

**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, 2022**

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
(State or other jurisdiction of
incorporation or organization)
44 West Gay Street, Suite 400
West Chester, PA
(Address of principal executive offices)

46-3137900
(I.R.S. Employer
Identification No.)

19380
(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 | <input type="checkbox"/> | Accelerated filer | <input type="checkbox"/> |
| Non-accelerated filer | <input checked="" type="checkbox"/> | Smaller reporting company | <input checked="" type="checkbox"/> |
| Emerging growth company | <input checked="" type="checkbox"/> | | |

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 5 2022, the registrant had 41,094,053 shares of common stock, \$0.0001 par value per share, outstanding.

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

Item 1. Unaudited Condensed Financial Statements

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

| | June 30, 2022 | December 31, 2021 |
|--|------------------|----------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 5,430 | \$ 15,752 |
| Marketable securities | 8,968 | 54,602 |
| Restricted cash | 40,000 | — |
| Unbilled receivable | 218 | — |
| Prepaid expenses and other assets | 2,725 | 3,974 |
| Total current assets | 57,341 | 74,328 |
| Property and equipment, net | 4,044 | 3,894 |
| Operating lease right-of-use asset | 1,582 | 1,608 |
| Other non-current assets | 469 | 295 |
| Total assets | \$ 63,436 | \$ 80,125 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accounts payable | \$ 714 | \$ 845 |
| Accrued expenses and other current liabilities | 2,414 | 3,266 |
| Operating lease liability | 283 | 245 |
| Financing lease liability | 7 | 6 |
| Debt, net | 42,293 | 41,693 |
| Total current liabilities | 45,711 | 46,055 |
| Operating lease liability | 1,379 | 1,449 |
| Financing lease liability | 13 | 16 |
| Total liabilities | 47,103 | 47,520 |
| Commitments and Contingencies (Note 10) | | |
| Stockholders' equity: | | |
| Preferred stock, \$0.0001 par value; 10,000,000 shares authorized; no shares issued and outstanding as of June 30, 2022 and December 31, 2021 | — | — |
| Common stock, \$0.0001 par value; 200,000,000 authorized; 27,624,197 shares issued and 27,519,053 shares outstanding as of June 30, 2022 and December 31, 2021 | 3 | 3 |
| Treasury stock, at cost, 105,144 shares as of June 30, 2022 and December 31, 2021 | — | — |
| Additional paid-in capital | 173,998 | 171,597 |
| Accumulated deficit | (157,604) | (138,966) |
| Accumulated other comprehensive loss | (64) | (29) |
| Total stockholders' equity | 16,333 | 32,605 |
| Total liabilities and stockholders' equity | \$ 63,436 | \$ 80,125 |

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)

| | <u>For the Three Months Ended June 30,</u> | | <u>For the Six Months Ended June 30,</u> | |
|---|--|--------------------|--|--------------------|
| | <u>2022</u> | <u>2021</u> | <u>2022</u> | <u>2021</u> |
| License revenue | \$ 214 | \$ — | \$ 645 | \$ 12,000 |
| Operating expenses: | | | | |
| Research and development | 4,162 | 3,447 | 6,885 | 8,809 |
| General and administrative | 5,173 | 7,284 | 10,291 | 13,861 |
| Total operating expenses | <u>9,335</u> | <u>10,731</u> | <u>17,176</u> | <u>22,670</u> |
| Loss from operations | <u>(9,121)</u> | <u>(10,731)</u> | <u>(16,531)</u> | <u>(10,670)</u> |
| Other income (expense): | | | | |
| Interest income | 20 | 33 | 42 | 65 |
| Interest expense | (1,066) | (1,077) | (2,094) | (2,106) |
| Other expense | (1) | — | (55) | — |
| Total other expense | <u>(1,047)</u> | <u>(1,044)</u> | <u>(2,107)</u> | <u>(2,041)</u> |
| Net loss | <u>\$ (10,168)</u> | <u>\$ (11,775)</u> | <u>\$ (18,638)</u> | <u>\$ (12,711)</u> |
| Net loss per share, basic and diluted | <u>\$ (0.37)</u> | <u>\$ (0.43)</u> | <u>\$ (0.68)</u> | <u>\$ (0.46)</u> |
| Weighted average common shares outstanding, basic and diluted | <u>27,519,053</u> | <u>27,513,665</u> | <u>27,519,053</u> | <u>27,697,985</u> |
| Net loss | \$ (10,168) | \$ (11,775) | \$ (18,638) | \$ (12,711) |
| Other comprehensive gain: | | | | |
| Unrealized loss on marketable securities | (2) | (4) | (35) | (2) |
| Comprehensive loss | <u>\$ (10,170)</u> | <u>\$ (11,779)</u> | <u>\$ (18,673)</u> | <u>\$ (12,713)</u> |

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 Paid-in Capital | Subscription Receivable | Accumulated Deficit | Treasury Stock | | Accumulated Other Comprehensive Gain (Loss) | Total Stockholders' Equity |
|---|------------------|--------|-------------------------------|----------------------------|------------------------|----------------|------|--|----------------------------------|
| | Shares Issued | Amount | | | | Shares | Cost | | |
| January 1, 2022 | 27,624,197 | \$ 3 | \$ 171,597 | \$ — | \$ (138,966) | 105,144 | \$ — | \$ (29) | \$ 32,605 |
| Stock-based compensation | — | — | 1,316 | — | — | — | — | — | 1,316 |
| Net loss | — | — | — | — | (8,470) | — | — | — | (8,470) |
| Unrealized loss on marketable securities | — | — | — | — | — | — | — | (33) | (33) |
| March 31, 2022 | 27,624,197 | \$ 3 | \$ 172,913 | \$ — | \$ (147,436) | 105,144 | \$ — | \$ (62) | \$ 25,418 |
| Stock-based compensation | — | — | 1,085 | — | — | — | — | — | 1,085 |
| Net loss | — | — | — | — | (10,168) | — | — | — | (10,168) |
| Unrealized loss on marketable securities | — | — | — | — | — | — | — | (2) | (2) |
| June 30, 2022 | 27,624,197 | \$ 3 | \$ 173,998 | \$ — | \$ (157,604) | 105,144 | \$ — | \$ (64) | \$ 16,333 |
| 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 gain 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 loss on marketable securities | — | — | — | — | — | — | — | (4) | (4) |
| June 30, 2021 | 27,619,864 | \$ 3 | \$ 168,751 | \$ — | \$ (116,597) | 105,144 | \$ — | \$ (1) | \$ 52,156 |

