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 June 30, 2020

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.)**
10 North High Street, Suite 200 West Chester, PA	**19380**
(Address of principal executive offices)	**(Zip Code)**

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

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 July 30, 2020, the registrant had 25,814,493 shares of common stock, $0.0001 par value per share, outstanding.

VERRICA PHARMACEUTICALS INC.
QUARTERLY REPORT ON FORM 10-Q
TABLE OF CONTENTS

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)

	June 30, 2020	December 31, 2019
ASSETS		
Current assets:		
Cash and cash equivalents	$ 48,932	$ 9,241
Marketable securities	30,690	52,776
Prepaid expenses and other assets	3,716	2,966
Total current assets	83,338	64,983
Property and equipment, net	2,517	2,090
Operating lease right-of-use asset	—	111
Other non-current assets	1,381	1,240
Total assets	**$ 87,236**	**$ 68,424**
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 1,297	$ 1,185
Accrued expenses and other current liabilities	2,557	2,036
Operating lease liability	124	130
Current debt, net	34,720	—
Total current liabilities	38,698	3,351
Operating lease liability	—	58
Other liabilities	75	—
Total liabilities	**38,773**	**3,409**
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 June 30, 2020 and December 31, 2019	—	—
Common stock, $0.0001 par value; 200,000,000 authorized; 25,919,637 shares issued and 25,814,493 shares outstanding as of June 30, 2020 and 25,912,137 shares issued and 25,786,330 shares outstanding as of December 31, 2019	3	3
Treasury stock, at cost, 105,144 shares as of June 30, 2020 and December 31, 2019	—	—
Additional paid-in capital	128,851	126,594
Subscription receivable	—	(410)
Accumulated deficit	(80,423)	(61,192)
Accumulated other comprehensive gain	32	20
Total stockholders' equity	48,463	65,015
Total liabilities and stockholders' equity	**$ 87,236**	**$ 68,424**

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 June 30,		For the Six Months Ended June 30,	
	2020	2019	2020	2019
Operating expenses:				
Research and development	$ 3,521	$ 3,928	$ 8,413	$ 8,415
General and administrative	5,110	3,593	10,098	7,132
Total operating expenses	8,631	7,521	18,511	15,547
Loss from operations	(8,631)	(7,521)	(18,511)	(15,547)
Other income (expense):				
Interest income	126	523	404	1,070
Interest expense	(904)	—	(1,124)	—
Other expense	—	(3)	—	(3)
Total other (expense) income	(778)	520	(720)	1,067
Net loss	**$ (9,409)**	**$ (7,001)**	**$ (19,231)**	**$ (14,480)**
Net loss per share, basic and diluted	$ (0.38)	$ (0.28)	$ (0.77)	$ (0.58)
Weighted average common shares outstanding, basic and diluted	24,965,634	24,875,573	24,964,900	24,866,721
Net loss	$ (9,409)	$ (7,001)	$ (19,231)	$ (14,480)
Other comprehensive gain:				
Unrealized gain on marketable securities	12	27	12	55
Comprehensive loss	**$ (9,397)**	**$ (6,974)**	**$ (19,219)**	**$ (14,425)**

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 Stockholders'
	Shares Issued	Amount	Paid-in Capital	Receivable	Deficit	Shares	Cost	Gain (Loss)	Equity
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**
January 1, 2019	**25,809,900**	**$ 3**	**$ 122,526**	**$ —**	**$ (33,083)**	**105,144**	**$ —**	**$ (17)**	**$ 89,429**
Stock-based compensation	—	—	780	—	—	—	—	—	780
Exercise of stock options	3,729	—	3	—	—	—	—	—	3
Net loss	—	—	—	—	(7,479)	—	—	—	(7,479)
Unrealized gain on marketable securities	—	—	—	—	—	—	—	28	28
Adoption of ASU 2018-07 (See Note 2)	—	—	(98)	—	98	—	—	—	—
March 31, 2019	**25,813,629**	**3**	**123,211**	—	**(40,464)**	**105,144**	**-**	**11**	**82,761**
Stock-based compensation	—	—	846	—	—	—	—	—	846
Exercise of stock options	31,812	—	212	—	—	—	—	—	212
Unrealized gain on marketable securities	—	—	—	—	—	—	—	27	27
Net loss	—	—	—	—	(7,001)	—	—	—	(7,001)
June 30, 2019	**25,845,441**	**$ 3**	**$ 124,269**	**$ —**	**$ (47,465)**	**105,144**	**$ —**	**$ 38**	**$ 76,845**

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 Six Months Ended June 30,	
	2020	**2019**
Cash flows from operating activities		
Net loss	$ (19,231)	$ (14,480)
Adjustments to reconcile net loss to net cash used in operating activities:		
Stock-based compensation	2,250	1,626
Accretion of discounts on marketable securities	(121)	(642)
Depreciation expense	26	22
Non cash interest expense	328	—
Reduction in operating lease right-of-use asset	111	59
Changes in operating assets and liabilities:		
Prepaid expenses and other assets	(709)	358
Accounts payable	112	33
Accrued expenses and other current liabilities	798	1,147
Accounts payable and accrued expenses - related party	—	(32)
Operating lease liability	(64)	(58)
Net cash used in operating activities	(16,500)	(11,967)
Cash flows from investing activities		
Sales and maturities of marketable securities	44,355	70,565
Purchases of marketable securities	(22,136)	(49,232)
Purchases of property and equipment	(815)	—
Net cash provided by investing activities	21,404	21,333
Cash flows from financing activities		
Proceeds from exercise of stock options	7	215
Proceeds from issuance of debt, net	34,460	—
Debt issuance costs	(90)	
Repayment of subscription receivable	410	—
Net cash provided by financing activities	34,787	215
Net increase in cash and cash equivalents	39,691	9,581
Cash and cash equivalents at the beginning of the period	9,241	10,271
Cash and cash equivalents at the end of the period	**$ 48,932**	**$ 19,852**
Supplemental disclosure of noncash investing and financing activities:		
Property and equipment purchases payable or accrued at period end	$ 429	$ 534
Debt issuance costs accrued at period end	$ 25	$ —
Change in unrealized gain on marketable securities	$ 12	$ 55
Cash paid for interest	$ 585	$ —

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 committed to the development and commercialization of novel treatments that provide meaningful benefit for people living with skin diseases.

Liquidity and Capital Resources

In July 2020, the Company received a Complete Response Letter, or CRL from the U.S. Food and Drug Administration, or FDA, for its new drug application, or NDA, for VP-102, the Company's investigational, proprietary, drug-device combination for the treatment of molluscum contagiosum. The CRL indicated the need for additional information regarding certain aspects of the chemistry, manufacturing and controls, or CMC, process for the drug/device combination as well as human factors validation.

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. As of June 30, 2020, the Company had an accumulated deficit of $80.4 million. In March 2020, the Company entered into a Mezzanine Loan Agreement (see Note 7) and borrowed $35.0 million that remains outstanding as of June 30, 2020. The agreement includes a minimum product revenues financial covenant which becomes effective on September 30, 2020, and at any time thereafter, if the balance of the Company's unrestricted cash, cash equivalents, and marketable securities in accounts maintained at Silicon Valley Bank is less than two times the Company's aggregate outstanding obligations to the Mezzanine Lenders. If the minimum product revenues financial covenant is effective but not satisfied, the outstanding debt and any related final payment fees, prepayment fees and accrued interest become due on demand. As a result of the anticipated time to address the CRL, the Company believes that it is probable that it will not be in compliance with the minimum product revenues covenant if it becomes effective. The Company has discussed with the lenders a potential amendment to the agreement to avoid noncompliance if the minimum product revenues covenant becomes effective and anticipates those discussions will continue during the third quarter of 2020. There can be no assurance the credit facility will be amended prior to the minimum product revenue covenant becoming effective. Even if the lenders determined that there was a default under the agreement, management believes the Company currently has sufficient funds to meet its operating requirements for at least the next twelve months from the issuance of these financial statements.

