UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2021

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: 001-38529

Verrica Pharmaceuticals Inc.

(Exact Name of Registrant as Specified in its Charter)

Delaware	**46-3137900**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
44 West Gay Street, Suite 400 West Chester, PA	**19380**
(Address of principal executive offices)	**(Zip Code)**

Registrant's telephone number, including area code: (484) 453-3300

N/A

(Former address of principal executive offices)

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, $0.0001 par value	VRCA	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 the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

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

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

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

As of November 4, 2021, the registrant had 27,519,053 shares of common stock, $0.0001 par value per share, outstanding.

VERRICA PHARMACEUTICALS INC.
QUARTERLY REPORT ON FORM 10-Q
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PART I. FINANCIAL INFORMATION

Item 1. Unaudited Condensed Financial Statements

VERRICA PHARMACEUTICALS INC.
CONDENSED BALANCE SHEETS
(in thousands, except share and per share amounts)
(Unaudited)

	September 30, 2021	December 31, 2020
ASSETS		
Current assets:		
Cash and cash equivalents	$ 20,442	$ 10,686
Marketable securities	59,053	54,784
Prepaid expenses and other assets	3,663	2,180
Total current assets	83,158	67,650
Property and equipment, net	3,668	3,102
Operating lease right-of-use asset	1,666	1,836
Other non-current assets	264	1,566
Total assets	**$ 88,756**	**$ 74,154**
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 904	$ 348
Accrued expenses and other current liabilities	3,877	3,114
Operating lease liability	239	198
Financing lease liability	6	—
Deferred revenue	—	500
Short term debt	41,348	35,315
Total current liabilities	46,374	39,475
Operating lease liability	1,512	1,693
Financing lease liability	18	—
Total liabilities	**47,904**	**41,168**
Commitments and Contingencies (Note 10)		
Stockholders' equity:		
Preferred stock, $0.0001 par value; 10,000,000 shares authorized; no shares issued and outstanding as of September 30, 2021 and December 31, 2020	—	—
Common stock, $0.0001 par value; 200,000,000 authorized; 27,624,197 shares issued and 27,519,053 shares outstanding as of September 30, 2021; 25,546,257 shares issued and 25,441,113 shares outstanding as of December 31, 2020	3	3
Treasury stock, at cost, 105,144 shares as of September 30, 2021 and December 31, 2020	—	—
Additional paid-in capital	170,277	136,868
Accumulated deficit	(129,426)	(103,886)
Accumulated other comprehensive (loss) gain	(2)	1
Total stockholders' equity	40,852	32,986
Total liabilities and stockholders' equity	**$ 88,756**	**$ 74,154**

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

VERRICA PHARMACEUTICALS INC.
CONDENSED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS
(in thousands, except share and per share amounts)
(Unaudited)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2021	2020	2021	2020
License revenue	$ —	$ —	$ 12,000	$ —
Operating expenses:				
Research and development	3,763	4,988	12,572	13,401
General and administrative	8,005	4,649	21,866	14,747
Total operating expenses	11,768	9,637	34,438	28,148
Loss from operations	(11,768)	(9,637)	(22,438)	(28,148)
Other income (expense):				
Interest income	31	69	96	473
Interest expense	(1,092)	(918)	(3,198)	(2,042)
Total other expense	(1,061)	(849)	(3,102)	(1,569)
Net loss	**$ (12,829)**	**$ (10,486)**	**$ (25,540)**	**$ (29,717)**
Net loss per share, basic and diluted	$ (0.47)	$ (0.42)	$ (0.95)	$ (1.19)
Weighted average common shares outstanding, basic and diluted	27,516,477	24,988,939	26,884,527	24,972,972
Net loss	$ (12,829)	$ (10,486)	$ (25,540)	$ (29,717)
Other comprehensive gain:				
Unrealized loss on marketable securities	(1)	(26)	(3)	(14)
Comprehensive loss	**$ (12,830)**	**$ (10,512)**	**$ (25,543)**	**$ (29,731)**

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

VERRICA PHARMACEUTICALS INC.
CONDENSED STATEMENTS OF STOCKHOLDERS' EQUITY
(in thousands, except share amounts)
(Unaudited)

	Common Stock		Additional	Subscription	Accumulated	Treasury Stock		Accumulated Other Comprehensive	Total
	Shares Issued	Amount	Paid-in Capital	Receivable	Deficit	Shares	Cost	Gain (Loss)	Stockholders' Equity
January 1, 2021	**25,546,257**	**$ 3**	**$ 136,868**	**$ —**	**$ (103,886)**	**105,144**	**$ —**	**$ 1**	**$ 32,986**
Stock-based compensation	—	—	1,403	—	—	—	—	—	1,403
Issuance of common stock, net of issuance costs	2,033,899	—	28,115	—	—	—	—	—	28,115
Exercise of stock options	15,708	—	240	—	—	—	—	—	240
Net loss	—	—	—	—	(936)	—	—	—	(936)
Unrealized loss on marketable securities	—	—	—	—	—	—	—	2	2
March 31, 2021	**27,595,864**	**3**	**166,626**	**—**	**(104,822)**	**105,144**	**—**	**3**	**61,810**
Stock-based compensation	—	—	1,848	—	—	—	—	—	1,848
Exercise of stock options	24,000	—	277	—	—	—	—	—	277
Net loss	—	—	—	—	(11,775)	—	—	—	(11,775)
Unrealized gain on marketable securities	—	—	—	—	—	—	—	(4)	(4)
June 30, 2021	**27,619,864**	**$ 3**	**$ 168,751**	**$ —**	**$ (116,597)**	**105,144**	**$ —**	**$ (1)**	**$ 52,156**
Stock-based compensation	—	—	1,481	—	—	—	—	—	1,481
Exercise of stock options	4,333	—	45	—	—	—	—	—	45
Net loss	—	—	—	—	(12,829)	—	—	—	(12,829)
Unrealized gain on marketable securities	—	—	—	—	—	—	—	(1)	(1)
September 30, 2021	**27,624,197**	**$ 3**	**$ 170,277**	**$ —**	**$ (129,426)**	**105,144**	**$ —**	**$ (2)**	**$ 40,852**
January 1, 2020	**25,912,137**	**$ 3**	**$ 126,594**	**$ (410)**	**$ (61,192)**	**105,144**	**$ —**	**$ 20**	**$ 65,015**
Repayment of subscription receivable	—	—	—	410	—	—	—	—	410
Stock-based compensation	—	—	998	—	—	—	—	—	998
Exercise of stock options	7,500	—	7	—	—	—	—	—	7
Net loss	—	—	—	—	(9,822)	—	—	—	(9,822)
March 31, 2020	**25,919,637**	**3**	**127,599**	**—**	**(71,014)**	**105,144**	**—**	**20**	**56,608**
Stock-based compensation	—	—	1,252	—	—	—	—	—	1,252
Net loss	—	—	—	—	(9,409)	—	—	—	(9,409)
Unrealized gain on marketable securities	—	—	—	—	—	—	—	12	12
June 30, 2020	**25,919,637**	**$ 3**	**$ 128,851**	**$ —**	**$ (80,423)**	**105,144**	**$ —**	**$ 32**	**$ 48,463**
Subscription receivable	51,049	—	446	(446)	—	—	—	—	—
Stock-based compensation	—	—	1,231	—	—	—	—	—	1,231
Unrealized gain on marketable securities	—	—	—	—	—	—	—	(26)	(26)
Net loss	—	—	—	—	(10,486)	—	—	—	(10,486)
September 30, 2020	**25,970,686**	**$ 3**	**$ 130,528**	**$ (446)**	**$ (90,909)**	**105,144**	**$ —**	**$ 6**	**$ 39,182**

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

VERRICA PHARMACEUTICALS INC.
CONDENSED STATEMENTS OF CASH FLOWS
(in thousands)
(Unaudited)

	For the Nine Months Ended September 30,	
	2021	**2020**
Cash flows from operating activities		
Net loss	$ (25,540)	$ (29,717)
Adjustments to reconcile net loss to net cash used in operating activities:		
Stock-based compensation	4,732	3,481
Accretion of discounts on marketable securities	14	(125)
Depreciation expense	102	31
Non cash interest expense	1,081	597
Reduction in operating lease right-of-use asset	170	130
Changes in operating assets and liabilities:		
Prepaid expenses and other assets	(233)	863
Accounts payable	522	(1,006)
Accrued expenses and other current liabilities	908	1,240
Deferred revenue	(500)	500
Operating lease liability	(140)	(102)
Net cash used in operating activities	(18,884)	(24,108)
Cash flows from investing activities		
Sales and maturities of marketable securities	54,800	57,749
Purchases of marketable securities	(59,086)	(59,545)
Purchases of property and equipment	(646)	(926)
Deposits	(77)	—
Net cash used in investing activities	(5,009)	(2,722)
Cash flows from financing activities		
Proceeds from exercise of stock options	558	7
Proceeds from issuance of common stock, net of issuance costs	28,119	—
Proceeds from issuance of debt, net	4,975	34,460
Debt issuance costs	—	(90)
Repayment of financing lease	(3)	—
Repayment of subscription receivable	—	410
Net cash provided by financing activities	33,649	34,787
Net increase in cash and cash equivalents	9,756	7,957
Cash and cash equivalents at the beginning of the period	10,686	9,241
Cash and cash equivalents at the end of the period	**$ 20,442**	**$ 17,198**
Supplemental disclosure of noncash investing and financing activities:		
Property and equipment purchases payable or accrued at period end	$ 209	$ 455
Subscription receivable on exercise of options	$ —	$ 446
Right-of-use asset obtained in exchange for lease obligation	$ —	$ 1,910
Change in unrealized gain on marketable securities	$ (3)	$ (14)
Cash paid for interest	$ 2,117	$ 1,234

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

Note 1—Nature of Business

Verrica Pharmaceuticals Inc. (the "Company") was formed on July 3, 2013 and is incorporated in the State of Delaware. The Company is a dermatology therapeutics company developing medications for skin diseases requiring medical interventions.

Liquidity

The Company has incurred substantial operating losses since inception and expects to continue to incur significant operating losses for the foreseeable future and may never become profitable. On March 17, 2021, the Company entered into the Torii Agreement (Note 11), pursuant to which the Company received an upfront payment from Torii of $11.5 million in April 2021. On March 25, 2021, the Company closed a follow-on public offering in which it sold 2,033,899 shares of common stock at a public offering price of $14.75 per share, resulting in net proceeds of $28.1 million after deducting underwriting discounts and commissions and offering expenses. As of September 30, 2021, the Company had an accumulated deficit of $129.4 million.

In March 2020, the Company entered into a Mezzanine Loan Agreement (see Note 7) pursuant to which the Company borrowed (i) $35.0 million in March 2020 and (ii) $5.0 million on March 1, 2021. As discussed in Note 7, the Mezzanine Loan Agreement was amended on October 26, 2020 and now includes a minimum liquidity covenant. If the Company is not in compliance with the minimum liquidity ratio covenant, the outstanding debt and any related final payment fees, prepayment fees, and accrued interest become due upon demand. The Company believes that, without additional financing, it is probable that it will not be in compliance with the minimum liquidity ratio covenant at some point in the next twelve months.

The Company believes its cash, cash equivalents and marketable securities of $79.5 million as of September 30, 2021 will be sufficient to support Company's planned operations into the third quarter of 2022. Substantial additional financing will be needed by the Company to fund its operations. The Company's condensed financial statements have been prepared on a going concern basis, which contemplates the realization of assets and satisfaction of liabilities in the normal course of business. The condensed financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or the amounts and classification of liabilities that might result from the outcome of this uncertainty. The Company anticipates incurring additional losses until such time, if ever, that it can obtain marketing approval to sell, and then generate significant sales of VP-102. These factors raise substantial doubt about the Company's ability to continue as a going concern within one year after the date the financial statements are issued. The Company plans to secure additional capital in the future through equity or debt financings, partnerships, or other sources to carry out the Company's planned development activities. If the Company is unable to raise capital when needed or on attractive terms, the Company would be forced to delay, reduce or eliminate its research and development programs or future commercialization efforts.

Note 2—Significant Accounting Policies

Basis of Presentation

The accompanying unaudited interim condensed financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America ("GAAP") as determined by the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") for interim financial information. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, the unaudited interim condensed financial statements reflect all adjustments, which include only normal recurring adjustments necessary for the fair statement of the balances and results for the periods presented. They may not include all of the information and footnotes required by GAAP for complete financial statements. Therefore, these financial statements should be read in conjunction with the Company's audited financial statements and notes thereto for the year ended December 31, 2020, filed with the Securities and Exchange Commission (the "SEC") on March 17, 2021. The results of operations for any interim periods are not necessarily indicative of the results that may be expected for the entire fiscal year or any other interim period.

The Company has been actively monitoring the novel coronavirus ("COVID-19") pandemic and its impact globally. Management believes the financial results for the year ended December 31, 2020 and the nine months ended September 30, 2021, were not significantly impacted by COVID-19. In addition, management believes the remote working arrangements, travel restrictions and any other regulations imposed by various governmental jurisdictions have had limited impact on the Company's ability to maintain internal operations during the year. The full extent to which the COVID-19 pandemic will directly or indirectly impact the Company's business, results of operations and financial condition will depend on future developments that are highly uncertain, including as a result of new information that may emerge concerning COVID-19 and the actions taken to contain it or treat COVID-19. As a direct result of COVID-19, the Company decided to delay the initiation of its previously planned Phase 2 clinical trial to evaluate VP-103 in subjects with plantar warts.

Use of Estimates

The preparation of financial statements in conformity with GAAP 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 expenses during the reporting period. These estimates and assumptions are based on current facts, historical experience as well as other pertinent industry and regulatory authority information, including the potential future effects of COVID-19, the results of which form the basis for making judgments about the carrying values of assets and liabilities and the recording of expenses that are not readily apparent from other sources. Actual results may differ materially and adversely from these estimates. To the extent there are material differences between the estimates and actual results, the Company's future results of operations will be affected.

S***ignificant Accounting Policies***

Revenue

In accordance with FASB's ASC 606, Revenue from Contracts with Customers ("ASC 606"), the Company recognizes revenue when its customer obtains control of promised goods or services, in an amount that reflects the consideration which the entity expects to receive in exchange for those goods or services. To determine revenue recognition for arrangements that the Company determines are within the scope of ASC 606, it performs the following five steps:

(i) identify the contract(s) with a customer;

(ii) identify the performance obligations in the contract;

(iii) determine the transaction price;

(iv) allocate the transaction price to the performance obligations in the contract; and

(v) recognize revenue when (or as) the entity satisfies a performance obligation.

The Company applies the five-step model to contracts when it determines that it is probable it will collect the consideration it is entitled to in exchange for the goods or services it transfers to the customer. At contract inception, once the contract is determined to be within the scope of ASC 606, the Company assesses the goods or services promised within each contract and determines those that are performance obligations and assesses whether each promised good or service is distinct. The Company then recognizes as revenue the amount of the transaction price that is allocated to the respective performance obligation when (or as) the performance obligation is satisfied.

License Revenues

The Company's revenues have been solely generated through licensing arrangements. The terms of the agreement typically include payments to the Company of one or more of the following: nonrefundable, up-front license fees: regulatory and commercial milestone payments; payments for manufacturing supply services; materials shipped to support development; and royalties on net sales of licensed products.

In determining the appropriate amount of revenue to be recognized as it fulfills its obligations under each of its agreements, the Company performs the following steps:

(i) identification of the promised goods or services in the contract;

(ii) determination of whether the promised goods or services are performance obligations including whether they are distinct in the context of the contract;

(iii) measurement of the transaction price, including the constraint on variable consideration;

(iv) allocation of the transaction price to the performance obligations; and

(v) recognition of revenue when (or as) the Company satisfies each performance obligation.

The Company also assesses whether there is an option in a contract to acquire additional goods or services. An option gives rise to a performance obligation only if the option provides a material right to the customer that it would not receive without entering into that contract. Factors that the Company considers in evaluating whether an option represents a material right include, but are not limited to: (i) the overall objective of the arrangement, (ii) the benefit the collaborator might obtain from the arrangement without exercising the option, (iii) the cost to exercise the option (e.g. priced at a significant and incremental discount) and (iv) the likelihood that the option will be exercised. With respect to options determined to be performance obligations, the Company recognizes revenue when those future goods or services are transferred or when the options expire.

The Company's revenue arrangements may include the following:

Up-front License Fees: If a license is determined to be distinct from the other performance obligations identified in the arrangement, the Company recognizes revenues from nonrefundable, up-front fees allocated to the license when the license is transferred to the licensee and the licensee is able to use and benefit from the license. For licenses that are bundled with other promises, the Company utilizes judgment to assess the nature of the combined performance obligation to determine whether the combined performance obligation is satisfied over time or at a point in time and, if over time, the appropriate method of measuring progress for purposes of recognizing revenue from non-refundable, up-front fees. The Company evaluates the measure of progress each reporting period and, if necessary, adjusts the measure of performance and related revenue recognition.

Milestone Payments: At the inception of an agreement that includes regulatory or commercial milestone payments, the Company evaluates whether each milestone is considered probable of being achieved and estimates the amount to be included in the transaction price using the most likely amount method. If it is probable that a significant revenue reversal would not occur, the associated milestone value is included in the transaction price. Milestone payments that are not within the control of the Company or the licensee, such as regulatory approvals, are not considered probable of being achieved until those approvals are received. At each reporting period, the Company assesses the probability of achievement of each milestone under its current agreements.

Royalties: If the Company is entitled to receive sales-based royalties from its collaborator, including milestone payments based on the level of sales, and the license is deemed to be the predominant item to which the royalties relate, the Company recognizes revenue at the later of (i) when the related sales occur, provided the reported sales are reliably measurable, or (ii) when the performance obligation to which some or all of the royalty has been allocated has been satisfied (or partially satisfied).

Manufacturing Supply and Research Services: Arrangements that include a promise for future supply of drug substance or drug product for either clinical development or commercial supply at the licensee's discretion are generally considered as options. The Company assesses if these options provide a material right to the licensee and if so, they are accounted for as separate performance obligations.

The Company receives payments from its licensees based on schedules established in each contract. Upfront payments are recorded as deferred revenue upon receipt, and may require deferral of revenue recognition to a future period until the Company performs its obligations under these arrangements. Amounts are recorded as accounts receivable when the Company's right to consideration is unconditional. The Company does not assess whether a contract has a significant financing component if the expectation at contract inception is such that the period between payment by the licensees and the transfer of the promised goods or services to the licensees will be one year or less. See Note 11 for a full discussion of the Company's license revenue.

There have been no material changes in the Company's other significant accounting policies to those previously disclosed in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2020.

Net Loss Per Share

Net loss per share of common stock is computed by dividing net loss by the weighted average number of shares of common stock outstanding for the period. Diluted net loss per share excludes the potential impact of common stock options and unvested shares of restricted stock because their effect would be anti-dilutive due to the Company's net loss. Since the Company had a net loss in each of the periods presented, basic and diluted net loss per common share are the same.

