

Revance Therapeutics, Inc.
Form 10-Q
November 13, 2014
Table of Contents

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 September 30, 2014

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 No. 001-36297

Revance Therapeutics, Inc.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)
7555 Gateway Boulevard
Newark, California 94560
(510) 742-3400

77-0551645
(I.R.S. Employer
Identification Number)

(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated filer Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

Number of shares outstanding of the issuer's common stock, par value \$0.001 per share, as of November 5, 2014: 23,719,902

Table of Contents**Table of Contents**

	Page
PART I. FINANCIAL INFORMATION	
Item 1. <u>Condensed Consolidated Financial Statements</u>	3
<u>Condensed Consolidated Balance Sheets at September 30, 2014 and December 31, 2013 (unaudited)</u>	3
<u>Condensed Consolidated Statement of Operations and Comprehensive Loss for the Three and Nine Months ended September 30, 2014 and 2013 (unaudited)</u>	4
<u>Condensed Consolidated Statements of Cash Flows for the Nine Months ended September 30, 2014 and 2013 (unaudited)</u>	5
<u>Notes to Condensed Consolidated Financial Statements (unaudited)</u>	7
<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	22
Item 2. <u>Operations</u>	22
Item 3. <u>Quantitative and Qualitative Disclosures about Market Risk</u>	32
Item 4. <u>Controls and Procedures</u>	32
PART II. OTHER INFORMATION	
Item 1. <u>Legal Proceedings</u>	33
Item 1A. <u>Risk Factors</u>	33
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	57
Item 3. <u>Defaults Upon Senior Securities</u>	57
Item 4. <u>Mine Safety Disclosures</u>	57
Item 5. <u>Other Information</u>	57
Item 6. <u>Exhibits</u>	57
<u>Signatures</u>	58
<u>Exhibit Index</u>	

Revance Therapeutics, the Revance logos and other trademarks or service marks of Revance appearing in this quarterly report on Form 10-Q are the property of Revance Therapeutics, Inc. This Form 10-Q contains additional trade names, trademarks and service marks of others, which are the property of their respective owners. We do not intend our use or display of other companies' trade names, trademarks or service marks to imply a relationship with, or endorsement or sponsorship of us by, these other companies.

Table of Contents**PART I. FINANCIAL INFORMATION****ITEM 1. Condensed Consolidated Financial Statements****REVANCE THERAPEUTICS, INC.****Condensed Consolidated Balance Sheets****(In thousands, except share and per share amounts)****(Unaudited)**

	September 30, 2014	December 31, 2013
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 187,486	\$ 3,914
Restricted cash, current portion	75	75
Prepaid expenses and other current assets	3,349	825
Total current assets	190,910	4,814
Property and equipment, net	17,394	14,315
Restricted cash, net of current portion	435	510
Other non-current assets	183	3,006
TOTAL ASSETS	\$ 208,922	\$ 22,645
LIABILITIES, CONVERTIBLE PREFERRED STOCK AND STOCKHOLDERS EQUITY (DEFICIT)		
CURRENT LIABILITIES		
Accounts payable	\$ 2,666	\$ 5,526
Accruals and other current liabilities	3,317	4,161
Deferred revenue, current portion		83
Derivative liabilities associated with convertible notes, current portion		4,890
Derivative liabilities associated with Medicis settlement, current portion		6,684
Financing obligation, current portion	102	
Convertible notes, current portion		12,157
Notes payable, current portion and discount	8,662	10,702
Common stock warrant liability		3,358
Total current liabilities	14,747	47,561
Convertible preferred stock warrant liability		1,233
Financing obligation, net of current portion	938	
Note payable, net of current portion and discount		2,632
Derivative liabilities associated with Medicis settlement, net of current portion	1,647	1,610
Deferred rent	3,676	3,176

TOTAL LIABILITIES	21,008	56,212
Commitments and Contingencies (Note 9)		
Convertible preferred stock, par value \$0.001 per share 5,000,000 shares and 145,010,269 shares authorized as of September 30, 2014 and December 31, 2013, respectively; 0 shares and 8,689,999 shares issued and outstanding as of September 30, 2014 and December 31, 2013, respectively (aggregate liquidation preference of \$0 and \$215,264 as of September 30, 2014 and December 31, 2013, respectively)		123,982
STOCKHOLDERS EQUITY (DEFICIT)		
Common stock, par value \$0.001 per share 95,000,000 and 224,000,000 shares authorized as of September 30, 2014 and December 31, 2013, respectively; 23,717,902 and 260,789 shares issued and outstanding as of September 30, 2014 and December 31, 2013, respectively	24	
Additional paid-in capital	432,475	38,331
Accumulated deficit	(244,585)	(195,880)
TOTAL STOCKHOLDERS EQUITY (DEFICIT)	187,914	(157,549)
TOTAL LIABILITIES, CONVERTIBLE PREFERRED STOCK AND STOCKHOLDERS EQUITY (DEFICIT)	\$ 208,922	\$ 22,645

The accompanying notes are an integral part of these unaudited Condensed Consolidated Financial Statements.

Table of Contents**REVANCE THERAPEUTICS, INC.****Condensed Consolidated Statement of Operations and Comprehensive Loss****(In thousands, except share and per share amounts)****(Unaudited)**

	Three Months ended September 30,		Nine Months ended September 30,	
	2014	2013	2014	2013
Revenue	\$ 75	\$ 158	\$ 308	\$ 308
Operating expenses:				
Research and development	8,600	6,284	24,261	21,592
Sales, general and administrative	5,300	2,142	14,250	8,008
Total operating expenses	13,900	8,426	38,511	29,600
Loss from operations	(13,825)	(8,268)	(38,203)	(29,292)
Interest income	14		18	2
Interest expense	(228)	(351)	(10,336)	(13,466)
Change in fair value of derivative liabilities associated with convertible notes			4,032	1,800
Changes in fair value of derivative liabilities associated with Medicis settlement	67	(44)	(426)	(265)
Change in fair value of common stock warrant liability			(2,151)	
Change in fair value of convertible preferred stock warrant liability		(182)	(210)	(1,108)
Loss on settlement of preferred stock warrant			(1,356)	
Other expense, net	(5)	(38)	(73)	(40)
Net and comprehensive loss	\$ (13,977)	\$ (8,883)	\$ (48,705)	\$ (42,369)
Net income (loss) attributable to common stockholders:				
Basic	\$ (13,977)	\$ (12,793)	\$ (48,705)	\$ 733
Diluted	\$ (13,977)	\$ (12,793)	\$ (48,705)	\$ 2,966
Net income (loss) per share attributable to common stockholders:				
Basic	\$ (0.60)	\$ (55.92)	\$ (2.70)	\$ 3.40
Diluted	\$ (0.60)	\$ (55.92)	\$ (2.70)	\$ 3.05

Weighted-average number of shares used in computing net income (loss) per share attributable to common stockholders:

Basic	23,331,104	228,785	18,009,537	215,315
Diluted	23,331,104	228,785	18,009,537	971,472

The accompanying notes are an integral part of these unaudited Condensed Consolidated Financial Statements.

Table of Contents**REVANCE THERAPEUTICS, INC.****Condensed Consolidated Statements of Cash Flows****(In thousands)****(Unaudited)**

	Nine Months ended September 30,	
	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	\$ (48,705)	\$ (42,369)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	1,561	1,385
Amortization of discount on debt and capital leases	1,198	2,862
Amortization of debt issuance cost	148	179
Revaluation of derivative liabilities associated with convertible notes	(4,032)	(1,800)
Revaluation of derivative liabilities associated with the Medicis settlement	426	265
Revaluation of common stock warrant liability	2,151	
Revaluation of convertible preferred stock warrant liability	210	(60)
Extinguishment of warrant liability upon exercise of put option by warrant holder	1,356	
Convertible preferred stock warrant modification remeasurement adjustment		1,168
Loss on extinguishment of 2013 Notes	8,331	
Stock-based compensation expense	4,611	346
Interest on convertible notes converted to convertible preferred stock		9,178
Interest for new debt upon issuance, non-cash	271	
Capitalized interest	(649)	(103)
Non-cash effective interest on financing obligation	66	
Changes in operating assets and liabilities:		
Prepaid expenses and other current assets	(2,654)	201
Other non-current assets	(1,238)	(304)
Accounts payable	(3,524)	5,168
Accruals and other current liabilities	1,178	(3,236)
Payments against Medicis liabilities	(7,073)	(6,927)
Deferred rent	500	101
Deferred revenue	(83)	167
Net cash used in operating activities	(45,951)	(33,779)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(5,444)	(2,672)
Change in restricted cash	75	75
Net cash used in investing activities	(5,369)	(2,597)

Table of Contents**REVANCE THERAPEUTICS, INC.****Condensed Consolidated Statements of Cash Flows (Continued)****(In thousands)****(Unaudited)**

	Nine Months ended September 30,	
	2014	2013
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of common stock, net of deferred follow-on public offering costs	131,882	
Proceeds from issuance of common stock, net of deferred initial public offering costs	102,672	
Proceeds from issuance of convertible notes and notes payable	6,750	
Principal payments made on capital leases and financing obligation	(146)	(858)
Principal payments made on notes payable	(6,230)	(5,594)
Proceeds from the exercise of stock options and employee stock purchase plan	1,402	4
Payments to settle warrants	(1,438)	
Proceeds from the exercise of common stock warrants		3
Proceeds from issuance of convertible preferred stock, net		40,647
Net cash provided by financing activities	234,892	34,202
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	183,572	(2,174)
CASH AND CASH EQUIVALENTS Beginning of period	3,914	4,083
CASH AND CASH EQUIVALENTS End of period	\$ 187,486	\$ 1,909
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid for interest	\$ 971	\$ 1,318
SUPPLEMENTAL DISCLOSURES OF NON-CASH INVESTING AND FINANCING INFORMATION:		
Conversion of Series E-1, E-2, E-3, E-4 and E-5 preferred stock into common stock	\$ 123,982	\$
Conversion of 2013 Notes into common stock	\$ 26,206	\$
Issuance of common stock upon net exercise of common stock warrants in connection with IPO	\$ 6,490	\$
Fair value in excess of debt host for derivative liabilities associated with convertible notes	\$ 1,050	\$
Deferred initial public offering costs	\$ 4,028	\$ 1,748
Deferred follow-on public offering costs	\$ 546	\$
Conversion of preferred stock warrants to common stock warrants	\$ 1,441	\$
Conversion of Essex Notes into financing obligations	\$ 1,095	\$
Termination of stock option repurchase right	\$ 58	\$
Capital contribution on the extinguishment of the prior convertible preferred stock	\$	\$ 74,894
Capital contribution on the extinguishment of the 2011 Notes	\$	\$ 32,008

Edgar Filing: Revance Therapeutics, Inc. - Form 10-Q

Deemed dividend on issuance of Series E-5 convertible preferred stock	\$	\$	177
Issuance of common stock warrants in connection with Series E-5 convertible preferred stock financing	\$	\$	4,272
Issuance of common stock warrants in connection with the 2013 Notes	\$	981	\$
Property and equipment purchases included in accounts payable and accruals and other current liabilities	\$	832	\$ 4,683
Issuance of convertible preferred stock warrants	\$	80	\$

The accompanying notes are an integral part of these unaudited Condensed Consolidated Financial Statements.

Table of Contents

REVANCE THERAPEUTICS, INC.

Notes to Condensed Consolidated Financial Statements

(Unaudited)

1. The Company and Basis of Presentation

Revance Therapeutics, Inc., or the Company, was incorporated in Delaware on August 10, 1999 under the name Essentia Biosystems, Inc. The Company commenced operations in June 2002 and on April 19, 2005, changed its name to Revance Therapeutics, Inc. The Company is a clinical stage specialty biopharmaceutical company focused on the development, manufacturing and commercialization of novel botulinum toxin products for multiple aesthetic and therapeutic applications. Botulinum toxin is a well-characterized protein currently used in numerous aesthetic and therapeutic indications representing a multi-billion dollar market in the United States and other countries. All currently approved and commercially available botulinum toxin products are administered by injection. The Company's lead product candidate, RT001, is a topical formulation of botulinum toxin type A, which we believe has significant advantages over existing injectable products and could significantly grow the botulinum toxin market. The Company's second product candidate, RT002, is a novel injectable formulation of botulinum toxin type A designed to be more targeted and longer lasting than currently available botulinum toxin injectable products. These product candidates combine the Company's purified botulinum toxin with the Company's proprietary TransM[®] peptide delivery system. The Company owns the worldwide rights to both of its product candidates.

Since commencing operations in 2002, the Company has devoted substantially all of its efforts to identifying and developing product candidates for the aesthetics and therapeutic pharmaceutical markets, recruiting personnel and raising capital. The Company has devoted predominantly all of its resources to preclinical, clinical, and manufacturing development of RT001 and RT002. The Company has never been profitable and has not yet commenced commercial operations.

Since the Company's inception, the Company has incurred losses and negative cash flows from operations. For the nine months ended September 30, 2014, the Company had a net loss of \$48.7 million, which includes net non-cash interest expenses of \$9.4 million. For the nine months ended September 30, 2014, the Company also used \$46.0 million of cash for operating activities. As of September 30, 2014, the Company had a working capital surplus of \$176.2 million and an accumulated deficit of \$244.6 million. The Company believes that its existing cash and cash equivalents, including net proceeds from its initial public offering of \$98.6 million, net proceeds from its follow-on public offering of \$131.3 million, and existing Essex Capital credit facility will allow the Company to fund its operating plan through at least the next 12 months.

Basis of Presentation

The accompanying unaudited Condensed Consolidated Financial Statements, in the opinion of management, include all adjustments which the Company considers necessary for the fair statement of the condensed results of operations and cash flows for the interim periods covered and the condensed consolidated financial position of the Company at the date of the balance sheets. The December 31, 2013 Condensed Consolidated Balance Sheet was derived from audited financial statements, but does not include all disclosures required by generally accepted accounting principles in the United States of America, or US GAAP. The interim results presented herein are not necessarily indicative of the results of operations that may be expected for the full fiscal year ending December 31, 2014, or any other future period.

The Condensed Consolidated Financial Statements should be read in conjunction with the Company's audited consolidated financial statements contained in the Company's Annual Report on Form 10-K for the year ended December 31, 2013, which was filed with the Securities and Exchange Commission, or SEC, on March 28, 2014.

The Condensed Consolidated Financial Statements of the Company include the Company's accounts and those of the Company's wholly-owned subsidiary and have been prepared in conformity with accounting principles generally accepted in the United States of America, or US GAAP.

Initial Public Offering

In February 2014, the Company completed its initial public offering, or IPO, pursuant to which the Company issued 6,900,000 shares of common stock at \$16.00 per share, including the exercise of the underwriters' over-allotment option to purchase 900,000 additional shares of common stock, and received net proceeds of \$98.6 million, after underwriting discounts, commissions and other offering expenses. In addition, in connection with the completion of the Company's IPO, all convertible preferred stock converted into common stock.

Follow-On Public Offering

In June 2014, the Company completed a follow-on public offering, pursuant to which the Company issued 4,600,000 shares of common stock at \$30.50 per share, including the exercise of the underwriters' over-allotment option to purchase 600,000 additional shares of common stock, and received net proceeds of \$131.3 million, after underwriting discounts, commissions and other offering expenses.

Table of Contents

REVANCE THERAPEUTICS, INC.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

2. Summary of Significant Accounting Policies

Significant accounting policies are described in Note 2 to the consolidated financial statements in Item 8 of the Company's Annual Report on Form 10-K for the year ended December 31, 2013, which was filed with the SEC on March 28, 2014. There have been no changes to the Company's significant accounting policies during the three and nine months ended September 30, 2014, except as described in the *Recent Accounting Pronouncements* section below.

Use of Estimates

The preparation of Condensed Consolidated Financial Statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the Condensed Consolidated Financial Statements and reported amounts of revenues and expenses during the reporting periods. Such management estimates include the fair value of common stock, stock-based compensation, fair value of convertible preferred stock and warrants, fair value of derivatives, and the valuation of deferred tax assets. The Company bases its estimates on historical experience and also on assumptions that it believes are reasonable, however, actual results could significantly differ from those estimates.

Interest Expense

Interest expense, includes cash and non-cash components with the non-cash components consisting of (i) interest recognized from the amortization of debt issuance costs, which were capitalized on the Condensed Consolidated Balance Sheets, that are generally derived from cash payments related to the issuance of convertible notes and notes payable, (ii) interest recognized from the amortization of debt discounts, which were capitalized on the Condensed Consolidated Balance Sheets, derived from the issuance of warrants and derivatives issued in conjunction with convertible notes and notes payable, (iii) interest recognized on the 2011 convertible notes, or 2011 Notes, which was not paid but instead converted into shares of convertible preferred stock, (iv) interest recognized on the 2013 convertible notes, or 2013 Notes, which was not paid but instead converted into shares of common stock, (v) interest capitalized for assets constructed for use in operations, (vi) interest related to the extinguishment of debt, which is classified as a gain or loss on debt extinguishments, and (vii) effective interest recognized on the financing obligation. The capitalized amounts related to the debt issuance costs and debt discounts are generally amortized to interest expense over the term of the related debt instruments.

Recent Accounting Pronouncements

In August 2014, the FASB issued Accounting Standard Update No. 2014-15, *Presentation of Financial Statements Going Concern (Subtopic 205-40)*, which will require management to assess an entity's ability to continue as a going concern at each annual and interim period. Related footnote disclosures will be required if conditions give rise to substantial doubt about an entity's ability to continue as a going concern within one year of the report issuance date. If conditions do not give rise to substantial doubt, no disclosures will be required specific to going concern uncertainties. The guidance defines substantial doubt using a likelihood threshold of "probable" similar to the current use of that term in U.S. GAAP for loss contingencies and provides example indicators. The guidance is effective for reporting periods

ending after December 15, 2016, and early adoption is permitted. The Company is currently evaluating the impact of the adoption of this guidance on the Company's financial statements.

In June 2014, the FASB issued Accounting Standard Update No. 2014-10, *Development Stage Entities (Topic 915): Elimination of Certain Financial Reporting Requirements, Including an Amendment to Variable Interest Entities Guidance in Topic 810, Consolidation*, which removes the distinction between development stage entities and other reporting entities, eliminates the exception provided to development stage entities for determining whether an entity is a variable interest entity on the basis of the amount of investment equity that is at risk, and clarifies disclosure requirements related to risks and uncertainties. The changes eliminate the requirements for development stage entities to (1) present inception-to-date information on the statements of operations, cash flows, and stockholders' equity, (2) label the financial statements as those of a development stage entity, (3) disclose a description of the development stage activities in which the entity is engaged, and (4) disclose in the first year in which the entity is no longer a development stage entity that the prior years it had been in the development stage. The Company evaluated the new guidance and adopted the new standard early, beginning with the quarterly period ended June 30, 2014.

