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 June 30, 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 August 7, 2017 was 26,736,517.

ACLARIS THERAPEUTICS, INC.

INDEX TO FORM 10-Q

Part I. FINANCIAL INFORMATION

Item 1. Financial Statements

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

(In thousands, except share and per share data)

	June 30, 2017	December 31, 2016
Assets		
Current assets:		
Cash and cash equivalents	$ 32,708	$ 30,171
Marketable securities	137,789	107,051
Prepaid expenses and other current assets	5,254	1,334
Total current assets	175,751	138,556
Marketable securities	—	36,912
Property and equipment, net	938	481
Deferred offering costs	99	116
Other assets	20	20
Total assets	$ 176,808	$ 176,085
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 5,848	$ 2,845
Accrued expenses	2,521	3,378
Total current liabilities	8,369	6,223
Other liabilities	295	372
Total liabilities	8,664	6,595
Stockholders' Equity:		
Preferred stock, $0.00001 par value; 10,000,000 shares authorized and no shares issued or outstanding at June 30, 2017 and December 31, 2016	—	—
Common stock, $0.00001 par value; 100,000,000 shares authorized at June 30, 2017 and December 31, 2016; 26,736,517 and 26,059,181 shares issued and outstanding at June 30, 2017 and December 31, 2016, respectively	—	—
Additional paid-in capital	286,619	260,671
Accumulated other comprehensive loss	(166)	(269)
Accumulated deficit	(118,309)	(90,912)
Total stockholders' equity	168,144	169,490
Total liabilities and stockholders' equity	$ 176,808	$ 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 June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Revenue	$ —	$ —	$ —	$ —
Operating expenses:				
Research and development	7,965	9,836	15,737	19,371
General and administrative	7,330	3,153	12,488	6,757
Total operating expenses	15,295	12,989	28,225	26,128
Loss from operations	(15,295)	(12,989)	(28,225)	(26,128)
Other income, net	457	118	828	218
Net loss	$ (14,838)	$ (12,871)	$ (27,397)	$ (25,910)
Net loss per share, basic and diluted	$ (0.56)	$ (0.62)	$ (1.04)	$ (1.27)
Weighted average common shares outstanding, basic and diluted	26,594,854	20,663,088	26,339,250	20,417,301
Other comprehensive loss:				
Unrealized (loss) gain on marketable securities, net of tax of $0	$ (4)	$ 14	$ (56)	$ 156
Foreign currency translation adjustments	87	(16)	159	(6)
Total other comprehensive income (loss)	83	(2)	103	150
Comprehensive loss	$ (14,755)	$ (12,873)	$ (27,294)	$ (25,760)

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
Issuance of common stock under the at-the-market sales agreement, net of offering costs of $691	635,000	—	19,311	—	—	19,311
Exercise of stock options and vesting of restricted stock units	42,336	—	180	—	—	180
Unrealized loss on marketable securities	—	—	—	(56)	—	(56)
Foreign currency translation adjustment	—	—	—	159	—	159
Stock-based compensation expense	—	—	6,457	—	—	6,457
Net loss	—	—	—	—	(27,397)	(27,397)
Balance at June 30, 2017	26,736,517	$ —	$ 286,619	$ (166)	$ (118,309)	$ 168,144

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

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

(In thousands)

	Six Months Ended June 30,	
	2017	**2016**
Cash flows from operating activities:		
Net loss	$ (27,397)	$ (25,910)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation expense	105	48
Stock-based compensation expense	6,457	2,576
Non-cash charges related to Vixen acquisition	—	2,784
Changes in operating assets and liabilities:		
Prepaid expenses and other assets	(3,897)	30
Accounts payable	3,161	2,493
Accrued expenses	(1,168)	1,353
Net cash used in operating activities	(22,739)	(16,626)
Cash flows from investing activities:		
Purchases of property and equipment	(388)	(106)
Purchases of marketable securities	(41,534)	(11,282)
Proceeds from sales and maturities of marketable securities	47,652	31,430
Net cash provided by investing activities	5,730	20,042
Cash flows from financing activities:		
Proceeds from issuance of common stock in connection with private placement, net of issuance costs	—	18,547
Proceeds from issuance of common stock under the at-the-market sales agreement, net of issuance costs	19,311	—
Proceeds from the exercise of employee stock options	235	1
Net cash provided by financing activities	19,546	18,548
Net increase in cash and cash equivalents	2,537	21,964
Cash and cash equivalents at beginning of period	30,171	9,851
Cash and cash equivalents at end of period	$ 32,708	$ 31,815
Supplemental disclosure of non-cash investing and financing activities:		
Additions to property and equipment included in accounts payable	$ 190	$ 18
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 biopharmaceutical 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 June 30, 2017, the Company had cash, cash equivalents and marketable securities of $170,497 and an accumulated deficit of $118,309. 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 June 30, 2017, the condensed consolidated statements of operations and comprehensive loss for the three and six months ended June 30, 2017 and 2016, the condensed consolidated statement of stockholders' equity for the six months ended June 30, 2017, and the condensed consolidated statements of cash flows for the six months ended June 30, 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 June 30, 2017, the results of its operations and comprehensive loss for the three and six months ended June 30, 2017 and 2016 and its cash flows for the six months ended June 30, 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 and six months ended June 30, 2017 and 2016 are unaudited. The results for the three and six months ended June 30, 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 waiver and refund 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:

