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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 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 March 31, 2017

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 001-37581

Aclaris Therapeutics, Inc.

(Exact Name of Registrant as Specified in Its Charter)

Delaware	46-0571712
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
101 Lindenwood Drive, Suite 400 Malvern, PA (Address of principal executive offices)	19355 (Zip Code)

Registrant's telephone number, including area code: (484) 324-7933

N/A

(Former name, former address and former fiscal year, if changed since last report)

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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a 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 Securities Exchange Act of 1934:

Large accelerated filer ☐	Accelerated filer ☒
Non-accelerated filer ☐ (Do not check if a smaller reporting company)	Smaller reporting company ☐
	Emerging growth company ☒

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Securities Exchange Act of 1934). Yes ☐ No ☒

The number of outstanding shares of the registrant's common stock, par value $0.00001 per share, as of the close of business on May 8, 2017 was 26,733,493.

ACLARIS THERAPEUTICS, INC.

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Part I. FINANCIAL INFORMATION

Item 1. Financial Statements

ACLARIS THERAPEUTICS, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(UNAUDITED)

(In thousands, except share and per share data)

	March 31, 2017	December 31, 2016
Assets		
Current assets:		
Cash and cash equivalents	$ 23,677	$ 30,171
Marketable securities	129,741	107,051
Prepaid expenses and other current assets	3,931	1,334
Total current assets	157,349	138,556
Marketable securities	8,019	36,912
Property and equipment, net	706	481
Deferred offering costs	116	116
Other assets	20	20
Total assets	$ 166,210	$ 176,085
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 3,604	$ 2,845
Accrued expenses	2,033	3,378
Total current liabilities	5,637	6,223
Other liabilities	284	372
Total liabilities	5,921	6,595
Stockholders' Equity:		
Preferred stock, $0.00001 par value; 10,000,000 shares authorized and no shares issued or outstanding at March 31, 2017 and December 31, 2016	—	—
Common stock, $0.00001 par value; 100,000,000 shares authorized at March 31, 2017 and December 31, 2016; 26,097,118 and 26,059,181 shares issued and outstanding at March 31, 2017 and December 31, 2016, respectively	—	—
Additional paid-in capital	264,009	260,671
Accumulated other comprehensive loss	(249)	(269)
Accumulated deficit	(103,471)	(90,912)
Total stockholders' equity	160,289	169,490
Total liabilities and stockholders' equity	$ 166,210	$ 176,085

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

ACLARIS THERAPEUTICS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS
(UNAUDITED)

(In thousands, except share and per share data)

	Three Months Ended March 31,	
	2017	2016
Revenue	$ —	$ —
Operating expenses:		
Research and development	7,772	9,535
General and administrative	5,158	3,604
Total operating expenses	12,930	13,139
Loss from operations	(12,930)	(13,139)
Other income, net	371	100
Net loss	$ (12,559)	$ (13,039)
Net loss per share, basic and diluted	$ (0.48)	$ (0.65)
Weighted average common shares outstanding, basic and diluted	26,080,806	20,171,518
Other comprehensive loss:		
Unrealized (loss) gain on marketable securities, net of tax of $0	(52)	142
Foreign currency translation adjustments	72	10
Total other comprehensive income	20	152
Comprehensive loss	$ (12,539)	$ (12,887)

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

ACLARIS THERAPEUTICS, INC.
CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
(UNAUDITED)

(In thousands, except share data)

	Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Accumulated Deficit	Total Stockholders' Equity
	Shares	Par Value				
Balance at December 31, 2016	26,059,181	$ —	$ 260,671	$ (269)	$ (90,912)	$ 169,490
Exercise of stock options and vesting of restricted stock units	37,937	—	185	—	—	185
Unrealized loss on marketable securities	—	—	—	(52)	—	(52)
Foreign currency translation adjustment	—	—	—	72	—	72
Stock-based compensation expense	—	—	3,153	—	—	3,153
Net loss	—	—	—	—	(12,559)	(12,559)
Balance at March 31, 2017	26,097,118	$ —	$ 264,009	$ (249)	$ (103,471)	$ 160,289

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

ACLARIS THERAPEUTICS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

(In thousands)

	Three Months Ended March 31,	
	2017	2016
Cash flows from operating activities:		
Net loss	$ (12,559)	$ (13,039)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation expense	50	21
Stock-based compensation expense	3,153	1,222
Non-cash charges related to Vixen acquisition	—	2,784
Changes in operating assets and liabilities:		
Prepaid expenses and other assets	(2,597)	71
Accounts payable	831	2,008
Accrued expenses	(1,537)	39
Net cash used in operating activities	(12,659)	(6,894)
Cash flows from investing activities:		
Purchases of property and equipment	(195)	(40)
Purchases of marketable securities	(17,158)	—
Proceeds from sales and maturities of marketable securities	23,309	10,214
Net cash provided by investing activities	5,956	10,174
Cash flows from financing activities:		
Proceeds from the exercise of employee stock options	209	—
Net cash provided by financing activities	209	—
Net (decrease) increase in cash and cash equivalents	(6,494)	3,280
Cash and cash equivalents at beginning of period	30,171	9,851
Cash and cash equivalents at end of period	$ 23,677	$ 13,131
Supplemental disclosure of non-cash investing and financing activities:		
Additions to property and equipment included in accounts payable	$ 91	$ 40
Fair value of stock issued in connection with Vixen acquisition	$ —	$ 2,355

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

ACLARIS THERAPEUTICS, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in thousands, except share and per share data)

1. Organization and Nature of Business

Aclaris Therapeutics, Inc. was incorporated under the laws of the State of Delaware in 2012. On July 17, 2015, Aclaris Therapeutics International Limited ("ATIL") was established under the laws of the United Kingdom as a wholly-owned subsidiary of Aclaris Therapeutics, Inc. On March 24, 2016, Vixen Pharmaceuticals, Inc. ("Vixen") became a wholly-owned subsidiary of Aclaris Therapeutics, Inc. (see Note 11). Aclaris Therapeutics, Inc., together with ATIL and Vixen, are referred to collectively as the "Company". The Company is a dermatologist-led biotechnology company focused on identifying, developing and commercializing innovative and differentiated therapies to address significant unmet needs in medical and aesthetic dermatology. The Company's lead drug candidate, A-101 40% Topical Solution, is a proprietary high-concentration formulation of hydrogen peroxide topical solution that the Company is developing as a prescription treatment for seborrheic keratosis ("SK"), a common non-malignant skin tumor. The Company has completed three Phase 3 clinical trials of A-101 40% Topical Solution in patients with SK, and in February 2017 submitted a New Drug Application ("NDA") to the U.S. Food and Drug Administration ("FDA"). The NDA was accepted by the FDA in May 2017 and the Prescription Drug User Fee Act ("PDUFA") target action date for the completion of the FDA's review of the NDA is December 24, 2017.

Liquidity

The Company's condensed consolidated financial statements have been prepared on the basis of continuity of operations, realization of assets and the satisfaction of liabilities in the ordinary course of business. At March 31, 2017, the Company had cash, cash equivalents and marketable securities of $161,437 and an accumulated deficit of $103,471. The Company has not generated any product revenues and has not achieved profitable operations. There is no assurance that profitable operations will ever be achieved, and, if achieved, will be sustained on a continuing basis. In addition, development activities, clinical and preclinical testing, and commercialization of the Company's products will require significant additional financing. The future viability of the Company is dependent on its ability to generate cash from operating activities or to raise additional capital to finance its operations. The Company's failure to raise capital as and when needed could have a negative impact on its financial condition and ability to pursue its business strategies.

2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying condensed consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP"). The financial statements include the consolidated accounts of the Company and its wholly-owned subsidiaries, ATIL and Vixen. All intercompany transactions have been eliminated.

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, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of expenses during the reporting periods. Significant estimates and assumptions reflected in these financial statements include, but are not limited to, research and development expenses and the valuation of stock-based awards. Estimates are periodically reviewed in light of changes in circumstances, facts and experience. Actual results could differ from the Company's estimates.

Unaudited Interim Financial Information

The accompanying condensed consolidated balance sheet as of March 31, 2017, the condensed consolidated statements of operations and comprehensive loss for the three months ended March 31, 2017 and 2016, the condensed consolidated statement of stockholders' equity for the three months ended March 31, 2017, and the condensed consolidated statements of cash flows for the three months ended March 31, 2017 and 2016 are unaudited. The unaudited interim condensed consolidated financial statements have been prepared on the same basis as the audited annual financial statements contained in the Company's annual report on Form 10-K filed with the Securities and Exchange Commission ("SEC") on March 15, 2017 and, in the opinion of management, reflect all adjustments, which include only normal recurring adjustments, necessary for the fair statement of the Company's financial position as of March 31, 2017, the results of its operations and comprehensive loss for the three months ended March 31, 2017 and 2016 and its cash flows for the three months ended March 31, 2017 and 2016. The condensed consolidated balance sheet data as of December 31, 2016 was derived from audited financial statements but does not include all disclosures required by GAAP. The financial data and other information disclosed in these notes related to the three months ended March 31, 2017 and 2016 are unaudited. The results for the three months ended March 31, 2017 are not necessarily indicative of results to be expected for the year ending December 31, 2017, any other interim periods, or any future year or period. The unaudited interim financial statements of the Company included herein have been prepared, pursuant to the rules and regulations of the SEC. Certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted from this report, as is permitted by such rules and regulations. These unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and the notes thereto for the year ended December 31, 2016 included in the Company's annual report on Form 10-K filed with the SEC on March 15, 2017.

Significant Accounting Policies

The Company's significant accounting policies are disclosed in the audited consolidated financial statements for the year ended December 31, 2016 included in the Company's annual report on Form 10-K filed with the SEC on March 15, 2017. Since the date of such financial statements, there have been no changes to the Company's significant accounting policies other than noted immediately below.

In February 2017, the Company paid a $2.0 million PDUFA fee to the FDA in conjunction with the filing of its NDA for A-101 40% Topical Solution. The Company has requested a small business waiver of this PDUFA fee from the FDA, and the amount has been recorded in prepaid expenses and other current assets on the Company's condensed consolidated balance sheet.

Recently Issued Accounting Pronouncements

In January 2017, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2017-01, *Business Combinations-Clarifying the Definition of a Business (Topic 805).* The amendments in this ASU provide a screen to determine when a set of acquired assets and/or activities is not a business. The screen requires that when substantially all of the fair value of the gross assets acquired, or disposed of, is concentrated in a single identifiable asset or a group of similar identifiable assets, the set is not a business. The amendments in this ASU will reduce the number of transactions that meet the definition of a business. ASU 2017-01 is effective for annual reporting periods beginning after December 15, 2017, including interim periods within those years, and early adoption will be permitted. The Company is assessing the potential impact of ASU 2017-01 on its consolidated financial statements.

3. Fair Value of Financial Assets and Liabilities

The following tables present information about the Company's assets and liabilities, which are measured at fair value on a recurring basis and indicate the level of the fair value hierarchy utilized to determine such fair values:

	March 31, 2017			
	Level 1	Level 2	Level 3	Total
Assets:				
Cash equivalents	$ 9,740	$ 7,992	$ —	$ 17,732
Marketable securities	—	137,760	—	137,760
Total	$ 9,740	$ 145,752	$ —	$ 155,492

	December 31, 2016			
	Level 1	Level 2	Level 3	Total
Assets:				
Cash equivalents	$ 11,522	$ 12,691	$ —	$ 24,213
Marketable securities	—	143,963	—	143,963
Total	$ 11,522	$ 156,654	$ —	$ 168,176

As of March 31, 2017 and December 31, 2016, the Company's cash equivalents consisted of investments with maturities of less than three months and included a money market fund, which was valued based upon Level 1 inputs, and commercial paper securities, which were valued based upon Level 2 inputs. In determining the fair value of its Level 2 investments the Company relied on quoted prices for identical securities in markets that are not active. These quoted prices were obtained by the Company with the assistance of a third-party pricing service based on available trade, bid and other observable market data for identical securities. On a quarterly basis, the Company compares the quoted prices obtained from the third-party pricing service to other available independent pricing information to validate the reasonableness of those quoted prices. The Company evaluates whether adjustments to third-party pricing is necessary and, historically, the Company has not made adjustments to the quoted prices obtained from the third-party pricing service. During the three months ended March 31, 2017 and the year ended December 31, 2016, there were no transfers between Level 1, Level 2 and Level 3.