3. Medicis Settlement

In October 2012, the Company entered into a settlement and termination agreement with Medicis Pharmaceutical Corporation, or Medicis. Medicis was subsequently acquired by Valeant Pharmaceuticals International, Inc. in December 2012. The terms of the settlement provided for the reacquisition of the rights related to all territories of RT001 and RT002 from Medicis and for consideration payable by the Company to Medicis of up to \$25.0 million, comprised of (i) an upfront payment of \$7.0 million, which was paid in November 2012, (ii) a Proceeds Sharing Arrangement Payment of \$14.0 million due upon specified capital raising achievements by the Company, of which \$6.9 million was paid in the second quarter of 2013 and the remaining \$7.1 million was paid in the first

Table of Contents**REVANCE THERAPEUTICS, INC.****Notes to Condensed Consolidated Financial Statements (Continued)****(Unaudited)**

quarter of 2014, and (iii) \$4.0 million to be paid upon the achievement of specified regulatory milestones by the Company, or Product Approval Payment. The Company determined that the settlement provisions related to the Proceeds Sharing Arrangement Payment in (ii) above and the Product Approval Payment in (iii) above were derivative instruments that require fair value accounting as a liability and periodic fair value remeasurements until settled. Under the Proceeds Sharing Arrangement, the Company recorded \$0.4 million to remeasure the fair value of the derivative for the remaining obligation through the date of settlement, or February 13, 2014. As of September 30, 2014, the Company determined the fair value of its liability for the Product Approval Payment was \$1.6 million, which was measured by assuming a term of 3.75 years, a risk-free rate of 1.3% and a credit risk adjustment of 5.0%. The Company's assumption for the expected term is based on an expected Biologics License Application, or BLA, approval in mid-2018. The Company did not make any payments under the Product Approval Payment during the nine months ended September 30, 2014.

4. Fair Value Measurements

The Company measures and reports certain financial instruments as assets and liabilities at fair value on a recurring basis. These instruments consist of money market funds, derivative liabilities associated with convertible notes, derivative liabilities associated with the Medicis settlement, common stock warrant liabilities, and convertible preferred stock warrant liabilities. The fair value of these instruments was as follows (in thousands):

	As of September 30, 2014			
	Fair Value	Level 1	Level 2	Level 3
<u>Assets</u>				
Money market fund	\$ 180,015	\$ 180,015	\$	\$
Total assets measured at fair value	\$ 180,015	\$ 180,015	\$	\$

As of December 31, 2013, the Company did not hold any assets that were measured at fair value on a recurring basis.

	As of September 30, 2014			
	Fair Value	Level 1	Level 2	Level 3
<u>Liabilities</u>				
Derivative liabilities associated with the Medicis settlement	\$ 1,647	\$	\$	\$ 1,647
Total liabilities measured at fair value	\$ 1,647	\$	\$	\$ 1,647

	As of December 31, 2013			
	Fair Value	Level 1	Level 2	Level 3
Liabilities				
Derivative liabilities associated with convertible notes	\$ 4,890	\$	\$	\$ 4,890
Derivative liabilities associated with the Medicis settlement	8,294			8,294
Common stock warrant liability	3,358			3,358
Convertible preferred stock warrant liability	1,233			1,233
Total liabilities measured at fair value	\$ 17,775	\$	\$	\$ 17,775

The Company did not transfer any assets or liabilities measured at fair value on a recurring basis to or from Level 1 and Level 2 during the nine months ended September 30, 2014 and the year ended December 31, 2013.

The following table sets forth a summary of the changes in the fair value of the Company's Level 3 financial instruments as follows (in thousands):

	Derivative Liability Associated with Convertible Notes	Derivative Liability Associated with the Medicis Settlement	Common Stock Warrant Liability	Convertible Preferred Stock Warrant Liability
Fair value as of December 31, 2013	\$ 4,890	\$ 8,294	\$ 3,358	\$ 1,233
Fair value of financial instruments issued	1,050		981	80
Cash payments against Medicis settlement		(7,073)		

Table of Contents**REVANCE THERAPEUTICS, INC.****Notes to Condensed Consolidated Financial Statements (Continued)****(Unaudited)**

	Derivative Liability Associated with Convertible Notes	Derivative Liability Associated with the Medicis Settlement	Common Stock Warrant Liability	Convertible Preferred Stock Warrant Liability
Change in fair value	(4,032)	426	2,151	210
Extinguishment of warrant liability upon exercise of put option by warrant holder				(82)
Conversion in connection with IPO	(1,908)		(6,490)	(1,441)
Fair value as of September 30, 2014	\$	\$ 1,647	\$	\$

Level 3 instruments consist of the Company's derivative liabilities related to convertible notes, derivative liabilities related to the Medicis settlement, common stock warrant liabilities, and convertible preferred stock warrant liabilities. The fair value of the derivative liabilities associated with the convertible notes was measured using the Monte Carlo valuation methodology. Inputs used to determine estimated fair value of these derivative instruments include the probability estimates of potential settlement scenarios for the convertible notes, a present value discount rate and an estimate of the expected timing of settlement. The significant unobservable inputs used in the fair value measurement of the derivatives associated with the convertible notes are the scenario probabilities and the discount rate estimated at the valuation date. Generally, increases or decreases in the discount rate would result in a directionally opposite impact to the fair value measurement of this derivative instrument. Also, changes in the probability scenarios would have had varying impacts depending on the weighting of each specific scenario. Heavier weighting towards a change in control, a private investment in public equity transaction or IPO would result in an increase in fair value of this derivative instrument. The fair value upon the IPO took into account a 100% weighting towards the IPO scenario.

The fair value of one of the derivative liabilities resulting from the Medicis litigation settlement, specifically the previously outstanding liability for the derivative related to the Proceeds Sharing Arrangement Payment (Note 3) as recognized cash payments against the liability, was measured using an option pricing model. Inputs used to determine estimated fair value of this derivative include the equity value of the Company, expected timing of the respective settlement payments, a risk-free interest rate and the expected volatility. The significant unobservable inputs used in the fair value measurement of the Proceeds Sharing Arrangement Payment derivative are the equity value of the Company and the expected timing of the payments at the valuation date. Generally, increases or decreases in these unobservable inputs would result in a directionally similar impact to the fair value measurement of this derivative instrument. The Company settled the remaining obligation under the Proceeds Sharing Arrangement upon the IPO, and remeasured the liability to the value of the remaining Proceeds Sharing Arrangement Payment of \$7.1 million.

Table of Contents**REVANCE THERAPEUTICS, INC.****Notes to Condensed Consolidated Financial Statements (Continued)****(Unaudited)**

The fair value of the remaining derivative liability resulting from the Medicis litigation settlement, specifically the derivative related to the Product Approval Payment, was determined by estimating the timing and probability of the related regulatory approval and multiplying the payment amount by this probability percentage and a discount factor based primarily on the estimated timing of the payment and a credit risk adjustment. The significant unobservable inputs used in the fair value measurement of the Product Approval Payment derivative are the expected timing and probability of the payments at the valuation date and the credit risk adjustment.

The fair values of the outstanding common stock warrants and previously outstanding convertible preferred stock warrants were measured using the Black-Scholes option-pricing model. Inputs used to determine estimated fair value of the warrant liabilities include the estimated fair value of the underlying stock at the valuation date, the estimated term of the warrants, risk-free interest rates, expected dividends and the expected volatility of the underlying stock. The significant unobservable inputs used in the fair value measurement of the convertible preferred stock warrant liability are the fair value of the underlying stock at the valuation date and the estimated term of the warrants.

5. Balance Sheet Components***Property and Equipment, net***

Property and equipment, net consists of the following (in thousands):

	As of September 30, 2014	As of December 31, 2013
Research and manufacturing equipment	\$ 10,885	\$ 9,045
Computer equipment and software	549	496
Furniture and fixtures	547	451
Leasehold improvements	3,772	3,632
Construction in progress	11,390	8,880
Total property and equipment	27,143	22,504
Less: accumulated depreciation	(9,749)	(8,189)
Property and equipment, net	\$ 17,394	\$ 14,315

Depreciation expense was \$0.6 million and \$1.6 million for the three and nine months ended September 30, 2014, respectively, and \$0.4 million and \$1.3 million for the three and nine months ended September 30, 2013, respectively.

The Company has obligations to make future payments to certain vendors that become due and payable during the construction of its manufacturing facilities in Newark, California, in 2013. The arrangement was accounted for as construction-in-progress and the outstanding obligations as of September 30, 2014 and December 31, 2013 were \$0.8 million and \$1.8 million, respectively. The Company recorded capitalized interest costs of \$0.2 million and \$0.6 million during the three and nine months ended September 30, 2014, respectively, and \$0.1 million for each of the three and nine months ended September 30, 2013.

Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets consist of the following (in thousands):

	As of September 30, 2014	As of December 31, 2013
Prepaid expenses	\$ 1,451	\$ 531
Accounts receivable	1,421	225
Deferred rent, current portion	241	
Reimbursable tenant improvements	150	
Other current assets	86	69
Total prepaid expenses and other current assets	\$ 3,349	\$ 825

Table of Contents**REVANCE THERAPEUTICS, INC.****Notes to Condensed Consolidated Financial Statements (Continued)****(Unaudited)*****Accruals and Other Current Liabilities***

Accruals and other current liabilities consist of the following (in thousands):

	As of September 30, 2014	As of December 31, 2013
Accrued compensation	\$ 1,779	\$ 689
Accrued clinical trial expenses	404	169
Accrued construction-in-progress obligations	168	1,757
Accrued interest on notes payable	42	478
Accrued offering costs		506
Other current liabilities	924	562
Total accruals and other current liabilities	\$ 3,317	\$ 4,161

Other Non-Current Assets

Other non-current assets consist of the following (in thousands):

	As of September 30, 2014	As of December 31, 2013
Deferred initial public offering costs	\$	\$ 2,812
Unamortized debt issuance costs		194
Prepaid expenses, non-current portion	183	
Total other non-current assets	\$ 183	\$ 3,006

6. Notes Payable***Hercules Notes Payable***

In September 2011, the Company entered into a loan and security agreement with Hercules Technology Growth Capital for \$22.0 million, referred to as the Hercules Notes Payable. From the proceeds of the Hercules Notes

Payable, the Company used \$7.0 million to fully repay the principal and accrued interest due under two secured promissory notes, or Venture Debt, with two venture debt lenders. At the time of the Venture Debt repayment, the remaining unamortized debt discount of \$0.6 million was written-off to interest expense.

The Hercules Notes Payable, which matures in March 2015, is secured by all assets of the Company, and bears interest at the greater of (i) 9.85% per annum or (ii) 9.85% per annum plus the difference of the prime rate less 3.25% per annum and contains covenants that require, among other things, that the Company seek consent from Hercules prior to certain corporate changes and provide certain unaudited financial information within 30 days after the end of each month. Starting in July 2012, the loan is to be repaid in 33 equal monthly payments of principal and interest of \$0.8 million plus an end of term payment of \$0.5 million if the loan is prepaid, or \$0.4 million if paid upon maturity. The loan also allows for prepayment at any time with a premium ranging from 1% to 4% of \$15.0 million, depending on when the prepayment occurs.

In connection with the Hercules Notes Payable, the Company issued warrants to purchase 17,977 shares of Series D convertible preferred stock at \$66.75 per share, which converted to common stock upon the Company's IPO. The fair value of the warrants of \$0.1 million was recorded as a debt discount and is amortized to interest expense using the straight-line method over the loan term. The Company recognized interest expense of \$0.01 million and \$0.03 million, and \$0.01 million and \$0.06 million, from the amortization of the warrant related debt discount for the three and nine months ended September 30, 2014 and 2013, respectively. The unamortized debt discount balance was \$0.01 million and \$0.04 million as of September 30, 2014 and December 31, 2013, respectively. The Company incurred \$0.5 million of debt issuance costs in connection with the Hercules Notes Payable which is also being amortized to interest expense over the term of the borrowings. The Company recognized interest expense of \$0.04 million and \$0.1 million, and \$0.04 million and \$0.1 million, from the amortization of the debt issuance costs during the three and nine months ended September 30, 2014 and 2013, respectively. The unamortized debt issuance costs balances were \$0.1 million and \$0.2 million as of September 30, 2014 and December 31, 2013, respectively.

Table of Contents**REVANCE THERAPEUTICS, INC.****Notes to Condensed Consolidated Financial Statements (Continued)****(Unaudited)***Essex Capital Notes*

On December 20, 2013, the Company signed a Loan and Lease Agreement to borrow up to \$10.8 million in the form of Secured Promissory Notes from Essex Capital, or the Essex Notes, to finance the completion and installation of the Company's RT001 commercial fill/finish line, or the Fill/Finish Line. Under the Loan and Lease Agreement, with the issuance of each Note, the Company will issue warrants to purchase its capital stock. The Essex Notes must be repaid in full by the Company if the Fill/Finish Line is not accepted by the Company and the sale-leaseback (as described below) is not executed prior to the one year anniversary of the Essex Notes, or December 20, 2014. The outstanding balance, as of September 30, 2014, on the Essex Notes of \$3.9 million would be subject to repayment on December 20, 2014.

If the Fill/Finish Line is accepted by the Company prior to December 20, 2014, Essex Capital will purchase the Fill/Finish Line at the original invoice amounts in exchange for extinguishing the principal balance due under the Essex Notes. Concurrently with this sale, the Company will lease the Fill/Finish Line from Essex Capital for a fixed monthly payment to be paid monthly over three years. At the end of the lease, the Company will have the option to purchase the Fill/Finish Line for 10% of the original purchase amount.

During the term of the Essex Notes, the Company will make interest only payments. In December 2013, the Company drew down \$2.5 million under short-term notes pursuant to the Essex Capital Facility, and an additional \$2.5 million in January 2014 under short-term notes. In May 2014, pursuant to the terms of this agreement, the Company sold equipment to Essex Capital, resulting in partial settlement of the outstanding loan balance by \$1.1 million. Pursuant to the Loan and Lease Agreement, the Company leased the equipment from Essex Capital. This transaction does not qualify for sale-leaseback accounting due to the Company's continuing involvement. Therefore, the Company accounted for this transaction as a financing obligation using the effective interest rate method. As of September 30, 2014, the aggregate total future minimum lease payments under the financing obligation were as follows (in thousands):

Year Ending December 31,	
2014	\$ 105
2015	423
2016	423
2017	141
Total payments	\$ 1,092

In connection with the Essex Notes, the Company is required to issue the warrants regardless of whether it draws down the full \$10.8 million under the agreement, unless it chooses to discontinue construction of the equipment. The Company issued warrants to Essex to purchase 12,345 shares of Series E-5 convertible preferred stock in December

Edgar Filing: Revance Therapeutics, Inc. - Form 10-Q

2013 and January 2014. Subsequent to the IPO in February 2014, the previously issued warrants to purchase shares of Series E-5 convertible preferred stock converted into warrants to purchase shares of common stock. The fair value of the warrants at the issuance date of \$0.2 million and debt issuance costs totaling \$0.03 million were recorded as discount on debt, and will be amortized to interest expense using the straight-line method over the loan term. The Company recognized interest expense of \$0.1 million and \$0.2 million for the amortization of the warrant related debt discount for the three and nine months ended September 30, 2014, respectively. The unamortized debt discount balance was \$0.1 million as of September 30, 2014.

As of September 30, 2014, future principal payments under the Notes Payable are as follows (in thousands):

2014	\$ 6,088
2015	2,641
Total principal payments	8,729
Less: debt discount	(67)
Less: current portion	(8,662)
 Long-term portion of notes payable	 \$ 0

For each of the three and nine months ended September 30, 2014 and 2013, the Company made principal and interest payments on the Hercules Notes Payable of \$2.3 million and \$6.9 million, respectively. Additionally, the Company made interest payments on the Essex Notes in the amount of \$0.1 million and \$0.3 million during the three and nine months ended September 30, 2014, respectively. As of September 30, 2014, the outstanding Hercules Notes Payable and Essex Notes balances were \$4.8 million and \$3.9 million, respectively.

Table of Contents

REVANCE THERAPEUTICS, INC.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

7. 2013 Convertible Notes and Common Stock Warrants

At December 31, 2013, the 2013 Notes had an aggregate outstanding principal amount of \$19.4 million. In January 2014, the Company issued an additional \$4.3 million in 2013 Notes. In February 2014, in connection with the Company's IPO, the 2013 Notes with a principal amount, accrued interest, and derivative liability of \$26.2 million converted into 1,637,846 shares of the Company's common stock. In connection with the issuance of the 2013 Notes, the Company issued warrants to purchase 409,450 shares of common stock. In February 2014, in connection with the Company's IPO, these warrants were net exercised for 405,594 shares of common stock.

Additionally, the 2013 Notes had conversion and redemption features which were determined to be embedded derivatives, requiring bifurcation and separate fair value accounting. Immediately prior to the conversion, the Company determined that the fair value of the derivative liabilities associated with the convertible notes was reduced to \$1.9 million. Upon the conversion of the 2013 Notes into shares of common stock, the Company applied extinguishment accounting resulting in a loss of \$8.3 million as discussed in Note 8 below. As of the date of conversion, the Company was in compliance with all covenants in the 2013 Notes.

During the nine months ended September 30, 2014, the Company recognized non-cash interest expense of \$9.6 million related to the 2013 Notes, including amortization of warrant-related debt discount of approximately \$0.4 million up to the date of conversion, amortization of the derivative-related debt discount of \$0.6 million up to the date of conversion, accrued interest of \$0.3 million up to the date of conversion and a loss on extinguishment of \$8.3 million upon conversion of the 2013 Notes into common stock. The Company had unamortized debt discount balance \$0 and \$7.2 million as of September 30, 2014 and December 31, 2013, respectively.

8. Interest Expense

Interest expense, includes cash and non-cash components with the non-cash components consisting of (i) interest recognized from the amortization of debt issuance costs, which were capitalized on the Condensed Consolidated Balance Sheets, that are generally derived from cash payments related to the issuance of convertible notes and notes payable, (ii) interest recognized from the amortization of debt discounts, which were capitalized on the Condensed Consolidated Balance Sheets, derived from the issuance of warrants and derivatives issued in conjunction with convertible notes and notes payable, (iii) interest recognized on the 2011 convertible notes, or 2011 Notes, which was not paid but instead converted into shares of convertible preferred stock, (iv) interest recognized on the 2013 convertible notes, or 2013 Notes, which was not paid but instead converted into shares of common stock, (v) interest capitalized for assets constructed for use in operations, (vi) interest related to the extinguishment of debt, which is classified as a gain or loss on debt extinguishments, and (vii) effective interest recognized on the financing obligation. The capitalized amounts related to the debt issuance costs and debt discounts are generally amortized to interest expense over the term of the related debt instruments.

