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, 2021

OR

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

For the transition period from _____ to _____

Commission File Number: 001-38529

Verrica Pharmaceuticals Inc.

(Exact Name of Registrant as Specified in its Charter)

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

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

N/A

(Former address of principal executive offices)

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

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

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

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

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

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

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

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

As of August 2, 2021, the registrant had 27,514,720 shares of common stock, $0.0001 par value per share, outstanding.

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

Item 1. Unaudited Condensed Financial Statements

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

	June 30, 2021	December 31, 2020
ASSETS		
Current assets:		
Cash and cash equivalents	$ 24,706	$ 10,686
Marketable securities	65,423	54,784
Prepaid expenses and other assets	3,245	2,180
Total current assets	93,374	67,650
Property and equipment, net	3,648	3,102
Operating lease right-of-use asset	1,723	1,836
Other non-current assets	285	1,566
Total assets	**$ 99,030**	**$ 74,154**
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 783	$ 348
Accrued expenses and other current liabilities	3,252	3,114
Operating lease liability	235	198
Financing lease liability	7	—
Deferred revenue	—	500
Short term debt	41,005	35,315
Total current liabilities	45,282	39,475
Operating lease liability	1,573	1,693
Financing lease liability	19	—
Total liabilities	**46,874**	**41,168**
Commitments and Contingencies (Note 10)		
Stockholders' equity:		
Common stock, $0.0001 par value; 200,000,000 authorized; 27,619,864 shares issued and 27,514,720 shares outstanding as of June 30, 2021; 25,546,257 shares issued and 25,441,113 shares outstanding as of December 31, 2020	3	3
Additional paid-in capital	168,751	136,868
Accumulated deficit	(116,597)	(103,886)
Accumulated other comprehensive (loss) gain	(1)	1
Total stockholders' equity	52,156	32,986
Total liabilities and stockholders' equity	**$ 99,030**	**$ 74,154**

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

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2021	2020	2021	2020
License revenue	$ —	$ —	$ 12,000	$ —
Operating expenses:				
Research and development	3,447	3,521	8,809	8,413
General and administrative	7,284	5,110	13,861	10,098
Total operating expenses	10,731	8,631	22,670	18,511
Loss from operations	(10,731)	(8,631)	(10,670)	(18,511)
Other income (expense):				
Interest income	33	126	65	404
Interest expense	(1,077)	(904)	(2,106)	(1,124)
Total other expense	(1,044)	(778)	(2,041)	(720)
Net loss	**$ (11,775)**	**$ (9,409)**	**$ (12,711)**	**$ (19,231)**
Net loss per share, basic and diluted	$ (0.43)	$ (0.38)	$ (0.46)	$ (0.77)
Weighted average common shares outstanding, basic and diluted	27,513,665	24,965,634	27,697,985	24,964,900
Net loss	$ (11,775)	$ (9,409)	$ (12,711)	$ (19,231)
Other comprehensive gain:				
Unrealized (loss) gain on marketable securities	(4)	12	(2)	12
Comprehensive loss	**$ (11,779)**	**$ (9,397)**	**$ (12,713)**	**$ (19,219)**

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

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

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

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,	
	2021	**2020**
Cash flows from operating activities		
Net loss	$ (12,711)	$ (19,231)
Adjustments to reconcile net loss to net cash used in operating activities:		
Stock-based compensation	3,251	2,250
Accretion of discounts on marketable securities	(25)	(121)
Depreciation expense	48	26
Non cash interest expense	729	328
Reduction in operating lease right-of-use asset	113	111
Changes in operating assets and liabilities:		
Prepaid expenses and other assets	218	(709)
Accounts payable	435	112
Accrued expenses and other current liabilities	239	798
Deferred revenue	(500)	—
Operating lease liability	(83)	(64)
Net cash used in operating activities	(8,286)	(16,500)
Cash flows from investing activities		
Sales and maturities of marketable securities	35,600	44,355
Purchases of marketable securities	(46,216)	(22,136)
Purchases of property and equipment	(607)	(815)
Deposits	(77)	—
Net cash (used in) provided by investing activities	(11,300)	21,404
Cash flows from financing activities		
Proceeds from exercise of stock options	513	7
Proceeds from issuance of common stock, net of issuance costs	28,119	—
Proceeds from issuance of debt, net	4,975	34,460
Debt issuance costs	—	(90)
Repayment of financing lease	(1)	—
Repayment of subscription receivable	—	410
Net cash provided by financing activities	33,606	34,787
Net increase in cash and cash equivalents	14,020	39,691
Cash and cash equivalents at the beginning of the period	10,686	9,241
Cash and cash equivalents at the end of the period	**$ 24,706**	**$ 48,932**
Supplemental disclosure of noncash investing and financing activities:		
Property and equipment purchases payable or accrued at period end	$ 239	$ 429
Debt issuance costs accrued at period end	$ —	$ 25
Change in unrealized gain on marketable securities	$ (2)	$ 12
Cash paid for interest	$ 1,376	$ 585