As of March 31, 2017 and December 31, 2016, the fair value of the Company's available for sale marketable securities by type of security was as follows:

	March 31, 2017			
	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Fair Value
Marketable securities:				
Corporate debt securities	$ 51,533	$ —	$ (45)	$ 51,488
Commercial paper	16,848	—	—	16,848
Asset-backed securities	25,988	—	(26)	25,962
U.S. government agency debt securities	43,492	—	(30)	43,462
Total marketable securities	$ 137,861	$ —	$ (101)	$ 137,760

	December 31, 2016			
	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Fair Value
Marketable securities:				
Corporate debt securities	$ 51,352	$ —	$ (59)	$ 51,293
Commercial paper	20,463	—	—	20,463
Asset-backed securities	28,692	6	(1)	28,697
U.S. government agency debt securities	43,505	8	(3)	43,510
Total marketable securities	$ 144,012	$ 14	$ (63)	$ 143,963

4. Property and Equipment, Net

Property and equipment, net consisted of the following:

	March 31, 2017	December 31, 2016
Computer equipment	$ 331	$ 310
Manufacturing equipment	402	149
Furniture and fixtures	116	115
Leasehold improvements	33	33
Property and equipment, gross	882	607
Accumulated depreciation	(176)	(126)
Property and equipment, net	$ 706	$ 481

Depreciation expense was $50 and $21 for the three months ended March 31, 2017 and 2016, respectively.

5. Accrued Expenses

Accrued expenses consisted of the following:

	March 31, 2017	December 31, 2016
Research and development expenses	$ 1,250	$ 1,166
Employee compensation expenses	515	1,732
Vixen contract payable	100	100
Professional fees	109	77
Other	59	303
Total accrued expenses	$ 2,033	$ 3,378

6. Stockholders' Equity

Preferred Stock

As of March 31, 2017 and December 31, 2016, the Company's amended and restated certificate of incorporation authorized the Company to issue 10,000,000 shares of undesignated preferred stock. No shares of preferred stock were outstanding as of March 31, 2017 or December 31, 2016.

Common Stock

As of March 31, 2017 and December 31, 2016, the Company's amended and restated certificate of incorporation authorized the Company to issue 100,000,000 shares of $0.00001 par value common stock.

Each share of common stock entitles the holder to one vote on all matters submitted to a vote of the Company's stockholders. Common stockholders are entitled to receive dividends, as may be declared by the board of directors, if any, subject to any preferential dividend rights of any series of preferred stock that may be outstanding. No dividends have been declared through March 31, 2017.

7. Stock-Based Awards

2015 Equity Incentive Plan

On September 15, 2015, the Company's board of directors adopted the 2015 Equity Incentive Plan (the "2015 Plan"), and on September 16, 2015, the Company's stockholders approved the 2015 Plan. The 2015 Plan became effective in connection with the Company's initial public offering in October 2015. Beginning at the time the 2015 Plan became effective, no further grants may be made under the Company's 2012 Equity Compensation Plan, as amended and restated (the "2012 Plan"). The 2015 Plan provides for the grant of incentive stock options, nonstatutory stock options, stock appreciation rights, restricted stock awards, restricted stock unit ("RSU") awards, performance stock awards, cash-based awards and other stock-based awards. The number of shares initially reserved for issuance under the 2015 Plan was 1,643,872 shares of common stock. The number of shares of common stock that may be issued under the 2015 Plan will automatically increase on January 1 of each year, beginning on January 1, 2016 and ending on January 1, 2025, in an amount equal to the lesser of (i) 4.0% of the shares of the Company's common stock outstanding on December 31 of the preceding calendar year or (ii) an amount determined by the Company's board of directors. The shares of common stock underlying any awards that expire, are otherwise terminated, settled in cash or repurchased by the Company under the 2015 Plan and the 2012 Plan will be added back to the shares of common stock available for issuance under the 2015 Plan. As of January 1, 2017, the number of shares of common stock that may be issued under the 2015 Plan was automatically increased by 1,042,367 shares. As of March 31, 2017, 1,662,666 shares remained available for grant under the 2015 Plan.

2012 Equity Compensation Plan

Upon the 2015 Plan becoming effective, no further grants can be made under the 2012 Plan. The Company granted stock options to purchase a total of 1,140,524 shares under the 2012 Plan, of which 1,003,647 and 1,049,667 were outstanding as of March 31, 2017 and December 31, 2016, respectively. Stock options granted under the 2012 Plan vest over four years and expire after ten years. As required, the exercise price for the stock options granted under the 2012 Plan was not less than the fair value of common shares as determined by the Company as of the date of grant.

Stock Option Valuation

The weighted average assumptions the Company used to estimate the fair value of stock options granted during the three months ended March 31, 2017 and 2016 were as follows:

	Three Months Ended March 31,	
	2017	2016
Risk-free interest rate	2.10 %	1.49 %
Expected term (in years)	6.0	7.3
Expected volatility	95.20 %	99.97 %
Expected dividend yield	0 %	0 %

The Company recognizes compensation expense for awards over their vesting period. Compensation expense for awards includes the impact of forfeitures in the period when they occur.

Stock Options

The following table summarizes stock option activity from January 1, 2017 through March 31, 2017:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value
Outstanding as of December 31, 2016	2,702,350	$ 18.94	9.05	$ 24,434
Granted	16,000	27.30		
Exercised	(35,363)	5.92		
Forfeited and cancelled	(26,046)	16.83		
Outstanding as of March 31, 2017	2,656,941	$ 19.19	8.83	$ 28,246
Options vested and expected to vest as of March 31, 2017	2,656,941	$ 19.19	8.83	$ 28,246
Options exercisable as of March 31, 2017	636,268 (1)	$ 11.09	8.20	$ 11,919

(1) All options granted under the 2012 Plan are exercisable immediately, subject to a repurchase right in the Company's favor that lapses as the option vests. This amount reflects the number of shares under options that were vested, as opposed to exercisable, as of March 31, 2017.

The weighted average grant date fair value of stock options granted during the three months ended March 31, 2017 was $21.06 per share.

The intrinsic value of a stock option is calculated as the difference between the exercise price of the stock option and the fair value of the underlying common stock, and cannot be less than zero.

Restricted Stock Units

The following table summarizes RSU activity from January 1, 2017 through March 31, 2017:

	Number of Shares	Weighted Average Grant Date Fair Value Per Share
Outstanding as of December 31, 2016	219,614	$ 27.43
Granted	—	—
Vested	(3,425)	20.28
Forfeited and cancelled	(1,846)	24.40
Outstanding as of March 31, 2017	214,343	$ 27.57

Stock-Based Compensation

The following table summarizes stock-based compensation expense recorded by the Company:

	Three Months Ended March 31,	
	2017	2016
Research and development	$ 1,217	$ 421
General and administrative	1,936	801
Total stock-based compensation expense	$ 3,153	$ 1,222

As of March 31, 2017, the Company had unrecognized stock-based compensation expense for stock options and RSUs of $31,416 and $5,105, respectively, which is expected to be recognized over weighted average periods of 3.26 years and 2.66 years, respectively.

8. Net Loss per Share

Basic and diluted net loss per share is summarized in the following table:

	Three Months Ended March 31,	
	2017	2016
Numerator:		
Net loss	$ (12,559)	$ (13,039)
Denominator:		
Weighted average shares of common stock outstanding	26,080,806	20,171,518
Net loss per share, basic and diluted	$ (0.48)	$ (0.65)

The Company's potentially dilutive securities, which included stock options, RSUs, preferred stock and shares of restricted common stock that were issued but not yet vested, have been excluded from the computation of diluted net loss per share since the effect would be to reduce the net loss per share. Therefore, the weighted average number of common shares outstanding used to calculate both basic and diluted net loss per share is the same. The following table presents potential common shares excluded from the calculation of diluted net loss per share for the three months ended

March 31, 2017 and 2016. All share amounts presented in the table below represent the total number outstanding as of March 31, 2017 and 2016.

	March 31, 2017	March 31, 2016
Stock options to purchase common stock	2,656,941	1,807,024
Restricted stock unit awards	214,343	67,500
Total potential common shares	2,871,284	1,874,524

9. Commitments and Contingencies

Agreements for Office Space

In August 2013, the Company entered into a sublease agreement with a related party (see Note 10), which was subsequently amended and restated in March 2014, for its office space with a term ending on November 30, 2016. The Company further amended the terms of this sublease agreement in December 2014, August 2015, February 2016 and October 2016 to increase the square footage of the space being subleased and/or agree to new sublease terms. The August 2015 amendment extended the term of the lease to November 2019.

In November 2016, the Company entered into a lease agreement with a third-party for additional office space in the same building as its headquarters with a term beginning in February 2017 and ending in November 2019.

Rent expense was $84 and $52 for the three months ended March 31, 2017 and 2016, respectively. The Company recognizes rent expense on a straight-line basis over the term of the lease and has accrued for rent expense incurred but not yet paid.

As of March 31, 2017, future minimum lease payments under these agreements are as follows:

Year Ending December 31,	
2017	$ 266
2018	363
2019	339
2020	—
2021	—
Thereafter	—
Total	$ 968

10. Related Party Transactions

In August 2013, the Company entered into a sublease agreement with NeXeption, Inc. ("NeXeption"), which was subsequently amended and restated in March 2014 and further amended in December 2014. In August 2015, pursuant to an Assignment and Assumption Agreement, NeXeption, Inc. assigned all interests, rights, duties and obligations under the sublease to NST Consulting, LLC, a wholly-owned subsidiary of NST, LLC. Following the Assignment and Assumption Agreement, the sublease was further amended in August 2015, February 2016 and October 2016. Mr. Stephen Tullman, the chairman of the Company's board of directors, was an executive officer of NeXeption and is also the manager of NST Consulting, LLC and NST, LLC. Total payments made under the sublease during the three months ended March 31, 2017 and 2016 were $75 and $59, respectively.

In February 2014, the Company entered into a services agreement with NST, LLC (the "NST Services Agreement"), pursuant to which NST, LLC provided certain pharmaceutical development, management and other administrative services to the Company. Under the same agreement, the Company also provided services to another company under common control with the Company and NST, LLC and was reimbursed by NST, LLC for those services. In addition to Mr. Tullman's role as manager of NST, LLC, several of the Company's executive officers are members of NST, LLC.

The NST Services Agreement was amended in December 2014 pursuant to which NST, LLC assigned all interests, rights, duties and obligations under the NST Services Agreement to NST Consulting, LLC. Under the NST Services Agreement, as amended, NST Consulting, LLC provides services to the Company and the Company provides services to another company under common control with the Company and NST Consulting, LLC. The NST Services Agreement was further amended in August 2015, November 2015, January 2016 and December 2016 to adjust the amount of services the Company is obligated to provide to NST Consulting, LLC and the amount of services NST Consulting, LLC is obligated to provide to the Company. The Company may offset any payments owed by the Company to NST Consulting, LLC against payments that are owed by NST Consulting, LLC to the Company for the provision of personnel, including consultants, to the Company.

During the three months ended March 31, 2017 and 2016, amounts included in the consolidated statement of operations for the NST Services Agreement are summarized in the following table:

	Three Months Ended March 31,	
	2017	2016
Services provided by NST Consulting, LLC	$ 56	$ 79
Services provided to NST Consulting, LLC	(11)	(15)
General and administrative expense, net	$ 45	$ 64
Services provided by NST Consulting, LLC	$ —	$ 60
Services provided to NST Consulting, LLC	—	(21)
Research and development expense, net	$ —	$ 39
Services provided by NST Consulting, LLC	$ 56	$ 139
Services provided to NST Consulting, LLC	(11)	(36)
Total, net	$ 45	$ 103
Net payments made to NST	$ 135	$ 58

The Company had $3 and $91 payable to NST Consulting, LLC under the NST Services Agreement as of

March 31, 2017 and December 31, 2016, respectively.

11. Agreements Related to Intellectual Property

Assignment Agreement and Finder's Services Agreement

In August 2012, the Company entered into an assignment agreement with the Estate of Mickey Miller, or the Miller Estate, under which the Company acquired some of the intellectual property rights covering A-101. In connection with obtaining the assignment of the intellectual property from the Miller Estate, the Company also entered into a separate finder's services agreement with KPT Consulting, LLC. In February 2016, under the terms of the assignment agreement and the finder's services agreement, the Company made a one-time milestone payment of $300 upon the dosing of the first human subject with A-101 40% Topical Solution in the Company's Phase 3 clinical trial. The payment was recorded as general and administrative expense during the three months ended March 31, 2016.