The table below provides potential shares outstanding that were not included in the computation of diluted net loss per common share, as the inclusion of these securities would have been anti-dilutive:

	As of September 30,	
	2021	**2020**
Shares issuable upon exercise of stock options	3,553,361	2,812,752
Non-vested shares under restricted stock grants	425,000	1,323,859

Note 3—Investments in Marketable Securities

Investments in marketable securities consisted of the following as of September 30, 2021 and December 31, 2020 (in thousands):

	September 30, 2021			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury securities	$ 10,255	$ 1	$ —	$ 10,256
Commercial paper	38,368	—	—	38,368
Asset-backed securities	10,431	—	(2)	10,429
Total marketable securities	$ 59,054	$ 1	$ (2)	$ 59,053

	December 31, 2020			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury securities	$ 11,607	$ 2	$ —	$ 11,609
Commercial paper	41,674	—	(1)	41,673
Asset-backed securities	1,502	—	—	1,502
Total marketable securities	$ 54,783	$ 2	$ (1)	$ 54,784

Unrealized gains and losses on marketable securities are recorded as a separate component of accumulated other comprehensive gain included in stockholders' equity. Realized gains (losses) are included in interest income (expense) in the statement of operations and comprehensive loss on a specific identification basis. There were no marketable securities with a maturity of greater than one year for either period presented. To date, the Company has not recorded any impairment charges on marketable securities related to other-than-temporary declines in market value.

Accretion of bond discount on marketable securities and interest income on marketable securities is recorded as interest income on the statement of operations and comprehensive loss.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Financial assets and liabilities carried at fair value are classified and disclosed in one of the following three categories:

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

Level 2 — Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 — Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The following tables presents fair value of the Company's marketable securities (in thousands):

	Fair Value Measurement as of September 30, 2021			
	Level 1	Level 2	Level 3	Total
Assets				
U.S. treasury securities	$ 10,256	$ —	$ —	$ 10,256
Commercial paper	—	38,368	—	38,368
Asset-backed securities	—	10,429	—	10,429
Total assets	$ 10,256	$ 48,797	$ —	$ 59,053

	Fair Value Measurement as of December 31, 2020			
	Level 1	Level 2	Level 3	Total
Assets				
U.S. treasury securities	$ 11,609	$ —	$ —	$ 11,609
Commercial paper	—	41,673	—	41,673
Asset-backed securities	—	1,502	—	1,502
Total assets	$ 11,609	$ 43,175	$ —	$ 54,784

Note 4—Property and Equipment

Property and equipment, net consisted of (in thousands):

	As of September 30, 2021	As of December 31, 2020
Office furniture and fixtures	$ 301	$ 117
Machinery and equipment	467	102
Leasehold improvements	45	101
Office equipment	6	52
Automobiles	27	—
Construction in process	2,935	2,857
	3,781	3,229
Accumulated depreciation	(113)	(127)
Total property and equipment, net	$ 3,668	$ 3,102

The Company has recorded an asset classified as construction in process associated with the construction of a product assembly and packaging line that would be placed into service for commercial manufacturing upon future regulatory product approval.

Note 5—Accrued Expenses and Other Current Liabilities

Accrued expenses and other current liabilities consisted of the following (in thousands):

	As of September 30, 2021	As of December 31, 2020
Compensation and related costs	$ 1,719	$ 1,338
Commercial costs	984	—
Clinical trials and drug development	386	611
Professional fees	296	447
Construction in process	175	277
Interest expense	242	219
Other accrued expenses and other current liabilities	75	222
Total accrued expenses and other current liabilities	$ 3,877	$ 3,114

Note 6—Leases

Effective January 1, 2019, the Company accounts for its leases under ASC 842, *Leases (Topic 842)*. Under this guidance, arrangements meeting the definition of a lease are classified as operating or financing leases and are recorded on the balance sheet as both a right-of-use asset and lease liability, calculated by discounting fixed lease payments over the lease term at the rate implicit in the lease, if available, otherwise at the Company's incremental borrowing rate. Lease liabilities are increased by interest and reduced by payments each period, and the right-of-use asset is amortized over the lease term. For operating leases, interest on the lease liability and the amortization of the right-of-use asset result in straight-line rent expense over the lease term. Variable lease expenses, if any, are recorded when incurred.

In calculating the right-of-use asset and lease liability, the Company elects to combine lease and non-lease components. The Company excludes short-term leases having initial terms of 12 months or less from the guidance as an accounting policy election and recognizes rent expense on a straight-line basis over the lease term. The Company does not act as a lessor.

The Company leased office space in West Chester, Pennsylvania under an agreement classified as an operating lease that expired in May 2021. On July 1, 2019, the Company entered into a new lease for office space located in West Chester which was further amended on March 12, 2020 to include additional office space. The initial term will expire on September 1, 2027. Base rent over the initial term is approximately $2.4 million, and the Company is also responsible for its share of the landlord's operating expense. At the commencement date of the new lease, the Company recorded a right-of-use asset of $1.9 million and a lease liability of $1.9 million on the condensed balance sheet.

The Company leases vehicles under financing leases that expire through 2025. The net basis of the vehicle lease of $24 thousand is recorded as property and equipment on the condensed balance sheet.

The components of lease expense are as follows (in thousands):

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2021	2020	2021	2020
Finance lease cost:				
Amortization lease assets	$ 2	$ —	$ 3	$ —
Interest on lease liabilities	—	—	—	—
Total finance lease costs	$ 2	$ —	$ 3	$ —
Operating lease:				
Operating lease costs	$ 85	$ 35	$ 260	$ 141
Short-term lease costs	5	3	16	16
Total operating lease expense	$ 90	$ 38	$ 276	$ 157

Maturities of the Company's operating and finance leases, excluding short-term leases, as of September 30, 2021 are as follows (in thousands):

	September 30, 2021	
	Operating	Finance
2021 (remaining 3 months)	$ 85	$ 2
2022	343	7
2023	349	7
2024	355	8
2025	360	2
Thereafter	613	—
Total lease payments	2,105	26
Less imputed interest	(354)	(2)
Lease liability	$ 1,751	$ 24

The weighted average remaining term and discount rate are as follows:

Other information:	**Operating**	**Finance**
Weighted average remaining lease term	5.92	3.58
Weighted-average discount rate	6.25%	4.35%

Note 7—Debt

On March 10, 2020 (the "Effective Date"), the Company entered into (i) a mezzanine loan and security agreement (the "Mezzanine Loan Agreement") with Silicon Valley Bank, as administrative agent and collateral agent (the "Agent"), and Silicon Valley Bank and West River Innovation Lending Fund VIII, L.P., as lenders (the "Mezzanine Lenders"), pursuant to which the Mezzanine Lenders have agreed to lend the Company up to $50.0 million in a series of term loans, and (ii) a loan and security agreement (the "Senior Loan Agreement", and together with the Mezzanine Loan Agreement, the "Loan Agreements") with Silicon Valley Bank, as lender (the "Senior Lender", and together with the Mezzanine Lenders, the "Lenders"), pursuant to which the Senior Lender has agreed to provide the Company with a revolving line of credit of up to $5.0 million. Upon entering into the Loan Agreements, the Company borrowed $35.0 million in term loans from the Mezzanine Lenders (the "Term A Loan").

On October 26, 2020, the Company entered into (i) the first amendment to the Mezzanine Loan Agreement (the "Mezzanine Loan Amendment") and (ii) the first amendment to the Senior Loan Agreement (the "Senior Loan Amendment" and together with the Mezzanine Loan Amendment the "Loan Agreement Amendments") with the Lenders, under which the Company borrowed an additional $5.0 million in term loans on March 1, 2021 (the "Term B1 Loan").

The Term B1 Loan together with the Term A Loan, are referred to herein as the "Term Loans."

Under the terms of the Senior Loan Agreement, as amended, the Company may, at its sole discretion, borrow from the Senior Lender one or more advances on the revolving credit line (the "Revolving Loans", and together with the Term Loans, the "Loans") in an aggregate amount not to exceed the lesser of (i) 85% of the aggregate amount then-contained in the Company's eligible accounts receivable and (ii) $5.0 million.

The Company's obligations under the Senior Loan Agreement and the Mezzanine Loan Agreement, as amended, are secured by, respectively, a first priority perfected security interest and second priority perfected security interest in substantially all of the Company's current and future assets, other than its intellectual property (except rights to payment from the sale, licensing or disposition of such intellectual property). The Company has also agreed not to encumber its intellectual property assets, except as permitted by the Loan Agreements.

All of the Loans mature on March 1, 2024 (the "Maturity Date"). The Term Loans will be interest-only through March 31, 2022, followed by 24 equal monthly payments of principal and interest. The Term Loans will bear interest at a floating per annum rate equal to the greater of (i) 7.25% and (ii) the sum of (a) the prime rate reported in The Wall Street Journal on the last business day of the month that immediately precedes the month in which the interest will accrue, plus (b) 2.50%. The Revolving Loans will bear interest at a floating per annum rate equal to the greater of (i) 6.00% and (ii) the sum of (a) the prime rate reported in The Wall Street Journal on the last business day of the month that immediately precedes the month in which the interest will accrue, plus (b) 1.25%.

Under the terms of the Mezzanine Loan Agreement, as amended, the Company will be required to make a final payment fee of $3,750,000 payable on the earlier of (i) the Maturity Date, (ii) the acceleration of any Term Loans, or (iii) the prepayment of the Term Loans (the "Final Payment"). The Company is recording the final payment fee to interest expense using the effective interest rate method over the term of the Term Loan with an increase in long-term debt. The Company may prepay all, or any portion of the Term Loans upon 5 business days' advance written notice to the Agent, provided that the Company will be obligated to pay a prepayment fee equal to (i) $1.5 million if prepaid on or before October 26, 2021, (ii) $1.0 million if prepaid between October 27, 2021 and October 26, 2022, and (iii) $0.5 million if prepaid between October 27, 2022 and October 26, 2023 and (iv) no prepayment fee if prepaid after October 26, 2023 (each, a "Prepayment Fee").

The Company may terminate the revolving credit line under the Senior Loan Agreement at any time upon three business days' advance written notice to the Senior Lender. If the Company terminates the revolving credit line prior to the Maturity Date, it must pay to the Senior Lender an early termination fee of $50,000 (the "Termination Fee").

Under the Loan Agreements, as amended, the Company is subject to a number of affirmative and restrictive covenants, including covenants regarding maintaining a specified minimum liquidity ratio, delivery of financial statements, maintenance of inventory, payment of taxes, maintenance of insurance, protection of intellectual property rights, dispositions of property, business combinations or acquisitions, incurrence of additional indebtedness or liens, investments and transactions with affiliates, and, beginning as of March 31, 2022, achieving minimum levels of trailing six-month net product revenues, among other customary covenants. As of September 30, 2021 the Company is in compliance with all covenants.

Upon the occurrence of certain events, including but not limited to the Company's failure to satisfy its payment obligations under the Loan Agreements, the breach of certain of its other covenants under the Loan Agreements, or the occurrence of a material adverse change, cross defaults to other indebtedness or material agreements, judgment defaults and defaults related to failure to maintain governmental approvals failure of which to maintain could result in a material adverse effect, the Agent and the Lenders will have the right, among other remedies, to declare all principal and interest immediately due and payable, to exercise secured party remedies, to receive the Final Payment and Termination Fee and, if the payment of principal and interest is due prior to the Maturity Date, to receive

the applicable Prepayment Fee. The Loan Agreements also include subjective acceleration clauses that permit the Lenders to accelerate the maturity date under certain circumstances, including a material adverse change in the Company's business, operations, or financial condition or a material impairment of the prospect of repayment of the Company's obligations to the Mezzanine Lenders. Pursuant to the Loan Agreement Amendments, the Company is subject to a minimum liquidity covenant defined as the balance of the of the Company's unrestricted cash, cash equivalents, and marketable securities in accounts maintained at Silicon Valley Bank being greater than one and one half times the Company's aggregate outstanding obligations to the Mezzanine Lenders under the Term A Loan.

The Company believes that, without additional financing, it is probable that it will not be compliant with its minimum liquidity ratio covenant at some point in the next twelve months. In accordance with FASB ASC 470, since the Mezzanine Loan Agreement contains subjective acceleration clauses and the assessment that it is probable that the minimum liquidity ratio covenant will not be met, the Company has classified all outstanding principal and final payment fees as a current liability in the accompanying condensed balance sheet as of September 30, 2021.

The Company borrowed $35.0 million upon entering into the Loan Agreement in March 2020, and an additional $5.0 million on March 1, 2021. The Company has incurred debt discount and issuance costs of $4.3 million, including the final payment fee of $3.8 million, that are classified as a contra-liability on the condensed balance sheet. The Company incurred additional debt issuance costs related to the revolving credit line of $0.1 million, classified as other non-current assets in the condensed balance sheet. These costs related to the revolving credit line are being amortized to interest expense over the life of the loans using the straight-line method.

For the three and nine months ended September 30, 2021, the Company recognized interest expense of $1.1 million and $3.2 million, respectively, of which $0.7 million and $2.1 million, respectively, was interest on the term loan and $0.4 million and $1.1 million, respectively, was non-cash interest expense related to the amortization of deferred debt issuance costs and accrual of the final payment fee.

The following table summarizes the composition of debt as reflected on the balance sheet as of September 30, 2021 (in thousands):

Gross proceeds	$	40,000
Accrued final payment fee		3,750
Unamortized debt discount and issuance costs		(2,402)
Total short-term debt, net	$	41,348

In the event the Company maintains compliance with its minimum liquidity covenant to avoid an acceleration of payments, the aggregate maturities of debt as of September 30, 2021, are as follows (in thousands):

Remainder of 2021	$	—
2022		6,667
2023		26,667
2024 (1)		6,666
	$	40,000

(1) Excludes the final payment fee due at time of maturity

Note 8—Stock-Based Compensation

Stock-based compensation expense, which includes expense for both employees and non-employees, has been reported in the Company's condensed statements of operations for the three and nine months ended September 30, 2021 and 2020 as follows (in thousands):

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2021	2020	2021	2020
Research and development	$ 427	$ 152	$ 1,150	$ 543
General and administrative	1,054	1,079	3,582	2,938
Total stock-based compensation	$ 1,481	$ 1,231	$ 4,732	$ 3,481

Stock Options

The following table summarizes the Company's stock option activity for the nine months ended September 30, 2021:

	Number of shares	Weighted average exercise price	Weighted average remaining contractual life (in years)	Aggregate intrinsic value
Outstanding as of December 31, 2020	2,901,908	$ 9.57	8.0	$ 7,702,295
Granted	1,122,786	13.46		
Exercised	(44,041)	12.67		
Forfeitures	(410,741)	13.81		
Expired	(16,551)	12.82		
Outstanding as of September 30, 2021	3,553,361	$ 10.25	7.7	$ 10,120,575
Options vested and exercisable as of September 30, 2021	1,744,075	$ 8.92	6.4	$ 6,945,574

As of September 30, 2021, the total unrecognized compensation related to unvested stock option awards granted was $13.0 million, which the Company expects to recognize over a weighted-average period of 2.94 years.

Restricted Stock

In November 2019 and August 2020, the Company granted 300,000 and 250,000 restricted stock units, respectively to its executive officers. As of September 30, 2021, 425,000 restricted stock units were outstanding. The restricted stock units vest 50% upon receipt of regulatory approval of the Company's new drug application for VP-102 for the treatment of molluscum (the "Approval Date") and 50% shall vest on the one year anniversary of the Approval Date subject to the holders' continuous service through each applicable date.

The following is a summary of changes in the status of non-vested RSUs:

	Number of Shares	Weighted Average Grant Date Fair Value
Nonvested as of December 31, 2020	475,000	$ 11.74
Granted	—	—
Forfeitures	(50,000)	12.29
Nonvested as of September 30, 2021	425,000	$ 11.68

No compensation expenses have been recognized for these nonvested restricted stock units as these shares are performance based and the triggering event was not determined to be probable as of September 30, 2021. As of September 30, 2021, the total unrecognized compensation expense related to the restricted stock units was $5.0 million.

Note 9—Related Party Transactions

Prior to the completion of the initial public offering ("IPO") of the Company's common stock in June 2018, the Company was controlled by PBM VP Holdings, LLC ("PBM VP Holdings") an affiliate of PBM Capital Group, LLC ("PBM"). Paul B. Manning, who is the Chairman and Chief Executive Officer of PBM and the current chairman of the Company's Board of Directors, and certain entities affiliated with Mr. Manning, continue to be the Company's largest shareholder on a collective basis.

On December 2, 2015, the Company entered into a Services Agreement (the "SA") with PBM. Pursuant to the terms of the SA, which had an initial term of twelve months (and was automatically renewable for successive monthly periods), PBM rendered advisory and consulting services to the Company. Services provided under the SA included certain business development, operations, technical, contract, accounting and back office support services. In consideration for these services, the Company was obligated to pay PBM a monthly management fee. On January 1, 2019, the Company amended the SA with PBM, decreasing the monthly fee to $26,333. On October 1, 2019, the SA was amended to reduce the monthly management fee to $5,000 as a result of a reduction in services provided by PBM.

For the three months ended September 30, 2021 and 2020, the Company incurred expenses under the SA of $15,000 for each period. For the nine months ended September 30, 2021 and 2020, the Company incurred expenses under the SA of $45,000 for each period.

As of September 30, 2021, the Company had no payables due to PBM and its affiliates.

Note 10—Commitments and Contingencies

The Company is involved in ordinary, routine legal proceedings that are not considered by management to be material. In the opinion of Company counsel and management, the ultimate liabilities resulting from such legal proceedings will not materially affect the financial position of the Company or its results of operations or cash flows.

Note 11—License and Collaboration Agreements

In August 2020, the Company entered into an option agreement with Torii Pharmaceutical Co., Ltd. ("Torii") for the development and commercialization of the Company's product candidates for the treatment of molluscum contagiosum and common warts in Japan, including VP-102 (the "Option Agreement"). Torii paid the Company $0.5 million to secure the exclusive option. The $0.5 million is included in deferred revenue as of December 31, 2020 in the balance sheet.

On March 2, 2021, Torii exercised the exclusive option in the Option Agreement. On March 17, 2021, the Company entered into a collaboration and license agreement (the "Torii Agreement") with Torii, pursuant to which the Company granted Torii an exclusive license to develop and commercialize the Company's product candidates that contain a topical formulation of cantharidin for the treatment of molluscum contagiosum and common warts in Japan, including VP-102. Additionally, the Company granted Torii a right of first negotiation with respect to additional indications for the licensed products and certain additional products for use in the licensed field, in each case in Japan.

Pursuant to the Torii Agreement, the Company received payments from Torii of $0.5 million in December 2020 and $11.5 million in April 2021. Additionally, the Company is entitled to receive from Torii an additional $58 million in aggregate payments contingent on achievement of specified development, regulatory, and sales milestones, in addition to tiered transfer price payments for supply of product in the percentage range of the mid-30's to the mid-40's of net sales. The transfer payments shall be payable, on a product-by-product basis, beginning on the first commercial sale of such product and ending on the latest of (a) expiration of the last-to-expire valid claim contained in certain licensed patents in Japan that cover such product, (b) expiration of regulatory exclusivity for the first indication for such product in Japan, and, (c) (i) with respect to the first product, ten years after first commercial sale of such product, and, (ii) with respect to any other product, the later of (x) ten years after first commercial sale of the first product and (y) five years after first commercial sale of such product.