The interest expense by cash and non-cash components is as follows (in thousands):

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2014	2013	2014	2013 ⁽³⁾
Cash interest expense ⁽¹⁾	\$ (276)	\$ (392)	\$ (971)	\$ (1,318)
Non-cash interest expense				
Non-cash interest expense debt issuance costs	(48)	(47)	(148)	(178)
Non-cash interest expense warrant and derivative related debt discounts	(76)	(15)	(219)	(2,869)
Non-cash interest expense convertible notes			(1,250)	(9,204)
Loss on extinguishment of 2013 Notes			(8,331)	
Non-cash interest expense financing obligation	(66)		(66)	
Non-cash capitalized interest expense ⁽²⁾	238	103	649	103
Total non-cash interest expense	48	41	(9,365)	(12,148)
Total interest expense	(228)	(351)	\$ (10,336)	\$ (13,466)

Table of Contents**REVANCE THERAPEUTICS, INC.****Notes to Condensed Consolidated Financial Statements (Continued)****(Unaudited)**

- (1) Cash interest expense included interest payments under the Hercules Notes Payable and Essex Notes.
- (2) Interest expense capitalized pursuant to Accounting Standards Codification Topic 835, Interest.
- (3) Presentation revised to disaggregate capitalized interest expense.

9. Commitments and Contingencies***Facility Lease***

In January 2010, the Company entered into a non-cancelable facility lease that requires monthly payments through January 2022. This facility will be used for research, manufacturing, and administrative functions.

In February 2014, the Company extended the term of the Lease by thirty-six (36) months to January 2025. As part of this agreement, the Lessor shall provide the Company with a tenant improvement allowance during 2014 in an amount not to exceed \$3.0 million. Under the terms of the lease, the Company's payments escalate over the term of the lease; however, the Company recognizes the expense on a straight-line basis over the life of the lease.

Rent expense was \$1.3 million and \$3.9 million for the three and nine months ended September 30, 2014, respectively, and \$1.1 million and \$3.3 million for the three and nine months ended September 30, 2013, respectively.

As of September 30, 2014, the aggregate total future minimum lease payments under non-cancelable operating leases were as follows (in thousands):

Year Ending December 31,	
2014	\$ 1,228
2015	5,070
2016	5,222
2017	5,394
2018 and thereafter	37,932
Total payments	\$ 54,846

Other Milestone-Based Commitments

The Company has one remaining obligation to make a future milestone payment to List Laboratories that becomes due and payable on the achievement of a certain regulatory milestone. The Company is obligated to pay royalties to List Laboratories on future sales of botulinum toxin products.

Purchase Commitments

The Company has certain commitments from outstanding purchase orders primarily related to clinical trial development and other costs related to our manufacturing facility. These agreements, which total \$14.2 million, are cancellable at any time with the Company required to pay all costs incurred through the cancellation date.

Table of Contents

REVANCE THERAPEUTICS, INC.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

Contingencies

From time to time, the Company may have certain contingent liabilities that arise in the ordinary course of business activities. The Company accrues a liability for such matters when it is probable that future expenditures will be made and such expenditures can be reasonably estimated. The Company is not subject to any known current pending legal matters or claims that would have a material adverse effect on its financial position, results of operations or cash flows.

Indemnification

The Company enters into standard indemnification agreements in the ordinary course of business. Pursuant to these arrangements, the Company indemnifies, holds harmless, and agrees to reimburse the indemnified parties for losses suffered or incurred by the indemnified party, in connection with any trade secret, copyright, patent or other intellectual property infringement claim by any third party with respect to its technology. The term of these indemnification agreements is generally perpetual after the execution of the agreement. The maximum potential amount of future payments the Company could be required to make under these agreements is not determinable because it involves claims that may be made against the Company in the future, but have not yet been made. The Company has not incurred costs to defend lawsuits or settle claims related to these indemnification agreements.

The Company has entered into indemnification agreements with its directors and officers that may require the Company to indemnify its directors and officers against liabilities that may arise by reason of their status or service as directors or officers, other than liabilities arising from willful misconduct of the individual.

No amounts associated with such indemnifications have been recorded to date.

10. Common Stock

Reverse Stock Split

In January 2014, the Company's Board of Directors and stockholders approved an amended and restated certificate of incorporation effecting a 1-for-15 reverse stock split of the Company's issued and outstanding shares of common stock and convertible preferred stock that was effective on February 3, 2014. The par value of the common and convertible preferred stock was not adjusted as a result of the reverse stock split. All issued and outstanding share and per share amounts included in the accompanying financial statements have been retroactively adjusted to reflect this reverse stock split.

11. Convertible Preferred Stock

In connection with the IPO in February 2014, the Company converted the convertible preferred stock into 8,689,999 shares of common stock at a ratio of 1:1.

12. Warrants

In January 2014, the Company issued warrants to purchase 72,248 shares of common stock in connection with the issuance of the most recent round of the 2013 Notes (see Note 7 for additional information). In February 2014, following the completion of the Company's IPO, all outstanding common stock warrants net exercised into 1,158,443 shares of common stock.

In January 2014, in connection with the Company's issuance of notes payable to Essex Capital (see Note 6 for additional information), the Company issued warrants to purchase 12,345 shares of Series E-5 convertible preferred stock. In February 2014, two holders of preferred stock warrants exercised their put options to sell 22,856 warrants at an exercise price equal to the average fair value of the Company's stock price for 5 days preceding the exercise. The Company recorded a loss on cash settlement of \$1.4 million as a result of this exercise.

Upon completion of the IPO, all outstanding warrants to purchase Series E convertible preferred stock, excluding the 22,856 warrants that were exercised, converted into 173,975 warrants to purchase common stock at prices ranging from \$14.95 per share to \$31.50 per share, expiring in 2018 through 2021. In May 2014, warrants to purchase 20,066 shares of common stock were net exercised into 10,613 shares of common stock. As of September 30, 2014, the Company had warrants to purchase 153,909 shares of common stock outstanding and no convertible preferred stock warrants outstanding.

Table of Contents**REVANCE THERAPEUTICS, INC.****Notes to Condensed Consolidated Financial Statements (Continued)****(Unaudited)****13. Equity Incentive Plans*****2014 Equity Incentive Plan***

On January 22, 2014, the Company's board of directors authorized the adoption of the 2014 Equity Incentive Plan, or 2014 EIP, which became effective after adoption and approval by the Company's stockholders on January 23, 2014. Initially, the aggregate number of shares of common stock that may be issued pursuant to stock awards under the 2014 EIP will not exceed 1,000,000 shares. The number of shares of common stock reserved for issuance under the Company's 2014 EIP will automatically increase on January 1 of each year, beginning on January 1, 2015 and continuing through and including January 1, 2024, by 4% of the total number of shares of the Company's capital stock outstanding on December 31 of the preceding calendar year or a lesser number of shares determined by the Company's board of directors. The maximum number of shares that may be issued upon the exercise of ISOs under the Company's 2014 EIP is 2,000,000 shares. The 2014 EIP provides for the grant of incentive stock options, or ISOs, nonstatutory stock options, or NSOs, stock appreciation rights, restricted stock awards, restricted stock unit awards, performance-based stock awards, and other forms of equity compensation, all of which may be granted to employees, including officers, non-employee directors and consultants of the Company and its affiliates. Additionally, the 2014 EIP provides for the grant of performance cash awards. ISOs may be granted only to employees. All other awards may be granted to employees, including officers, and to non-employee directors and consultants.

During the third quarter of 2014, the Company granted stock options for 32,150 shares of common stock and 6,700 restricted stock awards under the 2014 EIP to employees. As of September 30, 2014, there were 88,901 shares available for issuance under the 2014 EIP.

2014 Inducement Plan

On August 26, 2014, the Company's board of directors authorized the adoption of the 2014 Inducement Plan, or 2014 IN, which became effective immediately. Stockholder approval of the 2014 IN was not required pursuant to Rule 5635 (c)(4) of the NASDAQ Listing Rules. The 2014 IN reserves 325,000 shares of common stock and provides for the grant of NSOs that will be used exclusively for grants to individuals that were not previously employees or directors of the Company, as an inducement material to the individual's entry into employment with the Company.

During the third quarter of 2014, the Company granted stock options for 140,125 shares of common stock and 43,375 restricted stock awards under the 2014 IN to new employees. As of September 30, 2014, there were 141,500 shares available for issuance under the 2014 IN.

The fair value of the stock options under the 2014 EIP and 2014 IN were estimated using the Black-Scholes option-pricing model with the following assumptions:

Employee**Non-employee**

	Three Months ended September 30, 2014		Nine Months ended September 30, 2014		Three Months ended September 30, 2014		Nine Months ended September 30, 2014	
Expected term (in years)	6.08		5.50	6.08	8.78	9.38	5.00	9.67
Expected volatility	56.62	57.23 %	56.19	58.37 %	57.12	57.29 %	54.14	58.46 %
Risk-free interest rate	1.81	2.03 %	1.69	2.03 %	2.34	2.58 %	1.67	2.67 %
Expected dividend rate	0.00 %		0.00 %		0.00 %		0.00 %	

Fair Value of Common Stock. The fair value of the shares of common stock is based on the Company's stock price.

Expected Term. The expected term for employees is based on the simplified method, as the Company's stock options have the following characteristics: (i) granted at-the-money; (ii) exercisability is conditioned upon service through the vesting date; (iii) termination of service prior to vesting results in forfeiture; (iv) limited exercise period following termination of service; and (v) options are non-transferable and non-hedgeable, or plain vanilla options, and the Company has limited history of exercise data. The expected term for non-employees is based on the remaining contractual term.

Expected Volatility. Since the Company was a private entity with little historical data regarding the volatility of its common stock, the expected volatility used is based on volatility of a group of similar entities. In evaluating similarity, the Company considered factors such as industry, stage of life cycle and size. The Company will continue to analyze the historical stock price volatility and expected term assumptions as more historical data for the Company's common stock becomes available.

Table of Contents**REVANCE THERAPEUTICS, INC.****Notes to Condensed Consolidated Financial Statements (Continued)****(Unaudited)**

Risk-Free Interest Rate. The risk-free interest rate is based on U.S. Treasury constant maturity treasury rates with remaining terms similar to the expected term.

Expected Dividend Rate. The Company has never paid any dividends and does not plan to pay dividends in the foreseeable future, and, therefore, used an expected dividend rate of zero in the valuation model.

2014 Employee Stock Purchase Plan

On January 22, 2014, the Company's board of directors authorized the adoption of the 2014 Employee Stock Purchase Plan, or 2014 ESPP, which became effective after adoption and approval by the Company's stockholders on January 23, 2014. The maximum number of shares of common stock that may be issued under the Company's 2014 ESPP is initially 200,000 shares. The number of shares of common stock reserved for issuance under the Company's 2014 ESPP will automatically increase on January 1 of each year, beginning on January 1 of the year after the closing of our IPO and ending on and including January 1, 2024, by the lesser of (i) 1% of the total number of shares of common stock outstanding on December 31 of the preceding calendar year, (ii) 300,000 shares of common stock or (iii) such lesser number of shares of common stock as determined by the Company's board of directors. Shares subject to purchase rights granted under the Company's 2014 ESPP that terminate without having been exercised in full will return to the 2014 ESPP reserve and will not reduce the number of shares available for issuance under the Company's 2014 ESPP. The 2014 ESPP is intended to qualify as an employee stock purchase plan, or ESPP, under Section 423 of the Internal Revenue Code of 1986 with the purpose of providing employees with an opportunity to purchase the Company's common stock through accumulated payroll deductions. For the three and nine months ended September 30, 2014, the Company recorded stock-based compensation expense of \$0.03 million and \$0.5 million, respectively, and issued 20,274 shares of common stock to employees under the 2014 ESPP.

The fair value of the option component of the shares expected to be purchased under the 2014 ESPP were estimated using the Black-Scholes option-pricing model with the following assumptions:

	Three Months ended September 30, 2014	Nine Months ended September 30, 2014
Expected term (in years)	0.50	0.50
Expected volatility	42.54 %	42.54 - 48.00 %
Risk-free interest rate	0.06%	0.06 - 0.08 %
Expected dividend rate	0.00 %	0.00 %

Fair Value of Common Stock. The fair value of the shares of common stock is based on the Company's stock price.

Expected Term. The expected term is based on the term of the purchase period under the 2014 ESPP.

Edgar Filing: Revance Therapeutics, Inc. - Form 10-Q

Expected Volatility. Since the Company was a private entity with little historical data regarding the volatility of its common stock, the expected volatility used is based on volatility of a group of similar entities. In evaluating similarity, the Company considered factors such as industry, stage of life cycle and size. The Company will continue to analyze the historical stock price volatility and expected term assumptions as more historical data for the Company's common stock becomes available.

Risk-Free Interest Rate. The risk-free interest rate is based on U.S. Treasury constant maturity treasury rates with remaining terms similar to the expected term.

Expected Dividend Rate. The Company has never paid any dividends and does not plan to pay dividends in the foreseeable future, and, therefore, used an expected dividend rate of zero in the valuation model.

Table of Contents**REVANCE THERAPEUTICS, INC.****Notes to Condensed Consolidated Financial Statements (Continued)****(Unaudited)*****Stock-based Compensation to Employees***

Total stock-based compensation expense related to stock options, restricted stock awards, and ESPP granted to employees was allocated as follows (in thousands):

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2014	2013	2014	2013
Research and development	\$ 557	\$ 75	\$ 1,386	\$ 109
Sales, general and administrative	1,361	117	2,467	187
Total stock based compensation expense	\$ 1,918	\$ 192	\$ 3,853	\$ 296

Stock-based compensation to Non-Employees

Total stock-based compensation expense related to options granted to non-employees was allocated as follows (in thousands):

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2014	2013	2014	2013
Research and development	\$ 367	\$ 21	\$ 258	\$ 29
Sales, general and administrative	10	500	21	
Total stock based compensation expense	\$ 367	\$ 31	\$ 758	\$ 50

The Company has no outstanding unvested non-employee stock options as of September 30, 2014.

14. Net Income (Loss) per Share Attributable to Common Stockholders

The following table sets forth the computation of the Company's basic and diluted net income (loss) per share attributable to common stockholders for the three and nine months ended September 30, 2014 and 2013 (in thousands, except for share and per share amounts):

Edgar Filing: Revance Therapeutics, Inc. - Form 10-Q

	Three Months Ended		Nine Months Ended	
	September 30, 2014	September 30, 2013	September 30, 2014	September 30, 2013
Net loss	\$ (13,977)	\$ (8,883)	\$ (48,705)	\$ (42,369)
Capital contribution on the extinguishment of prior convertible preferred stock				74,894
Deemed dividend on the issuance of Series E-5 convertible preferred stock				(177)
Noncumulative dividend on Series E convertible preferred stock		(3,910)		(9,974)
Undistributed earnings allocated to preferred stockholders				(21,641)
Net income (loss) attributable to common stockholders, basic	\$ (13,977)	\$ (12,793)	\$ (48,705)	\$ 733
Adjustments to net income (loss) for dilutive securities				2,233
Net income (loss) attributable to common stockholders, diluted	\$ (13,977)	\$ (12,793)	\$ (48,705)	\$ 2,966
Net income (loss) per share attributable to common stockholders				
Basic	\$ (0.60)	\$ (55.92)	\$ (2.70)	\$ 3.40
Diluted	\$ (0.60)	\$ (55.92)	\$ (2.70)	\$ 3.05

Table of Contents**REVANCE THERAPEUTICS, INC.****Notes to Condensed Consolidated Financial Statements (Continued)****(Unaudited)**

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2014	2013	2014	2013
Weighted-average shares used in computing net income (loss) per share attributable to common stockholders:				
Basic	23,331,104	228,785	18,009,537	215,315
Stock options				160,873
Warrants to purchase common stock				595,284
Diluted	23,331,104	228,785	18,009,537	971,472

Table of Contents**REVANCE THERAPEUTICS, INC.****Notes to Condensed Consolidated Financial Statements (Continued)****(Unaudited)**

The following common stock equivalents were excluded from the computation of diluted net income (loss) per share for the periods presented because including them would have been antidilutive:

	As of September 30,	
	2014	2013
Stock options	1,877,949	771,573
Convertible preferred stock		8,690,061
Convertible preferred stock warrants		172,145
Common stock warrants	153,909	
Unvested restricted stock awards	253,625	
Shares expected to be purchased on December 31, 2014 under 2014 ESPP	6,426	

15. Income Taxes***Provision for Income Tax***

The Company's effective tax rate is 0% for income tax for the three and nine months ended September 30, 2014 and the Company expects that its effective tax rate for the full year 2014 will be 0%. Based on the weight of available evidence, including cumulative losses since inception and expected future losses, the Company has determined that it is more likely than not that the deferred tax asset amount will not be realized and therefore a valuation allowance has been provided on net deferred tax assets.

In general, if the Company experiences a greater than 50 percentage point aggregate change in ownership over a three-year period (a Section 382 ownership change), utilization of its pre-change net operating loss, or NOL, and credit carryforwards are subject to an annual limitation under Sections 382 and 383 of the Internal Revenue Code. California and New Jersey, where the Company files state tax returns, have similar laws. The annual limitation generally is determined by multiplying the value of the Company's stock at the time of such ownership change (subject to certain adjustments) by the applicable long-term tax-exempt rate. Such limitations may result in expiration of a portion of the NOL or tax credit carryforwards before utilization. The Company determined that ownership changes occurred in April 2004 and February 2014. As a result of the 2014 change, approximately \$1.4 million of federal net operating loss carryforwards and \$4.8 million of federal research and development, or R&D, credits are expected to expire unused. As of March 31, 2014, the Company derecognized \$1.4 million of federal NOLs and \$4.8 million of federal R&D credits. Since the R&D credits for California carry over indefinitely, there was no change to the California R&D credits. In order for the Company to trigger another Section 382 ownership change, the Company would need to experience a greater than 50 percentage point aggregate change in ownership within a three-year period beginning in February 2014. The Company determined that a Section 382 ownership change did not occur upon the June 2014 follow-on public offering.

The Company files tax returns for U.S. Federal, State of California, and State of New Jersey. The Company is not currently subject to any income tax examinations. Since the Company's inception, the Company had incurred losses from operations, which generally allows all tax years to remain open.

Uncertain Tax Positions

The Company recognizes the financial statement effects of a tax position when it becomes more likely than not, based upon the technical merits, that the position will be sustained upon examination. The Company does not expect any material changes in the next 12 months in unrecognized tax benefits.

The Company recognizes interest and/or penalties related to uncertain tax positions. To the extent accrued interest and penalties do not ultimately become payable, amounts accrued will be reduced and reflected in the period that such determination is made. The interest and penalties are recognized as other expense and not tax expense. The Company currently has no interest and penalties related to uncertain tax positions.

Table of Contents

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

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our Condensed Consolidated Financial Statements and the accompanying notes appearing elsewhere in this Quarterly Report on this Form 10-Q and in our other Securities and Exchange Commission, or SEC, filings, including our Annual Report on Form 10-K for the year ended December 31, 2013, filed with the SEC on March 28, 2014. The words believe, will, may, estimate, continue, anticipate, intend, should, plan, expect, predict, could, potentially, and similar expressions that convey uncertainty of future events or outcomes are intended to identify forward-looking statements. The following discussion and analysis contains forward-looking statements within meaning of the Private Securities Litigation Reform Act of 1995.

