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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark one)

☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2024

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.)
701 Lee Road, Suite 103 Wayne, PA (Address of principal executive offices)	19087 (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)

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

Title of Each Class:	Trading Symbol(s)	Name of Each Exchange on which Registered
Common Stock, $0.00001 par value	ACRS	The Nasdaq Stock Market, LLC

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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 ☐	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 July 31, 2024 was 71,344,557.

ACLARIS THERAPEUTICS, INC.

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Part I. FINANCIAL INFORMATION
Item 1. Financial Statements

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

(In thousands, except share and per share data)

	June 30, 2024	December 31, 2023
Assets		
Current assets:		
Cash and cash equivalents	$ 22,834	$ 39,878
Short-term marketable securities	88,259	79,228
Accounts receivable, net	325	298
Prepaid expenses and other current assets	6,217	9,452
Total current assets	117,635	128,856
Marketable securities	38,778	62,771
Property and equipment, net	1,293	1,620
Other assets	3,365	4,158
Total assets	$ 161,071	$ 197,405
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 7,269	$ 8,878
Accrued expenses	5,762	19,446
Other current liabilities	2,651	2,628
Total current liabilities	15,682	30,952
Other liabilities	2,367	3,074
Contingent consideration	9,200	6,200
Total liabilities	27,249	40,226
Stockholders' Equity:		
Preferred stock, $0.00001 par value; 10,000,000 shares authorized and no shares issued or outstanding at June 30, 2024 and December 31, 2023	—	—
Common stock, $0.00001 par value; 200,000,000 shares authorized at June 30, 2024 and December 31, 2023; 71,332,825 and 70,894,889 shares issued and outstanding at June 30, 2024 and December 31, 2023, respectively	1	1
Additional paid-in capital	933,007	928,080
Accumulated other comprehensive loss	(463)	(106)
Accumulated deficit	(798,723)	(770,796)
Total stockholders' equity	133,822	157,179
Total liabilities and stockholders' equity	$ 161,071	$ 197,405

The accompanying notes are an integral part of these condensed consolidated 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,	
	2024	2023	2024	2023
Revenues:				
Contract research	$ 625	$ 875	$ 1,281	$ 1,764
Licensing	2,141	994	3,882	2,633
Total revenue	2,766	1,869	5,163	4,397
Costs and expenses:				
Cost of revenue	624	1,042	1,433	1,850
Research and development	8,759	25,275	18,604	47,862
General and administrative	4,752	8,317	11,596	17,107
Licensing	1,285	550	2,316	1,611
Revaluation of contingent consideration	200	(1,500)	3,000	(2,300)
Total costs and expenses	15,620	33,684	36,949	66,130
Loss from operations	(12,854)	(31,815)	(31,786)	(61,733)
Other income, net	1,868	2,246	3,859	4,004
Net loss	$ (10,986)	$ (29,569)	$ (27,927)	$ (57,729)
Net loss per share, basic and diluted	$ (0.15)	$ (0.42)	$ (0.39)	$ (0.84)
Weighted average common shares outstanding, basic and diluted	71,291,400	70,633,528	71,183,129	68,763,542
Other comprehensive loss:				
Unrealized loss on marketable securities, net of tax of $0	$ (99)	$ (757)	$ (357)	$ (214)
Total other comprehensive loss	(99)	(757)	(357)	(214)
Comprehensive loss	$ (11,085)	$ (30,326)	$ (28,284)	$ (57,943)

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

ACLARIS THERAPEUTICS, INC.
CONDENSED CONSOLIDATED STATEMENTS 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, 2023	70,894,889	$ 1	$ 928,080	$ (106)	$ (770,796)	$ 157,179
Issuance of common stock in connection with vesting of restricted stock units	353,128	—	(55)	—	—	(55)
Unrealized loss on marketable securities	—	—	—	(258)	—	(258)
Stock-based compensation expense	—	—	2,089	—	—	2,089
Net loss	—	—	—	—	(16,941)	(16,941)
Balance at March 31, 2024	71,248,017	$ 1	$ 930,114	$ (364)	$ (787,737)	$ 142,014
Issuance of common stock in connection with vesting of restricted stock units	84,808	—	(10)	—	—	(10)
Unrealized loss on marketable securities	—	—	—	(99)	—	(99)
Stock-based compensation expense	—	—	2,903	—	—	2,903
Net loss	—	—	—	—	(10,986)	(10,986)
Balance at June 30, 2024	71,332,825	$ 1	$ 933,007	$ (463)	$ (798,723)	$ 133,822

	Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Accumulated Deficit	Total Stockholders' Equity
	Shares	Par Value				
Balance at December 31, 2022	66,688,647	$ 1	$ 880,832	$ (897)	$ (682,315)	$ 197,621
Issuance of common stock in connection with vesting of restricted stock units	517,378	—	—	—	—	—
Unrealized gain on marketable securities	—	—	—	543	—	543
Stock-based compensation expense	—	—	6,806	—	—	6,806
Net loss	—	—	—	—	(28,160)	(28,160)
Balance at March 31, 2023	67,206,025	$ 1	$ 887,638	$ (354)	$ (710,475)	$ 176,810
Issuance of common stock in connection with exercise of stock options and vesting of restricted stock units	163,677	—	30	—	—	30
Issuance of common stock under at-the-market sales agreement, net of offering costs of $826	3,400,000	—	26,714	—	—	26,714
Unrealized loss on marketable securities	—	—	—	(757)	—	(757)
Stock-based compensation expense	—	—	6,522	—	—	6,522
Net loss	—	—	—	—	(29,569)	(29,569)
Balance at June 30, 2023	70,769,702	$ 1	$ 920,904	$ (1,111)	$ (740,044)	$ 179,750

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

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

(In thousands)

	Six Months Ended June 30,	
	2024	**2023**
Cash flows from operating activities:		
Net loss	$ (27,927)	$ (57,729)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	485	416
Stock-based compensation expense	4,992	13,328
Revaluation of contingent consideration	3,000	(2,300)
Changes in operating assets and liabilities:		
Accounts receivable	(27)	53
Prepaid expenses and other assets	2,317	(1,605)
Accounts payable	(1,609)	1,074
Accrued expenses	(14,368)	(244)
Net cash used in operating activities	(33,137)	(47,007)
Cash flows from investing activities:		
Purchases of property and equipment, net	(121)	(784)
Purchases of marketable securities	(35,218)	(118,513)
Proceeds from sales and maturities of marketable securities	51,498	125,433
Net cash provided by investing activities	16,159	6,136
Cash flows from financing activities:		
Proceeds from issuance of common stock under the at-the-market sales agreement, net of issuance costs	—	26,714
Payments of employee withholding taxes related to restricted stock unit award vesting	(66)	—
Proceeds from exercise of employee stock options and the issuance of stock	—	30
Net cash (used in) provided by financing activities	(66)	26,744
Net decrease in cash and cash equivalents	(17,044)	(14,127)
Cash and cash equivalents at beginning of period	39,878	45,277
Cash and cash equivalents at end of period	$ 22,834	$ 31,150
Supplemental disclosure of non-cash investing and financing activities:		
Additions to property and equipment included in accounts payable	$ —	$ 394

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

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

1. Organization and Nature of Business

Overview

Aclaris Therapeutics, Inc. was incorporated under the laws of the State of Delaware in 2012. Aclaris Therapeutics, Inc. and its wholly owned subsidiaries are referred to collectively as the "Company."

The Company is a clinical-stage biopharmaceutical company focused on developing novel drug candidates for immuno-inflammatory diseases. The Company's proprietary KINect drug discovery platform combined with its preclinical development capabilities allows the Company to identify and advance potential drug candidates that it may develop independently or in collaboration with third parties. In addition to identifying and developing its novel drug candidates, the Company is pursuing strategic alternatives, including identifying and consummating transactions with third-party partners, to further develop, obtain marketing approval for and/or commercialize its novel drug candidates. The Company also provides contract research services to third parties enabled by its early-stage research and development expertise.

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. As of June 30, 2024, the Company had cash, cash equivalents and marketable securities of $149.9 million and an accumulated deficit of $798.7 million. Since inception, the Company has incurred net losses and negative cash flows from its operations. There can be no assurance that profitable operations will ever be achieved, and, if achieved, will be sustained on a continuing basis. In addition, development activities, including clinical and preclinical testing of the Company's drug candidates, will require significant additional financing. The future viability of the Company is dependent on its ability to successfully develop its drug candidates and to generate revenue from identifying and consummating transactions with third-party partners to further develop, obtain marketing approval for and/or commercialize its development assets or to raise additional capital to finance its operations. The Company will require additional capital to develop its drug candidates and to support its discovery efforts.

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 the Company to continue to implement its long-term business strategy. The Company's ability to raise additional capital may be adversely impacted by potentially worsening global economic conditions caused by a variety of factors including geopolitical tensions, heightened interest rates, and inflationary pressures. If the Company is unable to raise sufficient additional capital or generate revenue from transactions with potential third-party partners for the development and/or commercialization of its drug candidates, it may need to substantially curtail planned 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.

In accordance with Accounting Standards Codification ("ASC") Subtopic 205-40, Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern, the Company evaluated whether there are conditions and events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern within one year after the date that its condensed consolidated financial statements are issued. As of the report date, the Company does not believe that substantial doubt exists about its ability to continue as a going concern. The Company believes its existing cash, cash equivalents and marketable securities are sufficient to fund its operating and capital expenditure requirements for a period greater than 12 months from the date of issuance of these condensed consolidated financial statements.

2. Summary of Significant Accounting Policies

Unaudited Interim Financial Information

The accompanying condensed consolidated balance sheet as of June 30, 2024, the condensed consolidated statements of operations and comprehensive loss for the three and six months ended June 30, 2024 and 2023, the condensed consolidated statement of stockholders' equity for the three and six months ended June 30, 2024 and 2023, and the condensed consolidated statements of cash flows for the six months ended June 30, 2024 and 2023 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 February 27, 2024 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, 2024, the results of its operations and comprehensive loss for the three and six months ended June 30, 2024 and 2023, its changes in stockholders' equity for the three and six months ended June 30, 2024 and 2023 and its cash flows for the six months ended June 30, 2024 and 2023. The condensed consolidated balance sheet data as of December 31, 2023 was derived from audited financial statements but does not include all disclosures required by generally accepted accounting principles in the United States ("GAAP"). The financial data and other information disclosed in these notes related to the three and six months ended June 30, 2024 and 2023 are unaudited. The results for the three and six months ended June 30, 2024 are not necessarily indicative of results to be expected for the year ending December 31, 2024, 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, 2023 included in the Company's Annual Report on Form 10-K filed with the SEC on February 27, 2024.

Basis of Presentation

The accompanying condensed consolidated financial statements have been prepared in conformity with GAAP. The condensed consolidated financial statements of the Company include the accounts of the operating parent company, Aclaris Therapeutics, Inc., and its wholly owned subsidiaries. All intercompany transactions have been eliminated. Based upon the nature and size of the Company's revenue, the Company believes that gross profit does not provide a meaningful measure of profitability and, therefore, has not included a line item for gross profit on the condensed consolidated statement of operations.

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, contingent consideration and the valuation of stock-based awards. Estimates are periodically reviewed in light of changes in circumstances, facts and experience. As of the date of issuance of these financial statements, the Company is not aware of any specific event or circumstance that would require an update to its estimates, assumptions and judgments or revise the carrying value of its assets or liabilities. Actual results could differ from the Company's estimates.

Reclassifications

Certain prior year amounts have been reclassified to conform to the current year's financial statement presentation.

Significant Accounting Policies

The Company's significant accounting policies are disclosed in the audited consolidated financial statements for the year ended December 31, 2023 included in the Company's Annual Report on Form 10-K filed with the SEC on February 27, 2024. There have been no changes to the Company's significant accounting policies from those disclosed in the annual report.

Contingent Consideration

The Company records a contingent consideration liability related to future potential payments resulting from the acquisition of Confluence Life Sciences, Inc. (now known as Aclaris Life Sciences, Inc.) ("Confluence") based upon significant unobservable inputs including the achievement of regulatory and commercial milestones, as well as estimated future sales levels and the discount rates applied to calculate the present value of the potential payments. Significant judgement is involved in determining the appropriateness of these assumptions. These assumptions are considered Level 3 inputs. Revaluation of the contingent consideration liability can result from changes to one or more of these assumptions. The Company evaluates the fair value estimate of the contingent consideration liability on a quarterly basis with changes, if any, recorded as income or expense in the condensed consolidated statement of operations.

The fair value of contingent consideration is estimated using a probability-weighted expected payment model for regulatory milestone payments and a Monte Carlo simulation model for commercial milestone and royalty payments and then applying a risk-adjusted discount rate to calculate the present value of the potential payments. Significant assumptions used in the Company's estimates include the probability of achieving regulatory milestones and commencing commercialization, which are based on an asset's current stage of development and a review of existing clinical data. Probability of success assumptions ranged between 17% and 40% at June 30, 2024. Additionally, estimated future sales levels and the risk-adjusted discount rate applied to the potential payments are also significant assumptions used in calculating the fair value. The discount rate ranged between 7.0% and 8.2% depending on the year of each potential payment.

Revenue Recognition

The Company accounts for revenue in accordance with ASC Topic 606, Revenue from Contracts with Customers. Under ASC Topic 606, revenue is recognized when a customer obtains control of promised goods or services in an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services.

To determine revenue recognition in accordance with ASC Topic 606, the Company performs the following five steps: (i) identify the contract(s) with a customer, (ii) identify the performance obligations in the contract, (iii) determine the transaction price, (iv) allocate the transaction price to the performance obligations in the contract, and (v) recognize revenue when (or as) performance obligations are satisfied. At contract inception, the Company assesses the goods or services promised within a contract with a customer to identify the performance obligations, and to determine if they are distinct. The Company recognizes the revenue that is allocated to each distinct performance obligation when (or as) that performance obligation is satisfied. The Company only recognizes revenue when collection of the consideration it is entitled to under a contract with a customer is probable.

Contract Research Revenue

The Company earns contract research revenue from the provision of laboratory services. Contract research revenue is generally evidenced by contracts with clients which are on an agreed upon fixed-price, fee-for-service basis and are generally billed on a monthly basis in arrears for services rendered. Revenue related to these contracts is generally recognized as the laboratory services are performed, based upon the rates specified in the contracts. Under ASC Topic 606, the Company elected to apply the "right to invoice" practical expedient when recognizing contract research revenue and as such, recognizes revenue in the amount which it has the right to invoice. ASC Topic 606 also provides an optional exemption, which the Company has elected to apply, from disclosing remaining performance obligations when revenue is recognized from the satisfaction of the performance obligation in accordance with the "right to invoice" practical expedient.

Licensing Revenue

Licenses of Intellectual Property – The Company recognizes revenue received from non-refundable, upfront fees related to the licensing of intellectual property when the intellectual property is determined to be distinct from the other performance obligations identified in the arrangement, the license has been transferred to the customer, and the customer is able to use and benefit from the license.

Milestone and Royalty Payments – The Company considers any future potential milestones and sales-based royalties to be variable consideration. The Company recognizes revenue from development, regulatory and anniversary milestone payments as they are achieved. The Company recognizes revenue from commercial milestones and royalty payments as the sales occur.

Discontinued Operations

As of June 30, 2024 and December 31, 2023, the Company had $2.2 million in discontinued operations reported as other current liabilities in the Company's consolidated balance sheet, related to discontinued commercial products.

Recently Issued Accounting Pronouncements

In November 2023, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2023-07, "Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures." This standard requires disclosure of significant segment expenses and other segment items by reportable segment. This ASU becomes effective for annual periods beginning in 2024 and interim periods in 2025. The Company is assessing the impact of this ASU and upon adoption expects that any impact would be limited to additional segment expense disclosures in the footnotes to the Company's consolidated financial statements.

In December 2023, the FASB issued ASU No. 2023-09, "Income Taxes (Topic 740): Improvements to Income Tax Disclosures." This standard enhances disclosures related to income taxes, including the rate reconciliation and information on income taxes paid. This ASU becomes effective January 1, 2025. The Company is currently assessing the impact of this ASU.

3. Fair Value of Financial Assets and Liabilities

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

	June 30, 2024			
(In thousands)	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets:				
Cash equivalents	$ 20,332	$ —	$ —	$ 20,332
Marketable securities	—	127,037	—	127,037
Total assets	$ 20,332	$ 127,037	$ —	$ 147,369
Liabilities:				
Contingent consideration	$ —	$ —	$ 9,200	$ 9,200
Total liabilities	$ —	$ —	$ 9,200	$ 9,200

(In thousands)	December 31, 2023 Level 1	Level 2	Level 3	Total
Assets:				
Cash equivalents	$ 32,177	$ —	$ —	$ 32,177
Marketable securities	—	141,999	—	141,999
Total assets	$ 32,177	$ 141,999	$ —	$ 174,176
Liabilities:				
Contingent consideration	$ —	$ —	$ 6,200	$ 6,200
Total liabilities	$ —	$ —	$ 6,200	$ 6,200

As of June 30, 2024 and December 31, 2023, the Company's cash equivalents consisted of money market funds, which were valued based upon Level 1 inputs. The Company's marketable securities as of June 30, 2024 consisted of corporate debt, asset-backed debt, foreign government agency debt, and U.S. government and government agency debt securities, which were all valued based upon Level 2 inputs. The Company's marketable securities as of December 31, 2023 consisted of commercial paper and corporate debt, asset-backed debt, foreign government agency debt, and U.S. government and government agency debt securities, which were all valued based upon Level 2 inputs.

In determining the fair value of its Level 2 investments, the Company relies on quoted prices for identical securities in markets that are not active. These quoted prices are 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. During the three and six months ended June 30, 2024 and 2023, there were no transfers into or out of Level 3.

The overall $3.0 million increase in the fair value of the contingent consideration liability during the six months ended June 30, 2024 was primarily due to changes in estimated sales levels and changes to the probability of success for certain drug candidates.

As of June 30, 2024 and December 31, 2023, the fair value of the Company's available-for-sale marketable securities by type of security was as follows:

(In thousands)	June 30, 2024 Book Value	Gross Unrealized Gain	Gross Unrealized Loss	Fair Value
Marketable securities:				
Corporate debt securities[1]	$ 68,307	$ 6	$ (210)	$ 68,103
Asset-backed debt securities[2]	5,023	—	(22)	5,001
Foreign government agency debt securities	4,804	1	—	4,805
U.S. government and government agency debt securities[3]	49,375	—	(247)	49,128
Total marketable securities	$ 127,509	$ 7	$ (479)	$ 127,037

[1] Included in Corporate debt securities is $33.7 million with maturity dates between one and two years.

[2] Included in Asset-backed debt securities is $0.1 million with maturity dates between one and two years.

[3] Included in U.S. government and government agency debt securities is $5.0 million with maturity dates between one and two years.

(In thousands)	December 31, 2023 Book Value	Gross Unrealized Gain	Gross Unrealized Loss	Fair Value
Marketable securities:				
Corporate debt securities[1]	$ 52,362	$ 65	$ (142)	$ 52,285
Commercial paper	12,345	2	(1)	12,346
Asset-backed debt securities[2]	10,953	42	(30)	10,965
Foreign government agency debt securities[3]	4,698	43	—	4,741
U.S. government and government agency debt securities[4]	61,750	8	(96)	61,662
Total marketable securities	$ 142,108	$ 160	$ (269)	$ 141,999

[1] Included in Corporate debt securities is $28.0 million with maturity dates between one and two years.

[2] Included in Asset-backed debt securities is $6.2 million with maturity dates between one and three years.

[3] Included in Foreign government agency debt securities is $4.7 million with a maturity date between one and two years.

[4] Included in U.S. government and government agency debt securities is $23.9 million with maturity dates between one and two years.

4. Property and Equipment, Net

Property and equipment, net consisted of the following:

(In thousands)	June 30, 2024	December 31, 2023
Computer equipment	$ 1,198	$ 1,253
Lab equipment	3,137	3,154
Furniture and fixtures	661	558
Leasehold improvements	817	817
Property and equipment, gross	5,813	5,782
Accumulated depreciation	(4,520)	(4,162)
Property and equipment, net	$ 1,293	$ 1,620

Depreciation expense was $0.2 million for each of the three months ended June 30, 2024 and 2023, and $0.4 million for each of the six months ended June 30, 2024 and 2023.

5. Accrued Expenses

Accrued expenses consisted of the following:

(In thousands)	June 30, 2024	December 31, 2023
Employee compensation expenses	$ 2,138	$ 3,910
Research and development expenses	1,092	6,661
Licensing expenses	1,219	5,478
Restructuring expenses (Note 12)	1,140	3,112
Other expenses	173	285
Total accrued expenses	$ 5,762	$ 19,446

6. Stockholders' Equity

Preferred Stock

As of June 30, 2024 and December 31, 2023, the Company's amended and restated certificate of incorporation (the "Charter") authorized the Company to issue 10,000,000 shares of undesignated preferred stock. There were no shares of preferred stock outstanding as of June 30, 2024 or December 31, 2023.

Common Stock

As of June 30, 2024 and December 31, 2023, the Company's Charter authorized the Company to issue 200,000,000 shares of $0.00001 par value common stock. There were 71,332,825 and 70,894,889 shares of common stock issued and outstanding as of June 30, 2024 and December 31, 2023, respectively.

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, 2024.

Sales of Common Stock Pursuant to At-The-Market Facility

In April 2023, the Company sold 3.4 million shares of its common stock for aggregate gross proceeds of $27.5 million, pursuant to a sales agreement with SVB Securities LLC and Cantor Fitzgerald & Co., as sales agents, dated February 23, 2023. The Company paid selling commissions of $0.8 million in connection with the sale.

7. Stock-Based Awards

2015 Equity Incentive Plan

In September 2015, the Company's board of directors adopted the 2015 Equity Incentive Plan (the "2015 Plan"), and 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 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 31st 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, 2024, the number of shares of common stock that may be issued under the 2015 Plan was automatically increased by 2,835,795 shares. As of June 30, 2024, 4,351,008 shares remained available for grant under the 2015 Plan. The Company had 5,867,413 stock options and 3,110,751 RSUs outstanding as of June 30, 2024 under the 2015 Plan.

