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, 2023

OR

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

For the transition period from __________ to

Commission File Number: 001-38529

Verrica Pharmaceuticals Inc.
(Exact Name of Registrant as Specified in its Charter)

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

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

N/A
(Former address of principal executive offices)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, $0.0001 par value	VRCA	The Nasdaq Stock Market LLC

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

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

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

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

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

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

As of August 1, 2023, the registrant had 42,064,553 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, 2023	December 31, 2022
ASSETS		
Current assets:		
Cash and cash equivalents	$ 55,140	$ 34,273
Collaboration revenue receivable	—	388
Unbilled revenue receivable	173	99
Prepaid expenses and other assets	1,464	4,355
Total current assets	56,777	39,115
Property and equipment, net	3,688	3,887
Operating lease right-of-use asset	1,300	1,443
Other non-current assets	436	276
Total assets	**$ 62,201**	**$ 44,721**
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 2,057	$ 507
Accrued expenses and other current liabilities	3,365	2,655
Operating lease liability	309	297
Total current liabilities	5,731	3,459
Operating lease liability	1,070	1,229
Total liabilities	**6,801**	**4,688**
Commitments and Contingencies (Note 9)		
Stockholders' equity:		
Preferred stock, $0.0001 par value; 10,000,000 shares authorized; no shares issued and outstanding as of June 30, 2023 and December 31, 2022	—	—
Common stock, $0.0001 par value; 200,000,000 authorized; 41,957,197 shares issued and 41,852,053 shares outstanding as of June 30, 2023 and 41,199,197 shares issued and 41,094,053 shares outstanding as of December 31, 2022	4	4
Treasury stock, at cost, 105,144 shares as of June 30, 2023 and December 31, 2022	—	—
Additional paid-in capital	236,428	203,482
Accumulated deficit	(181,032)	(163,453)
Total stockholders' equity	55,400	40,033
Total liabilities and stockholders' equity	**$ 62,201**	**$ 44,721**

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,	
	2023	2022	2023	2022
Collaboration revenue	$ 182	$ 214	$ 219	$ 645
Operating expenses:				
Research and development	5,725	3,943	8,464	6,388
General and administrative	5,937	5,173	10,256	10,291
Cost of collaboration revenue	136	219	204	497
Total operating expenses	11,798	9,335	18,924	17,176
Loss from operations	(11,616)	(9,121)	(18,705)	(16,531)
Other income (expense):				
Interest income	626	20	1,126	42
Interest expense	—	(1,066)	—	(2,094)
Other expense	—	(1)	—	(55)
Total other income (expense), net	626	(1,047)	1,126	(2,107)
Net loss	**$ (10,990)**	**$ (10,168)**	**$ (17,579)**	**$ (18,638)**
Net loss per share, basic and diluted	$ (0.24)	$ (0.37)	$ (0.40)	$ (0.68)
Weighted average common shares outstanding, basic and diluted	45,916,867	27,519,053	44,478,116	27,519,053
Net loss	$ (10,990)	$ (10,168)	$ (17,579)	$ (18,638)
Other comprehensive loss:				
Unrealized loss on marketable securities	—	(2)	—	(35)
Comprehensive loss	**$ (10,990)**	**$ (10,170)**	**$ (17,579)**	**$ (18,673)**

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 Shares Issued	Common Stock Amount	Additional Paid-in Capital	Accumulated Deficit	Treasury Stock Shares	Treasury Stock Cost	Accumulated Other Comprehensive Loss	Total Stockholders' Equity
January 1, 2023	**41,199,197**	**$ 4**	**$ 203,482**	**$ (163,453)**	**105,144**	**$ —**	**$ —**	**$ 40,033**
Stock-based compensation	—	—	1,094	—	—	—	—	1,094
Issuance of common stock and pre-funded warrants, for the purchase of common stock, net of issuance costs	750,000	—	30,301	—	—	—	—	30,301
Exercise of stock options	8,000	—	7	—	—	—	—	7
Net loss	—	—	—	(6,589)	—	—	—	(6,589)
March 31, 2023	**41,957,197**	**4**	**234,884**	**(170,042)**	**105,144**	**—**	**—**	**64,846**
Stock-based compensation	—	—	1,544	—	—	—	—	1,544
Net loss	—	—	—	(10,990)	—	—	—	(10,990)
June 30, 2023	**41,957,197**	**$ 4**	**$ 236,428**	**$ (181,032)**	**105,144**	**$ —**	**$ —**	**$ 55,400**
January 1, 2022	**27,624,197**	**$ 3**	**$ 171,597**	**$ (138,966)**	**105,144**	**$ —**	**$ (29)**	**$ 32,605**
Stock-based compensation	—	—	1,316	—	—	—	—	1,316
Net loss	—	—	—	(8,470)	—	—	—	(8,470)
Unrealized loss on marketable securities	—	—	—	—	—	—	(33)	(33)
March 31, 2022	**27,624,197**	**3**	**172,913**	**(147,436)**	**105,144**	**—**	**(62)**	**25,418**
Stock-based compensation	—	—	1,085	—	—	—	—	1,085
Net loss	—	—	—	(10,168)	—	—	—	(10,168)
Unrealized gain on marketable securities	—	—	—	—	—	—	(2)	(2)
June 30, 2022	**27,624,197**	**$ 3**	**$ 173,998**	**$ (157,604)**	**105,144**	**$ —**	**$ (64)**	**$ 16,333**

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, 2023	For the Six Months Ended June 30, 2022
Cash flows from operating activities		
Net loss	$ (17,579)	$ (18,638)
Adjustments to reconcile net loss to net cash used in operating activities:		
Stock-based compensation	2,638	2,401
Amortization of premiums on marketable securities	—	76
Depreciation expense	266	196
Non cash interest expense	—	626
Reduction in operating lease right-of-use asset	143	125
Changes in operating assets and liabilities:		
Collaboration revenue receivable, billed and unbilled	314	(218)
Prepaid expenses and other assets	2,891	1,048
Accounts payable	1,502	(131)
Accrued expenses and other current liabilities	713	(880)
Operating lease liability	(147)	(126)
Net cash used in operating activities	(9,259)	(15,521)
Cash flows from investing activities		
Sales and maturities of marketable securities	—	50,000
Purchases of marketable securities	—	(4,477)
Purchases of property and equipment	(70)	(159)
Deposits	—	(146)
Net cash (used in) provided by investing activities	(70)	45,218
Cash flows from financing activities		
Proceeds from exercise of stock options	7	—
Debt issuance costs	—	(17)
Equity issuance costs	(112)	—
Repayment of finance lease	—	(2)
Proceeds from issuance of common stock and pre-funded warrants, net of issuance costs	30,301	—
Net cash provided by (used in) financing activities	30,196	(19)
Net increase in cash, cash equivalents and marketable securities	20,867	29,678
Cash and cash equivalents at the beginning of the period	34,273	15,752
Cash and cash equivalents at the end of the period	**$ 55,140**	**$ 45,430**
Supplemental disclosure of noncash investing and financing activities:		
Property and equipment purchases payable or accrued at period end	$ —	$ 291
Change in unrealized loss on marketable securities	$ —	$ (35)
Cash paid for interest	$ —	$ 1,468
Right-of-use asset obtained in exchange for lease obligation	$ —	$ 99

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

Note 1—Nature of Business

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

Liquidity

The Company has incurred substantial operating losses since inception and expects to continue to incur significant operating losses for the foreseeable future and may never become profitable. As of June 30, 2023, the Company had an accumulated deficit of $181.0 million. In February 2023 the Company closed an underwritten offering of 750,000 shares of its common stock and pre-funded warrants to purchase 4,064,814 shares of common stock. The shares of common stock were sold at a price of $6.75 per share and the pre-funded warrants were sold at a price of $6.7499 per pre-funded warrant resulting in net proceeds of $30.3 million after deducting underwriting discounts and commissions, and offering expenses of approximately $2.2 million (see Note 7).

