

REFINITIV

DELTA REPORT

10-Q

PMD - PSYCHEMEDICS CORP

10-Q - MARCH 31, 2024 COMPARED TO 10-Q - SEPTEMBER 30, 2023

The following comparison report has been automatically generated

TOTAL DELTAS 770

■ CHANGES	68
■ DELETIONS	436
■ ADDITIONS	266

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

- Quarterly report pursuant to Section 13 or 15 (d) of the Securities Exchange Act of 1934

For the quarterly period ended **September 30, 2023** **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: 1-13738

PSYCHEMEDICS CORPORATION

(Exact Name of Registrant as Specified in its Charter)

Delaware	58-1701987
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
289 Great 5220 Spring Valley Road Acton, Dallas, MA Texas	01720 75254
(Address of Principal Executive Offices)	(Zip Code)
Registrant's telephone number including area code: (978) (800) 206-8220 527-7424	

Securities registered pursuant to section 12(b) of the act:

<u>Title of Class</u>	<u>Trading Symbol(s)</u>	<u>Name of each exchange on which registered</u>
Common stock. \$0.005 par value	PMD	The Nasdaq Stock Market, LLC.

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

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

- Large accelerated filer
- Accelerated filer
- Non-accelerated filer
- Smaller reporting company
- Emerging growth company

If an emerging growth company, indicate by checkmark 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 in Rule 12b-2 of the Exchange Act). Yes No

The number of shares of Common Stock of the Registrant, par value \$0.005 per share, outstanding at **November 6, 2023** **May 10, 2024**, was **5,801,761**.**5,805,611**.

PSYCHEMEDECS CORPORATION

FORM 10-Q FOR THE QUARTER ENDED **SEPTEMBER 30, 2023** **MARCH 31, 2024**

INDEX

	Page
PART I - FINANCIAL INFORMATION	
<u>Item 1 -Financial Statements (unaudited)</u>	
<u>Condensed Consolidated Balance Sheets</u>	3
<u>Condensed Consolidated Statements of Operations</u>	4
<u>Condensed Consolidated Statements of Shareholders' Equity</u>	5
<u>Condensed Consolidated Statements of Cash Flows</u>	6
<u>Notes to Condensed Consolidated Financial Statements</u>	7
<u>Item 2 - Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	
<u>Factors that May Affect Future Results</u>	16
<u>Results of Operations</u>	17
<u>Liquidity and Capital Resources</u>	18
<u>Item 4 -Controls and Procedures</u>	18
PART II -OTHER INFORMATION	
<u>Item 1-Legal Proceedings</u>	19
<u>Item 1A-Risk Factors</u>	19
<u>Item 2-Unregistered Sales of Equity Securities, Use of Proceeds and Issuer Purchases of Equity Securities</u>	19
<u>Item 6- Exhibits</u>	19
<u>Signatures</u>	20

PART I – FINANCIAL INFORMATION

Item 1. Financial Statements (unaudited)

PSYCHEMEDICS CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands, except par value)
(UNAUDITED)

	September 30, 2023	December 31, 2022	March 31, 2024	December 31, 2023
ASSETS				
Current Assets:				
Cash and cash equivalents	\$ 1,370	\$ 4,750	\$ 1,421	\$ 1,964
Accounts receivable, net of allowance for doubtful accounts of \$38 at September 30, 2023, and \$87 at December 31, 2022	4,596	3,739		
Accounts receivable, net of allowance for credit losses of \$58 at March 31, 2024, and \$64 at December 31, 2023			3,883	3,687
Prepaid expenses and other current assets	1,524	1,136	870	1,136
Income tax receivable	382	339	13	18
Total Current Assets	7,872	9,964	6,187	6,805
Fixed assets, net of accumulated amortization and depreciation of \$23,312 at September 30, 2023, and \$21,964 at December 31, 2022	3,357	4,573		
Fixed assets, net of accumulated amortization and depreciation of \$23,943 at March 31, 2024, and \$23,633 at December 31, 2023			2,759	3,061
Other assets	809	823	608	632
Net deferred tax assets	-	691		
Operating lease right-of-use assets	2,066	2,681	1,598	1,828
Total Assets	<u>\$ 14,104</u>	<u>\$ 18,732</u>	<u>\$ 11,152</u>	<u>\$ 12,326</u>
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current Liabilities:				
Accounts payable	\$ 817	\$ 448	\$ 1,131	\$ 752
Accrued expenses	3,208	3,939	1,780	2,604
Current portion of long-term debt	302	294		
Equipment financing debt			230	305
Current portion of operating lease liabilities	1,058	1,037	1,043	1,048
Total Current Liabilities	5,385	5,718	4,184	4,709
Long-term debt	77	305		
Deferred tax liabilities, long-term	7	-		
Long-term portion of operating lease liabilities	1,206	1,938	687	945
Total Liabilities	6,675	7,961	4,871	5,654
Commitments and Contingencies (Note 7)				
Commitments and Contingencies (Note 6)				
Shareholders' Equity:				

Preferred stock, \$0.005 par value, 873 shares authorized, no shares issued or outstanding	32	32	
Common stock, \$0.005 par value; 50,000 shares authorized; 6,470 and 6,349 shares issued and 5,802 and 5,681 shares outstanding, respectively			
Preferred stock, \$0.005 par value, 873 shares authorized, no shares issued or outstanding	32	32	
Common stock, \$0.005 par value; 50,000 shares authorized; 6,474 and 6,474 shares issued and 5,806 and 5,806 shares outstanding as of March 31, 2024 and December 31, 2023, respectively	32	32	
Additional paid-in capital	34,941	34,275	35,426
Accumulated deficit	(15,828)	(11,820)	(17,461)
Less - Treasury stock, at cost, 668 shares	(10,082)	(10,082)	(10,082))
Accumulated other comprehensive loss	(1,634)	(1,634)	(1,634))
 Total Shareholders' Equity	 7,429	 10,771	 6,281
 Total Liabilities and Shareholders' Equity	 \$ 14,104	 \$ 18,732	 \$ 11,152
			 \$ 12,326

See accompanying notes to **unaudited** condensed consolidated financial statements.