Since inception, the Company has financed its operations through sales of convertible preferred stock and the sale of common stock in the Company's initial public offering, with aggregate gross proceeds of $123.2 million and net proceeds of $114.9 million and the issuance of debt with aggregate gross proceeds of $35.0 million and net proceeds of $34.5 million. As of June 30, 2020, the Company had cash, cash equivalents and marketable securities of $79.6 million.

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, 2019 filed with the Securities and Exchange Commission (the "SEC") on March 13, 2020. 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") situation and its impact globally. Management believes the financial results for the three and six month periods ended June 30, 2020 were not significantly impacted by COVID-19. In addition, management believes the remote working arrangements and travel restrictions imposed by various governmental jurisdictions have had limited impact on the Company's ability to maintain internal operations during the quarter. 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 Phase 3 clinical trials to evaluate VP-102 in subjects with common warts as well as its planned Phase 2 clinical trial to evaluate VP-103 in subjects with plantar warts until conditions are appropriate.

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***

There have been no material changes in the Company's significant accounting policies to those previously disclosed in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2019.

Recently Adopted Accounting Pronouncements

In February 2016, the FASB issued Accounting Standard Update ("ASU") 2016-02, *Leases (Topic 842)* in order to increase transparency and comparability among organizations by, among other provisions, recognizing lease assets and lease liabilities on the balance sheet for those leases classified as operating leases under previous GAAP. For public companies, ASU 2016-02 is effective for fiscal years beginning after December 15, 2018 (including interim periods within those periods) using a modified retrospective approach and early adoption is permitted. In transition, entities may also elect a package of practical expedients that must be applied in its entirety to all leases commencing before the adoption date, unless the lease is modified, and permits entities to not reassess (a) the existence of a lease, (b) lease classification or (c) determination of initial direct costs, as of the adoption date, which effectively allows entities to carryforward accounting conclusions under previous GAAP. In July 2018, the FASB issued ASU 2018-11, *Leases (Topic 842): Targeted Improvements*, which provides entities an optional transition method to apply the guidance under Topic 842 as of the adoption date, rather than as of the earliest period presented. The Company adopted Topic 842 on January 1, 2019, using the optional transition method to apply the new guidance as of January 1, 2019, rather than as of the earliest period presented, and elected the package of practical expedients described above. Based on the analysis, on January 1, 2019, the Company recorded an operating lease right-of-use asset of $304,000 and an operating lease liability of $306,000 and eliminated deferred rent of $2,000. See Note 6 for additional information.

In June 2018, the FASB issued ASU No. 2018-07, *Compensation-Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting*, which simplifies the accounting for share-based payments granted to nonemployees for goods and services. Under the ASU, most of the guidance on such payments to nonemployees would be aligned with the requirements for share-based payments granted to employees. The changes take effect for public companies for fiscal years starting after December 15, 2018, including interim periods within that fiscal year. The Company adopted this ASU as of January 1, 2019 and recorded an adjustment to accumulated deficit and additional paid-in capital of $98,000.

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework–Changes to the Disclosure Requirements for Fair Value Measurement*, which makes a number of changes meant to add, modify or remove certain disclosure requirements associated with the movement amongst or hierarchy associated with Level 1, Level 2 and Level 3 fair value measurements. This guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. The adoption of this guidance as of January 1, 2020 did not have an impact on the financial statements.

In August 2018, the FASB issued ASU 2018-15, *Intangibles–Goodwill and Other–Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement that is a Service Contract*, which aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal-use software license). The guidance also requires the entity to expense the capitalized implementation costs of a hosting arrangement that is a service contract over the term of the hosting arrangement, which includes reasonably certain renewals. The guidance becomes effective for the Company in the year ending December 31, 2020. The adoption of this guidance as of January 1, 2020 did not have an impact on the financial statements.

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 June 30,	
	2020	2019
Shares issuable upon exercise of stock options	2,608,178	1,950,701
Non-vested shares under restricted stock grants	1,148,859	848,859

Note 3—Investments in Marketable Securities

Investments in marketable securities consisted of the following as of June 30, 2020 and December 31, 2019 (in thousands):

	June 30, 2020			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury securities	$ 4,013	$ 18	$ —	$ 4,031
Commercial paper	20,836	9	—	20,845
Asset-backed securities	5,808	6	—	5,814
Total marketable securities	$ 30,657	$ 33	$ —	$ 30,690

	December 31, 2019			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury securities	$ 7,397	$ 3	$ —	$ 7,400
Commercial paper	31,913	7	(1)	31,919
Asset-backed securities	13,446	11	—	13,457
Total marketable securities	$ 52,756	$ 21	$ (1)	$ 52,776

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 June 30, 2020			
	Level 1	Level 2	Level 3	Total
Assets				
U.S. treasury securities	$ 4,031	$ —	$ —	$ 4,031
Commercial paper	—	20,845	—	20,845
Asset-backed securities	—	5,814	—	5,814
Total assets	$ 4,031	$ 26,659	$ —	$ 30,690

	Fair Value Measurement as of December 31, 2019			
	Level 1	Level 2	Level 3	Total
Assets				
U.S. treasury securities	$ 7,400	$ —	$ —	$ 7,400
Commercial paper	—	31,919	—	31,919
Asset-backed securities	—	13,457	—	13,457
Total assets	$ 7,400	$ 45,376	$ —	$ 52,776

Note 4—Property and Equipment

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

	As of June 30, 2020	As of December 31, 2019
Leasehold improvements	$ 68	$ 68
Office furniture and fixtures	48	48
Office equipment	43	31
Construction in process	2,467	2,027
	2,626	2,174
Accumulated depreciation	(109)	(84)
Total property and equipment, net	$ 2,517	$ 2,090

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 June 30, 2020	As of December 31, 2019
Compensation and related costs	$ 883	$ 1,195
Clinical trials and drug development	452	—
Construction in process	429	733
Professional fees	514	89
Interest expense	211	—
Other accrued expenses and other current liabilities	68	19
Total accrued expenses and other current liabilities	$ 2,557	$ 2,036

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 new guidance as an accounting policy election and recognizes rent expense on a straight-line basis over the lease term.

The Company leases office space in West Chester, Pennsylvania under an agreement classified as an operating lease that expires in May 2021. The Company does not act as a lessor or have any leases classified as financing leases. On July 1, 2019, the Company entered into a lease for 5,829 square feet of office space located in West Chester, Pennsylvania that is expected to serve as the Company's new headquarters. On March 12, 2020 the Company entered into an amendment to the lease agreement. The amendment expands the original premises to include 5,372 square feet of additional office space increasing the total rentable premise to 11,201 square feet of space. For the first six months following the commencement date, the base rent is based on the square footage of the original premises. The Company anticipates the commencement date will occur during the third quarter of 2020, but may be delayed due to the impacts of COVID-19 mandates on office building construction activities. The initial term will expire seven years after the commencement date. 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. As a result, amortization of the right-of-use asset associated with the current property lease is now amortized over the revised remaining useful life. In addition, the useful life of associated leasehold improvements has been accelerated to reflect the expected abandonment of the property, such that they will be fully amortized when the property is vacated.