On July 26, 2023, the Company entered into a Credit Agreement which provides for up to $125.0 million in debt under a Loan Facility (as defined in Note 11). The Company borrowed $50.0 million under the Loan Facility on July 26, 2023, resulting in net proceeds of approximately $44.1 million after payment of certain fees and transaction related expenses. In addition, up to $25.0 million will be made available on or prior to June 30, 2024, up to $30.0 million will be made available on or prior to December 31, 2024, up to $10.0 million will be made available on or prior to March 31, 2025, and up to $10.0 million will be made available on or prior to June 30, 2025, in each case, subject to the Company's achievement of certain revenue targets. The term loan will mature on July 26, 2028.

In accordance with Accounting Standards Update, or ASU, No. 2014-15, *Disclosure of Uncertainties about an Entity’s Ability to Continue as a Going Concern*, the Company has evaluated whether there are certain conditions and events, considered in the aggregate, that raise substantial doubt about the Company’s ability to continue as a going concern within one year after the date that the financial statements are issued. The Company believes its cash, and cash equivalents of $55.1 million as of June 30, 2023, together with the net proceeds of approximately $44.1 million the Company received from the Initial Commitment Amount pursuant to the Loan Facility (as defined in Note 11) in July 2023, will be sufficient to support the Company’s planned operations for a period greater than twelve months from the issuance date of these condensed financial statements and extend beyond the twelve months into the first quarter of 2025.

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, 2022 included in its Form 10-K, filed with the Securities and Exchange Commission (the “SEC”) on March 6, 2023. 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.

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.

Reclassifications

Certain prior period amounts have been reclassified to conform with current period presentation.

S***ignificant Accounting Policies***

Collateral Cash

Cash and cash equivalents at June 30, 2023 includes a cash deposit of $150,000 with Bank of America as required under the Commercial Credit Card Program with a balance equal to the outstanding credit limit on commercial credit cards.

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 including pre-funded warrants to purchase shares of common stock that were issued in an underwritten offering in February 2023 (Note 7). The pre-funded warrants to purchase common stock are included in the calculation of basic and diluted net loss per share as the exercise price of $0.0001 per share is non-substantive and is virtually assured. 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,	
	2023	**2022**
Shares issuable upon exercise of stock options	5,100,315	3,435,645
Non-vested shares under restricted stock grants	1,123,000	425,000
Total	6,223,315	3,860,645

Recently Adopted Accounting Pronouncements

In June 2022, the FASB issued Accounting Standards Update No. 2022-03, Fair Value Measurement of Equity Securities Subject to Contractual Sale Restrictions. This standard clarifies that a contractual restriction on the sale of an equity security is not considered part of the unit of account of the equity security and, therefore, is not considered in measuring fair value. This standard becomes effective for the Company on January 1, 2024, and is not expected to have a material impact on the Company’s financial statements and related disclosures.

In June 2016, the FASB issued ASU 2016-13, Financial Instruments—Credit Losses, Measurement of Credit Losses on Financial Instruments (Topic 326). The standard amends the impairment model by requiring entities to use a forward-looking approach based on expected losses to estimate credit losses for most financial assets and certain other instruments that are not measured at fair value through net income. For available-for-sale debt securities, entities will be required to recognize an allowance for credit losses rather than a reduction in carrying value of the asset. Entities will no longer be permitted to consider the length of time that fair value has been less than amortized cost when evaluating when credit losses should be recognized. The Company adopted this guidance on January 1, 2023 and its adoption did not have an impact on the Company's financial statements and related disclosures.

Note 3—Property and Equipment

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

	As of June 30, 2023	As of December 31, 2022
Machinery and equipment	$ 1,438	$ 1,392
Office furniture and fixtures	303	303
Office equipment	326	301
Leasehold improvements	54	54
Construction in process	2,532	2,536
	4,653	4,586
Accumulated depreciation	(965)	(699)
Total property and equipment, net	$ 3,688	$ 3,887

The Company has recorded an asset classified as construction in process associated with the construction of a product assembly and packaging line which will be placed in service after commercial launch and additional testing.

Note 4—Accrued Expenses and Other Current Liabilities

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

	As of June 30, 2023	As of December 31, 2022
Clinical trials and drug development	$ 1,116	$ 974
Compensation and related costs	1,116	1,399
Professional fees	1,040	58
Machinery and equipment	57	57
Construction in process	36	167
Total accrued expenses and other current liabilities	$ 3,365	$ 2,655

Note 5—Leases

The Company leases office space in West Chester, Pennsylvania that serves as the Company's headquarters under an agreement classified as an operating lease. The initial term will expire on September 1, 2027. Base rent over the initial term is approximately $2.4 million, and the Company is also responsible for its share of the landlord's operating expense.

The Company leases office space in Scotch Plains, New Jersey under an agreement classified as an operating lease, which commenced on May 1, 2022 and expires on April 30, 2025. Base rent over the initial term is approximately $104,000.

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2023	2022	2023	2022
Finance lease cost:				
Amortization ROU assets	$ —	$ 2	$ —	$ 3
Total finance lease costs	—	$ 2	—	$ 3
Operating lease:				
Operating lease costs	$ 35	$ 90	$ 71	$ 175
Short-term lease costs	—	—	—	8
Total operating lease expense	$ 35	$ 90	$ 71	$ 183

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

	As of June 30, 2023
2023 (remaining 6 months)	$ 193
2024	392
2025	372
Thereafter	613
Total lease payments	1,569
Less imputed interest	(190)
Lease liability	$ 1,379

The remaining term of the Company's operating leases was 4.1 years and the discount rate used to measure the present value of the Company's operating lease liabilities at inception was 6.25%.

Note 6—Debt

On July 11, 2022, the Company voluntarily repaid its previous debt facility in full of $43.8 million, inclusive of principal amount of debt, the final payment fee, and accrued interest, and satisfied all of the Company's outstanding debt obligations. The Company did not incur any prepayment penalties in connection with the repayment of the debt. The prepayment was made in full using restricted cash of $40.0 million, as well as cash on hand of $3.8 million for the final payment fee. For the year ended December 31, 2022, the Company recognized a $1.4 million loss on debt extinguishment which was made up entirely of non-cash unamortized debt issuance costs.