These forward-looking statements include, but are not limited to, statements concerning the following:

our expectations regarding the results and the timing of clinical trials in our development of RT001 for the treatment of crow's feet lines;

our expectations regarding the results and the timing of clinical trials and results of RT001 for the treatment of hyperhidrosis or other indications;

our expectations regarding the results and the timing of clinical trials of RT002 for the treatment of glabellar lines;

our expectations regarding our future development of RT001 and RT002 for other indications, including therapeutic indications;

our expectation regarding the timing of our regulatory submissions for approval of RT001 for the treatment of crow's feet lines in the United States, Europe and other countries or for treatment of hyperhidrosis in the United States;

the potential for commercialization of RT001 and RT002, if approved, by us;

our expectations regarding the potential market size, opportunity and growth potential for RT001 and RT002, if approved for commercial use;

our belief that RT001 and RT002 can expand the overall botulinum toxin market;

our ability to build our own sales and marketing capabilities, or seek collaborative partners, to commercialize our product candidates, if approved;

our ability to transfer manufacturing from third parties to our facility and to scale up our manufacturing capabilities if our product candidates are approved;

estimates of our expenses, future revenue, capital requirements and our needs for additional financing;

the timing or likelihood of regulatory filings and approvals;

our ability to advance product candidates into, and successfully complete, clinical trials;

the implementation of our business model, strategic plans for our business, product candidates and technology;

the initiation, timing, progress and results of future preclinical studies and clinical trials, and our research and development programs;

the scope of protection we are able to establish and maintain for intellectual property rights covering our product candidates and technology;

our ability to establish collaborations or obtain additional funding;

our expectations regarding the time during which we will be an emerging growth company under the Jumpstart Our Business Startups Act of 2012, or the JOBS Act;

our financial performance; and

developments and projections relating to our competitors and our industry.

Table of Contents

These forward-looking statements are subject to a number of risks, uncertainties, and assumptions, including those described in Risk Factors included in Part II, Item 1A and elsewhere in this report. Moreover, we operate in a very competitive and rapidly changing environment, and new risks emerge from time to time. It is not possible for our management to predict all risks, nor can we assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements we may make. In light of these risks, uncertainties, and assumptions, the forward-looking events and circumstances discussed in this report may not occur, and actual results could differ materially and adversely from those anticipated or implied in the forward-looking statements. We undertake no obligation to revise or publicly release the results of any revision to these forward-looking statements, except as required by law. Given these risks and uncertainties, readers are cautioned not to place undue reliance on such forward-looking statements.

Overview

Revance Therapeutics, Inc. is a clinical stage specialty biopharmaceutical company focused on the development, manufacturing and commercialization of novel botulinum toxin products for multiple aesthetic and therapeutic applications. Botulinum toxin is a well-characterized protein currently used in numerous aesthetic and therapeutic indications and represents a multi-billion dollar market in the United States and other countries. All currently approved and commercially available botulinum toxin products are administered by injection. Our lead product candidate, RT001, is a topical formulation of botulinum toxin type A, which we believe has significant advantages over existing injectable products and could significantly expand the botulinum toxin market beyond existing users. Our second product candidate, RT002, is a novel injectable formulation of botulinum toxin type A designed to be more targeted and longer lasting than currently available botulinum toxin injectable products. Both of our product candidates combine our purified botulinum toxin with our proprietary TransMTS[®] peptide delivery system.

We are evaluating RT001 in a broad clinical program that includes aesthetic indications such as lateral canthal lines, the wrinkles around the eyes which are commonly referred to as crow's feet lines, and therapeutic indications such as hyperhidrosis, or excessive sweating, migraine headache and allergic rhinitis, or inflammation of the mucous membrane inside the nose. We are evaluating RT002 in glabellar (or frown) lines with plans to expand into therapeutic uses.

We are in a Phase 3 clinical development program for RT001 for the treatment of crow's feet lines. In October 2014, we initiated an open-label study designed to confirm successful transfer of the production of our topical RT001 drug product to our manufacturing facility. In November 2014, we announced that while we have made significant progress with RT001, the preliminary results from our ongoing open-label study suggest additional work will be required to optimize the transfer of manufacturing to our commercial facility. We plan to complete the ongoing open-label study, fully analyze the data and manufacture additional RT001 drug product in our commercial facility to support a subsequent study currently expected to commence in early 2015.

To date, we have conducted fourteen clinical trials for RT001, with a total of over 1,400 subjects, for the treatment of crow's feet lines. RT001 has demonstrated a statistically significant and clinically meaningful reduction in crow's feet lines in our Phase 1 and Phase 2 clinical trials. These and other studies have also indicated that RT001 is well tolerated with no serious adverse events related to study drug or study treatment procedures or other safety concerns. RT001 is our lead product candidate in clinical development and we are substantially dependent on its regulatory approval and successful commercialization.

We are entering into a Phase 2 clinical development program for RT002 for the treatment of moderate to severe glabellar (frown) lines in late 2014. In April 2014, we announced positive data from our Phase 1/2 study of RT002 for the treatment of moderate to severe glabellar (frown) lines. In the study, RT002 met its primary efficacy and safety

endpoints. The open-label, dose escalating, Phase 1/2 study enrolled 48 adults in four cohorts. Based on the results of this study and previous findings from pre-clinical data, we plan to initiate a Phase 2 active comparator study in the fourth quarter of 2014, with interim results anticipated in late 2015.

Since commencing operations in 2002, we have devoted substantially all our efforts to identifying and developing product candidates for the aesthetic and therapeutic markets, recruiting personnel and raising capital. We have devoted predominantly all of our resources to the preclinical and clinical development of, and manufacturing capabilities for, RT001 and RT002. We have retained all rights to develop and commercialize RT001 and RT002 worldwide. We have not filed for approval with the U.S. Food and Drug Administration, or FDA, for the commercialization of RT001 or RT002 and we have not generated any revenue from product sales for RT001 or RT002.

Through September 30, 2014, we have funded substantially all of our operations through the sale and issuance of our common stock, preferred stock, venture debt and convertible debt. On June 19, 2014, we completed a follow-on public offering, pursuant to which we issued 4,600,000 shares of common stock at \$30.50 per share, including the exercise of the underwriters' over-allotment option to purchase 600,000 additional shares of common stock, and received net proceeds of \$131.3 million, after underwriting discounts, commissions and other offering expenses. On February 6, 2014, we completed our initial public offering, or IPO, for sale of 6,900,000 shares of common stock at \$16 per share, including the exercise of the underwriters' overallotment option to purchase an additional 900,000 shares of common stock, for net proceeds of \$98.6 million, after underwriting discounts, commissions and other offering expenses. We also raised \$23.65 million through the issuance of convertible notes and common stock warrants in the fourth quarter of 2013 and in January 2014.

We have never been profitable and, as of September 30, 2014, had an accumulated deficit of \$244.6 million. We incurred net losses of \$14.0 million and \$48.7 million, and \$8.9 million and \$42.4 million, in the three and nine months ended September 30, 2014

Table of Contents

and 2013, respectively. As of September 30, 2014, we had cash and cash equivalents of \$187.5 million. We expect to continue to incur net operating losses for at least the next several years as we advance RT001 and RT002 through clinical development, seek regulatory approval, prepare for and, if approved, proceed to commercialization. We have the ability to manufacture our own botulinum toxin type A product to support our clinical trials and eventually, our commercial production. Additionally, we currently utilize third-party clinical research organizations, or CROs, to carry out our clinical development and we do not yet have a sales organization. We will need substantial additional funding to support our operating activities, especially as we approach anticipated regulatory approval in the United States and other territories and begin to establish our sales capabilities. Adequate funding may not be available to us on acceptable terms, or at all. Our failure to obtain sufficient funds on acceptable terms when needed could have a material adverse effect on our business, results of operations, and financial condition.

Medicis Settlement

In October 2012, we entered into a settlement and termination agreement with Medicis Pharmaceutical Corporation, or Medicis, through which we reacquired from Medicis rights in all territories for RT001 and RT002. The agreement terminated our license agreement with Medicis and required that we make payments to them of up to \$25.0 million, comprised of (i) an upfront payment of \$7.0 million, which we made in November 2012, (ii) payments of \$14.0 million from a portion of specified types of cash proceeds received by us, an aggregate of \$6.9 million of which we paid in 2013 and \$7.1 million in February 2014, and (iii) a payment of \$4.0 million upon the achievement of specified regulatory milestones. The Medicis settlement also impacted our deferred revenue, research and development expenses, our stockholders' deficit and liabilities due to derivatives derived from the settlement payments, which are discussed below and in Note 3 of our Condensed Consolidated Financial Statements included elsewhere in this Form 10-Q.

Initial Public Offering

In February 2014, we completed our initial public offering, or IPO, pursuant to which we issued 6,900,000 shares of common stock at \$16.00 per share, including the exercise of the underwriters' over-allotment option to purchase 900,000 additional shares of common stock, and received net proceeds of \$98.6 million, after underwriting discounts, commissions and other offering expenses. In addition, in connection with the completion of our IPO, all convertible preferred stock converted into common stock.

Follow-On Public Offering

In June 2014, we completed a follow-on public offering, pursuant to which we issued 4,600,000 shares of common stock at \$30.50 per share, including the exercise of the underwriters' over-allotment option to purchase 600,000 additional shares of common stock, and received net proceeds of \$131.3 million, after underwriting discounts, commissions and other offering expenses.

Results of Operations

Revenue

The following table presents our revenue for the periods indicated and related changes from the prior period:

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2014	2013	Change	2014	2013	Change
	(In thousands, except percentages)					
Relastin Royalty	\$ 75	\$ 75	0%	\$ 225	\$ 225	0%
Licensing Revenue		83	(100)%	83	83	0%
Total revenue	\$ 75	\$ 158	(53)%	\$ 308	\$ 308	0%

Our total revenue for the three months ended September 30, 2014 decreased by 53%, compared to the same period in 2013, due to a decrease in licensing revenue. Our total revenue for the nine months ended September 30, 2014 was unchanged, compared to the same period in 2013.

In June 2013, pursuant to an exclusive technology evaluation agreement, we received an upfront payment in the amount of \$0.3 million. The licensing revenue was initially recorded as deferred revenue and recognized over the estimated performance period beginning in the third quarter of 2013 through the first quarter of 2014.

Table of Contents

In August 2011, we entered into an agreement to sell the business related to our Relastin product line, to Precision Dermatology, Inc., or PDI. In consideration for this sale, we received an upfront payment of \$0.05 million and the right to receive royalties and milestone payments based on future sales of Relastin products by PDI. In accordance with the agreement, we expect to receive royalties equal to at least \$0.3 million per year per the minimum royalty requirements included within the agreement or an amount equal to the actual royalty based sales of Relastin if greater than the minimum royalty requirements for a period up to fifteen years from the date of the agreement. We recognized the annual minimum royalty payment on a pro rata basis in the amount of \$0.1 million and \$0.2 million for the three and nine months ended September 30, 2014 and 2013 as set forth in the Relastin asset purchase agreement.

Operating Expenses

	Three Months Ended			Nine Months Ended		
	September 30, 2014	2013	Change	September 30, 2014	2013	Change
	(In thousands, except percentages)					
Research and development	\$ 8,600	\$ 6,284	37%	\$ 24,261	\$ 21,592	12%
Sales, general and administrative	5,300	2,142	147%	14,250	8,008	78%
Total operating expenses	\$ 13,900	\$ 8,426	65%	\$ 38,511	\$ 29,600	30%

Research and Development Expenses

Research and development expenses for the three months ended September 30, 2014 increased by 37%, compared to the same period in 2013, primarily due to increased costs related to personnel, stock-based compensation, rent, and leasing equipment to support product development activities.

Research and development expenses for the nine months ended September 30, 2014 increased by 12%, compared to the same period in 2013, primarily due to increased costs related to personnel, stock-based compensation, manufacturing of drug product, rent, and leasing equipment to support product development activities.

Our research and development expenses fluctuate as projects transition from one development phase to the next. Depending on the stage of completion and level of effort related to each development phase undertaken, we may reflect variations in our research and development expense. We expense both internal and external research and development expenses as they are incurred. We typically share employees, consultants and infrastructure resources between the RT001 and RT002 programs.

Costs associated with our manufacturing, quality and regulatory efforts for both RT001 and RT002 development have been our largest research and development-related expenses. These costs do not include clinical costs associated with the development of RT001 and RT002. We believe that the strict allocation of costs by product candidate would not be meaningful. As such, we generally do not track these costs by product candidate.

Our research and development expenditures are subject to numerous uncertainties primarily related to the timing and cost needed to complete our respective projects. Further, the development timelines, the probability of success and development expenses can differ materially from expectations and the completion of clinical trials may take several years or more depending on the type, complexity, novelty and intended use of a product candidate. Accordingly, the cost of clinical trials may vary significantly over the life of a project as a result of differences arising during clinical

development. We expect our research and development expenses will increase as we continue our clinical development of RT001 for the treatment of crow's feet lines and our clinical development of RT002 for the treatment of frown lines, or if the FDA requires us to conduct additional clinical trials for approval and as we enter into clinical trials for RT001 for hyperhidrosis and other indications and for RT002.

Stock-based compensation for research and development was \$0.6 million and \$1.6 million for the three and nine months ended September 30, 2014, respectively, and \$0.1 million for each of the three and nine months ended September 30, 2013.

Sales, General and Administrative Expenses

Sales, general and administrative expenses for the three months ended September 30, 2014 increased by 147%, compared to the same period in 2013, primarily due to increased costs related to personnel and administrative costs related to the operation of a public company. Following the IPO in February 2014, we incurred higher charges related to stock-based compensation, professional fees for accounting and tax services, and insurance premiums for directors and officers liability coverage.

Table of Contents

Sales, general and administrative expenses for the nine months ended September 30, 2014 increased by 78%, compared to the same period in 2013, primarily due to increased costs related to personnel and administrative costs related to the operation of a public company. Following the IPO in February 2014, we incurred higher charges related to stock-based compensation, professional fees for accounting and tax services, public relations services, and insurance premiums for directors and officers liability coverage. We expect that our sales, general and administrative expenses will increase with the continued development of, and if approved, the commercialization of RT001 and RT002 and as we operate as a public company.

Stock-based compensation for sales, general and administrative was \$1.7 million and \$3.0 million for the three and nine months ended September 30, 2014, respectively, and \$0.1 million and \$0.2 million for the three and nine months ended September 30, 2013, respectively.

Other Income (Expense)*Interest Income*

Interest income consists primarily of interest income earned on our cash and cash equivalents balances. We expect interest income to vary each reporting period depending on our average cash and cash equivalents balances during the period and market interest rates. To date, our interest income has not been significant in any individual period.

Interest Expense

Interest expense, includes cash and non-cash components with the non-cash components consisting of (i) interest recognized from the amortization of debt issuance costs, which were capitalized on the Condensed Consolidated Balance Sheets, that are generally derived from cash payments related to the issuance of convertible notes and notes payable, (ii) interest recognized from the amortization of debt discounts, which were capitalized on the Condensed Consolidated Balance Sheets, derived from the issuance of warrants and derivatives issued in conjunction with convertible notes and notes payable, (iii) interest recognized on the 2011 convertible notes, or 2011 Notes, which was not paid but instead converted into shares of convertible preferred stock, (iv) interest recognized on the 2013 convertible notes, or 2013 Notes, which was not paid but instead converted into shares of common stock, (v) interest capitalized for assets constructed for use in operations, (vi) interest related to the extinguishment of debt, which is classified as a gain or loss on debt extinguishments, and (vii) effective interest recognized on the financing obligation. The capitalized amounts related to the debt issuance costs and debt discounts are generally amortized to interest expense over the term of the related debt instruments.

The interest expense by cash and non-cash components is as follows:

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2014	2013	Change	2014	2013 ⁽³⁾	Change
(In thousands, except percentages)						
Interest expense						
Cash interest expense ⁽¹⁾	\$ (276)	\$ (392)	(30)%	\$ (971)	\$ (1,318)	(26)%
Non-cash interest expense						
Non-cash interest expense debt issuance costs	(48)	(47)	2%	(148)	(178)	(17)%
	(76)	(15)	407%	(219)	(2,869)	(92)%

Edgar Filing: Revance Therapeutics, Inc. - Form 10-Q

Non-cash interest expense	warrant and derivative related debt discounts						
Non-cash interest expense	convertible notes			N/A	(1,250)	(9,204)	(86)%
Loss on extinguishment of 2013 Notes				N/A	(8,331)		N/A
Non-cash interest expense	financing obligation	(66)		N/A	(66)		N/A
Non-cash capitalized interest expense ⁽²⁾		238	103	131%	649	103	530%
Total non-cash interest expense		48	41	17%	(9,365)	(12,148)	(23)%
Total interest expense		\$ (228)	\$ (351)	(35)%	\$ (10,336)	\$ (13,466)	(23)%

Table of Contents

- (1) Cash interest expense included interest payments under the Hercules Notes Payable and Essex Notes.
- (2) Interest expense capitalized pursuant to Accounting Standards Codification Topic 835, Interest.
- (3) Presentation revised to disaggregate capitalized interest expense.

Our interest expense for the three months ended September 30, 2014 decreased 35%, compared to the same period in 2013, primarily due to capitalization of interest expense for construction-in-progress and lower weighted average of debt outstanding offset by an increase in interest expense related to effective interest from our financing obligation and an increase in amortization for the debt discount on our Essex Notes.

Our interest expense for the nine months ended September 30, 2014 decreased 23%, compared to the same period in 2013, primarily due to a decrease in non-cash interest expense for convertible notes, warrants, and derivative related debt discounts resulting from conversion of the 2013 Notes into common stock and cash interest due to lower weighted average of debt outstanding offset by a loss on extinguishment of the 2013 Notes and capitalization of interest expense for construction-in-progress.

In February 2014, our IPO triggered an acceleration of interest on the 2013 Notes through the end of the note, which combined with the outstanding principal balance, then converted into 1,637,846 shares of common stock. We recognized a loss on extinguishment of the 2013 Notes and reduced the corresponding debt discounts and unamortized debt issuance costs to zero. During the first quarter of 2014, this increased our interest expense; however, we observed a substantial decrease in interest expense during the second and third quarter of 2014.

Change in Fair Value of Derivative Liabilities Associated with Convertible Notes

Our derivative liabilities associated with 2013 Notes were classified as liabilities on our Condensed Consolidated Balance Sheets and were remeasured to fair value at each balance sheet date with the corresponding gain or loss from the adjustment recorded in the Condensed Consolidated Statements of Operations and Comprehensive Loss. We recorded the derivative liabilities as a debt discount that was being amortized using the effective interest method over the term of the 2013 Notes. The amortization of this debt discount was accelerated upon the completion of our IPO with the corresponding expense recorded in our Condensed Consolidated Statement of Operations and Comprehensive Loss. See Note 7 to our Condensed Consolidated Financial Statements included elsewhere in this Form 10-Q.