Under the finder's services agreement, the Company is obligated to make an additional milestone payment of $1,000 upon the achievement of specified development and regulatory milestones and up to $4,500 upon the achievement of specified commercial milestones. Under each of the assignment agreement and the finder's services agreement, the Company is also obligated to pay royalties on sales of A-101 or related products, at low single-digit percentages of net sales, subject to reduction in specified circumstances. The Company has not made any royalty payments to date under either agreement. Both agreements will terminate upon the expiration of the last pending, viable patent claim of the patents acquired under the assignment agreement, but no sooner than 15 years from the effective date of the agreements.

Stock Purchase Agreement with Vixen Pharmaceuticals, Inc. and License Agreement with Columbia University

On March 24, 2016, the Company entered into a stock purchase agreement (the "Vixen Agreement") with Vixen, JAK1, LLC, JAK2, LLC and JAK3, LLC (together with JAK1, LLC and JAK2, LLC, the "Selling Stockholders") and Shareholder Representative Services LLC, a Colorado limited liability company, solely in its capacity as the representative of the Selling Stockholders. Pursuant to the Vixen Agreement, the Company acquired all shares of Vixen's capital stock from the Selling Stockholders (the "Vixen Acquisition"). Following the Vixen Acquisition, Vixen became a wholly-owned subsidiary of the Company. Pursuant to the Vixen Agreement, the Company paid $600 upfront and issued an aggregate of 159,420 shares of the Company's common stock to the Selling Stockholders. The Company is obligated to make annual payments of $100 on March 24th of each year, through March 24, 2022, with such amounts being creditable against specified future payments that may be paid under the Vixen Agreement.

The Company is obligated to make aggregate payments of up to $18,000 to the Selling Stockholders upon the achievement of specified pre-commercialization milestones for three products in the United States, the European Union and Japan, and aggregate payments of up to $22,500 upon the achievement of specified commercial milestones. With respect to any commercialized products covered by the Vixen Agreement, the Company is obligated to pay low single-digit royalties on net sales, subject to specified reductions, limitations and other adjustments, until the date that all of the patent rights for that product have expired, as determined on a country-by-country and product-by-product basis or, in specified circumstances, ten years from the first commercial sale of such product. If the Company sublicenses any of Vixen's patent rights and know-how acquired pursuant to the Vixen Agreement, the Company will be obligated to pay a portion of any consideration the Company receives from such sublicenses in specified circumstances.

As a result of the transaction with Vixen, the Company became party to the Exclusive License Agreement, by and between Vixen and the Trustees of Columbia University in the City of New York ("Columbia"), dated as of December 31, 2015 (the "License Agreement"). Under the License Agreement, the Company is obligated to pay Columbia an annual license fee of $10, subject to specified adjustments for patent expenses incurred by Columbia and creditable against any royalties that may be paid under the License Agreement. The Company is also obligated to pay up to an aggregate of $11,600 upon the achievement of specified commercial milestones, including specified levels of net

sales of products covered by Columbia patent rights and/or know-how, and royalties at a sub-single-digit percentage of annual net sales of products covered by Columbia patent rights and/or know-how, subject to specified adjustments. If the Company sublicenses any of Columbia's patent rights and know-how acquired pursuant to the License Agreement, it will be obligated to pay Columbia a portion of any consideration received from such sublicenses in specified circumstances. The royalties, as determined on a country-by-country and product-by-product basis, are payable until the date that all of the patent rights for that product have expired, the expiration of any market exclusivity period granted by a regulatory body or, in specified circumstances, ten years from the first commercial sale of such product. The License Agreement terminates on the date of expiration of all royalty obligations thereunder unless earlier terminated by either party for a material breach, subject to a specified cure period. The Company may also terminate the License Agreement without cause at any time upon advance written notice to Columbia.

The Company accounted for the transaction with Vixen as an asset acquisition as the arrangement did not meet the definition of a business pursuant to the guidance prescribed in Accounting Standards Codification Topic 805, *Business Combinations*. The Company concluded the transaction with Vixen did not meet the definition of a business because the transaction principally resulted in the acquisition of the License Agreement. The Company did not acquire tangible assets, processes, protocols or operating systems. In addition, at the time of the transaction, there were no activities being conducted related to the licensed patents. The Company expensed the acquired intellectual property as of the acquisition date on the basis that the cost of intangible assets purchased from others for use in research and development activities, and that have no alternative future uses, are expensed at the time the costs are incurred. Accordingly, the Company recorded the $600 upfront payment, the fair value of the shares of common stock issued of $2,355, and the present value of the six non-contingent annual payments as research and development expense in the three months ended March 31, 2016. Additionally, the Company will record as expense any contingent milestone payments or royalties in the period in which such liabilities are incurred.

12. Income Taxes

The Company did not record a federal or state income tax benefit for losses incurred during the three months ended March 31, 2017 and 2016 due to the Company's conclusion that a valuation allowance is required.

13. Subsequent Events

On April 21, 2017, the Company sold 635,000 shares of its common stock at a weighted average price per share of $31.50, for aggregate gross proceeds of approximately $20.0 million. The shares were sold through Cowen and Company, LLC ("Cowen") pursuant to a sales agreement with them dated November 2, 2016. Following these sales, the Company may offer and sell additional shares of its common stock having an aggregate offering price of up to approximately $55.0 million from time to time through Cowen pursuant to the sales agreement.

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

Certain statements contained in this Quarterly Report on Form 10-Q may constitute forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. The words or phrases "would be," "will allow," "intends to," "will likely result," "are expected to," "will continue," "is anticipated," "estimate," "project," or similar expressions, or the negative of such words or phrases, are intended to identify "forward-looking statements." We have based these forward-looking statements on our current expectations and projections about future events. Because such statements include risks and uncertainties, actual results may differ materially from those expressed or implied by such forward-looking statements due to a number of factors, including risks related to:

- *our estimates regarding expenses, future revenues, capital requirements and needs for additional financing;*
- *the success and timing of our preclinical studies and clinical trials and regulatory approval of protocols for future clinical trials;*
- *the difficulties in obtaining and maintaining regulatory approval of our drug candidates, and the labeling under any approval we may obtain;*
- *our plans and ability to develop, manufacture and commercialize our drug candidates;*
- *our failure to recruit or retain key scientific or management personnel or to retain our executive officers;*
- *the size and growth of the potential markets for our drug candidates and our ability to serve those markets;*
- *regulatory developments in the United States and foreign countries;*
- *the rate and degree of market acceptance of any of our drug candidates;*
- *obtaining and maintaining intellectual property protection for our drug candidates and our proprietary technology;*
- *the successful development of our commercialization capabilities, including sales and marketing capabilities;*
- *recently enacted and future legislation and regulation regarding the healthcare system;*
- *the success of competing therapies and products that are or become available; and*
- *the performance of third parties, including contract research organizations and third-party manufacturers.*

These and other factors that could cause or contribute to these differences are described in this Quarterly Report on Form 10-Q in Part II – Item 1A, "Risk Factors," and under similar captions in our other filings with the Securities and Exchange Commission. Statements made herein are as of the date of the filing of this Form 10-Q with the Securities and Exchange Commission and should not be relied upon as of any subsequent date. Unless otherwise required by applicable law, we do not undertake, and we specifically disclaim, any obligation to update any forward-

looking statements to reflect occurrences, developments, unanticipated events or circumstances after the date of such statement.

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our unaudited condensed consolidated financial statements and related notes that appear in Item 1 of this Quarterly Report on Form 10-Q and with our audited consolidated financial statements and related notes for the year ended December 31, 2016, which are included in our 2016 Annual Report on Form 10-K filed with the Securities and Exchange Commission, or SEC, on March 15, 2017.

Overview

We are a dermatologist-led biotechnology company focused on identifying, developing and commercializing innovative and differentiated therapies to address significant unmet needs in medical and aesthetic dermatology. Our lead drug candidate, A-101 40% Topical Solution, is a proprietary formulation of high-concentration hydrogen peroxide topical solution that we are developing as a prescription treatment for seborrheic keratosis, or SK, a common non-malignant skin tumor. In the first quarter of 2016, we initiated two multi-center, randomized, double blinded, vehicle-controlled Phase 3 clinical trials and one open-label Phase 3 clinical trial of A-101 40% Topical Solution in patients with SK. In November 2016, we announced positive top-line results from the two pivotal Phase 3 clinical trials, which are summarized below. Based on these results, we submitted a New Drug Application, or NDA, for A-101 40% Topical Solution for the treatment of SK to the U.S. Food and Drug Administration, or FDA, in February 2017, and the NDA was accepted by the FDA in May 2017. The Prescription Drug User Fee Act, or PDUFA, target action date for the completion of the FDA's review of the NDA is December 24, 2017.We also intend to submit a Marketing Authorization Application, or MAA, in the European Union in the second half of 2017. We are also developing A-101 45% Topical Solution as a prescription treatment for common warts, also known as verruca vulgaris. Additionally, in 2015, we in-licensed exclusive, worldwide rights to certain inhibitors of the Janus kinase, or JAK, family of enzymes, for specified dermatological conditions, including alopecia areata, or AA, vitiligo and androgenetic alopecia, or AGA. In 2016, we acquired additional intellectual property rights for the development and commercialization of certain JAK inhibitors for specified dermatological conditions. We intend to continue to in-license or acquire additional drug candidates and technologies to build a fully integrated dermatology company.

In November 2016, we completed two pivotal Phase 3 clinical trials of A-101 40% Topical Solution in a combined 937 patients who each had a total of four target SK lesions located on the face, trunk and extremities. Each trial met all primary and secondary endpoints for that trial, achieving clinically and statistically significant clearance of SK lesions. Additionally, we completed an open-label safety trial of A-101 40% Topical Solution in November 2016, in which we enrolled 147 patients. Across all three clinical trials, there were no treatment-related serious adverse events among patients treated with A-101 40% Topical Solution, and the most common adverse events reported were nasopharyngitis and sinusitis which were determined to be unrelated to A-101 40% Topical Solution. Based on these results, we submitted an NDA for A-101 40% Topical Solution for the treatment of SK to the FDA in February 2017, and the NDA was accepted by the FDA in May 2017. The PDUFA target action date for the completion of the FDA's review of the NDA is December 24, 2017. We also intend to submit an MAA in the European Union in the second half of 2017. If approved, A-101 40% Topical Solution would become the first FDA-approved medication for the treatment of SK.

We are also developing A-101 45% Topical Solution for the treatment of common warts. Although common warts are generally not harmful and in most cases eventually clear without medical treatment, they may be painful and aesthetically unattractive and are contagious. On an annual basis, 1.9 million people are diagnosed with common warts. Common warts can be removed with slow-acting, over-the-counter products containing salicylic acid. As with SK, cryosurgery is the most frequently used in-office treatment for common warts. No prescription drugs have been approved by the FDA for the treatment of common warts. We completed a Phase 2 clinical trial in August 2016 evaluating 40% and 45% concentrations of A-101 for the treatment of common warts. In this Phase 2 clinical trial, in which 90 patients completed an eight-week treatment period, we observed statistically significant improvements in the mean change in the Physician's Wart Assessment, or PWA, score and in complete clearance of common warts in patients treated with the 45% concentration of A-101 compared to placebo. In mid-2017, we plan to commence two additional Phase 2 clinical trials of A-101 45% Topical Solution to assess the dose frequency as a treatment for common warts in adult and pediatric populations. We expect to report results from these additional Phase 2 clinical trials in the first half of 2018.

In addition, we are developing the JAK inhibitors, ATI-50001 and ATI-50002, which we in-licensed from Rigel Pharmaceuticals, Inc., or Rigel, as potential treatments for AA. AA is an autoimmune dermatologic condition typically characterized by patchy non-scarring hair loss on the scalp and body. More severe forms of AA include total scalp hair loss, known as alopecia totalis, and total hair loss on the scalp and body, known as alopecia universalis. AA affects up to 2.0% of people globally at some point during their lifetime (i.e. incidence) and up to 0.2% of people are affected at any given time (i.e. prevalence) - with two-thirds of affected individuals being 30 years old or younger at the time of disease onset. Treatment options for the less severe, patchy forms of AA include corticosteroids, either topically applied or injected directly into the scalp where the bare patches are located, or the induction of an allergic reaction at the site of hair loss using a topical contact sensitizing agent, an approach known as topical immunotherapy. The same treatment options are utilized for the more severe forms of AA, although utilization of these treatment options for the more severe forms of AA is limited due to limited efficacy, certain side effects, and their impracticality for extensive surface areas. We are developing ATI-50001 as an oral treatment for alopecia totalis and alopecia universalis and ATI-50002 as a topical treatment for patchy AA. We submitted an Investigational New Drug application, or IND, to the FDA for ATI-50001 in October 2016, and we completed a Phase 1 clinical trial to evaluate the pharmacokinetic and pharmacodynamic properties of this drug candidate in the first quarter of 2017. We plan to initiate a Phase 2 clinical trial for ATI-50001, for the treatment of alopecia totalis and alopecia universalis, in the second half of 2017. We plan to submit an IND to the FDA for ATI-50002, for the treatment of patchy AA, in mid-2017, and to commence a Phase 2 clinical trial in the second half of 2017. We expect the Phase 2 clinical trials for ATI-50001, for the treatment of alopecia totalis and alopecia universalis, and for ATI-50002, for the treatment of patchy AA, each to take approximately one year to complete. We also plan to develop ATI-50001 and ATI-50002 as potential treatments for vitiligo, a disorder in which white patches of skin appear on different parts of the body. We plan to commence a Phase 2 clinical trial for ATI-50002, for the treatment of vitiligo, in the second half of 2017.