	June 30, 2017			
	Level 1	Level 2	Level 3	Total
Assets:				
Cash equivalents	$ 23,596	$ 6,993	$ —	$ 30,589
Marketable securities	—	137,789	—	137,789
Total	$ 23,596	$ 144,782	$ —	$ 168,378

	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 June 30, 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 and asset-backed 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 six months ended June 30, 2017 and the year ended December 31, 2016, there were no transfers between Level 1, Level 2 and Level 3.

As of June 30, 2017 and December 31, 2016, the fair value of the Company's available for sale marketable securities by type of security was as follows:

	June 30, 2017			
	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Fair Value
Marketable securities:				
Corporate debt securities	$ 38,318	$ —	$ (25)	$ 38,293
Commercial paper	34,098	—	—	34,098
Asset-backed securities	25,938	—	(21)	25,917
U.S. government agency debt securities	39,539	—	(58)	39,481
Total marketable securities	$ 137,893	$ —	$ (104)	$ 137,789

	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:

	June 30, 2017	December 31, 2016
Computer equipment	$ 530	$ 310
Manufacturing equipment	478	149
Furniture and fixtures	125	115
Leasehold improvements	33	33
Property and equipment, gross	1,166	607
Accumulated depreciation	(228)	(126)
Property and equipment, net	$ 938	$ 481

Depreciation expense was $55 and $27 for the three months ended June 30, 2017 and 2016, respectively, and $105 and $48 for the six months ended June 30, 2017 and 2016, respectively.

5. Accrued Expenses

Accrued expenses consisted of the following:

	June 30, 2017	December 31, 2016
Research and development expenses	$ 1,187	$ 1,166
Employee compensation expenses	1,074	1,732
Vixen contract payable	100	100
Professional fees	100	77
Other	60	303
Total accrued expenses	$ 2,521	$ 3,378

6. Stockholders' Equity

Preferred Stock

As of June 30, 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 June 30, 2017 or December 31, 2016.

Common Stock

As of June 30, 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 June 30, 2017.

At-The-Market Equity Offering

On November 2, 2016, the Company entered into an at-the-market sales agreement with Cowen and Company, LLC to sell the Company's securities under a shelf registration statement filed in November 2016. During the three months ended June 30, 2017, the Company issued and sold 635,000 shares of common stock under the at-the-market sales agreement. The shares were sold at a weighted average price per share of $31.50, for aggregate gross proceeds of $20.0 million. As of June 30, 2017, the Company had issued and sold an aggregate of 635,000 shares of common stock under the at-the-market sales agreement, for aggregate gross proceeds of $20.0 million.

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, nonqualified 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 June 30, 2017, 1,533,599 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 June 30, 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 were as follows:

	Six Months Ended June 30,	
	2017	2016
Risk-free interest rate	1.93 %	1.44 %
Expected term (in years)	6.0	6.6
Expected volatility	94.09 %	96.90 %
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 June 30, 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	135,000	27.19		
Exercised	(36,738)	6.40		
Forfeited and cancelled	(27,546)	(17.55)		
Outstanding as of June 30, 2017	2,773,066	$ 19.53	8.64	$ 23,461
Options vested and expected to vest as of June 30, 2017	2,773,066	$ 19.53	8.64	$ 23,461
Options exercisable as of June 30, 2017	736,308 (1)	$ 11.02	7.99	$ 12,043

(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 June 30, 2017.