The Torii Agreement expires on a product-by-product basis upon expiration of Torii's obligation under the agreement to make transfer price payments for such product. Torii has the right to terminate the agreement upon specified prior written notice to us. Additionally, either party may terminate the agreement in the event of an uncured material breach of the agreement by, or insolvency of, the other party. The Company may terminate the agreement in the event that Torii commences a legal action challenging the validity, enforceability or scope of any licensed patents.

In August 2020, the Company entered into an exclusive license agreement with Lytix Biopharma AS ("Lytix") for the use of licensed technology to research, develop, manufacture, have manufactured, use, sell, have sold, offer for sale, import, and otherwise commercialize products for use in all malignant and pre-malignant dermatological indications, other than metastatic melanoma and metastatic merkel cell carcinoma (the" Lytix Agreement"). As part of the Lytix Agreement, the Company paid Lytix a one-time up-front fee of $0.3 million in 2020. In addition, in February 2021, the Company paid Lytix a one-time $2.3 million payment upon the achievement by Lytix of a regulatory milestone. The $0.3 and $2.3 million payments were recognized in research and development expense in the statement of operations for the year ended December 31, 2020 and the nine months ended September 30, 2021, respectively. The Company is also obligated to pay up to $111.0 million contingent on achievement of specified development, regulatory, and sales milestones, as well as tiered royalties based on worldwide annual net sales ranging in the low double digits to the mid-teens, subject to certain customary reductions. The Company's obligation to pay royalties expires on a country-by-country and product-by-product basis on the later of the expiration or abandonment of the last to expire licensed patent covering LTX-315 anywhere in the world and expiration of regulatory exclusivity for LTX-315 in such country. Additionally, all upfront fees and milestone based payments received by the Company from a sublicensee will be treated as net sales and will be subject to the royalty payment obligations under the Lytix Agreement, and all royalties received by the Company from a sublicensee shall be shared with Lytix at a rate that is initially 50% but decreases based on the stage of development of LTX-315 at the time such sublicense is granted.

Note 12 – Subsequent Event

None.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

You should read the following discussion and analysis of our financial condition and results of operations in conjunction with (i) our unaudited interim condensed financial statements and the related notes thereto included elsewhere in this Quarterly Report on Form 10-Q and (ii) our audited financial statements and notes thereto and management's discussion and analysis of financial condition and results of operations for the years ended December 31, 2019 and 2020 included in our Annual Report on Form 10-K for the year ended December 31, 2020, filed with the Securities and Exchange Commission (the "SEC") on March 17, 2021. Our financial statements have been prepared in accordance with U.S. GAAP.

We own various U.S. federal trademark applications and unregistered trademarks, including our company name. All other trademarks or trade names referred to in this Quarterly Report on Form 10-Q are the property of their respective owners. Solely for convenience, the trademarks and trade names in this report are referred to without the symbols ® and ™, but such references should not be construed as an indication that their respective owners will not assert, to the fullest extent under applicable law, their rights thereto.

Forward-Looking Statements

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934 (the "Exchange Act"), including, without limitation, statements regarding our expectations, beliefs, intentions or future strategies that are signified by the words "expect," "anticipate," "intend," "believe," "may," "plan," "seek" or similar language. All forward-looking statements included in this document are based on information available to us on the date hereof, and we assume no obligation to update any such forward-looking statements. Our business and financial performance are subject to substantial risks and uncertainties. Our actual results could differ materially from those discussed in these forward-looking statements. In evaluating our business, you should carefully consider the information set forth in this Quarterly Report under Part II - Item 1A "Risk Factors," and in our other filings with the SEC.

Overview

We are a dermatology therapeutics company developing medications for skin diseases requiring medical interventions. Our lead product candidate, VP-102, is a proprietary drug-device combination of our topical solution of cantharidin, a widely recognized, naturally sourced agent to treat topical dermatological conditions, administered through our single-use precision applicator. We are developing VP-102 for the treatment of molluscum contagiosum, or molluscum, a highly contagious and primarily pediatric viral skin disease, and common warts. There are currently no products approved by the U.S. Food and Drug Administration, or FDA, nor is there an established standard of care for either of these diseases, resulting in significant undertreated populations in two of the largest unmet needs in dermatology. In addition to patent protection we are seeking, VP-102 has the potential to be the first FDA-approved product for molluscum and for its active pharmaceutical ingredient, or API, to be characterized as a new chemical entity, or NCE, with the five years of non-patent regulatory exclusivity associated with that designation. We believe VP-102 has the potential to qualify for pediatric exclusivity, which would provide for an additional six months of non-patent exclusivity.

In January 2019, we reported positive top-line results from our Phase 3 CAMP-1 and CAMP-2 pivotal trials with VP-102 for the treatment of molluscum. Both clinical trials evaluated the safety and efficacy of VP-102 compared to placebo. In each trial, we observed that a clinically and statistically significant proportion of subjects treated with VP-102 achieved complete clearance of all treatable molluscum lesions compared to subjects treated with placebo. VP-102 was well-tolerated in both trials, with no serious adverse events reported in VP-102 treated subjects. CAMP-1 was conducted under a special protocol assessment, or SPA, agreement with the FDA. Based on the results from these trials, we submitted a new drug application, or NDA, to the FDA for VP-102 for the treatment of molluscum in September 2019. In July 2020, we received a Complete Response Letter, or CRL, from the FDA for our NDA. We resubmitted our NDA for VP-102 for the treatment of molluscum in December 2020.

On September 17, 2021, the FDA issued a CRL regarding our NDA for VP-102. According to the CRL, the FDA identified deficiencies at a facility of a contract manufacturing organization, or CMO, which are not specifically related to the manufacturing of VP-102 but instead raise general quality issues at the facility. The FDA did not identify any clinical, safety or product specific Chemistry, Manufacturing, and Controls, or CMC, deficiencies related to VP-102. Following the CRL, on September 22, 2021 we received a General Advice Letter from the FDA with recommendations to improve YCANTH's user interface. On November 5, 2021, we were notified that the inspection of the CMO has been classified as "voluntary action indicated", or VAI, is now closed and that the VAI classification will not directly negatively impact FDA's assessment of our NDA regarding this CMO. With the satisfactory resolution of the facility inspection, we have engaged the FDA to determine the next steps towards the potential approval of VP-102 for the treatment of molluscum.

In June 2019, we announced positive topline results from our COVE-1 Phase 2 open label clinical trial of VP-102 for the treatment of verruca vulgaris, or common warts. Based on feedback from the FDA regarding a potential Phase 3 trial protocol, we are currently evaluating conducting an additional Phase 2 clinical trial of VP-102 for the treatment of common warts.

In addition, we are also developing VP-102 for the treatment of external genital warts. We initiated a Phase 2 clinical trial evaluating the optimal dose regimen, efficacy, safety and tolerability of VP-102 in patients with external genital warts in June 2019. In November 2020, we announced positive topline results from our Phase 2 clinical trial of VP-102 for the treatment of external genital warts. Based on the results of the Phase 2 trial, we intend to initiate a Phase 3 trial of VP-102 for the treatment of external genital warts in the second half of 2022. In addition, we are conducting necessary drug development activities for VP-103, our second cantharidin-based product candidate, and are evaluating when to initiate a Phase 2 clinical trial for the treatment of plantar warts. We also intend to develop our third product candidate, LTX-315, for the treatment of dermatological oncology indications. We submitted an Investigational New Drug Application, or IND, for LTX-315 in October 2021.

On March 17, 2021, we entered into a collaboration and license agreement, or the Torii Agreement, with Torii Pharmaceutical Co., Ltd., or Torii, pursuant to which we granted Torii an exclusive license to develop and commercialize our product candidates that contain a topical formulation of cantharidin for the treatment of molluscum contagiosum and common warts in Japan, including VP-102. Additionally, we granted Torii a right of first negotiation with respect to additional indications for the licensed products and certain additional products for use in the licensed field, in each case in Japan. Pursuant to the Torii Agreement, we received payments from Torii of $0.5 million in December 2020 and $11.5 million in April 2021. Additionally, we are entitled to receive from Torii an additional $58.0 million in aggregate payments contingent on achievement of specified development, regulatory, and sales milestones, in addition to tiered transfer price payments for supply of product in the percentage range of the mid-30s to the mid-40s of net sales.

In August 2020, we entered into an exclusive license agreement with Lytix Biopharma AS, or Lytix, pursuant to which we obtained a worldwide, license for certain technology of Lytix to develop LTX-315 for use in all malignant and pre-malignant dermatological indications, other than metastatic melanoma and metastatic merkel cell carcinoma.

Our strategy is to advance VP-102 through regulatory approval and self-commercialize in the United States for the treatment of several skin diseases. We intend to build a specialized sales organization in the United States focused on pediatric dermatologists, dermatologists, and select pediatricians. In the future, we also intend to develop VP-102 for commercialization in additional geographic regions, either alone or together with a strategic partner.

We have been actively monitoring the novel coronavirus, or COVID-19, pandemic and its impact globally. The full extent to which the COVID-19 pandemic will directly or indirectly impact our business, results of operations and financial condition will depend on future developments that are highly uncertain, including as a result of new information that may emerge concerning COVID-19 and the actions taken to contain it or treat COVID-19. As a direct result of COVID-19, we decided to delay the initiation of our previously planned Phase 2 clinical trial to evaluate VP-103 in subjects with plantar warts.

Since our inception in 2013, our operations have focused on developing VP-102, organizing and staffing our company, business planning, raising capital, establishing our intellectual property portfolio and conducting clinical trials. We do not have any product candidates approved for sale and have not generated any revenue from product sales. We have funded our operations primarily through the sale of equity and equity-linked securities and through borrowing under our loan agreement with Silicon Valley Bank.

On March 25, 2021, we closed a follow-on public offering in which we sold 2,033,899 shares of common stock at a public offering price of $14.75 per share, resulting in net proceeds of $28.1 million after deducting underwriting discounts and commissions and offering expenses. We believe that our existing cash, cash equivalents and marketable securities as of September 30, 2021 will be sufficient to support our planned operations into the third quarter of 2022.

Since inception, we have incurred significant operating losses. For the nine months ended September 30, 2021 and 2020, our net loss was $25.5 million and $29.7 million, respectively. As of September 30, 2021, we had an accumulated deficit of $129.4 million. We expect to continue to incur significant expenses and operating losses for the foreseeable future. We anticipate that our expenses will increase significantly in connection with our ongoing activities, as we:

- continue our ongoing clinical programs evaluating VP-102 for the treatment of common warts as well as initiate and complete additional clinical trials, as needed;
- initiate clinical trials evaluating VP-102 for the treatment of external genital warts;
- initiate clinical trials evaluating VP-103 for the treatment of plantar warts, and LTX-315 for the treatment of dermatological oncology indications;

- pursue regulatory approvals for VP-102 for the treatment of molluscum, and eventually for the treatment of common warts, external genital warts or any other indications we may pursue for VP-102, as well as for VP-103 or LTX-315;
- seek to discover and develop additional product candidates;
- establish a commercialization infrastructure and scale up external manufacturing and distribution capabilities to commercialize any product candidates for which we may obtain regulatory approval, including VP-102, VP-103 and LTX-315;
- seek to in-license or acquire additional product candidates for other dermatological conditions;
- adapt our regulatory compliance efforts to incorporate requirements applicable to marketed products;
- maintain, expand and protect our intellectual property portfolio;
- hire additional clinical, manufacturing and scientific personnel;
- add operational, financial and management information systems and personnel, including personnel to support our product development and planned future commercialization efforts; and
- incur additional legal, accounting and other expenses in operating as a public company.

Critical Accounting Policies and Significant Judgments and Estimates

Our management's discussion and analysis of our financial condition and results of operations is based on our financial statements, which have been prepared in accordance with U.S. GAAP. The preparation of these financial statements requires us to make estimates, judgments and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities as of the dates of the balance sheets and the reported amounts of expenses during the reporting periods. In accordance with GAAP, we evaluate our estimates and judgments on an ongoing basis.

A summary of our significant accounting policies are disclosed in our Annual Report on Form 10-K for the fiscal year ended December 31, 2020. However, we believe that the additional accounting policies disclosed in Note 2 to our condensed financial statement are important to understanding and evaluating our reported financial results.

Components of Results of Operations

License Revenue

We have not received any revenue from product sales since our inception. License revenue represents revenue from the Torii Agreement pursuant to which the Company granted Torii an exclusive license to develop and commercialize our product candidates that contain a topical formulation of cantharidin for the treatment of molluscum contagiosum and common warts in Japan including VP-102.

Operating Expenses

Research and Development Expenses

Research and development expenses consist of expenses incurred in connection with the discovery and development of our product candidates. We expense research and development costs as incurred. These expenses include:

- expenses incurred under agreements with contract research organizations, or CROs, as well as investigative sites and consultants that conduct our clinical trials and preclinical studies;
- manufacturing and supply scale-up expenses and the cost of acquiring and manufacturing preclinical and clinical trial supply and commercial supply, including manufacturing validation batches;
- outsourced professional scientific development services;
- employee-related expenses, which include salaries, benefits and stock-based compensation;
- expenses relating to regulatory activities; and
- laboratory materials and supplies used to support our research activities.

Research and development activities are central to our business model. Product candidates in later stages of clinical development generally have higher development costs than those in earlier stages of clinical development, primarily due to the increased size and duration of later-stage clinical trials. We expect our research and development expenses to increase over the next several years as we increase personnel costs, including stock-based compensation, initiate and conduct clinical trials of VP-102 in

patients with common warts, VP-102 in patients with external genital warts, VP-103 in patients with plantar warts, LTX-315 for dermatological oncology indications, and conduct other clinical trials and prepare regulatory filings for our product candidates.

The successful development of our product candidates is highly uncertain. At this time, we cannot reasonably estimate or know the nature, timing and costs of the efforts that will be necessary to complete the remainder of the development of, or when, if ever, material net cash inflows may commence from our product candidates. This uncertainty is due to the numerous risks and uncertainties associated with the duration and cost of clinical trials, which vary significantly over the life of a project as a result of many factors, including:

- the number of clinical sites included in the trials;
- the length of time required to enroll suitable patients;
- the number of patients that ultimately participate in the trials;
- the number of doses patients receive;
- the duration of patient follow-up; and
- the results of our clinical trials.

Our expenditures are subject to additional uncertainties, including the manufacturing process for our product candidates, the terms and timing of regulatory approvals, and the expense of filing, prosecuting, defending and enforcing any patent claims or other intellectual property rights. We may never succeed in achieving regulatory approval for our product candidates. We may obtain unexpected results from our clinical trials. We may elect to discontinue, delay or modify clinical trials of our product candidates. A change in the outcome of any of these variables with respect to the development of a product candidate could mean a significant change in the costs and timing associated with the development of that product candidate. For example, if the FDA or other regulatory authorities were to require us to conduct clinical trials beyond those that we currently anticipate, or if we experience significant delays in enrollment in any of our clinical trials, we could be required to expend significant additional financial resources and time on the completion of clinical development.

General and Administrative Expenses

General and administrative expenses consist principally of salaries and related costs for personnel in executive and administrative functions, including stock-based compensation, travel expenses and recruiting expenses. Other general and administrative expenses include market research costs, insurance costs, and professional fees for audit, tax and legal services.

We anticipate that our general and administrative expenses, including payroll and related expenses, will increase in the future as we continue to increase our headcount to support the expected growth in our business, expand our operations and organizational capabilities, and prepare for potential commercialization of VP-102 for the treatment of molluscum, if successfully developed and approved. We also anticipate increased expenses associated with general operations, including costs related to audit, tax and legal services, director and officer insurance premiums, and investor relations costs.

Results of Operations for the Three Months Ended September 30, 2021 and 2020

The following table summarizes our results of operations for the three months ended September 30, 2021 and 2020 (in thousands):

	For the Three Months Ended September 30,		
	2021	2020	Change
Operating expenses:			
Research and development	$ 3,763	$ 4,988	$ (1,225)
General and administrative	8,005	4,649	3,356
Total operating expenses	11,768	9,637	2,131
Loss from operations	(11,768)	(9,637)	(2,131)
Other income (expense):			
Interest income	31	69	(38)
Interest expense	(1,092)	(918)	(174)
Total other expense	(1,061)	(849)	(212)
Net loss	**$ (12,829)**	**$ (10,486)**	**$ (2,343)**

Research and Development Expenses

Research and development expenses were $3.8 million for the three months ended September 30, 2021, compared to $5.0 million for the three months ended September 30, 2020. The decrease of $1.2 million was primarily attributable to decreased CMC

and clinical costs related to our development of VP-102 for molluscum, external genital warts and common warts, partially offset by increased compensation costs.

General and Administrative Expenses

General and administrative expenses were $8.0 million for the three months ended September 30, 2021, compared to $4.6 million for the three months ended September 30, 2020. The increase of $3.4 million was primarily a result of expenses related to increased headcount, an increase in insurance, professional fees and other operating costs, and an increase in expenses related to pre-commercial activities for VP-102.

Interest Income

Interest income was relatively consistent for the periods presented and consisted primarily of interest earned on our cash, cash equivalents and marketable securities.

Interest Expense

Interest expense was relatively consistent for the three months ended September 30, 2021 and 2020 and consisted of interest expense on the Mezzanine Loan Agreement as noted in Note 7 to our condensed financial statements.

Results of Operations for the Nine Months Ended September 30, 2021 and 2020

The following table summarizes our results of operations for the nine months ended September 30, 2021 and 2020 (in thousands):

	For the Nine Months Ended September 30,		
	2021	2020	Change
License revenue	$ 12,000	$ —	$ 12,000
Operating expenses:			
Research and development	12,572	13,401	(829)
General and administrative	21,866	14,747	7,119
Total operating expenses	34,438	28,148	6,290
Loss from operations	(22,438)	(28,148)	5,710
Other income (expense):			
Interest income	96	473	(377)
Interest expense	(3,198)	(2,042)	(1,156)
Total other expense	(3,102)	(1,569)	(1,533)
Net loss	**$ (25,540)**	**$ (29,717)**	**$ 4,177**

License Revenue

License revenue was $12.0 million for the nine months ended September 30, 2021 compared to no license revenue for the nine months ended September 30, 2020. Pursuant to the exercise of the license option on March 17, 2021 per the Torii Agreement, we recognized revenue of $12.0 million comprised of $0.5 received in December 2020, and an $11.5 million up-front payment paid in April 2021.

Research and Development Expenses

Research and development expenses were $12.6 million for the nine months ended September 30, 2021, compared to $13.4 million for the nine months ended September 30, 2020. The decrease was primarily attributable to decreased CMC and clinical costs related to our development of VP-102 for molluscum, external genital warts and common warts, partially offset by a one-time $2.3 million milestone payment made to Lytix upon the achievement of a regulatory milestone for LTX-315 during the nine months ended September 30, 2021.

General and Administrative Expenses

General and administrative expenses were $21.9 million for the nine months ended September 30, 2021, compared to $14.7 million for the nine months ended September 30, 2020. The increase of $7.1 million was primarily a result of expenses related to increased headcount, an increase in insurance, professional fees and other operating costs, and an increase in expenses related to pre-commercial activities for VP-102.

Interest Income

Interest income for the periods presented consisted primarily of interest earned on our cash, cash equivalents and marketable securities. The decrease of $0.4 million was primarily a result of lower interest income due to lower interest rates.