2017 Inducement Plan

In July 2017, the Company's board of directors adopted the 2017 Inducement Plan (the "2017 Inducement Plan"). The 2017 Inducement Plan is a non-stockholder approved stock plan adopted pursuant to the "inducement exception" provided under Nasdaq listing rules. The Company had 333,000 stock options outstanding as of June 30, 2024 under the 2017 Inducement Plan. All shares of common stock that were eligible for issuance under the 2017 Inducement Plan after October 1, 2018, including any shares underlying any awards that expire or are otherwise terminated, reacquired to satisfy tax withholding obligations, settled in cash or repurchased by the Company in the future that would have been eligible for re-issuance under the 2017 Inducement Plan, were retired.

2012 Equity Compensation Plan

In August 2012, the Company's board of directors adopted the 2012 Plan and the Company's stockholders approved the 2012 Plan. Upon the 2015 Plan becoming effective, no further grants can be made under the 2012 Plan. The Company had 380,792 stock options outstanding as of June 30, 2024 under the 2012 Plan.

Stock Option Valuation

The weighted average assumptions the Company used to estimate the fair value of stock options granted during the six months ended June 30, 2024 and 2023 were as follows:

	Six Months Ended June 30,	
	2024	2023
Risk-free interest rate	3.85 %	3.48 %
Expected term (in years)	6.0	6.2
Expected volatility	81.95 %	77.73 %
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 for the six months ended June 30, 2024:

(In thousands, except share and per share data and years)	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value
Outstanding as of December 31, 2023	6,419,455	$ 15.94	7.1	$ 14
Granted	1,982,700	1.19		
Forfeited and cancelled	(1,820,950)	14.74		
Outstanding as of June 30, 2024	6,581,205	$ 11.85	7.0	$ 23
Options vested and expected to vest as of June 30, 2024	6,581,205	$ 11.85	7.0	$ 23
Options exercisable as of June 30, 2024	3,525,088	$ 15.74	5.3	$ 16

The weighted average grant date fair value of stock options granted during the six months ended June 30, 2024 was $0.86 per share.

Restricted Stock Units

The following table summarizes RSU activity for the six months ended June 30, 2024:

(In thousands, except share and per share data)	Number of Shares	Weighted Average Grant Date Fair Value Per Share	Aggregate Intrinsic Value
Outstanding as of December 31, 2023	1,521,940	$ 15.72	
Granted	2,638,025	1.20	
Vested	(493,254)	13.37	$ 587
Forfeited and cancelled	(555,960)	12.54	
Outstanding as of June 30, 2024	3,110,751	$ 4.35	

Stock-Based Compensation

Stock-based compensation expense included in total costs and expenses on the condensed consolidated statement of operations included the following:

	Three Months Ended June 30,		Six Months Ended June 30,	
(In thousands)	2024	2023	2024	2023
Cost of revenue	$ 223	$ 473	$ 475	$ 772
Research and development	1,097	3,494	1,068	6,096
General and administrative	1,583	2,555	3,449	6,460
Total stock-based compensation expense	$ 2,903	$ 6,522	$ 4,992	$ 13,328

As of June 30, 2024, the Company had unrecognized stock-based compensation expense for stock options and RSUs of $13.2 million and $11.0 million, respectively, which is expected to be recognized over weighted average periods of 2.3 years and 2.0 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,	
(In thousands, except for share and per share data)	2024	2023	2024	2023
Numerator:				
Net loss	$ (10,986)	$ (29,569)	$ (27,927)	$ (57,729)
Denominator:				
Weighted average shares of common stock outstanding, basic and diluted	71,291,400	70,633,528	71,183,129	68,763,542
Net loss per share, basic and diluted	$ (0.15)	$ (0.42)	$ (0.39)	$ (0.84)

The Company's potentially dilutive securities, which included stock options and RSUs, 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 shares of common stock outstanding used to calculate both basic and diluted net loss per share is the same. The following table presents potential shares of common stock excluded from the calculation of diluted net loss per share for the six months ended June 30, 2024 and 2023. All share amounts presented in the table below represent the total number outstanding as of June 30, 2024 and 2023.

	June 30,	
	2024	2023
Options to purchase common stock	6,581,205	7,014,294
Restricted stock unit awards	3,110,751	1,720,040
Total potential shares of common stock	9,691,956	8,734,334

9. Leases

Operating Leases

Agreements for Office and Laboratory Space

The Company had a sublease agreement pursuant to which it subleased 33,019 square feet of office space for its headquarters in Wayne, Pennsylvania, which expired on October 31, 2023.

In May 2023, the Company entered into a new lease agreement pursuant to which it leases 11,564 square feet of office space for its headquarters in Wayne, Pennsylvania. The lease commenced on November 1, 2023 and has a term that runs through February 2029.

In February 2019, the Company entered into a sublease agreement for 20,433 square feet of office and laboratory space in St. Louis, Missouri. The lease commenced in June 2019 and has a term that runs through June 2029. In January 2023, the Company amended the sublease agreement to add an additional 6,261 square feet of office and laboratory space effective February 2023. The Company exercised its option to terminate the leasing of the additional space effective as of June 30, 2024.

Supplemental balance sheet information related to operating leases is as follows:

(In thousands)	June 30, 2024	December 31, 2023
Operating Leases:		
Gross cost	$ 4,530	$ 5,094
Accumulated amortization	(1,427)	(1,235)
Other assets	$ 3,103	$ 3,859
Current portion of lease liabilities	$ 449	$ 426
Other liabilities	2,367	3,074
Total operating lease liabilities	$ 2,816	$ 3,500

Amortization expense related to operating lease right-of-use assets and accretion of operating lease liabilities totaled $0.1 million and $0.2 million for the three months ended June 30, 2024 and 2023, respectively, and $0.3 million and $0.4 million for the six months ended June 30, 2024 and 2023, respectively.

10. Agreements Related to Intellectual Property

License Agreement – Sun Pharmaceutical Industries, Inc.

In December 2023, the Company entered into an exclusive patent license agreement with Sun Pharmaceutical Industries, Inc. (“Sun Pharma”). Under the license agreement, the Company granted Sun Pharma exclusive rights under certain patents that the Company exclusively licenses from a third party. The patents relate to the use of deuruxolitinib, Sun Pharma’s Janus kinase (“JAK”) inhibitor, or other isotopic forms of ruxolitinib, to treat alopecia areata or androgenetic alopecia. Under the license agreement, Sun Pharma has paid the Company an upfront payment, and has agreed to pay the Company regulatory and commercial milestone payments upon the achievement of specified milestones set forth in the agreement, and a mid single-digit tiered royalty calculated as a percentage of Sun Pharma’s net sales. The Company has separate contractual obligations under which the Company has agreed to pay to third parties a portion of the consideration it may receive under the license agreement.

Upon execution of the agreement, the Company received an upfront payment of $15.0 million from Sun Pharma, a portion of which was payable to third parties.

License Agreement – Pediatrix Therapeutics, Inc.

In November 2022, the Company entered into a license agreement with Pediatrix Therapeutics, Inc. (“Pediatrix”), under which the Company granted Pediatrix the exclusive rights to develop, manufacture and commercialize lepzacitinib in Greater China. Pediatrix has paid the Company an upfront payment, and has agreed to pay the Company development, regulatory and commercial milestone payments upon the achievement of specified milestones set forth in the agreement, and a tiered royalty ranging from a low-to-high single digit percentage of net sales of lepzacitinib by Pediatrix in Greater China. A portion of consideration received from Pediatrix is payable to the former Confluence equity holders as described below under the caption “Agreement and Plan of Merger - Confluence.”

License Agreement – Eli Lilly and Company

In August 2022, the Company entered into a non-exclusive patent license agreement with Eli Lilly and Company ("Lilly"). Under the license agreement, the Company granted Lilly non-exclusive rights under certain patents and patent applications that the Company exclusively licenses from a third party. The patents and patent applications relate to the use of baricitinib, Lilly's JAK inhibitor, to treat alopecia areata. Under the license agreement, Lilly has paid the Company an upfront payment, and regulatory and certain commercial milestone payments, and agreed to pay the Company anniversary payments and other commercial milestone payments upon the achievement of specified milestones as set forth in the agreement, and a low single-digit royalty calculated as a percentage of Lilly's net sales of baricitinib for the treatment of alopecia areata. The Company has separate contractual obligations under which the Company has agreed to pay to third parties an amount equal to any regulatory and commercial milestone payments it receives under the Lilly license agreement, as well as a portion of the upfront consideration and a portion of the royalties it may receive under the license agreement. In July 2024, the Company entered into a royalty purchase agreement pursuant to which the Company sold a portion of the Company's future royalty payments and the remaining anniversary milestones associated with the license to Lilly (see Note 14).

The Company recorded licensing revenue under this agreement of $2.1 million and $0.9 million during the three months ended June 30, 2024 and 2023, respectively, and $3.9 million and $2.3 million during the six months ended June 30, 2024 and 2023, respectively, from Lilly, a portion of which was payable to third parties.

Asset Purchase Agreement – EPI Health, LLC

In October 2019, the Company sold RHOFADE (oxymetazoline hydrochloride) cream, 1% ("RHOFADE") to EPI Health, LLC ("EPI Health") pursuant to an asset purchase agreement. In July 2023, EPI Health filed a voluntary petition for relief under Chapter 11 of the United States Bankruptcy Code. Through the bankruptcy process, EPI Health and its parent company, Novan, Inc., sold the RHOFADE assets to a third party, which excluded the Company's asset purchase agreement with EPI Health and the outstanding amounts due. The sale was approved by the bankruptcy court in September 2023. As a result of the bankruptcy proceedings, all amounts that are due and outstanding by EPI Health have been fully reserved for as of June 30, 2024.

Agreement and Plan of Merger – Confluence

In August 2017, the Company entered into an Agreement and Plan of Merger, pursuant to which it acquired Confluence (the "Confluence Agreement"). Under the Confluence Agreement, the Company has agreed to pay the former Confluence equity holders aggregate remaining contingent consideration of up to $75.0 million based upon the achievement of specified regulatory and commercial milestones set forth in the Confluence Agreement. In addition, the Company has agreed to pay the former Confluence equity holders 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 to the payments described above, if the Company sells, licenses or transfers any of the intellectual property acquired from Confluence pursuant to the Confluence Agreement to a third party, the Company will be obligated to pay the former Confluence equity holders a portion of any consideration received from such sale, license or transfer in specified circumstances.

As of June 30, 2024 and December 31, 2023, the balance of the Company's contingent consideration liability was $9.2 million and $6.2 million, respectively (see Note 3).

11. 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, 2024 and 2023. The Company concluded that it is more likely than not that its deferred tax assets will not be realized which resulted in recording a full valuation allowance during those periods.

12. Restructuring Charges

In December 2023, the Company's board of directors approved a reduction of the Company's workforce by approximately 46%, which was substantially completed as of June 30, 2024. This action was taken in order to streamline operations, reduce costs and preserve capital. As a result, the Company terminated certain employees ("terminated employees") and gave notice to additional employees ("noticed employees") who were asked to provide transition services through termination dates ranging between one to thirteen months from the date notice was given. The terminated employees were entitled to receive cash severance payments and other benefits. The noticed employees are entitled to receive cash severance payments and other benefits, which are contingent upon providing additional services to the Company.

During the three and six months ended June 30, 2024, the Company recognized severance expense of $0.1 million and $2.6 million, respectively. During the six months ended June 30, 2024, the Company made cash payments of $4.5 million related to severance to impacted employees.

13. Segment Information

The Company has two reportable segments, therapeutics and contract research. The therapeutics segment is focused on identifying and developing innovative therapies to address significant unmet needs for immuno-inflammatory diseases and earns revenue through licensing of the Company's intellectual property. The contract research segment earns revenue from the provision of laboratory services. All intersegment revenue has been eliminated in the Company's consolidated statement of operations. All customers and revenue pertaining to the Company's segments are based in the United States. Corporate and other includes general and administrative expenses as well as eliminations of intercompany transactions. The Company does not report balance sheet information by segment since it is not reviewed by the chief operating decision maker, and all of the Company's tangible assets are held in the United States.

The Company's results of operations by segment for the three and six months ended June 30, 2024 and 2023 are summarized in the tables below:

(In thousands) Three Months Ended June 30, 2024	Therapeutics	Contract Research	Corporate and Other	Total Company
Revenue from external customers	$ 2,141	$ 625	$ —	$ 2,766
Intercompany revenue	—	3,421	(3,421)	—
Cost of revenue	—	3,836	(3,212)	624
Research and development	8,870	—	(209)	8,661
General and administrative	—	1,019	3,733	4,752
Licensing	1,285	—	—	1,285
Revaluation of contingent consideration	200	—	—	200
Restructuring expense	98	—	—	98
Loss from operations	$ (8,312)	$ (809)	$ (3,733)	$ (12,854)

(In thousands) Three Months Ended June 30, 2023	Therapeutics	Contract Research	Corporate and Other	Total Company
Revenue from external customers	$ 993	$ 876	$ —	$ 1,869
Intercompany revenue	—	4,000	(4,000)	—
Cost of revenue	—	4,796	(3,754)	1,042
Research and development	25,521	—	(246)	25,275
General and administrative	—	1,254	7,063	8,317
Licensing	550	—	—	550
Revaluation of contingent consideration	(1,500)	—	—	(1,500)
Loss from operations	$ (23,578)	$ (1,174)	$ (7,063)	$ (31,815)

(In thousands) Six Months Ended June 30, 2024	Therapeutics	Contract Research	Corporate and Other	Total Company
Revenue from external customers	$ 3,882	$ 1,281	$ —	$ 5,163
Intercompany revenue	—	7,087	(7,087)	—
Cost of revenue	—	7,861	(6,646)	1,215
Research and development	17,427	—	(441)	16,986
General and administrative	—	2,128	8,436	10,564
Licensing	2,316	—	—	2,316
Revaluation of contingent consideration	3,000	—	—	3,000
Restructuring expense	1,618	218	1,032	2,868
Loss from operations	$ (20,479)	$ (1,839)	$ (9,468)	$ (31,786)

(In thousands) Six Months Ended June 30, 2023	Therapeutics	Contract Research	Corporate and Other	Total Company
Revenue from external customers	$ 2,632	$ 1,765	$ —	$ 4,397
Intercompany revenue	—	8,011	(8,011)	—
Cost of revenue	—	9,343	(7,493)	1,850
Research and development	48,380	—	(518)	47,862
General and administrative	—	2,316	14,791	17,107
Licensing	1,611	—	—	1,611
Revaluation of contingent consideration	(2,300)	—	—	(2,300)
Loss from operations	$ (45,059)	$ (1,883)	$ (14,791)	$ (61,733)

14. Subsequent Events

In July 2024, the Company entered into a royalty purchase agreement with OCM IP Healthcare Portfolio LP, an investment vehicle for Ontario Municipal Employees Retirement System ("OMERS"). Under the royalty purchase agreement, the Company sold to OMERS a portion of the Company's future royalty payments and the remaining anniversary milestones associated with the Company's existing license to Lilly relating to OLUMIANT® (baricitinib) for the treatment of alopecia areata.

Under the terms of the royalty purchase agreement, the Company received an upfront payment of $26.5 million and is eligible to receive up to an additional $5.0 million based on the achievement of certain sales milestones for OLUMIANT in 2024. In exchange, OMERS acquired a portion of the royalty payable by Lilly to the Company for worldwide net sales of OLUMIANT for the treatment of alopecia areata from April 1, 2024 through the remainder of the

royalty term under the Company's license agreement with Lilly, and 100% of the remaining anniversary milestone payments payable by Lilly to the Company under the license agreement.

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

Certain statements contained in this Quarterly Report on Form 10-Q may constitute forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. The words "may," "might," "can," "will," "to be," "could," "would," "should," "expect," "intend," "plan," "objective," "anticipate," "believe," "estimate," "predict," "project," "potential," "likely," "continue," "ongoing" or similar expressions, or the negative of such words, 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. Factors that could cause or contribute to these differences include those below in this Quarterly Report on Form 10-Q and those in our Annual Report on Form 10-K, in each case under the caption "Risk Factors," and in our other filings with the Securities and Exchange Commission, or SEC. Statements made herein are as of the date of the filing of this Form 10-Q with the SEC 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, 2023, which are included in our Annual Report on Form 10-K filed with the SEC on February 27, 2024.

Overview

We are a clinical-stage biopharmaceutical company focused on developing novel drug candidates for immuno-inflammatory diseases. Our proprietary KINect drug discovery platform combined with our preclinical development capabilities allows us to identify and advance potential drug candidates that we may develop independently or in collaboration with third parties. In addition to identifying and developing our novel drug candidates, we are pursuing strategic alternatives, including identifying and consummating transactions with third-party partners, to further develop, obtain marketing approval for and/or commercialize our novel drug candidates. We also provide contract research services to third parties enabled by our early-stage research and development expertise. In January 2024, we announced that we are undertaking a strategic review of our business.

ATI-2138, an Investigational Oral Covalent ITK/JAK3 Inhibitor

ATI-2138 is an investigational oral covalent inhibitor of interleukin-2-inducible T cell kinase, or ITK, and Janus kinase, or JAK, 3 for the potential treatment of T cell-mediated autoimmune diseases. The ITK/JAK3 compound interrupts T cell signaling through the combined inhibition of ITK/JAK3 pathways in lymphocytes.

In September 2023, we announced positive results from our two-week Phase 1 placebo-controlled, randomized, multiple ascending dose, or MAD, trial of ATI-2138 (ATI-2138-PKPD-102). ATI-2138-PKPD-201 was designed to investigate the safety, tolerability, pharmacokinetics, or PK, and pharmacodynamics of ATI-2138 in healthy volunteers. The trial enrolled 60 healthy volunteers across 6 dosing cohorts ranging from 10 to 80 mg of total daily doses, with eight volunteers receiving ATI-2138 and two volunteers receiving placebo in each arm. Data from the trial demonstrated that ATI-2138 was generally well tolerated at all doses tested and had dose proportional PK. Additionally, ATI-2138 demonstrated a dose-dependent inhibition of both ITK and JAK3 exploratory pharmacodynamic biomarkers, with near maximal inhibition achieved at the 30 mg total daily dose. No serious adverse events were reported.

We have initiated study activities for a Phase 2a open-label trial to investigate the safety, tolerability, pharmacokinetics, efficacy, and pharmacodynamics of ATI-2138 administered over 12 weeks in approximately 15 patients in the United States with moderate to severe atopic dermatitis. The primary endpoints are safety related parameters. Secondary endpoints include Eczema Area and Severity Index, or EASI, response (EASI-50, EASI-74, EASI-90),

Validated Investigator Global Assessment (vIGA) response, body surface area (BSA) response and other pertinent efficacy related measures.

Lepzacitinib, an Investigational Topical "Soft" JAK 1/3 Inhibitor

Lepzacitinib, also referred to as ATI-1777, is an investigational topical "soft" JAK 1/3 inhibitor for the potential treatment of atopic dermatitis and other dermatologic conditions. "Soft" JAK inhibitors are designed to be topically applied and active in the skin, but rapidly metabolized and inactivated when they enter the bloodstream, which may result in low systemic exposure. Lepzacitinib has been adopted as the nonproprietary name for ATI-1777.

In January 2024, we announced positive top-line results from our Phase 2b multicenter, randomized, double-blind, vehicle-controlled, parallel-group trial of lepzacitinib in patients with mild to severe atopic dermatitis (ATI-1777-AD-202). ATI-1777-AD-202 was designed to evaluate the efficacy, safety, tolerability and PK of multiple concentrations (0.5%, 1% and 2%) of twice daily, or BID, treatment with lepzacitinib and a single concentration (2%) of once daily, or QD, treatment with lepzacitinib. The trial randomized 250 patients with mild, moderate or severe atopic dermatitis, including adults and children as young as 12 years old, across 30 clinical trial sites in the United States. The trial met the primary efficacy endpoint, the percent change from baseline in the Eczema Area and Severity Index, or EASI, score at week 4, with statistical significance for patients treated with lepzacitinib 2% BID compared to patients treated with vehicle (69.7% versus 58.7% in the pooled vehicle group, p=0.035). In addition, a PK analysis showed minimal levels of exposure to lepzacitinib. The mean steady state trough drug levels at week 4 were 0.319 ng/mL, representing 0.7% of IC50 for JAK 1/3 inhibition in whole blood. In total, 97% of lepzacitinib plasma samples from dosed patients had concentrations below 1/10th of the IC50, and six samples (from five lepzacitinib treated patients) of 570 samples analyzed had concentrations above 1/4 of the IC50. No meaningful safety findings were observed and lepzacitinib was well tolerated.

We are currently seeking a global development and commercialization partner for this program (excluding Greater China). In 2022, we granted Pediatrix Therapeutics, Inc. exclusive rights to develop and commercialize lepzacitinib in Greater China.

Zunsemetinib, an Investigational Oral MK2 Inhibitor

Zunsemetinib, or ATI-450, is an investigational oral, novel, small molecule selective MK2 inhibitor for the potential treatment of metastatic breast cancer, or MBC, and pancreatic ductal adenocarcinoma, or PDAC. We plan to support Washington University in St. Louis in its investigator-initiated Phase 1b/2 trials of zunsemetinib in patients with MBC and PDAC. We expect these trials to be primarily funded by grants awarded to Washington University.

Discovery Programs and KINect Drug Discovery Platform

We conduct small molecule drug discovery and preclinical development research through KINect, our proprietary drug discovery platform. Our KINect platform enables us to identify potential drug candidates through a unique combination of our proprietary chemical library of kinase inhibitors, our novel approaches to inhibitor modalities, our expertise in structure-based drug design, and our custom kinase assays.

Our focus has been on difficult to drug kinase targets that exhibit some level of clinical, genetic and/or pharmacological disease validation. Our approach involves the following mechanisms: (1) reversible and irreversible covalent inhibitors, (2) molecular glue/complex targeted inhibitors and (3) targeted protein degraders. These novel approaches are currently being utilized to prosecute additional validated, difficult to drug kinase targets with the goal of demonstrating potential platform utility.

We are actively progressing several discovery programs focused on delivering the next wave of drug candidates from our KINect platform. Our discovery efforts center on targeting kinases that play pivotal roles in various inflammatory, autoimmune, and oncology pathways. For example, we are progressing to development candidate selection a second generation ITK selective inhibitor for autoimmune indications. We intend to evaluate both internal and external development options, including strategic partnerships, for these assets.