The weighted average grant date fair value of stock options granted during the six months ended June 30, 2017 was $20.81 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 June 30, 2017:

	Number of Shares	Weighted Average Grant Date Fair Value Per Share
Outstanding as of December 31, 2016	219,614	$ 27.43
Granted	13,167	28.50
Vested	(7,799)	20.26
Forfeited and cancelled	(2,096)	25.08
Outstanding as of June 30, 2017	222,886	$ 27.76

Stock-Based Compensation

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Research and development	$ 1,304	$ 533	$ 2,521	$ 954
General and administrative	2,000	821	3,936	1,622
Total stock-based compensation expense	$ 3,304	$ 1,354	$ 6,457	$ 2,576

As of June 30, 2017, the Company had unrecognized stock-based compensation expense for stock options and RSUs of $31,174 and $4,794, respectively, which is expected to be recognized over weighted average periods of 3.02 years and 2.62 years, respectively.

8. Net Loss per Share

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Numerator:				
Net loss	$ (14,838)	$ (12,871)	$ (27,397)	$ (25,910)
Denominator:				
Weighted average shares of common stock outstanding	26,594,854	20,663,088	26,339,250	20,417,301
Net loss per share, basic and diluted	$ (0.56)	$ (0.62)	$ (1.04)	$ (1.27)

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 both the three and six months ended June 30, 2017 and 2016. All share amounts presented in the table below represent the total number outstanding as of June 30, 2017 and 2016.

	June 30,	
	2017	2016
Stock options to purchase common stock	2,773,066	1,913,419
Restricted stock unit awards	222,886	85,000
Total potential common shares	2,995,952	1,998,419

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 $90 and $60 for the three months ended June 30, 2017 and 2016, respectively, and was $174 and $112 for the six months ended June 30, 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 June 30, 2017, future minimum lease payments under these agreements were as follows:

Year Ending December 31,	
2017	$ 178
2018	363
2019	339
2020	—
2021	—
Thereafter	—
Total	$ 880

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 June 30, 2017 and 2016 were $50 and $56, respectively, and during the six months ended June 30, 2017 and 2016 were $124 and $115, 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, December 2016 and May 2017 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 and six months ended June 30, 2017 and 2016, amounts included in the consolidated statement of operations and comprehensive loss for the NST Services Agreement are summarized in the following table:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Services provided by NST Consulting, LLC	$ 56	$ 79	$ 112	$ 158
Services provided to NST Consulting, LLC	(7)	(15)	(18)	(30)
General and administrative expense, net	$ 49	$ 64	$ 94	$ 128
Services provided by NST Consulting, LLC	$ —	$ 60	$ —	$ 121
Services provided to NST Consulting, LLC	—	(21)	—	(42)
Research and development expense, net	$ —	$ 39	$ —	$ 79
Services provided by NST Consulting, LLC	$ 56	$ 139	$ 112	$ 279
Services provided to NST Consulting, LLC	(7)	(36)	(18)	(72)
Total, net	$ 49	$ 103	$ 94	$ 207
Net payments made to NST	$ 47	$ 117	$ 182	$ 175

The Company had $4 and $91 payable to NST Consulting, LLC under the NST Services Agreement as of June 30, 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 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. In April 2017, the Company made an additional milestone payment of $1,000 upon the achievement of specified regulatory milestones. The payments were recorded as general and administrative expenses in the Company's consolidated statement of operations.

Under the finder's services agreement, the Company is obligated to make additional milestone payments of 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 six months ended June 30, 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 and six months ended June 30, 2017 and 2016 due to the Company's conclusion that a valuation allowance is required.

13. Subsequent Events

On August 3, 2017, the Company entered into an Agreement and Plan of Merger (the "Merger Agreement") with Confluence Life Sciences, Inc., a Delaware corporation ("Confluence"), Aclaris Life Sciences, Inc., a Delaware corporation and wholly owned subsidiary of the Company ("Merger Sub"), and Fortis Advisors LLC, as representative of the holders of Confluence equity. The Merger Agreement provided for Merger Sub to merge with and into Confluence (the "Merger"), with Confluence surviving as a wholly owned subsidiary of the Company. The Merger with Confluence will add small molecule drug discovery and preclinical development capabilities, which the Company expects will allow it to bring early-stage research and development activities in-house that the Company currently outsources to third parties. The Company expects to account for the acquisition of Confluence as a business combination.