Change in Fair Value of Derivative Liabilities Associated with the Medicis Settlement

Our outstanding derivative liabilities associated with the Medicis settlement are classified as liabilities on our Condensed Consolidated Balance Sheets. These liabilities will be reduced as the related payments are made under the settlement agreement and the remaining liabilities will be subsequently remeasured to fair value at each balance sheet date with the corresponding gain or loss from the adjustment recorded in the Condensed Consolidated Statements of Operations and Comprehensive Loss. Upon the completion of our IPO in February 2014, we paid Medicis \$7.1 million in settlement of our remaining obligation under the Proceeds Sharing Arrangement of the October 2012 Medicis settlement. We will continue to record adjustments to the fair value of the Medicis settlement derivative liability until the Product Approval Payment has been paid.

Change in Fair Value of Common Stock Warrant Liability

Common stock warrants issued in connection with the 2013 Notes were classified as liabilities on our Condensed Consolidated Balance Sheets and require remeasurement at each balance sheet date. Upon the completion of our IPO, these common stock warrants liabilities were remeasured to fair value and settled in conjunction with the cashless net

exercise of these warrants. See Note 12 to our Condensed Consolidated Financial Statements included elsewhere in this Form 10-Q.

Change in Fair Value of Convertible Preferred Stock Warrant Liability

Our previously outstanding convertible preferred stock warrants were classified as liabilities on our Consolidated Balance Sheets at fair value as they were contingently redeemable because they could have obligated us to transfer assets to the holders at a future date under certain circumstances, such as a deemed liquidation event. The convertible preferred stock warrants were remeasured to fair value at each balance sheet date with the corresponding gain or loss from the adjustment recorded in the Condensed Consolidated Statements of Operations and Comprehensive Loss. Upon the IPO in February 2014, these preferred stock warrants were remeasured to fair value and converted into common stock warrants with the corresponding liability reclassified to additional paid in capital.

In February 2014, two holders of preferred stock warrants exercised their put options to sell 22,856 warrants at an exercise price equal to the average fair value of our stock price for 5 days preceding the exercise. We recorded a loss on cash settlement of \$1.4 million as a result of this exercise, which was offset by a gain on fair value remeasurement of \$0.1 million through the date of settlement.

Table of Contents

In connection with our IPO in February 2014, the remaining warrants to purchase 173,975 shares of convertible preferred stock were converted into warrants to purchase 173,975 shares of common stock. In May 2014, a holder of warrants to purchase 20,066 shares of common stock net exercised such warrants for 10,613 shares of common stock. See Note 12 to our Condensed Consolidated Financial Statements included elsewhere in this Form 10-Q.

	Three Months Ended			Nine Months Ended		
	September 30, 2014	September 30, 2013	Change	September 30, 2014	September 30, 2013	Change
	(In thousands, except percentages)					
Interest income	\$ 14	\$	N/A	\$ 18	\$ 2	800%
Interest expense	(228)	(351)	(35)%	(10,336)	(13,466)	(23)%
Change in fair value of derivative liabilities associated with convertible notes			N/A	4,032	1,800	124%
Change in fair value of derivative liabilities associated with the Medicis settlement	67	(44)	(252)%	(426)	(265)	61%
Change in fair value of common stock warrant liability			N/A	(2,151)		N/A
Change in fair value of convertible preferred stock warrant liability		(182)	(100)%	(210)	(1,108)	(81)%
Loss on settlement of preferred stock warrant			N/A	(1,356)		N/A
Other income (expense), net	(5)	(38)	(87)%	(73)	(40)	83%
Total other expense	\$ (152)	\$ (615)	(75)%	\$ (10,502)	\$ (13,077)	(20)%

Our total other expense for the three months ended September 30, 2014 decreased by 75%, compared to the same period in 2013, primarily due to a decrease in interest expense, which is described above, a decrease in the fair value of the Medicis derivative liabilities, and conversion of preferred stock warrants into equity based common stock warrants, which are no longer required to be remeasured to fair value at each balance sheet date.

Our total other expense for the nine months ended September 30, 2014 decreased by 20%, compared to the same period in 2013, primarily due to a decrease in interest expense, which is described above, and the change in fair value of convertible preferred stock warrant liability. These decreases were offset by the loss on settlement of preferred stock warrants upon exercise of put option by the warrant holder, change in fair value of common stock warrant liability due to conversion into common stock upon the IPO, change in fair value of the derivative liability associated with the Medicis settlement, and change in fair value of derivative liabilities associated with the 2013 Notes. Between October 2013 and January 2014, in connection with a convertible note financing, we issued convertible promissory notes for an aggregate principal amount of \$23.65 million. The 2013 Notes had conversion and redemption features which were determined to be embedded derivatives requiring bifurcation and separate accounting. The 2013 Notes converted into common stock upon the IPO. The derivative liability required periodic re-measurements to fair value while the derivative was still outstanding and accordingly, we recognized re-measurement gains for the 2013 Notes during the nine months ended September 30, 2014 of \$4.0 million.

During the first nine months of 2013, we incurred interest charges, including amortization of the related debt discount, on our 2011 convertible notes and notes payable. In addition, we accrued and charged to interest expense in an amount equal to 150% of the aggregate amount of the outstanding principal and accrued interest which the holders of these 2011 convertible notes were entitled to receive if the notes would have been paid upon maturity in May 2013. Upon

the conversion of these convertible notes in February 2013, we ceased accruing interest related to the convertible notes.

Income Taxes

There was no provision or benefit from income taxes during the three and nine months ended September 30, 2014 and 2013.

Liquidity and Capital Resources

Sources and Uses of Cash

As of September 30, 2014, cash and cash equivalents totaled \$187.5 million, an increase of \$183.6 million, from December 31, 2013. In January 2014, we drew down on additional \$2.5 million under the short term notes for the Essex Capital Facility and issued promissory notes for \$4.3 million. In connection with our IPO, on February 6, 2014, we sold 6,900,000 shares of common stock at \$16 per share for aggregate net proceeds of \$98.6 million. In connection with our follow-on public offering, on June 19, 2014, we sold 4,600,000 shares of common stock at \$30.50 per share for aggregate net proceeds of \$131.3 million.

Table of Contents

Since our inception, we have incurred losses and negative cash flows from our operations. For the three months ended September 30, 2014, we had a net loss of \$14.0 million. For the nine months ended September 30, 2014, we had a net loss of \$48.7 million, which includes non-cash interest expenses of \$9.4 million related to loss on extinguishment of the 2013 Notes, amortization of debt issuance costs, warrants and derivatives issued in conjunction with our previously outstanding debt instruments, and effective interest for our financing obligation offset by \$0.6 million related to capitalized interest expense. For the nine months ended September 30, 2014, we also used \$46.0 million for our operating activities. As of September 30, 2014, we had a working capital surplus of \$176.2 million and an accumulated deficit of \$244.6 million. We believe that our existing cash and cash equivalents, including net proceeds from our IPO of \$98.6 million, net proceeds from our follow-on public offering of \$131.3 million, and existing Essex Capital credit facility will allow us to fund our current operating plan through at least the next 12 months.

We have no significant source of revenue to sustain our present activities, and we do not expect to generate product revenue until, and unless, the FDA or other regulatory authorities approve RT001 or RT002 and we begin commercializing them.

Working Capital

Working Capital increased by \$218.9 million, from \$(42.7) million in December 31, 2013 to \$176.2 million primarily due to an increase in cash and cash equivalents due to net proceeds from our IPO and follow-on public offering and prepaid expenses and other current assets and a decrease in derivative liabilities for the Medicis settlement, conversion of the convertible notes into common stock, and conversion of the common stock warrant liability into equity classified common stock warrants.

Cash Flows

We derived the following summary of our Condensed Consolidated Statements of Cash Flows for the periods indicated included elsewhere in this Form 10-Q (in thousands):

	Nine Months Ended September 30,	
	2014	2013
Net cash used in operating activities	\$ (45,951)	\$ (33,779)
Net cash used in investing activities	(5,369)	(2,597)
Net cash provided by financing activities	234,892	34,202

Cash Flows from Operating Activities

Our cash used in operating activities is primarily driven by personnel-related expenditures, manufacturing costs, clinical development costs and costs related to our facilities. Our cash flows from operating activities will continue to be affected principally by our working capital requirements and the extent to which we increase spending on personnel and research and development activities as our business grows.

Cash used in operating activities of \$46.0 million for the nine months ended September 30, 2014 resulted in part from our net loss of \$48.7 million, non-cash adjustments for the revaluation of derivative liabilities associated with our convertible notes of \$4.0 million, and capitalized interest of \$0.6 million offset by loss on extinguishment of our 2013 Notes of \$8.3 million, revaluation of common stock warrant liability of \$2.2 million, loss on extinguishment of warrant liability upon exercise of put option by warrant holder of \$1.4 million, amortization of debt discounts of \$1.2 million, revaluation of convertible preferred stock warrant liability of \$0.2 million, stock-based compensation expense

of \$4.6 million, depreciation expense of \$1.6 million, revaluation of derivative liability associated with Medicis settlement of \$0.4 million, and interest upon issuance of new debt of \$0.3 million. The \$12.9 million decrease in our net operating assets and liabilities was primarily due to a decrease for payments to Medicis of \$7.1 million and decreases in prepaid and other current assets, other non-current assets, accounts payable, and deferred revenue by \$7.5 million offset by an increase in accruals and other current liabilities and deferred rent by \$1.7 million.

Cash used in operating activities of \$33.8 million during the nine months ended September 30, 2013 resulted in part from our net loss of \$42.4 million and non-cash adjustments for the revaluation of derivative liabilities associated with our convertible notes of \$1.8 million offset by the accrual of interest on our convertible notes of \$9.2 million, the amortization of the discount and issuance costs on our outstanding debt and capital leases of \$3.0 million, the revaluation of our preferred stock warrants of \$1.1 million and depreciation of our property and equipment of \$1.4 million. The \$4.8 million increase in our net operating assets and liabilities was primarily a result of the reduction in the derivative liabilities associated with the Medicis settlement due to the payment of \$6.9 million during the period and the decrease of accruals and other current liabilities of \$3.2 million primarily offset by increases in accounts payable of \$5.2 million related to the growth in our operations during the year.

Table of Contents

Cash Flows from Investing Activities

Cash used in investing activities of \$5.3 million for the nine months ended September 30, 2014 consisting of \$5.4 million in purchases of property and equipment which were partially offset by a reduction of our restricted cash of \$0.1 million.

Cash used in investing activities of \$2.6 million for the nine months ended September 30, 2013 consisting of \$2.7 million in purchases of property and equipment which were partially offset by a reduction of our restricted cash of \$0.1 million.

Cash Flows from Financing Activities

Cash provided by financing activities of \$234.9 million for the nine months ended September 30, 2014 primarily comprised of net proceeds of \$102.7 million from issuance of common stock in connection with our IPO in February 2014, net proceeds of \$131.8 million from issuance of common stock in connection with our follow-on public offering in June 2014, proceeds of \$6.7 million from issuance of convertible notes and note payable, and proceeds from exercise of stock options and ESPP of \$1.4 million. These increases were partially offset by principal payments on our notes payable of \$6.2 million, principal payments on our financing obligation and capital leases of \$0.1 million, and payments to settle warrants of \$1.4 million.

Cash provided by financing activities of \$34.2 million for the nine months ended September 30, 2013 primarily comprised of net proceeds received from the issuance of our Series E-5 convertible preferred stock in the amount of \$40.7 million which were partially offset by repayments of \$6.5 million on our outstanding debt and capital lease obligations.

Operating and Capital Expenditure Requirements

We have not achieved profitability on a quarterly or annual basis since our inception and we expect to continue to incur net losses for the foreseeable future. We expect our cash expenditures to increase in the near term as we fund our Phase 3 clinical trials of RT001 for the treatment of crow's feet lines, Phase 2 clinical trials of RT001 for the treatment of hyperhidrosis, Phase 2 clinical trials of RT002 for the treatment of frown lines, and trials for other therapeutic indications, our manufacturing, quality and regulatory efforts related to RT001 and RT002. Additionally, as a public company, we will incur significant audit, legal and other expenses that we did not incur as a private company. We believe that our existing capital resources, the net proceeds from our IPO, net proceeds from our follow-on public offering, and existing Essex Capital facility credit facility, will be sufficient to fund our operations for at least the next 12 months. However, we anticipate that we will need to raise substantial additional financing in the future to fund our operations. In order to meet these additional cash requirements, we may seek to sell additional equity or convertible debt securities that may result in dilution to our stockholders. If we raise additional funds through the issuance of convertible debt securities, these securities could have rights senior to those of our common stock and could contain covenants that restrict our operations. There can be no assurance that we will be able to obtain additional equity or debt financing on terms acceptable to us, if at all. Debt financing, if available, would result in increased fixed payment obligations and may involve agreements that include covenants limiting or restricting our ability to take specific actions such as incurring debt, making capital expenditures or declaring dividends. Our failure to obtain sufficient funds on acceptable terms when needed could have a material adverse effect on our business, results of operations, and financial condition.

If adequate funds are not available to us on a timely basis, or at all, we may be required to terminate or delay clinical trials or other development activities for RT001, RT002 and any future product candidates, or delay our establishment

of sales and marketing capabilities or other activities that may be necessary to commercialize our product candidates, if we obtain marketing approval. We may elect to raise additional funds even before we need them if the conditions for raising capital are favorable. Our future capital requirements depend on many factors, including:

the results of our clinical trials for RT001 and RT002;

the timing of, and the costs involved in, obtaining regulatory approvals for RT001, RT002 or any future product candidates;

the number and characteristics of any additional product candidates we develop or acquire;

the scope, progress, results and costs of researching and developing RT001, RT002 or any future product candidates, and conducting preclinical and clinical trials;

the cost of commercialization activities if RT001, RT002 or any future product candidates are approved for sale, including marketing, sales and distribution costs;

the cost of manufacturing RT001, RT002 or any future product candidates and any products we successfully commercialize;

our ability to establish and maintain strategic collaborations, licensing or other arrangements and the terms of and timing such arrangements;

Table of Contents

the degree and rate of market acceptance of any future approved products;

the emergence, availability, perceived advantages, relative cost, relative safety and relative efficacy of alternative and competing treatments;

any product liability or other lawsuits related to our products;

the expenses needed to attract and retain skilled personnel;

the costs associated with being a public company;

the costs involved in preparing, filing, prosecuting, maintaining, defending and enforcing patent claims, including litigation costs and the outcome of such litigation; and

the timing, receipt and amount of sales of, or royalties on, future approved products, if any.

Please see **Risk Factors** for additional risks associated with our substantial capital requirements.

We have not generated revenue from RT001 or RT002 and we do not know when, or if, we will generate such revenue. We do not expect to generate significant revenue unless or until we obtain marketing approval of, and commercialize RT001 or RT002. We expect our continuing operating losses to result in increases in cash used in operations over the next several years.

We have based our estimates of future capital requirements on a number of assumptions that may prove to be wrong, and changing circumstances beyond our control may cause us to consume capital more rapidly than we currently anticipate. For example, our ongoing clinical trials of RT001 and RT002 may encounter technical or other difficulties that could increase our development costs more than we currently expect or the FDA may require us to conduct additional clinical trials prior to approving RT001 or RT002. Because of the numerous risks and uncertainties associated with the development and commercialization of our product candidates, we are unable to estimate the amounts of increased capital outlays and operating expenditures associated with our current and anticipated clinical trials.

Critical Accounting Policies

There have been no material changes in our critical accounting policies during the nine months ended September 30, 2014, as compared to those disclosed in Item 7 in our Annual Report on Form 10-K for the fiscal year ended December 31, 2013, filed with the SEC on March 28, 2014, except as described within Note 2 of our Condensed Consolidated Financial Statements included elsewhere in this Form 10-Q.

Contractual Obligations

Our contractual commitments will have an impact on our future liquidity. The following table summarizes our contractual obligations as of September 30, 2014 which represent material expected or contractually committed future

obligations, with terms in excess of one year. We believe that we will be able to fund these obligations through cash generated funding activities and from our existing cash balances.

Contractual Obligations:	Total	Payments Due by Period			
		Year 1	Years 2 to 3	Years 4 to 5	More than 5 Years
(In thousands)					
Operating lease obligations ⁽¹⁾	\$ 54,846	\$ 5,029	\$ 10,535	\$ 11,249	\$ 28,033
Other long-term liabilities reflected on our balance sheet under GAAP ⁽²⁾	1,092	423	423	246	
Total	\$ 55,938	\$ 5,452	\$ 10,958	\$ 11,495	\$ 28,033

- (1) Operating lease agreements represent our obligations to make payments under non-cancelable lease agreements for our facilities.
- (2) Other long-term liabilities reflected on our balance sheet under GAAP represents our financing obligation to make lease payments under the Loan and Lease Agreement with Essex Capital.

Table of Contents

Off-Balance Sheet Arrangements

As of September 30, 2014, we did not have any off-balance sheet arrangements or any relationships with any entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities that would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes.

ITEM 3. Quantitative and Qualitative Disclosures about Market Risk

We are exposed to market risks in the ordinary course of our business. These risks primarily include risk related to interest rate sensitivities and translation exposures. During the three and nine months ended September 30, 2014, our market risks have not changed materially from those discussed in Item 7A of our Form 10-K for the year ended December 31, 2013.

Interest Rate Sensitivity

Our exposure to market risk for changes in interest rates relates primarily to our cash and cash equivalents. We had cash and cash equivalents of \$187.5 million and \$3.9 million as of September 30, 2014 and December 31, 2013, respectively, and our cash and cash equivalents were held in deposit and money market accounts. Our primary exposure to market risk is interest income sensitivity, which is affected by changes in the general level of the interest rates in the United States. However, because of the short-term nature of the instruments in our portfolio, a sudden change in market interest rates would not be expected to have a material impact on our Condensed Consolidated Financial Statements.

We also have fixed interest rate notes payable which are collateralized by substantially all of our assets, excluding our intellectual property. Because of the fixed interest rate, a hypothetical 100 basis points change in interest rates would have no impact on our borrowing or results of operations.

Foreign Exchange

Our operations are primarily conducted in the United States using the U.S. Dollar. However, we conduct limited operations in foreign countries, primarily for clinical and regulatory services, whereby settlement of our obligations are denominated in the local currency. Translation exposure arises when transactions occur in currencies other than the U.S. Dollar. Transactions denominated in foreign currencies are recorded at the exchange rate prevailing at the date of the transaction with the resulting liabilities being translated into the U.S. Dollar at exchange rates prevailing at the balance sheet date. The resulting gains and losses, which were insignificant for the three and nine months ended September 30, 2014 and 2013, are included in other income (expense) in the Condensed Consolidated Statements of Operations and Comprehensive Loss. We do not use currency forward exchange contracts to offset the related effect on the underlying transactions denominated in a foreign currency.