Discontinued Programs

We were previously developing zunsemetinib as a potential treatment for various immuno-inflammatory diseases, including hidradenitis suppurativa, psoriatic arthritis, and rheumatoid arthritis. Following the results of the Phase 2 trials for these programs, we discontinued further development of our MK2 inhibitor programs in immuno-inflammatory diseases in 2023.

Financial Overview

Since our inception, we have incurred significant net losses. Our net loss was $27.9 million for the six months ended June 30, 2024 and $88.5 million for the year ended December 31, 2023. As of June 30, 2024, we had an accumulated deficit of $798.7 million. We expect to incur significant expenses and operating losses for the foreseeable future as we advance our drug candidates from discovery through preclinical and clinical development. In addition, our drug candidates, even if they are approved by regulatory agencies for marketing, may not achieve commercial success. We may also not be successful in pursuing strategic alternatives, including identifying and consummating transactions with third-party partners, to further develop, obtain marketing approval for and/or commercialize our drug candidates. Furthermore, we have incurred and expect to continue to incur significant costs associated with operating as a public company, including legal, accounting, investor relations and other expenses. As a result, we will need substantial additional funding to support our continuing operations.

We have historically financed our operations primarily with sales of equity securities and incurring indebtedness in the form of loans from commercial lenders. In the near term, we expect to finance our operations through these and other capital sources, including potential partnerships 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 of one or more of our drug candidates.

Impact of Macroeconomic Conditions on Our Business

Unfavorable conditions in the economy both in the United States and abroad may negatively affect the growth of our business and our results of operations. For example, macroeconomic events, including inflationary pressure, the U.S. Federal Reserve raising interest rates and geopolitical conflicts, have led to economic uncertainty globally. The effect of macroeconomic conditions may not be fully reflected in our results of operations until future periods. If, however, economic uncertainty increases or the global economy worsens, our business, financial condition and results of operations may be harmed.

Recent Developments

Royalty Purchase Agreement with OCM IP Healthcare Portfolio LP

In July 2024, we entered into a royalty purchase agreement with OCM IP Healthcare Portfolio LP, an investment vehicle for Ontario Municipal Employees Retirement System, or OMERS. Under the royalty purchase agreement, we sold to OMERS a portion of the future royalty payments and the remaining anniversary milestones associated with our existing license to Eli Lilly and Company, or Lilly, relating to OLUMIANT® (baricitinib) for the treatment of alopecia areata.

Under the terms of the royalty purchase agreement, we received an upfront payment of $26.5 million and are eligible to receive up to an additional $5.0 million based on the achievement of certain sales milestones for OLUMIANT in 2024. In exchange, OMERS acquired a portion of the royalty payable by Lilly to us for worldwide net sales of OLUMIANT for the treatment of alopecia areata from April 1, 2024 through the remainder of the royalty term under our license agreement with Lilly, and 100% of the remaining anniversary milestone payments payable by Lilly to us under the license agreement. The royalty payments and milestones we sold to OMERS represent our entire financial interest in the Lilly license agreement after taking into account our other contractual third party obligations.

Acquisition and License Agreements

License Agreement with Sun Pharmaceutical Industries, Inc.

In December 2023, we entered into an exclusive patent license agreement with Sun Pharmaceutical Industries, Inc., or Sun Pharma. Under the license agreement, we granted Sun Pharma exclusive rights under certain patents that we exclusively license from a third party. The patents relate to the use of deuruxolitinib, Sun Pharma's JAK inhibitor, or other isotopic forms of ruxolitinib, to treat alopecia areata or androgenetic alopecia. Under the license agreement, Sun Pharma has paid us an upfront payment, and has agreed to pay us regulatory and commercial milestone payments upon the achievement of specified milestones set forth in the agreement, and a mid single-digit tiered royalty calculated as a percentage of Sun Pharma's net sales. We have separate contractual obligations under which we have agreed to pay to third parties a portion of the consideration we may receive under the license agreement.

Upon execution of the agreement, we received an upfront payment of $15.0 million from Sun Pharma, a portion of which was payable to third parties.

License Agreement with Pediatrix Therapeutics, Inc.

In November 2022, we entered into a license agreement with Pediatrix Therapeutics, Inc., or Pediatrix, under which we granted Pediatrix the exclusive rights to develop, manufacture and commercialize lepzacitinib in Greater China. Pediatrix has paid us an upfront payment, and has agreed to pay us development, regulatory and commercial milestone payments upon the achievement of specified milestones set forth in the agreement, and a tiered royalty ranging from a low-to-high single digit percentage of net sales of lepzacitinib by Pediatrix in Greater China. A portion of consideration received from Pediatrix is payable to the former Confluence equity holders as described below under the caption "Agreement and Plan of Merger with Confluence."

License Agreement with Eli Lilly and Company

In August 2022, we entered into a non-exclusive patent license agreement with Lilly. Under the license agreement, we granted Lilly non-exclusive rights under certain patents and patent applications that we exclusively license from a third party. The patents and patent applications relate to the use of baricitinib, Lilly's JAK inhibitor, to treat alopecia areata. Under the license agreement, Lilly has paid us an upfront payment and regulatory and certain commercial milestone payments, and agreed to pay us anniversary payments and other commercial milestone payments upon the achievement of specified milestones as set forth in the agreement, and a low single-digit royalty calculated as a percentage of Lilly's net sales of baricitinib for the treatment of alopecia areata. We have separate contractual obligations under which we have agreed to pay to third parties an amount equal to any regulatory and commercial milestone payments we receive under the Lilly license agreement, as well as a portion of the upfront consideration and a portion of the royalties we may receive under the license agreement. In July 2024, we entered into a royalty purchase agreement pursuant to which we sold a portion of our future royalty payments and the remaining anniversary milestones associated with the license to Lilly. See "Recent Developments—Royalty Purchase Agreement with OCM IP Healthcare Portfolio LP."

We recorded licensing revenue from Lilly under this agreement of $2.1 million and $0.9 million during the three months ended June 30, 2024 and 2023, respectively, and $3.9 million and $2.3 million during the six months ended June 30, 2024 and 2023, respectively, a portion of which was payable to third parties. The licensing revenue earned during the three months ended June 30, 2024 was sold to OMERS pursuant to the royalty purchase agreement.

Asset Purchase Agreement with EPI Health

In October 2019, we sold RHOFADE (oxymetazoline hydrochloride) cream, 1%, or RHOFADE, to EPI Health, LLC, or EPI Health, pursuant to an asset purchase agreement. In July 2023, EPI Health filed a voluntary petition for relief under Chapter 11 of the United States Bankruptcy Code. Through the bankruptcy process, EPI Health and its parent company, Novan, Inc., sold the RHOFADE assets to a third party, which excluded our asset purchase agreement with EPI Health and the outstanding amounts due. The sale was approved by the bankruptcy court in September 2023. As a result

of the bankruptcy proceedings, all amounts that are due and outstanding by EPI Health have been fully reserved for as of June 30, 2024.

Agreement and Plan of Merger with Confluence

In 2017, we entered into an Agreement and Plan of Merger, or the Confluence Agreement, with Confluence Life Sciences, Inc. (now known as Aclaris Life Sciences, Inc.), or Confluence, Aclaris Life Sciences, Inc., our wholly owned subsidiary, or Merger Sub, and Fortis Advisors LLC, as representative of the equity holders of Confluence. Pursuant to the terms of the Confluence Agreement, Merger Sub merged with and into Confluence, with Confluence surviving as our wholly owned subsidiary.

Under the Confluence Agreement, we have agreed to pay the former Confluence equity holders aggregate remaining contingent consideration of up to $75.0 million based upon the achievement of specified regulatory and commercial milestones set forth in the Confluence Agreement. In addition, we have agreed to pay the former Confluence equity holders 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 to the payments described above, if we sell, license or transfer any of the intellectual property acquired from Confluence pursuant to the Confluence Agreement to a third party, we will be obligated to pay the former Confluence equity holders a portion of any consideration received from such sale, license, or transfer in specified circumstances.

Restructuring

In December 2023, our Board of Directors approved a reduction of our workforce by approximately 46%, which was substantially completed as of June 2024. This action was taken in order to streamline operations, reduce costs and preserve capital. As a result, we terminated certain employees, or terminated employees, and gave notice to additional employees, or noticed employees, who were asked to provide transition services through termination dates ranging between one to thirteen months from the date notice was given. The terminated employees were entitled to receive cash severance payments and other benefits. The noticed employees are entitled to receive cash severance payments and other benefits, which are contingent upon providing additional services to us.

During the three and six months ended June 30, 2024, we recognized severance expense of $0.1 million and $2.6 million, respectively. During the six months ended June 30, 2024, we made cash payments of $4.5 million related to severance to impacted employees.

Components of Our Results of Operations

Revenue

Contract Research

We earn revenue from the provision of laboratory services. Contract research revenue is generally evidenced by contracts with clients which are on an agreed upon fixed-price, fee-for-service basis and are generally billed on a monthly basis in arrears for services rendered.

Licensing

Licensing revenue primarily consists of upfront consideration, royalties and milestone payments earned pursuant to license and acquisition agreements with third parties, as described above.

Cost and Expenses

Cost of Revenue

Cost of revenue consists of the costs incurred in connection with the provision of contract research services. Cost of revenue primarily includes:

- employee-related expenses, which include salaries, benefits, and stock-based compensation;
- outsourced professional scientific services;
- depreciation of laboratory equipment;
- facility-related costs; and
- laboratory materials and supplies used to support the services provided.

Research and Development

Research and development expenses consist of expenses incurred in connection with the discovery and development of our drug candidates. These expenses primarily include:

- expenses incurred under agreements with contract research organizations, or CROs, as well as clinical trial sites and consultants that conduct our clinical trials and preclinical studies, and investigator-initiated trials;
- manufacturing scale-up expenses and the cost of acquiring and manufacturing active pharmaceutical ingredients and preclinical and clinical trial materials, including domestic technology transfer expenses;
- quality assurance and quality control costs;
- outsourced professional scientific development services;
- medical affairs expenses related to our drug candidates;
- employee-related expenses, which include salaries, benefits, and stock-based compensation;
- expenses relating to regulatory activities, including filing fees paid to regulatory agencies; and
- laboratory materials and supplies used to support our research activities.

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 to continue to incur research and development expenses in the near term as we continue the development of our drug candidates and pursue our discovery programs. 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, clinical trial 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 or other indirect expenses to specific research and development programs.

The successful development of our drug candidates is highly uncertain. 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 subjects;
- the number of subjects that ultimately participate in the trials;
- the number of doses subjects receive;
- the duration of subject follow-up; and
- the results of our clinical trials.

Our expenditures are subject to additional uncertainties, including the preparation of regulatory filings for our drug candidates. We may obtain unexpected results from our clinical trials or other development activities. We may elect

to discontinue, delay, or modify the development, including 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.

General and Administrative

General and administrative expenses consist principally of salaries and related costs, including stock-based compensation, for personnel in executive, administrative, finance and legal functions. General and administrative expenses also include facility-related costs, patent filing and prosecution costs, professional fees for legal, auditing and tax services, investor relations costs, business development costs, insurance costs, and travel expenses.

Licensing

Licensing expenses consist of third-party contractual obligations incurred under license and acquisition agreements with third parties, as described above.

Revaluation of Contingent Consideration

Revaluation of contingent consideration consists of changes in the fair value of our contingent consideration liability between reporting dates, as described below.

Other Income, Net

Other income, net primarily consists of interest earned on our cash, cash equivalents and marketable securities.

Critical Accounting 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 generally accepted accounting principles in the United States. The preparation of our condensed consolidated 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. 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. We evaluate our estimates and judgments on an ongoing basis. Our actual results may differ from these estimates under different assumptions or conditions. There have been no material changes to our significant accounting policies and use of estimates as disclosed in the footnotes to our audited consolidated financial statements for the year ended December 31, 2023 included in our Annual Report on Form 10-K filed with the SEC on February 27, 2024.

Contingent Consideration

We record a contingent consideration liability related to future potential payments resulting from the acquisition of Confluence based upon significant unobservable inputs including the achievement of regulatory and commercial milestones, as well as estimated future sales levels and the discount rates applied to calculate the present value of the potential payments. Significant judgement is involved in determining the appropriateness of these assumptions. These assumptions are considered Level 3 inputs. Revaluation of our contingent consideration liability can result from changes to one or more of these assumptions. These assumptions are highly dependent on the outcome and timing of the development of certain of our drug candidates. We evaluate the fair value estimate of our contingent consideration liability on a quarterly basis with changes, if any, recorded as income or expense in our consolidated statement of operations. Any such changes could have a material impact on our financial results.

The fair value of contingent consideration is estimated using a probability-weighted expected payment model for regulatory milestone payments and a Monte Carlo simulation model for commercial milestone and royalty payments and then applying a risk-adjusted discount rate to calculate the present value of the potential payments. Significant assumptions used in our estimates include the probability of achieving regulatory milestones and commencing commercialization, which are based on an asset's current stage of development and a review of existing clinical data. Probability of success assumptions ranged between 17% and 40% at June 30, 2024. Additionally, estimated future sales levels and the risk-adjusted discount rate applied to the potential payments are also significant assumptions used in calculating the fair value. The discount rate ranged between 7.0% and 8.2% depending on the year of each potential payment.

During the six months ended June 30, 2024 we recorded a charge to the contingent consideration liability of $3.0 million, which was primarily due to changes in estimated sales levels and changes to the probability of success for certain drug candidates.

During the six months ended June 30, 2023, we did not modify any significant assumptions other than the removal of estimated sales from zunsemetinib for moderate to severe hidradenitis suppurativa following our decision to cease pursuing that indication. This impact was partially offset by lower discount rates resulting from lower risk-free rates and changes in credit spreads being applied to potential payments relative to prior periods, as well as the passage of time, resulting in an overall decrease in contingent consideration of $2.3 million.

Results of Operations

Comparison of Three and Six Months Ended June 30, 2024 and 2023

	Three Months Ended June 30,			Six Months Ended June 30,		
(In thousands)	**2024**	**2023**	**Change**	**2024**	**2023**	**Change**
Revenues:						
Contract research	$ 625	$ 875	**$ (250)**	$ 1,281	$ 1,764	**$ (483)**
Licensing	2,141	994	**1,147**	3,882	2,633	**1,249**
Total revenue	2,766	1,869	**897**	5,163	4,397	**766**
Costs and expenses:						
Cost of revenue	624	1,042	**(418)**	1,433	1,850	**(417)**
Research and development	8,759	25,275	**(16,516)**	18,604	47,862	**(29,258)**
General and administrative	4,752	8,317	**(3,565)**	11,596	17,107	**(5,511)**
Licensing	1,285	550	**735**	2,316	1,611	**705**
Revaluation of contingent consideration	200	(1,500)	**1,700**	3,000	(2,300)	**5,300**
Total costs and expenses	15,620	33,684	**(18,064)**	36,949	66,130	**(29,181)**
Loss from operations	(12,854)	(31,815)	**18,961**	(31,786)	(61,733)	**29,947**
Other income, net	1,868	2,246	**(378)**	3,859	4,004	**(145)**
Net loss	$ (10,986)	$ (29,569)	**$ 18,583**	$ (27,927)	$ (57,729)	**$ 29,802**

Revenue

Contract research

Contract research revenue was $0.6 million and $0.9 million for the three months ended June 30, 2024 and 2023, respectively, and was comprised of fees earned from the provision of laboratory services. The decrease was driven by lower overall hours billed and a lower average billing rate.

Contract research revenue was $1.3 million and $1.8 million for the six months ended June 30, 2024 and 2023, respectively, and was comprised of fees earned from the provision of laboratory services. The decrease was driven by lower overall hours billed and a lower average billing rate.

Licensing

Licensing revenue was $2.1 million and $1.0 million for the three months ended June 30, 2024 and 2023, respectively. The increase was primarily driven by an increase in royalties under the Lilly license agreement during the three months ended June 30, 2024 offset by a decrease of royalties under the EPI Health agreement between periods.

Licensing revenue was $3.9 million and $2.6 million for the six months ended June 30, 2024 and 2023, respectively. The increase was primarily driven by an increase in royalties under the Lilly license agreement during the six months ended June 30, 2024, offset by the achievement of a commercial milestone under the Lilly license agreement during the six months ended June 30, 2023 and a decrease of royalties under the EPI Health agreement between periods.

Costs and Expenses

Cost of Revenue

Cost of revenue was $0.6 million and $1.0 million for the three months ended June 30, 2024 and 2023, and in each case, related to providing laboratory services. Changes in cost of revenue generally correlate to changes in contract research revenue. Cost of revenue included a decrease in expense due to lower variable costs resulting from a decrease in hours billed.

Cost of revenue was $1.4 million and $1.9 million for the six months ended June 30, 2024 and 2023, respectively, and in each case, related to providing laboratory services. Changes in cost of revenue generally correlate to changes in contract research revenue. Cost of revenue decreased in the six months ended June 30, 2024 compared to the corresponding prior year period due to lower variable costs resulting from a decrease in hours billed, which was offset by an increase in termination benefits, as a result of our restructuring that was announced in December 2023.

Research and Development

The following table summarizes our research and development expenses by drug candidate or, for unallocated expenses, by type:

	Three Months Ended June 30,			Six Months Ended June 30,		
(In thousands)	**2024**	**2023**	**Change**	**2024**	**2023**	**Change**
Zunsemetinib	$ 2,490	$ 8,611	**$ (6,121)**	$ 4,514	$ 15,450	**$ (10,936)**
Lepzacitinib	296	2,169	**(1,873)**	1,368	5,292	**(3,924)**
ATI-2138	753	3,406	**(2,653)**	815	6,631	**(5,816)**
Discovery	1,605	1,601	**4**	3,145	2,982	**163**
Other research and development	189	1,406	**(1,217)**	662	1,904	**(1,242)**
Personnel	2,329	4,588	**(2,259)**	7,032	9,507	**(2,475)**
Stock-based compensation	1,097	3,494	**(2,397)**	1,068	6,096	**(5,028)**
Total research and development expenses	$ 8,759	$ 25,275	**$ (16,516)**	$ 18,604	$ 47,862	**$ (29,258)**

Zunsemetinib

The decrease in expenses for zunsemetinib during the three and six months ended June 30, 2024 compared to the three and six months ended June 30, 2023 was primarily due to a decrease in costs associated with clinical development activities for a Phase 2a trial in subjects with hidradenitis suppurativa, which was initiated in December 2021 and was completed in early March 2023, a Phase 2b trial in subjects with rheumatoid arthritis, which was initiated in December 2021 and was completed in November 2023, and a Phase 2b trial in subjects with psoriatic arthritis, which was initiated in June 2022 and was discontinued in December 2023. Drug candidate manufacturing costs also decreased accordingly.

Lepzacitinib

The decrease in expenses for lepzacitinib during the three and six months ended June 30, 2024 compared to the three and six months ended June 30, 2023 was primarily due to lower costs associated with preclinical development activities and costs associated with a Phase 2b clinical trial in subjects with atopic dermatitis, which was initiated in May 2022 and was completed in January 2024.

ATI-2138

The decrease in expenses for ATI-2138 during the three and six months ended June 30, 2024 compared to the three and six months ended June 30, 2023 was primarily due to a decrease in clinical development expenses associated with a Phase 1 MAD trial which was completed in September 2023, as well as a decrease in preclinical development activities. This decrease was partially offset by clinical development expenses associated with the initiation of Phase 2a study activities in May 2024.

Personnel and stock-based compensation

The decrease in personnel and stock-based compensation expenses during the three and six months ended June 30, 2024 compared to the three and six months ended June 30, 2023 was primarily due to lower headcount and higher forfeiture credits, partially offset by an increase in termination benefits, as a result of our restructuring that was announced in December 2023.

General and Administrative

The following table summarizes our general and administrative expenses:

	Three Months Ended June 30,			Six Months Ended June 30,		
(In thousands)	**2024**	**2023**	**Change**	**2024**	**2023**	**Change**
Personnel	$ 1,297	$ 1,893	**$ (596)**	$ 3,852	$ 3,873	**$ (21)**
Professional and legal fees	774	1,444	**(670)**	2,027	3,165	**(1,138)**
Facility and support services	563	857	**(294)**	1,196	1,475	**(279)**
Other general and administrative	535	547	**(12)**	1,072	1,113	**(41)**
Stock-based compensation	1,583	2,555	**(972)**	3,449	6,460	**(3,011)**
Bad debt	—	1,021	**(1,021)**	—	1,021	**(1,021)**
Total general and administrative expenses	$ 4,752	$ 8,317	**$ (3,565)**	$ 11,596	$ 17,107	**$ (5,511)**

Personnel and stock-based compensation

The decrease in personnel and stock-based compensation expenses during the three and six months ended June 30, 2024 compared to the three and six months ended June 30, 2023 was primarily due to lower headcount and higher forfeiture credits, partially offset by an increase in termination benefits, as a result of our restructuring that was announced in December 2023.

Professional and legal fees

Professional and legal fees, including accounting, investor relations and corporate communication costs, decreased during the three and six months ended June 30, 2024 compared to the three and six months ended June 30, 2023. The decrease was primarily driven by a decrease in patent, legal and accounting related expenses, which were partially offset by an increase in other professional fees.

Facility and support services

Facility and support services, including general office expenses, information technology costs and other expenses, decreased during the three and six months ended June 30, 2024 compared to the three and six months ended June 30, 2023 primarily as a result of a decrease in rent expense and information technology expenses.

Bad Debt

Bad debt expenses were related to our determination that amounts due to us as of June 30, 2023 pursuant to the asset purchase agreement with EPI Health are uncertain as a result of the bankruptcy filing by EPI Health in July 2023. There was no bad debt expense during the three and six months ended June 30, 2024.

Licensing

The increase in licensing expenses during the three and six months ended June 30, 2024 compared to the three and six months ended June 30, 2023 was due to an increase in royalties earned under the Lilly license agreement.

Revaluation of Contingent Consideration

The revaluation of contingent consideration loss during the three months ended June 30, 2024 was primarily due to the passage of time, compared to the revaluation of contingent consideration gain during the three months ended June 30, 2023 which was primarily due to a change in discount rates, including risk-free rates and credit spreads, on potential future payments. The gain during the three months ended June 30, 2023 was partially offset by adjustments to other assumptions for certain clinical programs and an increase in the probability of success of zunsemetinib in psoriatic arthritis.