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, | |
|---|-----------------------------------|------------------|
| | 2022 | 2021 |
| Cash flows from operating activities | | |
| Net loss | \$ (18,638) | \$ (12,711) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Stock-based compensation | 2,401 | 3,251 |
| Amortization of premiums (discounts) on marketable securities | 76 | (25) |
| Depreciation expense | 196 | 48 |
| Non cash interest expense | 626 | 729 |
| Reduction in operating lease right-of-use asset | 125 | 113 |
| Changes in operating assets and liabilities: | | |
| Prepaid expenses and other assets | 1,048 | 218 |
| Accounts payable | (131) | 435 |
| Unbilled receivable | (218) | — |
| Accrued expenses and other current liabilities | (880) | 239 |
| Deferred revenue | — | (500) |
| Operating lease liability | (126) | (83) |
| Net cash used in operating activities | <u>(15,521)</u> | <u>(8,286)</u> |
| Cash flows from investing activities | | |
| Sales and maturities of marketable securities | 50,000 | 35,600 |
| Purchases of marketable securities | (4,477) | (46,216) |
| Purchases of property and equipment | (159) | (607) |
| Deposits | (146) | (77) |
| Net cash provided by (used in) investing activities | <u>45,218</u> | <u>(11,300)</u> |
| Cash flows from financing activities | | |
| Proceeds from exercise of stock options | — | 513 |
| Proceeds from issuance of common stock, net of issuance costs | — | 28,119 |
| Proceeds from issuance of debt, net of issuance costs | — | 4,975 |
| Debt issuance costs | (17) | — |
| Repayment of financing lease | (2) | (1) |
| Net cash (used in) provided by financing activities | <u>(19)</u> | <u>33,606</u> |
| Net increase in cash, cash equivalents and restricted cash | <u>29,678</u> | <u>14,020</u> |
| Cash, cash equivalents and restricted cash at the beginning of the period | 15,752 | 10,686 |
| Cash, cash equivalents and restricted cash at the end of the period | <u>\$ 45,430</u> | <u>\$ 24,706</u> |
| Supplemental disclosure of noncash investing and financing activities: | | |
| Property and equipment purchases payable or accrued at period end | \$ 291 | \$ 239 |
| Change in unrealized gain on marketable securities | \$ (35) | \$ (2) |
| Cash paid for interest | \$ 1,468 | \$ 1,376 |
| Right-of-use asset obtained in exchange for lease obligation | \$ 99 | \$ — |

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

VERRICA PHARMACEUTICALS INC.
Notes to Condensed Financial Statements
(Unaudited)

Note 1—Nature of Business

Verrica Pharmaceuticals Inc. (the “Company”) was formed on July 3, 2013 and is incorporated in the State of Delaware. The Company is a dermatology therapeutics company committed to the development and commercialization of novel treatments that provide meaningful benefit for people living with skin diseases.

Liquidity

The Company has incurred substantial operating losses since inception and expects to continue to incur significant operating losses for the foreseeable future and may never become profitable. As of June 30, 2022, the Company had an accumulated deficit of \$157.6 million. On March 17, 2021, the Company entered into the Torii Agreement (see 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. On July 5, 2022, the Company closed a follow-on public offering in which it sold 12,000,000 shares of common stock at a public offering price of \$2.10 per share. On July 8, 2022, the Company sold an additional 1,575,000 shares of common stock, pursuant to the partial exercise of the underwriter’s over-allotment option, resulting in cumulative net proceeds of \$26.8 million after deducting underwriting discounts, commissions and offering expenses (see Note 12).

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. On March 1, 2022, the Company entered into a second amendment to the Mezzanine Loan Agreement (the “Second Mezzanine Loan Amendment”). Pursuant to the Second Mezzanine Loan Amendment the Company is no longer required to maintain a minimum liquidity ratio or achieve minimum levels of trailing six-month net product revenues but will be required to maintain a minimum balance equal to the outstanding amount of the Term Loans under the Existing Mezzanine Credit Facility (as defined in Note 7) in a separate money market account with Silicon Valley Bank (“SVB”). Additionally, the Company entered into a second amendment (the “Second Senior Loan Amendment”) to the Senior Loan Agreement (as defined in Note 7). Pursuant to the Second Senior Loan Amendment, the Company is no longer required to achieve minimum levels of trailing six-month net product revenues. On July 11, 2022 the Company voluntarily repaid in full the debt outstanding under the Mezzanine Loan and Security Agreement (see Note 12).