For the three and six months ended June 30, 2022, the Company recognized interest expense of $1.1 million and $2.1 million, respectively of which $0.8 million and $1.5 million, respectively was interest on the term loan and $0.3 million and $0.6 million, respectively was non-cash interest expense related to the amortization of deferred debt issuance costs and accrual of the final payment fee.

Note 7—Stockholders Equity

Common Stock

The Company had authorized 200,000,000 shares of common stock, $0.0001 par value per share, as of June 30, 2023 and December 31, 2022. Each share of common stock is entitled to one vote. Common stock owners are entitled to dividends when funds are legally available and declared by the Board.

Underwritten public offering

In February 2023, the Company closed an underwritten offering of 750,000 shares of its common stock and pre-funded warrants to purchase 4,064,814 shares of common stock. The shares of common stock were sold at a price of $6.75 per share and the pre-funded warrants were sold at a price of $6.7499 per pre-funded warrant, resulting in net proceeds of $30.3 million after deducting underwriting discounts and commissions, and offering expense. The pre-funded warrants will not expire and are exercisable in cash or by means of a cashless exercise.

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, 2023 and 2022 as follows (in thousands):

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2023	2022	2023	2022
Research and development	$ 594	$ 340	$ 853	$ 757
General and administrative	950	745	1,785	1,644
Total stock-based compensation	$ 1,544	$ 1,085	$ 2,638	$ 2,401

Stock Options

The following table summarizes the Company's stock option activity for the six months ended June 30, 2023:

	Number of shares	Weighted average exercise price	Weighted average remaining contractual term (in years)	Aggregate intrinsic value
Outstanding as of December 31, 2022	3,932,779	$ 8.99	7.8	$ 3,952,803
Granted	1,175,536	7.16		
Exercised	(8,000)	0.90		
Forfeited and Expired	—	—		
Outstanding as of June 30, 2023	5,100,315	$ 8.58	7.5	$ 1,022,442
Options vested and exercisable as of June 30, 2023	2,724,425	$ 9.13	6.2	$ 400,265

As of June 30, 2023, the total unrecognized compensation related to unvested stock option awards granted was $13.1 million, which the Company expects to recognize over a weighted-average period of 2.8 years.

Restricted Stock

In November 2019 and August 2020 the Company granted 300,000 and 250,000 restricted stock units ("RSU"), respectively, to its executive officers, 50% of which vested upon receipt of regulatory approval of YCANTH (VP-102) for the treatment of molluscum (the "Approval Date") and 50% will vest on the one year anniversary of the Approval Date subject to the holders' continuous service through each applicable date.

In March 2023, the Company granted 698,000 RSUs, 50% of which will vest upon the first commercial sale of YCANTH (VP-102) (the "First Sale Date") and 50% will vest on the one year anniversary of the First Sale Date subject to the holders' continuous service through each applicable date.

The following is a summary of activity of the Company's RSUs for the six months ended June 30, 2023:

	Number of Shares	Weighted Average Grant Date Fair Value
Nonvested as of December 31, 2022	425,000	$ 11.68
Granted	698,000	7.58
Forfeited	—	—
Nonvested as of June 30, 2023	1,123,000	$ 9.13

No compensation expenses have been recognized for these nonvested RSUs as these shares are performance based and the triggering event was not determined to be probable as of June 30, 2023. As of June 30, 2023, the total unrecognized compensation expense related to the restricted stock units was $10.3 million.

Note 8—Related Party Transactions

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

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

For the three months ended June 30, 2023 and 2022, the Company recognized expenses under the SA of $15,000 and $10,000 respectively, of which $9,000 and $6,000, respectively, were included in general and administrative expenses and $6,000 and $4,000, respectively, were included in research and development expenses. For the six months ended June 30, 2023 and 2022, the Company recognized expenses under the SA of $30,000 and $25,000, respectively, of which $18,000 and $15,000, respectively, were included in general and administrative expenses and $12,000 and $10,000, respectively, were included in research and development.

As of June 30, 2023, the Company had a $10,000 outstanding payable due to PBM and its affiliates.

On September 8, 2022, the Company entered into a clinical service agreement with Clinical Enrollment LLC which is controlled by Bryan Manning, the son of Paul B. Manning, who is the current chairman of the Company's Board of Directors. Paul B. Manning along with certain entities affiliated with Mr. Manning, are the Company's largest shareholder on a collective basis. Pursuant to the clinical service agreement, Clinical Enrollment LLC may provide recruiting support services for the Company's VP-315 clinical trial. No fees will be due under the agreement until a minimum number of patients are enrolled in the clinical trial by the vendor. Compensation of $30,000 was recognized during the year ended December 31,2022 for the development and production fee of media, video, and web to support recruitment services. When the minimum enrollments are met, compensation will include a $15,000 fee per eligible patient enrolled in the trial. No expenses were incurred for the six months ended June 30, 2023.

Note 9—Commitments and Contingencies

Litigation

On June 6, 2022, plaintiff Kranthi Gorlamari, or Gorlamari, filed a putative class action complaint captioned Gorlamari v. Verrica Pharmaceuticals Inc., et al., in the U.S. District Court for the Eastern District of Pennsylvania against the Company and certain of its current and former officers and directors (“Defendants”). Gorlamari filed an amended complaint on January 12, 2023. The amended complaint alleges that Defendants violated federal securities laws by, among other things, failing to disclose certain manufacturing deficiencies at the facility where our contract manufacturer produced bulk solution for the VP-102 drug device and that such deficiencies posed a risk to the prospects for regulatory approval of VP-102 for the treatment of molluscum. The amended complaint seeks unspecified compensatory damages and other relief on behalf of Gorlamari and all other persons and entities which purchased or otherwise acquired our securities between May 19, 2021 and May 24, 2022. On April 5, 2023, the Defendants filed a motion to dismiss the amended complaint. The litigation is still in the early stages, and the Company intends to vigorously defend itself against these allegations.

The Company is also 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.

Supply Agreement and Purchase Order

On July 16, 2018, the Company entered into a supply agreement with a supplier of crude cantharidin material. All executed purchase orders for crude cantharidin in the ordinary course of business are expected to be covered under the terms of the supply agreement. Pursuant to the supply agreement, the supplier has agreed that it will not supply cantharidin, any beetles or other raw material from which cantharidin is derived to any other customer in North America, subject to specified minimum annual purchase orders and forecasts by the Company. The supply agreement has an initial five-year term, which is subject to automatic renewal absent termination by either party in accordance with the terms of the supply agreement. Each party also has the right to terminate the supply agreement for other customary reasons such as material breach or bankruptcy.

During 2022 and 2021, the Company executed a purchase order pursuant to which the Company agreed to purchase $0.7 million and $0.8 million, respectively of crude cantharidin material and made prepayments of $0.7 million and $0.8 million in each year against the purchase orders. As of June 30, 2023, the Company has received the shipments for the purchases during 2022 and 2021. The 2022 and 2021 executed purchase orders of crude cantharidin were received in June 2023 and April 2023, respectively. As of December 31, 2022 the balance sheet reflects prepaid expense of $1.5 million.