As of June 30, 2020, the Company had an operating lease liability of $0.1 million, which was classified as current.

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2020	2019	2020	2019
Operating lease:				
Operating lease costs	$ 47	$ 47	$ 105	$ 81
Short-term lease costs	7	5	13	10
Total rent expense	$ 54	$ 52	$ 118	$ 91

Maturities of the Company's operating lease, excluding short-term leases, as of June 30, 2020 are as follows (in thousands):

Remainder of 2020	$ 70
2021	58
Total lease payments	128
Less imputed interest	(4)
Operating lease liability	$ 124

The weighted-average remaining term of the Company's operating lease was 1.0 years and the weighted-average discount rate used to measure the present value of the Company's operating lease liability was 6.75% as of June 30, 2020.

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 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").

Under the terms of the Mezzanine Loan Agreement, the Company may, at its sole discretion, borrow from the Mezzanine Lenders up to an additional $15.0 million in term loans (the "Term B Loan", and together with the Term A Loan, the "Term Loans") upon the Company's achievement of (i) a specified amount in trailing six-month net revenue and (ii) an equity raise of at least $40.0 million (the foregoing clauses (i) and (ii), collectively, the "Term B Milestone"). The Company may draw the Term B Loan during the period commencing on the date of the occurrence of the Term B Milestone and ending on the earliest of (i) December 31, 2021 and (ii) the occurrence of an event of default.

Under the terms of the Senior Loan Agreement, 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 Senior Loan Agreement provides for the Company to make three anniversary payments of $25,000 each in addition to the $25,000 due upon the Effective Date for an aggregate of $100,000 in total anniversary payments. In the event the Senior Loan Agreement is terminated prior to maturity, any unpaid portion of the total anniversary payments are due immediately. The Company recorded the total anniversary fee payment obligation at inception. As of June 30, 2020, $25,000 and $75,000 of anniversary payments were recorded within other current liabilities and other liabilities, respectively, within the Company's accompanying balance sheet.

The Company's obligations under the Senior Loan Agreement and the Mezzanine Loan Agreement 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; provided that if the Company draws the Term B Loan, the Term Loans will be interest-only through September 30, 2022, followed by 18 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%.

The Company will be required to make a final payment fee of 7.50% of the original principal amount of the Term Loans drawn 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 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 (in increments of at least $1.0 million), 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) 3.00% of the principal amount of the applicable Term Loan prepaid on or before the first anniversary of the Effective Date, (ii) 2.00% of the principal amount of the applicable Term Loan prepaid between the first and second anniversary of the Effective Date, and (iii) 1.00% of the principal amount of the applicable Term Loan prepaid thereafter, and prior to the third anniversary of the Effective Date (each, a "Prepayment Fee").

The Company may terminate the revolving credit line under the Senior Loan Agreement at any time upon 3 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").

The Company is subject to a number of affirmative and restrictive covenants pursuant to the Loan Agreements, including covenants regarding achieving minimum product revenues, 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, among other customary covenants. As of June 30, 2020 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. Beginning on September 30, 2020 and at any time thereafter, if the balance of the Company's unrestricted cash, cash equivalents, and marketable securities in accounts maintained at Silicon Valley Bank is less than two times the Company's aggregate outstanding obligations to the Mezzanine Lenders, the covenant regarding achieving minimum product revenues would be effective.

In July 2020, the Company received a Complete Response Letter, or CRL, from the U.S. Food and Drug Administration for its new drug application for VP-102, the Company's investigational, proprietary, drug-device combination for the treatment of molluscum contagiosum. The CRL indicated the need for additional information regarding certain aspects of the chemistry, manufacturing and controls, or CMC, process for the drug/device combination as well as human factors validation. As a result of the anticipated time to address the CRL, the Company believes it is probable that it will not be compliance with its minimum product revenue financial covenant if it becomes effective, which could occur as early as September 30, 2020. 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 product revenue covenant will not be met, the Company has classified all outstanding principal and final payment fees as a current liability in the accompanying balance sheet as of June 30, 2020. The Company has discussed with the lenders a potential amendment to the credit facility to avoid noncompliance if the minimum revenue covenant becomes effective and anticipates the discussions will continue during the third quarter of 2020. No amendment has been finalized as of the date in which these financial statements were made available.

Upon entering into the Loan Agreement, the Company received proceeds of $35.0 million in term loans and incurred debt discount and issuance costs of $3.3 million, including the final payment fee of $2.7 million, 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 six months ended June 30, 2020, the Company recognized interest expense of $0.9 million and $1.1 million, respectively, of which $0.6 million and $0.8 million was interest on the term loan and $0.3 million and $0.3 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 June 30, 2020 (in thousands):

Gross proceeds	$	35,000
Accrued final payment fee		2,625
Unamortized debt discount and issuance costs		(2,905)
Total long-term debt, net	$	34,720

In the event the Company and Lenders amend the credit facility prior to December 31, 2020 to avoid an acceleration of payments without altering the existing repayment schedule by the Company to the lenders, the aggregate maturities of long-term debt as of June 30, 2020 are as follows (in thousands):

Remainder of 2020	$	—
2021		—
2022		13,125
2023		17,500
2024 (1)		4,375
	$	35,000

(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 six months ended June 30, 2020 and 2019 as follows (in thousands):

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2020	2019	2020	2019
Research and development	$ 213	$ 144	$ 390	$ 284
General and administrative	1,039	702	1,860	1,342
Total stock-based compensation	$ 1,252	$ 846	$ 2,250	$ 1,626

Stock Options

The following table summarizes the Company's stock option activity for the six months ended June 30, 2020:

	Number of shares	Weighted average exercise price	Weighted average remaining contractual life (in years)	Aggregate intrinsic value
Outstanding as of December 31, 2019	1,914,545	$ 9.14	8.5	$ 12,953,956
Granted	705,204	12.70		
Exercised	(7,500)	0.90		
Forfeitures	(4,071)	15.13		
Outstanding as of June 30, 2020	2,608,178	$ 10.12	8.5	$ 5,059,917
Options vested and exercisable as of June 30, 2020	912,587	$ 7.93	7.7	$ 3,240,963

As of June 30, 2020, the total unrecognized compensation related to unvested stock option awards granted was $12.2 million, which the Company expects to recognize over a weighted-average period of 2.87 years.

Restricted Stock

Pursuant to an Amended and Restated Stock Purchase Agreement (the "Amended and Restated Agreement") between the Company and its former Chief Scientific Officer ("CSO"), 848,859 shares held by the former CSO are subject to repurchase at $0.0001 per share in the event the CSO ceases to be a consultant. These shares will be released from the repurchase option on the earliest to occur of (i) a change in control, (ii) regulatory approval of the Company's new drug application for cantharidin, (iii) commercial sale of products and (iv) a covered termination, as defined in the Amended and Restated Agreement.

On November 27, 2019, the Company granted 300,000 restricted stock units to its executive officers. 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.

No compensation expenses have been recognized for these nonvested restricted stock units and the shares subject to the Amended and Restated Agreement as these shares are performance based and the triggering event was not determined to be probable as of June 30, 2020. As of June 30, 2020, the total unrecognized compensation expense related to the restricted stock units and shares subject to the Amended and Restated Agreement was $5.0 million.