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

Note 1—Nature of Business

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

Liquidity and Capital Resources

The Company has incurred substantial operating losses since inception and expects to continue to incur significant operating losses for the foreseeable future and may never become profitable. On March 17, 2021, the Company entered into the Torii Agreement (Note 11), pursuant to which the Company received an upfront payment from Torii of $11.5 million in April 2021. On March 25, 2021, the Company closed a follow-on public offering in which it sold 2,033,899 shares of common stock at a public offering price of $14.75 per share, resulting in net proceeds of $28.1 million after deducting underwriting discounts and commissions and offering expenses. As of June 30, 2021, the Company had an accumulated deficit of $116.6 million.

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

Note 2—Significant Accounting Policies

Basis of Presentation

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

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

Use of Estimates

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

S***ignificant Accounting Policies***

Revenue

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

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

(ii) identify the performance obligations in the contract;

(iii) determine the transaction price;

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

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

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

License Revenues

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

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

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

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

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

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

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

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

The Company's revenue arrangements may include the following:

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

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

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

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

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

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

Net Loss Per Share

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

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

	As of June 30,	
	2021	**2020**
Shares issuable upon exercise of stock options	3,762,336	2,608,178
Non-vested shares under restricted stock grants	475,000	1,148,859

Note 3—Investments in Marketable Securities

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

	June 30, 2021			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury securities	$ 14,772	$ 1	$ (1)	$ 14,772
Commercial paper	50,651	—	—	50,651
Total marketable securities	$ 65,423	$ 1	$ (1)	$ 65,423

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

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

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

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

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

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

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

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

	Fair Value Measurement as of June 30, 2021			
	Level 1	Level 2	Level 3	Total
Assets				
U.S. treasury securities	$ 14,772	$ —	$ —	$ 14,772
Commercial paper	—	50,651	—	50,651
Total assets	$ 14,772	$ 50,651	$ —	$ 65,423

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

Note 4—Property and Equipment

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

	As of June 30, 2021	As of December 31, 2020
Office furniture and fixtures	$ 343	$ 117
Machinery and equipment	128	102
Leasehold improvements	101	101
Office equipment	301	52
Automobiles	26	—
Construction in process	2,923	2,857
	3,822	3,229
Accumulated depreciation	(174)	(127)
Total property and equipment, net	$ 3,648	$ 3,102

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

Note 5—Accrued Expenses and Other Current Liabilities

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

	As of June 30, 2021	As of December 31, 2020
Compensation and related costs	$ 1,089	$ 1,338
Commercial costs	981	—
Clinical trials and drug development	385	611
Professional fees	188	447
Construction in process	175	277
Interest expense	242	219
Other accrued expenses and other current liabilities	192	222
Total accrued expenses and other current liabilities	$ 3,252	$ 3,114

Note 6—Leases

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

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

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

The Company leases vehicles under financing leases that expire through 2025. The net basis of the vehicle lease of $26 thousand is recorded as property and equipment on the condensed balance sheet.

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2021	2020	2021	2020
Finance lease cost:				
Amortization lease assets	$ 1	$ —	$ 1	$ —
Finance lease costs	1	—	1	—
Total finance lease costs	$ 2	$ —	$ 2	$ —
Operating lease:				
Operating lease costs	$ 84	$ 47	$ 175	$ 105
Short-term lease costs	5	7	10	13
Total lease expense	$ 89	$ 54	$ 185	$ 118

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

	June 30, 2021	
	Operating	Finance
2021 (remaining 6 months)	170	4
2022	343	7
2023	349	7
2024	355	8
2025	360	2
Thereafter	614	—
Total lease payments	2,191	28
Less imputed interest	(383)	(2)
Lease liability	$ 1,808	$ 26

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

Other information:	**Operating**	**Finance**
Weighted average remaining lease term	6.17	3.83
Weighted-average discount rate	6.25%	4.35%

Note 7—Debt

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

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

Under the terms of the Mezzanine Loan Agreement, as amended, the Company may, at its sole discretion, borrow from the Mezzanine Lenders up to an additional $10.0 million in term loans (the "Term B2 Loan"). The Term B1 Loan and Term B2 Loan, together with the Term A Loan, are referred to herein as the "Term Loans." The Term B2 Loan will be available for draw if the Company receives approval from the FDA for VP-102 prior to September 30, 2021, and the Company maintains compliance with the minimum liquidity covenant until the earlier of September 30, 2021, or the occurrence of an event of default.