Note 10—License and Collaboration Agreements

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

Pursuant to the Torii Agreement, the Company received payments from Torii of $0.5 million in December 2020 and $11.5 million in April 2021. On July 25, 2022 Torii dosed the first patient in its Phase 3 trial of VP-102 (referred to as TO-208 in Japan) for molluscum contagiosum in Japan, triggering an $8.0 million milestone payment. Additionally, the Company is entitled to receive from Torii an additional $50 million in aggregate payments from Torii contingent on achievement of specified development, regulatory, and sales milestones, in addition to tiered transfer price payments for supply of product in the percentage range of the mid-30's to the mid-40's of net sales. The transfer payments shall be payable, on a product-by-product basis, beginning on the first commercial sale of such product and ending on the latest of (a) expiration of the last-to-expire valid claim contained in certain licensed patents in Japan that cover such product, (b) expiration of regulatory exclusivity for the first indication for such product in Japan, and, (c) (i) with respect to the first product, ten years after first commercial sale of such product, and, (ii) with respect to any other product, the later of (x) ten years after first commercial sale of the first product and (y) five years after first commercial sale of such product.

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

On March 7, 2022, the Company executed a Clinical Supply Agreement with Torii, whereby the Company will supply product to Torii for use in clinical trials and other development activities. The Company recognized billed and unbilled collaboration revenue of $0.2 million for the three months ended June 30, 2023 and 2022 and $0.2 and $0.6 million, respectively for the six months ended June 30, 2023 and 2022, respectively related to supplies and development activity pursuant to this agreement. The costs of collaboration revenue consists of expenses incurred by the Company for manufacturing supply to support development and testing services pursuant to the Torii Clinical Supply Agreement.

In August 2020, the Company entered into an exclusive license agreement with Lytix Biopharma AS ("Lytix") for the use of licensed technology to research, develop, manufacture, have manufactured, use, sell, have sold, offer for sale, import, and otherwise commercialize products for use in all malignant and pre-malignant dermatological indications, other than metastatic melanoma and metastatic merkel cell carcinoma (the" Lytix Agreement"). As part of the Lytix Agreement, the Company paid Lytix a one-time up-front fee of $0.3 million in 2020. In addition, in May 2022 and February 2021, the Company paid Lytix a one-time $1.0 million and $2.3 million payment, respectively upon the achievement by Lytix of a regulatory milestone. The $1.0 and $2.3 million payments were recognized in research and development expense in the statement of operations for the six months ended June 30, 2022 and for the year ended December 31, 2021, respectively. The Company is also obligated to pay up to $111.0 million contingent on achievement of specified development, regulatory, and sales milestones, as well as tiered royalties based on worldwide annual net sales ranging in the low double digits to the mid-teens, subject to certain customary reductions. The Company's obligation to pay royalties expires on a country-by-country and product-by-product basis on the later of the expiration or abandonment of the last to expire licensed patent covering LTX-315 anywhere in the world and expiration of regulatory exclusivity for LTX-315 in such country. Additionally, all upfront fees and milestone based payments received by the Company from a sublicensee will be treated as net sales and will be subject to the royalty payment obligations under the Lytix Agreement, and all royalties received by the Company from a sublicensee shall be shared with Lytix at a rate that is initially 50% but decreases based on the stage of development of LTX-315 at the time such sublicense is granted.

Note 11 – Subsequent Event

On July 21, 2023, the FDA approved YCANTH (VP-102) topical solution for the treatment of molluscum contagiosum in adult and pediatric patients two years of age and older. The Company expects commercial launch in September 2023.

On July 26, 2023 (the “Closing Date”), the Company entered into a Credit Agreement (the “Credit Agreement”), by and between the Company, as borrower, and OrbiMed Royalty & Credit Opportunities IV, LP, a Delaware limited partnership (the “Initial Lender”), as a lender, and each other lender that may from time to time become a party thereto (each, including the Initial Lender, and together with their affiliates, successors, transferees and assignees, the “Lenders”), and OrbiMed Royalty & Credit Opportunities IV, LP, as administrative agent for the Lenders (in such capacity, the “Administrative Agent”). The Credit Agreement provides for a five-year senior secured credit facility in an aggregate principal amount of up to $125.0 million (the “Loan Facility”), of which $50.0 million was made available on the Closing Date, up to $25.0 million will be made available on or prior to June 30, 2024, up to $30.0 million will be made available on or prior to December 31, 2024, up to $10.0 million will be made available on or prior to March 31, 2025, and up to $10.0 million will be made available on or prior to June 30, 2025, in each case, subject to the Company's achievement of certain revenue targets. The term loan will mature on July 26, 2028. On July 26, 2023, the Company closed on the Initial Commitment Amount, resulting in net proceeds to the Company of approximately $44.1 million after payment of certain fees and transaction related expenses. During the term of the Loan Facility, interest payable in cash by the Company shall accrue on any outstanding balance due under the Loan Facility at a rate per annum equal to the higher of (x) the SOFR rate (which is the forward-looking term rate for a one-month tenor based on the secured overnight financing rate administered by the CME Group Benchmark Administration Limited) and (y) 4.00% plus, in either case, 8.00%. During an event of default, any outstanding amount under the Loan Facility will bear interest at a rate of 4.00% in excess of the otherwise applicable rate of interest. The Company will pay certain fees with respect to the Loan Facility, including an upfront fee, an unused fee on the undrawn portion of the Loan Facility, an administration fee, a prepayment premium and an exit fee, as well as certain other fees and expenses of the Administrative Agent and the Lenders.

On the Closing Date, the Company also issued the Initial Lender a warrant to purchase up to 518,551 shares of the Company’s common stock, at an exercise price of $6.0264 per share, which shall have a term of 10 years from the issuance date.

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

You should read the following discussion and analysis of our financial condition and results of operations in conjunction with (i) our unaudited interim condensed financial statements and the related notes thereto included elsewhere in this Quarterly Report on Form 10-Q and (ii) our audited financial statements and notes thereto and management's discussion and analysis of financial condition and results of operations for the years ended December 31, 2021 and 2022 included in our Annual Report on Form 10-K for the year ended December 31, 2022, filed with the Securities and Exchange Commission (the "SEC") on March 6, 2023. 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 and YCANTH. *All other trademarks or trade names referred to in this Quarterly Report on Form 10-Q are the property of their respective owners. Solely for convenience, the trademarks and trade names in this report are referred to without the symbols ® and ™, but such references should not be construed as an indication that their respective owners will not assert, to the fullest extent under applicable law, their rights thereto.*

Forward-Looking Statements

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

Overview

We are a dermatology therapeutics company developing medications for skin diseases requiring medical intervention. We are primarily focused on developing clinician administered therapies in areas of high unmet need. Our current product pipeline consists of one approved product, YCANTH solution for the treatment of molluscum contagiosum in adult and pediatric patients two years of age and older, as well as three product candidates: (i) VP-102, a propriety drug-device combination that contains a GMP-controlled formulation of cantharidin which is being developed for potential use in treating external genital warts and common warts, (ii) VP-315, an oncolytic peptide-based injectable therapy for the potential treatment of dermatology oncologic conditions, including basal cell carcinoma, and (iii) VP-103, a second cantharidin based drug device combination for the potential treatment of plantar warts.