Note 9—Related Party Transactions

The Company has entered into a services agreement ("SA") with PBM Capital Group, LLC ("PBM") an affiliate of PBM Capital Investments, LLC, to engage PBM for certain business development, operations, technical, contract, accounting and back office support services. 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 stockholder on a collective basis.

On January 1, 2019 and October 1, 2019, the SA was amended to reduce the monthly management fee to $26,333 and $5,000, respectively, as a result of a reduction in services provided by PBM.

For the three months ended June 30, 2020 and 2019, the Company incurred expenses under the SA of $15,000 and $79,000, respectively. For the six months ended June 30, 2020 and 2019, the Company incurred expenses under the SA of $30,000 and $158,000, respectively.

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—Subsequent Event

On August 4, 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. Torii has agreed to pay the Company $0.5 million to secure the exclusive option. Torii may exercise the option to obtain exclusive license rights until the later of six months after the effective date of the Option Agreement, or ten businesss days after the Company provides Torii with minutes of any Type A meeting with the FDA regarding VP-102.

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 condensed financial statements and notes thereto and management's discussion and analysis of financial condition and results of operations for the years ended December 31, 2018 and 2019 included in our Annual Report on Form 10-K for the year ended December 31, 2019, filed with the Securities and Exchange Commission (the "SEC") on March 13, 2020. 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 committed to the development and commercialization of novel treatments that provide meaningful benefit for people living with skin diseases. 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 initially 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 in common warts, 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 November 2019, we received notice that the FDA accepted the NDA for filing, with a Prescription Drug User Fee Act, or PDUFA, goal date of July 13, 2020. In July 2020, we received a Complete Response Letter, or CRL, from the FDA for our NDA. The CRL indicated the need for additional information regarding certain aspects of the chemistry, manufacturing and controls, or CMC, process for the drug/device combination as well as human factors validation. The FDA did not identify any clinical deficiencies. We plan to request a Type A meeting with the FDA to discuss the issues that were identified in the CRL and the resubmission of the NDA for VP-102.

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 the results of the COVE-1 trial, and following an End-of-Phase 2 meeting with the FDA we planned to initiate two Phase 3 clinical trials in the first half of 2020. However, as previously disclosed, we have decided to defer initiation of those clinical trials.

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. We expect to report topline data results from this trial in the second half of 2020. In addition, we are conducting necessary drug development activities for VP-103, our second cantharidin-based product candidate, and had planned to initiate a Phase 2 clinical trial in subjects with plantar warts in mid-2020. However, as previously disclosed, we have decided to defer initiation of those clinical trials. We retain exclusive, royalty-free rights to our product candidates across all indications.

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.

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 June 19, 2018, we completed an IPO of common stock, which resulted in the issuance and sale of 5,750,000 shares of common stock at a public offering price of $15.00 per share, generating net proceeds of $78.4 million after deducting underwriting discounts and other offering costs. On March 10, 2020, we entered into (i) a mezzanine loan and security agreement, or the Mezzanine Loan Agreement, with Silicon Valley Bank, as administrative agent and collateral agent, or the Agent, and Silicon Valley Bank and West River Innovation Lending Fund VIII, L.P., as lenders, or 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) a loan and security agreement, or the Senior Loan Agreement, and together with the Mezzanine Loan Agreement, the Loan Agreements, with Silicon Valley Bank, as lender, or the Senior Lender, and together with the Mezzanine Lenders, the Lenders, pursuant to which the Senior Lender has agreed to provide us 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. The availability for the remaining $15.0 million in term loans is subject to our achievement of (i) a specified amount in trailing six-month net revenue and (ii) a specified amount raised in equity.

We believe that our existing cash, cash equivalents and marketable securities as of June 30, 2020 will be sufficient to support our planned operations, at least through the fourth quarter of 2021.

Since inception, we have incurred significant operating losses. For the six months ended June 30, 2020 and 2019, our net loss was $19.2 million and $14.5 million, respectively. As of June 30, 2020, we had an accumulated deficit of $80.4 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:

- 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;
- ultimately 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 and VP-103;
- continue our ongoing clinical programs evaluating VP-102 for the treatment of common warts and external genital warts as well as initiate and complete additional clinical trials, as needed;
- initiate clinical trials evaluating VP-103 for the treatment of plantar warts;
- seek to discover and develop additional product candidates;
- 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.

Services Agreement with PBM Capital Group, LLC

We have entered into a services agreement ("SA") with PBM Capital Group, LLC ("PBM") an affiliate of PBM Capital Investments, LLC, to engage PBM for certain business development, operations, technical, contract, accounting and back office support services. Paul B. Manning, who is the Chairman and Chief Executive Officer of PBM and the current chairman of our Board of Directors, and certain entities affiliated with Mr. Manning, continue to be our largest stockholder on a collective basis.

On January 1, 2019 and October 1, 2019, the SA was amended to reduce the monthly management fee to $26,333 and $5,000, respectively, as a result of a reduction in services provided by PBM.

For the three months ended June 30, 2020 and 2019, we incurred expenses under the SA of $15,000 and $79,000, respectively. For the three months ended June 30, 2020 and 2019, we incurred expenses under the SA of $30,000 and $158,000, respectively.

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.

There have been no material changes in our significant accounting policies to those previously disclosed in our Annual Report on Form 10-K for the fiscal year ended December 31, 2019 other than the adoption of two FASB Accounting Standards Updates. See Note 2 to our condensed financial statements for a description of recent accounting pronouncements applicable to our condensed financial statements.

Components of Results of Operations

Revenue

We have not generated any revenue since inception.

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 Phase 3 clinical trials of VP-102 in patients with common warts, conduct our ongoing Phase 2 trial with VP-102 in external genital warts, initiate a Phase 2 trial with VP-103 in plantar warts 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 impact on the timing of our clinical trials due to the COVID-19 pandemic;
- 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, or to make any necessary modifications to the VP-102 single-use applicator, we could be required to expend significant additional financial resources and time on the completion of clinical and/or pharmaceutical quality/CMC 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 June 30, 2020 and 2019

The following table summarizes our results of operations for the three months ended June 30, 2020 and 2019 (in thousands):

	For the Three Months Ended June 30,		
	2020	2019	Change
Operating expenses:			
Research and development	$ 3,521	$ 3,928	$ (407)
General and administrative	5,110	3,593	1,517
Total operating expenses	8,631	7,521	1,110
Loss from operations	(8,631)	(7,521)	(1,110)
Other income (expense):			
Interest income	126	523	(397)
Interest expense	(904)	(3)	(901)
Total other (expense) income	(778)	520	(1,298)
Net loss	**$ (9,409)**	**$ (7,001)**	**$ (2,408)**

Research and Development Expenses

Research and development expenses were $3.5 million for the three months ended June 30, 2020, compared to $3.9 million for the three months ended June 30, 2019. The decrease of $0.4 million was primarily attributable to decreased costs related to our development of VP-102 for molluscum, partially offset by increased compensation costs.

General and Administrative Expenses

General and administrative expenses were $5.1 million for the three months ended June 30, 2020, compared to $3.6 million for the three months ended June 30, 2019. The increase of $1.5 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 three months ended June 30, 2020 consisted of interest expense on the Mezzanine Loan Agreement as noted in Note 7 to our condensed financial statements.