Since our inception in July 2012, we have devoted substantially all of our resources to organizing and staffing our company, business planning, raising capital, developing A-101 40% Topical Solution for the treatment of SK, building our intellectual property portfolio, developing our supply chain and engaging in other discovery and clinical activities in dermatology. Through the date of this report, we have not generated any revenue and have financed our operations with sales of our convertible preferred stock, as well as net proceeds from our initial public offering, or IPO, in October 2015, a private placement of our common stock in June 2016, and from a follow-on public offering of our common stock in November 2016 and our at-the-market facility with Cowen and Company LLC, or Cowen. We do not expect to generate significant revenue unless and until we obtain marketing approval for and commercialize A-101 40% Topical Solution for the treatment of SK or one of our other current or future drug candidates.

Since our inception, we have incurred significant operating losses. Our net loss was $48.1 million for the year ended December 31, 2016 and $12.6 million for the three months ended March 31, 2017. As of March 31, 2017, we had an accumulated deficit of $103.5 million. We expect to incur significant expenses and operating losses for the foreseeable future as we advance our drug candidates from discovery through preclinical development and clinical trials, seek marketing approval and pursue commercialization of any approved drug candidate. In addition, if we obtain

marketing approval for any of our drug candidates, we expect to incur significant commercialization expenses related to product manufacturing, marketing, sales and distribution. In addition, we may incur expenses in connection with the in-license or acquisition of additional drug candidates. Furthermore, we have incurred and expect to continue to incur additional costs associated with operating as a public company, including significant legal, accounting, investor relations and other expenses that we did not incur as a private company. As a result, we will need substantial additional funding to support our continuing operations and pursue our growth strategy. Until such time as we can generate significant revenue from product sales, if ever, we expect to finance our operations through the sale of equity, debt financings or other capital sources, including potential collaborations with other companies or other strategic transactions. We may be unable to raise additional funds or enter into such other agreements or arrangements when needed on commercially acceptable terms, or at all. If we fail to raise capital or enter into such agreements as, and when, needed, we may have to significantly delay, scale back or discontinue the development and commercialization of one or more of our drug candidates or delay our pursuit of potential in-licenses or acquisitions.

Components of Our Results of Operations

Revenue

We have not generated any revenue since our inception.

Research and Development Expenses

Research and development expenses consist of expenses incurred in connection with the discovery and development of our drug candidates. 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 scale-up expenses and the cost of acquiring and manufacturing preclinical and clinical trial materials and commercial materials, including manufacturing validation batches;
- outsourced professional scientific development services;
- employee-related expenses, which include salaries, benefits and stock-based compensation;
- depreciation of manufacturing equipment;
- payments made under agreements with third parties under which we have acquired or licensed intellectual property;
- expenses relating to regulatory activities, including filing fees paid to regulatory agencies; and
- laboratory materials and supplies used to support our research activities.

We expense research and development costs as incurred. Our direct research and development expenses primarily consist of external costs including fees paid to CROs, consultants, investigator sites, regulatory agencies and third-parties that manufacture our preclinical and clinical trial materials, and are tracked on a program-by-program basis. We do not allocate personnel costs, facilities or other indirect expenses, which are included within “Personnel and other costs” in the table below, to specific research and development programs.

The following table summarizes our research and development expenses for the periods presented:

	Three Months Ended March 31,	
	2017	2016
	(In thousands)	
A-101 Topical Solution (40% and 45%)	$ 1,363	$ 3,223
JAK inhibitors	2,555	1,439
Vixen acquisition	—	3,385
Other	50	33
Total direct research and development expenses	3,968	8,080
Personnel and other costs	2,587	1,034
Share-based compensation	1,217	421
Total research and development expenses	$ 7,772	$ 9,535

Research and development activities are central to our business model. Drug 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 significantly over the next several years as we increase personnel costs, including stock-based compensation, continue to conduct pre-commercial activities related to A-101 40% Topical Solution for the treatment of SK, and conduct clinical trials and prepare regulatory filings for our other drug candidates.

The successful development of our drug 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 any of our drug 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 terms and timing of marketing approvals, and the expense of filing, prosecuting, defending and enforcing any patent claims or other intellectual property rights. We may never succeed in achieving marketing approval for any of our drug candidates. We may obtain unexpected results from our clinical trials. We may elect to discontinue, delay or modify clinical trials of some drug candidates or focus on others. A change in the outcome of any of these variables with respect to the development of a drug candidate could mean a significant change in the costs and timing associated with the development of that drug 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. Drug commercialization will take several years and millions of dollars in development costs.

General and Administrative Expenses

General and administrative expenses consist principally of salaries and related costs for personnel in executive, administrative, finance and legal functions, including stock-based compensation, travel expenses and recruiting expenses. Other general and administrative expenses include facility-related costs, patent filing and prosecution costs, professional fees for marketing, legal, auditing and tax services, insurance costs, as well as payments made under our related party services agreement and milestone payments under our finder's services agreement.

We anticipate that our general and administrative expenses will increase as a result of increased personnel costs, including stock-based compensation, expanded infrastructure and higher consulting, legal and tax-related services associated with maintaining compliance with NASDAQ and SEC requirements, accounting and investor relations costs, and director and officer insurance premiums associated with being a public company. Additionally, if and when we believe a marketing approval of a drug candidate appears likely, we anticipate an increase in payroll and other expenses as a result of our preparation for commercial operations, especially as it relates to the sales and marketing of that drug candidate.

Other Income, Net

Other income, net consists of interest earned on our cash, cash equivalents and marketable securities, interest expense, and gains and losses on transactions denominated in foreign currencies.

Critical Accounting Policies and Significant Judgments and Estimates

This discussion and analysis of our financial condition and results of operations is based on our condensed consolidated financial statements, which have been prepared in accordance with GAAP. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses and the disclosure of contingent assets and liabilities in our condensed consolidated financial statements. On an ongoing basis, we evaluate our estimates and judgments, including those related to accrued expenses and stock-based compensation. We base our estimates on historical experience, known trends and events and various other factors that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. We believe there have been no material changes to our critical accounting policies and use of estimates as disclosed in the footnotes to our audited consolidated financial statements for the year ended December 31, 2016 included in our 2016 Annual Report on Form 10-K filed with the SEC on March 15, 2017.

Recently Issued Accounting Pronouncements

In January 2017, the Financial Accounting Standards Board, or FASB, issued Accounting Standards Update, or ASU, 2017-01, *Business Combinations-Clarifying the Definition of a Business (Topic 805).* The amendments in this ASU provide a screen to determine when a set of acquired assets and/or activities is not a business. The screen requires that when substantially all of the fair value of the gross assets acquired, or disposed of, is concentrated in a single identifiable asset or a group of similar identifiable assets, the set is not a business. The amendments in this ASU will reduce the number of transactions that meet the definition of a business. ASU 2017-01 is effective for annual reporting periods beginning after December 15, 2017, including interim periods within those years, and early adoption will be permitted. We are assessing the potential impact of ASU 2017-01 on our consolidated financial statements.

Results of Operations

Comparison of Three Months Ended March 31, 2017 and 2016

The following table summarizes our results of operations for the three months ended March 31, 2017 and 2016:

	Three Months Ended March 31,		
	2017	2016	Change
	(In thousands)		
Revenue	$ —	$ —	$ —
Operating expenses:			
Research and development	7,772	9,535	(1,763)
General and administrative	5,158	3,604	1,554
Total operating expenses	12,930	13,139	(209)
Loss from operations	(12,930)	(13,139)	209
Other income, net	371	100	271
Net loss	$ (12,559)	$ (13,039)	$ 480

Research and Development Expenses

Research and development expenses were $7.8 million for the three months ended March 31, 2017, compared to $9.5 million for the three months ended March 31, 2016. The decrease of $1.8 million was primarily driven by $3.4 million in expenses associated with the acquisition of Vixen Pharmaceuticals, Inc., or Vixen, in the three months ended March 31, 2016, for which there was no similar transaction in the current year period. Excluding the Vixen acquisition, research and development expenses increased $1.6 million, primarily driven by an increase of $1.1 million in preclinical development expenses related to the JAK inhibitor technology, an increase of $0.5 million in payroll-related expenses due to higher headcount, an $0.8 million increase in stock-based compensation expense, $0.4 million of expenses associated with the filing of the NDA for A-101 40% Topical Solution during the three months ended March 31, 2017, and a $1.0 million increase in expenses related to medical affairs, partially offset by a $2.1 million decrease in costs associated with the development of A-101 40% Topical Solution as a result of our Phase 3 clinical trials ending in November 2016.

General and Administrative Expenses

General and administrative expenses were $5.2 million for the three months ended March 31, 2017, compared to $3.6 million for the three months ended March 31, 2016. The increase of $1.6 million was primarily attributable to an increase of $0.4 million in payroll-related expenses due to increased headcount, $1.1 million in higher stock-based compensation expense, and a $0.4 million increase in market research expenses related to pre-commercial activities for A-101 40% Topical Solution partially offset by a $0.3 million one-time milestone payment pursuant to the finder's services agreement related to A-101 40% Topical Solution which was expensed in the first quarter of 2016.

Other Income, Net

The increase in other income, net was primarily due to higher invested balances of marketable securities as a result of funds received from our private placement in June 2016 and our follow-on public offering in November 2016.

Liquidity and Capital Resources

Since our inception, we have not generated any revenue and have incurred net losses and negative cash flows from our operations. We have financed our operations since inception through sales of our convertible preferred stock, as well as net proceeds from our IPO in October 2015, our private placement in June 2016, our follow-on public offering in November 2016, and our at-the-market facility with Cowen.

As of March 31, 2017, we had cash, cash equivalents and marketable securities of $161.4 million. Cash in excess of immediate requirements is invested in accordance with our investment policy, primarily with a view to liquidity and capital preservation.

We currently have no ongoing material financing commitments, such as lines of credit or guarantees, that are expected to affect our liquidity over the next five years, other than our sublease obligations and contingent obligations under acquisition and intellectual property licensing agreements, which are summarized below under “Contractual Obligations and Commitments.”

Initial Public Offering

On October 13, 2015, we closed our IPO in which we sold 5,750,000 shares of common stock at a price to the public of $11.00 per share, for aggregate gross proceeds of $63.3 million. We paid underwriting discounts and commissions of $4.4 million, and we also incurred expenses of $2.3 million in connection with the IPO. As a result, the net offering proceeds to us, after deducting underwriting discounts and commissions and expenses, were $56.6 million.

Private Placement

On June 2, 2016, we closed a private placement in which we sold an aggregate of 1,081,082 shares of common stock at a price of $18.50 per share, for gross proceeds of $20.0 million. We incurred placement agent fees of $1.3 million, and expenses of $0.2 million in connection with the private placement. As a result, the net offering proceeds to us, after deducting placement agent fees and transaction expenses, were $18.5 million.

Follow-On Public Offering

On November 23, 2016, we closed our follow-on public offering in which we sold 4,600,000 shares of common stock at a price to the public of $22.75 per share, for aggregate gross proceeds of $104.7 million. We paid underwriting discounts and commissions of $6.3 million, and we also incurred expenses of $0.2 million in connection with the offering. As a result, the net offering proceeds received by us, after deducting underwriting discounts, commissions and offering expenses, were $98.2 million.

At-The-Market Facility

On April 21, 2017, we sold 635,000 shares of our common stock at a weighted average price per share of $31.50, for aggregate gross proceeds of approximately $20.0 million. The shares were sold through Cowen pursuant to a sales agreement with them dated November 2, 2016. Following these sales, we may offer and sell additional shares of our common stock having an aggregate offering price of up to approximately $55.0 million from time to time through Cowen pursuant to the sales agreement.