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

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

All of the Loans mature on March 1, 2024 (the "Maturity Date"). The Term Loans will be interest-only through March 31, 2022, followed by 24 equal monthly payments of principal and interest; provided that if the Company draws the Term B2 Loan, the Term Loans will be interest-only through September 30, 2022, followed by 18 equal monthly payments of principal and interest. The Term Loans will bear interest at a floating per annum rate equal to the greater of (i) 7.25% and (ii) the sum of (a) the prime rate reported in The Wall Street Journal on the last business day of the month that immediately precedes the month in which the interest will accrue, plus (b) 2.50%. The Revolving Loans will bear interest at a floating per annum rate equal to the greater of (i) 6.00% and (ii) the sum of (a) the prime rate reported in The Wall Street Journal on the last business day of the month that immediately precedes the month in which the interest will accrue, plus (b) 1.25%.

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

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

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

Upon the occurrence of certain events, including but not limited to the Company's failure to satisfy its payment obligations under the Loan Agreements, the breach of certain of its other covenants under the Loan Agreements, or the occurrence of a material adverse change, cross defaults to other indebtedness or material agreements, judgment defaults and defaults related to failure to maintain governmental approvals failure of which to maintain could result in a material adverse effect, the Agent and the Lenders will have the right, among other remedies, to declare all principal and interest immediately due and payable, to exercise secured party remedies, to receive the Final Payment and Termination Fee and, if the payment of principal and interest is due prior to the Maturity Date, to receive the applicable Prepayment Fee. The Loan Agreements also include subjective acceleration clauses that permit the Lenders to accelerate the maturity date under certain circumstances, including a material adverse change in the Company's business, operations, or financial condition or a material impairment of the prospect of repayment of the Company's obligations to the Mezzanine Lenders. Pursuant to the Loan Agreement Amendments, the Company is subject to a minimum liquidity covenant defined as the balance of the of the Company's unrestricted cash, cash equivalents, and marketable securities in accounts maintained at Silicon Valley Bank being greater than one and one half times the Company's aggregate outstanding obligations to the Mezzanine Lenders under the Term A Loan.

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

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

For the three and six months ended June 30, 2021, the Company recognized interest expense of $1.0 million and $2.1 million, respectively, of which $0.7 million and $1.4 million, respectively, was interest on the term loan and $0.3 million and $0.7 million, respectively, was non-cash interest expense related to the amortization of deferred debt issuance costs and accrual of the final payment fee.

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

Gross proceeds	$ 40,000
Accrued final payment fee	3,750
Unamortized debt discount and issuance costs	(2,745)
Total short-term debt, net	$ 41,005

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

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

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

Note 8—Stock-Based Compensation

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2021	2020	2021	2020
Research and development	$ 425	$ 213	$ 723	$ 390
General and administrative	1,423	1,039	2,528	1,860
Total stock-based compensation	$ 1,848	$ 1,252	$ 3,251	$ 2,250

Stock Options

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

	Number of shares	Weighted average exercise price	Weighted average remaining contractual life (in years)	Aggregate intrinsic value
Outstanding as of December 31, 2020	2,901,908	$ 9.57	8.04	$ 7,702,295
Granted	965,736	13.93		
Exercised	(39,708)	12.92		
Forfeitures	(51,392)	14.64		
Expired	(14,208)	12.99		
Outstanding as of June 30, 2021	3,762,336	$ 10.57	8.2	$ 7,340,595
Options vested and exercisable as of June 30, 2021	1,513,193	$ 9.04	6.9	$ 4,497,719

As of June 30, 2021, the total unrecognized compensation related to unvested stock option awards granted was $16.8 million, which the Company expects to recognize over a weighted-average period of 3.09 years.

Restricted Stock

In November 2019 and August 2020, the Company granted 300,000 and 250,000 restricted stock units, respectively to its executive officers. As of June 30, 2021, 475,000 restricted stock units were outstanding. The restricted stock units vest 50% upon receipt of regulatory approval of the Company's new drug application for VP-102 for the treatment of molluscum (the "Approval Date") and 50% shall vest on the one year anniversary of the Approval Date subject to the holders' continuous service through each applicable date.