Results of Operations for the Six Months Ended June 30, 2020 and 2019

The following table summarizes our results of operations for the six months ended June 30, 2020 and 2019 (in thousands):

	For the Six Months Ended June 30,		
	2020	2019	Change
Operating expenses:			
Research and development	$ 8,413	$ 8,415	$ (2)
General and administrative	10,098	7,132	2,966
Total operating expenses	18,511	15,547	2,964
Loss from operations	(18,511)	(15,547)	(2,964)
Other income (expense):			
Interest income	404	1,070	(666)
Interest expense	(1,124)	(3)	(1,121)
Total other (expense) income	(720)	1,067	(1,787)
Net loss	**$ (19,231)**	**$ (14,480)**	**$ (4,751)**

Research and Development Expenses

Research and development expenses were $8.4 million for the six months ended June 30, 2020, compared to $8.4 million for the six months ended June 30, 2019. The decrease was primarily attributable to decreased costs related to our development of VP-102 for molluscum, partially offset by increased compensation costs and increased clinical costs related to our development of VP-102 for external genital warts and common warts.

General and Administrative Expenses

General and administrative expenses were $10.1 million for the six months ended June 30, 2020, compared to $7.1 million for the six months ended June 30, 2019. The increase of $3.0 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 $0.7 million was primarily a result of lower interest income due to lower interest rates.

Interest Expense

Interest expense for the six months ended June 30, 2020 consisted of interest expense on the Mezzanine Loan Agreement as noted in Note 7 to our condensed financial statements.

Liquidity and Capital Resources

Since our inception, we have not generated any revenue 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, receiving aggregate gross proceeds of $123.2 million and net proceeds of $114.9 million and most recently, $35.0 million of gross proceeds from the Mezzanine Loan Agreement noted below.

As of June 30, 2020, we had cash, cash equivalents and marketable securities of $79.6 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 10, 2020, 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 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. The availability for the remaining $15.0 million in term loans is subject to our achievement of (i) a specified amount in trailing six-month net revenue and (ii) a specified amount raised in equity. See Note 7 to our condensed financial statements for additional information.

We are subject to a number of affirmative and restrictive covenants pursuant to the Loan Agreements, including covenants regarding achieving minimum product revenues, 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, among other customary covenants. As of June 30, 2020, we are 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.

As a result of the anticipated time to address the CRL received from the FDA in July 2020, we believe it is probable that we will not be in compliance with the minimum product revenues covenant if it becomes effective, which could occur as early as September 30, 2020. In accordance with FASB ASC 470, since the Mezzanine Loan Agreement contains subjective acceleration clauses and assessment that it is probable that the minimum product revenue 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 June 30, 2020. We have discussed with the lenders a potential amendment to the credit facility to avoid noncompliance if the minimum revenue covenant becomes effective and anticipate those discussions will continue during the third quarter of 2020. No amendment has been finalized as of the date in which these financial statements were made available. There can be no assurance the credit facility will be amended prior to the minimum product revenue covenant becoming effective. Even if the lenders determined that there was a default under the agreement, we believe that we currently have sufficient funds to meet our operating requirements for at least the next twelve months from the issuance of these financial statements.

Cash Flows

The following table summarizes our cash flows for the six months ended June 30, 2020 and 2019 (in thousands):

	For the Six Months Ended June 30,	
	2020	2019
Net cash used in operating activities	$ (16,500)	$ (11,967)
Net cash provided by investing activities	21,404	21,333
Net cash provided by financing activities	34,787	215
Net increase in cash and cash equivalents	$ 39,691	$ 9,581

Operating Activities

During the six months ended June 30, 2020, operating activities used $16.5 million of cash, primarily resulting from a net loss of $19.2 million partially offset by non-cash stock-based compensation of $2.3 million. Net cash provided by changes in operating assets and liabilities consisted primarily of an increase in prepaid expenses and other assets of $0.7 million, partially offset by an increase in accrued expenses and other current liabilities of $0.8 million.

During the six months ended June 30, 2019, operating activities used $12.0 million of cash, primarily resulting from a net loss of $14.5 million partially offset by non-cash stock-based compensation of $1.6 million, and cash provided by changes in operating assets and liabilities of $1.4 million. Net cash provided by changes in operating assets and liabilities consisted primarily of an increase in accrued expenses and other current liabilities of $1.1 million and a decrease in prepaid expense and other assets of $0.4 million.

Investing Activities

During the six months ended June 30, 2020, net cash provided by investing activities of $21.4 million was primarily due to sales and maturities of marketable securities of $44.4 million, partially offset by purchases of marketable securities of $22.1 million.

During the six months ended June 30, 2019, net cash provided by investing activities of $21.3 million was due to sales and maturities of marketable securities of $70.6 million, partially offset by purchases of marketable securities of $49.2 million.

Financing Activities

During the six months ended June 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.

During the six months ended June 30, 2019, net cash provided by financing activities of $215,000 was the result of proceeds from exercises of common stock options.

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. Accordingly, we may need to obtain additional funding in connection with our continuing 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 June 30, 2020 will be sufficient to support our planned operations, at least through the fourth quarter of 2021. 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 not achieve significant revenue from product sales prior to the use of the net proceeds from our IPO. Accordingly, 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 June 30, 2020, 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, 2019 except as discussed below.

On March 12, 2020 we entered into an amendment to the lease agreement dated July 1, 2019 for office space in West Chester, Pennsylvania. The amendment expands the original premises to include 5,372 square feet of additional office space increasing the total rentable premise to 11,201 square feet of space. For the first six months following the commencement date, the base rent is based on the square footage of the original premises. We anticipate the commencement date to be during the third quarter of 2020 but may be delayed due to impacts of COVID-19 mandates on office building construction activities. The initial term will expire seven years after the commencement date. Base rent over the initial lease term is $2.4 million, and we are also responsible for our share of the landlord's operating expense.

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, 2019.

The uncertainty that exists with respect to the economic impact of the global COVID-19 pandemic has introduced significant volatility in the financial markets during and subsequent to our quarter ended June 30, 2020.

Item 4. Controls and Procedures

Disclosure Controls and Procedures

The term "disclosure controls and procedures," as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), refers to controls and procedures that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that such information is accumulated and communicated to a company's management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure.

In designing and evaluating our disclosure controls and procedures, management recognizes that disclosure controls and procedures, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the disclosure controls and procedures are met. Additionally, in designing disclosure controls and procedures, our management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible disclosure controls and procedures. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, controls may become inadequate because of changes in conditions, or the degree of compliance with policies or procedures may deteriorate. Because of the inherent limitations in a control system, misstatements due to error or fraud may occur and not be detected.

As previously disclosed under "Item 9A. Controls and Procedures" in our Annual Report on Form 10-K for our fiscal year ended December 31, 2019, we identified the following deficiencies that existed as of December 31, 2019 and continued to exist at June 30, 2020. A material weakness is a control deficiency or a combination of control deficiencies that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected.

- We identified a material weakness in our information technology ("IT") general controls (collectively, "ITGCs") and related IT-dependent process level controls, which are part of our internal control over financial reporting. Based on this evaluation, management identified a deficiency within our ITGCs related to ineffective segregation of duties within one of our IT systems, which is part of our internal control over financial reporting. Process-level controls that were dependent upon information derived from this IT system were also determined to be ineffective. These deficiencies were the result of an inadequate IT risk assessment process that did not identify the risks associated with ineffective segregation of duties within the IT system.