On July 21, 2023 the U.S. Food and Drug Administration, or FDA, approved YCANTH (VP-102) topical solution for the treatment of molluscum contagiosum in adult and pediatric patients two years of age and older. There are currently no other products approved by the FDA, nor is there an established standard of care for this disease, resulting in significant undertreated populations. Molluscum and common warts are two of the largest unmet needs in dermatology. YCANTH is the first FDA-approved product for the treatment of molluscum and has the potential 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 also 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 addition, our granted patents and pending patent applications include claims drawn to our cantharidin formulations, applicator devices and related accessories, dosing regimens, methods of preparation including methods of synthesis, and methods of use.

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 results of our Phase 2 trial we are evaluating the timing and design of a Phase 3 trial of VP-102 for the treatment of common warts.

In addition, we are also developing VP-102 for the treatment of external genital warts. We initiated a Phase 2 clinical trial evaluating the optimal dose regimen, efficacy, safety and tolerability of VP-102 in patients with external genital warts in June 2019. In November 2020, we announced positive topline results from our Phase 2 clinical trial of VP-102 for the treatment of external genital warts. Based on results of the Phase 2 trial we are evaluating the timing and design of a Phase 3 trial of VP-102 for the treatment of external genital warts.

We also intend to develop our product candidate, VP-315, an intratumorally injected, chemotherapeutic peptide for the treatment of dermatological oncology indications. VP-315 has been observed to activate the adaptive immune system by inducing lysis and immunogenic cell death through release of immuno-stimulants and a repertoire of tumor neoantigens. The FDA accepted our IND in November 2021. In April 2022, we dosed the first patient in Part 1 of a 3-part Phase 2, multicenter, open-label, dose-escalation proof-of-concept trial with a safety run-in designed to assess the safety, pharmacokinetics, and efficacy in subjects with biopsy proven basal cell carcinoma. In Part 1 of the trial, VP-315 demonstrated a favorable safety and tolerability profile with no reported serious adverse events. We initiated Part 2 of the trial in April 2023. In June 2023, the protocol was amended to remove Part 3 of the trial by expanding Part 2, which we expect will expedite the conclusion of Phase 2. We expect to complete this Phase 2 trial in the first half of 2024.

In addition, we are conducting necessary drug development activities for VP-103, our second cantharidin-based product candidate, and are evaluating when to initiate a Phase 2 clinical trial for the treatment of plantar warts.

On March 17, 2021, we entered into a collaboration and license agreement, or the Torii Agreement, with Torii Pharmaceutical Co., Ltd., or Torii, pursuant to which we granted Torii an exclusive license to develop and commercialize our product candidates that contain a topical formulation of cantharidin for the treatment of molluscum contagiosum and common warts in Japan, including VP-102. Additionally, we granted Torii a right of first negotiation with respect to additional indications for the licensed products and certain additional products for use in the licensed field, in each case in Japan. Pursuant to the Torii Agreement, we are entitled to receive an up-front payment from Torii of $11.5 million. On July 25, 2022 Torii dosed the first patient in its Phase 3 trial of VP-102 (referred to as TO-208 in Japan) for molluscum contagiosum in Japan, triggering an $8.0 million milestone payment. Additionally, we are entitled to receive from Torii an additional $50.0 million in aggregate payments contingent on achievement of specified development, regulatory, and sales milestones, in addition to tiered transfer price payments for supply of product in the percentage range of the mid-30s to the mid-40s of net sales.

On March 7, 2022, pursuant to the Torii Agreement, we entered into a Clinical Supply Agreement with Torii, whereby we are obligated to supply product to Torii for use in clinical trials and other development activities. We recognized billed and unbilled collaboration revenue of $0.2 million for each of the three months ended June 30, 2023 and 2022 and $0.2 and $0.6 million, for the six months ended June 30, 2023 and 2022, respectively related to supplies and development activity pursuant to this agreement.

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

Our strategy is to self-commercialize YCANTH in the United States for the treatment of molluscum contagiosum. We have built a specialized sales organization in the United States focused on pediatric dermatologists, dermatologists, and select pediatricians to commercially launch YCANTH in September 2023. We also plan to advance VP-102 for common warts and external genital warts through a separate regulatory approval process. In the future, we also intend to pursue commercialization for YCANTH, as well as VP-102 for common warts and genital warts, 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 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 borrowings under loan agreements.

On July 26, 2023, we entered into a Credit Agreement with OrbiMed (the “Initial Lender”), and each other lender that may from time to time become a party thereto (each, including the Initial Lender, and together with their affiliates, successors, transferees and assignees, the “Lenders”). The Credit Agreement provides for a five-year senior secured credit facility in an aggregate principal amount of up to $125 million (the “Loan Facility”), of which we borrowed $50.0 million on July 26, 2023, resulting in net proceeds to us of approximately $44.1 million after payment of certain fees and transaction related expenses. In addition, up to $25.0 million will be made available on or prior to June 30, 2024, up to $30.0 million will be made available on or prior to December 31, 2024, up to $10.0 million will be made available on or prior to March 31, 2025, and up to $10.0 million will be made available on or prior to June 30, 2025, in each case, subject to our achievement of certain revenue targets. The term loan will mature on July 26, 2028. On the Closing Date, we also issued the Initial Lender a warrant to purchase up to 518,551 shares of the Company’s common stock, at an exercise price of $6.0264 per share, which shall have a term of 10 years from the issuance date.

As of June 30, 2023, we had cash and cash equivalents of $55.1 million. We believe that our existing cash and cash equivalents as of June 30, 2023, together with the net proceeds of approximately $44.1 million we received from the Initial Commitment Amount pursuant to the Loan Facility in July 2023, will be sufficient to support our planned operations into the first quarter of 2025.

Since inception, we have incurred significant operating losses. For the six months ended June 30, 2023 and 2022, our net loss was $17.6 million and $18.6 million, respectively. As of June 30, 2023, we had an accumulated deficit of $181.0 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:

- initiate the commercialization of YCANTH;
- continue our ongoing clinical program evaluating VP-315 for the treatment of basal cell carcinoma and potentially additional dermatological oncology indications;
- initiate clinical trials evaluating VP-102 for the treatment of external genital warts;

- continue our ongoing clinical programs evaluating VP-102 for the treatment of common warts as well as initiate and complete additional clinical trials, as needed;
- initiate clinical trials evaluating VP-103 for the treatment of plantar warts;
- pursue regulatory approvals for VP-102 for the treatment of external genital warts, common warts or any other indications we may pursue for VP-102, as well as for VP-103 or VP-315;
- seek to discover and develop additional product candidates;
- further establish a commercialization infrastructure and scale up external manufacturing and distribution capabilities to commercialize YCANTH and any other product candidates for which we may obtain regulatory approval, including VP-102, VP-315 and VP-103;
- 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 commercial, administrative, clinical, manufacturing and scientific personnel;
- add operational, financial and management information systems and personnel, including personnel to support our product development and planned commercialization efforts; and
- incur additional legal, accounting and other expenses in operating as a public company.