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

	Number of Shares	Weighted Average Grant Date Fair Value
Nonvested as of December 31, 2020	475,000	$ 11.74
Granted	—	—
Forfeitures	—	—
Nonvested as of June 30, 2021	475,000	$ 11.74

No compensation expenses have been recognized for these nonvested restricted stock units as these shares are performance based and the triggering event was not determined to be probable as of June 30, 2021. As of June 30, 2021, the total unrecognized compensation expense related to the restricted stock units was $5.6 million.

Note 9—Related Party Transactions

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

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

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

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

Note 10—Commitments and Contingencies

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

Note 11—License and Collaboration Agreements

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

On March 2, 2021, Torii exercised the exclusive option in the Option Agreement. On March 17, 2021, the Company entered into a collaboration and license agreement (the "Torii Agreement") with Torii, pursuant to which the Company granted Torii an

exclusive license to develop and commercialize the Company's product candidates that contain a topical formulation of cantharidin for the treatment of molluscum contagiosum and common warts in Japan, including VP-102. Additionally, the Company granted Torii a right of first negotiation with respect to additional indications for the licensed products and certain additional products for use in the licensed field, in each case in Japan.

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

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

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

Note 12 – Subsequent Event

None.

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

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

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

Forward-Looking Statements

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

Overview

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

In January 2019, we reported positive top-line results from our Phase 3 CAMP-1 and CAMP-2 pivotal trials with VP-102 for the treatment of molluscum. Both clinical trials evaluated the safety and efficacy of VP-102 compared to placebo. In each trial, we observed that a clinically and statistically significant proportion of subjects treated with VP-102 achieved complete clearance of all treatable molluscum lesions compared to subjects treated with placebo. VP-102 was well-tolerated in both trials, with no serious adverse events reported in VP-102 treated subjects. CAMP-1 was conducted under a special protocol assessment, or SPA, agreement with the FDA. Based on the results from these trials, we submitted a new drug application, or NDA, to the FDA for VP-102 for the treatment of molluscum in September 2019. In November 2019, we received notice that the FDA accepted the NDA for filing, with a Prescription Drug User Fee Act, or PDUFA, goal date of July 13, 2020. In July 2020, we received a Complete Response Letter, or CRL, from the FDA for our NDA. We resubmitted our NDA for VP-102 for the treatment of molluscum in December 2020. In February 2021, we received notice that the FDA accepted the resubmitted NDA for filing, with a PDUFA goal date of June 23, 2021. In May 2021, we received further notice that the FDA extended the PDUFA goal date by three months to September 23, 2021, to allow the FDA to have additional time to review information submitted by the Company, including our training program and distribution model, in response to comments from the FDA regarding the Company's human factors study.

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

In addition, we are also developing VP-102 for the treatment of external genital warts. We initiated a Phase 2 clinical trial evaluating the optimal dose regimen, efficacy, safety and tolerability of VP-102 in patients with external genital warts in June

2019. In November 2020, we announced positive topline results from our Phase 2 clinical trial of VP-102 for the treatment of external genital warts. Based on the results of the Phase 2 trial, we requested an end of Phase 2 meeting with the FDA in the first quarter of 2021. In addition, we are conducting necessary drug development activities for VP-103, our second cantharidin-based product candidate, and are evaluating when to initiate a Phase 2 clinical trial for the treatment of plantar warts. We also intend to develop our third product candidate, LTX-315, for the treatment of dermatological oncology indications.

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

In August 2020, we entered into an exclusive license agreement with Lytix Biopharma AS, or Lytix, pursuant to which we obtained a worldwide, license for certain technology of Lytix to develop LTX-315 for use in all malignant and pre-malignant dermatological indications, other than metastatic melanoma and metastatic merkel cell carcinoma. We intend to submit an Investigational New Drug Application, or IND, for LTX-315 in the second half of 2021.

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

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

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

On March 25, 2021, we closed a follow-on public offering in which we sold 2,033,899 shares of common stock at a public offering price of $14.75 per share, resulting in net proceeds of $28.1 million after deducting underwriting discounts and commissions and offering expenses. We believe that our existing cash, cash equivalents and marketable securities as of June 30, 2021 will be sufficient to support our planned operations at least into the first quarter of 2023.