PSYCHEMEDICS CORPORATION							
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS							
(in thousands, except per share amounts)							
(UNAUDITED)							
	Three Months Ended		Nine Months Ended		Three Months Ended		
	September 30,		September 30,		March 31,		
	2023	2022	2023	2022	2024	2023	
Revenues	\$ 5,704	\$ 6,516	\$ 17,100	\$ 19,537	\$ 5,357	\$ 5,859	
Cost of revenues	3,613	4,184	10,745	12,492	3,235	3,654	
 Gross profit	 2,091	 2,332	 6,355	 7,045	 2,122	 2,205	
 Operating expenses:							
General & administrative	2,200	1,588	5,291	4,360	1,788	1,646	
Marketing & selling	723	791	2,258	2,409	692	789	
Research & development	275	328	859	1,003	209	298	
 Total Operating expenses	 3,198	 2,707	 8,408	 7,772	 2,689	 2,733	
 Operating loss	 (1,107)	 (375)	 (2,053)	 (727)	 (567)	 (528)	
 Other income (expense):							
Settlement	-	-	(500)	-	(2)	-	
Other	-	(8)	(9)	49	(3)	(5)	
 Total other income (expense), net	 -	 (8)	 (509)	 49	 (5)	 (5)	

Loss before provision for (benefit from) income taxes	(1,107)	(383)	(2,562)	(678)	(572)	(533)
Provision for (benefit from) income taxes	992	(286)	647	(282)	116	(149)
Net loss	<u>\$ (2,099)</u>	<u>\$ (97)</u>	<u>\$ (3,209)</u>	<u>\$ (396)</u>	<u>\$ (688)</u>	<u>\$ (384)</u>
Basic net loss per share	<u>\$ (0.36)</u>	<u>\$ (0.02)</u>	<u>\$ (0.56)</u>	<u>\$ (0.07)</u>		
Diluted net loss per share	<u>\$ (0.36)</u>	<u>\$ (0.02)</u>	<u>\$ (0.56)</u>	<u>\$ (0.07)</u>		
Dividends declared per share	<u>\$ -</u>	<u>\$ 0.07</u>	<u>\$ 0.14</u>	<u>\$ 0.14</u>		
Basic and diluted net loss per share					<u>\$ (0.12)</u>	<u>\$ (0.07)</u>
Weighted average common shares outstanding, basic and diluted					<u>5,806</u>	<u>5,685</u>

See accompanying notes to **unaudited** condensed consolidated financial statements.

PSYCHEMEDICS CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(in thousands, except per share amounts)
(UNAUDITED)

For the Three Months Ended September 30,
2023

	Common Stock, \$0.005 par								
	value			Additional					
	Common Shares	Common	Paid-In	Treasury Stock			Accumulated Deficit	Accumulated Other Comprehensive Loss	
	Outstanding	Stock	Capital	Shares	Cost				
BALANCE, June 30, 2023	6,411	\$ 32	\$ 34,540	668	\$ (10,082)	\$ (13,729)	\$ (1,634)	\$ 9,127	
Shares issued – vested	59	-	-	-	-	-	-	-	-
Stock-based compensation	-	-	401	-	-	-	-	-	401
Net loss	-	-	-	-	-	(2,099)	-	-	(2,099)
BALANCE, September 30, 2023	6,470	\$ 32	\$ 34,941	668	\$ (10,082)	\$ (15,828)	\$ (1,634)	\$ 7,429	

	Common Stock, \$0.005 par								
	value			Additional					
	Common Shares	Common	Paid-In	Treasury Stock			Accumulated	Accumulated Other Comprehensive Loss	
	Outstanding	Stock	Capital	Shares	Cost	Deficit			
BALANCE, December 31, 2023	6,474	\$ 32	\$ 35,129	668	\$ (10,082)	\$ (16,773)	\$ (1,634)	\$ 6,672	
Stock-based compensation	-	-	297	-	-	-	-	-	297
Net loss	-	-	-	-	-	(688)	-	-	(688)
BALANCE, March 31, 2024	6,474	\$ 32	\$ 35,426	668	\$ (10,082)	\$ (17,461)	\$ (1,634)	\$ 6,281	

For the Nine Months Ended
September 30, 2023

	Common Stock, \$0.005 par value								Common Stock, \$0.005 par value											
	Additional				Additional				Additional				Additional							
	Common Shares		Common		Paid-In		Treasury Stock		Accumulated Deficit		Accumulated Other Comprehensive Loss		Common Shares		Common		Paid-In		Treasury Stock	
	Outstanding	Stock	Capital		Shares	Cost			Deficit			Total	Outstanding	Stock	Capital		Shares	Cost		
BALANCE, December 31, 2022	6,349	\$ 32	\$ 34,275		668	\$ (10,082)	\$ (11,820)	\$ (1,634)	\$ 10,771				6,349	\$ 32	\$ 34,275		668	\$ (10,082)		
Shares issued – vested	121	-	(1)		-	-	-	-	-	(1)	5	-	-	-	-	-	-	-		
Tax withholding related to vested shares from employee stock plans	-	-	(54)		-	-	-	-	-	(54)										
Stock-based compensation	-	-	721		-	-	-	-	-	721	-	-	-	-	-	177	-	-		
Cash dividends (\$0.07 per share)	-	-	-		-	-	(799)	-	-	(799)										
Cash dividends (\$0.07 per share)	-	-	-		-	-	-	-	-	-	-	-	-	-	-	-	-	-		
Net loss	-	-	-		-	-	(3,209)	-	-	(3,209)										
BALANCE, September 30, 2023	6,470	\$ 32	\$ 34,941		668	\$ (10,082)	\$ (15,828)	\$ (1,634)	\$ 7,429											
BALANCE, March 31, 2023											6,354	\$ 32	\$ 34,452		668	\$ (10,082)				

For the Three Months Ended September 30, 2022

	Common Stock, \$0.005 par value								Common Stock, \$0.005 par value											
	Additional				Additional				Additional				Additional							
	Common Shares		Common		Paid-In		Treasury Stock		Accumulated Deficit		Accumulated Other Comprehensive Loss		Common Shares		Common		Paid-In		Treasury Stock	
	Outstanding	Stock	Capital		Shares	Cost			Deficit			Total	Outstanding	Stock	Capital		Shares	Cost		
BALANCE, June 30, 2022	6,294	\$ 31	\$ 33,863		668	\$ (10,082)	\$ (10,242)	\$ (1,634)	\$ 11,936											
Shares issued – vested	19	1	(1)		-	-	-	-	-	-	-	-	-	-	-	-	-	-		
Stock-based compensation	-	-	277		-	-	-	-	-	-	-	-	-	-	-	-	277			
Cash dividends (\$0.07 per share)	-	-	-		-	-	(394)	-	-	(394)		-	-	-	-	-	(394)			
Net loss	-	-	-		-	-	(97)	-	-	(97)		-	-	-	-	-	(97)			
BALANCE, September 30, 2022	6,313	\$ 32	\$ 34,139		668	\$ (10,082)	\$ (10,733)	\$ (1,634)	\$ 11,722											

For the Nine Months Ended September 30, 2022

	Common Stock, \$0.005 par value								Additional			Accumulated		
	Common Shares		Common		Paid-In		Treasury Stock		Accumulated		Other			
	Outstanding	Stock	Capital		Shares	Cost		Deficit		Comprehensive Loss		Total		
BALANCE, December 31, 2021	6,257	\$ 31	\$ 33,478		668	\$ (10,082)		\$ (9,550)		\$ (1,634)		\$ 12,243		
Exercise of stock options	1	-	4		-	-		-		-		4		
Shares issued – vested	55	1	(1)		-	-		-		-		-		
Tax withholding related to vested shares from employee stock plans	-	-	(36)		-	-		-		-		(36)		
Stock-based compensation	-	-	694		-	-		-		-		694		
Cash dividends (\$0.07 per share)	-	-			-	-		(787)		-		(787)		
Net loss	-	-			-	-		(396)		-		(396)		
BALANCE, September 30, 2022	6,313	\$ 32	\$ 34,139		668	\$ (10,082)		\$ (10,733)		\$ (1,634)		\$ 11,722		

See accompanying notes to **unaudited** condensed consolidated financial statements.