As of June 30, 2022 the Company had cash, cash equivalents, marketable securities and restricted cash of \$54.4 million. The Company believes its existing cash, cash equivalents and marketable securities as of June 30, 2022 plus proceeds from the July 2022 public offering of \$26.8 million (see Note 12) less the paydown of the debt will be sufficient to support the Company’s planned operations into the third quarter of 2023. Substantial additional financing will be needed by the Company to fund its operations. The Company’s condensed financial statements have been prepared on a going concern basis, which contemplates the realization of assets and satisfaction of liabilities in the normal course of business. The condensed financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or the amounts and classification of liabilities that might result from the outcome of this uncertainty. The Company anticipates incurring additional losses until such time, if ever, that it can obtain marketing approval to sell, and then generate significant sales of VP-102. These factors raise substantial doubt about the Company’s ability to continue as a going concern within one year after the date the financial statements are issued. The Company plans to secure additional capital in the future through equity or debt financings, partnerships, or other sources to carry out the Company’s planned development activities. If the Company is unable to raise capital when needed or on attractive terms, the Company would be forced to delay, reduce or eliminate its research and development programs or future commercialization efforts.

Note 2—Significant Accounting Policies

Basis of Presentation

The accompanying unaudited interim condensed financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America (“GAAP”) as determined by the Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) for interim financial information. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, the unaudited interim condensed financial statements reflect all adjustments, which include only normal recurring adjustments necessary for the fair statement of the balances and results for the periods presented. They may not include all of the information and footnotes required by GAAP for complete financial statements. Therefore, these financial statements should be read in conjunction with the Company’s audited financial statements and notes thereto for the year ended December 31, 2021, filed with the Securities and Exchange

Commission (the “SEC”) on March 2, 2022. 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 COVID-19 pandemic and its impact globally. Management believes the financial results for the year ended December 31, 2021 and the six months ended June 30, 2022, 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.

Significant Accounting Policies

Restricted Cash

Restricted cash at June 30, 2022 includes a cash deposit with SVB as required under the Existing Mezzanine Credit Facility with a minimum balance equal to the outstanding amount of the Term Loans under the Existing Mezzanine Credit Facility.

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, | |
|---|----------------|-----------|
| | 2022 | 2021 |
| Shares issuable upon exercise of stock options | 3,435,645 | 3,762,336 |
| Non-vested shares under restricted stock grants | 425,000 | 475,000 |

Note 3—Investments in Marketable Securities

Investments in marketable securities consisted of the following as of June 30, 2022 and December 31, 2021 (in thousands):

| | June 30, 2022 | | | |
|------------------------------------|-------------------|---------------------------|----------------------------|-----------------|
| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
| U.S. Treasury securities | \$ 5,016 | \$ — | \$ (48) | \$ 4,968 |
| Asset-backed securities | 4,017 | — | (17) | 4,000 |
| Total marketable securities | \$ 9,033 | \$ — | \$ (65) | \$ 8,968 |

| | December 31, 2021 | | | |
|------------------------------------|-------------------|---------------------------|----------------------------|------------------|
| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
| U.S. Treasury securities | \$ 15,272 | \$ — | \$ (15) | \$ 15,257 |
| Commercial paper | 28,980 | — | - | 28,980 |
| Asset-backed securities | 10,379 | — | (14) | 10,365 |
| Total marketable securities | \$ 54,631 | \$ — | \$ (29) | \$ 54,602 |

Unrealized gains and losses on marketable securities are recorded as a separate component of accumulated other comprehensive loss 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 and premium 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, 2022 | | | |
|--------------------------|--|-----------------|-------------|-----------------|
| | Level 1 | Level 2 | Level 3 | Total |
| Assets | | | | |
| U.S. treasury securities | \$ 4,968 | \$ — | \$ — | \$ 4,968 |
| Asset-backed securities | — | 4,000 | — | 4,000 |
| Total assets | \$ 4,968 | \$ 4,000 | \$ — | \$ 8,968 |

| | Fair Value Measurement as of December 31, 2021 | | | |
|--------------------------|--|------------------|-------------|------------------|
| | Level 1 | Level 2 | Level 3 | Total |
| Assets | | | | |
| U.S. treasury securities | \$ 15,257 | \$ — | \$ — | \$ 15,257 |
| Commercial paper | — | 28,980 | — | 28,980 |
| Asset-backed securities | — | 10,365 | — | 10,365 |
| Total assets | \$ 15,257 | \$ 39,345 | \$ — | \$ 54,602 |

Note 4—Property and Equipment

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

| | As of June 30, 2022 | As of December 31, 2021 |
|-----------------------------------|---------------------------|-------------------------------|
| Machinery and equipment | \$ 737 | \$ 737 |
| Office furniture and fixtures | 303 | 303 |
| Office equipment | 301 | 301 |
| Leasehold improvements | 54 | 49 |
| Automobiles | 27 | 27 |
| Construction in process | 3,072 | 2,731 |
| | 4,494 | 4,148 |
| Accumulated depreciation | (450) | (254) |
| Total property and equipment, net | <u>\$ 4,044</u> | <u>\$ 3,894</u> |

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, 2022 | As of December 31, 2021 |
|--|---------------------------|-------------------------------|
| Compensation and related costs | \$ 1,171 | \$ 1,667 |
| Professional fees | 519 | 406 |
| Interest expense | 242 | 250 |
| Construction in process | 167 | 131 |
| Machinery and equipment | 124 | 124 |
| Clinical trials and drug development | 116 | 613 |
| Other accrued expenses and other current liabilities | 75 | 75 |
| Total accrued expenses and other current liabilities | <u>\$ 2,414</u> | <u>\$ 3,266</u> |

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 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.

The Company leases office space in Cranford, New Jersey under an agreement classified as an operating lease, which commenced on May 1, 2022 and expires on April 30, 2025. Base rent over the initial term is approximately \$104,000. During the period ending June 30, 2022, the Company recognized a right-of-use asset of \$99,000 and a lease liability of \$95,000.