Since inception, we have incurred significant operating losses. For the six months ended June 30, 2021 and 2020, our net loss was $12.7 million and $19.2 million, respectively. As of June 30, 2021, we had an accumulated deficit of $116.6 million. We expect to continue to incur significant expenses and operating losses for the foreseeable future. We anticipate that our expenses will increase significantly in connection with our ongoing activities, as we:

- continue our ongoing clinical programs evaluating VP-102 for the treatment of common warts as well as initiate and complete additional clinical trials, as needed;
- initiate clinical trials evaluating VP-102 for the treatment of external genital warts;
- initiate clinical trials evaluating VP-103 for the treatment of plantar warts, and LTX-315 for the treatment of dermatological oncology indications;
- pursue regulatory approvals for VP-102 for the treatment of molluscum, and eventually for the treatment of common warts, external genital warts or any other indications we may pursue for VP-102, as well as for VP-103 or LTX-315;
- seek to discover and develop additional product candidates;
- establish a commercialization infrastructure and scale up external manufacturing and distribution capabilities to commercialize any product candidates for which we may obtain regulatory approval, including VP-102, VP-103 and LTX-315;

- seek to in-license or acquire additional product candidates for other dermatological conditions;
- adapt our regulatory compliance efforts to incorporate requirements applicable to marketed products;
- maintain, expand and protect our intellectual property portfolio;
- hire additional clinical, manufacturing and scientific personnel;
- add operational, financial and management information systems and personnel, including personnel to support our product development and planned future commercialization efforts; and
- incur additional legal, accounting and other expenses in operating as a public company

Critical Accounting Policies and Significant Judgments and Estimates

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

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

Components of Results of Operations

License Revenue

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

Operating Expenses

Research and Development Expenses

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

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

Research and development activities are central to our business model. Product candidates in later stages of clinical development generally have higher development costs than those in earlier stages of clinical development, primarily due to the increased size and duration of later-stage clinical trials. We expect our research and development expenses to increase over the next several years as we increase personnel costs, including stock-based compensation, initiate and conduct clinical trials of VP-102 in patients with common warts, VP-102 in patients with external genital warts, VP-103 in patients with plantar warts, LTX-315 for dermatological oncology indications, and conduct other clinical trials and prepare regulatory filings for our product candidates.

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

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

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

General and Administrative Expenses

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

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

Results of Operations for the three months ended June 30, 2021 and 2020

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

	For the Three Months Ended June 30,		
	2021	2020	Change
Operating expenses:			
Research and development	$ 3,447	$ 3,521	$ (74)
General and administrative	7,284	5,110	2,174
Total operating expenses	10,731	8,631	2,100
Loss from operations	(10,731)	(8,631)	(2,100)
Other income (expense):			
Interest income	33	126	(93)
Interest expense	(1,077)	(904)	(173)
Total other expense	(1,044)	(778)	(266)
Net loss	**$ (11,775)**	**$ (9,409)**	**$ (2,366)**

Research and Development Expenses

Research and development expenses were $3.4 million for the three months ended June 30, 2021, compared to $3.5 million for the three months ended June 30, 2020. The decrease of $0.1 million was primarily attributable to decreased clinical costs related to our development of VP-102 for external genital warts and common warts, partially offset by increased compensation costs.

General and Administrative Expenses

General and administrative expenses were $7.3 million for the three months ended June 30, 2021, compared to $5.1 million for the three months ended June 30, 2020. The increase of $2.2 million was primarily a result of expenses related to increased headcount, an increase in insurance, professional fees and other operating costs, and an increase in expenses related to pre-commercial activities for VP-102.

Interest Income

Interest income for the periods presented consisted primarily of interest earned on our cash, cash equivalents and marketable securities. The decrease of $0.1 million was primarily a result of lower interest income due to lower interest rates.

Interest Expense

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

Results of Operations for the Six Months Ended June 30, 2021 and 2020

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

	For the Six Months Ended June 30,		
	2021	2020	Change
License revenue	$ 12,000	$ —	$ 12,000
Operating expenses:			
Research and development	8,809	8,413	396
General and administrative	13,861	10,098	3,763
Total operating expenses	22,670	18,511	4,159
Loss from operations	(10,670)	(18,511)	7,841
Other income (expense):			
Interest income	65	404	(339)
Interest expense	(2,106)	(1,124)	(982)
Total other expense	(2,041)	(720)	(1,321)
Net loss	**$ (12,711)**	**$ (19,231)**	**$ 6,520**

License Revenue

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

Research and Development Expenses

Research and development expenses were $8.8 million for the six months ended June 30, 2021, compared to $8.4 million for the six months ended June 30, 2020. The increase was primarily attributable to a one-time $2.3 million milestone payment made to Lytix upon the achievement of a regulatory milestone for LTX-315, partially offset by decreased CMC and clinical costs related to our development of VP-102 for molluscum, external genital warts and common warts.