Interest Expense

Interest expense for the nine months ended September 30, 2021 and 2020 consisted of interest expense on the Mezzanine Loan Agreement as noted in Note 7 to our condensed financial statements. The increase of $1.2 million was primarily a result of the Mezzanine Loan Agreement which commenced on March 10, 2020.

Liquidity and Capital Resources

Since our inception, we have not generated any revenue from product sales and have incurred net losses and negative cash flows from our operations. We have financed our operations since inception through sales of our convertible preferred stock and the sale of our common stock in our IPO, as well as in a subsequent offering of our common stock noted below, receiving aggregate net proceeds of $114.9 million from our IPO, $40.0 million of gross proceeds from the Mezzanine Loan Agreement noted below and $28.1 million of net proceeds from our public offering of common stock in March 2021.

As of September 30, 2021, we had cash, cash equivalents and marketable securities of $79.5 million. Cash in excess of immediate requirements is invested in accordance with our investment policy, primarily with a view to liquidity and capital preservation.

On March 25, 2021, we closed a follow-on public offering in which we sold 2,033,899 shares of common stock at a public offering price of $14.75 per share, resulting in net proceeds of $28.1 million after deducting underwriting discounts and commissions and offering expenses.

On March 10, 2020, or the Effective Date, we entered into (i) the Mezzanine Loan Agreement with the Agent, and the Mezzanine Lenders, pursuant to which the Mezzanine Lenders have agreed to lend us up to $50.0 million in a series of term loans, and (ii) the Senior Loan Agreement with the Senior Lender, pursuant to which the Senior Lender has agreed to provide us with a revolving line of credit of up to $5.0 million. Upon entering into the Loan Agreements, we borrowed $35.0 million in term loans from the Mezzanine Lenders, or the Term A Loan.

On October 26, 2020, we entered into (i) the first amendment to the Mezzanine Loan Agreement, or the Mezzanine Loan Amendment and (ii) the first amendment to the Senior Loan Agreement, or the Senior Loan Amendment with the Lenders, under which we borrowed an additional $5.0 million in term loans on March 1, 2021.

Under the terms of the Senior Loan Agreement, as amended, we may, at our sole discretion, borrow from the Senior Lender one or more advances on the revolving credit line, or the Revolving Loans, and together with the Term Loans, the Loans in an aggregate amount not to exceed the lesser of (i) 85% of the aggregate amount then-contained in our eligible accounts receivable and (ii) $5.0 million.

Our obligations under the Senior Loan Agreement and the Mezzanine Loan Agreement, as amended, are secured by, respectively, a first priority perfected security interest and second priority perfected security interest in substantially all of our current and future assets, other than our intellectual property (except rights to payment from the sale, licensing or disposition of such intellectual property). We have also agreed not to encumber our intellectual property assets, except as permitted by the Loan Agreements.

All of the Loans mature on March 1, 2024, or the Maturity Date. The Term Loans will be interest-only through March 31, 2022, followed by 24 equal monthly payments of principal and interest. The Term Loans will bear interest at a floating per annum rate equal to the greater of (i) 7.25% and (ii) the sum of (a) the prime rate reported in The Wall Street Journal on the last business day of the month that immediately precedes the month in which the interest will accrue, plus (b) 2.50%. The Revolving Loans will bear interest at a floating per annum rate equal to the greater of (i) 6.00% and (ii) the sum of (a) the prime rate reported in The Wall Street Journal on the last business day of the month that immediately precedes the month in which the interest will accrue, plus (b) 1.25%.

Under the terms of the Mezzanine Loan Agreement, as amended, we will be required to make a final payment fee of $3,750,000 payable on the earlier of (i) the Maturity Date, (ii) the acceleration of any Term Loans, or (iii) the prepayment of the Term Loans, or the Final Payment. We are recording the final payment fee using the effective interest rate method over the term of the Term Loan with an increase in debt. We may prepay all, or any portion of the Term Loans upon 5 business days advance written notice to the Agent, provided that we will be obligated to pay a prepayment fee equal to (i) $1.5 million if prepaid on or before October 26, 2021, (ii) $1.0 million if prepaid between October 27, 2021 and October 26, 2022, and (iii) $0.5 million if prepaid between October 27, 2022 and October 26, 2023 and (iv) no prepayment fee if prepaid after October 26, 2023, each, a Prepayment Fee.

We may terminate the revolving credit line under the Senior Loan Agreement at any time upon three business days advance written notice to the Senior Lender. If we terminate the revolving credit line prior to the Maturity Date, we must pay to the Senior Lender an early termination fee of $50,000, or the Termination Fee.

Under the Loan Agreements, as amended, we are subject to a number of affirmative and restrictive covenants, including covenants regarding maintaining a specified minimum liquidity ratio, delivery of financial statements, maintenance of inventory, payment of taxes, maintenance of insurance, protection of intellectual property rights, dispositions of property, business combinations or acquisitions, incurrence of additional indebtedness or liens, investments and transactions with affiliates, and, beginning as of March 31, 2022, achieving minimum levels of trailing six-month net product revenues, among other customary covenants. As of September 30, 2021, we were in compliance with all covenants.

Upon the occurrence of certain events, including but not limited to our failure to satisfy our payment obligations under the Loan Agreements, the breach of certain of our other covenants under the Loan Agreements, or the occurrence of a material adverse change, cross defaults to other indebtedness or material agreements, judgment defaults and defaults related to failure to maintain governmental approvals failure of which to maintain could result in a material adverse effect, the Agent and the Lenders will have the right, among other remedies, to declare all principal and interest immediately due and payable, to exercise secured party remedies, to receive the Final Payment and Termination Fee and, if the payment of principal and interest is due prior to the Maturity Date, to receive the applicable Prepayment Fee.

We believe that without additional financing, it is probable that we will not be in compliance with the minimum liquidity ratio covenant at some point in the next twelve months. In accordance with FASB ASC 470, since the Mezzanine Loan Agreement contains subjective acceleration clauses and assessment that it is probable that the minimum liquidity ratio covenant will not be met, we have classified all outstanding principal and final payment fees as a current liability in the accompanying balance sheet as of September 30, 2021. Even if we are not in compliance with the minimum liquidity covenant and the debt becomes due, we believe that we currently have sufficient funds to meet our operating requirements into the third quarter of 2022.

Cash Flows

The following table summarizes our cash flows for the nine months ended September 30, 2021 and 2020 (in thousands):

	For the Nine Months Ended September 30,	
	2021	2020
Net cash used in operating activities	$ (18,884)	$ (24,108)
Net cash used in investing activities	(5,009)	(2,722)
Net cash provided by financing activities	33,649	34,787
Net increase in cash and cash equivalents	$ 9,756	$ 7,957

Operating Activities

During the nine months ended September 30, 2021, operating activities used $18.9 million of cash, primarily resulting from a net loss of $25.6 million partially offset by non-cash stock-based compensation of $4.7 million and non-cash interest expense of $1.1 million. Net cash provided by changes in operating assets and liabilities consisted primarily of an increase in accounts payable and accrued expenses of $1.4 million, partially offset by a decrease in deferred revenue of $0.5 million.

During the nine months ended September 30, 2020, operating activities used $24.1 million of cash, primarily resulting from a net loss of $29.7 million partially offset by non-cash stock-based compensation of $3.5 million and non-cash interest of $0.6 million. Net cash provided by changes in operating assets and liabilities consisted primarily of an increase in accrued expenses and other current liabilities of $1.2 million, and a decrease in prepaid expenses and other current assets of $0.9 million, partially offset by a decrease in accounts payable of $1.0 million.

Investing Activities

During the nine months ended September 30, 2021, net cash used in investing activities of $5.0 million was primarily due to purchases of marketable securities of $59.1 million partially offset by sales and maturities of marketable securities of $54.8 million.

During the nine months ended September 30, 2020, net cash used in investing activities of $2.7 million was primarily due to purchases of marketable securities of $59.5 million, partially offset by sales and maturities of marketable securities of $57.7 million.

Financing Activities

During the nine months ended September 30, 2021, net cash provided by financing activities of $33.6 million was primarily due to proceeds of $28.1 million, net of issuance costs, from the issuance of common stock and proceeds of $5.0 million from the issuance of debt.

During the nine months ended September 30, 2020, net cash provided by financing activities of $34.8 million was primarily due to the proceeds from issuance of debt of $34.5 million, net of third-party fees and issuance costs.

Funding Requirements

We expect our expenses to increase in connection with our ongoing activities, particularly as we continue the research and development of, continue or initiate clinical trials of, and seek marketing approval for, our product candidates. In addition, if we obtain marketing approval for any of our product candidates, we expect to incur significant commercialization expenses related to sales, marketing, manufacturing and distribution. Furthermore, we expect to incur additional costs associated with operating as a public company. We will need substantial additional financing to fund our operations. If we are unable to raise capital when needed or on attractive terms, we would be forced to delay, reduce or eliminate our research and development programs or future commercialization efforts.

We believe that our existing cash, cash equivalents, and marketable securities as of September 30, 2021 will be sufficient to support our planned operations into the third quarter of 2022. Our future capital requirements will depend on many factors, including:

- the costs, timing and outcome of regulatory review of our product candidates;
- the scope, progress, results and costs of our clinical trials;
- the scope, prioritization and number of our research and development programs;
- the costs of preparing, filing and prosecuting patent applications, maintaining and enforcing our intellectual property rights and defending intellectual property-related claims;
- our ability to maintain compliance with covenants under our loan agreements;
- the extent to which we acquire or in-license other product candidates and technologies;
- the impact on the timing of our clinical trials and our business due to the COVID-19 pandemic;
- the costs to scale up and secure manufacturing arrangements for commercial production; and
- the costs of establishing or contracting for sales and marketing capabilities if we obtain regulatory approvals to market our product candidates.

Identifying potential product candidates and conducting preclinical studies and clinical trials is a time-consuming, expensive and uncertain process that takes many years to complete, and we may never generate the necessary data or results required to obtain marketing approval and achieve product sales. In addition, our product candidates, if approved, may not achieve commercial success. Our commercial revenues, if any, will be derived from sales of a product candidate that we do not expect to be commercially available in the near term, if at all. We may need to continue to rely on additional financing to achieve our business objectives. Adequate additional financing may not be available to us on acceptable terms, or at all.

Until such time, if ever, as we can generate substantial product revenues, we expect to finance our cash needs through a combination of equity offerings, debt financings, collaborations, strategic alliances and licensing arrangements. Our ability to raise additional capital may be adversely impacted by potential worsening global economic conditions and the recent disruptions to, and volatility in, the credit and financial markets in the United States and worldwide resulting from the ongoing COVID-19 pandemic. To the extent that we raise additional capital through the sale of equity or convertible debt securities, ownership interests of existing stockholders may be diluted, and the terms of these securities may include liquidation or other preferences that adversely affect our existing stockholders' rights. Debt financing, if available, may involve agreements that include covenants limiting or restricting our ability to take specific actions, such as incurring additional debt, making capital expenditures or declaring dividends.

If we raise funds through additional collaborations, strategic alliances or licensing arrangements with third parties, we may have to relinquish valuable rights to our technologies, future revenue streams, research programs or product candidates or to grant licenses on terms that may not be favorable to us. If we are unable to raise additional funds through equity or debt financings when needed, we may be required to delay, limit, reduce or terminate our product development or future commercialization efforts or grant rights to develop and market product candidates that we would otherwise prefer to develop and market ourselves.

Off-Balance Sheet Arrangements

We did not have during the periods presented, and we do not currently have, any off-balance sheet arrangements, as defined under SEC rules.

Contractual Obligations and Commitments

As of September 30, 2021, there have been no material changes to our contractual obligations and commitments as previously disclosed in our Annual Report on Form 10-K for the fiscal year ended December 31, 2020.

JOBS Act Transition Period

In April 2012, the Jumpstart Our Business Startups Act of 2012, or the JOBS Act, was enacted. Section 107 of the JOBS Act provides that an "emerging growth company" can take advantage of the extended transition period provided in Section 7(a)(2)(B) of the Securities Act for complying with new or revised accounting standards. Thus, an emerging growth company can delay the adoption of certain accounting standards until those standards would otherwise apply to private companies. We have irrevocably elected not to avail ourselves of this extended transition period and, as a result, we will adopt new or revised accounting standards on the relevant dates on which adoption of such standards is required for other public companies.

We are in the process of evaluating the benefits of relying on other exemptions and reduced reporting requirements under the JOBS Act. Subject to certain conditions, as an emerging growth company, we may rely on certain of these exemptions, including without limitation, (i) providing an auditor's attestation report on our system of internal controls over financial reporting pursuant to Section 404(b) of the Sarbanes-Oxley Act and (ii) complying with any requirement that may be adopted by the Public Company Accounting Oversight Board regarding mandatory audit firm rotation or a supplement to the auditor's report providing additional information about the audit and the financial statements, known as the auditor discussion and analysis. We will remain an emerging growth company until the earlier to occur of (1) the last day of the fiscal year (a) December 31, 2023, which is the end of the fiscal year following the fifth anniversary of the completion of our IPO, (b) in which we have total annual gross revenues of at least $1.07 billion or (c) in which we are deemed to be a "large accelerated filer" under the rules of the U.S. Securities and Exchange Commission, which means the market value of our common stock that is held by non-affiliates exceeds $700 million as of the prior June 30th, and (2) the date on which we have issued more than $1.0 billion in non-convertible debt during the prior three-year period.

Item 3. Quantitative and Qualitative Disclosures About Market Risks

There have been no material changes to our quantitative and qualitative disclosures about market risk as previously disclosed in our Annual Report on Form 10-K for the fiscal year ended December 31, 2020.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this Quarterly Report on Form 10-Q to ensure that the information required to be disclosed by us in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms, and that information required to be disclosed in the reports we file or submit under the Exchange Act is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosures. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost benefit relationship of possible controls and procedures. Based on such evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were effective at the reasonable assurance level as of September 30, 2021.

Disclosure Controls and Procedures

Management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act.

Our internal control over financial reporting is a process designed 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. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management utilized the criteria established in the Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) to assess the effectiveness of our internal control over financial reporting as of September 30, 2021.

Changes in Internal Control over Financial Reporting

There have been no changes in our internal control over financial reporting identified in connection with the evaluation required by Rule 13a-15(b) and 15d-15(b) of the Exchange Act that occurred during the quarter ended September 30, 2021, that has materially affected, or is 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 be subject to litigation and claims arising in the ordinary course of business. We are not currently a party to any material legal proceedings and we are not aware of any pending or threatened legal proceeding against us that we believe could have a material adverse effect on our business, operating results, cash flows or financial condition.

Item 1A. Risk Factors

Our business is subject to risks and events that, if they occur, could adversely affect our financial condition and results of operations and the trading price of our securities. In addition to the other information set forth in this quarterly report on Form 10-Q, you should carefully consider the factors described in Part I, Item 1A. “Risk Factors” of our Annual Report on Form 10-K for the fiscal year ended December 31, 2020, filed with the Securities and Exchange Commission on March 17, 2021. There have been no material changes to the risk factors described in that report.

Risk Factors Summary

Our business is subject to a number of risks and uncertainties, including those risks discussed below. These risks include, among others, the following:

- **Risks Related to Our Financial Position and Capital Needs**
  - We have incurred significant losses since our inception. We expect to incur losses over the next several years and may never achieve or maintain profitability.
  - We will need substantial additional financing to fund our operations. If we are unable to raise capital when needed, we could be forced to curtail our planned operations and the pursuit of our growth strategy.
  - We have a limited operating history and no history of commercializing products, which may make it difficult for you to evaluate the success of our business to date and to assess our future viability.
- **Risks Related to the Development of Our Product Candidates**
  - Our lead product candidate, VP-102, is being developed for the treatment of molluscum, common warts and external genital warts, for which we are currently conducting clinical trials. If we are unable to successfully develop, receive regulatory approval for and commercialize VP-102 for the treatment of molluscum, common warts, external genital warts or any other indications, or successfully develop any other product candidates, or experience significant delays in doing so, our business will be harmed.
- **Risks Related to the Commercialization of Our Product Candidates**

- We face substantial competition, including from compounded cantharidin products that may compete with VP-102 and any other product candidates, which may result in a smaller than expected commercial opportunity and/or others discovering, developing or commercializing products before or more successfully than we do.

- The success of VP-102 for the treatment of molluscum and common warts will depend significantly on coverage and adequate reimbursement or the willingness of patients to pay for these procedures.

- The market for VP-102 and any other product candidates may not be as large as we expect.

Risks Related to Our Dependence on Third Parties

- We currently rely on a third party to supply our raw material used in VP-102, and if we encounter any extended difficulties in procuring, or creating an alternative for, our raw material in VP-102 or any of our other product candidates we may develop, our business operations would be impaired.

- We have entered into, and may seek additional, collaborations with third parties for the development or commercialization of our product candidates. If those collaborations are not successful, we may not be able to capitalize on the market potential of these product candidates.

Risks Related to Our Intellectual Property

- If we are unable to obtain or protect intellectual property rights related to any of our product candidates, we may not be able to compete effectively in our market.

Risks Related to Legal and Regulatory Compliance Matters

- We expect to expand our development and regulatory capabilities and potentially implement sales, marketing and distribution capabilities, and as a result, we may encounter difficulties in managing our growth, which could disrupt our operations.

Risks Related to Employee Matters and Managing Our Growth

- We expect to expand our development and regulatory capabilities and potentially implement sales, marketing and distribution capabilities, and as a result, we may encounter difficulties in managing our growth, which could disrupt our operations.

Risks Related to Ownership of Our Common Stock and Our Status as a Public Company

- The trading price of the shares of our common stock may be volatile, and purchasers of our common stock could incur substantial losses.

Item 2. Recent Sales of Unregistered Securities and Use of Proceeds

(a) Recent Sales of Unregistered Equity Securities

None.

(b) Use of Proceeds from Initial Public Offering of Common Stock

Not applicable.

(c) Issuer Purchases of Equity Securities

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

Not applicable.

Item 6. Exhibits

EXHIBIT INDEX

Exhibit No.	Description
3.1 [1]	Amended and Restated Certificate of Incorporation.
3.2 [2]	Amended and Restated Bylaws.
10.1	Employment Agreement, by and between Verrica Pharmaceuticals Inc. and Terry Kohler, dated July 16, 2021 (filed herewith).
31.1	Certification of Chief Executive Officer and President (Principal Executive Officer), pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).
31.2	Certification of Chief Financial Officer (Principal Financial Officer), pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).
32.1*	Certifications of Chief Executive Officer and President (Principal Executive Officer) and Chief Financial Officer (Principal Financial Officer), pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith).
101.INS	Inline XBRL Instance Document – the instance document does not appear in the Interactive Data File because XBRL tags are embedded within the Inline XBRL document.
101.SCH	Inline XBRL Taxonomy Extension Schema Document
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104	Cover Page Interactive Data File (embedded within the Inline XBRL document)

(1) Previously filed as Exhibit 3.3 to the Company's Registration Statement on Form S-1 (File No. 333-225104), filed with the Securities and Exchange Commission on May 22, 2018, and incorporated herein by reference.

(2) Previously filed as Exhibit 3.4 to the Company's Registration Statement on Form S-1 (File No. 333-225104), filed with the Securities and Exchange Commission on May 22, 2018, and incorporated herein by reference.