PSYCHEMEDICS CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)
(UNAUDITED)

	Nine Months Ended		Three Months Ended	
	September 30,		March 31,	
	2023	2022	2024	2023
CASH FLOWS FROM OPERATING ACTIVITIES:				
Net loss	\$ (3,209)	\$ (396)	\$ (688)	\$ (384)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:				
Adjustments to reconcile net loss to net cash used in operating activities:				
Depreciation and amortization	1,394	1,836	321	479
ROU asset amortization	701	718	230	235
Deferred income taxes	698	(775)	-	(159)
Stock-based compensation	721	694	297	177
Changes in operating assets and liabilities:				
Accounts receivable	(857)	(837)	(196)	(319)
Prepaid expenses and other current assets	(388)	(11)	266	48
Income tax receivable	(43)	1,875	5	330
Accounts payable	369	(137)	379	337
Operating lease liabilities	(797)	(757)	(263)	(264)
Accrued expenses	(731)	786	(824)	(705)
Net cash used in operating activities	(2,142)	2,996	(473)	(225)
CASH FLOWS FROM INVESTING ACTIVITIES:				

Purchases of equipment and leasehold improvements	(24)	(60)	-	(20)
Cost of internally developed software	(108)	(103)	(8)	(21)
Other assets	(32)	(25)	13	(32)
Net cash used in investing activities	(164)	(188)		
Net cash provided by (used in) investing activities			5	(73)
CASH FLOWS FROM FINANCING ACTIVITIES:				
Proceeds from issuance of stock, net of tax withholding	(55)	(32)		
Payments of equipment debt financing	(220)	(523)		
Cash dividends paid	(799)	(787)		
Payments of equipment financing			(75)	(72)
Net cash used in financing activities	(1,074)	(1,342)	(75)	(72)
Net decrease in cash and cash equivalents	(3,380)	1,466	(543)	(370)
Cash and cash equivalents, beginning of period	4,750	1,992	1,964	4,750
Cash and cash equivalents, end of period	\$ 1,370	\$ 3,458	\$ 1,421	\$ 4,380
Supplemental Disclosures of Cash Flow Information:				
Cash paid for interest	\$ 14	\$ 36	\$ 4	\$ 5
Cash paid for operating leases	\$ 874	\$ 849	\$ 287	\$ 291
Right-of-use assets acquired through operating leases	\$ 86	\$ 78	\$ -	\$ 86

See accompanying notes to **unaudited** condensed consolidated financial statements.

PSYCHEMEDICS CORPORATION

PSYCHEMEDICS CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

1. Basis of Presentation

The interim condensed consolidated financial statements of Psychmedics Corporation (the "Company") presented herein, have been prepared pursuant to the rules of the Securities and Exchange Commission ("SEC") for quarterly reports on Form **10-Q** and do not include all the information and note disclosures required by accounting principles generally accepted in the United States of America. These statements should be read in conjunction with the consolidated financial statements and notes thereto for the year ended **December 31, 2022**, **December 31, 2023**, included in the Company's **2022** **2023** Annual Report on Form **10-K** ("10-K" **10-K** ("10-K")), as filed with the SEC.

The accompanying condensed consolidated financial statements are unaudited but, in the opinion of management, include all adjustments necessary for a fair presentation of results for these interim periods. Except as otherwise disclosed, all such adjustments are of a normal recurring nature. The condensed consolidated balance sheet as of **December 31, 2022**, **December 31, 2023**, has been derived from the Company's annual financial statements that were audited by an independent registered public accounting firm, but does not include all the information and footnotes required for complete annual financial statements. The Company's comprehensive (loss)/income is equal to its net (loss)/income for all periods presented.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The results of operations for the three and nine months ended **September 30, 2023**, **March 31, 2024**, may not be indicative of the results that may be expected for the year ending **December 31, 2023**, **December 31, 2024**, or any other period.

Unless the context requires otherwise, the terms "we", "us", "our", or "the Company" refer to Psychmedics Corporation and its wholly-owned consolidated subsidiaries.

2. Financial Information

Liquidity and Management's Plans

At September 30, 2023, the Company's March 31, 2024, our principal sources of liquidity from operations included approximately \$1.4 million of cash and cash equivalents. Management on hand. As of the date of this report, management currently believes that such funds, together with future operating profits, should be adequate to fund anticipated working capital requirements, including equipment financing debt obligations, and capital expenditures for at least the next 12 months. However, the terms of our existing equipment financing do not provide for future borrowings, and we have no existing line of credit or other fixed source of capital reserves. Depending upon the Company's our results of operations, its our future capital needs, and available marketing opportunities, the Company we may use be required to seek various financing sources to raise additional funds. Such sources could include but are not limited to, issuance of common stock or debt financing, lines of credit, or equipment leasing or a strategic transaction; although there is no assurance that such financings will be available to the Company us on terms it deems we deem acceptable, if at all.

7

PSYCHEMEDICS CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED) If we are unable to maintain sufficient financial resources, our business, financial condition and results of operations would be materially adversely affected.

2. Financial Information (continued)

Accounts Receivable

The Company believes its allowance for credit losses related to its accounts receivable remained adequate as of September 30, 2023, due to March 31, 2024. We maintain an allowance for credit losses based on management's assessment of the essential nature collectability of its customers' respective businesses, our customer accounts by reviewing customer payment patterns and other relevant factors. We review the adequacy of the allowance for credit losses on a quarterly basis and adjust the balance as well as determined necessary. Write-offs are recorded at the diversity of its large time a customer base. While the Company anticipates there could be an increase in the aging of its accounts receivable, the Company does not anticipate a significant increase in default risk. account is deemed uncollectable.

Recently Adopted Recent Accounting Pronouncements

In June 2016, November 2023, the FASB Financial Accounting Standards Board (the "FASB") issued Accounting Standards Update ("ASU") No. 2023-07, Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures. The ASU No.2016-13, Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments ("requires disclosures to include significant segment expenses that are regularly provided to the chief operating decision maker, among other provisions. The ASU 2016-13") is effective for fiscal year periods beginning after December 15, 2023, which modifies and interim periods within fiscal years beginning after December 15, 2024. Early adoption is permitted and the measurement of expected credit losses on certain financial instruments. The Company adopted ASU 2016-13 requires retrospective application to all prior periods presented in the first quarter financial statements. We are currently evaluating the standard to determine the impact of 2023 utilizing the modified retrospective transition method. Based on the composition of the Company's investment portfolio, current market conditions, and historical credit loss activity, the adoption of ASU 2016-13 has not had and is not expected to have a material impact on the condensed our consolidated financial statements and disclosures.