Cash Flows

The following table summarizes our cash flows for the three months ended March 31, 2017 and 2016:

	Three Months Ended March 31,	
	2017	2016
	(In thousands)	
Net cash used in operating activities	$ (12,659)	$ (6,894)
Net cash provided by investing activities	5,956	10,174
Net cash provided by financing activities	209	—
Net (decrease) increase in cash and cash equivalents	$ (6,494)	$ 3,280

Operating Activities

During the three months ended March 31, 2017, operating activities used $12.7 million of cash, primarily resulting from our net loss of $12.6 million and by cash used by changes in our operating assets and liabilities of $3.3 million, partially offset by non-cash adjustments of $3.2 million. Net cash used by changes in our operating assets and liabilities during the three months ended March 31, 2017 consisted of a $2.6 million increase in prepaid expenses and other current assets and a $0.7 million decrease in accounts payable and accrued expenses. The increase in prepaid expenses and other current assets was primarily due to a $2.0 million PDUFA fee paid to the FDA in conjunction with the filing of the NDA for A-101 40% Topical Solution. The decrease in accounts payable and accrued expenses was primarily due to bonuses which were earned in 2016 and paid during the three months ended March 31, 2017, partially offset by the timing of vendor invoicing and payments. Non-cash expenses of $3.2 million were primarily composed of share-based compensation expense.

During the three months ended March 31, 2016, operating activities used $6.9 million of cash, primarily resulting from our net loss of $13.0 million partially offset by cash provided by our changes in our operating assets and liabilities of $2.1 million and by non-cash adjustments of $4.0 million. Net cash provided by changes in our operating assets and liabilities during the three months ended March 31, 2016 consisted of a $2.0 million increase in accounts payable and a $0.1 million decrease in prepaid expenses and other current assets. The increase in accounts payable was primarily due to expenses incurred in connection with the commencement of our Phase 3 clinical trials for A-101 40% Topical Solution and the timing of vendor invoicing and payments. The decrease in prepaid expenses and other current assets was primarily due to work performed related to our clinical trials. Non-cash expenses of $4.0 million were primarily composed of $2.8 million in charges associated with the Vixen acquisition and $1.2 million of share-based compensation expense.

Investing Activities

During the three months ended March 31, 2017, investing activities provided $6.0 million of cash, consisting of proceeds from sales and maturities of marketable securities of $23.3 million, partially offset by purchases of marketable securities of $17.2 million and purchases of equipment of $0.2 million.

During the three months ended March 31, 2016, investing activities provided $10.2 million of cash, consisting of proceeds from sales and maturities of marketable securities of $10.3 million, partially offset by purchases of equipment of $0.1 million.

Financing Activities

During the three months ended March 31, 2017, financing activities provided $0.2 million of cash from the exercise of employee stock options.

We had no cash flows from financing activities during the three months ended March 31, 2016.

Funding Requirements

We plan to focus in the near term on the development, marketing approval and potential commercialization of A-101 40% Topical Solution for the treatment of SK. We anticipate we will incur net losses for the next several years as we continue our clinical development of A-101 40% Topical Solution for the treatment of SK and continue research and development of A-101 45% Topical Solution for the treatment of common warts and ATI-50001 and ATI-50002 for the treatment of AA, and potentially for other dermatological conditions, as well as for development of other JAK inhibitor compounds. In addition, we plan to continue to invest in discovery efforts to explore additional drug candidates, build commercial capabilities and expand our corporate infrastructure. We may not be able to complete the development and initiate commercialization of these programs if, among other things, our clinical trials are not successful or if the FDA does not approve A-101 40% Topical Solution or our other drug candidates currently in clinical trials when we expect, or at all.

Our primary uses of capital are, and we expect will continue to be, compensation and related expenses, clinical costs, external research and development services, laboratory and related supplies, legal and other regulatory expenses, and administrative and overhead costs. Our future funding requirements will be heavily determined by the resources needed to support development and commercialization of our drug candidates.

As a publicly traded company, we have incurred and will continue to incur significant legal, accounting and other expenses that we were not required to incur as a private company. In addition, the Sarbanes-Oxley Act of 2002, as well as rules adopted by the SEC and the NASDAQ Stock Market, requires public companies to implement specified corporate governance practices that were not applicable to us prior to our IPO. We expect ongoing compliance with these rules and regulations will increase our legal and financial compliance costs and will make some activities more time-consuming and costly.

We believe our existing cash, cash equivalents and marketable securities are sufficient to fund our operating and capital expenditure requirements for a period greater than 12 months from the date of issuance of our unaudited condensed consolidated financial statements that appear in Item 1 of this Quarterly Report on Form 10-Q based on our current operating assumptions including the completion of our Phase 2 clinical trials for A-101 45% Topical Solution for the treatment of common warts and the continued development of ATI-50001 and ATI-50002 as potential treatments for AA. These assumptions may prove to be wrong, and we could utilize our available capital resources sooner than we expect. We expect that we will require additional capital to commercialize A-101 40% Topical Solution, if we receive marketing approval, and to pursue in-licenses or acquisitions of other drug candidates. If we receive marketing approval for A-101 40% Topical Solution, we expect to incur significant commercialization expenses related to product manufacturing, sales, marketing and distribution, depending on where we choose to commercialize that drug candidate. Additional funds may not be available on a timely basis, on commercially acceptable terms, or at all, and such funds, if raised, may not be sufficient to enable us to continue to implement our long-term business strategy. If we are unable to raise sufficient additional capital, we may need to substantially curtail our planned operations and the pursuit of our growth strategy.

We may raise additional capital through the sale of equity or convertible debt securities. In such an event, your ownership will be diluted, and the terms of these securities may include liquidation or other preferences that adversely affect the rights of a holder of our common stock.

Because of the numerous risks and uncertainties associated with research, development and commercialization of pharmaceutical drugs, we are unable to estimate the exact amount of our working capital requirements. Our future funding requirements will depend on many factors, including:

· the number and characteristics of the drug candidates we pursue;

- the scope, progress, results and costs of researching and developing our drug candidates, and conducting preclinical studies and clinical trials;
- the timing of, and the costs involved in, obtaining marketing approvals for our drug candidates;
- the cost of manufacturing our drug candidates and any drugs we successfully commercialize;
- our ability to establish and maintain strategic collaborations, licensing or other arrangements and the financial terms of such agreements;
- the costs involved in preparing, filing, prosecuting, maintaining, defending and enforcing patent claims, including litigation costs and the outcome of such litigation; and
- the timing, receipt and amount of sales of, or milestone payments related to or royalties on, our current or future drug candidates, if any.

Contractual Obligations and Commitments

We occupy office space in Malvern, Pennsylvania under two operating lease agreements both of which have terms through November 2019, that require future aggregate rental payments of $0.3 million during the nine months ending December 31, 2017, $0.4 million during the year ending December 31, 2018, and $0.3 million during the year ending December 31, 2019.

Under the assignment agreement pursuant to which we acquired intellectual property, we have agreed to pay royalties on sales of A-101 40% Topical Solution or related products at rates ranging in low single-digit percentages of net sales, as defined in the agreement. Under the related finder's services agreement, we have agreed to make aggregate payments of up to $1.0 million upon the achievement of specified pre-commercialization milestones, such as clinical trials and regulatory approvals, as described in the agreement. We have also agreed to make aggregate payments of up to $4.5 million upon the achievement of specified commercial milestones. In addition, we have agreed to pay royalties on sales of A-101 40% Topical Solution or related products at a low single-digit percentage of net sales, as defined in the agreement.

Under a commercial supply agreement with a third party, we have agreed to pay a termination fee of up to $0.4 million in the event we terminate the agreement without cause or the third party terminates the agreement for cause.

Under a license agreement with Rigel that we entered into in August 2015, we have agreed to make aggregate payments of up to $80.0 million upon the achievement of specified pre-commercialization milestones, such as clinical trials and regulatory approvals. Further, we have agreed to pay up to an additional $10.0 million to Rigel upon the achievement of a second set of development milestones. With respect to any products we commercialize under the agreement, we will pay Rigel quarterly tiered royalties on our annual net sales of each product developed using the licensed JAK inhibitors at a high single-digit percentage of annual net sales, subject to specified reductions.

Under a commercial license agreement with JAKPharm LLC and Key Organics, LTD that we entered into in November 2015, we have agreed to make aggregate payments of up to $2.4 million upon the achievement of specified pre-commercialization milestones, such as clinical trials and regulatory approvals. We will pay an annual maintenance fee of $50,000, to be credited against any milestone fees or royalties paid in each calendar year. With respect to any products we commercialize under the agreement, we will pay tiered royalties at a low to mid-single-digit percentage of annual net sales, subject to specified reductions, as determined on a country-by-country and product-by-product basis, until the date that all of the patent rights for that product have expired, or in specified countries under specified circumstances, ten years from the first commercial sale of such product.

Under a stock purchase agreement with the selling stockholders of Vixen, we are obligated to make aggregate payments of up to $18.0 million upon the achievement of specified pre-commercialization milestones for three products covered by the Vixen patent rights in the United States, the European Union and Japan, and aggregate payments of up to $22.5 million upon the achievement of specified commercial milestones for products covered by the Vixen patent rights.

We are also obligated to make a payment of $0.1 million on March 24th of each year, through March 24, 2022, which amounts are creditable against any specified future payments that may be paid under the stock purchase agreement. With respect to any products we commercialize under the stock purchase agreement, we are obligated to pay a low single-digit percentage of annual net sales, subject to specified reductions, limitations and other adjustments, until the date that all of the patent rights for that product have expired, as determined on a country-by-country and product-by-product basis or, in specified circumstances, ten years from the first commercial sale of such product. If we sublicense any of the patent rights and know-how acquired pursuant to the stock purchase agreement, we will be obligated to pay a portion of any consideration we receive from such sublicenses in specified circumstances.

Under a license agreement with The Trustees of Columbia University in the City of New York, or Columbia, we are obligated to pay an annual license fee of $10,000, subject to specified adjustments for patent expenses incurred by Columbia and creditable against any royalties that may be paid under the license agreement. We are also obligated to pay up to an aggregate of $11.6 million upon the achievement of specified commercial milestones, including specified levels of net sales of products covered by Columbia patent rights and/or know-how, and royalties at a sub-single-digit percentage of annual net sales of products covered by Columbia patent rights and/or know-how, subject to specified adjustments. If we sublicense any of Columbia's patent rights and know-how acquired pursuant to the license agreement, we will be obligated to pay Columbia a portion of any consideration received from such sublicenses in specified circumstances.

We enter into contracts in the normal course of business with CROs for clinical trials, preclinical research studies and testing, manufacturing and other services and products for operating purposes. These contracts generally provide for termination upon notice, and therefore we believe that our non-cancelable obligations under these agreements are not material.

Off-Balance Sheet Arrangements

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

Emerging Growth Company Status

The Jumpstart Our Business Startups Act of 2012 permits an "emerging growth company" such as us to take advantage of an extended transition period to comply with new or revised accounting standards applicable to public companies until those standards would otherwise apply to private companies. We have irrevocably elected to "opt out" of this provision and, as a result, we will comply with new or revised accounting standards when they are required to be adopted by public companies that are not emerging growth companies.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

We are exposed to market risk related to changes in interest rates. Our cash equivalents and marketable securities consist of money market funds, asset-backed securities, commercial paper, corporate debt securities and government agency debt. Our primary exposure to market risk is interest rate sensitivity, which is affected by changes in the general level of U.S. interest rates. Our marketable securities are subject to interest rate risk and will fall in value if market interest rates increase. However, due to the short-term nature and risk profile of our investment portfolio, we do not expect that an immediate 10% change in market interest rates would have a material effect on the fair market value of our investment portfolio. We have the ability to hold our marketable securities until maturity, and therefore we do not expect our operating results or cash flows to be affected significantly by the effect of a change in market interest rates on our investments.

Item 4. Controls and Procedures

(a) *Evaluation of Disclosure Controls and Procedures*

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

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

Our management, with the participation of our Chief Executive Officer and our Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures as of March 31, 2017, the end of the period covered by this Quarterly Report on Form 10-Q. Based upon such evaluation, our Chief Executive Officer and our Chief Financial Officer have concluded that our disclosure controls and procedures were effective as of such date at the reasonable assurance level.

(b) *Changes in Internal Controls Over Financial Reporting*

There have not been any changes in our internal controls over financial reporting during our fiscal quarter ended March 31, 2017 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

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

Item 1A. Risk Factors

Our business is subject to risks and events that, if they occur, could adversely affect our financial condition and results of operations and the trading price of our securities. Our risk factors have not changed materially from those described in “Part I, Item 1A. Risk Factors” of our Annual Report on Form 10-K for the fiscal year ended December 31, 2016, filed with the SEC on March 15, 2017.