Pursuant to the Merger Agreement, the Company was to pay holders of Confluence's capital stock and options to purchase Confluence's common stock (collectively, the "Confluence Equityholders"), upfront consideration of $20,000 consisting of $10,000 in cash and $10,000 in shares of the Company's common stock, subject to adjustments for working capital, debt and transaction expenses. On the closing date, the Company paid $8,697 and issued 314,572 shares to the Confluence Equityholders and deposited $1,000 in cash and 34,955 shares into escrow as required by the Merger Agreement.

The Company has also agreed to pay the Confluence Equityholders contingent consideration of up to $80,000, based upon the achievement of certain development, regulatory and commercial milestones set forth in the Merger Agreement. Of the contingent consideration, $2,500 may be paid in shares of the Company's common stock upon the achievement of a specified development milestone. In addition, the Company has agreed to pay the Confluence Equityholders specified future royalty payments calculated as 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. In addition, if the Company sells, licenses or transfers any of the intellectual property acquired from Confluence pursuant to the Merger Agreement to a third party, the Company will be obligated to pay the Confluence Equityholders a portion of any incremental consideration (in excess of the development and milestone payments described above) that the Company receives from such sales, licenses or transfers in specified circumstances.

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 biopharmaceutical 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 submitted a Marketing Authorization Application, or MAA, in the European Union in July 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 submitted an MAA in the European Union in July 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 June 2017, we commenced two additional Phase 2 clinical trials of A-101 45% Topical Solution to assess the dose frequency in adult and pediatric patients with common warts. 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 submitted an IND to the FDA for ATI-50002, for the treatment of patchy AA, in July 2017, and plan 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.

In August 2017, we acquired Confluence Life Sciences, Inc. or Confluence. The merger with Confluence will add small molecule drug discovery and preclinical development capabilities which, we expect, will allow us to bring early-stage research and development activities in-house that we currently outsource to third parties. Through the acquisition of Confluence, we also acquired several preclinical product candidates, including additional JAK inhibitors known as "soft" JAK inhibitors, as well as inhibitors of the MK-2 signaling pathway and inhibitors of interleukin-2-inducible T cell kinase, or ITK. At the closing of the acquisition, we paid approximately $10.0 million and issued 349,527 shares of our common stock to the former equityholders of Confluence, including amounts deposited into escrow. We are obligated to pay up to $80.0 million to the former Confluence equityholders upon the achievement of specified development, regulatory and commercial milestones, as well as low single-digit royalties upon net sales of covered products and a portion of any amounts we may receive from the further sale, out-license or transfer of the acquired intellectual property to third parties.

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, 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 $27.4 million for the six months ended June 30, 2017. As of June 30, 2017, we had an accumulated deficit of $118.3 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 June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
	(In thousands)			
A-101 Topical Solution (40% and 45%)	$ 1,917	$ 6,480	$ 3,280	$ 9,703
JAK inhibitors	2,331	1,569	4,887	3,008
Vixen acquisition	—	—	—	3,385
Other	51	57	101	90
Total direct research and development expenses	4,299	8,106	8,268	16,186
Personnel and other costs	2,362	1,197	4,948	2,231
Stock-based compensation	1,304	533	2,521	954
Total research and development expenses	$ 7,965	$ 9,836	$ 15,737	$ 19,371

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 June 30, 2017 and 2016

	Three Months Ended June 30,		
	2017	2016	Change
	(In thousands)		
Revenue	$ —	$ —	$ —
Operating expenses:			
Research and development	7,965	9,836	(1,871)
General and administrative	7,330	3,153	4,177
Total operating expenses	15,295	12,989	2,306
Loss from operations	(15,295)	(12,989)	(2,306)
Other income, net	457	118	339
Net loss	$ (14,838)	$ (12,871)	$ (1,967)

Research and Development Expenses

Research and development expenses were $8.0 million for the three months ended June 30, 2017, compared to $9.8 million for the three months ended June 30, 2016. The decrease of $1.9 million was primarily driven by a $4.4 million decrease in costs associated with the development of A-101 40% Topical Solution as a result of the completion of our Phase 3 clinical trials in November 2016. The decrease in development costs for A-101 40% Topical Solution was partially offset by an increase of $0.8 million in preclinical development expenses related to the JAK inhibitor technology, an increase of $0.6 million in payroll-related expenses due to higher headcount, an $0.8 million increase in stock-based compensation expense, and a $0.5 million increase in expenses related to medical affairs activities.