The Company leases a vehicle under a financing lease that expires in 2025. The net basis of the vehicle lease of \$19 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, | |
|-------------------------------|-------------------------------------|--------------|-----------------------------------|---------------|
| | 2022 | 2021 | 2022 | 2021 |
| Finance lease cost: | | | | |
| Amortization lease assets | \$ 2 | \$ 1 | \$ 3 | \$ 1 |
| Finance lease costs | — | 1 | — | 1 |
| Total finance lease costs | <u>\$ 2</u> | <u>\$ 2</u> | <u>\$ 3</u> | <u>\$ 2</u> |
| Operating lease: | | | | |
| Operating lease costs | \$ 90 | \$ 84 | \$ 175 | \$ 175 |
| Short-term lease costs | — | 5 | 8 | 10 |
| Total operating lease expense | <u>\$ 90</u> | <u>\$ 89</u> | <u>\$ 183</u> | <u>\$ 185</u> |

Maturities of the Company's operating and finance leases, excluding short-term leases, as of June 30, 2022 are as follows (in thousands):

| | June 30, 2022 | |
|---------------------------|-----------------|--------------|
| | Operating | Finance |
| 2022 (remaining 6 months) | 187 | 4 |
| 2023 | 383 | 7 |
| 2024 | 392 | 8 |
| 2025 | 372 | 2 |
| Thereafter | 613 | — |
| Total lease payments | 1,947 | 21 |
| Less imputed interest | (285) | (1) |
| Lease liability | <u>\$ 1,662</u> | <u>\$ 20</u> |

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

| Other information: | Operating | Finance |
|---------------------------------------|-----------|---------|
| Weighted average remaining lease term | 5.08 | 2.83 |
| 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 SVB, 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" and, together with the Term A Loan, the "Term Loans").

On March 1, 2022, the Company entered into the Second Mezzanine Loan Amendment to its existing mezzanine loan and security agreement (as amended prior to the Amendment, the "Existing Mezzanine Credit Facility") with SVB, as administrative agent and a lender and SVB Innovation Credit Fund VIII, L.P., as a lender. Pursuant to the Second Mezzanine Loan Amendment, the Company is no longer required to maintain a minimum liquidity ratio or achieve minimum levels of trailing six-month net product revenues. Under the terms of the Second Mezzanine Loan Amendment, the Company will be required to maintain a minimum cash balance equal to the outstanding amount of the term loans under the Existing Mezzanine Credit Facility at all times in a separate money market account with SVB. The Company also entered into the Second Senior Loan Amendment (together with the Second Mezzanine Loan Amendment, the "Second Amendments") to its existing loan and security agreement with SVB (as amended prior to

the Amendment, the “Existing Senior Credit Facility” and together with the Existing Mezzanine Credit Facility, the “Existing Credit Facilities”) pursuant to which, the Company is no longer required to achieve minimum levels of trailing six-month net product revenues. Pursuant to the Second Amendments, the Term Loans were interest-only through February 28, 2023, followed by 12 equal monthly payments of principal and interest.

On July 11, 2022 the Company voluntarily repaid in full the debt outstanding under the Loan Agreements (see Note 12). The Company has classified all outstanding principal and final payment fees as a current liability in the accompanying balance sheet as of June 30, 2022.

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

The following table summarizes the composition of debt as reflected on the balance sheet as of June 30, 2022 (in thousands):

| | | |
|--|----|---------------|
| Gross proceeds | \$ | 40,000 |
| Accrued final payment fee | | 3,750 |
| Unamortized debt discount and issuance costs | | (1,457) |
| Total short-term debt, net | \$ | <u>42,293</u> |

The aggregate maturities of debt as of June 30, 2022, are as follows (in thousands):

| | | |
|----------|----|---------------|
| 2023 | \$ | 33,333 |
| 2024 (1) | | 6,667 |
| | \$ | <u>40,000</u> |

(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, 2022 and 2021 as follows (in thousands):

| | For the Three Months Ended June 30, | | For the Six Months Ended June 30, | |
|--------------------------------|-------------------------------------|-----------------|-----------------------------------|-----------------|
| | 2022 | 2021 | 2022 | 2021 |
| Research and development | \$ 340 | \$ 425 | \$ 757 | \$ 723 |
| General and administrative | 745 | 1,423 | 1,644 | 2,528 |
| Total stock-based compensation | <u>\$ 1,085</u> | <u>\$ 1,848</u> | <u>\$ 2,401</u> | <u>\$ 3,251</u> |

Stock Options

The following table summarizes the Company’s stock option activity for the six months ended June 30, 2022:

| | Number of shares | Weighted average exercise price | Weighted average remaining contractual life (in years) | Aggregate intrinsic value |
|--|------------------|---------------------------------|--|---------------------------|
| Outstanding as of December 31, 2021 | 3,443,817 | \$ 10.05 | 7.8 | \$ 3,952,803 |
| Granted | 433,536 | 7.49 | | |
| Exercised | — | | | |
| Forfeitures | (406,622) | 10.36 | | |
| Expired | (35,086) | 13.75 | | |
| Outstanding as of June 30, 2022 | <u>3,435,645</u> | \$ 9.66 | 7.1 | \$ 60,501 |
| Options vested and exercisable as of June 30, 2022 | <u>2,126,509</u> | \$ 9.10 | 6.2 | \$ 60,501 |

As of June 30, 2022, the total unrecognized compensation related to unvested stock option awards granted was \$9.2 million, which the Company expects to recognize over a weighted-average period of 2.59 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, 2022, 425,000 restricted stock units were outstanding. The restricted stock units vest 50% upon receipt of regulatory approval of the Company's new drug application for VP-102 for the treatment of molluscum (the "Approval Date") and 50% shall vest on the one year anniversary of the Approval Date subject to the holders' continuous service through each applicable date.