In December 2023, the FASB issued ASU 2023-09, Income Taxes (Topic 740): Improvement to Income Tax Disclosures to enhance the transparency and decision usefulness of income tax disclosures. The ASU primarily enhances and expands both the income tax rate reconciliation disclosure and the income taxes paid disclosure. The ASU is effective for annual periods beginning after December 15, 2024 on a prospective basis. Early adoption is permitted. We are currently evaluating the standard to determine the impact of adoption to our consolidated financial statements and disclosures.

3. Fair Value Measurements

The following tables present information about the Company's financial assets and liabilities measured at fair value on a recurring basis and indicate the level of the fair value hierarchy utilized to determine such fair values (in thousands):

	Fair Value Measurements at Reporting Date Using				
	Quoted Prices in				
	Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)		
September 30, 2023					
Assets:					
Cash equivalents					
Money market funds	\$ 505	\$ 505	\$ -	\$ -	
Total cash equivalents	\$ 505	\$ 505	\$ -	\$ -	

As of September 30, 2023, the Company's cash equivalents were invested in money market funds which were valued based on Level 1 inputs. As of December 31, 2022, the Company did not invest in money market funds or other types of cash equivalents. The Company did not have any financial assets or liabilities during any of the periods presented

PSYCHEMEDICS CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

The carrying values of the Company's accounts payable and accrued expenses approximate their fair values due to the short-term nature of these liabilities and as such these are considered Level 1 in the fair value hierarchy.

4. Stock-Based Compensation

The Company's 2006 Incentive Plan (the "Plan") provides for cash-based awards or the grant or issuance of stock-based awards. As of September 30, 2023, 277 **March 31, 2024**, 513 thousand shares remained available for future grant under the Plan.

On August 17, 2023, the Company granted Brian Hullinger, in connection with the commencement of his employment as the Company's Chief Executive Officer and President, as an inducement grant outside of the Plan, under Nasdaq Listing Rule 5635(c)(4), options to acquire 300,000 shares of common stock. The options have a ten-year term and an exercise price of \$4.64 per share, the closing price per share of Psychemedics Corporation common stock as reported by Nasdaq on August 17, 2023. The options were awarded in three tranches. Under the first tranche, option awards covering up to 100,000 shares vest over two years, with 50% of the original number of shares underlying the option vesting on the one-year anniversary of the date of grant and 50% on the two-year anniversary of the grant, subject to continued service with the Company through the applicable vesting dates. Under the second and third tranches, options to acquire 100,000 shares each were granted and each becomes exercisable in full only upon the attainment and continuation in effect for a specified period of time of a particular stock price on the Nasdaq Stock Market.

In addition, on September 21, 2023, the Company granted Shannon Shoemaker, in connection with the commencement of her employment as the Company's Chief Revenue Officer, grants of options to acquire 120,000 shares of common stock. The options have a ten-year term and an exercise price of \$3.66 per share, the closing price per share of Psychemedics Corporation common stock as reported by Nasdaq on September 21, 2023. The options were awarded in three tranches. Under the first tranche, option awards covering up to 40,000 shares vest over two years, with 50% of the original number of shares underlying the option vesting on the one-year anniversary of the date of grant and 50% on the two-year anniversary of the grant, subject to continued service with the Company through the applicable vesting dates. Under the second and third tranches, options to acquire 40,000 shares each were granted and each becomes exercisable in full only upon the attainment and continuation in effect for a specified period of time of a particular stock price on the Nasdaq Stock Market.

Stock-based compensation is measured at the grant date based on the fair value of the award and is recognized as an expense over the requisite service period (generally the vesting period of the equity grant). The compensation cost charged against income is included in cost of revenues and operating expenses as follows (in thousands):

	Three Months Ended				Nine Months Ended				Three Months Ended	
	September 30,		September 30,		September 30,		September 30,		March 31,	March 31,
	2023	2022	2023	2022	2023	2022	2023	2022	2024	2023
<u>Stock-based compensation related to:</u>										
Stock option grants	\$ 39	\$ 20	\$ 73	\$ 114	\$ 131	\$ 20				
Stock unit awards	362	257	648	580	166	157				
Total stock-based compensation	\$ 401	\$ 277	\$ 721	\$ 694	\$ 297	\$ 177				

There was no income tax benefit recognized in the condensed consolidated statements of operations for stock-based compensation arrangements for the three and nine months ended September 30, 2023, **March 31, 2024**, and 2022.

PSYCHEMEDICS CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

4. Stock-Based Compensation (continued) 2023.

A summary of the Company's stock option activity for the **ninethree** months ended September 30, 2023, **March 31, 2024**, is as follows (in thousands except per share amounts and years):

	Number of	Weighted Average		
		Weighted Average	Remaining	Aggregate
		Exercise Price	Contractual Life	Intrinsic

	Shares	Per Share	(years)	Value(1)
Outstanding, December 31, 2022	508	\$ 14.19	5.1	\$
Granted	120	\$ 3.66		
Canceled	(66)	\$ 14.70		
Forfeited	(11)	\$ 4.07		
Outstanding, September 30, 2023	551	\$ 11.87	4.9	\$
Exercisable, September 30, 2023	431	\$ 14.40	4.2	\$

	Weighted Average			
	Weighted Average		Remaining	Aggregate
	Number of	Exercise Price	Contractual Life	Intrinsic
	Shares	Per Share	(years)	Value (1)
Outstanding, December 31, 2023	512	\$ 6.32	8.7	-
Granted	105	3.40		
Canceled	(42)	15.12		
Outstanding, March 31, 2024	575	\$ 5.14	9.0	-
Exercisable, March 31, 2024	50	\$ 15.42	3.9	-

(1) (1) Intrinsic value is calculated based on the amount by which the closing market value of the Company's stock exceeded the exercise price of the underlying options, multiplied by the number of shares.

A summary of the Company's stock unit award ("SUA") activity for the **ninethree** months ended **September 30, 2023, March 31, 2024**, is as follows (in thousands except per share amounts):

	Number of Shares	Weighted Average Grant-Date Fair Value Per Share	Number of Shares	Weighted Average Grant- Date Fair Value Per Share
Outstanding & Unvested, December 31, 2022	238	\$ 6.10		
Outstanding & Unvested, December 31, 2023			140	\$ 5.23
Granted	91	\$ 4.64		
Converted to common stock	(121)	\$ 6.55		
Cancelled	(11)	\$ 6.54		
Forfeited	(36)	\$ 5.66		
Outstanding & Unvested, September 30, 2023	161	\$ 5.23		
Outstanding & Unvested, March 31, 2024			140	\$ 5.23

As of **September 30, 2023**, **1.1** million shares of common stock were reserved for issuance under the Plan and compensation arrangement outside the Plan. As of **September 30, 2023, March 31, 2024**, the unamortized fair value of awards relating to outstanding SUAs and options was **\$762 thousand, \$1.0 million**, which is expected to be amortized over a weighted average period of **2.1** **3.9** years.