General and Administrative Expenses

General and administrative expenses were $7.3 million for the three months ended June 30, 2017, compared to $3.2 million for the three months ended June 30, 2016. The increase of $4.2 million was primarily attributable to a $1.0 million one-time milestone payment pursuant to the finder's services agreement related to A-101 40% Topical Solution which was incurred in the second quarter of 2017, an increase of $0.4 million in payroll-related expenses due to increased headcount, $1.2 million in higher stock-based compensation expense, and a $0.7 million increase in market research expenses related to pre-commercial activities for A-101 40% Topical Solution.

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, as well as our follow-on public offering in November 2016 and sales under our at-the-market facility with Cowen in April 2017.

Comparison of Six Months Ended June 30, 2017 and 2016

	Six Months Ended June 30,		
	2017	2016	Change
	(In thousands)		
Revenue	$ —	$ —	$ —
Operating expenses:			
Research and development	15,737	19,371	(3,634)
General and administrative	12,488	6,757	5,731
Total operating expenses	28,225	26,128	2,097
Loss from operations	(28,225)	(26,128)	(2,097)
Other income, net	828	218	610
Net loss	$ (27,397)	$ (25,910)	$ (1,487)

Research and Development Expenses

Research and development expenses were $15.7 million for the six months ended June 30, 2017, compared to $19.4 million for the six months ended June 30, 2016. The decrease of $3.6 million was primarily driven by $3.4 million in expenses associated with the acquisition of Vixen Pharmaceuticals, Inc., or Vixen, in the six months ended June 30, 2016, for which there was no similar transaction in the current year period. Excluding the Vixen acquisition, research and development expenses decreased $0.3 million, primarily driven by a $6.4 million decrease in costs associated with the development of A-101 40% Topical Solution as a result of the completion of our Phase 3 clinical trials in November 2016, partially offset by an increase of $1.9 million in preclinical development expenses related to the JAK inhibitor technology, an increase of $1.2 million in payroll-related expenses due to higher headcount, a $1.6 million increase in stock-based compensation expense, a $1.4 million increase in expenses related to medical affairs activities, and $0.4 million of regulatory expenses associated with the NDA filing for A-101 40% Topical Solution incurred during the six months ended June 30, 2017.

General and Administrative Expenses

General and administrative expenses were $12.5 million for the six months ended June 30, 2017, compared to $6.8 million for the six months ended June 30, 2016. The increase of $5.7 million was primarily attributable to a $1.1 million increase in market research expenses related to pre-commercial activities for A-101 40% Topical Solution, an increase of $0.8 million in payroll-related expenses due to increased headcount, and $2.3 million in higher stock-based compensation expense. In addition, milestone payments pursuant to the finder's services agreement related to A-101 40% Topical Solution increased $0.7 million over the prior year period.

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, as well as our follow-on public offering in November 2016 and sales under our at-the-market facility with Cowen in April 2017.

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 June 30, 2017, we had cash, cash equivalents and marketable securities of $170.5 million. Cash in excess of immediate requirements is invested in accordance with our investment policy, primarily with a view towards 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 six months ended June 30, 2017 and 2016:

	Six Months Ended June 30,	
	2017	2016
	(In thousands)	
Net cash used in operating activities	$ (22,739)	$ (16,626)
Net cash provided by investing activities	5,730	20,042
Net cash provided by financing activities	19,546	18,548
Net increase in cash and cash equivalents	$ 2,537	$ 21,964

Operating Activities

During the six months ended June 30, 2017, operating activities used $22.7 million of cash, primarily resulting from our net loss of $27.4 million and by cash used by changes in our operating assets and liabilities of $1.9 million, partially offset by non-cash adjustments of $6.6 million. Net cash used by changes in our operating assets and liabilities during the six months ended June 30, 2017 consisted of a $3.9 million increase in prepaid expenses and other current assets partially offset by a $2.0 million increase 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, as well as deposits made for clinical supplies and development activities which will be incurred during the second half of 2017. The increase in accounts payable and accrued expenses was primarily due to deposits and expenses incurred, but not yet paid, in connection with the commencement of our Phase 2 clinical trials for A-101 45% Topical Solution, ATI-50001 and ATI-50002, as well as the timing of vendor invoicing and payments. Non-cash expenses of $6.6 million were primarily composed of stock-based compensation expense.