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

None.

Item 6. Exhibits

The exhibits listed on the Exhibit Index hereto are filed or incorporated by reference (as stated therein) as part of this Quarterly Report on Form 10-Q.

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.

ACLARIS THERAPEUTICS, INC.

Date: May 9, 2017

By: /s/ Neal Walker
Neal Walker
President and Chief Executive Officer
(On behalf of the Registrant)

Date: May 9, 2017

By: /s/ Frank Ruffo
Frank Ruffo
Chief Financial Officer
(Principal Financial Officer)

Exhibit Index

Exhibit No.	Document
3.1	Amended and Restated Certificate of Incorporation of the Registrant (incorporated herein by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K (File No. 001-37581), filed with the Commission on October 13, 2015).
3.2	Amended and Restated Bylaws of the Registrant (incorporated herein by reference to Exhibit 3.2 to the Registrant's Current Report on Form 8-K (File No. 001-37581), filed with the Commission on October 13, 2015).
10.1*	Employment Agreement with Kamil Ali-Jackson, dated as of September 17, 2015.
31.1*	Certification of Principal Executive Officer under Section 302 of the Sarbanes-Oxley Act.
31.2*	Certification of Principal Financial Officer under Section 302 of the Sarbanes-Oxley Act.
32.1**	Certifications of Principal Executive Officer and Principal Financial Officer under Section 906 of the Sarbanes-Oxley Act.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

* Filed herewith.

** 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 Exchange Act 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.

EMPLOYMENT AGREEMENT

This EMPLOYMENT AGREEMENT (the "Employment Agreement"), effective as of, and contingent upon, the effectiveness of the registration statement for Employer's initial public offering ("Agreement Effective Date"), is made by and between Aclaris Therapeutics, Inc., a corporation organized under the laws of the State of Delaware ("Employer") and Kamil Ali-Jackson ("Executive").

WHEREAS, Executive desires to continue to provide services to Employer and Employer desires to continue to retain the services of Executive;

WHEREAS, in consideration of Executive's employment by Employer for more than three (3) years prior to the Agreement Effective Date, Employer and Executive desire to enter this Employment Agreement and formalize the terms and conditions of Executive's employment with Employer; and

WHEREAS, this Agreement has been duly approved and its execution has been duly authorized by the Compensation Committee of Employer's Board of Directors.

NOW, THEREFORE, Employer and Executive hereby agree as follows:

1
EMPLOYMENT

1.1 General. Employer hereby agrees to continue to employ Executive in the capacity of Chief Legal Officer. Executive hereby accepts such continued employment upon the terms and subject to the conditions herein contained.

1.2 Authority and Duties. Executive shall have full responsibility as the Chief Legal Officer of Employer and all authority normally accorded to such position. Executive agrees to perform such duties and responsibilities commensurate with the position of Chief Legal Officer as may reasonably be determined by the Board of Directors of Employer (the "Board").

1.2.1 Reporting. During Executive's employment with Employer, Executive will report directly to, and take direction from, the Chief Executive Officer (the "CEO").

1.2.2 Time to Be Devoted to Employment. During Executive's Employment with Employer, Executive shall diligently devote her efforts, business time, attention and energies to the business of Employer will not, while employed by Employer, undertake or engage in any other employment, occupation or business enterprise that would interfere with Executive's responsibilities and the performance of Executive's duties hereunder except for (i) reasonable time devoted to volunteer services for or on behalf of such religious, educational, non-profit and/or other charitable organization as Executive may wish to serve, (ii) reasonable time devoted to activities in the non-profit and business communities consistent with Executive's duties; and (iii) such other activities as may be specifically approved by the Board. This restriction shall not, however, preclude Executive (x) from owning less than one percent (1%) of the total outstanding shares of a publicly traded company, or (y) from employment or service in any capacity with Affiliates of Employer. As used in this Agreement, "Affiliates" means an entity under common management or control with Employer.

1.3 Other Responsibilities. Notwithstanding Section 1.2.2 above, the Board expressly grants Executive the right to (i) provide services as a member (or such other such role as she may later serve) of NeXeption, Inc. and its affiliated entities; (ii) provide services to Alexar Therapeutics, Inc.; and (iii) perform services, if necessary, for companies other than Employer, in connection with her ownership interests in such companies; provided that the provision of such services does not adversely affect her performance of services hereunder and does not otherwise result in a material breach hereunder.

1.4 Location of Employment. Executive's principal place of employment during her employment with Employer shall be in Malvern, Pennsylvania or such other location as Employer and Executive shall agree.

2

COMPENSATION AND BENEFITS

2.1 Salary. Employer will pay to Executive an annual base salary of two hundred eighty thousand, seven hundred fifty Dollars ($280,750.00), payable subject to standard federal and state payroll withholding requirements in accordance with the regular payroll practices of Employer ("Base Salary"). The annual Base Salary may be increased (but not decreased) during the term of this Employment Agreement by the Board in its sole discretion.

2.2 Additional Compensation. In addition to the salary set forth in Section 2.1, Executive shall be entitled to receive a cash bonus in accordance with the terms of this Section 2.2. For each fiscal year of Employer, beginning January 1, during the Employment Term (as defined in Section 2.4 hereof), Executive shall be eligible to receive a cash bonus based on (i) the "Annual Bonus Expectancy Amount," which shall be an amount equal to thirty percent (30%) of Executive's Base Salary for the applicable fiscal year, and (ii) Executive's attainment of performance targets and other reasonable criteria established by the Board, to the extent possible, by the end of the first month of such fiscal year. Depending on the targets and criteria which are achieved or met, the amount of the cash bonus actually payable to Executive for each fiscal year will be an amount from zero to and including the Annual Bonus Expectancy Amount. Any cash bonus amount payable pursuant to this Section 2.2 shall be paid to Executive as soon as practicable, but in no event later than two and one-half (2 1/2) months, following the end of the fiscal year to which it relates. It is explicitly agreed and understood that cash bonuses under this Section 2.2 are to be payable only if, and to the extent, that the Board in its judgment determines Employer has adequate cash flow and is adequately capitalized to support such payment.

2.3 Executive Benefits. In addition to the salary and additional compensation set forth in Sections 2.1 and 2.2, Executive shall also be entitled to the following benefits during Executive's employment hereunder:

2.3.1 Expenses. Employer will promptly reimburse Executive for expenses she reasonably incurs in connection with the performance of her duties (including business travel and entertainment expenses), in accordance with Employer's standard expense reimbursement policy, as the same may be modified by Employer from time to time; provided, however, that Executive has provided Employer with documentation of such expenses in accordance with the Employer's expense reimbursement policies and applicable tax requirements. For the avoidance of doubt, to the extent that any reimbursements payable to Executive are subject to the provisions of Section 409A of the Code: (a) any such reimbursements will be paid no later than December 31 of the year following the year in which the expense was incurred, (b) the amount of expenses reimbursed

in one year will not affect the amount eligible for reimbursement in any subsequent year, and (c) the right to reimbursement under this Agreement will not be subject to liquidation or exchange for another benefit.

2.3.2 Employer Plans. Executive will be eligible to participate on the same basis as similarly situated employees in Employer's employee benefit plans and programs, as they may be interpreted, adopted, revised or deleted from time to time in Employer's sole discretion, subject to and on a basis consistent with the terms, conditions and overall administration of such plans and programs. All matters of eligibility for coverage or benefits under any benefit plan shall be determined in accordance with the provisions of such plan. Employer retains the unilateral right to amend, modify or terminate any of its employee benefit plans and programs at any time.

2.3.3 Vacation. Executive shall be eligible for paid vacation leave (not including regular holidays) consistent with the needs of the business. Vacation must be scheduled at those times convenient to Employer's business as reasonably determined by the CEO.

2.3.4 Coverage. Nothing in this Employment Agreement shall prevent Executive from participating in any other compensation plan or benefit plan made available to her by Employer.

2.3.5 Withholding. All compensation shall be subject to withholding of taxes and deductions of other amounts as may be required by law.

2.4 Employment Term. Unless earlier terminated pursuant to Section 3.1, Executive's employment by Employer pursuant to this Employment Agreement shall continue until the second anniversary of the Agreement Effective Date (the "Initial Term"). Thereafter, this Employment Agreement shall be automatically renewed for successive one (1) year periods (the Initial Term, together with any subsequent employment period being referred to herein as the "Employment Term"); provided, however, that either party may elect to not renew this Employment Agreement by written notice to such effect delivered to the other party at least ninety (90) days prior to expiration of the Initial Term or the Employment Term.

3
TERMINATION OF EMPLOYMENT

3.1 Events of Termination. Executive's employment with Employer will terminate upon the occurrence of any one or more of the following events:

3.1.1 Death. In the event of Executive's death, Executive's employment will terminate on the date of death.

3.1.2 Disability. In the event of Executive's Disability (as hereinafter defined), Employer will have the option to terminate Executive's employment by giving a notice of termination to Executive. The notice of termination shall specify the date of termination, which date shall not be earlier than thirty (30) calendar days after the notice of termination is given. For purposes of this Employment Agreement, "Disability" means the failure or inability of Executive to substantially perform, with or without reasonable accommodation, her duties hereunder for an aggregate of ninety (90) calendar days during any consecutive three hundred sixty-five (365) day period as a result of a physical or mental illness or injury, as determined in good faith by the Board upon the advice of an independent physician experienced in treating the condition(s) allegedly

giving rise to the disability. This definition shall be interpreted and applied consistent with the Americans with Disabilities Act, the Family and Medical Leave Act, and other applicable law.

3.1.3 Termination by Employer for Cause. Employer may, at its option, terminate Executive's employment for Cause by unilateral action of the Board of Directors upon giving a notice of termination to Executive. "Cause" shall mean (i) Executive's conviction of, or guilty plea to, a crime of moral turpitude (whether or not a felony) or a felony (other than traffic violations); (ii) any act(s) or omission(s) by Executive which constitutes gross negligence or a material breach of Executive's duty of loyalty; (iii) any material breach by Executive of Employer's personnel policies, including those prohibiting acts of discrimination, harassment or retaliation; (iv) any act constituting dishonesty, fraud, immoral or disreputable conduct; (v) refusal to follow or implement a clear and reasonable directive of Employer; (vi) breach of fiduciary duty; or (vii) a material violation or breach by Executive of this Employment Agreement (other than an event described in the foregoing clauses (i) through (vi)) or any other agreement between the parties.

3.1.4 Without Cause By Employer. Employer may, at its option, terminate Executive's employment for any reason whatsoever (other than for the other reasons set forth above in this Section 3.1 that would constitute "Cause" to terminate) by giving a notice of termination to Executive, and Executive's employment shall terminate on the later of the date the notice of termination is given or the date set forth in such notice of termination.

3.1.5 By Executive. Executive may, at any time, terminate Executive's employment for any reason whatsoever by giving a notice of termination to Employer. Executive's employment shall terminate on the earlier of (i) the date, following the date of the notice of termination, upon which a suitable replacement for Executive is found by the Employer or upon which Employer makes a determination, in its sole discretion, that Executive's duties shall be undertaken by other employees of Employer, (ii) thirty (30) calendar days after the date of receipt by Employer of the notice of termination, or (iii) such earlier date as the Employer and Executive shall agree.

3.1.6 Termination Upon Non-Renewal. Either party may terminate this Employment Agreement and Executive's employment hereunder by providing the other party notice in accordance with Section 2.4 above, in which case this Employment Agreement and Executive's employment hereunder shall terminate on the last date of the Initial Term or the Employment Term, as the case may be. For the avoidance of doubt, Executive shall continue to be employed by Employer, on the same terms and conditions as set forth in this Employment Agreement during the ninety (90)-day notice period provided by either party to the other party in accordance with Section 2.4 above, unless, Employer, in its sole discretion determines that it does not want Executive to continue to work for Employer, in any capacity, during such notice period. In such event, Employer shall pay Executive all compensation in accordance with Section 3.2.3.

3.1.7 For Good Reason by Executive. Executive may, at her option, terminate Executive's employment for "Good Reason" by giving a notice of termination to Employer in the event that, in the absence of events that would support a termination of Executive for Cause:

(i) there is a material failure of Employer (or successor employer) to pay Executive's salary or additional compensation or benefits hereunder in accordance with this Employment Agreement;

(ii) Executive's annual Base Salary is materially decreased without her prior written consent;

(iii) Executive is assigned duties substantially inconsistent with her title and the responsibilities set forth in Executive's job description, without Executive's prior written consent;

(iv) Executive's place of employment is changed to a location that is greater than fifty (50) miles from Executive's current place of employment which is contemplated to be 101 Lindenwood Drive, Suite 400, Malvern, Pennsylvania 19355; or

(v) any other material violation or breach by Employer of this Employment Agreement.