Because of the deficiencies noted above, in consultation with management, our principal executive officer and principal financial officer concluded that we did not maintain effective internal control over financial reporting and our disclosure controls and procedures were not effective as of both December 31, 2019 and June 30, 2020, based on the criteria in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Remediation of Material Weakness

Our Board of Directors and management take internal control over financial reporting and the integrity of our financial statements seriously. We have taken steps to remediate the deficiency related to ineffective segregation of duties within this IT system in 2020 by transferring key administrative access to a third-party IT vendor in April 2020. Management believes that this effort will remediate the material weakness. However, the material weakness in our internal control over financial reporting will not be considered remediated until other ITGCs and process-level controls that were dependent upon information derived from the general ledger application operate for a sufficient period of time and can be tested and concluded by management to be designed and operating effectively. We cannot provide any assurance that these remediation efforts will be successful or that our internal control over financial reporting will be effective as a result of these efforts. In addition, as we continue to evaluate and work to improve our internal control over financial reporting related to the identified material weakness, management may determine to take additional measures to address control deficiencies or determine to modify the remediation plan described above.

Changes in Internal Control over Financial Reporting

Other than in connection with remediation plan outline above, there were no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the fiscal quarter ended June 30, 2020 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

On July 14, 2020, plaintiff Isaiah Potter, or Potter, filed a putative class action complaint captioned Potter v. Verrica Pharmaceuticals Inc., in the U.S. District Court for the Eastern District of Pennsylvania against the Company and certain of its executive officers, or the Defendants. The complaint alleges that Defendants violated federal securities laws by, among other things, failing to disclose certain supposed safety risks attendant to the VP-102 drug-device and likely delays to regulatory approval of VP-102. The complaint seeks unspecified compensatory damages on behalf of Potter and all other persons and entities that purchased or otherwise acquired our securities between September 16, 2019 and June 29, 2020. The Company disputes these claims and intends to defend the matter vigorously. The Company cannot estimate the reasonably possible loss or range of loss that may result from this action, if any.

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, 2019, filed with the Securities and Exchange Commission on March 13, 2020. Except as described below, there have been no material changes to the risk factors described in that report.

In light of our receipt of a CRL from the FDA regarding our NDA for VP-102, the U.S. regulatory requirements and timing for VP-102 approval are uncertain, and we may never obtain regulatory approval in the United States.

In September 2019, we submitted an NDA to the FDA for VP-102 for the treatment of molluscum. In July 2020, we received a CRL from the FDA for our NDA. The CRL indicated the need for additional information regarding certain aspects of the chemistry, manufacturing and controls, or CMC, process for the drug/device combination as well as human factors validation. As a result, the approval of our NDA for VP-102 has been delayed and may never occur.

We plan to request a Type A meeting to discuss the issues that were described in the CRL and other matters pertaining to the steps required for the resubmission of the NDA for VP-102. There can be no guarantee that the FDA will grant this request or, if granted, what the timing for holding the meeting will be. We cannot predict the outcome of any interactions with the FDA nor can we guarantee when, or if, we will be successful in receiving regulatory approval for VP-102.

The U.S. regulatory requirements and timing for VP-102 approval are uncertain at this time, and we may never obtain regulatory approval of VP-102 or any of our other product candidates in the United States. If we do not obtain approval for VP-102 or are delayed in obtaining such approval, it would have a material adverse effect on our operations and financial condition.

COVID-19 has adversely impacted and could continue to adversely impact our business.

In December 2019, a novel strain of coronavirus, COVID-19, was reported to have surfaced in Wuhan, China. Since then, COVID-19 has spread to multiple countries, including the United States. As a direct result of COVID-19, we have decided to delay the initiation of our Phase 3 clinical trials to evaluate VP-102 in subjects with common warts as well as our planned Phase 2 clinical trial to evaluate VP-103 in subjects with plantar warts until conditions are appropriate. As COVID-19 continues to rapidly evolve in the United States, we may experience continued and additional disruptions or impairments that could severely impact our business, supply chain, clinical trials, or ability to obtain regulatory approval for, or commercialize, VP-102, including:

- delays or inability to obtain raw material, ingredients, or components;
- possible capacity constraints at key suppliers and service providers which could impact process validation schedules or ability to build launch stock;
- further delays or difficulties in enrolling patients in our clinical trials;
- further delays or difficulties in clinical site initiation, including difficulties in recruiting clinical site investigators and clinical site staff;
- diversion of healthcare resources away from the conduct of clinical trials, including the diversion of hospitals serving as our clinical trial sites and hospital staff supporting the conduct of our clinical trials;

- delays in review of regulatory filings by regulatory authorities or our ability to generate responses to the FDA inquiries per the CRL regarding our filed NDA for VP-102;

- delays or limitations in our ability to commercialize VP-102, regardless of regulatory approval, including challenges involving the healthcare providers who would prescribe and administer VP-102, delays in launch preparation activities, or delays in establishing, and subsequently deploying, a commercial field force;

- limitations on travel or access to third-party facilities imposed or recommended by federal or state governments, employers, suppliers, and others; and

- limitations of internal and third-party employee resources that would otherwise be focused on the above activities, including sickness of employees or their families, travel restrictions or social distancing, or the desire of employees to avoid contact with large groups of people.

We are closely monitoring the situation and do not yet know the extent to which COVID-19 may materially impact our business, supply chain, clinical trials and regulatory filings, which will depend on future developments which are highly uncertain and cannot be predicted with confidence, such as the ultimate geographic spread of the disease, the duration of the outbreak, travel restrictions and social distancing in the United States and other countries, business closures or business disruptions and the effectiveness of actions taken in the United States and other countries to contain and treat the disease.

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

Our stock price may be volatile. The stock market in general and the market for biopharmaceutical companies in particular have experienced extreme volatility that has often been unrelated to the operating performance of particular companies. As a result of this volatility, investors may not be able to sell their common stock at or above the price paid for the shares. The market price for our common stock may be influenced by many factors, including:

- the commencement, enrollment or results of our clinical trials of VP-102 for the treatment of common warts and external genital warts and any future clinical trials we may conduct, or changes in the development status of our product candidates;

- any delay in our regulatory filings for VP-102 for the treatment of molluscum, including our planned resubmission of our NDA in response to the CRL we received in July 2020, and common warts or any other product candidate we may develop, including VP-103, and any adverse development or perceived adverse development with respect to the applicable regulatory authority's review of such filings, including without limitation the FDA's issuance of a "refusal to file" letter or a request for additional information;

- adverse results from, delays in or termination of clinical trials;

- adverse regulatory decisions, including failure to receive regulatory approval of our product candidates, such as the CRL related to VP-102 for the treatment of molluscum that we received from the FDA in July 2020;

- unanticipated serious safety concerns related to the use of VP-102 or any other product candidate;

- changes in financial estimates by us or by any securities analysts who might cover our stock;

- conditions or trends in our industry;

- changes in the market valuations of similar companies;

- stock market price and volume fluctuations of comparable companies and, in particular, those that operate in the biopharmaceutical industry;

- publication of research reports about us or our industry or positive or negative recommendations or withdrawal of research coverage by securities analysts;

- announcements by us or our competitors of significant acquisitions, strategic partnerships or divestitures;
- announcements of investigations or regulatory scrutiny of our operations or lawsuits filed against us;
- investors' general perception of our company and our business;
- recruitment or departure of key personnel;
- overall performance of the equity markets;
- trading volume of our common stock;
- disputes or other developments relating to proprietary rights, including patents, litigation matters and our ability to obtain patent protection for our technologies;
- significant lawsuits, including patent or stockholder litigation;
- changes in the structure of healthcare payment systems;
- general political and economic conditions; and
- other events or factors, many of which are beyond our control.