During the six months ended June 30, 2016, operating activities used $16.6 million of cash, primarily resulting from our net loss of $25.9 million partially offset by cash provided by our changes in our operating assets and liabilities of $3.9 million and by non-cash adjustments of $5.4 million. Net cash provided by changes in our operating assets and liabilities during the six months ended June 30, 2016 consisted of a $3.8 million increase in accounts payable and accrued expenses. The increase in accounts payable and accrued expenses was primarily due to expenses incurred, but not yet paid, 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. Non-cash expenses of $5.4 million were primarily composed of $2.6 million of stock-based compensation expense, and $2.8 million associated with the acquisition of Vixen.

Investing Activities

During the six months ended June 30, 2017, investing activities provided $5.7 million of cash, consisting of proceeds from sales and maturities of marketable securities of $47.7 million, partially offset by purchases of marketable securities of $41.5 million and purchases of equipment of $0.4 million.

During the six months ended June 30, 2016, investing activities provided $20.0 million of cash, consisting of proceeds from sales and maturities of marketable securities of $31.4 million, partially offset by purchases of marketable securities of $11.3 million and purchases of equipment of $0.1 million.

Financing Activities

During the six months ended June 30, 2017, financing activities provided $19.3 million of net proceeds from the sale of 635,000 shares of our common stock in April 2017 pursuant to a sales agreement with Cowen dated November 2, 2016, and $0.2 million of cash from the exercise of employee stock options.

During the six months ended June 30, 2016, financing activities provided $18.5 million of net proceeds from the private placement of 1,081,082 shares of our common stock in June 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 $0.2 million during the six 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 $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 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 covered products that we commercialize, 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.

Under the merger agreement with Confluence we are obligated to make aggregate payments of up to $80.0 million upon the achievement of specified development, regulatory and commercialization milestones. With respect to any covered products we commercialize, 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 merger agreement, we will be obligated to pay a portion of any consideration we receive 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 June 30, 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 June 30, 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. Except for the new risk factors set forth immediately below, 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.

We may not realize the anticipated benefits of our acquisition of Confluence.

In August 2017, we acquired Confluence Life Sciences, Inc., or Confluence, including several preclinical drug candidates and Confluence's contract research services business. Acquisitions are inherently risky, and we may not realize the anticipated benefits of the acquisition of Confluence. Specifically, we are subject to the risks that:

- we fail to successfully develop or integrate Confluence's preclinical drug candidates into our pipeline in order to achieve our strategic objectives;
- we are unable to adequately integrate or continue operating Confluence's contract research services business;
- we receive inadequate or unfavorable data from preclinical studies or clinical trials evaluating the acquired preclinical drug candidates; and
- our due diligence processes in connection with the acquisition fail to identify significant problems, liabilities or other shortcomings or challenges of Confluence, including problems, liabilities or other shortcomings or challenges with respect to intellectual property, product quality and safety and other known and unknown liabilities.

If we are unable to successfully integrate Confluence's business and employees, it could have an adverse effect on our future results and the market price of our common stock.

The success of our acquisition of Confluence will depend, in large part, on our ability to realize operating synergies from combining our business with Confluence's business. To realize these anticipated benefits, we must successfully integrate Confluence's business and employees. This integration will be complex and time-consuming.

The failure to successfully integrate and manage the challenges presented by the integration process may result in our failure to achieve some or all of the anticipated benefits of the merger. Potential difficulties that may be encountered in the integration process include the following:

- complexities associated with managing the larger combined company with distant business locations;
- integrating personnel from the two companies;
- current and prospective employees may experience uncertainty regarding their future roles with our company, which might adversely affect our ability to retain, recruit and motivate key personnel;
- lost sales and customers as a result of customers of Confluence's contract research services business deciding not to do business with the combined company;
- potential unknown liabilities and unforeseen expenses associated with the merger; and
- performance shortfalls at one or both of the companies as a result of the diversion of management's attention caused by completing the merger and integrating the companies' operations.

If any of these events were to occur, the ability of the combined company to maintain relationships with customers, suppliers and employees or our ability to achieve the anticipated benefits of the merger could be adversely affected, or could reduce our future earnings or otherwise adversely affect our business and financial results and, as a result, adversely affect the market price of our common stock.