Notwithstanding the foregoing, none of the events described in clauses (i) through (v) above shall constitute Good Reason unless Executive shall have notified Employer in writing describing the event which constitute Good Reason within thirty (30) days after Executive first becomes aware of such event and then only if Employer and/or its subsidiaries shall have failed to reasonably cure such events, if curable, within thirty (30) days after Employer's receipt of such written notice and Executive elects to terminate her employment as a result within thirty (30) days following the end of such thirty (30) day period (assuming, for the avoidance of doubt, that Employer does not elect to cure).

3.2 Certain Obligations of Employer Following Termination of Executive's Employment. Following the termination of Executive's employment under the circumstances described below, Employer will pay to Executive, subject to standard federal and state payroll withholding requirements and in accordance with its regular payroll practices, the following compensation and provide the following benefits (provided that the continuing payments of Executive's then-current salary, as described below, shall occur no less frequently than monthly):

3.2.1 Death; Disability; Termination by Employer Without Cause or by Executive for Good Reason. In the event that Executive's employment is terminated by Employer pursuant to Section 3.1.1 ("Death"), Section 3.1.2 ("Disability"), Section 3.1.4 ("Without Cause by Employer") or by Executive pursuant to Section 3.1.7 ("Termination by Executive for Good Reason") hereof, and Executive, or her estate, as the case may be, executes and does not revoke a separation agreement containing a release upon such termination, in a form provided by the Employer, of any and all claims against Employer and all related parties with respect to all matters arising out of Executive's employment by Employer, or the termination thereof (the "Release") in accordance with Section 3.7, Executive, or her estate, as the case may be, shall be entitled to the following payments and benefits, which payments and benefits shall be paid in accordance with this Section 3.2.1 and Section 3.7:

(i) Continuing payments of Executive's then-current salary for the Severance Period, as defined in Section 3.5 herein, payable subject to standard federal and state payroll withholding requirements in accordance with Employer's regular payroll practices on Employer's normal payroll schedule over the Severance Period, subject to Section 3.7;

(ii) Employer shall pay to Executive a lump sum payment equal to the gross sum of any bonuses or portion thereof for any preceding year or for the year of termination which have been approved by Employer, but has not been received by Executive prior

to the effective date of termination, less applicable deductions and withholdings paid in accordance with Section 2.2 but in no event later than two and one-half (2 1/2) months following the end of the fiscal year to which it relates. For the avoidance of doubt, (x) Executive does not have to be employed by Employer on the date such bonuses are approved by Employer to receive such bonuses; and (y) this provision shall not be construed as guaranteeing the payment of a bonus for such year(s);

(iii) So long as Executive is eligible, and so long as Executive remains eligible, for and upon her timely election of coverage under the Consolidated Omnibus Budget Reconciliation Act of 1985, or, if applicable, state or local insurance laws ("COBRA"), Employer will continue to pay, directly to the healthcare provider when due, 100% of the medical, vision and dental coverage premiums (including employee contributions, if any) until the earlier of (i) the end of the Severance Period; or (ii) the date when Executive becomes eligible for substantially equivalent health insurance coverage in connection with new employment (the "COBRA Payment Period"); provided that Executive must immediately notify Employer in the event Executive becomes eligible for coverage under another employer's group health plan during the COBRA Payment Period; and provided further that, if at any time Employer determines, in its sole discretion, that the payment of the COBRA premiums would result in a violation of the nondiscrimination rules of Section 105(h)(2) of the Code or any statute or regulation of similar effect (including but not limited to the 2010 Patient Protection and Affordable Care Act, as amended by the 2010 Health Care and Education Reconciliation Act), then in lieu of providing the COBRA premiums for the remainder of the COBRA Payment Period, Employer will instead pay Executive on the first day of each month of the remainder of the COBRA Payment Period, a fully taxable cash payment equal to the COBRA premiums for that month, subject to applicable tax withholdings, for the remainder of the COBRA Payment Period; and

(iv) In the event such termination of employment occurs on or within three (3) months prior to or within twelve (12) months following the effective date of a Change of Control (as defined herein), Executive shall be entitled to the additional following payments and benefits:

(1) Continuing payments of Executive's then-current salary for an additional six (6) months following the end of the Severance Period, payable subject to standard federal and state payroll withholding requirements in accordance with Employer's regular payroll practices on Employer's normal payroll schedule over the six (6) month period immediately following the end of the Severance Period, subject to Section 3.7;

(2) Continued payment of Executive's COBRA premiums directly to the healthcare provider for an additional six (6) months following the end of the Severance Period, or if earlier, until the date when Executive becomes eligible for substantially equivalent health insurance coverage in connection with new employment, subject to the terms, conditions and payment provisions set forth in Section 3.2.1(iii); and

(3) In the event such termination of employment occurs (A) on or within three (3) months prior to the effective date of a Change of Control (as defined herein), all unvested stock options and other equity awards held by Executive and outstanding on the effective date of termination shall become fully vested on the effective date of the Change of Control, or (B) within twelve (12) months following the effective date of a Change of Control, provided that any surviving corporation or acquiring corporation assumes Executive's stock options and/or other equity awards, as applicable, or substitutes similar stock options or equity

awards for Executive's stock options and/or equity awards, as applicable, in accordance with the terms of Employer's applicable equity incentive plans, all such unvested stock options and other equity awards held by Executive and outstanding on the effective date of termination shall become fully vested on the date of such termination.

For purposes of this Agreement, "Change of Control" means, in each case as approved by the Board and the requisite stockholders of Employer, (i) any consolidation or merger of Employer with or into any other corporation or other entity or person, or any other corporate reorganization, in which the stockholders of Employer immediately prior to such consolidation, merger or reorganization, own, in the aggregate, less than 50% of the surviving entity's voting power and/or outstanding capital stock immediately after such consolidation, merger or reorganization, or any transaction or series of related transactions (including any transaction which results from an option agreement or binding letter of intent with a third party) to which Employer or any of its stockholders is a party in which in excess of 50% of Employer's voting power and/or outstanding capital stock is transferred, or pursuant to which any person or group of affiliated persons obtains in excess of 50% of Employer's voting power and/or outstanding capital stock, excluding any consolidation or merger effected exclusively to change the domicile of Employer; or (ii) any sale, lease or other disposition (including through a Board and stockholder approved division or spin-off transaction) of all or substantially all of the assets of Employer and/or any of its subsidiaries or any sale, lease, exclusive license (or substantially exclusive license or agreement) or other disposition of all or substantially all of Employer's intellectual property, as reasonably determined based upon the potential earning power of the assets or intellectual property; provided, however that none of the following shall constitute a Change of Control: (A) transfers of capital stock by an existing stockholder as a result of death or otherwise for estate planning purposes or to such stockholder's affiliates or to any of Employer's other existing stockholders, and (B) issuances of equity securities of Employer in connection with financings for working capital and other general corporate purposes.

3.2.2 Termination by Executive Other than For Good Reason: Termination Upon Non-Renewal by Executive; Termination by Employer for Cause. In the event Executive's employment is terminated by Executive other than for Good Reason pursuant to Section 3.1.5 hereof ("By Executive") or by Executive pursuant to Section 3.1.6 hereof ("Termination Upon Non-Renewal") or by Employer pursuant to Section 3.1.3 hereof ("Termination by Employer for Cause"), Executive shall be entitled to no further compensation or other benefits under this Employment Agreement except as to that portion of any unpaid salary and other benefits accrued and earned by her hereunder up to and including the effective date of such termination and to offer COBRA coverage at Executive's cost pursuant to applicable law.

3.2.3 Termination Upon Non Renewal by Employer. In the event Executive's employment is terminated by Employer pursuant to Section 3.1.6 hereof, then during the ninety (90)-day notice period of Section 2.4, Employer shall continue to pay to Executive her then-current annual Base Salary and benefits subject to standard federal and state payroll withholding requirements and in accordance with Employer's regular payroll practices and no later than the effective date of termination of employment, Employer shall pay to Executive any unpaid salary accrued and earned by her up to and including the effective date of termination. In addition, in the event Executive's employment is terminated by Employer pursuant to Section 3.1.6 hereof, then provided Executive executes and does not revoke a Release in accordance with Section 3.7, Executive shall be entitled to the following, which payments and benefits shall be paid in accordance with this Section 3.2.3 and Section 3.7:

(i) continuing payments of Executive's then-current salary for the Severance Period payable subject to standard federal and state payroll withholding requirements in accordance with Employer's regular payroll practices on Employer's normal payroll schedule over the Severance Period, subject to Section 3.7;

(ii) Employer shall pay to Executive a lump sum payment equal to the gross sum of any bonuses or portion thereof for any preceding year or for the year of termination which bonus has been approved by Employer, but has not been received by Executive prior to the effective date of termination, less applicable deductions and withholdings paid in accordance with Section 2.2 but in no event later than two and one-half (2 1/2) months following the end of the fiscal year to which it relates. For the avoidance of doubt, (x) Executive does not have to be employed by Employer on the date such bonuses are approved by the Employer to receive such bonuses; and (y) this provision shall not be construed as guaranteeing the payment of a bonus for such year(s); and

(iii) So long as Executive is eligible, and so long as Executive remains eligible, for and upon her timely election of COBRA coverage, Employer will continue to pay, directly to the healthcare provider when due, 100% of the medical, vision and dental coverage premiums (including employee contributions, if any) until the earlier of (i) the end of the five (5) month period following the effective date of termination; or (ii) the date when Executive becomes eligible for substantially equivalent health insurance coverage in connection with new employment (the "Nonrenewal COBRA Payment Period"); provided that Executive must immediately notify Employer in the event Executive becomes eligible for coverage under another employer's group health plan during the Nonrenewal COBRA Payment Period; and provided further that, if at any time Employer determines, in its sole discretion, that the payment of the COBRA premiums would result in a violation of the nondiscrimination rules of Section 105(h)(2) of the Code or any statute or regulation of similar effect (including but not limited to the 2010 Patient Protection and Affordable Care Act, as amended by the 2010 Health Care and Education Reconciliation Act), then in lieu of providing the COBRA premiums for the remainder of the Nonrenewal COBRA Payment Period, Employer will instead pay Executive on the first day of each month of the remainder of the Nonrenewal COBRA Payment Period, a fully taxable cash payment equal to the COBRA premiums for that month, subject to applicable tax withholdings, for the remainder of the Nonrenewal COBRA Payment Period.

3.3 Nature of Payments. All amounts to be paid by Employer to Executive pursuant to Sections 3.2.1(i) – (iv) and 3.2.3(i) – (iii) are considered by the parties to be severance payments and are in lieu of, and not in addition to, any benefits to which Executive may otherwise be entitled under any Employer severance plan, policy or program.

3.4 Duties Upon Termination. During the Severance Period, if there is a Severance Period applicable to Executive's termination of employment from Employer, Executive shall fully cooperate with Employer in all matters relating to the winding up of Executive's pending work including, but not limited to, any litigation in which Employer is involved, and the orderly transfer of any such pending work to such other employees as may be designated by Employer. Notwithstanding the foregoing, such cooperation requirement shall not unreasonably interfere with her then current employment or business activities. With Employer's prior approval, Executive shall be reimbursed for all expenses reasonably incurred in connection with such cooperation. Following the end of the Severance Period, Executive will be released from any duties and obligations hereunder (except those duties and obligations set forth in Article 4 hereof). In the

event of termination of Executive's employment pursuant to Sections 3.1.1 through 3.1.7 hereof, the obligations of Employer to Executive will be as set forth in Section 3.2 hereof.

3.5 Severance Period. "Severance Period" shall mean a period of nine (9) months beginning on and immediately following the effective date of Executive's termination of employment with Employer.

3.6 Release. Notwithstanding any provision of this Employment Agreement to the contrary, in no event shall the timing of Executive's execution of the Release, directly or indirectly, result in Executive designating the calendar year of payment, and if a payment that is subject to the requirements of Section 409A of the Code and is subject to execution of the Release could be made in more than one taxable year based on when the Release is executed or becomes effective, payment shall be made in the later year.