During the third quarter of 2023, the Board of Directors approved the accelerated vesting of 44 thousand SUAs to the former Chief Executive Officer, and 6 thousand shares to an independent director, both upon retirement, during the three and nine months ended September 30, 2023, respectively. The Company determined the value of each modification

to be \$185 thousand and \$25 thousand for the three months ended September 30, 2023, which is included in stock-based compensation in the accompanying consolidated financial statements.

During the third quarter of 2022, the Board of Directors approved the accelerated vesting of 19 thousand and 35 thousand SUAs to certain directors, upon retirement, of the Company during the three and nine months ended September 30, 2022, respectively. The Company determined the value of the modifications to be \$118 thousand and \$230 thousand during the three and nine months ended September 30, 2022, respectively, which is included in stock-based compensation in the accompanying consolidated financial statements.

PSYCHEMEDIICS CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

5.4. Income Taxes

Our effective tax rates for the three and nine months ended September 30, 2023, differ from the statutory rate primarily due to a valuation allowance recorded against our U.S. federal and state deferred tax assets. We recorded an \$692 thousand full valuation allowance in the third quarter of 2023 on our net deferred tax assets based on an assessment of available positive and negative evidence, including being in a three-year cumulative loss position in the U.S., projections of future taxable income, and other quantitative and qualitative information. We intend to maintain a full valuation allowance on our U.S. federal and state net deferred tax assets until there is sufficient positive evidence to support the reversal of all or some portion of the valuation allowance.

6.5. Basic and Diluted Net Loss Per Share

Basic net loss per share is computed by dividing net loss by the weighted average number of common shares outstanding during the period. Diluted loss per share includes the effect, if any, from the potential exercise or conversion of securities, such as stock options and stock unit awards, that would result in the issuance of incremental shares of common stock. In computing the basic and diluted net loss per share, is computed by dividing net loss by the weighted average number of common shares remains the same for both calculations due to the fact that when a net loss exists, dilutive shares are not included in the calculation as the impact is anti-dilutive.

The following potentially dilutive securities outstanding as of March 31, 2024 and dilutive common equivalent shares outstanding during 2023 have been excluded from the period when the effect is dilutive. The number computation of dilutive common equivalent shares outstanding during the period was determined in accordance with the treasury-stock method. Common equivalent shares consisted of common stock issuable upon the exercise of outstanding options and common stock issuable upon the vesting of outstanding, unvested SUAs. Basic and diluted weighted average common shares outstanding, for the three and nine months ended September 30, 2023, and 2022, were as follows (in thousands): they would be anti-dilutive.

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2023	2022	2023	2022
Weighted average common shares outstanding, basic	5,755	5,638	5,718	5,613
Dilutive common equivalent shares	-	-	-	-
Weighted average common shares outstanding, diluted	5,755	5,638	5,718	5,613

The computation of diluted loss per share for the three and nine months ended September 30, 2023, excludes the effect of the potential exercise of stock awards, including stock options, when the effect is anti-dilutive. For the three and nine months ended September 30, 2023, the number of antidilutive stock awards excluded from diluted loss per share were 524 thousand and 513 thousand, respectively.

	March 31	
	2024	2023
Options	575	402
SUAs	140	222
Total	715	624

PSYCHEMEDIICS CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

7.6. Commitments and Contingencies

From time to time, the Company is a party to various lawsuits, claims and other legal proceedings that arise in the ordinary course of business. When the Company becomes aware of a claim or potential claim, it assesses the likelihood of any loss or exposure. In accordance with authoritative guidance, the Company records loss contingencies in its financial statements only for matters in which losses are probable and can be reasonably estimated. The Company continuously assesses the potential liability related to the Company's pending litigation and revises its estimates when additional information becomes available. Although it is difficult to predict the ultimate outcome of these cases, management believes, that any ultimate liability would not have a material adverse effect on the consolidated statements of operations. However, an unforeseen unfavorable development in any of these cases could have a material adverse effect on the statements of operations or cash flows in the period in which it is recorded. Developments in legal proceedings and other matters that could cause changes in the amounts previously accrued are evaluated each reporting period.

Settlements

As previously reported in the 10-K, on December 6, 2021, the Company entered into a binding Memorandum of Understanding to settle a purported class action lawsuit related to certain California wage and hour laws. The lawsuit, Enma Sagastume v. Psychemedics Corporation, Case No.2:20-CV-06624-DSF, is pending in the United States District Court for the Central District of California (the "California Lawsuit") and is similar to numerous lawsuits filed against employers with operations in California. The Company has accrued \$1.2 million 10-K, as of September 30, 2023, related to the California Lawsuit, which December 31, 2023, we paid \$334 thousand in connection with a previously disclosed contract dispute regarding strategic negotiations with a shipping carrier. The remaining balance of \$167 thousand, due on or before December 31, 2024, is included in accrued expenses on the accompanying consolidated balance sheets and which was paid in full on November 2, 2023.

As previously reported in a Current Report on Form 8-K filed on July 21, 2023, on July 17, 2023, the Company entered into a Confidential Settlement Agreement and Release (the "Agreement") in connection with a contract dispute regarding the Company's alleged contractual obligations for work performed by a consultant for advice on strategic negotiations with a shipping carrier. The Agreement provided that the settlement amount of \$0.5 million would be paid in three equal installments as follows: on or before August 17, 2023, on or before December 31, 2023, and on or before December 31, 2024. The Company paid one installment before August 17, 2023. The Company believes that the allegations lack merit and agreed to the enter into the Agreement to settle claims in order to avoid potential significant fees and a general distraction. The Company has accrued \$0.3 million as of September 30, 2023, related to the Agreement, which is included in accrued expenses on the accompanying unaudited condensed consolidated balance sheets.

PSYCHEMEDICS CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

8.7. Operating Leases

The Company has five operating leases for office and laboratory space used to conduct business. The exercise of lease renewal options is at our discretion. There is one lease which contains renewal options to extend the lease terms included in our Right-Of-Use ("ROU") assets and lease liabilities as they are reasonably certain of exercise. The Company regularly evaluates the renewal options and when they are reasonably certain of exercise. As most of the Company's leases do not provide an implicit rate, the Company uses the incremental borrowing rate based on the information available at the lease commencement date in determining the net present value of the lease payments.