General and Administrative Expenses

General and administrative expenses were $13.9 million for the six months ended June 30, 2021, compared to $10.1 million for the six months ended June 30, 2020. The increase of $3.8 million was primarily a result of expenses related to increased headcount, an increase in insurance, professional fees and other operating costs, and an increase in expenses related to pre-commercial activities for VP-102.

Interest Income

Interest income for the periods presented consisted primarily of interest earned on our cash, cash equivalents and marketable securities. The decrease of $0.3 million was primarily a result of lower interest income due to lower interest rates.

Interest Expense

Interest expense for the six months ended June 30, 2021 consisted of interest expense on the Mezzanine Loan Agreement as noted in Note 7 to our condensed financial statements.

Liquidity and Capital Resources

Since our inception, we have not generated any revenue from product sales and have incurred net losses and negative cash flows from our operations. We have financed our operations since inception through sales of our convertible preferred stock and the sale of our common stock in our IPO, as well as in a subsequent offering of our common stock noted below, receiving aggregate net proceeds

of $114.9 million from our IPO, $40.0 million of gross proceeds from the Mezzanine Loan Agreement noted below and $28.1 million of net proceeds from our public offering of common stock in March 2021.

As of June 30, 2021, we had cash, cash equivalents and marketable securities of $90.1 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 25, 2021, we closed a follow-on public offering in which we sold 2,033,899 shares of common stock at a public offering price of $14.75 per share, resulting in net proceeds of $28.1 million after deducting underwriting discounts and commissions and offering expenses.

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

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

Under the terms of the Mezzanine Loan Agreement, as amended, we may, at our sole discretion, borrow from the Mezzanine Lenders up to an additional $10.0 million in term loans, or the Term B2 Loan. The Term B2 Loan will be available for draw if we receive approval from the FDA for VP-102 prior to September 30, 2021 and maintain compliance with the minimum liquidity covenant until the earlier of September 30, 2021 or the occurrence of an event of default.

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

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

All of the Loans mature on March 1, 2024, or the Maturity Date. The Term Loans will be interest-only through March 31, 2022, followed by 24 equal monthly payments of principal and interest; provided that if we draw the Term B2 Loan, the Term Loans will be interest-only through September 30, 2022, followed by 18 equal monthly payments of principal and interest. The Term Loans will bear interest at a floating per annum rate equal to the greater of (i) 7.25% and (ii) the sum of (a) the prime rate reported in The Wall Street Journal on the last business day of the month that immediately precedes the month in which the interest will accrue, plus (b) 2.50%. The Revolving Loans will bear interest at a floating per annum rate equal to the greater of (i) 6.00% and (ii) the sum of (a) the prime rate reported in The Wall Street Journal on the last business day of the month that immediately precedes the month in which the interest will accrue, plus (b) 1.25%.

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

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

Under the Loan Agreements, as amended, we are subject to a number of affirmative and restrictive covenants, including covenants regarding maintaining a specified minimum liquidity ratio, delivery of financial statements, maintenance of inventory, payment of taxes, maintenance of insurance, protection of intellectual property rights, dispositions of property, business combinations

or acquisitions, incurrence of additional indebtedness or liens, investments and transactions with affiliates, and, beginning as of March 31, 2022, achieving minimum levels of trailing six-month net product revenues, among other customary covenants. As of June 30, 2021, we were in compliance with all covenants.

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

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

Cash Flows

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

	For the Six Months Ended June 30,	
	2021	2020
Net cash used in operating activities	$ (8,286)	$ (16,500)
Net cash (used in) provided by investing activities	(11,300)	21,404
Net cash provided by financing activities	33,606	34,787
Net increase in cash and cash equivalents	$ 14,020	$ 39,691

Operating Activities

During the six months ended June 30, 2021, operating activities used $8.3 million of cash, primarily resulting from a net loss of $12.7 million partially offset by non-cash stock-based compensation of $3.2 million and non-cash interest expense of $0.7 million. Net cash provided by changes in operating assets and liabilities consisted primarily of an increase in accounts payable and accrued expenses of $0.7 million, partially offset by a decrease in deferred revenue of $0.5 million.

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

Investing Activities

During the six months ended June 30, 2021, net cash used by investing activities of $11.3 million was primarily due to purchases of marketable securities of $46.2 million partially offset by sales and maturities of marketable securities of $35.6 million.