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

| | Number of Shares | Weighted Average Grant Date Fair Value |
|-----------------------------------|------------------|--|
| Nonvested as of December 31, 2021 | 425,000 | \$ 11.68 |
| Granted | — | — |
| Forfeitures | — | — |
| Nonvested as of June 30, 2022 | <u>425,000</u> | <u>\$ 11.68</u> |

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, 2022. As of June 30, 2022, the total unrecognized compensation expense related to the restricted stock units was \$5.0 million.

Note 9—Related Party Transactions

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

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

For the three months ended June 30, 2022 and 2021, the Company recognized expenses under the SA of \$10,000 and \$15,000 respectively, of which \$6,000 and \$9,000, respectively, were included in general and administrative expenses and \$4,000 and \$6,000, respectively, were included in research and development expenses. For the six months ended June 30, 2022 and 2021, the Company recognized expenses under the SA of \$25,000 and \$30,000, respectively, of which \$15,000 and \$18,000, respectively, were included in general and administrative expenses and \$10,000 and \$12,000, respectively, were included in research and development.

As of June 30, 2022, the Company had a \$5,000 outstanding payable due to PBM and its affiliates.

Note 10—Commitments and Contingencies

On June 6, 2022, plaintiff Kranthi Gorlamari, or Gorlamari, filed a putative class action complaint captioned Gorlamari v. Verrica Pharmaceuticals, Inc., et al., in the U.S. District Court for the Eastern District of Pennsylvania against the Company and certain of its executive officers ("Defendants"). The complaint alleges that Defendants violated federal securities laws by, among other things, failing to disclose certain manufacturing deficiencies at the facility where the Company's contract manufacturer produced bulk solution for the VP-102 drug device and that such deficiencies posed a risk to the prospects for regulatory approval of VP-102 for molluscum. The complaint seeks unspecified compensatory damages on behalf of Gorlamari and all other persons and entities which purchased or otherwise acquired our securities between May 28, 2021 and May 24, 2022. The litigation is still in the very early stages, and the Company intends to vigorously defend itself against these allegations.

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

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.

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

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

Note 12 – Subsequent Event

On July 5, 2022, the Company closed a follow-on public offering in which it sold 12,000,000 shares of common stock at a public offering price of \$2.10 per share. On July 8, 2022, the Company sold an additional 1,575,000 shares of common stock,

pursuant to the partial exercise of the underwriter's over-allotment option at \$2.10 per share less underwriting fee, resulting in cumulative net proceeds of \$26.8 million after deducting underwriting discounts, commissions and offering expenses.

On July 11, 2022, the Company voluntarily repaid in full the debt outstanding under the Loan Agreements. The Company's prepayment amount was approximately \$43.9 million, inclusive of principal amount of debt, the final payment fee, and accrued interest, and satisfied all of the Company's outstanding debt obligations under the Loan Agreements. The Company did not incur any prepayment penalties in connection with the repayment of the amounts payable under the Loan Agreements, which had a scheduled maturity of March 1, 2024. The prepayment was made in full using restricted cash of \$40.0 million, which was set aside as cash collateral in a March 2022 amendment to the Mezzanine Loan Agreement, as well as cash on hand.

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, 2020 and 2021 included in our Annual Report on Form 10-K for the year ended December 31, 2021, filed with the Securities and Exchange Commission (the “SEC”) on March 2, 2022. Our financial statements have been prepared in accordance with U.S. GAAP.

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

Forward-Looking Statements

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

Overview

We are a dermatology therapeutics company committed to the development and commercialization of novel treatments that provide meaningful benefit for people living with skin diseases. Our lead product candidate, VP-102, is a proprietary drug-device combination of our topical solution of cantharidin, a widely recognized, naturally sourced agent to treat topical dermatological conditions, administered through our single-use precision applicator. We are initially developing VP-102 for the treatment of molluscum contagiosum, or molluscum, a highly contagious and primarily pediatric viral skin disease, external genital warts 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. 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 also believe VP-102 has the potential to qualify for pediatric exclusivity in common warts, which would provide for an additional six months of non-patent exclusivity. In addition, our granted patents and pending patent applications include claims drawn to our cantharidin formulations, applicator devices and related accessories, dosing regimens, methods of preparation including methods of synthesis and methods of use.

In 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. 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. On May 28, 2021, the FDA extended the PDUFA date to September 23, 2021 to allow additional time to review information submitted by Verrica in response to comments from the agency regarding the Company’s human factors study.

On September 17, 2021, the FDA issued a CRL regarding our NDA for VP-102. According to the CRL, the FDA identified deficiencies at a facility of Sterling Pharmaceutical Services, LLC, a contract manufacturing organization, or CMO, which are not specifically related to the manufacturing of VP-102 but instead raise general quality issues at the facility. The FDA did not identify any clinical, safety or product specific Chemistry, Manufacturing, and Controls, or CMC, deficiencies related to VP-102. Following the CRL, on September 22, 2021 we received a General Advice Letter from the FDA with recommendations to improve VP-102’s user interface. On November 5, 2021, we were notified that the inspection of the CMO has been classified as “voluntary action indicated”, or VAI, is now closed and that the VAI classification will not directly negatively impact FDA’s assessment of our NDA regarding this CMO. With the satisfactory resolution of the facility inspection, we resubmitted the NDA for the approval of VP-102 for the treatment of molluscum on November 29, 2021. The resubmission was limited to those sections and elements of the NDA that were identified as deficiencies in the CRL issued by the FDA in September 2021. On December 15, 2021 the FDA accepted our NDA resubmission for VP-102 and assigned a new PDUFA goal date of May 24, 2022.