As of September 30, 2023, March 31, 2024, the Company recognized a Right-Of-Use ("ROU") asset of \$2.1 million \$1.6 million and an operating lease liability of \$2.3 million \$1.7 million based on the net present value of the minimum lease payments. The weighted average discount rate used for leases as of September 30, 2023, March 31, 2024, is 3.9%. The weighted average lease term as of September 30, 2023, March 31, 2024, is 2.9 years. The operating lease expense for the three and nine months ended September 30, 2023, March 31, 2024, was \$258 thousand and \$779 thousand, respectively.

Maturities and balance sheet presentation of the Company's lease liabilities for all operating leases as of September 30, 2023, is as follows (in thousands):

October 1, 2023, through December 31, 2023	\$ 293
2024	1,106
2025	564
2026	460
Total lease payments	2,423
Less: interest	(159)
Present value of lease liabilities	\$ 2,264
Current operating lease liabilities	\$ 1,058
Long-term operating lease liabilities	1,206
\$	2,264

PSYCHEMEDICS CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

\$248 thousand.

9.8. Debt

On March 20, 2014, March 20, 2014, the Company entered into an equipment financing arrangement ("Loan Agreement") with Banc Bang of America Leasing & Capital LLC, which it amended on August 8, 2014, September 15, 2015, October 30, 2017, August 8, 2014, September 15, 2015, October 30, 2017, and December 2, 2019, December 2, 2019. The terms of the arrangement are detailed in the 10-K. 10-K.

The weighted average interest rate on outstanding debt under the Loan Agreement was 3.8% for the three and nine months ended September 30, 2023, March 31, 2024. The interest expense was \$4 thousand and \$14 thousand for the three months and nine months ended September 30, 2023. As of September 30, 2023, the weighted average interest rate was 3.8% and there was \$379 thousand of outstanding debt related under the Loan Agreement. The Company was March 31, 2024. We were not in compliance with all loan covenants under the Loan Agreement fixed charge coverage ratio as of September 30, 2023.

The remaining principal repayment requirements for debt obligations as of September 30, 2023, were as follows (in thousands):

October 1, 2023, through December 31, 2023	\$	74
2024		305
Long-term debt from equipment financing		379
Less: current portion of long-term debt from equipment financing		(302)
Long-term debt from equipment financing, net of current portion	\$	77

March 31, 2024. Subsequent to March 31, 2024, we received a waiver from the lender.

PSYCHEMEDICS CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

10.9. Revenue

The table below disaggregates our external revenue by major source (in thousands):

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2023	2022	2023	2022
Testing	\$ 4,864	\$ 5,554	\$ 14,416	\$ 16,180
Shipping/Collection (hair)	819	937	2,614	2,700
Other	21	25	70	80
Total Revenue	\$ 5,704	\$ 6,516	\$ 17,100	\$ 19,960

	Three Months Ended	
	March 31,	
	2024	2023
Testing	\$ 4,540	\$ 4,938
Shipping/Collection (hair)	785	898
Other	32	23
Total Revenue	\$ 5,357	\$ 5,859

11.10. Significant Customers

The Company had one customer that represented 14% of revenue for the nine months ended September 30, 2023. The Company had no customers that represented over 10% of revenue for during either of the nine months three-month periods ended September 30, 2022. The Company March 31, 2024, or 2023. We had one customer two customers that represented 27% 31% and 14% 17%, respectively, of the total accounts receivable balance as of September 30, 2023, March 31, 2024, and 2022, respectively. one customer that represented 16% of the total accounts receivable balance as of March 31, 2023.

Item 2.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

FACTORS THAT MAY AFFECT FUTURE RESULTS

From time to time, information provided by the Company or statements made by its employees may contain forward-looking information that involves risks and uncertainties. In particular, statements contained in this report that are not historical facts (including but not limited to statements concerning earnings, earnings per share, revenues, cash flows, dividends, future business, growth opportunities, profitability, pricing, new accounts, customer base, market share, test volume, sales and marketing strategies, market demand for drug testing services in the U.S. and foreign drug testing laws and regulations, required investments in plant, equipment and people and new test development) may be "forward looking" statements. Actual results may differ from those stated in any forward-looking statements. Factors that may cause such differences include but are not limited to risks associated with the changes in U.S. and foreign government regulations, including but not limited to FDA regulations, R&D spending, competition (including, without limitation, competition from other companies pursuing the same growth opportunities), the Company's ability to maintain its reputation and brand image, the ability of the Company to achieve its business plans, cost controls, the continued labor shortage, leveraging of its global operating platform, risks of information technology system failures and data security breaches, the uncertain global economy, the Company's ability to attract, develop and retain executives and other qualified employees and independent contractors, including distributors, the Company's ability to obtain and protect intellectual property rights, litigation risks, and general economic conditions.

Given these uncertainties, you should not place undue reliance on these forward-looking statements. Forward-looking statements represent the Company's estimates and assumptions only as of the filing date of this Report. The Company expressly **disclaim** **disclaims** any duty to provide updates to forward-looking statements, and the estimates and assumptions associated with them, after the filing date of this Report in order to reflect changes in circumstances or expectations, or the occurrence of unanticipated events, except to the extent required by applicable securities laws. All of the forward-looking statements are qualified in their entirety by reference to the factors discussed above and under "Risk Factors" set forth in Part I Item 1A of the 10-K, as well as the risks and uncertainties discussed elsewhere in this Report. The Company qualifies all of its forward-looking statements with these cautionary statements. The Company cautions you that these risks are not exhaustive. The Company operates in a continually changing business environment and new risks emerge from time to time.

RESULTS OF OPERATIONS

Revenue decreased 12% 9% for the three months ended September 30, 2023 March 31, 2024, compared to the same period in 2022, 2023, primarily due to a decrease in volumes from the Company's base business. The Company's revenues were impacted by lower volumes from customers experiencing the effects of the general economic conditions, continued labor shortage related to hiring and changing customer priorities. For the nine months ended September 30, 2023, revenue decreased \$2.4 million or 12%, primarily due to a decrease in volumes from the Company's base business.

Gross profit decreased 9% or 4% to \$2.1 million for the three months ended September 30, 2023 March 31, 2024, compared to \$2.3 million \$2.2 million for the same period in 2022, 2023. Cost of revenues decreased by \$0.6 million \$0.4 million or 14% 11% for the three months ended September 30, 2023 March 31, 2024, compared to the same period in 2022. Gross profit for the nine months ended September 30, 2023, was \$6.4 million, a decrease of \$0.7 million from the comparable period in 2022, 2023. Gross profit percentage was 39.6% for the nine month period three months ended September 30, 2023 March 31, 2024, was 37% compared to 36% for 37.6% the comparable same period in 2022, 2023. The increase in gross profit percentage was primarily due to cost reduction programs offset by lower total revenues for both the three and nine months ended September 30, 2023 March 31, 2024.