ITEM 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Management, with the participation of our chief executive officer and our chief financial officer, evaluated the

effectiveness of our disclosure controls and procedures as of September 30, 2014. The term “disclosure controls and procedures,” as defined in Rules 13a-15(e) and 15d-15(e) under 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 SEC’s rules and forms. 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, 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 September 30, 2014, our chief executive officer and chief financial officer concluded that, as of such date, our disclosure controls and procedures were effective at the reasonable assurance level.

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 Rule 13a-15(d) and 15d-15(d) of the Exchange Act that occurred during the quarter ended September 30, 2014 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents

PART II. OTHER INFORMATION

ITEM 1. Legal Proceedings

From time to time, we may be involved in litigation relating to claims arising out of our operations. We are not currently involved in any material legal proceedings. We may, however, be involved in material legal proceedings in the future. Such matters are subject to uncertainty and there can be no assurance that such legal proceedings will not have a material adverse effect on our business, results of operations, financial position or cash flows.

Item 1A. Risk Factors

Investing in our common stock involves a high degree of risk. You should carefully consider the risks described below, as well as all other information included in this Form 10-Q, including our Condensed Consolidated Financial Statements, the notes thereto and the section entitled Management's Discussion and Analysis of Financial Condition and Results of Operations, before you decide to purchase shares of our common stock. If any of the following risks actually occurs, our business, prospects, financial condition and operating results could be materially harmed. As a result, the trading price of our common stock could decline and you could lose all or part of your investment. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also impair our business operations and stock price.

We have marked with an asterisk () those risks described below that reflect substantive changes from, or additions to, the risks described in our Annual Report on Form 10-K for the year ended December 31, 2013.*

Risks Related to Our Business and Strategy

We are substantially dependent on the clinical and commercial success of our product candidates, primarily our lead product candidate RT001, which is in Phase 3 clinical development, and our second product candidate RT002, which is entering Phase 2 clinical development. *

To date, we have invested most of our efforts and financial resources in the research and development of RT001, a topical formulation of botulinum toxin, which is currently our lead product candidate. We are in a Phase 3 clinical development program for RT001 for the treatment of crow's feet lines. In October 2014, we initiated an open-label study designed to confirm successful transfer of the production of our topical RT001 drug product to our manufacturing facility. In November 2014, we announced that while we have made significant progress with RT001, the preliminary results from our ongoing open-label study suggest additional work will be required to optimize the transfer of manufacturing to our commercial facility. We plan to complete the ongoing open-label study, fully analyze the data and manufacture additional RT001 drug product in our commercial facility to support a subsequent study currently expected to commence in early 2015. To date, we have conducted fourteen clinical trials for RT001, with a total of over 1,400 subjects, for the treatment of crow's feet lines. We have also invested in the research and development of an injectable form of botulinum toxin, RT002. Based on the results of our Phase 1/2 study of RT002 for the treatment of moderate to severe frown lines, we plan to initiate a Phase 2 active comparator study in the fourth quarter of 2014 with interim results anticipated in late 2015. Our near-term prospects, including our ability to finance our company and generate revenue, will depend heavily on the successful development, regulatory approval and commercialization of RT001 and, RT002, as well as any future product candidates. The clinical and commercial success of our product candidates will depend on a number of factors, including the following:

timely completion of, or need to conduct additional, clinical trials, including our Phase 3 clinical trials for RT001 and our Phase 2 clinical trials for RT002, which may be significantly slower or cost more than we currently anticipate and will depend substantially upon the number and design of such trials and the accurate and satisfactory performance of third party contractors;

our ability to demonstrate to the satisfaction of the United States Food and Drug Administration, or FDA, the safety and efficacy of RT001, RT002 or any future product candidates through clinical trials;

whether we are required by the FDA or other similar foreign regulatory agencies to conduct additional clinical trials to support the approval of RT001, RT002 or any future product candidates;

the acceptance of parameters for regulatory approval, including our proposed indication, primary endpoint assessment and primary endpoint measurement relating to our lead indications of RT001;

our success in educating physicians and patients about the benefits, administration and use of RT001, RT002 or any future product candidates, if approved;

the prevalence and severity of adverse events experienced with our product candidates or future approved products;

the timely receipt of necessary marketing approvals from the FDA and similar foreign regulatory authorities;

the ability to raise additional capital on acceptable terms and in the time frames necessary to achieve our goals;

Table of Contents

achieving and maintaining compliance with all regulatory requirements applicable to RT001, RT002 or any future product candidates or approved products;

the availability, perceived advantages, relative cost, relative safety and relative efficacy of alternative and competing treatments;

Table of Contents

the effectiveness of our own or our future potential strategic collaborators' marketing, sales and distribution strategy and operations;

our ability to manufacture clinical trial supplies of RT001, RT002 or any future product candidates and to develop, validate and maintain a commercially viable manufacturing process that is compliant with current good manufacturing practices, or cGMP;

our ability to successfully commercialize RT001, RT002 or any future product candidates, if approved for marketing and sale, whether alone or in collaboration with others;

our ability to enforce our intellectual property rights in and to RT001, RT002 or any future product candidates;

our ability to avoid third party patent interference or intellectual property infringement claims;

acceptance of RT001, RT002 or any future product candidates, if approved, as safe and effective by patients and the medical community; and

a continued acceptable safety profile of RT001, RT002 or any future product candidates following approval. If we do not achieve one or more of these factors, many of which are beyond our control, in a timely manner or at all, we could experience significant delays or an inability to successfully commercialize our product candidates. Accordingly, we cannot assure you that we will be able to generate sufficient revenue through the sale of RT001, RT002 or any future product candidate to continue our business.

We may be unable to obtain regulatory approval for RT001, RT002 or future product candidates under applicable regulatory requirements. The denial or delay of any such approval would delay commercialization and have a material adverse effect on our potential to generate revenue, our business and our results of operations. *

To gain approval to market a biologic product such as RT001 and RT002, we must provide the FDA and foreign regulatory authorities with clinical data that adequately demonstrate the safety, purity and potency of the product for the intended indication applied for in a Biologics License Application, or BLA, or other respective regulatory filing. The development of biologic products is a long, expensive and uncertain process, and delay or failure can occur at any stage of any of our clinical trials. A number of companies in the pharmaceutical industry, including biotechnology companies, have suffered significant setbacks in clinical trials, including in Phase 3 development, even after promising results in earlier preclinical studies or clinical trials. These setbacks have been caused by, among other things, findings made while clinical trials were underway and safety or efficacy observations made in clinical trials, including previously unreported adverse events. Success in preclinical testing and early clinical trials does not ensure that later clinical trials will be successful, and the results of clinical trials by other parties may not be indicative of the results in trials we may conduct. In particular, we have conducted two positive Phase 2b controlled clinical trials of RT001, in which RT001 met the primary efficacy and all secondary endpoints. We have also conducted one open label, Phase 2b safety study, which demonstrated that sequential applications of RT001 were safe and well tolerated,

even at an accelerated frequency. However, we have conducted one Phase 3 clinical efficacy trial using a modified diluent formulation, the results of which were inconsistent with our previous Phase 2b clinical trials and which did not show improvement from baseline in either the placebo or RT001 group. In the first quarter of 2014, we initiated an open label Phase 3 safety clinical trial designed to evaluate the long term safety and efficacy of RT001, including doses of botulinum toxin derived from our working cell bank, stored in frozen state and administered using our single-use administration apparatus. In October 2014, we conducted an open-label study designed to confirm successful transfer of the production of our topical RT001 drug product to our manufacturing facility. In November 2014, we announced that while we have made significant progress with RT001, the preliminary results from our ongoing open-label study suggest additional work will be required to optimize the transfer of manufacturing to our commercial facility. We plan to complete the ongoing open-label study, fully analyze the data and manufacture additional RT001 drug product in our commercial facility to support a subsequent study currently expected to commence in early 2015. If any of our clinical trials do not demonstrate the safety and efficacy to our satisfaction, or to the satisfaction of the FDA, the timing and our ability to obtain regulatory approval for RT001 could be materially and adversely affected.

Our lead product candidate, RT001, is currently in Phase 3 clinical development, and our business currently depends substantially on its successful development, regulatory approval and commercialization. We currently have no drug or biologic products approved for sale, and we may never obtain regulatory approval to commercialize RT001. The research, testing, manufacturing, labeling, approval, sale, marketing and distribution of drug and biologic products are subject to extensive regulation by the FDA and other regulatory authorities in the United States and other countries, and such regulations differ from country to country. We are not permitted to market RT001 in the United States until we receive approval of a BLA from the FDA. We are also not permitted to market RT001 in any foreign countries until we receive the requisite approval from the regulatory authorities of such countries.

The FDA or any foreign regulatory bodies can delay, limit or deny approval of our product candidates, including RT001, for many reasons, including:

our inability to demonstrate to the satisfaction of the FDA or the applicable foreign regulatory body that RT001, RT002 or any future product candidates are safe and effective for the requested indication;

the FDA's or the applicable foreign regulatory agency's disagreement with our trial protocol or the interpretation of data from preclinical studies or clinical trials;

Table of Contents

our inability to demonstrate that clinical and other benefits of RT001, RT002 or any future product candidates outweigh any safety or other perceived risks;

the FDA's or the applicable foreign regulatory agency's requirement for additional preclinical or clinical studies;

the FDA's or the applicable foreign regulatory agency's non-approval of the formulation, labeling or the specifications of RT001, RT002 or any future product candidates;

the FDA's or the applicable foreign regulatory agency's failure to approve our manufacturing processes or facilities, or the manufacturing processes or facilities of third party manufacturers with which we contract; or

the potential for approval policies or regulations of the FDA or the applicable foreign regulatory agencies to significantly change in a manner rendering our clinical data insufficient for approval.

Of the large number of drugs, including biologics, in development, only a small percentage successfully complete the FDA or other regulatory approval processes and are commercialized. We are not conducting our U.S. Phase 3 clinical trials for RT001 under a Special Protocol Assessment, or SPA. In the absence of an agreed SPA, there can be no assurance that the FDA will agree with our Phase 3 clinical trial protocol.

Further, after our Phase 2 clinical trials, we used the FDA's Formal Dispute Resolution process to obtain confirmation from the FDA that our proposed indication, primary endpoint assessment and primary endpoint measurement were acceptable for continued clinical trials. At the end of this process, the FDA indicated that the final indication would depend on the patient populations studied, the data collected, and the interpretation of the data during the BLA review process. The FDA also indicated its expectation for demonstration of botulinum toxin effect mechanism of action of RT001 to be assessed at maximum contraction, or at smile, to inform its analysis of the risk benefit of RT001. Our clinical development program for RT001 measures effect at smile as an additional assessment endpoint to demonstrate that the mechanism of action is efficacy at maximum contraction botulinum toxin effect on relaxation of muscle. However, age-related crow's feet lines of the upper face are the lines visible at rest and the primary endpoint of our clinical development program measures the efficacy of RT001 by a 2-point composite of physician and patient scales at rest.

In August 2014, the FDA issued a Draft Guidance prepared by the Division of Dermatology and Dental Products of the FDA entitled Upper Facial Lines: Developing Botulinum Toxin Drug Products. The Draft Guidance, among other things, recommends assessing the primary endpoint measurement for efficacy at maximum contraction, recommends defining treatment success as a score of 0 or 1 and at least a two grade reduction on both investigator and subject assessments, and recommends that review of photographs at maximum contraction by a masked independent committee be a required secondary efficacy measurement. We responded to the FDA's request for public comment on the non-binding Draft Guidance on October 30, 2014 and our response was filed as an exhibit to our Current Report on Form 8-K filed with the SEC on November 4, 2014. We do not know when the guidance will be finalized, if at all, or the recommendations that will be contained therein. Even if final guidance is issued by the FDA, industry may pursue approval using an alternative approach if the approach satisfies the requirements of the applicable statutes and regulations. After consultation with our regulatory consultants, and based in part on the outcome of our Formal Dispute Resolution and related written confirmation from the FDA that we could proceed with Phase 3 development, we plan to complete our RT001 clinical trials using our current primary endpoint assessment by a 2-point composite

of investigator and patient assessments at rest supplemented by our additional assessment at smile to demonstrate the mechanism of action is a botulinum toxin effect.

While the FDA provided written confirmation that our proposed indication, primary endpoint assessment and primary endpoint measurement were acceptable for Phase 3 clinical trials, the FDA has not confirmed that our proposed indication, primary endpoint assessment and primary endpoint measurement are acceptable for regulatory approval. Further, while we did obtain written confirmation with respect to these aspects of our Phase 3 clinical trial designs, there is no assurance that the FDA will approve our BLA for RT001, will agree that the benefits of RT001 outweigh its risks or will not raise new concerns regarding our clinical trial designs.

Even if we eventually complete clinical testing and receive approval of any regulatory filing for RT001, RT002 or any future product candidates, the FDA or the applicable foreign regulatory agency may grant approval contingent on the performance of costly additional post-approval clinical trials. The FDA or the applicable foreign regulatory agency also may approve RT001, RT002 or any future product candidates for a more limited indication or a narrower patient population than we originally requested, and the FDA or applicable foreign regulatory agency may not approve the labeling that we believe is necessary or desirable for the successful commercialization of our product candidates. Any delay in obtaining, or inability to obtain, applicable regulatory approval for any of our product candidates and RT001, in particular, would delay or prevent commercialization of RT001 and would materially adversely impact our business, results of operations and prospects.

We will require substantial additional financing to achieve our goals, and a failure to obtain this necessary capital when needed on acceptable terms, or at all, could force us to delay, limit, reduce or terminate our product development, other operations or commercialization efforts.*

Since our inception, most of our resources have been dedicated to the preclinical and clinical development of our lead product candidate, RT001. In particular, our U.S. clinical programs for RT001 and RT002 will require substantial funds to complete. We have

Table of Contents

recorded net losses of \$14.0 million and \$48.7 million, and \$8.9 million and \$42.4 million for the three and nine months ended September 30, 2014 and 2013, respectively. We had an accumulated deficit through September 30, 2014 of \$244.6 million and had a working capital surplus of \$176.2 million as of September 30, 2014, primarily as a result of our initial public offering and our follow-on public offering. We have funded our operations primarily through the sale and issuance of convertible preferred stock, notes payable and convertible notes. As of September 30, 2014, we had capital resources consisting of cash and cash equivalents of \$187.5 million. On February 6, 2014, we sold 6,900,000 shares of common stock at \$16 per share for aggregate net proceeds of \$98.6 million in our initial public offering, or IPO, after underwriting discounts, commissions, and other offering expenses. On September 19, 2014, we sold 4,600,000 shares of common stock at \$30.50 per share for aggregate net proceeds of \$131.3 million in our follow-on public offering, after underwriting discounts, commissions, and other offering expenses. We believe that we will continue to expend substantial resources for the foreseeable future for the clinical development of RT001, RT002 and development of any other indications and product candidates we may choose to pursue. These expenditures will include costs associated with research and development, conducting preclinical studies and clinical trials, and manufacturing and supply as well as marketing and selling any products approved for sale. In addition, other unanticipated costs may arise. Because the outcome of any clinical trial is highly uncertain, we cannot reasonably estimate the actual amounts necessary to successfully complete the development and commercialization of RT001, RT002 and any future product candidates.

We believe that our existing cash and cash equivalents, including the net proceeds from our IPO and follow-on public offering, together with our existing credit facility will allow us to fund our operating plan through at least the next 12 months. However, our operating plan may change as a result of many factors currently unknown to us, and we may need to seek additional capital sooner than planned, through public or private equity or debt financings or other sources, such as strategic collaborations. Such financings may result in dilution to stockholders, imposition of debt covenants and repayment obligations or other restrictions that may affect our business. In addition, we may seek additional capital due to favorable market conditions or strategic considerations even if we believe we have sufficient funds for our current or future operating plans.

Our future capital requirements depend on many factors, including:

the results of our clinical trials for RT001 and RT002;

the timing of, and the costs involved in, obtaining regulatory approvals for RT001, RT002 or any future product candidates;

the number and characteristics of any additional product candidates we develop or acquire;

the scope, progress, results and costs of researching and developing RT001, RT002 or any future product candidates, and conducting preclinical and clinical trials;

the cost of commercialization activities if RT001, RT002 or any future product candidates are approved for sale, including marketing, sales and distribution costs;

Edgar Filing: Revance Therapeutics, Inc. - Form 10-Q

the cost of manufacturing RT001, RT002 or any future product candidates and any products we successfully commercialize and maintaining our related facilities;

our ability to establish and maintain strategic collaborations, licensing or other arrangements and the terms of and timing such arrangements;

the degree and rate of market acceptance of any future approved products;

the emergence, approval, availability, perceived advantages, relative cost, relative safety and relative efficacy of alternative and competing products or treatments;

any product liability or other lawsuits related to our products;

the expenses needed to attract and retain skilled personnel;

the costs associated with being a public company;

the costs involved in preparing, filing, prosecuting, maintaining, defending and enforcing patent claims, including litigation costs and the outcome of such litigation; and

the timing, receipt and amount of sales of, or royalties on, future approved products, if any.

Additional capital may not be available when needed, on terms that are acceptable to us or at all. If adequate funds are not available to us on a timely basis, we may be required to:

delay, limit, reduce or terminate preclinical studies, clinical trials or other development activities for RT001, RT002 or any future product candidate;

delay, limit, reduce or terminate our research and development activities; or

Table of Contents

delay, limit, reduce or terminate our establishment of manufacturing, sales and marketing or distribution capabilities or other activities that may be necessary to commercialize RT001, RT002 or any future product candidates.

If we raise additional capital through marketing and distribution arrangements or other collaborations, strategic alliances or licensing arrangements with third parties, we may have to relinquish certain valuable rights to our product candidates, technologies, future revenue streams or research programs or grant licenses on terms that may not be favorable to us. If we raise additional capital through public or private equity offerings, the ownership interest of our existing stockholders will be diluted and the terms of any new equity securities may have a preference over our common stock. If we raise additional capital through debt financing, we may be subject to covenants limiting or restricting our ability to take specific actions, such as incurring additional debt or making capital expenditures or specified financial ratios, any of which could restrict our ability to commercialize our product candidates or operate as a business.

Even if our product candidates receive regulatory approval, they may fail to achieve the broad degree of physician adoption and use necessary for commercial success.

The commercial success of RT001, RT002 and any future product candidates, if approved, will depend significantly on the broad adoption and use of the resulting product by physicians for approved indications, including, in the case of RT001, the treatment of lateral canthal lines, or crow's feet lines, hyperhidrosis and other aesthetic and therapeutic indications that we may seek to pursue. The degree and rate of physician adoption of RT001, RT002 and any future product candidates, if approved, will depend on a number of factors, including:

the effectiveness of our product as compared to existing therapies;

physician willingness to adopt a new therapy to treat crow's feet lines, hyperhidrosis or other indications;

overcoming any biases physicians or patients may have toward injectable procedures for the treatment of crow's feet lines, hyperhidrosis or other indications;

patient satisfaction with the results and administration of our product and overall treatment experience;

patient demand for the treatment of crow's feet lines, hyperhidrosis or other indications; and

the revenue and profitability that our product will offer a physician as compared to alternative therapies. If RT001, RT002 or any future product candidates are approved for use but fail to achieve the broad degree of physician adoption necessary for commercial success, our operating results and financial condition will be adversely affected.