The revaluation of contingent consideration loss during the six months ended June 30, 2024 was primarily due to changes in estimated sales levels and changes to the probability of success for certain drug candidates, compared to the revaluation of contingent consideration gain during the six months ended June 30, 2023 which was primarily due to changes in discount rates, including risk-free rates and credit spreads, on potential future payments. The gain during the six months ended June 30, 2023 was partially offset by adjustments to other assumptions for certain clinical programs, including the removal of estimated future sales levels of zunsemetinib for moderate to severe hidradenitis suppurativa following our decision to cease pursuing this indication.

Other Income, net

Other income, net decreased during the three and six months ended June 30, 2024 compared to the three and six months ended June 30, 2023 primarily due to lower interest income on investment portfolio balances.

Liquidity and Capital Resources

Overview

Since our inception, we have incurred net losses and negative cash flows from our operations. Prior to our acquisition of Confluence, we did not generate any revenue. We have financed our operations over the last several years primarily through sales of our equity securities and incurring indebtedness in the form of loans from commercial lenders. We may engage in additional debt and equity financing transactions in order to raise funds. We may receive royalties and milestone payments under third-party licensing and acquisition agreements. In addition, to the extent we are able to consummate transactions with potential third-party partners to further develop, obtain marketing approval for and/or commercialize our drug candidates, we may receive upfront payments, milestone payments or royalties from such arrangements that would increase our liquidity.

As of June 30, 2024, we had cash, cash equivalents and marketable securities of $149.9 million. In July 2024, we sold to OMERS a portion of the future royalty payments and the remaining anniversary milestones associated with our existing license to Lilly for an upfront payment of $26.5 million and are eligible to receive up to an additional $5.0 million upon the achievement of certain sales milestones. 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, other than our contingent obligations under the Confluence Agreement, which is summarized above under "Overview—Acquisition and License Agreements," and our lease obligations.

Cash Flows

Cash and cash equivalents were $22.8 million as of June 30, 2024 compared to $39.9 million as of December 31, 2023. We also had $127.1 million in short- and long-term marketable securities as of June 30, 2024 compared to $142.0 million as of December 31, 2023.

The sources and uses of cash that contributed to the change in cash and cash equivalents were:

	Six Months Ended June 30,	
(In thousands)	2024	2023
Cash and cash equivalents beginning balance	$ 39,878	$ 45,277
Net cash used in operating activities	(33,137)	(47,007)
Net cash provided by investing activities	16,159	6,136
Net cash (used in) provided by financing activities	(66)	26,744
Cash and cash equivalents ending balance	$ 22,834	$ 31,150

Operating Activities

Cash flow related to operating activities was the result of:

	Six Months Ended June 30,	
(In thousands)	2024	2023
Net loss	$ (27,927)	$ (57,729)
Non-cash adjustments to reconcile net loss to net cash used in operating activities	8,477	11,444
Change in accounts payable and accrued expenses	(15,977)	830
Change in accounts receivable	(27)	53
Change in prepaid expenses and other assets	2,317	(1,605)
Net cash used in operating activities	$ (33,137)	$ (47,007)

Net cash used in operating activities decreased for the six months ended June 30, 2024 compared to the six months ended June 30, 2023 primarily as a result of lower net losses after adjusting for non-cash items. This change was partially offset by an increase in cash used for accounts payable and accrued expenses, which was due to the timing of payments to vendors as well as third parties in connection with amounts earned under licensing agreements.

Investing Activities

Cash flow related to investing activities was the result of:

	Six Months Ended June 30,	
(In thousands)	**2024**	**2023**
Purchases of property and equipment	$ (121)	$ (784)
Purchases of marketable securities	(35,218)	(118,513)
Proceeds from sales and maturities of marketable securities	51,498	125,433
Net cash provided by investing activities	$ 16,159	$ 6,136

The increase in net cash provided by investing activities for the six months ended June 30, 2024 compared to the six months ended June 30, 2023 resulted primarily from lower purchases of marketable securities during the six months ended June 30, 2024, partially offset by lower sales and maturities of marketable securities during the six months ended June 30, 2024.

Financing Activities

Cash flow related to financing activities was the result of:

	Six Months Ended June 30,	
(In thousands)	**2024**	**2023**
Proceeds from issuance of common stock under the at-the-market sales agreement, net of issuance costs	$ —	$ 26,714
Payments of employee withholding taxes related to restricted stock unit award vesting	(66)	—
Proceeds from exercise of employee stock options and the issuance of stock	—	30
Net cash (used in) provided by financing activities	$ (66)	$ 26,744

Net cash used in financing activities for the six months ended June 30, 2024 was $0.1 million compared to net cash provided by financing activities during the six months ended June 30, 2023 of $26.7 million. The change was primarily due to proceeds in the six months ended June 30, 2023 from sales under our at-the-market sales agreement.

Funding Requirements

We anticipate we will incur net losses in the near term as we continue to discover and develop drug candidates. We may not be able to generate revenue from these programs if, among other things, our clinical trials are not successful, the FDA does not approve our drug candidates currently in clinical trials when we expect, or at all, or we are not able to identify and consummate transactions with third-party partners to further develop, obtain marketing approval for and/or commercialize our drug candidates.

Our primary uses of capital are, and we expect will continue to be, compensation and related expenses, research and development expenses, 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 the development of our drug candidates, without taking into account any potential business development activities resulting from our ongoing strategic review of our business.

As a publicly traded company, we incur and will continue to incur significant legal, accounting, and other similar expenses. In addition, the Sarbanes-Oxley Act of 2002, as well as rules adopted by the SEC and the Nasdaq Stock Market

LLC, requires public companies to implement specified corporate governance practices that could increase our compliance costs.

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 condensed consolidated financial statements that appear in Item 1 of this Quarterly Report on Form 10-Q based on our current operating assumptions. We will require additional capital to develop our drug candidates and to support our discovery efforts. 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. Our ability to raise additional capital may be adversely impacted by potentially worsening global economic conditions caused by a variety of factors including geopolitical tensions, rising interest rates, and inflationary pressures. If we are unable to raise sufficient additional capital or generate revenue from transactions with potential third-party partners for the development and/or commercialization of our drug candidates, we may need to substantially curtail our planned operations.

We may raise additional capital through the sale of equity or debt securities. In such an event, our stockholders' 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 and development of pharmaceutical drugs, we are unable to estimate the exact amount of our working capital requirements. Our funding requirements in the near term will depend on many factors, including:

- the number and development requirements of the drug candidates that we may pursue;
- the scope, progress, results and costs of preclinical development, laboratory testing and conducting preclinical and clinical trials for our drug candidates;
- the costs, timing, and outcome of regulatory review of our drug candidates;
- the extent to which we in-license or acquire additional drug candidates and technologies;
- the costs and timing of preparing, filing and prosecuting patent applications, maintaining and enforcing our intellectual property rights and defending any intellectual property-related claims;
- our ability to identify and consummate transactions with third-party partners to further develop, obtain marketing approval for and/or commercialize our drug candidates; and
- our ability to earn revenue as a result of licenses to, or partnerships or other arrangements with, third parties.

Leases

We occupy space for our headquarters in Wayne, Pennsylvania under a lease agreement which has a term through February 2029. We also occupy office and laboratory space in St. Louis, Missouri under a sublease agreement which has a term through June 2029.

Our aggregate remaining lease payment obligation for these two spaces was $3.6 million as of June 30, 2024.

Agreement and Plan of Merger – Confluence

Under the Confluence Agreement, we have agreed to pay the former Confluence equity holders aggregate remaining contingent consideration of up to $75.0 million based upon the achievement of specified regulatory and commercial milestones set forth in the Confluence Agreement. In addition, we have agreed to pay the former Confluence equity holders 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 to the payments described above, if we sell, license or transfer any of the intellectual property acquired from Confluence pursuant to the Confluence Agreement to a third party, we will be obligated to pay the former Confluence equity holders a portion of any consideration received from such sale, license, or transfer in specified circumstances.

As of June 30, 2024, the balance of our contingent consideration liability was $9.2 million.

R&D Obligations

We enter into contracts in the normal course of business with CROs, contract manufacturing organizations and other service providers for clinical trials, preclinical 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.

Segment Information

We have two reportable segments, therapeutics, and contract research. The therapeutics segment is focused on identifying and developing innovative therapies to address significant unmet needs for immuno-inflammatory diseases and earns revenue through licensing our intellectual property. The contract research segment earns revenue from the provision of laboratory services.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Interest Rate Risk

Our cash equivalents and marketable securities consist of money market funds, asset-backed debt securities, commercial paper, corporate debt securities, foreign government agency debt securities, U.S. government debt securities and U.S. government agency debt securities. 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 low-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 would not expect our operating results or cash flows to be affected to any significant degree by the effect of a change in market interest rates on our investments.

Foreign Currency Risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in exchange rates. Our primary exposure to currency risk is foreign government agency debt securities. We do not enter into any derivative financial instruments to manage our exposure to foreign currency risk. Due to the conservative nature of our investment portfolio and other financial instruments, we do not believe an immediate 10% change in currency rates would have a material effect on the fair market value of our portfolio.

Inflation Risk

Inflation generally affects us by increasing our cost of labor. Although inflation in the United States in recent months has remained higher than in previous years, we do not believe that inflation has had a material effect on our business, financial condition or results of operations during the six months ended June 30, 2024.

Item 4. Controls and Procedures

(a) *Evaluation of Disclosure Controls and Procedures*

Under the supervision of and with the participation of our management, including our principal executive officer, and our principal financial officer, we conducted an evaluation of the effectiveness of our disclosure controls and procedures as of June 30, 2024, the end of the period covered by this Quarterly Report on Form 10-Q. The term "disclosure controls and procedures," as set forth in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended, or the Exchange Act, means controls and other procedures of a company 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 rules and forms promulgated by the SEC. Disclosure controls and procedures include, without limitation, controls and procedures 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 accumulated and communicated to the company's management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives, and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on the evaluation of our disclosure controls and procedures as of June 30, 2024, our principal executive officer and principal financial officer concluded that, as of such date, our disclosure controls and procedures were effective at the reasonable assurance level.

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

There were no changes in our internal control over financial reporting identified in connection with the evaluation required by Rules 13a-15(d) and 15d-15(d) of the Exchange Act that occurred during the quarter ended June 30, 2024 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

From time to time, we are 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 other pending or threatened legal proceeding against us that we believe could have a material adverse effect on our business, operating results, cash flows or financial condition.

Item 1A. Risk Factors

Our business is subject to risks and events that, if they occur, could adversely affect our financial condition and results of operations and the trading price of our securities. Our risk factors have not changed materially from those described in "Part I, Item 1A. Risk Factors" of our Annual Report on Form 10-K for the fiscal year ended December 31, 2023, filed with the SEC on February 27, 2024.

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

None.

Item 5. Other Information

Adoption, Modification and Termination of Rule 10b5-1 Plans and Certain Other Trading Arrangements.

During the quarter ended June 30, 2024, none of our directors or officers (as defined in Rule 16a-1(f) under the Exchange Act) adopted, modified or terminated a "Rule 10b5-1 trading arrangement" or a "non-Rule 10b5-1 trading arrangement" (as each term is defined in Item 408 of Regulation S-K).

Item 6. Exhibits

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 SEC on October 13, 2015).
3.2	Certificate of Amendment to the Amended and Restated Certificate of Incorporation of the Registrant (incorporated herein by reference to Exhibit 3.2 to the Registrant's Quarterly Report on Form 10-Q (File No. 001-37581), filed with the SEC on August 7, 2023).
3.3	Amended and Restated Bylaws 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 SEC on June 24, 2020).
10.1*^	Royalty Purchase Agreement, effective as of July 16, 2024, by and between the Registrant and OCM IP Healthcare Portfolio LP.
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 (the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document)
101.SCH	Inline XBRL Taxonomy Extension Schema Document
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

* 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.

^ Pursuant to Item 601(b)(10)(iv) of Regulation S-K promulgated by the SEC, certain portions of this exhibit have been redacted because the Company has determined that the information is both not material and is the type that the Company treats as private or confidential. The Company hereby agrees to furnish supplementally to the SEC, upon its request, an unredacted copy of the exhibit. Pursuant to Item 601(a)(5) of Regulation S-K promulgated by the SEC, certain exhibits and schedules to this agreement have been omitted. The Company hereby agrees to furnish supplementally to the SEC, upon its request, any or all of such omitted exhibits or schedules.

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 7, 2024

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

Date: August 7, 2024

By: /s/ Kevin Balthaser
Kevin Balthaser
Chief Financial Officer
(Principal Financial Officer)

EXHIBIT 10.1

EXECUTION VERSION

CERTAIN IDENTIFIED INFORMATION HAS BEEN OMITTED FROM THIS EXHIBIT BECAUSE IT IS (I) NOT MATERIAL AND (II) OF THE TYPE THAT THE REGISTRANT TREATS AS PRIVATE OR CONFIDENTIAL. [***] INDICATES THAT INFORMATION HAS BEEN OMITTED.

ROYALTY PURCHASE AGREEMENT

ACLARIS THERAPEUTICS, INC.
as Seller

- and -

OCM IP HEALTHCARE PORTFOLIO LP
as Purchaser

July 16, 2024

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THIS ROYALTY PURCHASE AGREEMENT made as of the 16th day of July, 2024.

BETWEEN:

ACLARIS THERAPEUTICS, INC.,
a corporation existing under the laws of the State of Delaware,

(hereinafter referred to as "**Seller**")

- and -

OCM IP HEALTHCARE PORTFOLIO LP,
a limited partnership formed under the laws of the Province of Ontario,

(hereinafter referred to as "**Purchaser**").

WHEREAS capitalized terms have the meanings specified in Section 1.1;

AND WHEREAS Seller is a party to the Lilly License Agreement;

AND WHEREAS Seller desires to sell, transfer, assign and convey to Purchaser, and Purchaser desires to purchase, acquire and accept from Seller, Seller's right, title and interest in and to the Purchased Receivables, upon and subject to the terms and conditions set forth in this Agreement;

NOW THEREFORE in consideration of the premises and the mutual agreements, representations and warranties set forth herein and of other good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, the Parties covenant and agree as follows:

ARTICLE 1
DEFINED TERMS AND RULES OF CONSTRUCTION

1.1 Defined Terms

For the purposes of this Agreement, unless the context otherwise requires, the following terms have the respective meanings specified below, and grammatical variations of such terms have corresponding meanings:

"**Additional Payment**" has the meaning specified in Section 2.2(a)(ii).

"**Additional Payment Audit**" has the meaning specified in Section 2.2(b).

"**Additional Payment Date**" means the date determined in accordance with Section 2.2(c).

"**Affiliate**" means:

(a) with respect to any Person (including Purchaser), any other Person that, directly or indirectly, controls, is controlled by or is under common control with such Person; and

(b) with respect to Purchaser, any Person in respect of which OMERS Administration Corporation, as administrator of the OMERS primary pension plan and trustee of the pension funds thereunder, holds, directly or indirectly, more than 50% of the equity interests (economic) of such Person.

For purposes of this definition, "**control**" of a Person means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of such Person, whether through the ownership of Voting Securities, by contract or otherwise, and the terms "**controlled**" and "**controlling**" have corresponding meanings.

"**Agreement**" means this Royalty Purchase Agreement, including the Schedules and Exhibits attached hereto.

"**Anniversary Milestone Payments**" means the following payments that are payable by Licensee to Seller pursuant to Table 5.2 – *Anniversary Milestone Payments* in Section 5 of the Lilly License Agreement:

Milestone Event	Milestone Payment
Second anniversary of the Effective Date	[***]
Third anniversary of the Effective Date	[***]
Fourth anniversary of the Effective Date	[***]
Fifth anniversary of the Effective Date	[***]

"**Applicable Law**" means, with respect to any Person, all laws, rules, regulations and orders of Governmental Authorities applicable to such Person or any of its properties or assets.

"**Applicable Withholding Certificate**" means, for United States federal withholding tax purposes, a valid, true and properly executed IRS Form W-9 (or any applicable successor form) if Purchaser is a "United States person" (as defined in Section 7701(a)(30) of the Code) or a valid, true and properly executed applicable IRS Form W-8 (or any applicable successor form) certifying that Purchaser is exempt from United States federal withholding tax with respect to all payments in respect of the Purchased Receivables.

"**Audit Initiation Period**" has the meaning specified in Section 2.2(b).

"**Bankruptcy Laws**" means bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance, fraudulent transfer or similar laws affecting the enforcement of creditors' rights generally.

"**Bill of Sale**" means that certain Bill of Sale and Assignment to be entered into by Seller and Purchaser substantially in the form of Exhibit A.

"**Business Day**" means any day that is not a Saturday, Sunday or other day on which commercial banks in Philadelphia, Pennsylvania or Toronto, Ontario are authorized or required by Applicable Law to remain closed.

"**Change of Control Transaction"** means (a) any consolidation or merger of Seller with or into any other corporation or other entity or person, or any other corporate reorganization, in which the stockholders of Seller immediately prior to such consolidation, merger or reorganization, own, in the aggregate, less than fifty percent (50%) of the surviving entity's voting power and/or outstanding capital stock immediately after such consolidation, merger or reorganization, or any transaction or series of related transactions (including any transaction which results from an option agreement or binding letter of intent with a third party) to which Seller or any of its stockholders is a party in which in excess of fifty percent (50%) of Seller's voting power and/or outstanding capital stock is transferred, or pursuant to which any person or group of affiliated persons obtains in excess of fifty percent (50%) of Seller's voting power and/or outstanding capital stock, excluding any consolidation or merger effected exclusively to change the domicile of Seller; or (b) any sale, lease or other disposition (including through a board and stockholder approved division or spin-off transaction) of all or substantially all of the assets of Seller and/or any of its subsidiaries or any sale, lease, exclusive license (or substantially exclusive license or agreement) or other disposition of all or substantially all of Seller's intellectual property, as reasonably determined based upon the potential earning power of the assets or intellectual property.

"**Closing**" has the meaning specified in Section 6.1.

"**Closing Payment**" has the meaning specified in Section 2.2(a)(i).

"**Code**" means the U.S. Internal Revenue Code of 1986, as amended, and the regulations thereunder.

"**Columbia**" means The Trustees of Columbia University in the City of New York.

"**Columbia Agreements**" means, collectively:

(a) the Exclusive License Agreement effective as of December 31, 2015 between Columbia and Seller (as assignee of Vixen Pharmaceuticals, Inc.), as amended by the First Amendment to License Agreement effective as of June 27, 2018; and

(b) the letter agreement dated August 19, 2022 between the parties to the Exclusive License Agreement referred to in clause (a) above and Licensee.

"**Confidential Information**" has the meaning specified in Section 5.8(b).

"**Effective Date**" has the meaning specified in the Lilly License Agreement, which refers to August 24, 2022.

"**Encumbrance**" means any security interest, mortgage, pledge, hypothecation, assignment, deposit arrangement, encumbrance, lien (statutory or otherwise), charge against or interest in property or other priority or preferential arrangement in the nature

of a security interest, in each case, to secure payment of a debt or performance of an obligation.

"**Escrow Account**" means the "Joint Concentration Account" as defined in the Escrow Agreement.

"**Escrow Agent**" means U.S. Bank National Association.

"**Escrow Agreement**" means that certain Escrow Agreement to be entered into by Seller, Purchaser and the Escrow Agent substantially in the form of Exhibit B.

"**Excluded Assets**" means, collectively:

(a) the Seller IP Assets;

(b) the Retained Receivables;

(c) Seller's rights (payment or otherwise) under the Columbia Agreements, the Vixen Agreements [***]; and

(d) any and all other rights of Seller to payment, compensation, or consideration under or in respect of the Lilly License Agreement (other than (i) the Purchased Receivables, (ii) Proceeds payable to Seller in respect of unpaid Purchased Receivables, and (iii) Proceeds payable to Seller as a result of actions taken by Seller in accordance with Section 5.5 and Section 5.10 of this Agreement that are to be shared with Purchaser in accordance with such Sections).

"**Excluded Liabilities and Obligations**" has the meaning specified in Section 2.3.

"**Field**" has the meaning specified in the Lilly License Agreement.

"**Financial Crime Laws**" mean all Applicable Law of the United States of America, the United Nations Security Council, the European Union, any Member State of the European Union, Canada, Japan and the United Kingdom relating to the prevention of bribery, corruption, money laundering, terrorist financing, facilitation of tax evasion, fraud or substantially similar or related activities.

"**Financing Statements**" means the financing statements and continuation statements with respect to such financing statements, when applicable, referred to in Section 2.1(b).

"**Fraud**" means, with respect to a Party, an actual and intentional misrepresentation of a material existing fact with respect to the making of any representation or warranty in Article 3 or Article 4, made by such Party, (a) with respect to Seller, to Seller's Knowledge or (b) with respect to Purchaser, to Purchaser's Knowledge, of its falsity and made for the purpose of inducing the other Party to act, and upon which the other Party justifiably relies with resulting Losses. For the avoidance of doubt, Fraud shall not include any claim for equitable fraud, constructive fraud, promissory fraud, unfair dealings fraud, fraud by reckless or negligent misrepresentations, or any tort based on negligence or recklessness.

"**Fundamental Representations**" has the meaning specified in Section 7.5.

"**Governmental Authority**" means the government of the United States, any other nation or any political subdivision thereof, whether state or local, and any agency, authority (including supranational authority), commission, instrumentality, regulatory body, court, central bank or other Person exercising executive, legislative, judicial, taxing, regulatory or administrative powers or functions of or pertaining to government.

"**Indemnified Party**" has the meaning specified in Section 7.2(a).

"**Indemnifying Party**" has the meaning specified in Section 7.2(a).

"**Initiating Party**" has the meaning specified in Section 2.2(b).

"**Judgment**" means any judgment, order, injunction, writ or decree.

"**Knowledge**" means:

(a) with respect to Seller, the actual knowledge of [***], in each case assuming such knowledge as the individual would reasonably be expected to have as a result of performing his duties in the ordinary course; provided, that, for purposes of Section 3.11, each such individual shall only be deemed to have "knowledge" of a patent matter if such individual has actual knowledge of the patent matter, would have had actual knowledge after due inquiry of employees of Seller who would reasonably be expected to have actual knowledge of the relevant matters based on their roles at Seller or would be found to be on notice of such patent matter as determined by reference to United States patent laws; and

(b) with respect to Purchaser, the actual knowledge of [***], in each case assuming such knowledge as the individual would reasonably be expected to have as a result of performing his duties in the ordinary course,

in each case (clauses (a) and (b)), without any requirement to make any inquiries of third parties (including Licensee, Columbia and/or the JAK Parties) or any Governmental Authority, or to perform any search of any public registry office or system.