General and administrative ("G&A") expenses increased 38% 9% or \$0.6 million \$0.1 million to \$2.2 million \$1.8 million for the three months ended September 30, 2023 March 31, 2024, compared to \$1.6 million for the same period in 2022, 2023. As a percentage of revenue, G&A expenses were 39% 33% and 24% 28% for the three months ended September 30, 2023 March 31, 2024, and 2022, respectively. G&A expenses were \$5.3 million and \$4.4 million for the nine months ended September 30, 2023, and 2022, 2023, respectively. The increase in G&A expenses for both the three and nine months ended September 30, 2023 March 31, 2024, was primarily due to higher costs associated with legal, fees, CEO succession plan execution, accounting and consulting fees, and business insurance premiums. As a percentage of revenue, G&A expenses were 31% and 22% for the nine months ended September 30, 2023, and 2022, respectively, fees.

Marketing and selling expenses decreased 13% 12% or \$0.1 million to \$0.7 million for the three months ended September 30, 2023 March 31, 2024, compared to \$0.8 million for the same period in 2022, 2023. Total marketing and selling expenses represented 13% and 12% of revenue for both the three months ended September 30, 2023 March 31, 2024, and 2022, 2023. The decrease in marketing and selling was primarily driven by lower personnel costs. Marketing and selling expenses were \$2.3 million and \$2.4 million for the nine months ended September 30, 2023, and 2022, respectively. As a percentage of revenue, marketing and selling expenses were 13% and 12% for the nine months ended September 30, 2023, and 2022, respectively.

Research and development ("R&D") expenses were flat at \$0.3 million decreased 30% or \$0.1 million to \$0.2 million for both the three months ended September 30, 2023 March 31, 2024, and 2022 compared to \$0.3 million for the same period in 2023. R&D expenses represented 4% and 5% of revenue for the three months ended September 30, 2023 March 31, 2024, and 2022. R&D expenses were \$0.9 million 2023, respectively. The decrease in research and \$1.0 million for the nine months ended September 30, 2023, and 2022, respectively. R&D expenses represented 5% of revenue for the nine months ended September 30, 2023, and 2022. development was primarily driven by lower personnel costs.

Provision for (benefit from) income taxes consisted primarily of federal and state income taxes in the United States. We estimate income taxes in each of the jurisdictions in which we operate. During the three months ended September 30, 2023 March 31, 2024, the Company recorded a tax provision of \$1.0 million \$0.1 million (effective tax rate of 90% 20.2%) and a tax benefit of \$286 \$149 thousand (effective tax rate of 75% 28%) for the comparable period in 2022. During the nine months ended September 30, 2023, the Company recorded a tax provision of \$647 thousand (effective tax rate of 25%) and a tax benefit of \$282 thousand (effective tax rate of 42%) for the comparable period in 2022. 2023.

LIQUIDITY AND CAPITAL RESOURCES

At September 30, 2023 March 31, 2024, the Company had approximately \$1.4 million of cash and cash equivalents. The Company's operating activities used net cash of \$2.1 million \$0.5 million for the nine three months ended September 30, 2023 March 31, 2024. Investing activities used \$0.2 million \$5 thousand of net cash while financing activities used \$1.1 million \$75 thousand of net cash for the nine three months ended September 30, 2023 March 31, 2024.

Cash used in operating activities of \$2.1 million \$0.5 million reflected net loss of \$3.2 million \$0.7 million adjusted for depreciation and amortization of \$1.4 million \$0.3 million, ROU asset amortization of \$0.6 million \$0.2 million and stock-based compensation of \$0.7 million. This was also impacted \$0.3 million offset by an increase a net change in operating assets of \$1.3 million and a decrease in operating liabilities of \$1.1 million \$0.8 million.

Cash used in investing activities of \$0.2 million \$5 thousand was primarily related to the cost of internally developed software and equipment purchases. We anticipate spending less than \$0.3 million in additional capital purchases for the remainder of 2023. software.

Cash used in financing activities of \$1.1 million included cash dividends \$75 thousand was primarily related to shareholders of \$0.8 million and \$0.2 million from payments on equipment debt financing.

Contractual obligations and other commercial commitments as of September 30, 2023 March 31, 2024, included legal settlement commitments, operating lease commitments, and outstanding debt, described in Notes 6, 7, 8, and 9, respectively of the Notes to Condensed Consolidated Financial Statements.

While management currently believes that its existing funds and cash flow from operations should be adequate to fund the Company's business for at least the next 12 months, adverse economic conditions could adversely negatively affect the Company's future operating results and cash flows. Depending upon the Company's results of operations, its future capital needs and available marketing opportunities, the Company may use various financing sources to raise additional funds. Such sources could include but are not limited to, issuance of common stock or debt financing, lines of credit, or equipment leasing, although there is no assurance that such financings will be available to the Company on terms it deems acceptable, if at all.

Item 4. Controls and Procedures

As of the end of the period covered by this report (the "evaluation date") the Company's management under the supervision and with the participation of the Company's Chief Executive Officer (in his capacity as both and the Company's principal executive officer and its principal financial officer) Vice President of Finance performed an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act. Based upon that evaluation, the Chief Executive Officer and the Vice President of Finance concluded as of the evaluation date, that the Company's disclosure controls and procedures were effective for ensuring that information required to be disclosed by the Company in the reports that it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that its disclosure controls and procedures were also effective to ensure that information required to be disclosed in the reports that it files or submits under the Exchange Act is accumulated and communicated to management, including the Company's principal executive and principal financial officers, to allow timely decisions regarding required disclosure.

There has been no significant change in the Company's internal control over financial reporting during the most recent fiscal quarter that has materially affected or is reasonably likely to materially affect the Company's internal control over financial reporting.

PART II – OTHER INFORMATION

Item 1. Legal Proceedings

Information pertaining to legal proceedings can be found in Item 1. Financial Statements and Supplementary Data – Note 6 "Commitments and Contingencies".

Item 1A. Risk Factors

Item 1A. of our Annual Report on Form 10-K for the year ended **December 31, 2022** **December 31, 2023**, includes a discussion of our risk factors. There have been no material changes in the risk factors described in such report.

Item 2. Unregistered Sales of Equity Securities, Use of Proceeds and Issuer Purchases of Equity Securities

There were no purchases of treasury stock in the first **nine** **three** months of **2023**, **2024**.

Item 6. Exhibits

31.110.1	<i>Ninth Amendment to Lease dated March 29, 2024, with Mitchell H. Hersch, et.al. California — Supersedes the Eighth amendment in its entirety</i>
31.1	<i>Certification of President and Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</i>
32.131.2	<i>Certification of Chief Executive Officer Vice President of Finance Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</i>
32.1	<i>Certification Pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</i>
32.2	<i>Certification Pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</i>
101.INS	<i>Inline XBRL Instance Document</i>
101.SCH	<i>Inline XBRL Taxonomy Extension Schema</i>
101.CAL	<i>Inline XBRL Taxonomy Extension Calculation Linkbase</i>
101.DEF	<i>Inline XBRL Taxonomy Extension Definition Linkbase</i>
101.LAB	<i>Inline XBRL Taxonomy Extension Label Linkbase</i>
101.PRE	<i>Inline XBRL Taxonomy Extension Presentation Linkbase</i>
104	<i>Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)</i>

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.

