146 for the three months ended March 31, 2024, as compared to \$797 for the three months ended March 31, 2023. The increase in Selling, general and administrative expenses is primarily attributable to the factors described below.

Compensation and benefits increased by \$91, or 56.5%, to \$252 for the three months ended March 31, 2024, as compared to \$161 for the three months ended March 31, 2023. The number of employees increased compared to the prior period and officer compensation increased in conjunction with contract renewals.

Share-based compensation increased by \$32, or 168.4%, to \$51 for the three months ended March 31, 2024, as compared to \$19 for the three months ended March 31, 2023. The share-based compensation related to the issuance of stock options and restricted awards to our officers, employees, and advisors in the prior year period.

Advertising, marketing, Amazon fees increased by \$159, or 169.1%, to \$253 for the three months ended March 31, 2024, as compared to \$94 for the three months ended March 31, 2023. The increase primarily pertains to an increase in consumer branded product sales year over year.

Investor and shareholder services decreased by \$34, or 35.4%, to \$62 for the three months ended March 31, 2024, as compared to \$96 for the three months ended March 31, 2023. The decrease is due to a reduction of investor services compared to the prior year period.

Franchise taxes and corporate insurance increased by \$14, or 31.8%, to \$58 for the three months ended March 31, 2024, as compared to \$44 thousand for the three months ended March 31, 2023.

[Table of Contents](#)

Professional and consulting fees increased by \$101, or 38.4%, to \$364 for the three months ended March 31, 2024, as compared to \$263 for the three months ended March 31, 2023. We continued to incur accounting and consulting fees associated with public company governance requirements. Additionally, we incurred significant expenses related to our European Medical Device Regulation project in preparation for entering European markets.

Other Expenses decreased by \$35, or 31.8%, to \$75 for the three months ended March 31, 2024 from \$110 for the three months ended March 31, 2023. 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.

**Research and development expenses.** Research and development expenses were \$2 and \$29 for the three months ended March 31, 2024 and March 31, 2023, respectively.

### Liquidity and Capital Resources

#### Cash Flow (in thousands)

	March 31, 2024	March 31, 2023
Net cash used in operating activities	\$ (1,092)	\$ (709)
Net cash provided by (used in) investing activities	(118)	397
Net cash provided by (used in) financing activities	929	(2)
Net increase (decrease) in cash and cash equivalents	(281)	(314)
Cash and cash equivalents at beginning of year	2,700	1,101
Cash and cash equivalent at end of quarter	\$ 2,419	\$ 787

As of March 31, 2024, we had \$2,419 of cash and cash equivalents, compared to \$2,700 of cash and cash equivalents at December 31, 2023. Net cash used in operating activities was \$1,092 and \$709 for the three months ended March 31, 2024 and 2023, respectively.

Net cash used in investing activities was \$118 and net cash provided by \$397 for the three months ended March 31, 2024 and 2023, respectively, consisting of the sales of marketable securities of \$34 and the purchase of capital equipment of \$152 for three months ended March 31, 2024 and consisting of the sales of marketable securities of \$485 and purchases of capital equipment of \$88 for three months ended March 31, 2023.

Net cash provided by financing activities for the three months ended March 31, 2024 was \$929 consisting of net proceeds from the RDO of \$946, offset by principal payments of notes payable of \$8 and by principal payment on financing lease liability of \$9. Net cash used in financing activities for March 31, 2023 was \$2 is attributable to the principal payments of notes payable.

At March 31, 2024, current assets totaled \$4,863 and current liabilities totaled \$2,483, as compared to current assets totaling \$5,052 and current liabilities totaling \$2,549 at December 31, 2023. As a result, we had working capital of \$2,380 at March 31, 2024, compared to a working capital of \$2,503 at December 31, 2023. The change in the working capital as of March 31, 2024 is primarily attributable to the loss from operations of \$871 and the net proceeds of \$946 from the RDO.

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.



## [Table of Contents](#)

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 capital to maintain as a going concern due to the recent capital raise on February 14, 2024 (discussed further within Note 20). We believe we have sufficient cash and marketable securities to operate our business plan into 2025. 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 March 31, 2024, 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 accompanying condensed consolidated 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.

[Table of Contents](#)

*Warrant Liability* – Warrants to purchase common stock were issued in connection with equity financing raises which occurred during 2019 through 2021. The fair values of the warrants are estimated as of the date of issuance and again at each year 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 either the three-year or five-year contractual expiration date.

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

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

Not required.

**ITEM 4. CONTROLS AND PROCEDURES**

*Disclosure Controls and Procedures.*

As of March 31, 2024, we conducted an evaluation of the effectiveness of our “disclosure controls and procedures” (“Disclosure Controls”), as defined by Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). The Disclosure Controls evaluation was done under the supervision and with the participation of management, including our chief executive officer and chief financial officer. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives. Based upon this evaluation, our chief executive officer and chief financial officer have concluded that our Disclosure Controls and Procedures were effective as of March 31, 2024 at a reasonable level of assurance.

*Changes in Internal Control over Financial Reporting*

There have been no changes in our internal control over financial reporting during the fiscal quarter ended March 31, 2024 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 various lawsuits and legal proceedings which arise in the ordinary course of business. However, litigation is subject to inherent uncertainties, and an adverse result in these or other matters may arise from time to time that may harm our business. We are currently not aware of any such legal proceedings or claims.