Critical Accounting Estimates

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

A summary of our significant accounting policies are disclosed in our Annual Report on Form 10-K for the fiscal year ended December 31, 2022. However, we believe that the additional accounting policies disclosed in Note 2 to our condensed financial statement are important to understanding and evaluating our reported financial results.

Components of Results of Operations

Collaboration Revenue

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

Operating Expenses

Research and Development Expenses

Research and development expenses consist of expenses incurred in connection with the discovery and development of YCANTH for the treatment of molluscum contagiosum, potential follow-on indications for YCANTH and our other product candidates. We expense research and development costs as incurred. These expenses include:

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

Research and development activities are central to our business model. Product candidates in later stages of clinical development generally have higher development costs than those in earlier stages of clinical development, primarily due to the increased size and duration of later-stage clinical trials. We expect our research and development expenses to increase over the next several years as we increase personnel costs, including stock-based compensation, initiate and conduct clinical trials of VP-102 in patients with common warts, VP-102 in patients with external genital warts, VP-315 for dermatological oncology indications,VP-103 in patients with 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 YCANTH™ or our product candidates. This uncertainty is due to the numerous risks and uncertainties associated with the duration and cost of clinical trials, which vary significantly over the life of a project as a result of many factors, including:

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

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

General and Administrative Expenses

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

We anticipate that our general and administrative expenses, including payroll and related expenses, will increase in the future as we continue to increase our headcount to support the expected growth in our business, expand our operations and organizational capabilities, and commercialize YCANTH. 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, 2023 and 2022

The following table summarizes our results of operations for the three months ended June 30, 2023 and 2022 (in thousands):

	For the Three Months Ended June 30, 2023	For the Three Months Ended June 30, 2022	Change
Collaboration revenue	$ 182	214	$ (32)
Operating expenses:			
Research and development	5,725	3,943	1,782
General and administrative	5,937	5,173	764
Cost of collaboration revenue	136	219	(83)
Total operating expenses	11,798	9,335	2,463
Loss from operations	(11,616)	(9,121)	(2,495)
Other income (expense):			
Interest income	626	20	606
Interest expense	—	(1,066)	1,066
Other expense	—	(1)	1
Total other income (expense), net	626	(1,047)	1,672
Net loss	**$ (10,990)**	**$ (10,168)**	**$ (822)**

Collaboration Revenue

Collaboration revenue was $0.2 million for each of the three months ended June 30, 2023 and June 30, 2022. The revenue is related to clinical supplies and development activity provided to Torii pursuant to the Clinical Supply Agreement entered into on March 7, 2022.

Research and Development Expenses

Research and development expenses were $5.7 million for the three months ended June 30, 2023, compared to $3.9 million for the three months ended June 30, 2022. The increase of $1.8 million was primarily attributable to an increase in CMC costs of $2.6 million related to our development of VP-102 for molluscum partially offset by $1.0 million milestone payment to LYTIX upon achievement of a regulatory milestone during the three months ended June 30, 2022.

The following table summarizes our research and development expense by product candidate or, for unallocated expenses, by type for the three months ended June 30, 2023 and 2022. We did not incur any research and development expense for VP-103 during the three months ended June 30, 2023 or 2022. Unallocated expenses include compensation and other personnel related costs.

	For the Three Months Ended June 30, 2023	For the Three Months Ended June 30, 2022	Change
YCANTH and VP-102	$ 2,922	$ 671	$ 2,251
VP-315	913	1,596	(683)
Stock based compensation	594	340	254
Other unallocated expenses	1,296	1,336	(40)
Research and development expense	$ 5,725	$ 3,943	$ 1,782

General and Administrative Expenses

General and administrative expenses were $5.9 million for the three months ended June 30, 2023, compared to $5.2 million for the three months ended June 30, 2022. The increase of $0.8 million was primarily a result of higher expenses related to pre-commercial activities for VP-102.

Interest Income

Interest income was $0.6 million for the three months ended June 30, 2023, compared to $20,000 for the three months ended June 30, 2022, primarily due to higher interest rates.

Interest Expense

Interest expense for the three months ended June 30, 2022 consisted of interest expense on the Mezzanine Loan Agreement as noted in Note 6 to our condensed financial statements. On July 11, 2022 we voluntarily repaid the Mezzanine Loan Agreement.

Results of Operations for the Six Months Ended June 30, 2023 and 2022

The following table summarizes our results of operations for the six months ended June 30, 2023 and 2022 (in thousands):

	For the Six Months Ended June 30, 2023	For the Six Months Ended June 30, 2022	Change
Collaboration revenue	$ 219	$ 645	$ (426)
Operating expenses:			
Research and development	8,464	6,388	2,076
General and administrative	10,256	10,291	(35)
Cost of collaboration revenue	204	497	(293)
Total operating expenses	18,924	17,176	2,041
Loss from operations	(18,705)	(16,531)	(2,467)
Other income (expense):			
Interest income	1,126	42	1,084
Interest expense	—	(2,094)	2,094
Other expense	—	(55)	55
Total other income (expense)	1,126	(2,107)	3,178
Net loss	**$ (17,579)**	**$ (18,638)**	**$ 711**

Collaboration Revenue

Collaboration revenue was $0.2 million for the six months ended June 30, 2023 compared to $0.6 million for the six months ended June 30, 2022. The decrease of $0.4 million was attributable to less clinical supplies and development activity provided to Torii pursuant to the Clinical Supply Agreement entered into on March 7, 2022.

Research and Development Expenses

Research and development expenses were $8.5 million for the six months ended June 30, 2023, compared to $6.4 million for the six months ended June 30, 2022. The increase of $2.1 million was primarily attributable to an increase of $2.9 million in CMC and clinical costs related to our development of VP-102 for molluscum, external genital warts and common warts partially offset by a payment made to Lytix upon the achievement of a regulatory milestone for VP-315 of $1.0 million during the six months ended June 30, 2022.

The following table summarizes our research and development expense by product candidate or, for unallocated expenses, by type for the six months ended June 30, 2023 and 2022. We did not incur any research and development expense for VP-103 during the six months ended June 30, 2023 or 2022. Unallocated expenses include compensation and other personnel related costs.

	For the Six Months Ended June 30, 2023	For the Six Months Ended June 30, 2022	Change
YCANTH and VP-102	$ 3,741	$ 1,881	$ 1,860
VP-315	1,238	1,111	127
Stock based compensation	853	757	96
Other unallocated expenses	2,632	2,639	(7)
Research and development expense	$ 8,464	$ 6,388	$ 2,076

General and Administrative Expenses

General and administrative expenses were $10.3 million for each of the six months ended June 30, 2023 and 2022. Costs decreased by $1.2 million due to reduction in headcount offset by increased spend for commercial launch of $0.7 million and increased legal costs of $0.3 million.