3.7 Commencement of Severance Payments. The severance payments and benefits set forth in Sections 3.2.1(i) – (iv) (Termination by Employer for Death, Disability, Without Cause, by Executive for Good Reason) and Sections 3.2.3(i) – (iii) (Termination Upon Non-Renewal by Employer) above will not be paid or provided unless Executive executes and does not revoke the Release and the Release is enforceable and effective as provided in the Release on or before the date that is the sixtieth (60^{th}) day following the effective date of termination (such 60^{th} day, the "Severance Pay Commencement Date"). No cash severance payments will be paid pursuant to Sections 3.2.1 or 3.2.3 prior to the Severance Pay Commencement Date. On the Severance Pay Commencement Date Employer will pay in a lump sum the aggregate amount of the cash severance payments that Employer would have paid Executive through such date had the payments commenced on the effective date of termination through the Severance Pay Commencement Date, with the balance paid thereafter on the applicable schedules described above. Notwithstanding any other provision of this Agreement to the contrary, it is intended that the payment of severance upon termination for Good Reason by Executive in accordance with Section 3.1.7 satisfy the safe harbor set forth in Treasury Regulation Section 1.409A-1(n)(2)(ii)), and any severance payment made pursuant to this Agreement shall satisfy the exemptions from the application of Section 409A of the Code provided under Treasury Regulation Sections 1.409A-1(b)(4), and 1.409A-1(b)(9).

4
CONFIDENTIALITY; NON-COMPETITION AND NON-SOLICITATION;

4.1 Confidentiality and Invention Rights. The parties hereto have entered into a Confidentiality and Invention Rights, Non-Competition and Non-Solicitation Agreement, which may be amended by the parties from time to time without regard to this Agreement. The Confidentiality and Invention Rights, Non-Competition and Non-Solicitation Agreement contains provisions that are intended by the parties to survive and do survive termination of this Agreement.

4.2 Remedies. Executive acknowledges and agrees that (a) Employer will be irreparably injured in the event of a breach by Executive of any of her obligations under this Article 4; (b) monetary damages will not be an adequate remedy for any such breach; and (c) in the event of any such breach, the Employer will be entitled to injunctive relief, in addition to any other remedy which it may have, and Executive shall not oppose such injunctive relief based upon the extent of the harm or the adequacy of monetary damages.

5
MISCELLANEOUS PROVISIONS

5.1 Severability. If in any jurisdiction any term or provision hereof is determined to be invalid or unenforceable, (a) the remaining terms and provisions hereof shall be unimpaired, (b) any such invalidity or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction, and (c) the invalid or unenforceable term or provision shall, for purposes of such jurisdiction, be deemed replaced by a term or provision that is valid and enforceable and that comes closest to expressing the intention of the invalid or unenforceable term or provision.

5.2 Execution in Counterparts. This Employment Agreement may be executed in one or more counterparts, and by the different parties hereto in separate counterparts, each of which shall be deemed to be an original but all of which taken together shall constitute one and the same agreement (and all signatures need not appear on any one counterpart), and this Employment Agreement shall become effective when one or more counterparts has been signed by each of the parties hereto and delivered to each of the other parties hereto.

5.3 Notices. All notices, requests, demands and other communications hereunder shall be in writing and shall be deemed duly given when delivered by hand, or when delivered if mailed by registered or certified mail, postage prepaid, return receipt requested, or private courier service or via facsimile (with written confirmation of receipt) or email (with written confirmation of receipt) as follows:

If to Employer, to:

Aclaris Therapeutics, Inc.
101 Lindenwood Drive, Suite 400
Malvern, Pennsylvania 19355
Attention: Frank Ruffo
Email: fruffo@aclaristx.com
Telephone: 484-324-7933

If to Executive, to:

Kamil Ali-Jackson
902 Trail Run Lane
West Chester, Pennsylvania 19382
Email: kalijackson@aclaristx.com

or to such other address(es) as a party hereto shall have designated by like notice to the other parties hereto.

5.4 Amendment. No provision of this Employment Agreement may be modified, amended, waived or discharged in any manner except by a written instrument executed by Employer and Executive.

5.5 Entire Agreement. This Employment Agreement constitutes the entire agreement of the parties hereto with respect to the subject matter hereof, and supersedes all prior agreements and understandings of the parties hereto, oral or written, with respect to the subject matter hereof, including but not limited any prior offer letter or written embodiment of the employment relationship between Executive and Employer. No representation, promise or inducement has been

made by either party that is not embodied in this Employment Agreement, and neither party shall be bound by or liable for any alleged representation, promise or inducement not so set forth.

5.6 Applicable Law. This Employment Agreement shall be governed by and construed in accordance with the laws of the Commonwealth of Pennsylvania applicable to contracts made and to be wholly performed therein without regard to its conflicts or choice of law provisions.

5.7 Headings. The headings contained herein are for the sole purpose of convenience of reference, and shall not in any way limit or affect the meaning or interpretation of any of the terms or provisions of this Employment Agreement.

5.8 Binding Effect; Successors and Assigns. Executive may not delegate her duties or assign her rights hereunder. This Employment Agreement will inure to the benefit of, and be binding upon, the parties hereto and their respective heirs, legal representatives, and successors. Employer may assign this Employment Agreement to any entity purchasing all or substantially all of the assets of Employer.

5.9 Waiver, etc. The failure of either of the parties hereto to at any time enforce any of the provisions of this Employment Agreement shall not be deemed or construed to be a waiver of any such provision, nor to in any way affect the validity of this Employment Agreement or any provision hereof or the right of either of the parties hereto to thereafter enforce each and every provision of this Employment Agreement. No waiver of any breach of any of the provisions of this Employment Agreement shall be effective unless set forth in a written instrument executed by the party against whom or which enforcement of such waiver is sought, and no waiver of any such breach shall be construed or deemed to be a waiver of any other or subsequent breach.

5.10 Continuing Effect. Provisions of this Agreement which by their terms must survive the termination of this Agreement in order to effectuate the intent of the parties will survive any such termination, whether by expiration of the term, termination of Executive's employment, or otherwise, for such period as may be appropriate under the circumstances.

5.11 Representations and Warranties of Executive. Executive hereby represents and warrants to Employer that to the knowledge of Executive, Executive is not bound by any non-competition or other agreement which would prevent her performance hereunder.

5.12 Section 409A of the Code. This Employment Agreement is intended to comply with Section 409A of the Code and its corresponding regulations, or an exemption, and payments may only be made under this Employment Agreement upon an event and in a manner permitted by Section 409A of the Code, to the extent applicable. Payment under this Employment Agreement is intended to be exempt from Code Section 409A under the "short-teen deferral" exception set forth in Treasury Regulation Section 1.409A-1(b)(4), to the maximum extent applicable, and then under the "separation pay" exception set forth in Treasury Regulation Section 1.409A-1(b)(9), to the maximum extent applicable. All payments to be made upon a termination of employment under this Agreement may only be made upon a "separation from service" within the meaning of Treasury Regulation Section 1.409A-1(h) (or any successor provision) (a "Separation from Service"). For purposes of Code Section 409A, the right to a series of installment payments under this Agreement shall be treated as a right to a series of separate payments. In no event may the Executive, directly or indirectly, designate the calendar year of a payment. If the termination of employment giving rise to the payments described in Section 3.2.1 is not a Separation from Service, then the amounts otherwise payable pursuant to Section 3.2.1 will instead be deferred

without interest and paid when Executive experiences a Separation from Service. Notwithstanding anything in this Employment Agreement to the contrary or otherwise, with respect to any expense, reimbursement or in-kind benefit provided pursuant to this Employment Agreement that constitutes a "deferral of compensation" within the meaning of Section 409A of the Code and its implementing regulations and guidance, (a) the expenses eligible for reimbursement or in-kind benefits provided to Executive must be incurred during the Employment Term (or applicable survival period), (b) the amount of expenses eligible for reimbursement or in-kind benefits provided to Executive during any calendar year will not affect the amount of expenses eligible for reimbursement or in-kind benefits provided to Executive in any other calendar year, (c) the reimbursements for expenses for which Executive is entitled to be reimbursed shall be made on or before the last day of the calendar year following the calendar year in which the applicable expense is incurred and (d) the right to payment or reimbursement or in-kind benefits hereunder may not be liquidated or exchanged for any other benefit. Notwithstanding any provision to the contrary in this Agreement, if Executive is deemed by Employer at the time of her Separation from Service to be a "specified employee" for purposes of Section 409A(a)(2)(B)(i) of the Code, and if any of the payments due upon Separation From Service set forth herein and/or under any other agreement with Employer are deemed to be "deferred compensation," then to the extent delayed commencement of any portion of such payments is required to avoid a prohibited distribution under Section 409A(a)(2)(B)(i) of the Code and the related adverse taxation under Section 409A of the Code, such payments will not be provided to Executive prior to the earliest of (i) the expiration of the six (6)-month period measured from the date of Executive's Separation From Service with Employer, (ii) the date of Executive's death or (iii) such earlier date as permitted under Section 409A of the Code without the imposition of adverse taxation. Upon the first business day following the expiration of such applicable Code Section 409A(a)(2)(B)(i) period, all payments deferred pursuant to this paragraph will be paid in a lump sum to Executive, and any remaining payments due will be paid as otherwise provided in this Agreement or in the applicable agreement. No interest will be due on any amounts so deferred.

5.13 Dispute Resolution. The parties recognize that litigation in federal or state courts or before federal or state administrative agencies of disputes arising out of the Executive's employment with the Employer or out of this Agreement, or the Executive's termination of employment or termination of this Agreement, may not be in the best interests of either the Executive or Employer, and may result in unnecessary costs, delays, complexities, and uncertainty. The parties agree that any dispute between the parties arising out of or relating to the negotiation, execution, performance or termination of this Agreement or the Executive's employment, including, but not limited to, any claim arising out of this Agreement, claims under Title VII of the Civil Rights Act of 1964, as amended, the Civil Rights Act of 1991, the Age Discrimination in Employment Act of 1967, the Americans with Disabilities Act of 1990, Section 1981 of the Civil Rights Act of 1966, as amended, the Family Medical Leave Act, the Executive Retirement Income Security Act, and any similar federal, state or local law, statute, regulation, or any common law doctrine, whether that dispute arises during or after employment, shall be settled by binding arbitration in accordance with the National Rules for the Resolution of Employment Disputes of the American Arbitration Association; *provided however,* that this dispute resolution provision shall not apply to any separate agreements between the parties that do not themselves specify arbitration as an exclusive remedy. The location for the arbitration shall be the Philadelphia, Pennsylvania metropolitan area. Any award made by such panel shall be final, binding and conclusive on the parties for all purposes, and judgment upon the award rendered by the arbitrators may be entered in any court having jurisdiction thereof. The arbitrators' fees and expenses and all administrative fees and expenses associated with the filing of the arbitration shall be borne by

Employer. The parties acknowledge and agree that their obligations to arbitrate under this Section survive the termination of this Agreement and continue after the termination of the employment relationship between Executive and Employer. The parties each further agree that the arbitration provisions of this Agreement shall provide each party with its **exclusive remedy**, and each party expressly waives any right it might have to seek redress in any other forum, except as otherwise expressly provided in this Agreement. By election arbitration as the means for final settlement of all claims, **the parties hereby waive their respective rights to, and agree not to, sue each other in any action in a Federal, State or local court with respect to such claims, but may seek to enforce in court an arbitration award rendered pursuant to this Agreement. The parties specifically agree to waive their respective rights to a trial by jury, and further agree that no demand, request or motion will be made for trial by jury.**

[**SIGNATURE PAGE FOLLOWS**]

IN WITNESS WHEREOF, this Employment Agreement has been executed and delivered by the parties hereto as of the Effective Date.

ACLARIS THERAPEUTICS, INC.

By: /s/ Neal Walker 9/17/15
Name: Neal WalkerDate
Title: Chief Executive Officer

/s/ Kamil Ali-Jackson 9/17/15
Kamil Ali-Jackson Date

Exhibit 31.1

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Neal Walker, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the period ended March 31, 2017 of Aclaris Therapeutics, 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)) 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) 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

   (c) 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: May 9, 2017

/s/ Neal Walker
Neal Walker
President and Chief Executive Officer
(principal executive officer)

Exhibit 31.2

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Frank Ruffo, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the period ended March 31, 2017 of Aclaris Therapeutics, 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)) 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) 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

   (c) 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: May 9, 2017

/s/ Frank Ruffo
Frank Ruffo
Chief Financial Officer
(principal financial officer)

Exhibit 32.1

CERTIFICATIONS OF
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), Neal Walker, President and Chief Executive Officer of Aclaris Therapeutics, Inc. (the "Company"), and Frank Ruffo, 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 March 31, 2017, 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 9th day of May, 2017.

/s/ Neal Walker	/s/ Frank Ruffo
Neal Walker	Frank Ruffo
President and Chief Executive Officer	Chief Financial Officer
(principal executive 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 Aclaris Therapeutics, Inc. 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.