"**Licensed Patents**" has the meaning specified in the Lilly License Agreement.

"**Licensed Product**" has the meaning specified in the Lilly License Agreement.

"**Licensee**" means Eli Lilly and Company.

"**Licensee Closing Notice**" has the meaning specified in Section 5.1(a).

"**Licensee Consent and Direction**" means the letter agreement dated as of July 10, 2024 between Seller and Licensee pursuant to which, among other things, Licensee consents to the transactions contemplated by this Agreement, including disclosure of the

Royalty Reports and the other disclosures contemplated by Sections 5.2, 5.3 and 5.4, and acknowledges the Licensee Direction.

"**Licensee Deduction**" means a right of setoff, offset, rescission, counterclaim, reduction, deduction crediting against or defense against any of the Royalty Payments, Anniversary Milestone Payments or other amounts payable by Licensee to Seller pursuant to the Lilly License Agreement.

"**Licensee Direction**" has the meaning specified in Section 5.1(a).

"**Lilly License Agreement**" means the License Agreement effective as of August 24, 2022, between Licensee and Seller, and also includes the Licensee Consent and Direction.

"**Losses**" has the meaning specified in Section 7.1(a).

"**Material Adverse Effect**" means any one or more of:

(a) a material adverse effect on the right or ability of Seller to consummate the transactions contemplated by the Transaction Documents and perform its obligations under the Transaction Documents;

(b) a material adverse effect on the validity or enforceability of the Transaction Documents against Seller or the rights of Purchaser thereunder;

(c) a material adverse effect on the rights of Seller under the Lilly License Agreement or under the Columbia Agreements; or

(d) a material adverse effect on the value of the Purchased Receivables (including the timing, amount or duration thereof).

"**Material Agreements**" means the Lilly License Agreement and the Columbia Agreements, and "**Material Agreement**" means any of them.

"**Modification**" has the meaning specified in Section 5.4(c).

"**Net Sales**" has the meaning specified in the Lilly License Agreement.

"**Parties**" means, collectively, Seller and Purchaser, and "**Party**" means either of them.

"**Patent Office**" means the applicable patent office, including the United States Patent and Trademark Office and any comparable foreign patent office.

"**Permitted Seller Assignment**" has the meaning specified in Section 5.6(b).

"**Person**" means any natural person, firm, corporation, limited liability company, partnership, joint venture, association, joint-stock company, trust, unincorporated organization, Governmental Authority or any other legal entity.

"**Proceeds**" means all amounts received by Seller from any Person as a result of any settlement or resolution of any actions, suits, proceedings, claims or disputes directly or

indirectly related to, and to the extent involving, the Receivables (other than such amounts that relate exclusively to the Retained Receivables and/or that are otherwise used to reimburse or indemnify Seller for costs, expenses, legal fees or other fees relating to such actions, suits, proceedings, claims or disputes).

"**Purchase Price**" has the meaning specified in Section 2.2.

"**Purchased Receivables**" means, collectively:

(a) Royalty Payments equal to [***] of Net Sales of the Relevant Product in the Field in the Territory that occur during the Purchased Receivables Period;

(b) 100% of the Anniversary Milestone Payments;

(c) the interest (if any) that is payable in respect of any of the payments referred to in clause (a) or (b) above pursuant to Section 3.3 of the Lilly License Agreement; and

(d) the Proceeds payable to Purchaser pursuant to Section 5.5(b) and Section 5.10(e).

"**Purchased Receivables Period**" means, with respect to any country, the period beginning on (and including) April 1, 2024 and ending on (and including) the date on which the obligation to make Royalty Payments pursuant to Section 4.1(a) of the Lilly License Agreement expires with respect to such country, being the last day of the Royalty Term applicable to such country.

"**Purchaser GP**" means OCM IP Healthcare Portfolio G.P. Inc., in its capacity as general partner of Purchaser.

"**Purchaser Indemnified Party**" has the meaning specified in Section 7.1(a).

"**Purchaser Non-Warranting Parties**" has the meaning specified in Section 8.3(b).

"**Receivables**" means the Royalty Payments and the Anniversary Milestone Payments during the Purchased Receivables Period.

"**Relevant Product**" means Olumiant® (baricitinib).

"**Representatives**" means:

(a) with respect to Purchaser, (i) Purchaser GP, (ii) Purchaser's limited and general partners, and (iii) Purchaser's and Purchaser GP's directors, officers, employees, attorneys, consultants and advisors; and

(b) with respect to Seller, its directors, officers, employees, attorneys, consultants and advisors.

"**Retained Receivables**" means, collectively:

(a) the portion of the Royalty Payments that does not constitute Purchased Receivables;

(b) the payments specified in Section 3.1, Table 5.1 – *Sales Milestone Payments* and Table 5.3 – *Regulatory Milestone Payments* in Section 5 of the Lilly License Agreement; and

(c) any Royalty Payments in respect of Net Sales of the Relevant Product in the Field in the Territory that occurred during the period prior to Purchased Receivables Period, and the milestone payment that was paid in respect of the first anniversary of the Effective Date pursuant to Table 5.2 – *Anniversary Milestone Payments* in Section 5 of the Lilly License Agreement.

"**Royalty Payment**" means the [***] royalty on Net Sales of the Relevant Product in the Field during the Royalty Term that is payable by Licensee to Seller pursuant to Section 4.1(a) of the Lilly License Agreement.

"**Royalty Reports**" means the reports required to be delivered by Licensee pursuant to Section 4.2 of the Lilly License Agreement.

"**Royalty Term**" has the meaning specified in the Lilly License Agreement.

"**Sanctions**" means any economic or trade sanctions or restrictive measures enacted, administered, imposed or enforced by the U.S. Department of the Treasury's Office of Foreign Assets Control (OFAC), the U.S. Department of State, the United Nations Security Council, the Parliament of Canada, the European Union, and/or any present or future member state thereof and/or the United Kingdom's His Majesty's Treasury.

"**Seller Account**" means the bank account of Seller listed in Exhibit C or such other bank account as Seller specifies in a written notice to Purchaser from time to time.

"**Seller Disclosure Letter**" has the meaning specified in the preamble to Article 3.

"**Seller Indemnified Party**" has the meaning specified in Section 7.1(b).

"**Seller IP Assets**" means, collectively:

(a) any rights to research, develop, commercialize, make, have made, use, sell, offer to sell, have sold, import or otherwise exploit the Licensed Product;

(b) the Licensed Patents; and

(c) any other intellectual property or other proprietary rights of any kind that are owned or held by, or licensed to, Seller.

"**Seller Non-Warranting Parties**" has the meaning specified in Section 8.3(a).

[***]

"**Term**" has the meaning specified in Section 8.1.

"**Territory**" means worldwide.

"**Third Party Claim**" has the meaning specified in Section 7.2(a).

"**Transaction Documents"** means this Agreement, the Bill of Sale, the Licensee Consent and Direction and the Escrow Agreement.

"**UCC**" means the Uniform Commercial Code as in effect from time to time in the State of Delaware.

"**Vixen Agreements**" means, collectively:

(a) the Stock Purchase Agreement dated as of March 24, 2016 between Seller, as purchaser, Vixen Pharmaceuticals, Inc., as the target company, JAK1, LLC, JAK2, LLC and JAK3, LLC, as the selling stockholders (collectively, the "**JAK Parties**"), and Shareholder Representative Services LLC, as the stockholders' representative; and

(b) the letter agreement dated August 19, 2022 between the parties to the Stock Purchase Agreement referred to in clause (a) above and Licensee.

"**Voting Securities**" means, with respect to any Person, securities of any class or kind ordinarily having the power to vote for the election of directors, managers or other voting members of the governing body of such Person.

1.2 Rules of Construction

Except as may be otherwise specifically provided in this Agreement and unless the context otherwise requires, in this Agreement:

(a) the terms "Agreement", "this Agreement", "the Agreement", "hereto", "hereof", "herein", "hereby", "hereunder" and similar expressions refer to this Agreement in its entirety and not to any particular provision hereof;

(b) references to an "Article", "Section", or "Exhibit" followed by a number or letter refer to the specified Article or Section of or Exhibit to this Agreement;

(c) references to a "Schedule" followed by a number refer to the specified Schedule to the Seller Disclosure Letter;

(d) the table of contents, the division of this Agreement into Articles and Sections and the insertion of headings are for convenience of reference only and shall not affect the construction or interpretation of this Agreement;

(e) words importing the singular number only shall include the plural and *vice versa* and words importing the use of any gender shall include all genders;

(f) the word "including" is deemed to mean "including without limitation";

(g) any reference to any agreement (including this Agreement) means such agreement as amended, modified, replaced or supplemented from time to time;

(h) all dollar amounts ("**$**") refer to U.S. dollars;

(i) any reference to any statute includes all regulations made under or in connection with that statute, as amended, modified, replaced or supplemented from time to time, and any reference to a specific provision of any statute or regulation also refers to any successor provision thereto of like or similar effect;

(j) any time period within which a payment is to be made or any other action is to be taken hereunder shall be calculated excluding the day on which the period commences and including the day on which the period ends;

(k) whenever any payment is required to be made, action is required to be taken or period of time is to expire on a day other than a Business Day, such payment shall be made, action shall be taken or period shall expire on the next following Business Day; and

(l) references in this Agreement to any term defined in the Lilly License Agreement and to any Section or other provision of the Lilly License Agreement refer to such term, Section or other provision of the Lilly License Agreement as in existence on the date of this Agreement, unless such term, Section or other provision of the Lilly License Agreement is amended, modified, supplemented or waived from time to time in compliance with Section 5.4(c) of this Agreement, in which case such references in this Agreement shall be to such term, Section or other provision of the Lilly License Agreement as so amended, modified, supplemented or waived from time to time.

ARTICLE 2
PURCHASE AND SALE OF THE PURCHASED RECEIVABLES

2.1 Purchase and Sale

(a) Subject to the terms and conditions of this Agreement, at the Closing, Seller shall sell, transfer, assign and convey to Purchaser, and Purchaser shall purchase, acquire and accept from Seller, Seller's right, title and interest in and to the Purchased Receivables, free and clear of any and all Encumbrances other than those Encumbrances created in favor of Purchaser by the Transaction Documents. It is understood and agreed that Purchaser shall not, by purchase of the Purchased Receivables, acquire any other assets or rights of Seller, including under, or relating to, the Lilly License Agreement other than those specified in the immediately preceding sentence.

(b) It is the intention of the Parties that the sale, transfer, assignment and conveyance contemplated by this Agreement shall constitute a sale of the Purchased Receivables from Seller to Purchaser and not a financing transaction, borrowing or loan; and accordingly, Seller will treat the sale, transfer, assignment and conveyance of the Purchased Receivables as sales of "accounts" in accordance with the UCC and Seller does hereby authorize Purchaser, from and after the date hereof, to file or to cause to be filed such financing statements (and continuation statements with respect to such financing statements when applicable) naming Seller as the seller and Purchaser as the purchaser of the Purchased Receivables as may be necessary to perfect such sale. If, notwithstanding the intent of the Parties in this regard, the sale, transfer, assignment and conveyance contemplated hereby is held not to be a sale, this Agreement shall constitute a security agreement and Seller does

hereby grant first priority security interests in and to the Purchased Receivables and any "proceeds" thereof (as such term is defined in the UCC), for the benefit of Purchaser to secure payment to Purchaser of amounts equal to the Purchased Receivables as they become due and payable under the Lilly License Agreement, and Seller does hereby authorize Purchaser to file or to cause to be filed such financing statements (and continuation statements with respect to such financing statements when applicable) as may be necessary to perfect such security interests. Notwithstanding the foregoing, nothing in this Section 2.1(b) shall bind Purchaser or Seller regarding the reporting of the transactions contemplated hereby for accounting purposes.

2.2 Purchase Price

(a) In full consideration for the sale, transfer, assignment and conveyance of the Purchased Receivables, and subject to the terms and conditions set forth herein, Purchaser shall pay (or cause to be paid) to Seller the following amounts (collectively, the "**Purchase Price**"):

(i) on the date hereof, $26,500,000 (the "**Closing Payment**"); and

(ii) on the Additional Payment Date determined in accordance with Section 2.2(c), one payment as follows (the "**Additional Payment**"):

(A) if Net Sales of the Relevant Product during 2024 are [***], the Additional Payment will be [***]; or

(B) if Net Sales of the Relevant Product during 2024 are [***], the Additional Payment will be $5,000,000,

provided, however, that:

(I) if Net Sales of the Relevant Product during 2024 are [***], no Additional Payment will be payable to Seller by Purchaser; and

(II) the Additional Payment (if any) shall only be payable if all of the following conditions are satisfied as of the date on which the Additional Payment is to be made:

a) each of the representations and warranties of Seller in this Agreement are true and correct in all material respects as of the Additional Payment Date (other than any representation and warranty that is already qualified by materiality or Material Adverse Effect, in which case such representation and warranty shall be true and correct in all respects); and

b) Seller is not in breach of any of its covenants under this Agreement in any material respect.

For greater certainty, if any of the conditions in Section 2.2(a)(ii) is not satisfied, Purchaser shall not have any obligation to pay, and Seller shall not have any right to receive, the Additional Payment (in whole or in part).

(b) Within [***] following the date on which Purchaser receives a copy of the final Royalty Report for Net Sales of the Relevant Product during 2024 (such [***] Period, the "**Audit Initiation Period**"), either Purchaser or Seller (the "**Initiating Party**") may provide written notice to the other party that the Initiating Party wishes to cause an inspection or audit of Licensee's relevant records with respect to matters related to Net Sales of the Relevant Product in the Field in the Territory for the period commencing on January 1, 2024 and ending on December 31, 2024 pursuant and subject to Section 3.5 of the Lilly License Agreement (an "**Additional Payment Audit**"). All of the fees and expenses of Licensee's independent certified public accountant that would otherwise be borne by Seller pursuant to the Lilly License Agreement shall be borne by the Initiating Party, and if Purchaser is the Initiating Party, such costs and expenses shall be reimbursed to the Seller Account promptly upon written request by Seller (which request shall include reasonable details of costs and expenses for which Seller is seeking reimbursement). Sections 5.3(d), 5.3(e) and 5.3(f) shall apply in connection with the Additional Payment Audit, *mutatis mutandis*.

(c) If Purchaser or Seller initiates an Additional Payment Audit in accordance with Section 2.2(b), the Additional Payment Date will be the date that occurs [***] following the date on which Purchaser receives a copy of the report issued by Licensee's independent certified public accountant that conducted the Additional Payment Audit. If neither Purchaser nor Seller initiates an Additional Payment Audit in accordance with Section 2.2(b), the Additional Payment Date will be the [***] following the end of the Audit Initiation Period.

(d) If neither Party initiates an Additional Payment Audit in accordance with Section 2.2(b), no subsequent inspection or audit of Licensee's relevant records pursuant to Section 3.5 of the Lilly License Agreement with respect to matters related to Net Sales of the Relevant Product in the Field in the Territory for the period commencing on January 1, 2024 and ending on December 31, 2024 shall affect the determination made pursuant to this Section 2.2 regarding Purchaser's obligation to pay the Additional Payment to Seller.

2.3 No Assumed Obligations; No Assigned Rights

(a) Notwithstanding any provision in this Agreement, any other Transaction Document or any other writing to the contrary, Purchaser is purchasing, acquiring and accepting only the Purchased Receivables and is not assuming any liability or obligation of Seller or any of Seller's Affiliates of whatever nature, whether presently in existence or arising or asserted hereafter, under the Vixen Agreements, the Lilly License Agreement or any other Material Agreement. All such liabilities and obligations of Seller or Seller's Affiliates shall be retained by and remain liabilities and obligations of Seller or Seller's Affiliates, as the case may be (the "**Excluded Liabilities and Obligations**"), and as between Seller and Purchaser, Seller shall remain exclusively responsible for the satisfaction and performance of the Excluded Liabilities and Obligations. Without limiting the generality of the foregoing, the Excluded Liabilities and Obligations shall include all of Seller's payment obligations under each of the Material Agreements and the Vixen Agreements.

(b) Notwithstanding any provision in this Agreement, any other Transaction Document or any other writing to the contrary, Seller is selling, transferring, assigning and conveying only the Purchased Receivables and, except as expressly set forth in this

Agreement, is not assigning any rights or powers of Seller or any of Seller's Affiliates of whatever nature, whether presently in existence or arising or asserted hereafter, under the Lilly License Agreement or any other Material Agreement.

2.4 No Purchase or Sale of Excluded Assets

Notwithstanding anything to the contrary contained in this Agreement, Seller shall retain all its right, title and interest in and to, and there shall be excluded from the sale, transfer, assignment and conveyance to Purchaser under this Agreement, all Excluded Assets.

2.5 Purchase Price Allocation

Purchaser and Seller agree that the Purchase Price shall be allocated solely to the Purchased Receivables and shall not be allocated to any other rights created in favor of Purchaser pursuant to the Transaction Documents.

ARTICLE 3
REPRESENTATIONS OF SELLER

Except as set forth on Exhibit D (the "**Seller Disclosure Letter**"), Seller hereby represents to Purchaser as of the date hereof as follows and acknowledges that Purchaser is relying on these representations and warranties in connection with the transactions contemplated by this Agreement:

3.1 Organization

Seller is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware.

3.2 Authorization and Enforceability

Seller has all powers and authority to execute and deliver, and perform its obligations under, the Transaction Documents and to consummate the transactions contemplated hereby and thereby. The execution and delivery of each of the Transaction Documents and the performance by Seller of its obligations hereunder and thereunder have been duly authorized by Seller. Each of the Transaction Documents constitutes the legal, valid and binding obligation of Seller, enforceable against Seller in accordance with its respective terms, subject to applicable Bankruptcy Laws, general equitable principles and principles of public policy.

3.3 No Conflicts

None of the execution and delivery by Seller of any of the Transaction Documents, the performance by Seller of the obligations contemplated hereby or thereby or the consummation of the transactions contemplated hereby or thereby will conflict with or result in a breach or default under (a) any Applicable Law or any Judgment of any Governmental Authority, to which Seller may be subject or bound, (b) any term or provision of any of the Material Agreements, Vixens Agreements [***], or (c) any term or provision of any other contract to which Seller is a party, except, in each case (clause (a), (b) or (c)), for any such conflict, breach or default that would not, individually or in the aggregate, reasonably be expected to result in a Material Adverse Effect.

3.4 Ownership of Purchased Receivables

Seller is the sole owner of, has good title to, and holds all right and interest in and to the Purchased Receivables, free and clear of all Encumbrances, other than those Encumbrances created in favor of Purchaser pursuant to this Agreement. Upon payment of the Closing Payment, Purchaser will be the sole owner of, will have good title to, and will hold all right and interest in and to the Purchased Receivables, free and clear of all Encumbrances other than those Encumbrances created in favor of Purchaser under the Transaction Documents. Seller has full right to sell, transfer, assign and convey the Purchased Receivables to Purchaser. There are no contracts, agreements or understandings (whether written or oral) to which Seller is a party and which are in effect as of the date hereof pursuant to which any third party has any right, entitlement or privilege to or in respect of the Purchased Receivables, in whole or in part, other than the Transaction Documents.

3.5 Governmental and Third Party Authorizations

The execution and delivery by Seller of the Transaction Documents, the performance by Seller of its obligations hereunder and thereunder and the consummation by Seller of any of the transactions contemplated hereunder and thereunder (including the sale, transfer, assignment and conveyance of the Purchased Receivables to Purchaser) do not require any consent, approval, license, order, authorization or declaration from, notice to, action or registration by or filing with any Governmental Authority having jurisdiction over Seller or any other Person, except for those that have been previously obtained or made and the Financing Statements.

3.6 No Litigation

There is no pending or, to the Seller's Knowledge, threatened action, suit, proceeding or investigation before any Governmental Authority, court or arbitrator against Seller that, individually or in the aggregate, (a) would reasonably be expected to result in a Material Adverse Effect or (b) challenges or seeks to prevent or delay the consummation of any of the transactions contemplated by the Transaction Documents.

3.7 No Brokers' Fees

Seller is solely responsible for any commission or broker's fee owing in connection with the transactions contemplated by this Agreement assuming the accuracy of Section 4.7 (including any such commission or fee that is or becomes owing to Cantor Fitzgerald), the full amount of which is included in the Excluded Liabilities and Obligations.

3.8 Compliance with Laws

Seller is not in violation of and, to the Knowledge of Seller, is not under investigation by any Governmental Authority with respect to and has not been threatened to be charged with any violation of, any Applicable Law or any Judgment of any Governmental Authority, in each case that would reasonably be expected to result in a Material Adverse Effect. Without limiting the generality of the foregoing, (a) Seller is not, and has not been in the three (3) years prior to the date of this Agreement, in violation of any Sanctions or Financial Crime Laws, and (b) Seller is not conducting, and has not conducted in the three (3) years prior to the date of this Agreement, any business dealings or activities in violation of Sanctions or in any other manner that would expose Seller to the risk of adverse measures pursuant to Sanctions.

3.9 Material Agreements

(a) Schedule 3.9(a) sets forth true, correct and complete copies of:

(i) the Lilly License Agreement;

(ii) the Columbia Agreements;

(iii) the Vixen Agreements;

(iv) all Royalty Reports delivered, as of the date of this Agreement, to Seller by Licensee pursuant to the Lilly License Agreement;

(v) all material written notices delivered, as of the date of this Agreement, to Seller by Licensee, or to Licensee by Seller, in each case since the Effective Date pursuant to the Lilly License Agreement in relation to the Royalty Payments and the milestone payments payable thereunder or that would, individually or in the aggregate, reasonably be expected to result in a Material Adverse Effect; and

(vi) all material written notices delivered, as of the date of this Agreement, to Seller by Columbia, or to Columbia, in each case since December 31, 2015 pursuant to the Columbia Agreements that would, individually or in the aggregate, reasonably be expected to result in a Material Adverse Effect.

(b) Each of the Material Agreements is (i) in full force and effect, (ii) the legal, valid and binding obligation of Seller and, to the Knowledge of Seller, each of the other parties thereto, and (iii) enforceable against Seller and, to the Knowledge of Seller, each of the other parties thereto, in accordance with its terms, subject in each case, as to enforcement of remedies, to Bankruptcy Laws, general equitable principles and principles of public policy.