Interest Income

Interest income was $1.1 million for the six months ended June 30, 2023 compared to $42,000 for the six months ended June 30, 2022 primarily due to higher interest rates.

Interest Expense

Interest expense for the three months ended June 30, 2022, consisted of interest expense on the Mezzanine Loan Agreement as noted in Note 6 to our condensed financial statements. On July 11, 2022 we voluntarily repaid the Mezzanine Loan Agreement.

Liquidity and Capital Resources

Since our inception, we have not generated any product 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, the sale of our common stock in our IPO, receiving aggregate gross proceeds of $123.2 million and most recently, $28.1 and $26.9 million in net proceeds from issuance of common stock in follow-on offerings in March 2021 and July 2022, respectively, and $20.0 million from the Torii Agreement. In February 2023, we closed an underwritten offering of 750,000 shares of our common stock and pre-funded warrants to purchase 4,064,814 shares of common stock. The shares of common stock were sold at a price of $6.75 per share and the pre-funded warrants were sold at a price of $6.7499 per pre-funded warrant, resulting in total net proceeds of $30.3 million, after deducting underwriting discounts and commissions, and offering expenses.

As of June 30, 2023, we had cash and cash equivalents of $55.1 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 a mezzanine loan and security agreement and a loan and security agreement, or the Loan Agreements, with Silicon Valley Bank. Upon entering into the Loan Agreements, we borrowed $35.0 million in term loans, or the Term A Loan, from the Mezzanine Lenders. We entered into amendments to the Loan Agreements in October 2020 under which we borrowed an additional $5.0 million in term loans, or the Term B1 Loan and together with the Term A Loan, the Loans, on March 1, 2021.

On July 11, 2022, we voluntarily repaid in full the debt outstanding under the Loan Agreements. Our prepayment amount was approximately $43.8 million, inclusive of principal amount of debt, the final payment fee, and accrued interest, and satisfied all of our outstanding debt obligations under the Loan Agreements. We did not incur any prepayment penalties in connection with the repayment of the amounts payable under the Loan Agreements, which had a scheduled maturity of March 1, 2024. The prepayment was made in full using restricted cash of $40.0 million, which was set aside as cash collateral in a March 2022 amendment to the Mezzanine Loan Agreement, as well as cash on hand.

On July 21, 2023, the FDA approved YCANTH (VP-102) topical solution for the treatment of molluscum contagiosum in adult and pediatric patients two years of age and older. We expect commercial launch by September 2023.

On July 26, 2023, we entered into the Credit Agreement which provides for a $125.0 million Loan Facility. We borrowed $50.0 million on July 26, 2023, resulting in net proceeds to us of approximately $44.1 million after payment of certain fees and transaction related expenses. In addition, up to $25.0 million will be made available on or prior to June 30, 2024, up to $30.0 million will be made available on or prior to December 31, 2024, up to $10.0 million will be made available on or prior to March 31, 2025, and up to $10.0 million will be made available on or prior to June 30, 2025, in each case, subject to our achievement of certain revenue targets. The term loan will mature on July 26, 2028.

During the term of the Loan Facility, interest payable in cash by us will accrue on any outstanding balance due under the Loan Facility at a rate per annum equal to the higher of (x) the SOFR rate (which is the forward-looking term rate for a one-month tenor based on the secured overnight financing rate administered by the CME Group Benchmark Administration Limited) and (y) 4.00% plus, in either case, 8.00%. During an event of default, any outstanding amount under the Loan Facility will bear interest at a rate of 4.00% in excess of the otherwise applicable rate of interest. We will pay certain fees with respect to the Loan Facility, including an upfront fee, an unused fee on the undrawn portion of the Loan Facility, an administration fee, a prepayment premium and an exit fee, as well as certain other fees and expenses of the Administrative Agent and the Lenders.

Cash Flows

The following table summarizes our cash flows for the six months ended June 30, 2023 and 2022 (in thousands):

	For the Six Months Ended June 30,	
	2023	2022
Net cash used in operating activities	$ (9,259)	$ (15,521)
Net cash (used in) provided by investing activities	(70)	45,218
Net cash provided by (used in) financing activities	30,196	(19)
Net increase in cash and cash equivalents	$ 20,867	$ 29,678

Operating Activities

During the six months ended June 30, 2023, operating activities used $9.3 million of cash, primarily resulting from a net loss of $17.6 million partially offset by non-cash stock-based compensation of $2.6 million. Net cash used in changes in operating assets and liabilities consisted primarily of an decrease in prepaid and other assets of $2.9 million and an increase in accounts payable and accrued expenses of $2.2 million.

During the six months ended June 30, 2022, operating activities used $15.5 million of cash, primarily resulting from a net loss of $18.6 million partially offset by non-cash stock-based compensation of $2.4 million and non-cash interest expense of $0.6 million. Net cash provided by changes in operating assets and liabilities consisted primarily of an increase in prepaid and other assets of $1.0 million partially offset by a decrease in accounts payable and accrued expenses of $1.0 million.

Investing Activities

During the six months ended June 30, 2023, net cash used in investing activities of $0.1 million was primarily due to purchase of fixed assets.

During the six months ended June 30, 2022, net cash provided by investing activities of $45.2 million was primarily due to sales and maturities of marketable securities of $50.0 million partially offset by purchases of marketable securities of $4.5 million.

Financing Activities

During the six months ended June 30, 2023, net cash provided by financing activities of $30.2 million was primarily related to the proceeds of $30.3 million, net of issuance costs from the issuance of common stock and pre-funded warrants.

During the six months ended June 30, 2022, net cash used in financing activities of $19 thousand was primarily related to payment of debt amendment costs of $17 thousand.

Funding Requirements

We expect to launch YCANTH by September 2023. While we expect to generate revenue from the sale of YCANTH, we expect our expenses to increase in connection with our ongoing activities, particularly as we initiate commercialization of YCANTH and continue the research and development of, continue or initiate clinical trials of, and seek marketing approval for, our product candidates. Following the approval of YCANTH, for the treatment of molluscum contagiosum, we expect to incur significant commercialization expenses related to sales, marketing, manufacturing and distribution. Furthermore, we expect to incur additional costs associated with operating as a public company. We will need substantial additional financing to fund our operations. If we are unable to raise capital when needed or on attractive terms, we would be forced to delay, reduce or eliminate our research and development programs or future commercialization efforts.

We believe that our existing cash and cash equivalents of $55.1 million as of June 30, 2023, together with the net proceeds of approximately $44.1 million we received from the Initial Commitment Amount pursuant to the Loan Facility in July 2023 will be sufficient to support our planned operations into the first quarter of 2025. Our future capital requirements will depend on many factors, including:

- the level of sales achieved, and costs related to the commercialization of YCANTH;
- 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;
- the costs to scale up and secure manufacturing arrangements for commercial production of YCANTH and any product candidate we successfully commercialize; and
- the costs of establishing or contracting for sales and marketing capabilities for YCANTH and 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, YCANTH and our product candidates, if approved, may not achieve commercial success. Our commercial revenues will be derived solely from sales of YCANTH in the near term. 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 disruptions to, and volatility in, the credit and financial markets in the United States and worldwide. 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.