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

Financing Activities

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

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

Funding Requirements

We expect our expenses to increase in connection with our ongoing activities, particularly as we continue the research and development of, continue or initiate clinical trials of, and seek marketing approval for, our product candidates. In addition, if we

obtain marketing approval for any of our product candidates, we expect to incur significant commercialization expenses related to sales, marketing, manufacturing and distribution. Furthermore, we expect to incur additional costs associated with operating as a public company. Accordingly, we may need to obtain additional funding in connection with our continuing operations. If we are unable to raise capital when needed or on attractive terms, we would be forced to delay, reduce or eliminate our research and development programs or future commercialization efforts.

We believe that our existing cash, cash equivalents, and marketable securities as of June 30, 2021 will be sufficient to support our planned operations at least into the first quarter of 2023. Our future capital requirements will depend on many factors, including:

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

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

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

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

Off-Balance Sheet Arrangements

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

Contractual Obligations and Commitments

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

JOBS Act Transition Period

In April 2012, the Jumpstart Our Business Startups Act of 2012, or the JOBS Act, was enacted. Section 107 of the JOBS Act provides that an "emerging growth company" can take advantage of the extended transition period provided in Section 7(a)(2)(B) of

the Securities Act for complying with new or revised accounting standards. Thus, an emerging growth company can delay the adoption of certain accounting standards until those standards would otherwise apply to private companies. We have irrevocably elected not to avail ourselves of this extended transition period and, as a result, we will adopt new or revised accounting standards on the relevant dates on which adoption of such standards is required for other public companies.

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

Item 3. Quantitative and Qualitative Disclosures About Market Risks

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

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

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

Disclosure Controls and Procedures

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

Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

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

Changes in Internal Control over Financial Reporting

There have been no changes in our internal control over financial reporting identified in connection with the evaluation required by Rule 13a-15(b) and 15d-15(b) of the Exchange Act that occurred during the quarter ended June 30, 2021, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item. 1 Legal Proceedings

From time to time, we may be subject to litigation and claims arising in the ordinary course of business. We are not currently a party to any material legal proceedings and we are not aware of any pending or threatened legal proceeding against us that we believe could have a material adverse effect on our business, operating results, cash flows or financial condition.

Item 1A. Risk Factors

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

Risk Factors Summary

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

- **Risks Related to Our Financial Position and Capital Needs**
  - We have incurred significant losses since our inception. We expect to incur losses over the next several years and may never achieve or maintain profitability.
  - We may need substantial additional funding to meet our financial obligations and to pursue our business objectives. If we are unable to raise capital when needed, we could be forced to curtail our planned operations and the pursuit of our growth strategy.
  - We have a limited operating history and no history of commercializing products, which may make it difficult for you to evaluate the success of our business to date and to assess our future viability.
- **Risks Related to the Development of Our Product Candidates**
  - Our lead product candidate, VP-102, is being developed for the treatment of molluscum, common warts and external genital warts, for which we are currently conducting clinical trials. If we are unable to successfully develop, receive regulatory approval for and commercialize VP-102 for the treatment of molluscum, common warts, external genital warts or any other indications, or successfully develop any other product candidates, or experience significant delays in doing so, our business will be harmed.
- **Risks Related to the Commercialization of Our Product Candidates**
  - We face substantial competition, including from compounded cantharidin products that may compete with VP-102 and any other product candidates, which may result in a smaller than expected commercial opportunity and/or others discovering, developing or commercializing products before or more successfully than we do.
  - The success of VP-102 for the treatment of molluscum and common warts will depend significantly on coverage and adequate reimbursement or the willingness of patients to pay for these procedures.
  - The market for VP-102 and any other product candidates may not be as large as we expect.
- **Risks Related to Our Dependence on Third Parties**
  - We currently rely on a third party to supply our raw material used in VP-102, and if we encounter any extended difficulties in procuring, or creating an alternative for, our raw material in VP-102 or any of our other product candidates we may develop, our business operations would be impaired.
  - We have entered into, and may seek additional, collaborations with third parties for the development or commercialization of our product candidates. If those collaborations are not successful, we may not be able to capitalize on the market potential of these product candidates.

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

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

- **Risks Related to Employee Matters and Managing Our Growth**
  - We expect to expand our development and regulatory capabilities and potentially implement sales, marketing and distribution capabilities, and as a result, we may encounter difficulties in managing our growth, which could disrupt our operations.

- **Risks Related to Ownership of Our Common Stock and Our Status as a Public Company**
  - The trading price of the shares of our common stock may be volatile, and purchasers of our common stock could incur substantial losses.

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

(a) Recent Sales of Unregistered Equity Securities

None.

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

Not applicable.

(c) Issuer Purchases of Equity Securities

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

Not applicable.

Item 6. Exhibits

EXHIBIT INDEX

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

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

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

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

Signatures

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

VERRICA PHARMACEUTICALS INC.