(c) Seller is not in breach or violation of, or in default under, any of the Material Agreements in any material respect, and, to the Knowledge of Seller, none of the other parties thereto is in breach or violation of, or in default under, any of the Material Agreements in any material respect, in each case, in such a manner that would reasonably be expected to adversely affect the value of the Purchased Receivables (including the timing, amount or duration thereof).

(d) The Relevant Product is a Licensed Product.

(e) Seller has not waived its right to receive payment in respect of any portion of the Royalty Payments or the Anniversary Milestone Payments, in whole or in part, or released Licensee, in whole or in part, from its obligation to pay the Royalty Payments or the Anniversary Milestone Payments in accordance with the Lilly License Agreement.

(f) To the Knowledge of Seller, no event has occurred that would give (i) any party to a Material Agreement the right to terminate such Material Agreement, in whole or in part, or (ii) Licensee the right to cease paying the Royalty Payments or the Anniversary Milestone Payments under the Lilly License Agreement in accordance with the terms thereof. Seller has not received any written notice from (i) any party to a Material Agreement challenging the

validity or enforceability of such Material Agreement or (ii) Licensee challenging the validity or enforceability of the obligation to pay the Royalty Payments or the Anniversary Milestone Payments under the Lilly License Agreement in accordance with the terms thereof. Seller has not agreed with any party to a Material Agreement to terminate such Material Agreement in whole or in part.

(g) Seller has not consented to an assignment by Licensee of the Lilly License Agreement in whole or in part, and Seller does not have Knowledge of any assignment by Licensee of the Lilly License Agreement.

(h) Other than the Material Agreements, there are no contracts (whether written or oral) between Seller and Licensee that adversely affect the value of the Purchased Receivables (including the timing, amount or duration thereof).

(i) Seller has received from Licensee all of the Royalty Payments and milestone payments that Seller is entitled to receive pursuant to the Lilly License Agreement based on the information provided in the Royalty Reports that Seller has received from Licensee. To the Knowledge of Seller, Seller has not received any payments from Licensee on account of the Royalty Payments or the Anniversary Milestone Payments that would otherwise have comprised part of the Purchased Receivables.

(j) Licensee has not taken, and Seller has not received any written notice from Licensee expressing an intention by Licensee to take, any Licensee Deduction from any Royalty Payments or other amounts payable by Licensee to Seller pursuant to the Lilly License Agreement because of any amount owed or claimed owed from Seller or an Affiliate of Seller to Licensee, and to the Knowledge of Seller, no event or condition exists that would permit Licensee to do so for such reason.

(k) To the Knowledge of Seller, (i) Licensee is not, and has not been [***], in violation of any Sanctions or Financial Crime Laws, and (ii) Licensee is not conducting, and has not conducted [***], any business dealings or activities in violation of Sanctions or in any other manner that would expose Seller to the risk of adverse measures pursuant to Sanctions.

(l) To the Knowledge of Seller, Licensee has not granted any sublicense pursuant to Section 2.2 of the Lilly License Agreement with respect to the Relevant Product.

(m) Seller has not exercised its audit right under Section 3.5 of the Lilly License Agreement.

(n) Seller has not delivered to, or received from, Licensee or Columbia a notice of dispute arising out of or in connection with the Lilly License Agreement or the Columbia Agreements, as applicable, other than any dispute that has been fully resolved prior to the date hereof.

(o) Seller has not made any claim for indemnification by Licensee pursuant to Section 9.2 of the Lilly License Agreement, and Licensee has not made any claim for indemnification by Seller pursuant to Section 9.1 of the Lilly License Agreement.

(p) Columbia has not made any claim for indemnification by Seller pursuant to Section 12(a) of the Exclusive License Agreement referred to in clause (a) of the definition of Columbia Agreements.

3.10 Solvency

Following consummation of the transactions contemplated by this Agreement:

(a) the fair saleable value of the assets of Seller will be greater than the sum of its debts, liabilities and other obligations, including contingent liabilities;

(b) the present fair saleable value of the assets of Seller will be greater than the amount that would be required to pay its probable liabilities on its existing debts, liabilities and other obligations, including contingent liabilities, as they become absolute and matured;

(c) Seller will be able to pay its debts, liabilities and other obligations, including contingent obligations, as they come due in the ordinary course; and

(d) Seller will not be rendered insolvent under applicable Bankruptcy Laws.

3.11 Intellectual Property

(a) All of the Licensed Patents are listed on Schedule 3.11(a).

(b) For each of the Licensed Patents, Seller has indicated on Schedule 3.11(a) (i) the jurisdictions in which such Licensed Patent is pending, allowed, granted or issued and (ii) the patent number or patent serial number.

(c) To the Knowledge of Seller, the Licensed Patents that have been issued or granted by the appropriate Patent Office are valid and enforceable. Seller has not, and, to the Knowledge of Seller, its Affiliates, Columbia and Licensee have not, received any written notice or written legal opinion that alleges that any of the Licensed Patents is invalid or unenforceable.

(d) None of the issued Licensed Patents have lapsed, expired or otherwise been terminated other than pursuant to the expiration of their natural terms. Seller has not, and to the Knowledge of Seller, its Affiliates, Columbia and Licensee have not, received any written notice relating to the lapse, expiration or other termination of any of the Licensed Patents other than pursuant to the expiration of their natural terms.

(e) To the Knowledge of Seller, the Licensed Patents have been diligently prosecuted in accordance with Applicable Law.

(f) To the Knowledge of Seller, (i) there are no unpaid maintenance fees payable by Seller to any Governmental Authority that currently are overdue for any of the Licensed Patents and (ii) no Licensed Patents have lapsed or been abandoned, cancelled or expired.

(g) To the Knowledge of Seller, the Licensed Patents have not been the subject of any litigation, interference, reissue, *inter partes* review, post-grant review, re examination or like patent office proceedings.

(h) To the Knowledge of Seller, Seller has not received any written notice of any pending or threatened litigations, interferences, *inter partes* reviews, post-grant reviews, re examinations, or like patent office proceedings involving any Licensed Patents.

(i) Neither Seller nor, to the Knowledge of Seller, Licensee has received written or oral notice of any action, suit or proceeding that claims, that the manufacture, use, marketing, sale, offer for sale, importation or distribution of the Licensed Product infringes on any patent or other intellectual property rights of any other Person or constitutes misappropriation of any other Person's trade secrets or other intellectual property rights.

(j) To the Knowledge of Seller, there is no Person who is engaging in or has engaged in any activity that infringes upon any of the Licensed Patents.

(k) Seller, and to Seller's Knowledge its Affiliates, have not received any written notice that any Person other than Seller or Columbia has a claim to ownership of any of the Licensed Patents.

(l) Seller has not, and to the Knowledge of Seller, its Affiliates and Licensee have not, received any written notice from any Person, and otherwise has no Knowledge, that there is a Person who is or claims to be an inventor under any of the Licensed Patents who is not a named inventor thereof.

3.12 Regulatory Approvals and Exclusivity

To the Knowledge of Seller, Licensee is the regulatory authorization holder of the Relevant Product in the Territory. To the Knowledge of Seller, Licensee has complied with its obligations to obtain and maintain all regulatory approvals, including marketing authorizations, for the Licensed Products. To the Knowledge of Seller, as of the date of this Agreement, there is no reason or grounds to suspect that the Relevant Product will not be subject to the full exclusivity data period as identified in the Approved Drug Products with Therapeutic Equivalence Evaluations (Orange Book) for the United States, the full data exclusivity and market protection periods based on the date of the grant of the relevant marketing authorization of the Relevant Product in the European Union, the European Economic Areas and the United Kingdom, or equivalent periods elsewhere in the Territory.

3.13 UCC Representations and Warranties

(a) Seller's exact legal name is, and for the preceding ten years has been, "Aclaris Therapeutics, Inc."

(b) Seller is, and for the preceding five years has been, a corporation existing under the laws of the State of Delaware, with its principal place of business located in the Commonwealth of Pennsylvania.

3.14 Taxes

(a) No deduction or withholding for or on account of any tax has been made from any Royalty Payment or milestone payment by Licensee to Seller under the Lilly License Agreement, and Seller has not received any written notice from Licensee that any such deduction or withholding will be required or requested in the future.

(b) Seller has filed (or caused to be filed) all material tax returns and material tax reports required to be filed under Applicable Law and has paid all material taxes required to be paid, except for any such taxes that are being contested in good faith by appropriate

proceedings and for which adequate reserves have been provided in accordance with generally accepted accounting principles applicable to Seller, as in effect from time to time.

3.15 [***]

ARTICLE 4
REPRESENTATIONS AND WARRANTIES OF PURCHASER

Purchaser hereby represents and warrants to Seller as of the date hereof as follows and acknowledges that Seller is relying on these representations and warranties in connection with the transactions contemplated by this Agreement:

4.1 Organization

Purchaser is a limited partnership formed and existing under the laws of the Province of Ontario. Purchaser GP is a corporation duly organized, validly existing and in good standing under the laws of the Province of Ontario and is the sole general partner of Purchaser.

4.2 Authorization and Enforceability

Purchaser GP, in its capacity as general partner of Purchaser, has all powers and authority to execute and deliver, and to perform Purchaser's obligations under, the Transaction Documents and to consummate the transactions contemplated hereby and thereby. The execution and delivery of each of the Transaction Documents by Purchaser GP, in its capacity as general partner of Purchaser, and the performance by Purchaser of its obligations hereunder and thereunder have been duly authorized by Purchaser GP, in its capacity as general partner of Purchaser. Each of the Transaction Documents constitutes the legal, valid and binding obligation of Purchaser, enforceable against Purchaser in accordance with its respective terms, subject to applicable Bankruptcy Laws, general equitable principles and principles of public policy.

4.3 No Conflicts

None of the execution and delivery by Purchaser GP, in its capacity as general partner of Purchaser, of any of the Transaction Documents, the performance by Purchaser of the obligations contemplated hereby or thereby or the consummation of the transactions contemplated hereby or thereby will conflict with or result in a breach or default under, (a) any Applicable Law or any Judgment of any Governmental Authority, to which Purchaser or Purchaser GP, in its capacity as general partner of Purchaser, may be subject or bound, (b) any term or provision of any contract to which Purchaser or Purchaser GP, in its capacity as general partner of Purchaser, is a party or (c) any term or provision of any of the organizational documents of Purchaser or Purchaser GP.

4.4 Governmental and Third Party Authorizations

The execution and delivery of the Transaction Documents by Purchaser GP, in its capacity as general partner of Purchaser, the performance by Purchaser of its obligations hereunder and thereunder and the consummation by Purchaser of any of the transactions contemplated hereunder and thereunder do not require any consent, approval, license, order, authorization or declaration from, notice to, action or registration by or filing with any

Governmental Authority having jurisdiction over Purchaser or Purchaser GP, except for those that have been previously obtained or made.

4.5 No Litigation

There is no action, suit, arbitration proceeding, claim, demand, citation, summons, subpoena, investigation or other proceeding (whether civil, criminal, administrative, regulatory, investigative or informal) before any Governmental Authority, court or arbitrator pending or, to the Knowledge of Purchaser, threatened, against Purchaser or Purchaser GP, that, in each case, challenges or seeks to prevent, enjoin, alter, delay, make illegal or otherwise interfere with the consummation of any of the transactions contemplated by any of the Transaction Documents.

4.6 Sufficiency of Funds

Purchaser has sufficient cash on hand or other sources of immediately available funds to enable it to make payment of the Purchase Price and consummate the transactions contemplated by this Agreement.

4.7 No Brokers' Fees

Purchaser has not taken any action that would entitle any Person to any commission or broker's fee in connection with the transactions contemplated by this Agreement.

4.8 Purchaser Acknowledgement

Purchaser and Purchaser GP have such knowledge, sophistication and experience in financial and business matters that it is capable of evaluating the risks and merits of entering into the transactions contemplated by the Transaction Documents.

ARTICLE 5
COVENANTS

The Parties covenant and agree as follows, in each case during the Term:

5.1 Payments on Account of the Purchased Receivables

(a) Pursuant to the Licensee Consent and Direction, Seller shall direct Licensee to pay the Royalty Payments and the Anniversary Milestone Payments to the Escrow Account or to such other account as Seller and Purchaser otherwise direct Licensee in writing from time to time (such direction, the "**Licensee Direction**"). Notwithstanding anything to the contrary in this Agreement, Seller shall not amend, replace or revoke the Licensee Direction set forth in the Licensee Consent and Direction prior to the end of the Term without the prior written consent of Purchaser. Seller shall notify Licensee in writing (with a copy to [***]) within [***] following the Closing (the "**Licensee Closing Notice**").

(b) If Purchaser receives any payment on account of the Retained Receivables or any other Excluded Asset, Purchaser shall:

(i) hold such payment in trust for the benefit of Seller;

(ii) have no right, title or interest whatsoever in such payment; and

(iii) promptly, and in any event no later than [***] following the receipt by Purchaser of such payment, remit the full amount thereof that comprises the Retained Receivables or such other Excluded Asset to the Seller Account by wire transfer of immediately available funds, without set-off, withholding or deduction of any kind.

(c) If Seller receives any payment on account of the Purchased Receivables (other than the Purchase Price), Seller shall:

(i) hold such payment in trust for the benefit of Purchaser;

(ii) have no right, title or interest whatsoever in such payment; and

(iii) promptly, and in any event no later than [***] following the receipt by Seller of such payment, remit the full amount thereof that comprises the Purchased Receivables to the Escrow Account by wire transfer of immediately available funds, without set-off, withholding or deduction of any kind, following which Seller shall, jointly with Purchaser in accordance with the Escrow Agreement, direct the Escrow Agent to immediately distribute such funds to Purchaser in accordance with the Escrow Agreement.

(d) Without limiting the generality of Section 2.3, if Licensee makes any Licensee Deduction against any Receivables that are Purchased Receivables for (i) any amount owing from Seller to Licensee in respect of any right of Licensee against Seller arising from or in connection with any matter, or (ii) any amount on account of any overpayment of Royalty Payments by Licensee to Seller in respect of Net Sales of the Relevant Product in the Territory that occurred during the period prior to the Purchased Receivables Period, then Seller shall promptly (and in any event no later than [***]) following the date on which Seller becomes aware of such Licensee Deduction, notify Purchaser, in writing, thereof, remit to the Escrow Account funds in an amount equal to such Licensee Deduction (in respect of such Receivables that are Purchased Receivables), without set off, withholding or deduction of any kind, and thereafter jointly with Purchaser in accordance with the Escrow Agreement direct the Escrow Agent to immediately distribute such funds to Purchaser.

(e) If, at any time:

(i) Licensee makes a Licensee Deduction against the Retained Receivables or any other payments that Licensee owes to Seller in connection with any matter other than the Purchased Receivables, in respect of all or a portion of any overpayment of the Purchased Receivables (any such overpayment, a "**Purchased Receivables Overpayment**"), then Purchaser shall promptly (and in any event within [***]) following receipt of a written request from Seller (which request shall include reasonable supporting details) reimburse to Seller the amount of such Licensee Deduction (not to exceed the Purchased Receivables Overpayment), without set off, withholding or deduction of any kind, by payment to the Seller Account; or

(ii) Licensee makes a Licensee Deduction against the Purchased Receivables in respect of all or a portion of any overpayment of Royalty Payments on account of Net Sales of the Relevant Product that occurred prior to the Purchased Receivables Period or any overpayment on account of any milestone payment under the Lilly License Agreement other than the Anniversary Milestone Payments (any such overpayment, a "**Retained Receivables Overpayment**"), then Seller shall promptly (and in any event within [***]) following receipt of a written request from Purchaser (which request shall include reasonable supporting details) remit to the Escrow Account funds in an amount equal to such Licensee Deduction (not to exceed the Retained Receivables Overpayment), without set off, withholding or deduction of any kind, and thereafter jointly with Purchaser in accordance with the Escrow Agreement direct the Escrow Agent to immediately distribute such funds to Purchaser.

5.2 Royalty Reports; Notices; Correspondence

(a) Promptly (and in any event no later than [***]) following the receipt by Seller:

(i) from Licensee of (A) a Royalty Report or (B) any material written notice or material written correspondence relating to, involving or affecting, (I) the Purchased Receivables or (II) any other material right of Purchaser under this Agreement relating to the Purchased Receivables; or

(ii) from Columbia of any material written notice or material written correspondence under the Columbia Agreements that, directly or indirectly, relates to, involves or affects (I) the Purchased Receivables, (II) any other material right of Purchaser under this Agreement relating to the Purchased Receivables, or (III) any material right of Seller under the Columbia Agreements to the extent relating to any right or obligation of Seller or Licensee under the Lilly License Agreement,

Seller shall furnish a copy of such Royalty Report or such notice or correspondence to Purchaser.

(b) Except for notices and correspondence required to be given or made by Seller (i) under the Lilly License Agreement or the Columbia Agreements or (ii) by Applicable Law, Seller shall not send any notice or correspondence to Licensee or Columbia relating to, involving or affecting, directly or indirectly, the Purchased Receivables or any material right of Purchaser under this Agreement relating to the Purchased Receivables, in each case, without the prior written consent of Purchaser (such consent not to be unreasonably withheld, conditioned or delayed), unless the sending of such notice or correspondence would not reasonably be expected to adversely affect the value of the Purchased Receivables (including the timing, amount or duration thereof) or the exercise by Purchaser of its material rights under this Agreement relating to the Purchased Receivables. Seller shall, promptly (and in any event no later than [***]) following the delivery thereof by Seller to Licensee or Columbia, as applicable, provide to Purchaser a copy of any such material notice or material correspondence sent by Seller to Licensee or Columbia, as applicable, relating to, involving or affecting, directly or indirectly, the Purchased Receivables or any material right of Purchaser under this Agreement relating to the Purchased Receivables.

5.3 Audits of Licensee's Records

(a) Seller and Purchaser shall consult with each other as set forth in this Section 5.3 regarding the timing, manner and conduct of any inspection or audit of Licensee's records with respect to the Receivables pursuant to Section 3.5 of the Lilly License Agreement. Seller shall retain the exclusive right to inspect and audit, at Seller's sole cost and expense, Licensee's records at any time and from time to time at its sole discretion for payments relating to periods prior to January 1, 2024, provided, however, that Seller shall consult with Purchaser prior to initiating any such inspection and audit.

(b) Subject to Section 5.3(a), Seller may, and if requested in writing by Purchaser, shall, request an audit of Licensee's relevant records solely with respect to matters related to Net Sales of the Relevant Product in the Field in the Territory from and after January 1, 2024 pursuant to and in accordance with Section 3.5 of the Lilly License Agreement; provided, however, that Purchaser shall not be entitled to request such an inspection or audit more frequently than [***]. All of the out-of-pocket costs and expenses of any such inspection or audit carried out at the request of Purchaser (including the fees and expenses of Licensee's independent certified public accountant) that would otherwise be borne by Seller pursuant to the Lilly License Agreement shall instead be borne by Purchaser and paid in advance to the Seller Account promptly upon written request (which request shall include reasonable details of such out-of-pocket costs and expenses for which Seller is seeking payment in advance).

(c) Without limiting Seller's obligations under Section 5.3(a), all of the costs and expenses of any inspection or audit initiated by Seller (other than at Purchaser's request) under Section 3.5 of the Lilly License Agreement (including the fees and expenses of Licensee's independent certified public accountant) shall be borne by Seller.

(d) If, following the completion of any inspection or audit under Section 3.5 of the Lilly License Agreement, Licensee is required to make additional payments to Seller for underpayment of Receivables, then such payments received, after deduction and reimbursement of the fees and expenses of Licensee's independent certified public accountant borne by the Parties in connection with such inspection or audit pursuant to Section 5.3(b) or Section 5.3(c) (and that are not to be reimbursed pursuant to Section 5.3(e)), shall be allocated among, and paid to, the Parties, in proportion to their respective entitlements to the Receivables in respect of the calendar year that was the subject of the inspection or audit.

(e) If, following the completion of any inspection or audit under Section 3.5 of the Lilly License Agreement, Licensee reimburses Seller for the costs and expenses of such inspection or audit pursuant to Section 3.5 of the Lilly License Agreement, Seller shall promptly (and in any event within [***]) following receipt by Seller of such reimbursement remit to Purchaser a pro rata amount of such reimbursement based on the portion of the costs and expenses of Licensee's independent certified public accountant that were paid, respectively, by Purchaser and Seller pursuant to Section 5.3(b) or Section 5.3(c).

(f) If the results of an audit pursuant to Section 3.5 of the Lilly License Agreement determine that Licensee overpaid amounts comprising Purchased Receivables, Purchaser shall pay to Seller its pro rata share of such overpayment (based on the proportion of the relevant Royalty Payments that the Purchased Receivables, on the one hand, and the Retained Receivables, on the other hand, comprised) within [***] following receipt by Purchaser of a copy of the applicable audit report.

5.4 Performance of Material Agreements; Amendments

Seller shall not:

(a) breach any of the provisions of any Material Agreement if the effect of such breach would reasonably be expected to result in a Material Adverse Effect, and Seller shall use reasonable best efforts (in consultation with Purchaser) to cure any such breach by Seller of such Material Agreement in a timely manner;

(b) forgive or release, in full or in part, any amount owed to or becoming owing to Seller under the Lilly License Agreement, which amount would otherwise constitute the Purchased Receivables, without prior written consent of Purchaser (in its sole discretion); and

(c) assign, amend, modify, supplement, restate, waive, cancel or terminate (or consent to any cancellation or termination of), in whole or in part, (each, a "**Modification"**) all or any provision of any Material Agreement without the prior written consent of Purchaser (in its sole, reasonable discretion) if such Modification would reasonably be expected to result in a Material Adverse Effect (it being understood and agreed that a proposed Modification to the provisions of the Lilly License Agreement governing the obligation to make the Royalty Payments or the Anniversary Milestone Payments, the amount or calculation of the Royalty Payments or the Anniversary Milestone Payments or the procedures or timing for payment of the Royalty Payments or the Anniversary Milestone Payments shall be deemed to have such an effect).