Our product candidates, if approved, will face significant competition and our failure to effectively compete may prevent us from achieving significant market penetration and expansion. *

We expect to enter highly competitive pharmaceutical and medical device markets. Successful competitors in the pharmaceutical and medical device markets have the ability to effectively discover, obtain patents, develop, test and obtain regulatory approvals for products, as well as the ability to effectively commercialize, market and promote approved products, including communicating the effectiveness, safety and value of products to actual and prospective customers and medical staff. Numerous companies are engaged in the development, patenting, manufacture and marketing of health care products competitive with those that we are developing. Many of these potential competitors are large, experienced companies that enjoy significant competitive advantages, such as substantially greater financial, research and development, manufacturing, personnel and marketing resources, greater brand recognition and more experience and expertise in obtaining marketing approvals from the FDA and other regulatory authorities.

Upon marketing approval, the first expected use of our products will be in aesthetic medicine. The aesthetic product market, and the facial aesthetic market in particular, is highly competitive and dynamic, and is characterized by rapid and substantial technological development and product innovations. This market is also characterized by competitors obtaining patents to protect what they consider to be their intellectual property. We are seeking regulatory approval of RT001 for the treatment of crow's feet lines and RT002 for the treatment of frown lines.

We anticipate that RT001, if approved, will face significant competition from other facial aesthetic products, including injectable botulinum toxins and dermal fillers. If approved, RT001 may also compete with unapproved and off-label treatments. We anticipate that RT002, if approved, will also face significant competition from existing injectable botulinum toxins and dermal fillers, as well as unapproved and off-label treatments. Further, if approved, in the future we may face competition for both RT001 and RT002 from biosimilar products. To compete successfully in the aesthetic market, we will have to demonstrate that the reduction of crow's feet lines with RT001 or the treatment of frown lines with RT002 is a worthwhile aesthetic treatment and is a superior alternative to existing therapies. Competing in the aesthetic market could result in price-cutting, reduced profit margins and limited market share, any of which would harm our business, financial condition and results of operations.

Table of Contents

Due to less stringent regulatory requirements, there are many more aesthetic products and procedures available for use in international markets than are approved for use in the United States. There are also fewer limitations on the claims that our competitors in international markets can make about the effectiveness of their products and the manner in which they can market them. As a result, we face more competition in these markets than in the United States.

We currently make our RT001 clinical drug product exclusively in one manufacturing facility and our RT002 clinical drug product in the same and one other external facility. We plan to utilize certain of these facilities in the future to support commercial production if our product candidates are approved. If these or any future facility or our equipment were damaged or destroyed, or if we experience a significant disruption in our operations for any reason, our ability to continue to operate our business would be materially harmed. *

We currently manufacture our own clinical drug product to support RT001 exclusively in a single manufacturing and laboratory facility and plan to utilize this facility in the future to support commercial production if our product candidate is approved. The drug product to support RT002 clinical trials is manufactured in the same facility, as well as in an external manufacturing facility. We expect that additional manufacturing capacity would need to be established in the future to support commercial production of RT002 if this product candidate is approved. If these or any future facility were to be damaged, destroyed or otherwise unable to operate, whether due to earthquakes, fire, floods, hurricanes, storms, tornadoes, other natural disasters, employee malfeasance, terrorist acts, power outages or otherwise, or if performance of our manufacturing facility is disrupted for any other reason, such an event could delay our clinical trials or, if our product candidates are approved, jeopardize our ability to manufacture our products as promptly as our customers expect or possibly at all. If we experience delays in achieving our development objectives or if we are unable to manufacture an approved product within a timeframe that meets our customers' expectations, our business, prospects, financial results and reputation could be materially harmed.

Currently, we maintain insurance coverage totaling \$27.7 million against damage to our property and equipment, \$2.0 million in general liability coverage, a \$9.0 million umbrella policy, and an additional \$30.0 million to cover business interruption and research and development restoration expenses, subject to deductibles and other limitations. If we have underestimated our insurance needs with respect to an interruption, or if an interruption is not subject to coverage under our insurance policies, we may not be able to cover our losses.

Impairment in the carrying value of long-lived assets could negatively affect our operating results. *

We have invested a significant amount of capital to build a larger capacity fill/finish line dedicated to the manufacture of our topical non-aseptic dose form, to support our regulatory license applications and future commercial production of RT001. Under generally accepted accounting principles, long-lived assets, such as our fill/finish line, are required to be reviewed for impairment whenever adverse events or changes in circumstances indicate a possible impairment. If business conditions or other factors indicate that the carrying value of the asset may not be recoverable, we may be required to record non-cash impairment charges. Additionally, if the carrying value of our capital equipment exceeds current fair value as determined based on the discounted future cash flows of the related product, the capital equipment would be considered impaired and would be reduced to fair value by a non-cash charge to earnings, which could negatively affect our operating results. Events and conditions that could result in impairment in the value of our long-lived assets include adverse clinical trial results, unfavorable changes in competitive landscape, adverse changes in the regulatory environment, or other factors leading to reduction in expected long-term sales or profitability.

We have a limited operating history and have incurred significant losses since our inception and we anticipate that we will continue to incur losses for the foreseeable future. We have only two product candidates in clinical trials and no commercial sales, which, together with our limited operating history, make it difficult to assess our future viability.*

We are a clinical stage specialty biopharmaceutical company with a limited operating history. Biopharmaceutical product development is a highly speculative undertaking and involves a substantial degree of risk. We are not profitable and have incurred losses in each year since we commenced operations in 2002. We have only a limited operating history upon which you can evaluate our business and prospects. In addition, we have limited experience and have not yet demonstrated an ability to successfully overcome many of the risks and uncertainties frequently encountered by companies in new and rapidly evolving fields, particularly in the biopharmaceutical industry. To date, we have not obtained any regulatory approvals for any of our product candidates or generated any revenue from product sales relating to RT001 or RT002. We continue to incur significant research and development and other expenses related to our ongoing clinical trials and operations. We have recorded net losses of \$14.0 million and \$48.7 million, and \$8.9 million and \$42.4 million for the three and nine months ended September 30, 2014 and 2013, respectively. We had an accumulated deficit through September 30, 2014 of \$244.6 million and had a working capital surplus of \$176.2 million as of September 30, 2014, primarily as a result of our initial public offering and our follow-on public offering. In February 2014, we closed our IPO. The net proceeds from the sale of the shares in our IPO and our follow-on public offering, after deducting the underwriters' discount, commissions, and other offering expenses related to the IPO and follow-on public offering were approximately \$98.6 million and \$131.3 million, respectively. Our capital requirements to implement our business strategy are substantial, including our capital requirements to develop and commercialize RT001 and RT002. We believe that our currently available capital is sufficient to fund our

Table of Contents

operations through at least the next 12 months. Given our desired clinical development plans for the next 12 months, our financial statements do not reflect an uncertainty about our ability to continue as a going concern. Accordingly, the financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts and classification of liabilities should we be unable to continue as a going concern. We expect to continue to incur losses for the foreseeable future, and we anticipate these losses will increase as we continue our development of, and seek regulatory approvals for, RT001 and RT002, and begin to commercialize RT001. Our ability to achieve revenue and profitability is dependent on our ability to complete the development of our product candidates, obtain necessary regulatory approvals and manufacture, market and commercialize our products successfully. Even if we achieve profitability in the future, we may not be able to sustain profitability in subsequent periods. Our prior losses, combined with expected future losses, may adversely affect the market price of our common stock and our ability to raise capital and continue operations.

Even if RT001, RT002 or any future product candidates obtain regulatory approval, they may never achieve market acceptance or commercial success.

Even if we obtain FDA or other regulatory approvals, RT001, RT002 or any future product candidates may not achieve market acceptance among physicians and patients, and may not be commercially successful.

The degree and rate of market acceptance of RT001, RT002 or any future product candidates for which we receive approval depends on a number of factors, including:

the safety and efficacy of the product as demonstrated in clinical trials;

the clinical indications for which the product is approved;

acceptance by physicians, major operators of clinics and patients of the product as a safe and effective treatment;

proper training and administration of our products by physicians and medical staff;

the potential and perceived advantages of our products over alternative treatments;

the cost of treatment in relation to alternative treatments and willingness to pay for our products, if approved, on the part of physicians and patients;

the willingness of patients to pay for RT001, RT002 and other aesthetic treatments in general, relative to other discretionary items, especially during economically challenging times;

relative convenience and ease of administration;

the prevalence and severity of adverse events; and

the effectiveness of our sales and marketing efforts.

Any failure by our product candidates that obtain regulatory approval to achieve market acceptance or commercial success would materially adversely affect our results of operations and delay, prevent or limit our ability to generate revenue and continue our business.

Clinical drug development involves a lengthy and expensive process with an uncertain outcome, and results of earlier studies and trials may not be predictive of future trial results.

Clinical testing is expensive and can take many years to complete, and its outcome is inherently uncertain. Furthermore, we rely on contract research organizations, or CROs, and clinical trial sites to ensure the proper and timely conduct of our clinical trials. While we have agreements governing the committed activities of our CROs, we have limited influence over their actual performance. A failure of one or more of our clinical trials can occur at any time during the clinical trial process. The results of preclinical studies and clinical trials of our product candidates may not be predictive of the results of later-stage clinical trials. For example, the positive results generated to date in clinical trials for RT001 do not ensure that later clinical trials, including our Phase 3 clinical trials for the treatment of crow's feet lines, will demonstrate similar results. Product candidates in later stages of clinical trials may fail to show the desired safety controlled and efficacy despite having progressed through preclinical studies and initial clinical trials. In particular, we have conducted two positive Phase 2b clinical trials of RT001, in which RT001 met the primary efficacy and all secondary endpoints. We have also conducted one open label, Phase 2b safety study, which demonstrated that sequential applications of RT001 were safe and well tolerated, even at an accelerated frequency. However, we have conducted one Phase 3 clinical efficacy trial using a modified diluent formulation, the results of which were inconsistent with our previous Phase 2b clinical trials and which did not show improvement from baseline in either the placebo or RT001 group. A number of companies in the biopharmaceutical industry have suffered significant setbacks in advanced clinical trials due to lack of efficacy or adverse safety profiles, notwithstanding promising results in earlier clinical trials, and we cannot be certain that we will not face similar setbacks. Even if our clinical trials are completed, the results may not be sufficient to obtain regulatory approval for our product candidates.

We have in the past and may in the future experience delays in our ongoing clinical trials, and we do not know whether future clinical trials, if any, will begin on time, need to be redesigned, enroll an adequate number of patients on time or be completed on schedule, if at all. Clinical trials can be delayed or aborted for a variety of reasons, including delay or failure to:

Table of Contents

obtain regulatory approval to commence a trial;

reach agreement on acceptable terms with prospective CROs and clinical trial sites, the terms of which can be subject to extensive negotiation and may vary significantly among different CROs and trial sites;

obtain institutional review board, or IRB, approval at each site;

recruit suitable patients to participate in a trial;

have patients complete a trial or return for post-treatment follow-up;

ensure clinical sites observe trial protocol or continue to participate in a trial;

address any patient safety concerns that arise during the course of a trial;

address any conflicts with new or existing laws or regulations;

add a sufficient number of clinical trial sites; or

manufacture sufficient quantities of product candidate for use in clinical trials.

Patient enrollment is a significant factor in the timing of clinical trials and is affected by many factors, including the size and nature of the patient population, the proximity of patients to clinical sites, the eligibility criteria for the trial, the design of the clinical trial, competing clinical trials and clinicians' and patients' perceptions as to the potential advantages of the drug being studied in relation to other available therapies, including any new drugs or treatments that may be approved for the indications we are investigating.

We could also encounter delays if a clinical trial is suspended or terminated by us, by the IRBs of the institutions in which such trials are being conducted, by the data safety monitoring board, for such trial or by the FDA or other regulatory authorities. Such authorities may suspend or terminate a clinical trial due to a number of factors, including failure to conduct the clinical trial in accordance with regulatory requirements or our clinical protocols, inspection of the clinical trial operations or trial site by the FDA or other regulatory authorities resulting in the imposition of a clinical hold, unforeseen safety issues or adverse side effects, failure to demonstrate a benefit from using a drug, changes in governmental regulations or administrative actions or lack of adequate funding to continue the clinical trial.

If we experience delays in the completion of, or termination of, any clinical trial of our product candidates, the commercial prospects of our product candidates may be harmed, and our ability to generate product revenues from any of these product candidates will be delayed. In addition, any delays in completing our clinical trials will increase our costs, slow down our product candidate development and approval process and jeopardize our ability to

commence product sales and generate revenues. Any of these occurrences may significantly harm our business, financial condition and prospects. In addition, many of the factors that cause, or lead to, a delay in the commencement or completion of clinical trials may also ultimately lead to the denial of regulatory approval of our product candidates.

We have no experience manufacturing our product candidates at full commercial scale. If our product candidates are approved, we will face certain risks associated with scaling up our manufacturing capabilities to support commercial production. *

We have developed an integrated manufacturing, research and development facility located at our corporate headquarters. We manufacture drug substance and finished dose forms of drug product at this facility that we use for research and development purposes and for clinical trials of our product candidates. We do not have experience in manufacturing our product candidates at commercial scale. To meet our strategic objectives, which contemplate internally manufacturing a significant portion of our drug substance and finished dose form at full commercial scale, if our product candidates are approved, we may need to expand our manufacturing facilities, add manufacturing personnel and ensure that validated processes are consistently implemented in our facilities. For example, we are building a larger capacity fill-finish line dedicated to our topical non-aseptic dose form to support our regulatory license applications and future commercial demand for RT001, if approved. In addition, we expect to further scale up our RT002 drug product manufacture according to established demand. The upgrade and expansion of our facilities will require additional regulatory approvals. In addition, it will be costly and time-consuming to expand our facilities and recruit necessary additional personnel. If we are unable to expand our manufacturing facilities in compliance with regulatory requirements or to hire additional necessary manufacturing personnel, we may encounter delays or additional costs in achieving our research, development and commercialization objectives, including in obtaining regulatory approvals of our product candidates, which could materially damage our business and financial position.

Table of Contents

We currently contract with third party manufacturers for certain components necessary to produce RT001 for clinical trials and expect to continue to do so to support commercial scale production if RT001 is approved. This increases the risk that we will not have sufficient quantities of RT001 or such quantities at an acceptable cost, which could delay, prevent or impair our development or commercialization efforts.

We currently rely on third party manufacturers for certain components necessary to produce RT001 for our clinical trials, including the bulk peptide, diluent and the delivery apparatus and expect to continue to rely on these or other manufacturers to support our commercial requirements if RT001 is approved. Some of our contracts with our manufacturers contain minimum order and pricing provisions and provide for early termination based on regulatory approval milestones.

Reliance on third party manufacturers entails additional risks, including reliance on the third party for regulatory compliance and quality assurance, the possible breach of the manufacturing agreement by the third party, and the possible termination or nonrenewal of the agreement by the third party at a time that is costly or inconvenient for us. In addition, third party manufacturers may not be able to comply with cGMP or Quality System Regulation, or QSR, or similar regulatory requirements outside the United States. Our failure, or the failure of our third party manufacturers, to comply with applicable regulations could result in sanctions being imposed on us, including fines, injunctions, civil penalties, delays, suspension or withdrawal of approvals, license revocation, seizures or recalls of products, operating restrictions and criminal prosecutions, any of which could significantly and adversely affect supplies of RT001 or any other product candidates or products that we may develop. Any failure or refusal to supply the components for RT001 or any other product candidates or products that we may develop could delay, prevent or impair our clinical development or commercialization efforts.

We depend on single-source suppliers for the raw materials necessary to produce our product candidates. The loss of these suppliers, or their failure to supply us with these raw materials, would materially and adversely affect our business.

We and our manufacturers purchase the materials necessary to produce RT001 and RT002 for our clinical trials from single-source third party suppliers. There are a limited number of suppliers for the raw materials that we use to manufacture our product candidates and we may need to assess alternate suppliers to prevent a possible disruption of the manufacture of the materials necessary to produce our product candidates for our clinical trials, and if approved, ultimately for commercial sale. In particular, we outsource the manufacture of bulk peptide through American Peptide Company, Inc., the diluent through Hospira Worldwide, Inc. and our delivery apparatus through Duoject Medical Systems, Inc. We do not have any control over the process or timing of the acquisition of raw materials by our manufacturers. Although we generally do not begin a clinical trial unless we believe we have a sufficient supply of a product candidate to complete the clinical trial, any significant delay in the supply of RT001, RT002 or any future product candidates, or the raw material components thereof, for an ongoing clinical trial due to the need to replace a third party supplier could considerably delay completion of our clinical trials, product testing and potential regulatory approval of RT001, RT002 or any future product candidates. If we or our manufacturers are unable to purchase these raw materials on acceptable terms, at sufficient quality levels, or in adequate quantities, if at all, the development of RT001, RT002 and any future product candidates, or the commercial launch of any approved products, would be delayed or there would be a shortage in supply, which would impair our ability to meet our development objectives for our product candidates or generate revenues from the sale of any approved products.

Furthermore, if there is a disruption to our or our third party suppliers' relevant operations, we will have no other means of producing RT001, RT002 or any future product candidates until they restore the affected facilities or we or they procure alternative facilities. Additionally, any damage to or destruction of our or our third party or suppliers' facilities or equipment may significantly impair our ability to manufacture our product candidates on a timely basis.

We or the third parties upon whom we depend may be adversely affected by earthquakes or other natural disasters and our business continuity and disaster recovery plans may not adequately protect us from a serious disaster.

Our corporate headquarters and other facilities, including our sole manufacturing facility, are located in the San Francisco Bay Area, which in the past has experienced severe earthquakes. We do not carry earthquake insurance. Earthquakes or other natural disasters could severely disrupt our operations, and have a material adverse effect on our business, results of operations, financial condition and prospects.

If a natural disaster, power outage or other event occurred that prevented us from using all or a significant portion of our headquarters, that damaged critical infrastructure, such as our manufacturing facility, enterprise financial systems or manufacturing resource planning and enterprise quality systems, or that otherwise disrupted operations, it may be difficult or, in certain cases, impossible for us to continue our business for a substantial period of time. In particular, because we manufacture botulinum toxin in our facilities, we would be required to obtain further clearance and approval by state, federal or other applicable authorities to continue or resume manufacturing activities. The disaster recovery and business continuity plans we have in place currently are limited and may not be adequate in the event of a serious disaster or similar event. We may incur substantial expenses as a result of the limited nature of our disaster recovery and business continuity plans, which, particularly when taken together with our lack of earthquake insurance, could have a material adverse effect on our business.

Table of Contents

Furthermore, integral parties in our supply chain are geographically concentrated and operating from single sites, increasing their vulnerability to natural disasters or other sudden, unforeseen and severe adverse events. If such an event were to affect our supply chain, it could have a material adverse effect on our business.