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

**ITEM 1A. RISK FACTORS**

Not required for smaller reporting companies.

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

**(a) Sales of Unregistered Securities during the three months ended March 31, 2024**

The Company did not sell any unregistered securities during the three months ended March 31, 2024.

**(b) Issuer Repurchases of Securities during the three months ended March 31, 2024**

The Company did not repurchase any of its securities during the three months ended March 31, 2024.

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

None.

**ITEM 4. MINE SAFETY DISCLOSURES**

Not applicable.

**ITEM 5. OTHER INFORMATION**

Not applicable.

**ITEM 6. EXHIBITS**

See “Index to Exhibits” for a description of our exhibits.

**Index to Exhibits**

<b>Exhibit No.</b>	<b>Description</b>
3.1	<a href="#">Certificate of Incorporation of AquaMed Technologies, Inc. (incorporated by reference to Exhibit 3.1 to Form S-1, filed with the SEC on January 9, 2019).</a>
3.2	<a href="#">Certificate of Amendment to Certificate of Incorporation of AquaMed Technologies, Inc. (incorporated by reference to Exhibit 3.2 to Form S-1, filed with the SEC on January 9, 2019).</a>
3.3	<a href="#">Amended and Restated Certificate of Incorporation of AquaMed Technologies, Inc. (incorporated by reference to Exhibit 3.3 to Amendment No. 1 to Form S-1, filed with the SEC on March 11, 2019).</a>
3.4	<a href="#">Certificate of Amendment to the Amended and Restated Certificate of Incorporation of AquaMed Technologies, Inc. (incorporated by reference to Exhibit 3.1 to the Current Report on Form 8-K, filed with the SEC on November 14, 2019).</a>
3.5	<a href="#">Certificate of Amendment to the Amended and Restated Certificate of Incorporation of NexGel, Inc. (incorporated by reference to Exhibit 3.1 to the Current Report on Form 8-K, filed with the SEC on May 29, 2020).</a>
3.6	<a href="#">Certificate of Amendment to the Amended and Restated Certificate of Incorporation of NexGel, Inc. (incorporated by reference to Exhibit 3.1 to the Current Report on Form 8-K, filed with the SEC on August 2, 2021).</a>
3.7	<a href="#">Amended and Restated Bylaws of AquaMed Technologies, Inc. (incorporated by reference to Exhibit 3.5 to Amendment No. 1 to Form S-1, filed with the SEC on March 11, 2019).</a>
31.1*	<a href="#">Certification of Chief Executive Officer Pursuant to Section 302 of Sarbanes-Oxley Act of 2002.</a>
31.2*	<a href="#">Certification of Chief Financial Officer Pursuant to Section 302 of Sarbanes-Oxley Act of 2002.</a>
32.1*	<a href="#">Certification of Chief Executive Officer Pursuant to Section 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</a>
32.2*	<a href="#">Certification of Chief Financial Officer Pursuant to Section 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</a>
101*	The following materials from the Company’s Quarterly Report on Form 10-Q for the fiscal quarter March 31, 2024, formatted in iXBRL (Inline eXtensible Business Reporting Language), (i) Balance Sheets, (ii) Statements of Operations, (iii) Statements of Stockholders’ Equity, (iv) Statements of Cash Flows, and (v) Notes to the Financial Statements.
104*	Cover Page Interactive Data File (Embedded within the Inline XBRL document and included in Exhibit).

\* Filed herewith.

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

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Date: May 13, 2024

**NEXGEL, INC.**

By: /s/ Adam Levy

Name: Adam Levy

Title: Chief Executive Officer  
(Principal Executive Officer)

By: /s/ Adam E. Drapczuk III

Name: Adam E. Drapczuk III

Title: Chief Financial Officer  
(Principal Financial Officer)

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

I, Adam Levy, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of NexGel, Inc. (the “registrant”);
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant’s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and
5. The registrant’s other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):
  - a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and
  - b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: May 13, 2024

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

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

I, Adam E. Drapczuk III, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of NexGel, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 13, 2024

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

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

This certification is furnished solely pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350) and accompanies the Quarterly Report on Form 10-Q (the "Form 10-Q") for the nine months ended March 31, 2024, of NexGel, Inc. (the "Company"). I, Adam Levy, the Chief Executive Officer and Principal Executive Officer of the Company, certify that, based on my knowledge:

- (1) The Form 10-Q fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company as of and for the periods covered in this report.

Date: May 13, 2024

By: /s/ Adam Levy

Name: Adam Levy

Title: Chief Executive Officer

(Principal Executive Officer)

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

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

This certification is furnished solely pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350) and accompanies the Quarterly Report on Form 10-Q (the "Form 10-Q") for the nine months ended March 31, 2024 of NexGel, Inc. (the "Company"). I, Adam E. Drapczuk III, the Chief Financial Officer and Principal Financial Officer of the Company, certify that, based on my knowledge:

- (1) The Form 10-Q fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company as of and for the periods covered in this report.

Date: May 13, 2024

By: /s/ Adam E. Drapczuk III

Name: Adam E. Drapczuk III

Title: Chief Financial Officer  
(Principal Financial Officer)

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

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