5.5 Enforcement of Material Agreements

(a) Upon Seller becoming aware of a breach of or default under, or an alleged breach of or default under, any Material Agreement by another party thereto that, individually or in the aggregate with other alleged or actual breaches or defaults by such other party, could reasonably be expected to result in a Material Adverse Effect, Seller shall (i) promptly (but in any event within [***]) provide written notice to Purchaser describing in reasonable detail the relevant breach or default, and (ii) proceed in consultation with Purchaser. Seller may, and if requested in writing by Purchaser, shall, take commercially reasonable actions (including selecting legal counsel reasonably satisfactory to Purchaser and commencing legal action against any party to a Material Agreement) to enforce compliance by any party to a Material Agreement with the relevant provisions of such Material Agreement.

(b) Purchaser shall, promptly (and in any event within [***]) following receipt of a written request from Seller (which request shall include reasonable details of costs and expenses for which Seller is seeking prepayment or reimbursement), reimburse Seller for all documented out-of-pocket costs and expenses (including reasonable attorneys' fees and expenses) reasonably incurred or to be incurred by Seller as a result of Seller taking any action at the request of Purchaser pursuant to this Section 5.5. To the extent not previously reimbursed by Purchaser, the amount of all documented out-of-pocket costs and expenses (including reasonable attorneys' fees and expenses) reasonably incurred by Seller in connection with such enforcement shall be deducted from Proceeds of the enforcement of the other party's obligations under the applicable Material Agreement pursuant to this Section 5.5 and retained by Seller. Thereafter such remaining Proceeds shall be used to reimburse Purchaser for all amounts reimbursed to Seller by Purchaser pursuant to this Section 5.5(b), and the balance of

such Proceeds shall be allocated between the Parties in a manner that reflects their respective entitlements to the Receivables during the relevant period of time to which the enforcement action relates, as determined by the Parties, acting in good faith. For purposes of this Section 5.5(b), "documented" costs and expenses refer to individually identifiable costs and expenses that are evidenced by a written invoice or other supporting documentation that provides a reasonably detailed description of the matters giving rise to such costs and expenses.

5.6 Assignments of Lilly License Agreement

(a) Promptly (and in any event within [***]) following receipt by Seller of a written request from Licensee for consent to assign the Lilly License Agreement (in whole or in part) pursuant to Section 12.3 of the Lilly License Agreement, Seller shall provide written notice thereof to Purchaser. Seller shall not grant or withhold such consent without the prior written consent of Purchaser, such consent not to be unreasonably withheld, conditioned or delayed.

(b) Seller shall not assign the Lilly License Agreement (in whole or in part) without the prior written consent of Purchaser. Notwithstanding the foregoing, Purchaser's consent shall not be required in connection with any assignment of the Lilly License Agreement by Seller that does not require Licensee's consent pursuant to Section 12.3 of the Lilly License Agreement, provided that:

(i) the assignee shall agree in writing to be bound by the provisions of this Agreement as though it was Seller, such agreement to be in form and substance reasonably satisfactory to Purchaser;

(ii) such assignment shall not result in any deduction or withholding by Licensee of any taxes resulting from such assignee's tax status or such assignee being a party to the Lilly License Agreement;

(iii) Seller shall provide written notice of any such assignment to Purchaser promptly (and in any event within [***]) following the completion thereof; and

(iv) in connection with any assignment of the Lilly License Agreement by Seller pursuant to clause (a) of Section 12.3 of the Lilly License Agreement, Seller shall remain liable and responsible for the performance and observance of all duties and obligations of the assignee under this Agreement,

(in each case (clauses (i) through (iv)), a "**Permitted Seller Assignment**").

5.7 Termination of Lilly License Agreement

Within [***] of Seller becoming aware of the occurrence of any event that gives rise to a right on the part of Seller to terminate the Lilly License Agreement pursuant to Section 10.2 of the Lilly License Agreement, Seller shall provide written notice of such occurrence to Purchaser and consult with Purchaser in determining whether or not to exercise Seller's right to terminate the Lilly License Agreement pursuant to such Section of the Lilly License Agreement. In any event, Seller shall not exercise its right to terminate the Lilly License Agreement pursuant to Section 10.2 of the Lilly License Agreement or otherwise, or agree with Licensee to terminate

the Lilly License Agreement in whole or in part, except with the prior written consent of Purchaser.

5.8 Confidentiality

(a) Subject to this Section 5.8, Purchaser shall keep confidential and not disclose to any Person (other than, on a confidential and need-to-know basis, its Affiliates and its and its Affiliates' respective counsel and professional advisors (collectively, "**Purchaser Recipients**") as long as such Affiliates (and counsel and professional advisors) have agreed to be bound in writing by the provisions of this Section 5.8 or are otherwise subject to written obligations of confidentiality substantially comparable to those set forth in this Agreement (or, in the case of counsel, are bound by a legally enforceable code of professional responsibility to protect such information) and shall cause the Purchaser Recipients to keep confidential and not disclose to any Person, any Confidential Information. Purchaser shall, and shall cause the Purchaser Recipients to, use the Confidential Information solely in connection with Purchaser's administration of the Transaction Documents (and not for any other purpose). The foregoing obligations shall continue until the later of (x) the termination of this Agreement and (y) the date of expiration of the confidentiality obligations of Seller under the Material Agreements.

(b) "**Confidential Information**" means, collectively, all information (whether written or oral, or in electronic or other form, and whether furnished before, on or after the date of this Agreement) concerning or relating to Seller, Seller's Affiliates, this Agreement, Licensee, the Lilly License Agreement, Columbia, the Material Agreements, the Vixen Agreements, the Relevant Product, the Licensed Patents, the Receivables and any information considered to be Confidential Information under the Lilly License Agreement that is furnished to Purchaser or its Representatives by or on behalf of Seller, including (i) this Agreement, the Lilly License Agreement and the other Material Agreements, and (ii) any Royalty Reports, Modifications, audit results, assignments, notices, requests, correspondence, documents or other information furnished pursuant to this Agreement. Notwithstanding the foregoing, "Confidential Information" shall not include any information that (A) was known by Purchaser or any of its Representatives on a non-confidential basis at the time such information was disclosed to Purchaser or its Representatives in accordance herewith or in accordance with the Confidentiality Agreement (as defined below), as evidenced by its written records or other competent evidence; (B) was or becomes generally available to the public (other than as a result of a disclosure by Purchaser or the Purchaser Recipients in violation of this Agreement or the Confidentiality Agreement); (C) became or becomes known to Purchaser or any of the Purchaser Recipients on a non-confidential basis from a source other than Seller, its Affiliates, Licensee and Seller's, Seller's Affiliates', or Licensee's Representatives (and without any breach of this Agreement or the Confidentiality Agreement by Purchaser or the Purchaser Recipients); provided that Purchaser or the relevant Purchaser Recipient was not aware that the source of such information was breaching any legal, contractual or fiduciary obligation to Seller, Seller's Affiliates, or Licensee by making disclosure; or (D) is or has been independently developed by Purchaser or any of the Purchaser Recipients without use of or reference to the Confidential Information, as evidenced by its written records or other competent evidence.

(c) If Purchaser or any of the Purchaser Recipients is requested by a governmental or regulatory or self-regulatory authority or required by Applicable Law, regulation or legal process (including the regulations of a stock exchange or governmental or regulatory or self-regulatory authority or the order or ruling of a court, administrative agency or other government or regulatory body of competent jurisdiction) to disclose any Confidential Information, Purchaser shall promptly, to the extent permitted by Applicable Law, notify Seller in writing of such request

or requirement so that Seller, Seller's Affiliate, or Licensee may seek an appropriate protective order or other appropriate remedy (and if Seller, Seller's Affiliate or Licensee seeks such an order or other remedy, Purchaser will provide such cooperation, at Seller's sole expense, as Seller shall reasonably request). If no such protective order or other remedy is obtained and Purchaser or the relevant Purchaser Recipients are, in the view of their respective counsel (which may include their respective internal counsel), legally required to disclose Confidential Information, Purchaser or the applicable Purchaser Recipients, as the case may be, shall only disclose that portion of the Confidential Information that their respective counsel advises that Purchaser or the applicable Purchaser Recipients, as the case may be, are required to disclose and will exercise commercially reasonable efforts, at Seller's sole expense, to obtain reliable assurance that confidential treatment will be accorded to that portion of the Confidential Information that is being disclosed. Notwithstanding the foregoing, notice to Seller shall not be required where disclosure is made (i) in response to a request by a governmental or regulatory authority having competent jurisdiction over Purchaser or any of the Purchaser Recipients, as the case may be, or (ii) in connection with a routine examination by a regulatory or self-regulatory examiner, where in each case of the immediately preceding clauses (i) and (ii), such request or examination does not expressly reference Seller, its Affiliates, the Royalty Payments, the Anniversary Milestone Payments or this Agreement.

(d) Notwithstanding anything herein to the contrary, nothing in this Section 5.8 shall be construed to restrict Purchaser from:

(i) including disclosure of the Purchase Price and the amount and nature of the Purchased Receivables in the footnotes to Purchaser's audited annual financial statements, to the extent so required by Purchaser's independent accountants, or including comparable disclosure in Purchaser's unaudited quarterly financial statements; and

(ii) providing copies of the audited annual and unaudited quarterly financial statements, the Transaction Documents and any Royalty Reports, Modifications, assignments, notices, requests, correspondence, documents or other information furnished pursuant to this Agreement, on a confidential and need-to-know basis, to Purchaser's existing or bona fide prospective lenders or investors (including their respective counsel and professional advisors), as long as such lenders or investors (and counsel and professional advisors) have agreed to be bound in writing by the provisions of this Section 5.8 or are otherwise subject to written obligations of confidentiality substantially comparable to those set forth in this Agreement (or, in the case of counsel, are bound by a legally enforceable code of professional responsibility to protect such information).

(e) Effective upon the date hereof, the Confidentiality Agreement dated [***] (the "**Confidentiality Agreement**"), between Seller and OMERS Capital Solutions LP shall terminate and be of no further force or effect, and shall be superseded by the provisions of this Section 5.8. OMERS Capital Solutions LP shall be a third party beneficiary of this Agreement for purposes of this Section 5.8(e)

5.9 Public Announcement; Disclosure

(a) Neither Party shall make or cause to be made any filing, press release or similar public announcement or communication regarding the execution of this Agreement or the terms and conditions of this Agreement without the prior written consent of the other Party (such consent not to be unreasonably withheld, conditioned or delayed), provided that the Parties have agreed to issue a press release in the form attached hereto as Exhibit E to announce the transaction consummated under this Agreement following the Closing.

(b) Either Party may disclose this Agreement, or any of the terms and conditions hereof, to the extent that such Party believes in good faith that such disclosure is required to comply with Applicable Law or any Judgment, or in connection with the enforcement of its rights hereunder through legal process, subject in the case of Purchaser to Section 5.8(c).

(c) Notwithstanding the foregoing, any Party hereto may, without the consent of the other Party hereto, make public disclosures of any information with respect to this Agreement or the subject matter hereof which is the same as the information that has already been publicly disclosed by such Party, or the other party hereto, in compliance with the foregoing provisions of this Section 5.9.

5.10 IP Covenants

(a) From and after the Closing until the end of the Purchased Receivables Period and to the fullest extent permitted under the Columbia Agreements, Seller shall, to the extent it has such right to, (i) prosecute and maintain the Licensed Patents and (ii) not disclaim or abandon any of the Licensed Patents, or fail to take any commercially reasonable action necessary to prevent the disclaimer or abandonment of the Licensed Patents, except, in each case, where the disclaimer or abandonment of any such Licensed Patents is commercially reasonable and with the written consent of Purchaser, not to be unreasonably withheld, conditioned, or delayed.

(b) From and after the Closing until the end of the Purchased Receivables Period and to the fullest extent permitted under the Columbia Agreements, Seller may, and, if requested in writing by Purchaser, shall, use commercially reasonable efforts, to (i) defend any claim of the Licensed Patents that is licensed to Licensee under the Lilly License Agreement against any claims of invalidity or unenforceability [***] and (ii) enforce the Licensed Patents against infringement from a third party infringer [***], in each case, in any relevant jurisdiction. From and after the Closing until the end of the Purchased Receivables Period, Seller shall not enter into any settlement or consent to any settlement by Licensee of any action to defend or enforce any Licensed Patents without written consent of Purchaser, which consent shall not be unreasonably withheld, conditioned, or delayed.

(c) At the reasonable written request by Purchaser from time to time, Seller shall keep Purchaser reasonably informed regarding the prosecution and maintenance of any Licensed Patents and, to the extent is has such right to, shall consider in good faith any recommendations from Purchaser regarding any Licensed Patents being prosecuted by Seller or Columbia (it being understood Columbia controls the prosecution of the Licensed Patents pursuant to the Columbia Agreements).

(d) In relation to any Licensed Patent, Seller shall, to the extent it has such right to,

(i) use all reasonable efforts to cause each such Licensed Patent to be opted out from the exclusive jurisdiction of the Unified Patent Court over such patents (in accordance with Article 83(3) of the Council Agreement on a Unified Patent Court (no. OJ 2013 C 175/01)), and

(ii) notify Purchaser in the event that it or Columbia wishes to withdraw any such opt-out from the exclusive jurisdiction of the Unified Patent Court in respect of such patent (in accordance with Article 83(4) of Agreement no. OJ 2013 C 175/01). In the event that Seller wishes to do this clause (ii), Seller shall provide its notice in good time to Purchaser, so that Purchaser may provide any comments and/or recommendations on the matter, and Seller shall consider in good faith Purchaser's comments and/or recommendations (it being understood Columbia controls the prosecution of the Licensed Patents pursuant to the Columbia Agreements).

(e) All costs and expenses (including attorneys' fees and expenses) incurred by Seller in connection with the prosecution and maintenance of the Licensed Patents under this Section 5.10 shall be borne by Seller. All costs and expenses (including attorneys' fees and expenses) incurred by Seller in connection with the defense or enforcement of the Licensed Patents under this Section 5.10 shall be borne by Purchaser and Purchaser shall pay Seller for any out-of-pocket costs and expenses (including reasonable attorneys' fees and expense) incurred or to be incurred by Seller in connection therewith (including the costs and expenses of Columbia that Seller is required to pay under the Columbia Agreements). If Seller receives any Proceeds in connection with the defense or enforcement of the Licensed Patents under this Section 5.10 (i) to the extent that such infringement occurred prior to the Purchased Receivables Period, Seller shall be entitled to retain such Proceeds, less any amounts advanced or paid to Seller by Purchaser pursuant to this Section 5.10(e), and (ii) to the extent that such infringement occurred during the Purchased Receivables Period, Purchaser shall be entitled to such Proceeds as would otherwise be due Seller under the Columbia Agreements and Vixen Agreements (taken together), which shall be paid to Purchaser in accordance with Section 5.1(c).

5.11 Tax Matters

(a) Seller and Purchaser agree that for United States federal income tax purposes and, to the extent applicable, U.S. state, local, non-income and non-U.S. tax purposes, the transactions contemplated by this Agreement are intended to be treated as a sale. The Parties shall file tax returns consistent with the foregoing and shall not take a position inconsistent with the foregoing unless required pursuant to a "determination" that is final within the meaning of Section 1313 of the Code. If there is an inquiry by any taxing authority of Seller or Purchaser related to matters addressed in this Section 5.11, the Parties shall cooperate with each other in responding to such inquiry in a reasonable manner consistent with this Section 5.11.

(b) Purchaser agrees:

(i) to notify Seller and the Escrow Agent in writing as soon as practicable, but in any event at least [***] (if known at such time) prior to the next payment of any Purchased Receivables or other amount due to Purchaser hereunder, if (A) Purchaser becomes ineligible to use or deliver any Applicable Withholding Certificate or other tax form previously

delivered pursuant to this Agreement, or (B) any Applicable Withholding Certificate, other tax form or information furnished in connection therewith or with this Agreement that was previously delivered pursuant to this Agreement ceases to be accurate or complete; and

(ii) to the extent it is legally eligible to do so, to provide to Seller and the Escrow Agent any additional tax forms or information relating to any Applicable Withholding Certificate (A) upon reasonable request by Seller or the Escrow Agent and (B) subject to 5.11(b)(i)(A), promptly upon any Applicable Withholding Certificate or other tax form previously delivered pursuant to this Agreement becoming obsolete.

(c) All payments to Purchaser under this Agreement shall be made without any deduction or withholding for or on account of any tax, provided that, if Seller reasonably determines in consultation with Purchaser that deduction or withholding of any tax has become required from any amount payable hereunder (but for this sentence) to Purchaser, then Seller shall be entitled to deduct (or cause to be deducted) such tax prior to remittance to Purchaser (and Purchaser and Seller shall jointly instruct the Escrow Agent accordingly), provided, further, that Seller shall provide reasonable advance written notice to Purchaser of its intention to withhold and shall provide Purchaser a reasonable opportunity to take (with Seller's cooperation and with Purchaser paying all reasonable out-of-pocket expenses) any measures that could reduce or eliminate the amount of such withholding. Seller shall remit (or cause to be remitted) any amount withheld or deducted pursuant to this Section 5.11 to the relevant taxing authority, and any amount so remitted shall be treated as paid hereunder to Purchaser. Seller shall use commercially reasonable efforts to give or cause to be given to Purchaser such assistance and such information concerning the reasons for deduction as may be reasonably necessary to enable Purchaser to claim appropriate exemption therefrom, or credit therefor, and, in each case, shall furnish Purchaser with proper evidence of the taxes withheld and remitted to the relevant taxing authority.

(d) All payments to Seller under this Agreement shall be made without any deduction or withholding for or on account of any tax, provided that, if Purchaser reasonably determines in consultation with Seller that deduction or withholding of any tax has become required from any amount payable hereunder (but for this sentence) to Seller, then Purchaser shall be entitled to deduct (or cause to be deducted) such tax prior to remittance to Seller, provided, further, that Purchaser shall provide reasonable advance written notice to Seller of its intention to withhold and shall provide Seller a reasonable opportunity to take (with Purchaser's cooperation and with Seller paying all reasonable out-of-pocket expenses) any measures that could reduce or eliminate the amount of such withholding. Purchaser shall remit (or cause to be remitted) any amount withheld or deducted pursuant to this Section 5.11 to the relevant taxing authority, and any amount so remitted shall be treated as paid hereunder to Seller. Purchaser shall use commercially reasonable efforts to give or cause to be given to Seller such assistance and such information concerning the reasons for deduction as may be reasonably necessary to enable Seller to claim appropriate exemption therefrom, or credit therefor, and, in each case, shall furnish Seller with proper evidence of the taxes withheld and remitted to the relevant taxing authority.

5.12 [***]

5.13 Sanction; Financial Crime Laws

During the Term:

(a) Seller shall comply with all Financial Crime Laws in all material respects;

(b) Seller shall not conduct any business dealings or activities in violation of any Sanctions or in any manner that would reasonably be expected to expose Seller to the risk of adverse measures pursuant to any Sanctions; and

(c) Seller shall promptly notify Purchaser in writing if (i) Seller becomes aware of any allegation that Seller has conducted any business dealings or activities in violation of any Sanctions or Financial Crime Laws, or (ii) Seller has Knowledge that Licensee has conducted any business dealings or activities in violation of any Sanctions or Financial Crime Laws.

5.14 Further Assurances

From and after the date hereof, each Party shall, at the sole cost and expense of the requesting Party (including reimbursement of the non-requesting Party's documented, reasonable, out-of-pocket legal fees and expenses), execute and deliver such additional documents, certificates and instruments, and perform such additional acts, as may be reasonably requested and necessary or appropriate to carry out the provisions of this Agreement and the other Transaction Documents, and to consummate the transactions contemplated by this Agreement and the other Transaction Documents.

5.15 Seller's Name, Jurisdiction and Type

Seller shall provide to Purchaser at least [***] written notice prior to any change to its legal name, jurisdiction of formation or entity type.

ARTICLE 6
THE CLOSING

6.1 Closing

The closing of the purchase and sale of the Purchased Receivables contemplated hereby (the "**Closing**") shall take place contemporaneously with the execution or delivery of the closing deliverables set forth in this Article 6, on the date hereof, via the electronic (including email of PDF-format documents) exchange of signatures and documents.

6.2 Closing Deliverables of Seller

At the Closing, Seller shall deliver or cause to be delivered to Purchaser the following:

(a) the Bill of Sale executed by Seller;

(b) a certificate of an officer or other authorized signatory of Seller setting forth the incumbency and specimen signature of the officer or officers of Seller who have

executed and delivered the Transaction Documents, and attaching a copy of the organizational documents of Seller;

(c) the Financing Statements, reasonably satisfactory to Purchaser, pursuant to Section 2.1(b);

(d) the Licensee Consent and Direction executed by Seller and Licensee;

(e) the Licensee Closing Notice executed by Seller; and

(f) the Escrow Agreement executed by Seller and the Escrow Agent.

6.3 Closing Deliverables of Purchaser

At the Closing, Purchaser shall deliver or cause to be delivered to Seller the following:

(a) the Bill of Sale executed by Purchaser;

(b) a certificate of an officer or other authorized signatory of Purchaser GP setting forth the incumbency of the officer (or officers) or other authorized signatory (or authorized signatories) of Purchaser GP who have executed and delivered the Transaction Documents to which Purchaser is a party, and attaching copies of the Declaration under the *Limited Partnerships Act* (Ontario) in respect of Purchaser and the Certificate and Articles of Incorporation of Purchaser GP;

(c) the Escrow Agreement executed by Purchaser and the Escrow Agent;

(d) an Applicable Withholding Certificate, duly executed by Purchaser; and

(e) payment of the Closing Payment in accordance with Section 2.2.

ARTICLE 7
INDEMNIFICATION

7.1 Obligations of Parties to Indemnify

(a) Subject to the limitations set forth in this Article 7, from and after the Closing, Seller shall indemnify Purchaser against any and all actual losses, liabilities, expenses (including reasonable attorneys' fees and expenses) and damages (collectively, "**Losses**") incurred by Purchaser or its limited partners, general partners, directors, officers, employees or agents (each, a "**Purchaser Indemnified Party**"), to the extent arising or resulting from any of the following:

(i) any breach of any representation or warranty made by Seller in this Agreement;

(ii) any breach of any covenant or agreement of Seller contained in any of the Transaction Documents; and

(iii) the Excluded Liabilities and Obligations.

(b) Subject to the limitations set forth in this Article 7, from and after the Closing, Purchaser shall indemnify Seller against any and all Losses incurred by Seller or its directors, officers, employees or agents (each, a "**Seller Indemnified Party**"), to the extent arising or resulting from any of the following:

(i) any breach of any representation or warranty made by Purchaser in this Agreement; and

(ii) any breach of any covenant or agreement of Purchaser contained in any of the Transaction Documents.