August 10, 2021

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

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

VERRICA PHARMACEUTICALS INC.

AMENDED AND RESTATED NON-EMPLOYEE DIRECTOR COMPENSATION POLICY

As adopted by the Board on March 1, 2021

Each member of the Board of Directors (the "***Board***") who is not also serving as an employee of Verrica Pharmaceuticals Inc. (the "***Company***") and is not affiliated with an entity that beneficially owns 5% or more of the Company's outstanding shares (each such member, an "***Eligible Director***") will receive the compensation described in this Amended and Restated Non-Employee Director Compensation Policy for his or her Board service. An Eligible Director may decline all or any portion of his or her compensation by giving notice to the Company prior to the date cash may be paid or equity awards are to be granted, as the case may be. This amended and restated policy is effective as of the date hereof and may be amended at any time in the sole discretion of the Board or the Compensation Committee of the Board.

Annual Cash Compensation

Unless a director elects otherwise, the annual cash compensation amount set forth below is payable in equal quarterly installments, payable in advance during the first 30 days of each quarter in which the service will occur. If an Eligible Director joins the Board or a committee of the Board at a time other than effective as of the first day of a fiscal quarter, each annual retainer set forth below will be pro-rated based on days served in the applicable fiscal year, with the pro-rated amount paid for the first fiscal quarter in which the Eligible Director provides the service (payable not later than 30 days after the Eligible Director commences such service), and regular full quarterly payments thereafter. All annual cash fees are vested upon payment.

1. Annual Board Service Retainer:
    a. All Eligible Directors: $40,000
2. Annual Committee Chair Service Retainer:
    a. Chairman of the Audit Committee: $10,000
    b. Chairman of the Compensation Committee: $10,000
    c. Chairman of the Nominating and Corporate Governance Committee: $10,000
3. Annual Committee Member Service Retainer:
    a. Member of the Audit Committee: $5,000
    b. Member of the Compensation Committee: $5,000
    c. Member of the Nominating and Corporate Governance Committee: $5,000

Equity Compensation

The equity compensation set forth below will be granted under the Company's 2018 Equity Incentive Plan (the "***Plan***"), subject to the approval of the Plan by the Company's stockholders.

All stock options granted under this policy will be nonstatutory stock options, with an exercise price per share equal to 100% of the Fair Market Value (as defined in the Plan) of the underlying common stock on the date of grant, and a term of ten years from the date of grant (subject to earlier termination in connection with a termination of service as provided in the Plan, provided that upon a termination of service other than for death, disability or cause, the post-termination exercise period will be 12 months from the date of termination).

1. Initial Grant: For each Eligible Director who is first elected or appointed to the Board, on the date of such Eligible Director's initial election or appointment to the Board (or, if such date is not a market trading day, the first market trading day thereafter), the Eligible Director will be automatically, and without further action by the Board or Compensation Committee of the Board, granted a stock option for 17,502 shares (the "***Initial Grant***"). The shares subject to each Initial Grant will vest over a period of three years as follows: (i) one-third of the total shares subject to the option shall vest on the first anniversary of the date of grant and (ii) 1/36th of total shares subject to the option shall vest monthly thereafter over the remaining two years of the vesting period, subject to the Eligible Director's Continuous Service (as defined in the Plan) through such vesting date and will vest in full upon a Change in Control (as defined in the Plan).

2. Annual Grant: On the date of each annual stockholders meeting of the Company, each Eligible Director who continues to serve as a non-employee member of the Board following such stockholders meeting will be automatically, and without further action by the Board or Compensation Committee of the Board, granted a stock option for 8,109 shares (the "***Annual Grant***"). The shares subject to each Annual Grant will vest in equal monthly installments over the 12 months following the date of grant, provided that the Annual Grant will in any case be fully vested on the date of the Company's next annual stockholder meeting, subject to the Eligible Director's Continuous Service (as defined in the Plan) through such vesting date and will vest in full upon a Change in Control (as defined in the Plan).

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, 2021 of Verrica Pharmaceuticals Inc. (the "registrant");

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

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

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

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

Date: August 10, 2021

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

Exhibit 31.2

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

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

1. I have reviewed this Quarterly Report on Form 10-Q for the period ended June 30, 2021 of Verrica Pharmaceuticals Inc. (the "registrant");

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

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

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

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

Date: August 10, 2021

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

Exhibit 32.1

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

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

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

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

IN WITNESS WHEREOF , the undersigned have set their hands hereto as of the 10th day of August, 2021.

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

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