Contractual Obligations and Commitments

As of June 30, 2023, 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, 2022.

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, 2022.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this Quarterly Report on Form 10-Q to ensure that the information required to be disclosed by us in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms, and that information required to be disclosed in the reports we file or submit under the Exchange Act is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosures. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost benefit relationship of possible controls and procedures. Based on such evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were effective at the reasonable assurance level as of June 30, 2023.

Changes in Internal Control over Financial Reporting

There have been no changes in our internal control over financial reporting identified in connection with the evaluation required by Rule 13a-15(b) and 15d-15(b) of the Exchange Act that occurred during the quarter ended June 30, 2023, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item. 1 Legal Proceedings

On June 6, 2022, plaintiff Kranthi Gorlamari, or Gorlamari, filed a putative class action complaint captioned Gorlamari v. Verrica Pharmaceuticals Inc., et al., in the U.S. District Court for the Eastern District of Pennsylvania against us and certain of our current and former officers and directors ("Defendants"). Gorlamari filed an amended complaint on January 12, 2023. The amended complaint alleges that Defendants violated federal securities laws by, among other things, failing to disclose certain manufacturing deficiencies at the facility where our contract manufacturer produced bulk solution for the VP-102 drug device and that such deficiencies posed a risk to the prospects for regulatory approval of VP-102 for the treatment of molluscum. The amended complaint seeks unspecified compensatory damages and other relief on behalf of Gorlamari and all other persons and entities which purchased or otherwise acquired our securities between May 19, 2021 and May 24, 2022. On April 5, 2023, the Defendants filed a motion to dismiss the amended complaint. The litigation is still in the early stages, and we intend to vigorously defend itself against these allegations.

We are involved in ordinary, routine legal proceedings that are not considered by management to be material. We believe the ultimate liabilities resulting from such legal proceedings will not materially affect our financial position or our results of operations or cash flows.

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, 2022, filed with the Securities and Exchange Commission on March 6, 2023. Except as described below, there have been no material changes to the risk factors described in that report.

Product liability lawsuits against us could cause us to incur substantial liabilities and to limit commercialization of YCANTH ***and any products that we may develop.***

We face an inherent risk of product liability exposure related to the testing of our product candidates in human clinical trials and will face an even greater risk in connection with the commercialization of YCANTH. If we cannot successfully defend ourselves against claims that YCANTH or our product candidates caused injuries, we will incur substantial liabilities. For example, YCANTH, may cause local skin reactions, can cause life threatening or fatal toxicities if administered orally, can cause ocular toxicity if in contact with the eyes and is flammable. Regardless of merit or eventual outcome, liability claims may result in:

- decreased demand for YCANTH and any product candidates that we may develop;
- injury to our reputation and significant negative media attention;
- withdrawal of clinical trial participants;
- significant costs to defend the related litigation;
- substantial monetary awards paid to trial participants or patients;
- loss of revenue;
- reduced resources of our management to pursue our business strategy; and
- the inability to successfully commercialize YCANTH and any other products that we may develop.

We currently hold $10 million in product liability insurance coverage in the aggregate, with a per incident limit of $10 million, which may not be adequate to cover all liabilities that we may incur. We may need to increase our insurance coverage. Insurance coverage is increasingly expensive. We may not be able to maintain insurance coverage at a reasonable cost or in an amount adequate to satisfy any liability that may arise.

We may not be able to generate sufficient cash to service our indebtedness or borrow additional funds pursuant to our Loan Facility.

We have entered into a Credit Agreement with OrbiMed, pursuant to which we may borrow up to $125.0 million. Our obligations under the Credit Agreement are secured by all or substantially all of our assets.

We are subject to a number of affirmative and restrictive covenants pursuant to the Credit Agreement, which limit or restrict our ability to (subject to certain qualifications and exceptions): create liens and encumbrances; incur additional indebtedness; merge, dissolve, liquidate or consolidate; make acquisitions, investments, advances or loans; dispose of or transfer assets; pay dividends or make other payments in respect of their capital stock; amend certain material documents; redeem or repurchase certain debt; engage in certain transactions with affiliates; and enter into certain restrictive agreements. In addition, we are required to maintain at least $10 million of unrestricted cash and cash equivalents at all times. Our obligations under the Credit Agreement are subject to acceleration upon the occurrence of an event of default (subject to notice and grace periods). We are currently in compliance with the Credit Agreement covenants. If we are unable to generate sufficient revenue or to raise additional capital through a combination of equity offerings, debt financings and license and collaboration agreement we will no longer be in compliance with these covenants. We may also enter into other debt agreements in the future which may contain similar or more restrictive terms.

Our ability to make scheduled monthly payments or to refinance our debt obligations depends on numerous factors, including the amount of our cash reserves and our actual and projected financial and operating performance. These amounts and our performance are subject to certain financial and business factors, as well as prevailing economic and competitive conditions, some of which may be beyond our control. We cannot assure you that we will maintain a level of cash reserves or cash flows from operating activities sufficient to permit us to pay the principal, premium, if any, and interest on our existing or future indebtedness. If our cash flows and capital resources are insufficient to fund our debt service obligations, we may be forced to reduce or delay capital expenditures, sell assets or operations, seek additional capital or restructure or refinance our indebtedness. We cannot assure you that we would be able to take any of these actions, or that these actions would permit us to meet our scheduled debt service obligations. Failure to comply with the conditions of the Credit Agreement could result in an event of default, which could result in an acceleration of amounts due under the Credit Agreement. We may not have sufficient funds or may be unable to arrange for additional financing to repay our indebtedness or to make any accelerated payments, and OrbiMed could seek to enforce security interests in the collateral securing such indebtedness, which would harm our business.

In addition, the Credit Agreement provides up to $25.0 million will be made available on or prior to June 30, 2024, up to $30.0 million will be made available on or prior to December 31, 2024, up to $10.0 million will be made available on or prior to March 31, 2025, and up to $10.0 million will be made available on or prior to June 30, 2025, in each case, subject to certain revenue requirements. If we are unable to achieve the revenue targets by the applicable dates, we would be unable to borrow additional funds pursuant to the Loan Facility, which could negatively impact our ability to fund our operations.

Item 6. Exhibits

EXHIBIT INDEX

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

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

(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.

* 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 8, 2023	By:	/s/ Ted White
		Ted White Chief Executive Officer and President (Principal Executive Officer)
	By:	/s/ P. Terence Kohler Jr.
		P. Terence Kohler Jr. Chief Financial Officer (Principal Financial Officer)

Exhibit 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, 2023 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 8, 2023

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

Exhibit 31.2

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

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

1. I have reviewed this Quarterly Report on Form 10-Q for the period ended June 30, 2023 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 8, 2023

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

Exhibit 32.1

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

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

1. The Company’s Quarterly Report on Form 10-Q for the period ended June 30, 2023, 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 8th day of August, 2023.

/s/ Ted White	/s/ P. Terrence Kohler Jr.
Ted White	P. Terence Kohler Jr.
President and Chief Executive Officer (principal executive officer)	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.