7.2 Procedures Relating to Indemnification for Third Party Claims

(a) In order for a Party (an "**Indemnified Party**") to be entitled to any indemnification under this Article 7 in respect of Losses arising out of or involving a claim or demand made by any Person other than Purchaser or Seller against a Purchaser Indemnified Party or a Seller Indemnified Party, as applicable (a "**Third Party Claim**"), the Indemnified Party must, promptly after its receipt of notice of the commencement of such Third Party Claim, notify the Party from whom indemnification is sought under this Article 7 (the "**Indemnifying Party**") in writing (including in such notice a brief description of such Third Party Claim, including damages sought or estimated, to the extent actually known or reasonably capable of estimation by the Indemnified Party); provided, however, that the failure to promptly provide such notice shall not affect the indemnification provided under this Article 7 except to the extent that the Indemnifying Party has been actually prejudiced as a result of such failure. Thereafter, the Indemnified Party shall deliver to the Indemnifying Party, promptly after the Indemnified Party's receipt thereof, copies of all documents (including court papers) received by the Indemnified Party relating to such Third Party Claim.

(b) The Indemnifying Party shall be entitled to participate in the defense of any Third Party Claim and, if it so chooses, to assume the defense thereof, at its own expense, with counsel selected by the Indemnifying Party; provided that such counsel is not reasonably objected to by the Indemnified Party. If the Indemnifying Party elects to assume the defense of any Third Party Claim and thereafter defends the Third Party Claim, the Indemnifying Party shall not be liable to the Indemnified Party for legal expenses subsequently incurred by the Indemnified Party in connection with the defense thereof, except that, if the Indemnifying Party and the Indemnified Party have conflicting interests or different defenses available with respect to such Third Party Claim, or if the Indemnifying Party ceases to diligently defend the Third Party Claim, the Indemnified Party may hire its own separate counsel (provided that such counsel is not reasonably objected to by the Indemnifying Party) with respect to such Third Party Claim and the related action or suit, and the reasonable fees and expenses of such counsel shall be considered Losses for purposes of this Agreement. If the Indemnifying Party elects to assume the defense of any Third Party Claim, the Indemnifying Party shall permit the Indemnified Party to participate in, but not control, the defense of such Third Party Claim through counsel chosen by the Indemnified Party and, except in the circumstances described in the immediately preceding sentence, the fees and expenses of such counsel shall be borne by the Indemnified Party. The Indemnifying Party shall be liable for the reasonable fees and expenses of counsel employed by the Indemnified Party in the defense of a Third Party Claim (which shall all be considered Losses for purposes of this Agreement) for any period during which the Indemnifying Party has not assumed the defense thereof (other than during the period prior to the time the Indemnified Party shall have notified the Indemnifying Party of such Third Party Claim).

(c) The Parties shall cooperate in the defense or prosecution of any Third Party Claim, with such cooperation to include (i) the retention of and the provision to the Indemnifying Party of records and information that are reasonably relevant to such Third Party Claim and (ii) the making available of employees on a mutually convenient basis for providing additional information and explanation of any material provided hereunder. If the Indemnifying Party shall have assumed the defense of a Third Party Claim, the Indemnified Party shall agree to any settlement, compromise or discharge of such Third Party Claim that the Indemnifying Party may recommend and that by its terms obligates the Indemnifying Party to pay the full amount of the liability (if any) in connection with such Third Party Claim and which does not impose any non-monetary penalties on the Indemnified Party and releases the Indemnified Party completely and unconditionally in connection with such Third Party Claim. Regardless of whether the Indemnifying Party shall have assumed the defense of a Third Party Claim, the Indemnified Party shall not be entitled to be indemnified or held harmless pursuant to this Article 7 if the Indemnified Party shall settle such Third Party Claim without the prior written consent of the Indemnifying Party.

7.3 Procedures Relating to Indemnification for Other Claims

In order for an Indemnified Party to be entitled to any indemnification under this Article 7 in respect of Losses that do not arise out of or involve a Third Party Claim, the Indemnified Party must notify the Indemnifying Party promptly in writing (including in such notice a brief description of the claim for indemnification and the Loss, including damages sought or estimated, to the extent actually known or reasonably capable of estimation by the Indemnified Party); provided, however, that the failure to promptly provide such notice shall not affect the indemnification provided under this Article 7 except to the extent that the Indemnifying Party has been actually prejudiced as a result of such failure.

7.4 Limitations on Indemnification

(a) Notwithstanding anything in this Agreement to the contrary, other than with respect to any Fraud, Seller shall not have any liability under clause (i) of Section 7.1(a):

(i) unless the aggregate liability for all Losses suffered by the Purchaser Indemnified Parties thereunder exceeds [***], in which case Seller shall pay [***]; or

(ii) in excess of [***], except with respect to Fraud.

(b) Notwithstanding anything in this Agreement to the contrary, other than with respect to any Fraud, Purchaser shall not have any liability under clause (i) of Section 7.1(b):

(i) unless the aggregate liability for all Losses suffered by the Seller Indemnified Parties thereunder exceeds [***], in which case Purchaser shall pay [***]; or

(ii) in excess of [***], except with respect to Fraud.

7.5 Survival of Representations and Warranties

The representations and warranties contained in this Agreement shall survive the Closing solely for purposes of Section 7.1 and shall terminate on the date that is [***] following

the date hereof, other than the representations and warranties in [***] (the "**Fundamental Representations**"), which shall survive the Closing solely for purposes of Section 7.1 and shall terminate at the end of the Term. No Party shall have any liability or obligation of any nature with respect to any representation or warranty after the termination thereof, unless the other Party shall have delivered a notice to such Party, pursuant to Section 7.2(a) or Section 7.3, claiming such a liability or obligation under Section 7.1, prior to the date that is [***] following the date hereof or, in the case of Fundamental Representations, prior to the end of the Term.

7.6 No Implied Representations and Warranties

Purchaser acknowledges and agrees (x) that, other than the representations and warranties of Seller specifically contained in Article 3, there are no representations or warranties of Seller or any other Person either expressed or implied (for the benefit of Purchaser) with respect to Seller (or any of its Affiliates), the Royalty Payments, the Purchased Receivables, the Receivables, [***], the Seller IP Assets, the Relevant Product, the Material Agreements, the Vixen Agreements, or the transactions contemplated by the Transaction Documents or the Lilly License Agreement and (y) that it does not rely on, and shall have no remedies in respect of, any representation or warranty not specifically set forth in Article 3. Without limiting the foregoing, Purchaser acknowledges and agrees that Purchaser, is not relying on, and shall have no remedies in respect of, (i) any implied warranties or (ii) except to the extent specifically contained in Article 3, any representation or warranty whatsoever as to the future amount or potential amount of the Royalty Payments, the Purchased Receivables and the Receivables, as to the validity or value of the Seller IP Assets, or as to the creditworthiness of Licensee (or any of its Affiliates). Purchaser further acknowledges and agrees that (A) as between the Parties hereto, Purchaser is assuming all market risk associated with the Relevant Product and, as such, shall have no recourse against Seller based on the failure of the sales of the Relevant Product to meet its or any other Person's projections (provided, however, that nothing contained herein shall limit or restrict Purchaser from exercising its rights and remedies hereunder relating to any breach of representation, warranty or covenant of Seller contained herein), and (B) Seller does not guarantee any obligations of the Licensee under the Lilly License Agreement or Columbia under the Columbia Agreements.

7.7 Exclusive Remedy; Specific Performance

(a) The Parties acknowledge and agree that, from and after the Closing, this Article 7 (including Section 7.4 and Section 7.5) shall provide the Parties' sole and exclusive monetary remedy with respect to any matter or claim arising out of, relating to or in connection with any of the Transaction Documents or any of the transactions contemplated thereby. All indemnification payments made by Seller hereunder shall be treated by the Parties as adjustments to the Purchase Price for tax purposes unless otherwise required by Applicable Law.

(b) Each of the Parties further acknowledges and agrees that the other Party would be damaged irreparably in the event that any of the covenants and agreements set forth in this Agreement are not performed in accordance with their specific terms or are otherwise breached or violated. Accordingly, each of the Parties agrees that, without posting bond or other undertaking, the other Party shall be entitled to seek an injunction or injunctions to prevent breaches or violations of the provisions of this Agreement and to enforce specifically this Agreement and the terms and provisions hereof in any action, suit or other proceeding instituted in any court of the United States or any state thereof having jurisdiction over the parties and the matter. Each Party further agrees that, in the event of any action for specific performance in

respect of such breach or violation, it shall not assert the defense that a remedy at law would be adequate.

7.8 Limitations on Damages

(a) Notwithstanding anything to the contrary in this Agreement or any of the other Transaction Documents, in no event, other than circumstances of Fraud, shall either Party be liable (including under Section 7.1) for any (i) lost profits or damages based on a multiple of earnings, cash flow, revenue or other metric of the other Party, (ii) special, exemplary, punitive, multiple or consequential damages or (iii) loss of use, business interruption, loss of any contract or other business opportunity or good will, in each case of clauses (i), (ii) and (iii), of the other Party, whether or not caused by or resulting from the actions of such Party or the breach of its covenants, agreements, representations or warranties under any of the Transaction Documents and whether in contract, tort or breach of statutory duty or otherwise, even if such Party has been advised of the possibility of such damages; provided, however, that the foregoing shall not limit either Party's indemnification obligations under Section 7.1 to the extent a third party is awarded any such damages or amounts.

(b) For greater certainty, (i) nothing in this Section 7.8 shall have the effect of precluding the recovery of damages in respect of amounts that would otherwise have comprised the Purchased Receivables, notwithstanding that the loss of a receivable or a payment in the nature of the Purchased Receivables might otherwise be characterized as a pure economic loss, and (ii) Purchaser shall be entitled to make indemnification claims in respect of any portion of the Purchased Receivables that Purchaser was or would have been entitled to receive but did not receive timely or at all due to any indemnifiable event under this Agreement, and such portion of the Purchased Receivables shall not be deemed special, exemplary, punitive, multiple or consequential damages for any purpose of this Agreement.

7.9 Payments

Each Party shall make all payments required to be made by it pursuant to this Article 7 by wire transfer of immediately available funds to the bank account specified in writing by the other Party from time to time.

ARTICLE 8
MISCELLANEOUS

8.1 Term

The term of this Agreement (the "**Term**") will commence on the date hereof and will end on the day on which Purchaser has received the final payment of Receivables on account of the Purchased Receivables that Licensee is required to make pursuant to the Lilly License Agreement.

8.2 Notices

(a) All notices, consents, waivers, requests and other communications hereunder shall be in writing, addressed to the recipient as set out below, and shall be effective (i) upon receipt when sent by an overnight courier, (ii) on the date personally delivered to an authorized officer of the Party to which sent, in all cases, with a copy emailed to the recipient at the applicable address, or (iii) on the date the email is sent if confirmation of receipt is received or

the recipient otherwise acknowledges receipt. The foregoing will be addressed to the recipient as follows:

(i) if to Seller, to:
Aclaris Therapeutics, Inc.
701 Lee Road, Suite 103
Wayne, Pennsylvania, 19087
Attention: Matthew Rothman, General Counsel
Email: [***]
With a copy to:

DLA Piper LLP (US)
One Liberty Place
1650 Market Street, Suite 5000
Philadelphia, Pennsylvania 19103-7300
Attention: Fahd Riaz
Email: [***]

(ii) if to Purchaser, to:

OCM IP Healthcare Portfolio LP
c/o OCM IP Healthcare Portfolio G.P. Inc.
100 Adelaide St. W, Suite 900
Toronto, ON M5H 0E2 Canada
Attention: [***]
Email: [***]

With a copy to:

OMERS Capital Solutions LP
100 Adelaide St. W, Suite 900
Toronto, ON M5H 0E2 Canada
Attention: [***]
Email: [***]

(b) Each Party may, by notice given in accordance herewith to the other Party, designate any further or different address to which subsequent notices, consents, waivers and other communications shall be sent.

8.3 No Personal Liability

It is expressly understood and agreed by Seller and Purchaser that:

(a) each of the representations, warranties, covenants and agreements in the Transaction Documents made on the part of Seller is made by Seller and is not intended to be nor is a personal representation, warranty, covenant or agreement of any other Person, including those Persons named in the definition of "Knowledge of Seller" and any other Representative of Seller or Seller's Affiliates (the "**Seller Non-Warranting Parties**");

(b) each of the representations, warranties, covenants and agreements in the Transaction Documents made on the part of Purchaser is made by Purchaser and is not intended to be nor is a personal representation, warranty, covenant or agreement of any other Person, including any Representative of Purchaser or of Purchaser's Affiliates (other than, in each case, Purchaser GP, in its capacity as general partner of Purchaser) (the "**Purchaser Non-Warranting Parties**");

(c) other than Seller, Purchaser and Purchaser GP, in its capacity as general partner of Purchaser, no Person, including the Seller Non-Warranting Parties and the Purchaser Non-Warranting Parties, shall have any liability whatsoever for breach of any representation, warranty, covenant or agreement made in the Transaction Documents on the part of Seller or Purchaser, as applicable, or in respect of any claim or matter arising out of, relating to or in connection with the Transaction Documents or the transactions contemplated thereby; and

(d) the provisions of this Section 8.3 are intended to benefit each and every one of the Seller Non-Warranting Parties and the Purchaser Non-Warranting Parties and shall be enforceable by each and every one of them to the fullest extent permitted by Applicable Law.

8.4 Expenses

Other than the fees, costs and expenses of the Escrow Agent, all fees, costs and expenses (including any legal, accounting, financial advisory and banking fees) incurred in connection with the preparation, negotiation, execution and delivery of the Transaction Documents and the consummation of the transactions contemplated thereby shall be paid by the Party hereto incurring such fees, costs and expenses. The fees, costs and expenses of the Escrow Agent shall be borne in the manner specified in the Escrow Agreement.

8.5 Successors and Assigns

(a) The provisions of this Agreement shall be binding upon and inure to the benefit of the Parties and their respective successors and permitted assigns.

(b) Other than in connection with a Permitted Seller Assignment that complies with Section 5.6(b), Seller shall not assign any of its obligations and rights under this Agreement without the prior written consent of Purchaser, and any such purported assignment, delegation or transfer without such consent shall be void *ab initio* and of no effect. Seller shall not, without the prior written consent of Purchaser, hereafter sell, transfer, hypothecate, assign or in any manner convey or mortgage, pledge or grant a security interest or other encumbrance of any kind in any of its interest in the Material Agreements that could reasonably be expected (with or without the giving of notice or passage of time, or both) to result in a Material Adverse Effect.

(c) Purchaser shall not assign any of its obligations and rights under this Agreement without the prior written consent of Seller, and any such purported assignment, delegation or transfer without such consent shall be void *ab initio* and of no effect. Notwithstanding the foregoing, Purchaser may assign any of its obligations and rights under this Agreement without Seller's prior written consent to an Affiliate of Purchaser, and Purchaser shall provide written notice of any such assignment to Seller within [***] following the completion thereof.

8.6 Independent Nature of Relationship

The relationship between Seller and Purchaser is solely that of seller and purchaser, and neither Seller nor Purchaser has any fiduciary or other special relationship with the other Party or any of its Affiliates. Nothing contained herein or in any other Transaction Document shall be deemed to constitute Seller and Purchaser as a partnership, an association, a joint venture or any other kind of entity or legal form. The Parties recognize and agree that each is operating as an independent contractor and not as an agent, partner or fiduciary of the other. For greater certainty, the Parties agree that this Agreement does not, and they do not intend this Agreement to, create a contractual partnership for U.S. federal, state, local or non-U.S. income tax purposes.

8.7 Third Party Beneficiaries

Except to the extent contemplated in Section 5.8(e) and Section 7.1, this Agreement is for the sole benefit of Seller and Purchaser and their respective permitted successors and assigns, and nothing herein expressed or implied shall give or be construed to give to any Person, other than the Parties and such successors and assigns, any legal or equitable rights hereunder. Purchaser shall hold the benefit of the indemnities in Section 7.1(a) in trust for the Purchaser Indemnified Parties, and Seller shall hold the benefit of the indemnities in Section 7.1(b) in trust for the benefit of the Seller Indemnified Parties.

8.8 Entire Agreement

This Agreement, together with the other Transaction Documents, constitutes the entire agreement between the Parties with respect to the subject matter hereof and supersedes all prior agreements, understandings and negotiations, both written and oral, between the Parties with respect to the subject matter of this Agreement. No representation, inducement, promise, understanding, condition or warranty not set forth in this Agreement has been made or relied upon by either Party. All express or implied agreements, promises, assurances, arrangements, representations, warranties and understandings as to the subject matter hereof, whether oral or written, heretofore made are superseded by this Agreement.

8.9 Governing Law

(a) PURSUANT TO SECTION 5-1401 OF THE NEW YORK GENERAL OBLIGATIONS LAW, THIS AGREEMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE INTERNAL SUBSTANTIVE LAWS OF THE STATE OF NEW YORK WITHOUT REFERENCE TO THE RULES THEREOF RELATING TO CONFLICTS OF LAW, AND THE OBLIGATIONS, RIGHTS AND REMEDIES OF THE PARTIES HEREUNDER SHALL BE DETERMINED IN ACCORDANCE WITH SUCH LAWS.

(b) Each of the Parties irrevocably and unconditionally submits, for itself and its property, to the exclusive jurisdiction of the state courts of the State of New York located in New York County, and the U.S. federal district courts of the Southern District of the State of New York (and any appellate court therefrom) in any action or proceeding arising out of or relating to or in connection with this Agreement, or for recognition or enforcement of any judgment, and each of the Parties hereby irrevocably and unconditionally agrees that all claims in respect of any such action or proceeding may be heard and determined in any such court. Each of the Parties agrees that a final judgment in any such action or proceeding may be enforced in other jurisdictions by suit on the judgment or in any other manner provided by Applicable Law.

(c) Each of the Parties hereby irrevocably and unconditionally waives, to the fullest extent it may legally and effectively do so, any objection that it may now or hereafter have to the laying of venue of any suit, action or proceeding arising out of or relating to or in connection with this Agreement in any court referred to in Section 8.9(b). Each of the Parties hereby irrevocably waives, to the fullest extent permitted by Applicable Law, the defense of an inconvenient forum to the maintenance of such action or proceeding in any such court.

(d) Each of the Parties irrevocably consents to service of process in the manner provided for notices in Section 8.2. Nothing in this Agreement will affect the right of any Party to serve process in any other manner permitted by Applicable Law. Each of the Parties waives personal service of any summons, complaint or other process, which may be made by any other means permitted by New York law.

8.10 Waiver of Jury Trial

EACH PARTY IRREVOCABLY AND UNCONDITIONALLY WAIVES ANY RIGHT TO TRIAL BY JURY TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW WITH RESPECT TO ANY SUIT, ACTION OR OTHER PROCEEDING ARISING OUT OF THIS AGREEMENT OR ANY TRANSACTION CONTEMPLATED HEREBY.

8.11 Severability

If one or more provisions of this Agreement are held to be invalid, illegal or unenforceable by a court, arbiter or Governmental Authority, in each case, of competent jurisdiction, such invalidity, illegality or unenforceability shall not affect any other provision of this Agreement, which shall remain in full force and effect, and the Parties shall replace such invalid, illegal or unenforceable provision with a new provision permitted by Applicable Law and having an economic effect as close as possible to the invalid, illegal or unenforceable provision. Any provision of this Agreement held invalid, illegal or unenforceable only in part or degree by a court of competent jurisdiction shall remain in full force and effect to the extent not held invalid, illegal or unenforceable.

8.12 Counterparts

This Agreement may be executed in any number of counterparts, each of which executed counterparts shall constitute an original, and all of which counterparts together shall constitute one and the same instrument. Copies of executed counterparts transmitted by email with PDF attachment shall be considered original executed counterparts.

8.13 Amendments; No Waivers

Neither this Agreement nor any term or provision hereof may be amended, supplemented, restated, waived, changed or modified except with the written consent of the Parties. No failure or delay by either Party in exercising any right, power or privilege hereunder shall operate as a waiver thereof nor shall any single or partial exercise thereof preclude any other or further exercise thereof or the exercise of any other right, power or privilege. No notice to or demand on either Party in any case shall entitle it to any notice or demand in similar or other circumstances. No course of dealing between the Parties shall be effective to amend, modify, supplement or waive any provision of this Agreement.

8.14 Termination

(a) Subject to Section 8.14(b), this Agreement shall continue in full force and effect until the end of the Term, at which point this Agreement shall automatically terminate in its entirety, save for any rights, obligations or claims of either Party which have accrued prior to such termination (along with any corresponding limitations of liability in respect thereof).

(b) The following provisions shall survive any termination of this Agreement pursuant to this Section 8.14: Article 1 (solely to the extent necessary to give effect to the surviving provisions under this Section 8.14(b)), Section 5.8 (Confidentiality), and the rights, obligations or claims of either Party accruing prior to termination under Section 8.14(a); Article 7 (Indemnification); and this Article 8 (Miscellaneous).

(The remainder of this page is intentionally left blank; signature page follows.)

IN WITNESS WHEREOF the Parties have executed this Agreement as of the date first written above.

ACLARIS THERAPEUTICS, INC.

by /s/ Neal Walker
Name: Neal Walker
Title: Interim President & CEO

IN WITNESS WHEREOF the Parties have executed this Agreement as of the date first written above.

OCM IP HEALTHCARE PORTFOLIO LP,
by its general partner, OCM IP
HEALTHCARE PORTFOLIO G.P. INC.

by /s/ Rob Missere
Name: Rob Missere
Title: President

/s/ Brendan Rowaan
Name: Brendan Rowaan
Title: Vice President

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, 2024 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 7, 2024

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

Exhibit 31.2

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

I, Kevin Balthaser, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the period ended June 30, 2024 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 7, 2024

/s/ Kevin Balthaser
Kevin Balthaser
Chief Financial Officer
(principal financial officer and principal accounting 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, Interim President and Chief Executive Officer of Aclaris Therapeutics, Inc. (the "Company"), and Kevin Balthaser, 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, 2024, 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 7th day of August 2024.

/s/ Neal Walker	/s/ Kevin Balthaser
Neal Walker	Kevin Balthaser
Interim President & Chief Executive Officer	Chief Financial Officer
(principal executive officer)	(principal financial officer and principal accounting 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.