On May 24, 2022, we announced that we received a CRL regarding our NDA for VP-102 from the FDA. The only deficiency listed in the CRL was related to the deficiencies identified at a general reinspection at a facility of a CMO that manufactures VP-102.

The manufacturer received notice from the FDA on May 19, 2022 that as a result of the inspection, it is on "official action indicated", or OAI, status. This classification resulted from a week-long reinspection of the CMO conducted by the FDA in February 2022 but none of the issues identified by the FDA during the reinspection were specific to the manufacture of VP-102. We were also informed by the FDA that it had completed its review of our NDA and product label, there were no open questions on the NDA review, and the VP-102 label was ready to be communicated. On June 27, 2022 we held a Type A meeting with the FDA regarding the path forward for the resubmission and potential approval of the NDA for VP-102. We expect to re-submit the NDA in the first quarter of 2023.

In addition, we are also developing VP-102 for the treatment of external genital warts. We initiated a Phase 2 clinical trial evaluating the optimal dose regimen, efficacy, safety and tolerability of VP-102 in patients with external genital warts in June 2019. In November 2020, we announced positive topline results from our Phase 2 clinical trial of VP-102 for the treatment of external genital warts. Based on the results of the Phase 2 trial, we intend to initiate a Phase 3 trial of VP-102 for the treatment of external genital warts and to dose the first patient in the first half of 2024.

In addition, we are conducting necessary drug development activities for VP-103, our second cantharidin-based product candidate, and are evaluating when to initiate a Phase 2 clinical trial for the treatment of plantar warts. We also intend to develop our third product candidate, LTX-315, for the treatment of dermatological oncology indications. We submitted an Investigational New Drug Application, or IND, for LTX-315 in October 2021. The FDA accepted our IND in November 2021. We dosed the first patient in a Phase 2 trial of LTX-315 in Basal Cell Carcinoma, or BCC, in April 2022.

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 that would be designed to further evaluate the treatment indication, application time, or regimen and long term sustainability.

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. We recognized license revenue of \$0.2 and \$0.6 million for the three and six months ended June 30, 2022 respectively related to supplies and development activity pursuant to this agreement.

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

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

We have been actively monitoring the 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 May 31, 2022, we approved a plan to reduce our workforce by terminating 20 employees to streamline operations and reduce costs, or the Restructuring. The Restructuring was completed on June 3, 2022. The decision followed our announcement on May 24, 2022 of the receipt of the CRL for our new drug application for VP-102. As a result, we incurred a one-time charge totaling approximately \$0.5 million in connection with one-time employee termination costs. The three month period ending June 30, 2022 reflected \$0.1 million in general and administrative expenses and \$0.4 million in research and development expenses for the restructuring costs. This charge was substantially paid out by June 30, 2022 with the remainder to be paid through August 31, 2022.

On July 5, 2022, we closed a follow-on public offering in which we sold 12,000,000 shares of common stock at a public offering price of \$2.10 per share. On July 8, 2022 we sold an additional 1,575,000 shares of common stock, pursuant to the partial exercise of the underwriter's over-allotment option, resulting in total net proceeds of \$26.8 million after deducting underwriting discounts, commissions and offering expenses. We believe our existing cash, cash equivalents and marketable securities as of June 30, 2022 plus proceeds from the July 2022 public offering of \$26.8 million and the paydown of the debt will be sufficient to support our planned operations into the third quarter of 2023.

Since inception, we have incurred significant operating losses. For the six months ended June 30, 2022 and 2021, our net loss was \$18.6 million and \$12.7 million, respectively. As of June 30, 2022, we had an accumulated deficit of \$157.6 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:

- initiate clinical trials evaluating VP-102 for the treatment of external genital warts;
- continue our ongoing clinical programs including evaluating VP-102 for the treatment of common warts and LTX-315 for the treatment of BCC, as well as initiate and complete additional clinical trials, as needed;
- 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 external genital warts, common 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;
- ultimately, establish a commercialization infrastructure and scale up external manufacturing and distribution capabilities to commercialize any product candidates for which we may obtain regulatory approval, including VP-102, 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.

These factors raise substantial doubt about our ability to continue as a going concern within one year after the date the financial statements are issued. We plan to secure additional capital in the future through equity or debt financings, partnerships, or other sources to carry out our planned development activities. If we are unable to raise capital when needed or on attractive terms, we will be forced to delay, reduce or eliminate our research and development programs or future commercialization efforts.

Critical Accounting Estimates

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

A summary of our significant accounting policies are disclosed in our Annual Report on Form 10-K for the fiscal year ended December 31, 2021. 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 we granted Torii an exclusive license to develop and commercialize our product candidates that contain a topical formulation of cantharidin for the treatment of molluscum contagiosum and common warts in Japan including VP-102.

Operating Expenses

Research and Development Expenses

Research and development expenses consist of expenses incurred in connection with the discovery and development of 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 external genital warts, VP-102 in patients with common warts, VP-103 in patients with plantar warts, LTX-315 for dermatological oncology indications, including BCC, 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 decrease in the short-term as a result of the Restructuring. In the long-term, we anticipate that our general and administrative expenses, including payroll and related expenses, will increase 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, 2022 and 2021

The following table summarizes our results of operations for the three months ended June 30, 2022 and 2021 (in thousands):

| | For the Three Months Ended June 30, | | Change |
|--------------------------------|-------------------------------------|--------------------|-----------------|
| | 2022 | 2021 | |
| License revenue | \$ 214 | \$ - | \$ 214 |
| Operating expenses: | | | |
| Research and development | 4,162 | 3,447 | 715 |
| General and administrative | 5,173 | 7,284 | (2,111) |
| Total operating expenses | 9,335 | 10,731 | (1,396) |
| Loss from operations | (9,121) | (10,731) | 1,610 |
| Other income (expense): | | | |
| Interest income | 20 | 33 | (13) |
| Interest expense | (1,066) | (1,077) | 11 |
| Other expense | (1) | — | (1) |
| Total other expense | (1,047) | (1,044) | (3) |
| Net loss | \$ (10,168) | \$ (11,775) | \$ 1,607 |

License Revenue

License revenue was \$0.2 million for the three months ended June 30, 2022 compared to no license revenue for the three months ended June 30, 2021. The increase was related to clinical supplies and development activity provided to Torii pursuant to the Clinical Supply Agreement entered into on March 7, 2022.