* These certifications are being furnished solely to accompany this quarterly report pursuant to 18 U.S.C. Section 1350, and are not being filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and are not to be incorporated by reference into any filing of the registrant, whether made before or after the date hereof, regardless of any general incorporation language in such filing.

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.

VERRICA PHARMACEUTICALS INC.

November 12, 2021

By: /s/ Ted White
Ted White
Chief Executive Officer and President
(Principal Executive Officer)

By: /s/ P. Terence Kohler Jr.
P. Terence Kohler Jr.
Chief Financial Officer
(Principal Financial Officer)

Exhibit 10.1

EMPLOYMENT AGREEMENT

This **EMPLOYMENT AGREEMENT** (the "***Agreement***") is entered into effective July 16, 2021 (the "Effective Date"), by and between Verrica Pharmaceuticals Inc., a Delaware corporation (the "***Company***") and Terry Kohler (the "***Employee***"). Company and Employee are each herein referred to individually as a "***Party***," or collectively as the "***Parties***").

Whereas, the Company desires to employ the Employee in the capacity of full-time Chief Financial Officer ("***CFO***") pursuant to the terms of this Agreement and, in connection therewith, to compensate the Employee for Employee's services to the Company; and

Whereas, the Employee wishes to be employed by the Company and provide services to the Company in return for certain compensation as set forth herein.

Accordingly, in consideration of the mutual promises and covenants contained herein, the Parties agree to the following:

1. EMPLOYMENT BY THE COMPANY.

1.1 At-Will Employment. Employee shall be employed by the Company on an "at-will" basis, meaning either the Company or Employee may terminate Employee's employment at any time, with or without cause or advanced notice. Any contrary representations that may have been made to Employee shall be superseded by this Agreement. This Agreement shall constitute the full and complete agreement between Employee and the Company on the "at- will" nature of Employee's employment with the Company, which may be changed only in an express written agreement signed by Employee and a duly authorized officer of the Company. Employee's rights to any compensation following a termination shall be only as set forth in Section 6.

1.2 Position. Subject to the terms set forth herein, the Company agrees to employ Employee in the position of CFO and Employee hereby accepts such employment. During the term of Employee's employment with the Company, Employee will devote Employee's best efforts and all of Employee's business time and attention to the business of the Company.

1.3 Duties. Employee will report to the Chief Executive Officer ("***CEO***") of the Company, performing such duties as are normally associated with his position and such duties as are assigned to him from time to time, subject to the oversight and direction of the CEO and the Company's Board of Directors (the "***Board***"). Employee shall perform his duties under this Agreement in the Company's office in West Chester, Pennsylvania or such other location as assigned. In addition, the Employee shall make business trips to any places as may be necessary, advisable, or directed for the effective operation of the Company.

1.4 Company Policies and Benefits. The employment relationship between the Parties shall also be subject to the Company's personnel policies and procedures as they may be

interpreted, adopted, revised or deleted from time to time in the Company's sole discretion. The Employee will be eligible to participate on the same basis as similarly situated employees in the Company's benefit plans and paid time off policies, in all cases, as in effect from time to time during his employment. All matters of eligibility for coverage or benefits under any benefit plan shall be determined in accordance with the provisions of such plan. The Company reserves the right to change, alter, or terminate any benefit plan in its sole discretion. Notwithstanding the foregoing, in the event that the terms of this Agreement differ from or are in conflict with the Company's general employment policies or practices, this Agreement shall control.

2. COMPENSATION.

2.1 Salary. Employee shall receive for Employee's services to be rendered hereunder an initial annualized base salary of $350,000 per year, subject to review and adjustment from time to time by the Company in its sole discretion, payable subject to standard federal and state payroll withholding requirements in accordance with Company's standard payroll practices ("***Base Salary***").

2.2 Bonus.

(a) **During Employment**. Employee shall be eligible to earn an annual performance bonus with a target amount equal to 40% (the "***Target Percentage***") of his Base Salary ("***Annual Bonus***"). The Annual Bonus will be based upon the Board's assessment, in its sole discretion, of the Employee's performance and the Company's attainment of targeted goals as set by the Board in its sole discretion. The Annual Bonus, if any, will be subject to applicable payroll deductions and withholdings. Following the close of each calendar year, the Board will determine whether the Employee has earned the Annual Bonus, and the amount of any Annual Bonus, which can be above or below the Target Percentage. No amount of the Annual Bonus is guaranteed and Employee must be an employee in good standing on the Annual Bonus payment date to be eligible to receive an Annual Bonus. No partial or prorated bonuses will be provided. Notwithstanding the foregoing, Employee will be eligible for an Annual Bonus for 2021, subject to the eligibility criteria in this Section 2.2, and such Annual Bonus for 2021, if any, shall not be prorated based upon the number of days during which Employee was employed by the Company in 2021. The Annual Bonus, if earned, will be paid no later than March 15 of the calendar year immediately following the applicable calendar year for which the Annual Bonus is being measured. The Employee's eligibility for an Annual Bonus is subject to change in the discretion of the Board (or any authorized committee thereof).

(b) **Upon Termination**. In the event Employee leaves the employ of the Company for any reason prior to payment of any bonus, he is not eligible for such bonus, prorated or otherwise.

2.3 Stock Option.

(a) **Option Grant**. Subject to approval of the Board, which the Company agrees to use its best efforts to secure, Employee will be issued options to purchase 125,000 shares of the Company's common stock (subject to adjustment for stock splits, dividends and

combinations and similar events as will be set forth in the option agreement) (the "***Option***"), with a 10-year term, pursuant and subject to the Company's 2018 Equity Incentive Plan ("***Plan***") and the Company's standard form of Stock Option Agreement ("***Stock Agreement***') between the Employee and the Company. The option shall be an incentive stock option to the extent permissible under Section 422 of the Internal Revenue Code and will have an exercise price per share equal to the fair market value of a share of the Company's common stock at the close of the Effective Date, and to be determined in accordance with Section 409A.

(b) **Vesting**. The Option shall vest over a period of four years as follows: (i) 25% of the total shares subject to the Option shall vest on the first anniversary of the Effective Date, and (ii) 1/48th of total shares subject to the Option shall vest monthly thereafter over the remaining three years of the vesting period, subject to Employee's continuous service as of each applicable date. The foregoing notwithstanding, in the event of a Change in Control (as defined in the Plan, as may be amended from time to time), subject to Employee's continuous service as of the effective date of such Change in Control, all of Employee's then-unvested Option shall immediately and automatically vest as of the effective date of such Change in Control.

2.4 Expense Reimbursement. The Company will reimburse Employee for all reasonable, documented business expenses incurred in connection with his services hereunder, in accordance with the Company's business expense reimbursement policies and procedures as may be in effect from time to time.

3. CONFIDENTIAL INFORMATION, INVENTIONS, NON-COMPETITION AND NON- SOLICITATION OBLIGATIONS. As a condition of employment, Employee agrees to execute and abide by an **Employee Confidential Information, Inventions, Non-Solicitation and Non- Competition Agreement** attached as **Exhibit A** (the "***Confidential Information Agreement***"), which may be amended by the Parties from time to time without regard to this Agreement. The Confidential Information Agreement contains provisions that are intended by the Parties to survive and do survive termination or expiration of this Agreement.

4. OUTSIDE ACTIVITIES. Except with the prior written consent of the Company's Board, Employee will not, while employed by the Company, undertake or engage in any other employment, occupation or business enterprise that would interfere with Employee's responsibilities and the performance of Employee's duties hereunder except for (i) reasonable time devoted to volunteer services for or on behalf of such religious, educational, non-profit and/or other charitable organization as Employee may wish to serve; (ii) reasonable time devoted to activities in the non-profit and business communities consistent with Employee's duties; (iii) reasonable time devoted to service on boards of directors of companies that are not competitive with the Company, do not otherwise present a conflict of interest and would not otherwise interfere with Employee's responsibilities and the performance of Employee's duties hereunder, subject to the prior written approval of the Board (which approval shall not be unreasonably withheld); and (iv) such other activities that would not interfere with Employee's responsibilities and the performance of Employee's duties hereunder as may be specifically approved by the Board (which approval shall not be unreasonably withheld). This restriction shall not, however, preclude the Employee from owning less than one percent (1%) of the total outstanding shares of a publicly traded company.

5. NO CONFLICT WITH EXISTING OBLIGATIONS. Employee represents that Employee's performance of all the terms of this Agreement and as an Employee of the Company do not and will not breach any agreement or obligation of any kind made prior to Employee's employment by the Company, including agreements or obligations Employee may have with prior employers or entities for which Employee has provided services. Employee has not entered into, and Employee agrees that Employee will not enter into, any agreement or obligation, either written or oral, in conflict herewith.

6. TERMINATION OF EMPLOYMENT. The Parties acknowledge that Employee's employment relationship with the Company is at-will. Either Employee or the Company may terminate the employment relationship at any time, with or without Cause. The provisions in this Section govern the amount of compensation, if any, to be provided to Employee upon termination of employment and do not alter this at-will status.

6.1 Termination by the Company Without Cause (not in Connection with a Change in Control).

(a) The Company shall have the right to terminate Employee's employment with the Company pursuant to this Section 6.1 at any time without "Cause" (as defined in Section 6.2(a) below) by giving notice as described in Section 6.7 of this Agreement. A termination pursuant to Section 6.6 below is not a termination without "Cause" for purposes of receiving the benefits described in this Section 6.1.

(b) In the event Employee's employment is terminated without Cause at any time except during the Change in Control Measurement Period (as defined in Section 6.4 below), then provided that the Employee executes and does not revoke a separation agreement that includes a general release substantially in the form attached hereto as **Exhibit B** (the "***Release***"), and subject to Section 6.1(c) (the date that the Release becomes effective and may no longer be revoked by the Employee is referred to as the "***Release Date***"), then Employee shall be eligible for the following "***Non-CIC Severance Benefits***":

(i) the Company shall pay to Employee an amount equal to Employee's then current Base Salary for the Severance Period (as defined below), less applicable withholdings and deductions, in installments in accordance with the Company's ordinary payroll practices commencing on the Company's first regular payroll date that is more than sixty (60) days following the Separation Date (as defined below), and shall be for any accrued Base Salary for the sixty (60) day period plus the period from the sixtieth (60^{th}) day until the regular payroll date, if applicable, and all salary continuation payments thereafter, if any, shall be made on the Company's regular payroll dates; and

(ii) if the Employee timely elects continued coverage under COBRA for himself and his covered dependents under the Company's group health plans following such termination, then the Employee will be entitled to the following COBRA benefits: the Company shall pay the COBRA premiums necessary to continue the Employee's and his covered dependents' health insurance coverage in effect for himself (and his covered dependents) on the termination date until the earliest of (x) a number of months following the termination date equal

to the Severance Period; (y) the date when the Employee becomes eligible for health insurance coverage in connection with new employment or self-employment; or (iii) the date the Employee ceases to be eligible for COBRA continuation coverage for any reason, including plan termination (such period from the termination date through the earlier of (i)-(iii), the "***Non-CIC COBRA Payment Period***"). Notwithstanding the foregoing, if at any time the Company determines that its payment of COBRA premiums on the Employee's behalf would result in a violation of applicable law (including but not limited to the 2010 Patient Protection and Affordable Care Act, as amended by the 2010 Health Care and Education Reconciliation Act), then in lieu of paying COBRA premiums pursuant to this Section, the Company shall pay the Employee on the last day of each remaining month of the Non-CIC COBRA Payment Period, a fully taxable cash payment equal to the COBRA premium for such month, subject to applicable tax withholding (such amount, the "***Special Severance Payment***"), such Special Severance Payment to be made without regard to the Employee's payment of COBRA premiums and without regard to the expiration of the COBRA period prior to the end of the Non-CIC COBRA Payment Period. Nothing in this Agreement shall deprive the Employee of his rights under COBRA or ERISA for benefits under plans and policies arising under his employment by the Company.

(c) Employee shall not receive the Non-CIC Severance Benefits pursuant to Section 6.1(b), or the CIC Severance Benefits (as defined below) pursuant to Section 6.4(a), unless he executes the Release within the consideration period specified therein, which shall in no event be more than sixty (60) days, and until the Release becomes effective and can no longer be revoked by Employee under its terms. Employee's ability to receive benefits pursuant to Section 6.1(b) or Section 6.4(a) is further conditioned upon his: returning all Company property; complying with his post-termination obligations under this Agreement and the Confidential Information Agreement; and complying with the Release including without limitation any non-disparagement and confidentiality provisions contained therein.

(d) The benefits provided to Employee pursuant to this Section 6.1 are in lieu of, and not in addition to, any benefits to which Employee may otherwise be entitled under any Company severance plan, policy or program. For avoidance of doubt, Employee shall not be eligible for both CIC Severance Benefits and Non-CIC Severance Benefits.

(e) The damages caused by the termination of Employee's employment without Cause would be difficult to ascertain; therefore, the severance for which Employee is eligible pursuant to Section 6.1(b) above in exchange for the Release is agreed to by the Parties as liquidated damages, to serve as full compensation, and not a penalty.

(f) For purposes of this Agreement, "***Severance Period***" shall mean (i) zero (0) months in the event a termination under this Section 6.1 or under Section 6.3 (an "***Involuntary Termination***") occurs on or before the first anniversary of the Effective Date, (ii) six (6) months in the event an Involuntary Termination occurs after the first anniversary of the Effective Date and on or before the second anniversary of the Effective Date, and (iii) twelve (12) months in the event an Involuntary Termination occurs after the second anniversary of the Effective Date. Notwithstanding the foregoing, in the event that an Involuntary Termination occurs directly as result of the Company receiving a CRL (Complete Response Letter) from the FDA regarding its NDA (New Drug Application) for VP-102 (the Company's investigational, proprietary,

drug-device combination) for the treatment of molluscum contagiosum occurs on or before the first anniversary of the Effective Date, the Employee shall be eligible for six (6) months Non-CIC Severance Benefits.

6.2 Termination by the Company for Cause. Subject to Section 6.2(b) below, the Company shall have the right to terminate Employee's employment with the Company at any time for Cause by giving notice as described in this Section 6.2 and in Section 6.7 of this Agreement.

(a) "***Cause***" for termination shall mean the occurrence of any of the following: (i) Employee's conviction of any felony or any crime involving fraud or dishonesty;(ii) Employee's participation in a fraud, act of dishonesty or other act of gross misconduct that adversely affects the Company; (iii) conduct by Employee that demonstrates Employee's gross unfitness to serve under circumstances that materially and adversely affect the Company; (iv) Employee's violation of any statutory or fiduciary duty, or duty of loyalty, owed to the Company; (v) Employee's breach of any material term of any contract between such Employee and the Company; and/or (vi) Employee's serious violation of a material Company policy. Whether a termination is for Cause shall be decided by the Board in its sole and exclusive judgment and discretion. Prior to termination for Cause pursuant to each event listed in (iii) and (iv) above, the Company shall give the Employee notice of such event(s), which notice shall specify in reasonable detail the circumstances constituting Cause, and an opportunity to explain the circumstances. Prior to any termination for Cause pursuant to each event listed in (v) and (vi) above, to the extent such event(s) is (are) capable of being cured by Employee, (A) the Company shall give the Employee notice of such event(s), which notice shall specify in reasonable detail the circumstances constituting Cause, and an opportunity to cure, and (B) there shall be no Cause with respect to any such event(s) if the Board determines in good faith that such events have been cured by Employee within fifteen (15) days after the delivery of such notice.

(b) In the event Employee's employment is terminated at any time for Cause, Employee will not receive the Non-CIC Severance Benefits described in Section 6.1(b), the CIC Severance Benefits described in Section 6.4(a), or any other severance compensation or benefit, except that, pursuant to the Company's standard payroll policies, the Company shall pay to Employee the accrued but unpaid salary of Employee through the date of termination, together with all compensation and benefits payable to Employee based on his participation in any compensation or benefit plan, program or arrangement through the date of termination.

6.3 Resignation by the Employee With Good Reason (not in Connection with a Change in Control).

(a) Employee may resign from Employee's employment with the Company for Good Reason by giving notice following the end of the Cure Period (as defined in this Section). For purposes of this Agreement, "***Good Reason***" for the Employee to terminate his employment hereunder shall mean any of following actions are taken by the Company without Employee's prior written consent: (i) a material reduction by the Company of Employee's Base Salary as initially set forth herein or as the same may be increased from time to time, provided, however, that if such reduction occurs in connection with a Company-wide decrease in executive team compensation, such reduction shall not constitute Good Reason; (ii) a material breach of this Agreement by the Company; (iii) the relocation of Employee's principal place of employment,

without Employee's consent, by fifty (50) or more miles from his then- current principal place of employment immediately prior to such relocation; or (iv) a material reduction in Employee's title, duties, authority, or responsibilities relative to Employee's title, duties, authority, or responsibilities in effect immediately prior to such reduction; *provided, however*, that, any such termination by Employee shall only be deemed for Good Reason pursuant to this definition if: (1) Employee gives the Company written notice of his intent to terminate for Good Reason within thirty (30) days following the occurrence of the condition(s) that he believes constitute(s) Good Reason, which notice shall describe such condition(s); (2) the Company fails to remedy such condition(s) within thirty (30) days following receipt of the written notice (the "***Cure Period***"); and (3) Employee voluntarily terminates his employment within thirty (30) days following the end of the Cure Period.

(b) In the event Employee resigns from employment for Good Reason at any time except during the Change in Control Measurement Period, then provided that the Employee executes and does not revoke the Release and subject to Section 6.1(c), then the Company shall pay to Employee the Non-CIC Severance Benefits described in Section 6.1(b).

6.4 Termination by the Company without Cause or Resignation by Employee for Good Reason (in connection with a Change in Control).

(a) In the event that Employee's employment is terminated without Cause or Employee resigns for Good Reason in either case within twelve (12) months following or one (1) month prior to the effective date of a Change in Control ("***Change in Control Measurement Period***") of the Company, then provided that the Employee executes and does not revoke the Release and subject to Employee's compliance with the requirements of Section 6.1(c), then Employee will be eligible for the following "***CIC Severance Benefits:***"

(i) the Company shall pay to Employee an amount equal to Employee's then current Base Salary for twelve (12) months, less applicable withholdings and deductions, in installments in accordance with the Company's ordinary payroll practices commencing on the Company's first regular payroll date that is more than sixty (60) days following the Separation Date, and shall be for any accrued Base Salary for the sixty (60) day period plus the period from the sixtieth (60^{th}) day until the regular payroll date, if applicable, and all salary continuation payments thereafter, shall be made on the Company's regular payroll dates; and

(ii) the Company will pay a cash severance benefit equal to the Employee's Annual Bonus paid at the Target Percentage for the year in which Employee's Separation Date occurs. Such cash severance benefit will be paid in a single lump sum cash payment on the Company's first regular payroll date that is more than sixty (60) days following the Separation Date.