In addition, in the past, stockholders have initiated class action lawsuits against pharmaceutical and biotechnology companies following periods of volatility in the market prices of these companies' stock. For example, a purported class action complaint was filed against us and certain of our executive officers alleging violations of certain federal securities laws. This case, and additional litigation, if instituted against us, could cause us to incur substantial costs and divert management's attention and resources from our business.

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	Second Amendment to Lease Agreement, by and between the Registrant and 44 West Gay LLC, dated as of April 27, 2020 (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	The following financial information from the Company's Quarterly Report on Form 10-Q for the period ended June 30, 2020, formatted in Extensible Business Reporting Language (XBRL): (i) the Condensed Balance Sheets, (ii) the Condensed Statements of Operations, (iii) the Condensed Statement of Stockholders' Equity, (iv) the Condensed Statements of Cash Flows, and (v) Notes to the Condensed Financial Statements (filed herewith).

(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.

August 5, 2020

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

By: /s/ A. Brian Davis
A. Brian Davis
Chief Financial Officer
(Principal Financial Officer)

SECOND AMENDMENT TO LEASE AGREEMENT

THIS SECOND AMENDMENT TO LEASE AGREEMENT (the "**Second Amendment**") is entered into this 20 day of April, 2020, by and between **44 WEST GAY LLC**, a Pennsylvania limited liability company (the "**Landlord**") and **VERRICA PHARMACEUTICALS INC.**, a Delaware corporation (the "**Tenant**").

1 WITNESSETH:

A. Landlord and Tenant are parties to that certain Lease Agreement dated July 1, 2019 (the **"Original Lease"**), as amended by a First Amendment to Lease Agreement dated March 12, 2020 (the **"First Amendment"**, and together with the Original Lease, collectively, the "**Lease**"), pursuant to which Landlord leased to Tenant, and Tenant accepted from Landlord, certain premises consisting of approximately 11,201 rentable square feet of space (the "**Premises**") located on the fourth floor of the building (the "**Building**"), along with common areas, located at 44 West Gay Street, West Chester, Pennsylvania, as more particularly described in the Lease.

B. Landlord and Tenant now desire to amend the Lease in accordance with the terms and conditions set forth below.

NOW, THEREFORE, in consideration of the covenants and conditions set forth herein, the parties hereto, intending to be legally bound, hereby agree that the Lease is hereby amended and supplemented as follows:

1. **RECITALS/DEFINITIONS**. The above recitals are true and correct and are hereby incorporated into this Second Amendment as if set forth herein at length. Any and all capitalized terms not defined herein shall have the definitions set forth in the Original Lease or the First Amendment.

2. **COMMENCEMENT DATE; TERM**. The Lease is amended to provide that the Commencement Date shall occur when Landlord substantially completes Landlord's Work under the Original Lease and Landlord's Additional Premises Work under the First Amendment, and Landlord delivers possession of the Premises to Tenant. The Term of the Lease shall be for seven (7) years and shall expire on the last day of seventh (7th) Lease Year, as defined in the Original Lease.

3. **BASE RENT**. The Base Rent schedule set fort in Section 1 of the First Amendment is hereby amended and restated as follows. The purpose of the rent schedule below, "Lease Month" shall mean each month during the Term. The first Lease Month shall start on the Commencement Date and shall end on the day immediately preceding the corresponding calendar day in the next calendar month, and each Lease Month shall commence on the day following the end of the prior Lease Month. If the next month does not have such corresponding calendar day, then such Lease Month shall end on the following day.

Lease Months	**Base Rent**	**Monthly Installment**
1-6*	$174,870.00	$14,572.50
7-11	$336,030.00	$28,002.50
12-24	$341,630.50	$28,469.21
25-36	$347,231.00	$28,935.92
37-48	$352,831.50	$29,402.63
49-60	$358,432.00	$29,869.33
61-72	$364,032.50	$30,366.04
73-84	$369,633.00	$30,802.75
Extension Period	**Base Rent**	**Monthly Installment**
85-96	$375,233.50	$31,269.46
97-108	$380,834.00	$31,736.17
109-120	$386,434.50	$32,202.83
121-132	$392,035.00	$32,669.58
133-144	$397,635.50	$33,136.29

*In the foregoing Base Rent chart, the Base Rent for the first six (6) Lease Months is based on the rentable square footage of the Original Premises only.

4. **ADDITIONAL RENT**. Section 6 of the First Amendment is hereby amended to provide that Tenant shall be obligated to pay Tenant's Proportionate Share of Operating Expenses commencing on the Commencement Date; provided that Tenant's Proportionate Share for the first six (6) Lease Months of the Term shall be calculated on the Original Premises only, such that Tenant's Proportionate Share during such six (6) Lease Month period shall be 17.35%. Commencing with the seventh (7th) Lease Month and for the balance of the Term, Tenant's Proportionate Share shall be 33.33%.

5. **OUTSIDE DELIVERY DATE**. For the avoidance of doubt, Tenant recognizes that Landlord's construction has been delayed by the Governor of Pennsylvania's order mandating the closure of all businesses that are not life-sustaining. Tenant agrees that any amendment, renewal or replacement of such order, or any similar order, directive or guidance issued by any federal, state or local governing body or official having the effect of interfering with or delaying Landlord's construction, shall constitute a force majeure event and shall extend the Outside Delivery Date, as defined in Section 4 of the Original Lease, on a day-for-day basis until Landlord is legally permitted to resume construction without material interference or delay.

6. CONFESSION OF JUDGMENT. THE CONFESSION OF JUDGMENT SET FORTH IN SECTION 35 OF THE LEASE IS HEREBY RESTATED IN ITS ENTIRETY AS FOLLOWS:

(A) INTENTIONALLY OMITTED

(B) TENANT HEREBY AUTHORIZES AND EMPOWERS THE PROTHONOTARY, CLERK OF COURT OR ANY ATTORNEY OF ANY COURT OF RECORD IN THIS COMMONWEALTH OR ELSEWHERE TO APPEAR FOR TENANT UPON OR AFTER THE EXPIRATION OF THE TERM OF THIS LEASE, AS AMENDED, (OR ANY EXTENSION OR RENEWAL THEREOF), OR UPON OR AFTER THIS LEASE, AS AMENDED, HAS TERMINATED ON ACCOUNT OF ANY EVENT OF DEFAULT ON THE PART OF TENANT HEREUNDER, TO APPEAR AS ATTORNEY FOR TENANT AS WELL AS FOR ALL PERSONS CLAIMING BY, THROUGH OR UNDER TENANT, AND THEREIN TO CONFESS JUDGMENT IN EJECTMENT FOR POSSESSION OF THE PREMISES HEREIN DESCRIBED, FOR WHICH THIS LEASE, AS AMENDED, AND THE APPOINTMENTS HEREIN SHALL BE SUFFICIENT WARRANT; THEREUPON, IF LANDLORD SO DESIRES, AN APPROPRIATE WRIT OF POSSESSION MAY ISSUE FORTHWITH, WITHOUT ANY PRIOR WRIT OR PROCEEDING WHATSOEVER, AND PROVIDED THAT IF FOR ANY REASON AFTER SUCH ACTION SHALL HAVE BEEN COMMENCED IT SHALL BE DETERMINED THAT POSSESSION OF THE PREMISES SHOULD REMAIN IN OR BE RESTORED TO TENANT, LANDLORD SHALL HAVE THE RIGHT FOR THE SAME DEFAULT AND UPON ANY SUBSEQUENT EVENT OR EVENTS OF DEFAULT, OR UPON THE TERMINATION OF THIS LEASE, AS AMENDED, OR OF TENANT'S RIGHT OF POSSESSION AS HEREINBEFORE SET FORTH, TO BRING ONE OR MORE FURTHER ACTIONS AS HEREINBEFORE SET FORTH TO RECOVER POSSESSION OF THE PREMISES AND TO CONFESS JUDGMENT (FOR THE RECOVERY OF POSSESSION OF THE PREMISES BY LANDLORD AS HEREINBEFORE PROVIDED. THE FOREGOING WARRANT SHALL NOT BE EXHAUSTED BY ANY ONE EXERCISE THEREOF BUT