Charges to earnings resulting from the merger may cause our operating results to suffer.

Under accounting principles, we will allocate the total purchase price of the merger to Confluence's net tangible assets and intangible assets based on their fair values as of the date of the merger, and we will record the excess of the purchase price over those fair values as goodwill. Our management's estimates of fair value will be based upon assumptions that they believe to be reasonable but that are inherently uncertain. The following factors, among others, could result in material charges that would cause our financial results to be negatively impacted:

- impairment of goodwill
- charges for the amortization of identifiable intangible assets and for stock-based compensation; and
- accrual of newly identified pre-merger contingent liabilities that are identified subsequent to the finalization of the purchase price allocation.

Additional costs may include costs of employee redeployment, relocation and retention, including salary increases or bonuses, taxes and termination of contracts that provide redundant or conflicting services. Some of these costs may have to be accounted for as expenses that would negatively impact our results of operations.

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: August 8, 2017

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

Date: August 8, 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*	Seventh Amendment to Services Agreement between the Registrant and NST Consulting, LLC, dated as of May 11, 2017.
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.

SEVENTH AMENDMENT TO SERVICES AGREEMENT
BETWEEN
NST CONSULTING, LLC
AND
ACLARIS THERAPEUTICS, INC.

This Seventh Amendment to the Services Agreement ("Seventh Amendment") made and entered into this day of May 2017 ("Effective Date"), by and between NST CONSULTING, LLC ("NST') and ACLARIS THERAPEUTICS, INC. ("Aclaris").

WHEREAS, NST provides certain management services to Aclaris pursuant to that certain Services Agreement dated February 5, 2014 ("Services Agreement"), as amended by the First Amendment dated December 19, 2014, the Second Amendment dated August 11, 2015, the Third Amendment dated November 24, 2015, the Fourth Amendment dated January 8, 2016, the Fifth Amendment dated January 8, 2016, and the Sixth Amendment dated December 21, 2016, the services being more specifically described therein; and

WHEREAS, NST and Aclaris wish to further amend the Services Agreement as follows;

NOW, THEREFORE, in consideration of and the agreement of each other, NST and Aclaris agree that the Services Agreement shall be and the same is hereby amended as follows:

1. Incorporation of Recitals. The recitals set forth above, the Services Agreement referred to therein and the exhibits attached hereto are hereby incorporated herein by reference as if set forth in full in the body of this Seventh Amendment. Capitalized terms not otherwise defined herein shall have the meanings given to them in the Services Agreement.

2. Exhibit A. Exhibit A is deleted in its entirety and replaced with the new Exhibit A attached hereto.

4. Binding Effect. Except as expressly amended hereby, the Services Agreement remains in full force and effect in accordance with its terms.

IN WITNESS WHEREOF, NST and Aclaris have duly executed this Seventh Amendment on the date first above written.

NST CONSULTING, LLC		**ACLARIS THERAPEUTICS, INC.**	
By:	/s/ Doug Gessl	By:	/s/ Frank Ruffo
Name:	Doug Gessl	Name:	Frank Ruffo
Title:	CFO	Title:	CFO

EXHIBIT A- 7th Amendment

(effective May 31, 2017)

- **Personnel Compensation paid by Aclaris to NST**:
  None.

- **Administrative Support Staff**:
  Effective January 1, 2017: (33.33% of M. Walker, 85% T. Rambert, 20% J. Good)

  $7,375/month (includes benefits charge, excludes annual bonuses)

- **Total Overhead Charge**:
  Effective January 1, 2017, the Overhead Charge will increase by 3% to $10,360/month.

- **Monthly Amounts Due from Aclaris to NST:**

	Jan. – Dec. 2017
Personnel:	$ 0.00
Administrative Support Staff:	$ 7,375.00
Overhead Charge:	$ 10,360.00
Total Due from Aclaris to NST for Services Provided:	$ 17,735.00

- **Personnel Compensation paid by NST to Aclaris**:
  (1) Effective May 31, 2017, Lisa Shultz will no longer provide services to Ralexar Therapeutics and NST will no longer reimburse Aclaris for such services. $0 for Accounting Services Support.

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 June 30, 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f))for the registrant and have:

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

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

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

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

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

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

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

Date: August 8, 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 June 30, 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f))for the registrant and have:

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

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

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

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

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

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

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

Date: August 8, 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 June 30, 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 8th day of August, 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.