(iii) if the Employee timely elects continued coverage under COBRA for himself and his covered dependents under the Company's group health plans following such termination, then the Employee will be entitled to the following COBRA benefits: the Company shall pay the COBRA premiums necessary to continue the Employee's and his covered dependents' health insurance coverage in effect for himself (and his covered dependents)

on the termination date until the earliest of (x) twelve (12) months following the termination date; (y) the date when the Employee becomes eligible for health insurance coverage in connection with new employment or self-employment; or (iii) the date the Employee ceases to be eligible for COBRA continuation coverage for any reason, including plan termination (such period from the termination date through the earlier of (i)-(iii), the "***CIC COBRA Payment Period***"). Notwithstanding the foregoing, if at any time the Company determines that its payment of COBRA premiums on the Employee's behalf would result in a violation of applicable law (including but not limited to the 2010 Patient Protection and Affordable Care Act, as amended by the 2010 Health Care and Education Reconciliation Act), then in lieu of paying COBRA premiums pursuant to this Section, the Company shall pay the Employee on the last day of each remaining month of the CIC COBRA Payment Period the Special Severance Payment, such Special Severance Payment to be made without regard to the Employee's payment of COBRA premiums and without regard to the expiration of the COBRA period prior to the end of the CIC COBRA Payment Period. Nothing in this Agreement shall deprive the Employee of his rights under COBRA or ERISA for benefits under plans and policies arising under his employment by the Company.

(iv) With regard to Employee's equity awards: (i) The vesting and exercisability of all outstanding time-based vesting equity awards and performance-based vesting equity awards (together, the "***Equity Awards***") that are held by Employee on such date shall be accelerated in full as of the later of the effective date of such Change in Control and Employee's termination date, and (ii) any reacquisition or repurchase rights held by the Company in respect of common stock issued pursuant to any other Equity Awards granted Employee by the Company shall lapse in full as of the later of the effective date of such Change in Control and Employee's termination date. For purposes of determining the number of shares that will vest pursuant to this provision with respect to any performance-based vesting equity awards for which the performance period has not ended and that has multiple vesting levels depending upon the level of performance, vesting acceleration with respect to any ongoing performance period(s) shall occur with respect to the number of shares subject to the award as if the applicable performance criteria had been attained at a 100% level or, if greater, based on actual performance as of the later of the effective date of the Change in Control and Employee's termination date. Notwithstanding the foregoing, this Section 6.4(a)(iv) shall not apply to common stock issued under or held in any plan sponsored by the Company or its affiliates that is intended to be qualified under Section 401(a) of the Internal Revenue Code of 1986, as amended. Notwithstanding any contrary terms governing the Equity Awards or common stock held by Employee, if a Change in Control has not occurred prior to Employee's termination date, no forfeiture of the Equity Awards will occur and no reacquisition or repurchase rights will be exercised by the Company for one month following the termination date, to enable the application of this paragraph if a Change in Control does occur during that month.

(b) The CIC Severance Benefits provided to Employee pursuant to this Section 6.4 are in lieu of, and not in addition to, any benefits to which Employee may otherwise be entitled under any Company severance plan, policy or program.

(c) Any damages caused by the termination of Employee's employment without Cause during the Change in Control Measurement Period would be difficult to ascertain; therefore, the CIC Severance Benefits for which Employee is eligible pursuant to Section 6.4(a)

above in exchange for the Release are agreed to by the parties as liquidated damages, to serve as full compensation, and not a penalty.

6.5 Resignation by the Employee Without Good Reason.

(a) Employee may resign from Employee's employment with the Company at any time by giving notice as described in Section 6.7.

(b) In the event Employee resigns from Employee's employment with the Company other than for Good Reason, Employee will not receive the Non-CIC Severance Benefits, the CIC-Severance Benefits, or any other severance compensation or benefit, except that, pursuant to the Company's standard payroll policies, the Company shall pay to Employee the accrued but unpaid salary of Employee through the date of resignation, together with all compensation and benefits payable to Employee through the date of resignation under any compensation or benefit plan, program or arrangement during such period and Employee shall be eligible for any benefit continuation or conversion rights provided by the provisions of a benefit plan or by law.

6.6 Termination by Virtue of Death or Disability of the Employee.

(a) In the event of Employee's death while employed pursuant to this Agreement, all obligations of the parties hereunder shall terminate immediately, and the Company shall, pursuant to the Company's standard payroll policies, pay to the Employee's legal representatives Employee's accrued but unpaid salary through the date of death together with all compensation and benefits payable to Employee based on his participation in any compensation or benefit plan, program or arrangement through the date of termination.

(b) Subject to applicable state and federal law, the Company shall at all times have the right, upon written notice to the Employee, to terminate this Agreement based on the Employee's Disability (as defined below). Termination by the Company of the Employee's employment based on "***Disability***" shall mean termination because the Employee is unable due to a physical or mental condition to perform the essential functions of his position with or without reasonable accommodation for six (6) months in the aggregate during any twelve (12) month period or based on the written certification by two licensed physicians of the likely continuation of such condition for such period, provided that such condition meets the definition of a disability for coverage under the terms of Company's then-current long-term disability insurance plan. This definition shall be interpreted and applied consistent with the Americans with Disabilities Act, the Family and Medical Leave Act, and other applicable law. In the event Employee's employment is terminated based on the Employee's Disability, Employee will not receive the Non-CIC Severance Benefits, the CIC Severance Benefits, or any other severance compensation or benefit, except that, pursuant to the Company's standard payroll policies, the Company shall pay to Employee the accrued but unpaid salary of Employee through the date of termination, together with all compensation and benefits payable to Employee based on his participation in any compensation or benefit plan, program or arrangement through the date of termination.

6.7 Notice; Effective Date of Termination.

(a) Termination of Employee's employment (the "***Separation Date***") pursuant to this Agreement shall be effective as follows:

(i) ten (10) days after the Company has provided Employee with written notice of Employee's termination without Cause under Section 6.1 or 6.4;

(ii) For a termination for Cause: (aa) under Section 6.2(a)(i) or 6.2(a)(ii), immediately upon provision by the Company of written notice of the reasons to Employee; (bb) under Section 6.2(a)(iii) or 6.2(a)(iv), following the required written notice to Employee and expiration of the period during which Employee may explain; (cc) under Section 6.2(a)(v) or 6.2(a)(vi), following the required written notice to Employee and expiration of the 15-day cure period, if Employee has not cured;

(iii) immediately upon the Employee's death;

(iv) thirty (30) days after the Company gives notice to Employee of Employee's termination on account of Employee's Disability under Section 6.6, unless the Company specifies a later Separation Date, in which case, termination shall be effective as of such later Separation Date, *provided* that Employee has not returned to the full time performance of Employee's duties prior to such date;

(v) on the date specified in Employee's written notice of Employee's resignation for Good Reason, provided it is within thirty (30) days after the Cure Period has ended and the Company has failed to remedy any of the reasons for Good Reason set forth in Employee's initial notice under Section 6.3(a); or

(vi) ten (10) days after the Employee gives written notice to the Company of Employee's resignation, *provided* that the Company may set a Separation Date at any time between the date of notice and the date of resignation, in which case the Employee's resignation shall be effective as of such other date. Employee will receive compensation through the Separation Date.

(b) In the event notice of a termination under subsections (a)(iii) and (iv) is given orally, at the other party's request, the party giving notice must provide written confirmation of such notice within five (5) business days of the request in compliance with the requirement of Section 7.1 below. In the event of a termination for Cause, written confirmation shall specify the subsection(s) of the definition of Cause relied on to support the decision to terminate.

6.8 Cooperation With Company After Termination of Employment. Following termination of Employee's employment for any reason, Employee shall reasonably cooperate with the Company in all matters relating to the winding up of Employee's pending work including, but not limited to, any litigation in which the Company is involved, and the orderly transfer of any such pending work to such other Employees as may be designated by the Company.

6.9 Application of Section 409A. Notwithstanding anything to the contrary set forth herein, any payments and benefits provided under this Agreement that constitute "deferred compensation" within the meaning of Section 409A of the Internal Revenue Code of 1986, as amended ("***Code***") and the regulations and other guidance thereunder and any state law of similar effect (collectively, "***Section 409A***") shall not commence in connection with Employee's termination of employment unless and until Employee has also incurred a "separation from service" (as such term is defined in Treasury Regulation Section 1.409A-1(h)) ("***Separation From Service***"), unless the Company reasonably determines that such amounts may be provided to Employee without causing Employee to incur the additional 20% tax under Section 409A. It is intended that each installment of severance pay provided for in this Agreement is a separate "payment" for purposes of Treasury Regulation Section 1.409A- 2(b)(2)(i). For the avoidance of doubt, it is intended that severance payments set forth in this Agreement satisfy, to the greatest extent possible, the exceptions from the application of Section 409A provided under Treasury Regulation Sections 1.409A-1(b)(4), 1.409A-1(b)(5), and 1.409A-1(b)(9). If the Company (or, if applicable, the successor entity thereto) determines that any payments or benefits constitute "deferred compensation" under Section 409A and Employee is, on the termination of service, a "specified employee" of the Company or any successor entity thereto, as such term is defined in Section 409A(a)(2)(B)(i) of the Code, then, solely to the extent necessary to avoid the incurrence of the adverse personal tax consequences under Section 409A, the timing of the payments and benefits shall be delayed until the earlier to occur of: (a) the date that is six months and one day after Employee's Separation From Service, or (b) the date of Employee's death (such applicable date, the "***Specified Employee Initial Payment Date***"). On the Specified Employee Initial Payment Date, the Company (or the successor entity thereto, as applicable) shall (i) pay to Employee a lump sum amount equal to the sum of the payments and benefits that Employee would otherwise have received through the Specified Employee Initial Payment Date if the commencement of the payment of such amounts had not been so delayed pursuant to this Section and (ii) commence paying the balance of the payments and benefits in accordance with the applicable payment schedules set forth in this Agreement. All reimbursements provided under this Agreement shall be subject to the following requirements: (i) the amount of in-kind benefits provided or reimbursable expenses incurred in one taxable year shall not affect the in-kind benefits to be provided or the expenses eligible for reimbursement in any other taxable year, (ii) all reimbursements shall be paid as soon as administratively practicable, but in no event shall any reimbursement be paid after the last day of the taxable year following the taxable year in which the expense was incurred, and (iii) the right to reimbursement or in-kind benefits is not subject to liquidation or exchange for any other benefit. It is intended that all payments and benefits under this Agreement shall either comply with or be exempt from the requirements of Section 409A, and any ambiguity contained herein shall be interpreted in such manner so as to avoid adverse personal tax consequences under Section 409A. Notwithstanding the foregoing, the Company shall in no event be obligated to indemnify the Employee for any taxes or interest that may be assessed by the Internal Revenue Service pursuant to Section 409A of the Code to payments made pursuant to this Agreement.

7. GENERAL PROVISIONS.

7.1 Notices. Any notices required hereunder to be in writing shall be deemed effectively given: (a) upon personal delivery to the party to be notified, (b) when sent by electronic

mail, telex or confirmed facsimile if sent during normal business hours of the recipient, and if not, then on the next business day, (c) five (5) days after having been sent by registered or certified mail, return receipt requested, postage prepaid, or (d) one (1) day after deposit with a nationally recognized overnight courier, specifying next day delivery, with written verification of receipt. All communications shall be sent to the Company at its primary office location and to Employee at Employee's address as listed on the Company payroll, or at such other address as the Company or the Employee may designate by ten (10) days advance written notice to the other.

7.2 Severability. Whenever possible, each provision of this Agreement will be interpreted in such manner as to be effective and valid under applicable law, but if any provision of this Agreement is held to be invalid, illegal or unenforceable in any respect under any applicable law or rule in any jurisdiction, such invalidity, illegality or unenforceability will not affect any other provision or any other jurisdiction, but this Agreement will be reformed, construed and enforced in such jurisdiction as if such invalid, illegal or unenforceable provisions had never been contained herein.

7.3 Waiver. If either party should waive any breach of any provisions of this Agreement, such party shall not thereby be deemed to have waived any preceding or succeeding breach of the same or any other provision of this Agreement.

7.4 Complete Agreement. This Agreement constitutes the entire agreement between Employee and the Company with regard to the subject matter hereof. This Agreement is the complete, final, and exclusive embodiment of their agreement with regard to this subject matter and supersedes any prior oral discussions or written communications and agreements. This Agreement is entered into without reliance on any promise or representation other than those expressly contained herein, and it cannot be modified or amended except in writing signed by Employee and an authorized officer of the Company. The parties have entered into a separate Confidential Information Agreement and have or may enter into separate agreement related to stock option awards. These separate agreements govern other aspects of the relationship between the parties, have or may have provisions that survive termination of the Employee's employment under this Agreement, may be amended or superseded by the parties without regard to this Agreement and are enforceable according to their terms without regard to the enforcement provision of this Agreement.

7.5 Counterparts. This Agreement may be executed in separate counterparts, any one of which need not contain signatures of more than one party, but all of which taken together will constitute one and the same Agreement.

7.6 Headings. The headings of the sections hereof are inserted for convenience only and shall not be deemed to constitute a part hereof nor to affect the meaning thereof.

7.7 Successors and Assigns. The Company shall assign this Agreement and its rights and obligations hereunder in whole, but not in part, to any Company or other entity with or into which the Company may hereafter merge or consolidate or to which the Company may transfer all or substantially all of its assets, if in any such case said Company or other entity shall by operation of law or expressly in writing assume all obligations of the Company hereunder as

fully as if it had been originally made a party hereto, but may not otherwise assign this Agreement or its rights and obligations hereunder. The Employee may not assign or transfer this Agreement or any rights or obligations hereunder, other than to his estate upon his death.

7.8 Choice of Law. All questions concerning the construction, validity and interpretation of this Agreement will be governed by the law of the Commonwealth of Pennsylvania, without regard to its rules of conflicts or choice of laws.

7.9 Indemnification. The Employee shall be entitled to indemnification to the maximum extent permitted by applicable law and the Company's Bylaws with terms no less favorable than provided to any other Company executive officer and subject to the terms of any separate written indemnification agreement. At all times during the Employee's employment, the Company shall maintain in effect a directors and officers liability insurance policy with the Employee as a covered officer.

7.10 Resolution of Disputes. The parties recognize that litigation in federal or state courts or before federal or state administrative agencies of disputes arising out of the Employee's employment with the Company or out of this Agreement, or the Employee's termination of employment or termination of this Agreement, may not be in the best interests of either the Employee or the Company, and may result in unnecessary costs, delays, complexities, and uncertainty. The parties agree that any dispute between the parties arising out of or relating to the negotiation, execution, performance or termination of this Agreement or the Employee's employment, including, but not limited to, any claim arising out of this Agreement, claims under Title VII of the Civil Rights Act of 1964, as amended, the Civil Rights Act of 1991, the Age Discrimination in Employment Act of 1967, the Americans with Disabilities Act of 1990, Section 1981 of the Civil Rights Act of 1966, as amended, the Family Medical Leave Act, the Employee Retirement Income Security Act, and any similar federal, state or local law, statute, regulation, or any common law doctrine, whether that dispute arises during or after employment, shall be settled by binding arbitration conducted before a single arbitrator by Judicial Arbitration and Mediation Services, Inc. ("***JAMS***") or its successor, under the then applicable JAMS rules; *provided however,* that this dispute resolution provision shall not apply to any separate agreements between the parties that do not themselves specify arbitration as an exclusive remedy. The location for the arbitration shall be Philadelphia, Pennsylvania. Any award made by such panel shall be final, binding and conclusive on the parties for all purposes, and judgment upon the award rendered by the arbitrators may be entered in any court having jurisdiction thereof. The arbitrators' fees and expenses and all administrative fees and expenses associated with the filing of the arbitration shall be borne by the Company; *provided however*, that at the Employee's option, Employee may voluntarily pay up to one-half the costs and fees, for which Employee shall be reimbursed by the Company. The parties acknowledge and agree that their obligations to arbitrate under this Section survive the termination of this Agreement and continue after the termination of the employment relationship between Employee and the Company. The parties each further agree that the arbitration provisions of this Agreement shall provide each party with its **exclusive remedy**, and each party expressly waives any right it might have to seek redress in any other forum, except as otherwise expressly provided in this Agreement. By election arbitration as the means for final settlement of all claims, **the parties hereby waive their respective rights to, and agree not to, sue each other in any action in a Federal, State or local court with respect to such claims, but may seek to enforce in court**

an arbitration award rendered pursuant to this Agreement. The parties specifically agree to waive their respective rights to a trial by jury, and further agree that no demand, request or motion will be made for trial by jury.

[SIGNATURES TO FOLLOW ON NEXT PAGE]

IN WITNESS WHEREOF, the Parties have executed this Employment Agreement as of the Effective Date.

COMPANY:

Verrica Pharmaceuticals Inc.

By: /s/ Ted White
Ted White, President and CEO

EMPLOYEE:

/s/ Terry Kohler
Terry Kohler

Exhibit A

EMPLOYEE CONFIDENTIAL INFORMATION, INVENTIONS, NON-SOLICITATION AND NON-COMPETITION AGREEMENT

In consideration of my employment by Verrica Pharmaceuticals Inc., and its subsidiaries, parents, affiliates, successors and assigns (together, "***Company***") and the compensation now and later paid to me, I hereby enter into this Employee Confidential Information, Inventions, Non-Solicitation and Non-Competition Agreement (the "***Agreement***") and agree as follows:

1. CONFIDENTIAL INFORMATION PROTECTIONS.

1.1 Recognition of Company's Rights; Nondisclosure. I understand and acknowledge that my employment by Company creates a relationship of confidence and trust with respect to Company's Confidential Information (as defined below) and that Company has a protectable interest therein. At all times during and after my employment, I will hold in confidence and will not disclose, use, lecture upon or publish any of Company's Confidential Information, except as such disclosure, use or publication may be required in connection with my work for Company, or unless an officer of Company expressly authorizes such disclosure in writing. I will obtain Company's written approval before publishing or submitting for publication any material (written, verbal, or otherwise) that discloses and/or incorporates any Confidential Information. I hereby assign to Verrica Pharmaceuticals Inc. any rights I may have or acquire in such Confidential Information and recognize that all Confidential Information shall be the sole and exclusive property of Verrica Pharmaceuticals Inc. and its assigns. I will take all reasonable precautions to prevent the inadvertent or accidental disclosure of Confidential Information. Notwithstanding the foregoing, pursuant to 18 U.S.C. Section 1833(b), I shall not be held criminally or civilly liable under any Federal or State trade secret law for the disclosure of a trade secret that: (1) is made in confidence to a Federal, State, or local government official, either directly or indirectly, or to an attorney, and solely for the purpose of reporting or investigating a suspected violation of law; or (2) is made in a complaint or other document filed in a lawsuit or other proceeding, if such filing is made under seal.