SHALL BE EXERCISABLE FROM TIME TO TIME AND AS OFTEN AS THERE IS ANY ONE OR MORE EVENTS OF DEFAULT OR WHENEVER THIS LEASE, AS AMENDED, AND THE TERM OR ANY EXTENSION OR RENEWAL THEREOF SHALL HAVE EXPIRED, OR TERMINATED ON ACCOUNT OF ANY EVENT OF DEFAULT BY TENANT HEREUNDER. THE TENANT AGREES THAT THE POWER TO CONFESS JUDGMENT GRANTED BY THIS PARAGRAPH IS COUPLED WITH AN INTEREST, AND IS THEREFORE IRREVOCABLE.

IN ANY SUCH ACTION, A TRUE COPY OF THIS LEASE, AS AMENDED, SHALL BE SUFFICIENT WARRANT, AND IT SHALL NOT BE NECESSARY TO FILE THE ORIGINAL AS A WARRANT OF ATTORNEY, ANY RULE OF COURT, CUSTOM OR PRACTICE TO THE CONTRARY NOTWITHSTANDING.

TENANT ACKNOWLEDGES AND AGREES THAT THIS LEASE, AS AMENDED, CONTAINS PROVISIONS UNDER WHICH LANDLORD MAY ENTER JUDGMENT BY CONFESSION AGAINST TENANT. BEING FULLY AWARE OF TENANT'S RIGHTS TO PRIOR NOTICE AND A HEARING ON THE VALIDITY OF ANY JUDGMENT OR OTHER CLAIMS THAT MAY BE ASSERTED AGAINST TENANT BY LANDLORD HEREUNDER BEFORE JUDGMENT IS ENTERED, TENANT HEREBY FREELY, KNOWINGLY AND INTELLIGENTLY WAIVES THESE RIGHTS AND EXPRESSLY AGREES AND CONSENTS TO LANDLORD'S ENTERING JUDGMENT AGAINST TENANT BY CONFESSION PURSUANT TO THE TERMS OF THIS LEASE, AS AMENDED.

(C) TENANT ALSO ACKNOWLEDGES AND AGREES THAT THIS LEASE, AS AMENDED, CONTAINS PROVISIONS UNDER WHICH LANDLORD MAY, AFTER ENTRY OF JUDGMENT AND WITHOUT EITHER NOTICE OR A HEARING, FORECLOSE UPON, ATTACH, LEVY OR OTHERWISE SEIZE PROPERTY (REAL OR PERSONAL) OF THE UNDERSIGNED IN FULL OR PARTIAL PAYMENT OR OTHER SATISFACTION OF THE JUDGMENT. BEING FULLY AWARE OF TENANT'S RIGHTS AFTER JUDGMENT IS ENTERED (INCLUDING THE RIGHT TO MOVE OR PETITION TO OPEN OR STRIKE THE JUDGMENT), THE UNDERSIGNED HEREBY FREELY, KNOWINGLY AND INTELLIGENTLY WAIVES THESE RIGHTS AND EXPRESSLY AGREES AND CONSENTS TO LANDLORD'S TAKING SUCH ACTIONS AS MAY BE PERMITTED UNDER APPLICABLE STATE AND FEDERAL LAW, AND ACKNOWLEDGES THAT THE LANDLORD MAY CAUSE PROPERTY OF THE TENANT TO BE SEIZED AND SOLD WITHOUT PRIOR NOTICE TO TENANT. WITHOUT LIMITING THE FOREGOING, TENANT SPECIFICALLY WAIVES THE NOTICES AND NOTICE REQUIREMENTS OF RULES 2956.1, 2958.1, 2958.2, 2958.3, 2973.1, 2973.2, AND 2973.3.

VERRICA PHARMACEUTICALS, INC.

Witness:	/s/ Christopher G. Hayes	By:	/s/ Ted White
Name:	Christopher G. Hayes	Name:	Ted White
		Title:	CEO

7. **BROKERAGE COMMISSIONS**. Tenant and Landlord warrant that they have had no dealings with any broker or agent in connection with the negotiations or execution of this Second Amendment and Landlord and Tenant agree to indemnify the other against all costs, expenses, reasonable attorneys' fees, or other liability for commissions or other compensation or charges resulting from a breach of such representations.

8. **CERTIFICATION**. By executing this Second Amendment, Tenant hereby certifies that: (i) the Lease is in full force and effect and has not been modified except as expressly set forth above; (ii) there are no prepayments by or credits due Tenant under the Lease; and (iii) Tenant is not aware of any defaults by Landlord under the Lease, nor of any events which with the giving of notice or passage of time, or both, would constitute a default or breach of the Lease by Landlord.

9. **ENTIRE AGREEMENT/RATIFICATION**. This Second Amendment represents the entire understanding of the parties with respect to the subject matter hereof, and the Lease as hereby amended remains in full force and effect and may not be modified further except in writing executed by the parties to be bound thereby. Unless expressly modified herein, the terms and conditions of the Lease shall continue in full force and effect, and the parties hereby confirm and ratify the same.

10. **MISCELLANEOUS**. This Second Amendment shall be binding upon and shall inure to the benefit of the parties and their permitted successors and assigns.

11. **COUNTERPARTS**. This Second Amendment may be executed in two or more counterparts, each of which shall be deemed an original, but all of which taken together shall constitute one and the same instrument. The transmission of a signed counterpart of this Second Amendment by facsimile or by portable document file ("PDF") shall have the same force and effect as the delivery of an original signed counterpart of this Second Amendment and shall constitute valid and effective delivery for all purposes.

2 - SIGNATURE PAGE TO FOLLOW –

IN WITNESS WHEREOF, the parties have executed this Second Amendment on the date first written above.

1. LANDLORD:

44 WEST GAY LLC,
a Pennsylvania limited liability company

Witness: /s/ Kelly J. Loeco

By: /s/ Adam R. Loeco, Member

Name: Adam R. Loeco, Member

2. **TENANT**:

VERRICA PHARMACEUTICALS, INC.,
a Delaware corporation

Witness: /s/ Christopher G. Hayes

By: /s/ Ted White

Name: Ted White

Title: CEO

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 June 30, 2020 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: August 5, 2020

/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, A. Brian Davis, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the period ended June 30, 2020 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: August 5, 2020

/s/ A. Brian Davis
A. Brian Davis
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 A. Brian Davis, 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 June 30, 2020, 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 5th day of August, 2020.

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

/s/ A. Brian Davis
A. Brian Davis
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.