Research and Development Expenses

Research and development expenses were \$4.2 million for the three months ended June 30, 2022, compared to \$3.4 million for the three months ended June 30, 2021. The increase of \$0.7 million was primarily attributable to a one-time \$1.0 million milestone payment made to Lytix upon the achievement of a regulatory milestone for LTX-315, partially offset by a reduction of 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 \$5.2 million for the three months ended June 30, 2022, compared to \$7.3 million for the three months ended June 30, 2021. The decrease of \$2.1 million was primarily a result of higher expenses in the prior year related to pre-commercial activities for VP-102.

Interest Income

Interest income was relatively consistent for the three months ended June 30, 2022 and 2021 and consisted primarily of interest earned on our cash, cash equivalents and marketable securities.

Interest Expense

Interest expense was relatively consistent for the three months ended June 30, 2022 and 2021 and consisted of interest expense on the Mezzanine Loan Agreement as noted in Note 7 to our condensed financial statements.

Results of Operations for the Six Months Ended June 30, 2022 and 2021

The following table summarizes our results of operations for the six months ended June 30, 2022 and 2021 (in thousands):

| | For the Six Months Ended June 30, | | Change |
|---------------------------------|-----------------------------------|--------------------|-------------------|
| | 2022 | 2021 | |
| License revenue | \$ 645 | 12,000 | \$ (11,355) |
| Operating expenses: | | | |
| Research and development | 6,885 | 8,809 | (1,924) |
| General and administrative | 10,291 | 13,861 | (3,570) |
| Total operating expenses | 17,176 | 22,670 | (5,494) |
| Loss from operations | (16,531) | (10,670) | (5,861) |
| Other income (expense): | | | |
| Interest income | 42 | 65 | (23) |
| Interest expense | (2,094) | (2,106) | 12 |
| Other expense | (55) | — | (55) |
| Total other expense | (2,107) | (2,041) | (66) |
| Net loss | \$ (18,638) | \$ (12,711) | \$ (5,927) |

License Revenue

License revenue was \$0.6 million for the six months ended June 30, 2022 compared to \$12.0 million for the six months ended June 30, 2021. The current period license revenue was related to clinical supplies and development activity provided to Torii. During the six months ended June 30, 2021 revenue of \$12.0 million was recognized, comprised of \$0.5 received in December 2020, and an \$11.5 million up-front payment paid in April 2021, pursuant to the exercise of the license option on March 17, 2021 per the Torii Agreement.

Research and Development Expenses

Research and development expenses were \$6.9 million for the six months ended June 30, 2022, compared to \$8.8 million for the six months ended June 30, 2021. The decrease of \$1.9 million was primarily attributable to a reduction in payments made to Lytix upon the achievement of a regulatory milestone for LTX-315 from \$2.3 million during the six months ended June 30, 2021 to \$1.0 million during the six months ended June 30, 2022 as well as 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 \$10.3 million for the six months ended June 30, 2022, compared to \$13.9 million for the six months ended June 30, 2021. The decrease of \$3.6 million was primarily a result of a decrease in expenses related to pre-commercial activities for VP-102.

Interest Income

Interest income was relatively consistent for the six months ended June 30, 2022 and 2021 and consisted primarily of interest earned on our cash, cash equivalents and marketable securities.

Interest Expense

Interest expense was relatively consistent for the six months ended June 30, 2022 and 2021 and 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 subsequent offerings of our common stock noted below.

As of June 30, 2022, we had cash, cash equivalents, marketable securities and restricted cash of \$54.4 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 July 5, 2022, we closed a follow-on public offering in which we sold 12,000,000 shares of common stock at a public offering price of \$2.10 per share. On July 8, 2022 we sold an additional 1,575,000 shares of common stock, pursuant to the

partial exercise of the underwriter's over-allotment option resulting in total net proceeds of \$26.8 million after deducting underwriting discounts, commissions and offering expenses.

On March 10, 2020, we entered into (i) a mezzanine loan and security agreement, or the Mezzanine Loan Agreement, with Silicon Valley Bank, as administrative agent and collateral agent, or the Agent, and Silicon Valley Bank and West River Innovation Lending Fund VIII, L.P., as lenders, or the Mezzanine Lenders, pursuant to which the Mezzanine Lenders have agreed to lend us up to \$50.0 million in a series of term loans, and (ii) a loan and security agreement, or the Senior Loan Agreement, and together with the Mezzanine Loan Agreement, the Loan Agreements, with Silicon Valley Bank, as lender, or the Senior Lender, and together with the Mezzanine Lenders, the Lenders, pursuant to which the Senior Lender has agreed to provide us a revolving line of credit of up to \$5.0 million. Upon entering into the Loan Agreements, we borrowed \$35.0 million in term loans, or the Term A Loan, from the Mezzanine Lenders. We entered into amendments to the Loan Agreements in October 2020 under which we borrowed an additional \$5.0 million in term loans, or the Term B1 Loan and together with the Term A Loan, the Loans, on March 1, 2021.