1.2 Confidential Information. The term "Confidential Information" shall mean any and all confidential knowledge, data or information of Company. By way of illustration but not limitation, "***Confidential Information***" includes (a) trade secrets, inventions, mask works, ideas, processes, formulas, software in source or object code versions, data, programs, other works of authorship, know- how, improvements, discoveries, developments, designs and techniques and any other proprietary technology and all Intellectual Property Rights therein (collectively, "***Inventions***"); (b) information regarding research, development, new products, marketing and selling, business plans, budgets and unpublished financial statements, licenses, prices and costs, margins, discounts, credit terms, pricing and billing policies, quoting procedures, methods of obtaining business, forecasts, future plans and potential strategies, financial projections and business strategies, operational plans, financing and capital-raising plans, activities and agreements, internal services and operational manuals, methods of conducting Company business, suppliers and supplier information, and purchasing; (c) information regarding customers and potential customers of Company, including customer lists, names, representatives, their needs or desires with respect to the types of products or services offered by Company, proposals, bids, contracts and their contents and parties, the type and quantity of products and services provided or sought to be provided to customers and potential customers of Company and other non-public information relating to customers and potential Customers; (d) information regarding any of Company's business partners and their services, including names; representatives, proposals, bids, contracts and their contents and parties, the type and quantity of products and services received by Company, and other non-public information relating to business partners; (e) information regarding personnel, employee lists, compensation, and employee skills; and (f) any other

non-public information which a competitor of Company could use to the competitive disadvantage of Company. Notwithstanding the foregoing, it is understood that, at all such times, I am free to use information which was known to me prior to employment with Company or which is generally known in the trade or industry through no breach of this Agreement or other act or omission by me. Notwithstanding the foregoing or anything to the contrary in this Agreement or any other agreement between Company and me, nothing in this Agreement shall limit my right to discuss my employment or report possible violations of law or regulation with the Equal Employment Opportunity Commission, United States Department of Labor, the National Labor Relations Board, the Securities and Exchange Commission, or other federal government agency or similar state or local agency or to discuss the terms and conditions of my employment with others to the extent expressly permitted by Section 7 of the National Labor Relations Act or to the extent that such disclosure is protected under the applicable provisions of law or regulation, including but not limited to "whistleblower" statutes or other similar provisions that protect such disclosure.

1.3 Third Party Information. I understand, in addition, that Company has received and in the future will receive from third parties their confidential and/or proprietary knowledge, data or information ("***Third Party Information***") subject to a duty on Company's part to maintain the confidentiality of such information and to use it only for certain limited purposes. During my employment and thereafter, I will hold Third Party Information in confidence and will not disclose to anyone (other than Company personnel who need to know such information in connection with their work for Company) or use, except in connection with my work for Company, Third Party Information unless expressly authorized by an officer of Company in writing.

1.4 Term of Nondisclosure Restrictions. I understand that Confidential Information and Third Party Information is never to be used or disclosed by me, as provided in this Section 1. If a temporal limitation on my obligation not to use or disclose such information is required under applicable law, and the Agreement or its restriction(s) cannot otherwise be enforced, I agree and Company agrees that the two (2) year period after the date my employment ends will be the temporal limitation relevant to the contested restriction, provided, however, that this sentence will not apply to trade secrets protected without temporal limitation under applicable law.

1.5 No Improper Use of Information of Prior Employers and Others. During my employment by Company, I will not improperly use or disclose confidential information or trade secrets, if any, of any former employer or any other person to whom I have an obligation of confidentiality, and I will not bring onto the premises of Company any unpublished documents or any property belonging to any former employer or any other person to whom I have an obligation of confidentiality unless consented to in writing by that former employer or person.

2. ASSIGNMENTS OF INVENTIONS.

2.1 Definitions. As used in this Agreement, the term "***Intellectual Property Rights***" means all trade secrets, Copyrights, trademarks, mask work rights, patents and other intellectual property rights recognized by the laws of any jurisdiction or country; the term "***Copyright***" means the exclusive legal right to reproduce, perform, display, distribute and make derivative works of a work of authorship (as a literary, musical, or artistic work) recognized by the laws of any jurisdiction or country; and the term "***Moral Rights***" means all paternity, integrity, disclosure, withdrawal, special and any other similar rights recognized by the laws of any jurisdiction or country.

2.2 Excluded Inventions and Other Inventions. Attached hereto as **Exhibit A** is a list describing all existing Inventions, if any, that may relate to Company's business or actual or demonstrably anticipated research or development and that were made by me or acquired by me prior to the commencement of my

employment with, and which are not to be assigned to, Company ("***Excluded Inventions***"). If no such list is attached, I represent and agree that it is because I have no rights in any existing Inventions that may relate to Company's business or actual or demonstrably anticipated research or development. For purposes of this Agreement, "***Other Inventions***" means Inventions in which I have or may have an interest, as of the commencement of my employment, other than Company Inventions (defined below) and Excluded Inventions. I acknowledge and agree that if I use any Excluded Inventions or any Other Inventions in the scope of my employment, or if I include any Excluded Inventions or Other Inventions in any product or service of Company, or if my rights in any Excluded Inventions or Other Inventions may block or interfere with, or may otherwise be required for, the exercise by Company of any rights assigned to Company under this Agreement, I will immediately so notify Company in writing. Unless Company and I agree otherwise in writing as to particular Excluded Inventions or Other Inventions, I hereby grant to Company, in such circumstances (whether or not I give Company notice as required above), a non-exclusive, perpetual, transferable, fully-paid and royalty-free, irrevocable and worldwide license, with rights to sublicense through multiple levels of sublicensees, to reproduce, make derivative works of, distribute, publicly perform, and publicly display in any form or medium, whether now known or later developed, make, have made, use, sell, import, offer for sale, and exercise any and all present or future rights in, such Excluded Inventions and Other Inventions. To the extent that any third parties have rights in any such Other Inventions, I hereby represent and warrant that such third party or parties have validly and irrevocably granted to me the right to grant the license stated above.

2.3 Assignment of Company Inventions. Inventions assigned to Verrica Pharmaceuticals Inc., or to a third party as directed by Verrica Pharmaceuticals Inc. pursuant to Section 2.6, are referred to in this Agreement as "***Company Inventions***." Subject to Section 2.4 (Unassigned or Nonassignable Inventions) and except for Excluded Inventions set forth in **Exhibit A** and Other Inventions, I hereby assign to Verrica Pharmaceuticals Inc. all my right, title, and interest in and to any and all Inventions (and all Intellectual Property Rights with respect thereto) made, conceived, reduced to practice, or learned by me, either alone or with others, during the period of my employment by Company. To the extent required by applicable Copyright laws, I agree to assign in the future (when any copyrightable Inventions are first fixed in a tangible medium of expression) my Copyright rights in and to such Inventions. Any assignment of Company Inventions (and all Intellectual Property Rights with respect thereto) hereunder includes an assignment of all Moral Rights. To the extent such Moral Rights cannot be assigned to Verrica Pharmaceuticals Inc. and to the extent the following is allowed by the laws in any country where Moral Rights exist, I hereby unconditionally and irrevocably waive the enforcement of such Moral Rights, and all claims and causes of action of any kind against Company or related to Company's customers, with respect to such rights. I further acknowledge and agree that neither my successors-in-interest nor legal heirs retain any Moral Rights in any Company Inventions (and any Intellectual Property Rights thereto).

2.4 Unassigned or Nonassignable Inventions. I recognize that this Agreement will not be deemed to require assignment of any Invention that I developed entirely on my own time without using Company's equipment, supplies, facilities, trade secrets or Confidential Information, except for those Inventions that either (i) relate to Company's actual or anticipated business, research or development, or (ii) result from or are connected with work performed by me for Company. In addition, this Agreement does not apply to any Invention which qualifies fully for protection from assignment to Company under any specifically applicable state law, regulation, rule or public policy. ("***Specific Inventions Law***").

2.5 Obligation to Keep Company Informed. During the period of my employment and for one (1) year after termination of my employment, I will promptly and fully disclose to Company in writing all Inventions authored, conceived, or reduced to practice by me, either alone or jointly with others. In addition, I will promptly disclose to Company all patent applications filed by me or on my behalf within one (1) year after termination of employment. At the time of each such disclosure, I will advise Company in writing of any Inventions that I believe fully qualify for protection under the provisions of any applicable Specific

Inventions Law; and I will at that time provide to Company in writing all evidence necessary to substantiate that belief. Company will keep in confidence and will not use for any purpose or disclose to third parties without my consent any Confidential Information disclosed in writing to Company pursuant to this Agreement relating to Inventions that qualify fully for protection under a Specific Inventions Law. I will preserve the confidentiality of any Invention that does not fully qualify for protection under a Specific Inventions Law.

2.6 Government or Third Party. I agree that, as directed by Company, I will assign to a third party, including without limitation the United States, all my right, title, and interest in and to any particular Company Invention.

2.7 Ownership of Work Product.

(a) I acknowledge that all original works of authorship which are made by me (solely or jointly with others) within the scope of my employment and which are protectable by Copyright are "works made for hire," pursuant to United States Copyright Act (17 U.S.C., Section 101).

(b) I agree that Verrica Pharmaceuticals Inc. will exclusively own all work product that is made by me (solely or jointly with others) within the scope of my employment, and I hereby irrevocably and unconditionally assign to Verrica Pharmaceuticals Inc. all right, title, and interest worldwide in and to such work product. I understand and agree that I have no right to publish on, submit for publishing, or use for any publication any work product protected by this Section, except as necessary to perform services for Company.

2.8 Enforcement of Intellectual Property Rights and Assistance. I will assist Company in every proper way to obtain, and from time to time enforce, United States and foreign Intellectual Property Rights and Moral Rights relating to Company Inventions in any and all countries. To that end I will execute, verify and deliver such documents and perform such other acts (including appearances as a witness) as Company may reasonably request for use in applying for, obtaining, perfecting, evidencing, sustaining and enforcing such Intellectual Property Rights and the assignment thereof. In addition, I will execute, verify and deliver assignments of such Intellectual Property Rights to Verrica Pharmaceuticals Inc. or its designee, including the United States or any third party designated by Verrica Pharmaceuticals Inc. My obligation to assist Company with respect to Intellectual Property Rights relating to such Company Inventions in any and all countries will continue beyond the termination of my employment, but Company will compensate me at a reasonable rate after my termination for the time actually spent by me at Company's request on such assistance. In the event Company is unable for any reason, after reasonable effort, to secure my signature on any document needed in connection with the actions specified in this paragraph, I hereby irrevocably designate and appoint Company and its duly authorized officers and agents as my agent and attorney in fact, which appointment is coupled with an interest, to act for and in my behalf to execute, verify and file any such documents and to do all other lawfully permitted acts to further the purposes of the preceding paragraph with the same legal force and effect as if executed by me. I hereby waive and quitclaim to Company any and all claims, of any nature whatsoever, which I now or may hereafter have for infringement of any Intellectual Property Rights assigned under this Agreement to Verrica Pharmaceuticals Inc.

2.9 Incorporation of Software Code. I agree that I will not incorporate into any Company software or otherwise deliver to Company any software code licensed under the GNU General Public License or Lesser General Public License or any other license that, by its terms, requires or conditions the use or distribution of such code on the disclosure, licensing, or distribution of any source code owned or licensed by Company except in strict compliance with Company's policies regarding the use of such software.

3. RECORDS. I agree to keep and maintain adequate and current records (in the form of notes, sketches, drawings and in any other form that is required by Company) of all Confidential Information developed by me and all Company Inventions made by me during the period of my employment at Company, which records will be available to and remain the sole property of Company at all times.

4. DUTY OF LOYALTY DURING EMPLOYMENT. I agree that during the period of my employment by Company I will not, without Company's express written consent, directly or indirectly engage in any employment or business activity which is directly or indirectly competitive with, or would otherwise conflict with, my employment by Company.

5. NO SOLICITATION OF EMPLOYEES, CONSULTANTS, CONTRACTORS, OR CUSTOMERS OR POTENTIAL CUSTOMERS. I agree that during the period of my employment and for the one (1) year period after the date my employment ends for any reason, including but not limited to voluntary termination by me or involuntary termination by Company, I will not, as an officer, director, employee, consultant, owner, partner, or in any other capacity, either directly or through others, except on behalf of Company:

5.1 solicit, induce, encourage, or participate in soliciting, inducing or encouraging any person known to me to be an employee, consultant, or independent contractor of Company to terminate his or her relationship with Company, even if I did not initiate the discussion or seek out the contact;

5.2 solicit, induce, encourage, or participate in soliciting, inducing, or encouraging any person known to me to be an employee, consultant, or independent contractor of Company to terminate his or her relationship with Company to render services to me or any other person or entity that researches, develops, markets, sells, performs or provides or is preparing to develop, market, sell, perform or provide Conflicting Services (as defined in Section 6 below);

5.3 hire, employ, or engage in a business venture with as partners or owners or other joint capacity, or attempt to hire, employ, or engage in a business venture as partners or owners or other joint capacity, with any person then employed by Company or who has left the employment of Company within the preceding three (3) months to research, develop, market, sell, perform or provide Conflicting Services;

5.4 solicit, induce or attempt to induce any Customer or Potential Customer (as defined below), to terminate, diminish, or materially alter in a manner harmful to Company its relationship with Company;

5.5 solicit or assist in the solicitation of any Customer or Potential Customer to induce or attempt to induce such Customer or Potential Customer to purchase or contract for any Conflicting Services; or

5.6 perform, provide or attempt to perform or provide any Conflicting Services for a Customer or Potential Customer.

The parties agree that for purposes of this Agreement, a "***Customer or Potential Customer***" is any person or entity who or which, at any time during the one (1) year period prior to my contact with such person or entity as described in Sections 5.4-5.6 above if such contact occurs during my employment or, if such contact occurs following the termination of my employment, during the one (1) year period prior to the date my employment with Company ends: (i) contracted for, was billed for, or received from Company any product, service or process with which I worked directly or indirectly during my employment by Company or about which I acquired Confidential Information; or (ii) was in contact with me or in contact with any other employee, owner, or agent of Company, of which contact I was or should have been aware, concerning the sale or purchase of, or contract for, any product, service or process with which I worked directly or

indirectly during my employment with Company or about which I acquired Confidential Information; or (iii) was solicited by Company in an effort in which I was involved or of which I was aware.

6. NON-COMPETE PROVISION. I agree that for the one (1) year period after the date my employment ends for any reason, including but not limited to voluntary termination by me or involuntary termination by Company, I will not, directly or indirectly, as an officer, director, employee, consultant, owner, partner, or in any other capacity solicit, perform, or provide, or attempt to perform or provide Conflicting Services anywhere in the Restricted Territory (as defined below), nor will I assist another person to solicit, perform or provide or attempt to perform or provide Conflicting Services anywhere in the Restricted Territory**.**

The parties agree that for purposes of this Agreement, "***Conflicting Services***" means any product, service, or process or the research and development thereof, of any person or organization other than Company that directly competes with a product, service, or process, including the research and development thereof, of Company with which I worked directly or indirectly during my employment by Company or about which I acquired Confidential Information during my employment by Company.

The parties agree that for purposes of this Agreement, "***Restricted Territory***" means the one hundred (100) mile radius of any of the following locations: (i) any Company business location at which I have worked on a regular or occasional basis during the preceding year; (ii) my home if I work from home on a regular or occasional basis; (iii) any potential business location of Company under active consideration by Company to which I have traveled in connection with the consideration of that location; (iv) the primary business location of a Customer or Potential Customer; or (v) any business location of a Customer or Potential Customer where representatives of the Customer or Potential Customer with whom I have been in contact in the preceding year are based.

7. REASONABLENESS OF RESTRICTIONS.

7.1 I agree that I have read this entire Agreement and understand it. I agree that this Agreement does not prevent me from earning a living or pursuing my career. I agree that the restrictions contained in this Agreement are reasonable, proper, and necessitated by Company's legitimate business interests. I represent and agree that I am entering into this Agreement freely and with knowledge of its contents with the intent to be bound by the Agreement and the restrictions contained in it.

7.2 In the event that a court finds this Agreement, or any of its restrictions, to be ambiguous, unenforceable, or invalid, I and Company agree that the court will read the Agreement as a whole and interpret the restriction(s) at issue to be enforceable and valid to the maximum extent allowed by law.

7.3 If the court declines to enforce this Agreement in the manner provided in subsection 7.2, I and Company agree that this Agreement will be automatically modified to provide Company with the maximum protection of its business interests allowed by law and I agree to be bound by this Agreement as modified.

7.4 If after applying the provisions of subsections 7.2 and 7.3, a court still decides that this Agreement or any of its restrictions is unenforceable for lack of reasonable geographic limitation and the Agreement or restriction(s) cannot otherwise be enforced, the parties hereby agree that the fifty (50) mile radius from any location at which I worked for Company on either a regular or occasional basis during the one (1) year immediately preceding termination of my employment with Company shall be the geographic limitation relevant to the contested restriction.

8. NO CONFLICTING AGREEMENT OR OBLIGATION. I represent that my performance of all the terms of this Agreement and as an employee of Company does not and will not breach any agreement to keep in

confidence information acquired by me in confidence or in trust prior to my employment by Company. I have not entered into, and I agree I will not enter into, any agreement either written or oral in conflict with this Agreement.

9. RETURN OF COMPANY PROPERTY. When I leave the employ of Company, I will deliver to Company any and all drawings, notes, memoranda, specifications, devices, formulas and documents, together with all copies thereof, and any other material containing or disclosing any Company Inventions, Third Party Information or Confidential Information of Company. I agree that I will not copy, delete, or alter any information contained upon my Company computer or Company equipment before I return it to Company. In addition, if I have used any personal computer, server, or e-mail system to receive, store, review, prepare or transmit any Company information, including but not limited to, Confidential Information, I agree to provide Company with a computer-useable copy of all such Confidential Information and then permanently delete and expunge such Confidential Information from those systems; and I agree to provide Company access to my system as reasonably requested to verify that the necessary copying and/or deletion is completed. I further agree that any property situated on Company's premises and owned by Company, including disks and other storage media, filing cabinets or other work areas, is subject to inspection by Company's personnel at any time with or without notice. Prior to leaving, I will cooperate with Company in attending an exit interview and completing and signing Company's termination statement if required to do so by Company.

10. LEGAL AND EQUITABLE REMEDIES.

10.1 I agree that it may be impossible to assess the damages caused by my violation of this Agreement or any of its terms. I agree that any threatened or actual violation of this Agreement or any of its terms will constitute immediate and irreparable injury to Company and Company will have the right to enforce this Agreement and any of its provisions by injunction, specific performance or other equitable relief, without bond and without prejudice to any other rights and remedies that Company may have for a breach or threatened breach of this Agreement.

10.2 I agree that if Company is successful in whole or in part in any legal or equitable action against me under this Agreement, Company will be entitled to payment of all costs, including reasonable attorneys' fees, from me.

10.3 In the event Company enforces this Agreement through a court order, I agree that the restrictions of Sections 5 and 6 will remain in effect for a period of twelve (12) months from the effective date of the order enforcing the Agreement.

11. NOTICES. Any notices required or permitted under this Agreement will be given to Company at its headquarters location at the time notice is given, labeled "Attention Chief Executive Officer," and to me at my address as listed on Company payroll, or at such other address as Company or I may designate by written notice to the other. Notice will be effective upon receipt or refusal of delivery. If delivered by certified or registered mail, notice will be considered to have been given five (5) business days after it was mailed, as evidenced by the postmark. If delivered by courier or express mail service, notice will be considered to have been given on the delivery date reflected by the courier or express mail service receipt.

12. PUBLICATION OF THIS AGREEMENT TO SUBSEQUENT EMPLOYER OR BUSINESS ASSOCIATES OF EMPLOYEE.

12.1 If I am offered employment or the opportunity to enter into any business venture as owner, partner, consultant or other capacity while the restrictions described in Sections 5 and 6 of this Agreement

are in effect I agree to inform my potential employer, partner, co-owner and/or others involved in managing the business with which I have an opportunity to be associated of my obligations under this Agreement and also agree to provide such person or persons with a copy of this Agreement.