Psychemedics Corporation **PSYCHEMEDICS CORPORATION**

Date: **November 13, 2023** **May 14, 2024**

By: /s/ /s/ Brian Hullinger

Brian Hullinger

President and Chief Executive Officer
(Principal Executive Officer)

Date: **May 14, 2024**

By: /s/ Daniella Mehalik

Daniella Mehalik

Vice President of Finance
(Principal Financial and President Accounting Officer)

2015

NINTH AMENDMENT TO LEASE

This NINTH AMENDMENT TO LEASE (the "Amendment") is made and entered into as of the 29 day of March 2024, by and between UPLANDER LLC ("Lessor") and PSYCHEMEDIICS CORPORATION, a Delaware corporation ("Lessee"), with respect to that Standard Industrial Lease dated October 6, 1992, and amended January 1, 1993, December 16, 1994, December 31, 1997, May 24, 2005, November 22, 2011, October 13, 2015, June 26, 2020 and March 20, 2022 (as amended, the "Lease"), pursuant to which Lessee leases from Lessor those certain premises located at 5830 Uplander Way, Los Angeles County, California and 5832 Uplander Way, Los Angeles County, California (collectively the "Premises"). Unless otherwise defined herein, all capitalized terms used in this Amendment shall have the same meanings as are ascribed to such terms in the Lease. Lessor and Lessee hereby acknowledge the following:

RECITALS

A. Lessee herewith exercises the Option to Extend Term provided in the Eighth Amendment to Lease dated March 20, 2022. Said Lease Extension shall commence January 1, 2025 and shall terminate December 31, 2026.

B. Lessor and Lessee desire to modify the Lease as provided herein.

C. Except as amended and modified, all terms of the Lease, as amended, shall remain in full force and effect.

NOW, THEREFORE, in consideration of the mutual promises and covenants hereinafter set forth, and other good and valuable consideration, receipt of which is hereby acknowledged, Lessor and Lessee agree as follows:

AGREEMENT

1. **Rent Adjustment.** Commencing January 1, 2025 and thereafter annually on each subsequent January 1st, the Base Monthly Rental shall be readjusted by a percentage equal to the increase in the Consumer Price Index (U.S. Department of Labor for all Urban Consumers, Los Angeles-Anaheim-Riverside California {1967=100} hereinafter "C.P.I. Index") for the previous calendar year period of January 1st through December 31st; provided, however, notwithstanding the C.P.I. Index, the Base Monthly Rental for calendar year 2025 and for each subsequent calendar year shall increase by no less than two percent (2%) nor more than four percent (4%) per year. If the Bureau of Labor Statistics discontinues publication of the C.P.I. Index, publishes the C.P.I. Index less frequently, or alters the C.P.I. Index in a material manner, then Lessor, in its sole discretion, may adopt a substitute index or procedure which reasonably reflects and monitors consumer prices.

2. **Security Deposit.** At such time that the rent is adjusted in accordance with Paragraph 2 above, the security deposit then in effect will be adjusted in a like amount.

3. **Incorporation.** Except as otherwise expressly set forth herein, and to the extent necessary to give effect to the provisions hereof, all terms and conditions of the Lease shall remain unmodified and in full force and effect.

4. **Counterparts.** This Amendment may be executed in one or more counterpart copies, and each of which, so executed, irrespective of the date of execution and delivery, shall be deemed to be an original, and all such counterparts together shall constitute one and the same instrument. The signature pages of one or more of the counterpart copies may be removed from such counterpart copies and be attached to the same copy of this Amendment, which, with all signatures attached, shall be deemed to be an original Agreement.

IN WITNESS WHEREOF, the parties hereto have entered into this Ninth Amendment as of the date first set forth above.

LESSOR

UPLANDER LLC

By: /s/ Mitchell H. Hersch

MITCHELL H. HERSCHE

MANAGER

LESSEE

PSYCHEMEDIICS CORPORATION,

a Delaware corporation

By: /s/ Brian Hullinger

Brian Hullinger

CEO

2

Exhibit 31.1

**CERTIFICATION PURSUANT TO
SECTION 302
OF THE SARBANES-OXLEY ACT OF 2002**

I, Brian Hullinger, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Psychemedics Corporation ("the registrant");
2. Based on my knowledge, this quarterly 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 quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly 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 quarterly report;

4. The registrant's other certifying officer 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 controls over financial reporting (as defined by Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
- a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting;

5. The registrant's other certifying officer 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:

- a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
- b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 13, 2023 May 14, 2024

By: /s/ Brian Hullinger

Brian Hullinger

President and Chief Executive Officer
(Principal Executive Officer)

Exhibit 31.2

CERTIFICATION PURSUANT TO

SECTION 302

OF THE SARBANES-OXLEY ACT OF 2002

I, Daniella Mehalik, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Psychomedics Corporation ("the registrant");
2. Based on my knowledge, this quarterly 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 quarterly report;
3. Based on my knowledge, the financial statements, and President other financial information included in this quarterly 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 quarterly report;
4. The registrant's other certifying officer 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 controls over financial reporting (as defined by Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting;
5. The registrant's other certifying officer 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:

- 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 14, 2024

By: /s/ Daniella Mehalik

Daniella Mehalik

Vice President of Finance

(principal executive officer) Principal Financial and Accounting Officer

Exhibit 32.1

CERTIFICATION PURSUANT TO
U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

I, Brian Hullinger, **President and Chief Executive Officer** and President of Psychededics Corporation (the "Company"), certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, as the principal executive officer of the Company, that:

(1) The Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2023, as filed with the Securities and Exchange Commission on November 13, 2023 (the "Report"), fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2024, as filed with the Securities and Exchange Commission on May 14, 2024 (the "Report"), fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

(2) Date: May 14, 2024

The
information
contained
in the
Report
fairly
presents,
in all
material
respects,
the
financial
condition
and results
of
operations
of the
Company.

Date: November 13, 2023 By:

/s/ Brian Hullinger

Brian Hullinger

President and Chief Executive
Officer and President

(Principal Executive Officer)

(principal executive officer)

Exhibit 32.2

CERTIFICATION PURSUANT TO

U.S.C. SECTION 1350

AS ADOPTED PURSUANT TO

SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

I, Daniella Mehalik, Vice President of Finance of Psychemedics Corporation (the "Company"), certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, as the principal financial and accounting officer of the Company, that:

1. The Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2024, as filed with the Securities and Exchange Commission on May 14, 2024 (the "Report"), fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 14, 2024

By: /s/ Daniella Mehalik

Daniella Mehalik

Vice President of Finance

(Principal Financial and Accounting Officer)

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