On July 11, 2022, we voluntarily repaid in full the debt outstanding under the Loan Agreements. Our prepayment amount was approximately \$43.9 million, inclusive of principal amount of debt, the final payment fee, and accrued interest, and satisfied all of our outstanding debt obligations under the Loan Agreements. We did not incur any prepayment penalties in connection with the repayment of the amounts payable under the Loan Agreements, which had a scheduled maturity of March 1, 2024. The prepayment was made in full using restricted cash of \$40.0 million, which was set aside as cash collateral in a March 2022 amendment to the Mezzanine Loan Agreement, as well as cash on hand.

Cash Flows

The following table summarizes our cash flows for the six months ended June 30, 2022 and 2021 (in thousands):

| | For the Six Months Ended June 30, | |
|---|--|------------------|
| | 2022 | 2021 |
| Net cash used in operating activities | \$ (15,521) | \$ (8,286) |
| Net cash provided by (used in) investing activities | 45,218 | (11,300) |
| Net cash (used in) provided by financing activities | (19) | 33,606 |
| Net increase in cash and cash equivalents | <u>\$ 29,678</u> | <u>\$ 14,020</u> |

Operating Activities

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

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 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.

Investing Activities

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

During the six months ended June 30, 2021, net cash used in 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.

Financing Activities

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

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.

Funding Requirements

We expect our expenses to increase in connection with our ongoing activities, particularly as we continue the research and development of, continue or initiate clinical trials of, and seek marketing approval for, our product candidates. In addition, if we obtain marketing approval for any of our product candidates, we expect to incur significant commercialization expenses related to sales, marketing, manufacturing and distribution. Furthermore, we expect to incur additional costs associated with operating as a

public company. We will need substantial additional financing to fund our operations. If we are unable to raise capital when needed or on attractive terms, we would be forced to delay, reduce or eliminate our research and development programs or future commercialization efforts.

We believe that our existing cash, cash equivalents, marketable securities and restricted cash as of June 30, 2022 plus proceeds from the July 2022 public offering of \$26.8 million and after the debt payment will be sufficient to support our planned operations into the third 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.

Contractual Obligations and Commitments

As of June 30, 2022, 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, 2021.

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, 2021.

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, 2022.

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, 2022.

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, 2022, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

On June 6, 2022, plaintiff Kranthi Gorlamari, or Gorlamari, filed a putative class action complaint captioned Gorlamari v. Verrica Pharmaceuticals, Inc., et al., in the U.S. District Court for the Eastern District of Pennsylvania against us and certain of our executive officers (“Defendants”). The complaint alleges that Defendants violated federal securities laws by, among other things, failing to disclose certain manufacturing deficiencies at the facility where our contract manufacturer produced bulk solution for the VP-102 drug device and that such deficiencies posed a risk to the prospects for regulatory approval of VP-102 for molluscum. The complaint seeks unspecified compensatory damages on behalf of Gorlamari and all other persons and entities which purchased or otherwise acquired our securities between May 28, 2021 and May 24, 2022. The litigation is still in the very early stages, and we intend to vigorously defend ourselves against these allegations.

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, 2021, filed with the Securities and Exchange Commission on March 2, 2022. Except as described below, there have been no material changes to the risk factors described in that report.

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

In November 2021, we resubmitted an NDA to the FDA for VP-102 for the treatment of molluscum. On May 24, 2022, we announced that we received a CRL from the FDA as a direct result of deficiencies identified by the FDA during a general reinspection of our CMO, Sterling. As a result, the approval of our NDA for VP-102 has been delayed and may never occur.

On June 27, 2022, we held a Type A meeting with the FDA to discuss the resubmission and potential approval of the NDA. We continue to monitor Sterling's progress in satisfying the deficiencies that resulted in its OAI classification which were the basis for the CRL. Concurrently, we are engaging an additional CMO, Piramal Pharma Solutions, to serve as an alternative supplier of VP-102's bulk solution. However, there can be no assurance that the technology transfer to Piramal will be successful. Even if we are able to manufacture VP-102's bulk solution at Piramal, there could be substantial delays and costs associated with the production of validation and stability batches of VP-102.

We cannot predict the outcome of any interactions with the FDA. Nor can we guarantee when, or if, we will be successful in receiving regulatory approval for VP-102. If we do not obtain approval for VP-102 or are delayed in obtaining such approval, it would have a material adverse effect on our operations and financial condition.

Risk Factors Summary

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

- **Risks Related to Our Financial Position and Capital Needs**
 - We have incurred significant losses since our inception. We expect to incur losses over the next several years and may never achieve or maintain profitability.
 - We will need substantial additional 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, external genital warts, and common 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, external genital warts, common 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**
 - In light of our receipt of a CRL from the FDA regarding our NDA for VP-102, the timing for VP-102 approval is uncertain, and we may never obtain regulatory approval in the United States.
 - 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, external genital warts 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**

- o 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 Employee Matters and Managing Our Growth**
 - o 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**
 - o The trading price of the shares of our common stock may be volatile, and purchasers of our common stock could incur substantial losses.

Item 6. Exhibits

EXHIBIT INDEX

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

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

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

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

Signatures

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

August 11, 2022

VERRICA PHARMACEUTICALS INC.

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.
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, 2022 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 11, 2022

/s/ Ted White

Ted White

President and Chief Executive Officer
(principal executive officer)

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, 2022 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 11, 2022

/s/ P. Terence Kohler Jr.

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

**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, 2022, 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 11th day of August, 2022.

/s/ Ted White

 Ted White

President and Chief Executive Officer
 (principal executive officer)

/s/ P. Terence Kohler Jr.

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

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