12.2 I agree to inform Company of all employment and business ventures which I enter into while the restrictions described in Sections 5 and 6 of this Agreement are in effect and I also authorize Company to provide copies of this Agreement to my employer, partner, co-owner and/or others involved in managing the business with which I am employed or associated and to make such persons aware of my obligations under this Agreement.

13. GENERAL PROVISIONS.

13.1 Governing Law; Consent to Personal Jurisdiction. This Agreement will be governed by and construed according to the laws of the Commonwealth of Pennsylvania as such laws are applied to agreements entered into and to be performed entirely within Pennsylvania between Pennsylvania residents. I hereby expressly consent to the personal jurisdiction and venue of the state and federal courts for the county in which Company's principal place of business is located for any lawsuit filed there against me by Company arising from or related to this Agreement.

13.2 Severability. In case any one or more of the provisions, subsections, or sentences contained in this Agreement will, for any reason, be held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability will not affect the other provisions of this Agreement, and this Agreement will be construed as if such invalid, illegal or unenforceable provision had never been contained in this Agreement. If moreover, any one or more of the provisions contained in this Agreement will for any reason be held to be excessively broad as to duration, geographical scope, activity or subject, it will be construed by limiting and reducing it, so as to be enforceable to the extent compatible with the applicable law as it will then appear.

13.3 Successors and Assigns. This Agreement is for my benefit and the benefit of Company, its successors, assigns, parent corporations, subsidiaries, affiliates, and purchasers, and will be binding upon my heirs, executors, administrators and other legal representatives.

13.4 Survival. The provisions of this Agreement will survive the termination of my employment, regardless of the reason, and the assignment of this Agreement by Company to any successor in interest or other assignee.

13.5 Employment At-Will. I agree and understand that nothing in this Agreement will change my at-will employment status or confer any right with respect to continuation of employment by Company, nor will it interfere in any way with my right or Company's right to terminate my employment at any time, with or without cause or advance notice.

13.6 Waiver. No waiver by Company of any breach of this Agreement will be a waiver of any preceding or succeeding breach. No waiver by Company of any right under this Agreement will be construed as a waiver of any other right. Company will not be required to give notice to enforce strict adherence to all terms of this Agreement.

13.7 Export. I agree not to export, reexport, or transfer, directly or indirectly, any U.S. technical data acquired from Company or any products utilizing such data, in violation of the United States export laws or regulations.

13.8 Advice of Counsel. I ACKNOWLEDGE THAT, IN EXECUTING THIS AGREEMENT, I HAVE HAD THE OPPORTUNITY TO SEEK THE ADVICE OF INDEPENDENT LEGAL COUNSEL, AND I HAVE READ AND UNDERSTOOD ALL OF THE TERMS AND PROVISIONS OF THIS AGREEMENT. THIS AGREEMENT WILL NOT BE CONSTRUED AGAINST ANY PARTY BY REASON OF THE DRAFTING OR PREPARATION OF THIS AGREEMENT.

13.9 Entire Agreement. The obligations pursuant to Sections 1 and 2 (except Subsections 2.4 and 2.7(a)) of this Agreement will apply to any time during which I was previously engaged, or am in the future engaged, by Company as a consultant if no other agreement governs nondisclosure and assignment of Inventions during such period. This Agreement is the final, complete and exclusive agreement of the parties with respect to the subject matter of this Agreement and supersedes and merges all prior discussions between us. No modification of or amendment to this Agreement, nor any waiver of any rights under this Agreement, will be effective unless in writing and signed by the party to be charged. Any subsequent change or changes in my duties, salary or compensation will not affect the validity or scope of this Agreement.

This Agreement will be effective as of July 16, 2021.

I HAVE READ THIS AGREEMENT CAREFULLY AND UNDERSTAND ITS TERMS. I HAVE COMPLETELY FILLED OUT EXHIBIT A TO THIS AGREEMENT.

/s/ Terry Kohler
Terry Kohler

ACCEPTED AND AGREED TO:

VERRICA PHARMACEUTICALS INC.

By: /s/ Ted White
Ted White, President & CEO

Exhibit B

Release Agreement

This Release Agreement ("***Release***" or "***Agreement***") is made by and between Terry Kohler ("you") and Verrica Pharmaceuticals Inc. (the "***Company***"). A copy of this Release is an attachment to the Employment Agreement between the Company and you with an Effective Date of July 16, 2021 (the "***Employment Agreement***"). Capitalized terms not defined in this Agreement carry the definition found in the Employment Agreement.

1. Severance Payments; Other Payments.

a. In consideration for your execution, return and non-revocation of this Release on or after your Separation Date, the Company will provide you with the following "***Severance Benefits***": [to include payment of specific severance payments and COBRA benefits to be paid].

b. In addition, regardless of whether you sign this Agreement, the Company affirms that it will pay the following on the next regularly scheduled date on which payroll is run, as required under Section 6 of the Employment Agreement,: [to include payment of all salary, business expense reimbursements and other amounts due to employee that are not part of the severance].

2. Compliance with Section 409A. The Severance Benefits offered to you by the Company are payable in reliance on Treasury Regulation Section 1.409A-1(b)(9) and the short term deferral exemption in Treasury Regulation Section 1.409A-1(b)(4). For purposes of Code Section 409A, your right to receive any installment payments (whether pay in lieu of notice, Severance Benefits, reimbursements or otherwise) shall be treated as a right to receive a series of separate payments and, accordingly, each installment payment shall at all times be considered a separate and distinct payment. All payments and benefits are subject to applicable withholdings and deductions.

3. Release. In exchange for the Severance Benefits and other consideration, to which you would not otherwise be entitled, and except as otherwise set forth in this Agreement, you, on behalf of yourself and, to the extent permitted by law, on behalf of your spouse, heirs, executors, administrators, assigns, insurers, attorneys and other persons or entities, acting or purporting to act on your behalf (collectively, the "***Employee Parties***"), hereby generally and completely release, acquit and forever discharge the Company, its parents and subsidiaries, and its and their officers, directors, managers, partners, agents, representatives, employees, attorneys, shareholders, predecessors, successors, assigns, insurers and affiliates (the "***Company Parties***") of and from any and all claims, liabilities, demands, contentions, actions, causes of action, suits, costs, expenses, attorneys' fees, damages, indemnities, debts, judgments, levies, executions and obligations of every kind and nature, in law, equity, or otherwise, both known and unknown, suspected and unsuspected, disclosed and undisclosed, arising out of or in any way related to my employment with the Company and separation therefrom, arising at any time prior to and including the execution date of this Agreement, including but not limited to: all such claims and demands directly or indirectly arising out of or in any way connected with your employment with the Company or the termination of that employment; claims or demands related to salary, bonuses, commissions, vacation pay, the right to receive additional grants of stock, stock options or other ownership interests in the Company, fringe benefits, expense reimbursements, severance pay, or any other form of compensation; claims pursuant to any federal, state or local law, statute, or cause of action; tort law; or contract law (individually a "***Claim***" and collectively "***Claims***"). The Claims you are releasing and waiving in this Agreement include, but are not limited to, any and all Claims that any of the Company Parties:

- has violated its personnel policies, handbooks, contracts of employment, or covenants of good faith and fair dealing;

- has discriminated against you on the basis of age, race, color, sex (including sexual harassment), national origin, ancestry, disability, religion, sexual orientation, marital status, parental status, source of income, entitlement to benefits, any union activities or other protected category in violation of any local, state or federal law, constitution, ordinance, or regulation, including but not

limited to: the Age Discrimination in Employment Act, as amended ("***ADEA***"); Title VII of the Civil Rights Act of 1964, as amended; the Civil Rights Act of 1991; 42 U.S.C. § 1981, as amended; the Equal Pay Act; the Americans With Disabilities Act; the Genetic Information Nondiscrimination Act; the Family and Medical Leave Act; the Pennsylvania Human Relations Act; the Pennsylvania Whistleblower Law; the Pennsylvania Equal Pay Law; the Employee Retirement Income Security Act; the Employee Polygraph Protection Act; the Worker Adjustment and Retraining Notification Act; the Older Workers Benefit Protection Act; the anti-retaliation provisions of the Sarbanes-Oxley Act, or any other federal or state law regarding whistleblower retaliation; the Lilly Ledbetter Fair Pay Act; the Uniformed Services Employment and Reemployment Rights Act; the Fair Credit Reporting Act; and the National Labor Relations Act; and

- has violated any statute, public policy or common law (including, but not limited to, Claims for retaliatory discharge; negligent hiring, retention or supervision; defamation; intentional or negligent infliction of emotional distress and/or mental anguish; intentional interference with contract; negligence; detrimental reliance; loss of consortium to you or any member of your family and/or promissory estoppel).

Notwithstanding the foregoing, other than events expressly contemplated by this Agreement you do not waive or release rights or Claims that may arise: (i) from events that occur after the date this Release is executed; (ii) that relate to a breach of this Agreement; (iii) that relate to any existing ownership interest in the Company or vested equity awards as of the date this Release is executed; (iv) that relate to my vested benefits or existing rights under any Company benefit plan or any plan or agreement related to equity ownership in the Company that arise after this Release is executed; (v) in connection with any right of indemnification you may have for any liabilities arising from your actions within the course and scope of your employment with the Company or within the course and scope of your role as an officer of the Company; and (vi) any Claims which cannot be waived by law, including, without limitation, any rights you may have under applicable workers' compensation laws. Nothing in this Agreement shall prevent you from filing, cooperating with, or participating in any proceeding or investigation before the Equal Employment Opportunity Commission, United States Department of Labor, the National Labor Relations Board, the Occupational Safety and Health Administration, the Securities and Exchange Commission or any other federal government agency, or similar state or local agency ("***Government Agencies***"), or exercising any rights pursuant to Section 7 of the National Labor Relations Act. You further understand this Agreement does not limit your ability to voluntarily communicate with any Government Agencies or otherwise participate in any investigation or proceeding that may be conducted by any Government Agency, including providing documents or other information, without notice to the Company. While this Agreement does not limit your right to receive an award for information provided to the Securities and Exchange Commission, you understand and agree that, you are otherwise waiving, to the fullest extent permitted by law, any and all rights you may have to individual relief based on any Claims that you have released and any rights you have waived by signing this Agreement. If any Claim is not subject to release, to the extent permitted by law, you waive any right or ability to be a class or collective action representative or to otherwise participate in any putative or certified class, collective or multi-party action or proceeding based on such a Claim in which any of the Company Parties is a party.

4. Your Acknowledgments and Affirmations. You also acknowledge and agree that (i) the consideration given to you in exchange for the waiver and release in this Agreement is in addition to anything of value to which you were already entitled, and (ii) that you have been paid for all time worked, have received all the leave, leaves of absence and leave benefits and protections for which you are eligible, and have not suffered any on- the-job injury for which you have not already filed a Claim. You affirm that all of the decisions of the Company Parties regarding your pay and benefits through the date of your execution of this Agreement were not discriminatory based on age, disability, race, color, sex, religion, national origin or any other classification protected by law. You affirm that you have not filed or caused to be filed, and are not presently a party to, a Claim against any of the Company Parties. You further affirm that you have no known workplace injuries or occupational diseases. You acknowledge and affirm that you have not been retaliated against for reporting any allegation of corporate fraud or other wrongdoing by any of the Company Parties, or for exercising any rights protected by law, including any rights protected by the Fair Labor Standards Act, the Family Medical Leave Act or any related statute or local leave or disability accommodation laws, or any applicable state workers' compensation law. In addition, you acknowledge that you are knowingly and voluntarily waiving and releasing any rights you may have under the ADEA ("**ADEA Waiver**"). You also

acknowledge that the consideration given for the ADEA Waiver is in addition to anything of value to which you were already entitled. You further acknowledge that you have been advised by this writing, as required by the ADEA, that: (a) your release and waiver herein does not apply to any rights or claims that arise after the date you sign this Agreement; (b) you should consult with an attorney prior to signing this Agreement; (c) you have twenty-one (21) days to consider this Agreement (although you may choose to voluntarily sign it sooner); (d) you have seven (7) days following the date you sign this Agreement to revoke it (by sending written revocation directly to [_____]; and (e) the Agreement will not be effective until the date upon which the revocation period has expired unexercised, which will be the eighth (8th) day after you sign this Agreement.

5. Return of Company Property. By the Separation Date, you agree to return to the Company all Company documents (and all copies thereof) and other Company property that you have had in your possession at any time, including, but not limited to, Company files, notes, drawings, records, business plans and forecasts, financial information, specifications, computer-recorded information, tangible property (including, but not limited to, computers), credit cards, entry cards, identification badges and keys; and, any materials of any kind that contain or embody any proprietary or confidential information of the Company (and all reproductions thereof). Please coordinate return of Company property with [_____]. **Receipt of the Severance Benefits described in Section 1 of this Agreement is expressly conditioned upon return of all Company property.**

6. Confidential Information, Non-Competition and Non-Solicitation Obligations. Both during and after your employment you acknowledge your continuing obligations under your Employee Confidential Information, Inventions, Non-Solicitation and Non-Competition Agreement not to use or disclose any confidential or proprietary information of the Company and comply with your post-employment non-competition and non-solicitation restrictions. The Company acknowledges that you will not be held criminally or civilly liable under any federal or state trade secret law for the disclosure of a trade secret that: (A) is made (i) in confidence to a federal, state, or local government official, either directly or indirectly, or to an attorney and (ii) solely for the purpose of reporting or investigating a suspected violation of law; or (B) is made in a complaint or other document filed in a lawsuit or other proceeding, if such filing is made under seal. In addition, in the event that you file a lawsuit for retaliation by the Company for reporting a suspected violation of law, you may disclose the trade secret to your attorney and use the trade secret information in the court proceeding, if you: (A) file any document containing the trade secret under seal; and (B) do not disclose the trade secret, except pursuant to court order.

7. Confidentiality. The provisions of this Agreement will be held in strictest confidence by you and will not be publicized or disclosed in any manner whatsoever; *provided, however*, that: (a) you may disclose this Agreement to your immediate family; (b) you may disclose this Agreement in confidence to your attorney, accountant, auditor, tax preparer, and financial advisor; and (c) you may disclose this Agreement insofar as such disclosure may be required by law. Notwithstanding the foregoing, nothing in this Agreement shall limit your right to discuss your employment with the Equal Employment Opportunity Commission, United States Department of Labor, the National Labor Relations Board, other federal government agency or similar state or local agency or to discuss the terms and conditions of your employment with others to the extent expressly permitted by Section 7 of the National Labor Relations Act.

8. Non-Disparagement. You and the Company agree not to disparage each other, and the other's attorneys, directors, managers, partners, employees, agents and affiliates, in any manner likely to be harmful to them or their business, business reputation or personal reputation; provided that you and the Company will respond accurately and fully to any question, inquiry or request for information when required by legal process. For purposes of this Section 8, the obligations of the Company shall apply only to the senior management team and the members of the Board of Directors. Notwithstanding the foregoing, nothing in this Agreement shall limit your right to voluntarily communicate with the Equal Employment Opportunity Commission, United States Department of Labor, the National Labor Relations Board, other federal government agency or similar state or local agency or to discuss the terms and conditions of your employment with others to the extent expressly permitted by Section 7 of the National Labor Relations Act.

9. No Admission. This Agreement does not constitute an admission by you or by the Company of any wrongful action or violation of any federal, state, or local statute, or common law rights, including those relating to the provisions of any law or statute concerning employment actions, or of any other possible or claimed violation of

law or rights.

10. Breach. You agree that upon any material breach of this Agreement you will forfeit all amounts paid or owing to you under this Agreement. Further, you acknowledge that it may be impossible to assess the damages caused by your violation of the terms of Sections 5, 6, 7 and 8 of this Agreement and further agree that any threatened or actual violation or breach of those Sections of this Agreement will constitute immediate and irreparable injury to the Company. You therefore agree that, in addition to any and all other damages and remedies available to the Company upon your breach of this Agreement, the Company shall be entitled to an injunction to prevent you from violating or breaching this Agreement.

11. Miscellaneous. This Agreement is entered into without reliance on any promise or representation, written or oral, other than those expressly contained herein, and it supersedes any other such promises, warranties or representations. This Agreement may not be modified or amended except in a writing signed by both you and a duly authorized officer of the Company. This Agreement will bind the heirs, personal representatives, successors and assigns of both you and the Company, and inure to the benefit of both you and the Company, their heirs, successors and assigns. If any provision of this Agreement is determined to be invalid or unenforceable, in whole or in part, this determination will not affect any other provision of this Agreement and the provision in question will be modified by the court so as to be rendered enforceable. This Agreement will be deemed to have been entered into and will be construed and enforced in accordance with the laws of the Commonwealth of Pennsylvania as applied to contracts made and to be performed entirely within the Commonwealth of Pennsylvania.

VERRICA PHARMACEUTICALS INC.

By: _____
Name:
Title:

I UNDERSTAND THAT THIS AGREEMENT INCLUDES A RELEASE OF ALL KNOWN AND UNKNOWN CLAIMS, EVEN THOSE UNKNOWN CLAIMS THAT IF KNOWN BY ME, WOULD AFFECT MY DECISION TO ACCEPT THIS AGREEMENT.

_____
Terry Kohler

Exhibit 31.1

VERRICA PHARMACEUTICALS INC.
CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Ted White, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the period ended September 30, 2021 of Verrica Pharmaceuticals 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 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 (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 12, 2021

/s/ Ted White
Ted White
President and Chief Executive Officer
(principal executive officer)

Exhibit 31.2

VERRICA PHARMACEUTICALS INC.
CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, P. Terence Kohler Jr., certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the period ended September 30, 2021 of Verrica Pharmaceuticals 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 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 (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 12, 2021

/s/ P. Terence Kohler Jr.
P. Terence Kohler Jr.
Chief Financial Officer
(principal financial officer)

Exhibit 32.1

VERRICA PHARMACEUTICALS INC.
PRINCIPAL EXECUTIVE OFFICER AND PRINCIPAL FINANCIAL OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

Pursuant to the requirement set forth in Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended, (the "Exchange Act") and Section 1350 of Chapter 63 of Title 18 of the United States Code (18 U.S.C. §1350),Ted White, President and Chief Executive Officer of Verrica Pharmaceuticals Inc. (the "Company"), and P. Terence Kohler Jr., Chief Financial Officer of the Company, each hereby certifies that, to the best of his knowledge:

1. The Company's Quarterly Report on Form 10-Q for the period ended September 30, 2021, to which this Certification is attached as Exhibit 32.1 (the "Periodic Report"), fully complies with the requirements of Section 13(a) or Section 15(d) of the Exchange Act; and

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

IN WITNESS WHEREOF , the undersigned have set their hands hereto as of the 12th day of November, 2021.

/s/ Ted White

Ted White

President and Chief Executive Officer
(principal executive officer)

/s/ P. Terrence Kohler Jr.

P. Terence Kohler Jr.
Chief Financial Officer
(principal financial officer)

* This certification accompanies the Form 10-Q to which it relates, is not deemed filed with the Securities and Exchange Commission and is not to be incorporated by reference into any filing of the Company under the Securities Act of 1933, as amended, or the Exchange Act (whether made before or after the date of the Form 10-Q), irrespective of any general incorporation language contained in such filing.