We rely on third parties and consultants to conduct all our preclinical studies and clinical trials. If these third parties or consultants do not successfully carry out their contractual duties or meet expected deadlines, we may be unable to obtain regulatory approval for or commercialize RT001, RT002 or any future product candidates. *

We do not have the ability to independently conduct preclinical studies or clinical trials. We rely on medical institutions, clinical investigators, contract laboratories, collaborative partners and other third parties, such as CROs, to conduct clinical trials on our product candidates. The third parties with whom we contract for execution of our clinical trials play a significant role in the conduct of these trials and the subsequent collection and analysis of data. However, these third parties are not our employees, and except for contractual duties and obligations, we have limited ability to control the amount or timing of resources that they devote to our programs. Although we rely on these third parties to conduct our preclinical studies and clinical trials, we remain responsible for ensuring that each of our preclinical studies and clinical trials is conducted in accordance with its investigational plan and protocol. Moreover, the FDA and foreign regulatory authorities require us to comply with regulations and standards, commonly referred to as good clinical practice, or cGCP, for conducting, monitoring, recording and reporting the results of clinical trials to ensure that the data and results are scientifically credible and accurate, and that the trial subjects are adequately informed of the potential risks of participating in clinical trials. We also rely on consultants to assist in the execution, including data collection and analysis, of our clinical trials.

In addition, the execution of preclinical studies and clinical trials, and the subsequent compilation and analysis of the data produced, requires coordination among various parties. In order for these functions to be carried out effectively and efficiently, it is imperative that these parties communicate and coordinate with one another. Moreover, these third parties may also have relationships with other commercial entities, some of which may compete with us. These third parties may terminate their agreements with us upon as little as 30 days' prior written notice of a material breach by us that is not cured within 30 days. Many of these agreements may also be terminated by such third parties under certain other circumstances, including our insolvency or our failure to comply with applicable laws. In general, these agreements require such third parties to reasonably cooperate with us at our expense for an orderly winding down of services of such third parties under the agreements. If the third parties or consultants conducting our clinical trials do not perform their contractual duties or obligations, experience work stoppages, do not meet expected deadlines, terminate their agreements with us or need to be replaced, or if the quality or accuracy of the clinical data they obtain is compromised due to the failure to adhere to our clinical trial protocols or GCP, or for any other reason, we may need to conduct additional clinical trials or enter into new arrangements with alternative third parties, which could be difficult, costly or impossible, and our clinical trials may be extended, delayed or terminated or may need to be repeated. If any of the foregoing were to occur, we may not be able to obtain, or may be delayed in obtaining, regulatory approval for and will not be able to, or may be delayed in our efforts to, successfully commercialize the product candidate being tested in such trials.

Our ability to market RT001, if approved, will be limited to use for the treatment of crow's feet lines, and if we want to expand the indications for which we may market RT001 or seek regulatory approval for RT002, we will need to obtain additional regulatory approvals, which may not be granted. *

We are currently seeking regulatory approval for RT001 in the United States and Europe for the treatment of crow's feet lines. If RT001 is approved, the applicable regulatory agency will restrict our ability to market or advertise RT001 for other indications, which could limit physician and patient adoption. We may attempt to develop, promote and

commercialize new treatment indications and protocols for RT001, as well as seek regulatory approval for RT002, in the future, but we cannot predict when or if we will receive the clearances required to do so. In addition, we would be required to conduct additional clinical trials or studies to support approvals for additional indications, which would be time consuming and expensive, and may produce results that do not support regulatory approvals. If we do not obtain additional regulatory approvals, our ability to expand our business will be limited.

If RT001 and/or RT002 is approved for marketing, and we are found to have improperly promoted off-label uses, or if physicians misuse our products or use our products off-label, we may become subject to prohibitions on the sale or marketing of our products, significant fines, penalties, and sanctions, product liability claims, and our image and reputation within the industry and marketplace could be harmed.

The FDA and other regulatory agencies strictly regulate the marketing and promotional claims that are made about drug products, such as RT001 and RT002, if approved. In particular, a product may not be promoted for uses or indications that are not approved by the FDA or such other regulatory agencies as reflected in the product's approved labeling. For example, if we receive marketing approval for RT001 for the treatment of crow's feet lines, the first indication we are pursuing, we cannot prevent physicians from using our RT001 products on their patients in a manner that is inconsistent with the approved label, potentially including for the treatment of other aesthetic or therapeutic indications. If we are found to have promoted such off-label uses, we may receive warning

Table of Contents

letters and become subject to significant liability, which would materially harm our business. The federal government has levied large civil and criminal fines against companies for alleged improper promotion and has enjoined several companies from engaging in off-label promotion. If we become the target of such an investigation or prosecution based on our marketing and promotional practices, we could face similar sanctions, which would materially harm our business. In addition, management's attention could be diverted from our business operations, significant legal expenses could be incurred, and our reputation could be damaged. The FDA has also requested that companies enter into consent decrees or permanent injunctions under which specified promotional conduct is changed or curtailed. If we are deemed by the FDA to have engaged in the promotion of our products for off-label use, we could be subject to FDA prohibitions on the sale or marketing of our products or significant fines and penalties, and the imposition of these sanctions could also affect our reputation and position within the industry.

Physicians may also misuse our products or use improper techniques, potentially leading to adverse results, side effects or injury, which may lead to product liability claims. If our products are misused or used with improper technique, we may become subject to costly litigation by our customers or their patients. Product liability claims could divert management's attention from our core business, be expensive to defend, and result in sizable damage awards against us that may not be covered by insurance. Furthermore, the use of our products for indications other than those cleared by the FDA may not effectively treat such conditions, which could harm our reputation in the marketplace among physicians and patients.

Any of these events could harm our business and results of operations and cause our stock price to decline.

Even if RT001, RT002 or any future product candidate is approved for commercialization, if there is not sufficient patient demand for such procedures, our financial results and future prospects will be harmed. *

Treatment of crow's feet lines with RT001, our lead product candidate, is an elective procedure, the cost of which must be borne by the patient, and we do not expect it to be reimbursable through government or private health insurance. The decision by a patient to elect to undergo treatment with RT001 for the treatment of crow's feet lines or other aesthetic indications we may pursue may be influenced by a number of factors, including:

the success of any sales and marketing programs that we, or any third parties we engage, undertake, and as to which we have limited experience;

the extent to which physicians recommend RT001 to their patients;

the extent to which RT001 satisfies patient expectations;

our ability to properly train physicians in the use of RT001 such that their patients do not experience excessive discomfort during treatment or adverse side effects;

the cost, safety and effectiveness of RT001 versus other aesthetic treatments;

consumer sentiment about the benefits and risks of aesthetic procedures generally and RT001 in particular;

the success of any direct-to-consumer marketing efforts we may initiate; and

general consumer confidence, which may be impacted by economic and political conditions.

Our business, financial results and future prospects will be materially harmed if we cannot generate sufficient demand for RT001, or for RT002 or any other future product candidate, once approved.

We currently have limited marketing capabilities and no sales organization. If we are unable to establish sales and marketing capabilities on our own or through third parties, we will be unable to successfully commercialize RT001, RT002 or any other future product candidates, if approved, or generate product revenue. *

We currently have limited marketing capabilities and no sales organization. To commercialize RT001, RT002 or any other future product candidates, if approved, in the United States, Europe and other jurisdictions we seek to enter, we must build our marketing, sales, distribution, managerial and other non-technical capabilities or make arrangements with third parties to perform these services, and we may not be successful in doing so. If RT001 or RT002 receives regulatory approval, we expect to market RT001 or RT002, as applicable, in the United States through an internal specialized sales force and in Europe through either our internal sales force or a combination of our internal sales force and distributors, which will be expensive and time consuming. We have no prior experience in the marketing, sale and distribution of pharmaceutical products and there are significant risks involved in building and managing a sales organization, including our ability to hire, retain and incentivize qualified individuals, generate sufficient sales leads, provide adequate training to sales and marketing personnel and effectively manage a geographically dispersed sales and marketing team. Any failure or delay in the development of our internal sales, marketing and distribution capabilities would adversely impact the commercialization of these products. We may choose to collaborate with third parties that have direct sales forces and established distribution systems, either to augment our own sales force and distribution systems or in lieu of our own sales force and distribution systems. If we are unable to enter into such arrangements on acceptable terms or at all, we may not be able to successfully commercialize RT001, RT002 or any future product candidates. If we are not successful in commercializing RT001, RT002 or any future product candidates, either on our own or through collaborations with one or more third parties, our future product revenue will suffer and we would incur significant additional losses.

Table of Contents

To establish our sales and marketing infrastructure and expand our manufacturing capabilities, we will need to increase the size of our organization, and we may experience difficulties in managing this growth. *

As of September 30, 2014, we had 84 full-time employees. We will need to continue to expand our managerial, operational, finance and other resources to manage our operations and clinical trials, continue our development activities and commercialize RT001 or any other product candidates, if approved. Our management and personnel, systems and facilities currently in place may not be adequate to support this future growth. Our need to effectively execute our growth strategy requires that we:

manage our clinical trials effectively;

identify, recruit, retain, incentivize and integrate additional employees;

manage our internal development efforts effectively while carrying out our contractual obligations to third parties; and

continue to improve our operational, financial and management controls, reporting systems and procedures. Due to our limited financial resources and our limited experience in managing a company with such anticipated growth, we may not be able to effectively manage the expansion of our operations or recruit and train additional qualified personnel. The physical expansion of our operations may lead to significant costs and may divert our management and business development resources. Any inability to manage growth could delay the execution of our development and strategic objectives, or disrupt our operations.

If product liability lawsuits are brought against us, we may incur substantial liabilities and may be required to limit commercialization of any future products we develop. *

We face an inherent risk of product liability as a result of the clinical testing of our product candidates and will face an even greater risk if we commercialize any products. For example, we may be sued if any product we develop allegedly causes injury or is found to be otherwise unsuitable during product testing, manufacturing, marketing or sale. Any such product liability claims may include allegations of defects in manufacturing, defects in design, a failure to warn of dangers inherent in the product, negligence, strict liability and a breach of warranties. Claims could also be asserted under state consumer protection acts. If we cannot successfully defend ourselves against product liability claims, we may incur substantial liabilities or be required to limit commercialization of our products. Even a successful defense would require significant financial and management resources. Regardless of the merits or eventual outcome, liability claims may result in:

decreased demand for RT001, RT002 or any future product candidates or products we develop;

injury to our reputation and significant negative media attention;

withdrawal of clinical trial participants or cancellation of clinical trials;

costs to defend the related litigation;

a diversion of management's time and our resources;

substantial monetary awards to trial participants or patients;

regulatory investigations, product recalls, withdrawals or labeling, marketing or promotional restrictions;

loss of revenue; and

the inability to commercialize any products we develop.

Our inability to obtain and maintain sufficient product liability insurance at an acceptable cost and scope of coverage to protect against potential product liability claims could prevent or inhibit the commercialization of RT001, RT002 or any future products we develop. We currently carry product liability insurance covering our clinical trials in the amount of \$5.0 million in the aggregate. Although we maintain such insurance, any claim that may be brought against us could result in a court judgment or settlement in an amount that is not covered, in whole or in part, by our insurance or that is in excess of the limits of our insurance coverage. Our insurance policies also have various exclusions and deductibles, and we may be subject to a product liability claim for which we have no coverage. We will have to pay any amounts awarded by a court or negotiated in a settlement that exceed our coverage limitations or that are not covered by our insurance, and we may not have, or be able to obtain, sufficient capital to pay such amounts. Moreover, in the future, we may not be able to maintain insurance coverage at a reasonable cost or in sufficient amounts to protect us against losses. If and when we obtain approval for marketing RT001 or RT002, we intend to expand our insurance coverage to include the sale of RT001 or RT002, as applicable; however, we may be unable to obtain this liability insurance on commercially reasonable terms.

If we fail to attract and keep senior management and key scientific personnel, we may be unable to successfully develop RT001, RT002 or any future product candidates, conduct our clinical trials and commercialize RT001, RT002 or any future products we develop.

Our success depends in part on our continued ability to attract, retain and motivate highly qualified management, clinical and scientific personnel. We believe that our future success is highly dependent upon the contributions of our senior management,

Table of Contents

particularly our President and Chief Executive Officer, as well as our senior scientists and other members of our senior management team. The loss of services of any of these individuals could delay or prevent the successful development of our product pipeline, completion of our planned clinical trials or the commercialization of RT001, RT002 or any future products we develop.

Although we have not historically experienced unique difficulties attracting and retaining qualified employees, we could experience such problems in the future. For example, competition for qualified personnel in the biotechnology and pharmaceuticals field is intense due to the limited number of individuals who possess the skills and experience required by our industry. We will need to hire additional personnel as we expand our clinical development and commercial activities. We may not be able to attract and retain quality personnel on acceptable terms, or at all. In addition, to the extent we hire personnel from competitors, we may be subject to allegations that they have been improperly solicited or that they have divulged proprietary or other confidential information, or that their former employers own their research output.

If we are not successful in discovering, developing, acquiring and commercializing additional product candidates, our ability to expand our business and achieve our strategic objectives would be impaired.

Although a substantial amount of our effort will focus on the continued clinical testing and potential approval of RT001 and RT002, a key element of our strategy is to discover, develop and commercialize a portfolio of botulinum toxin products to serve both the aesthetic and therapeutic markets. We are seeking to do so through our internal research programs and may explore strategic collaborations for the development or acquisition of new products. While our two product candidates, RT001 and RT002, are each in the clinical development stage, all of our other potential product candidates remain in the discovery stage. Research programs to identify product candidates require substantial technical, financial and human resources, whether or not any product candidates are ultimately identified. Our research programs may initially show promise in identifying potential product candidates, yet fail to yield product candidates for clinical development for many reasons, including the following:

the research methodology used may not be successful in identifying potential product candidates;

competitors may develop alternatives that render our product candidates obsolete or less attractive;

product candidates we develop may nevertheless be covered by third parties' patents or other exclusive rights;

a product candidate may on further study be shown to have harmful side effects or other characteristics that indicate it is unlikely to be effective or otherwise does not meet applicable regulatory criteria;

a product candidate may not be capable of being produced in commercial quantities at an acceptable cost, or at all;

a product candidate may not be accepted as safe and effective by patients, the medical community or third party payors, if applicable; and

intellectual property rights of third parties may potentially block our entry into certain markets, or make such entry economically impracticable.

If we fail to develop and successfully commercialize other product candidates, our business and future prospects may be harmed and our business will be more vulnerable to any problems that we encounter in developing and commercializing RT001 and RT002.

We will incur significant increased costs as a result of operating as a public company, and our management will be required to devote substantial time to new compliance initiatives. We may fail to comply with the rules that apply to public companies, including Section 404 of the Sarbanes-Oxley Act of 2002, which could result in sanctions or other penalties that would harm our business. *

As a public company in the United States, we will be required, pursuant to Section 404 of the Sarbanes-Oxley Act of 2002, or Section 404, to furnish a report by management on, among other things, the effectiveness of our internal control over financial reporting. We expect that our first management report on compliance with Section 404 will be in connection with our Consolidated Financial Statements for the year ending December 31, 2014.

The controls and other procedures are designed to ensure that information required to be disclosed by us in the reports that we file with the Securities and Exchange Commission, or SEC, is disclosed accurately and is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms. We are in the early stages of conforming our internal control procedures to the requirements of Section 404 and we may not be able to complete our evaluation, testing and any required remediation needed to comply with Section 404 in a timely fashion. Our independent registered public accounting firm was not engaged to perform an audit of our internal control over financial reporting for the year ended December 31, 2013 or for any other period. Accordingly, no such opinion was expressed. Even if we develop effective controls, these new controls may become inadequate because of changes in conditions or the degree of compliance with these policies or procedures may deteriorate.

Table of Contents

Even after we develop these new procedures, material weaknesses in our internal control over financial reporting may be discovered. To fully comply with Section 404, we will need to retain additional employees to supplement our current finance staff, and we may not be able to do so in a timely manner, or at all. In addition, in the process of evaluating our internal control over financial reporting, we expect that certain of our internal control practices will need to be updated to comply with the requirements of Section 404 and the regulations promulgated thereunder, and we may not be able to do so on a timely basis, or at all. In the event that we are not able to demonstrate compliance with Section 404 in a timely manner, or are unable to produce timely or accurate Condensed Consolidated Financial Statements, we may be subject to sanctions or investigations by regulatory authorities, such as the SEC or the stock exchange on which our stock is listed, and investors may lose confidence in our operating results and the price of our common stock could decline. Furthermore, if we are unable to certify that our internal control over financial reporting is effective and in compliance with Section 404, we may be subject to sanctions or investigations by regulatory authorities, such as the SEC or stock exchanges, and we could lose investor confidence in the accuracy and completeness of our financial reports, which could hurt our business, the price of our common stock and our ability to access the capital markets.

Our business involves the use of hazardous materials and we and our third party manufacturers and suppliers must comply with environmental laws and regulations, which can be expensive and restrict how we do business.

Our research and development and manufacturing activities and our third party manufacturers and suppliers activities involve the controlled storage, use and disposal of hazardous materials owned by us, including botulinum toxin type A, a key component of our product candidates, and other hazardous compounds. We and our manufacturers and suppliers are subject to laws and regulations governing the use, manufacture, storage, handling and disposal of these hazardous materials. We are licensed with the Centers for Disease Control and Detection, or CDC, and with the California Department of Health, Food and Drug Branch for use of botulinum toxin and to manufacture both the active pharmaceutical ingredient, or API, and the finished product in topical and injectable dose forms. In some cases, these hazardous materials and various wastes resulting from their use are stored at our and our manufacturers facilities pending their use and disposal. We cannot eliminate the risk of contamination, which could cause an interruption of our commercialization efforts, research and development efforts and business operations, environmental damage resulting in costly clean-up and liabilities under applicable laws and regulations governing the use, storage, handling and disposal of these materials and specified waste products. Although we believe that the safety procedures utilized by us and our third party manufacturers for handling and disposing of these materials generally comply with the standards prescribed by these laws and regulations, we cannot guarantee that this is the case or eliminate the risk of accidental contamination or injury from these materials. In such an event, we may be held liable for any resulting damages and such liability could exceed our resources and state or federal or other applicable authorities may curtail our use of certain materials and interrupt our business operations. Furthermore, environmental laws and regulations are complex, change frequently and have tended to become more stringent. We cannot predict the impact of such changes and cannot be certain of our future compliance.

We may use third party collaborators to help us develop, validate or commercialize any new products, and our ability to commercialize such products could be impaired or delayed if these collaborations are unsuccessful.

We may license or selectively pursue strategic collaborations for the development, validation and commercialization of RT001, RT002 and any future product candidates. In any third party collaboration, we would be dependent upon the success of the collaborators in performing their responsibilities and their continued cooperation. Our collaborators may not cooperate with us or perform their obligations under our agreements with them. We cannot control the amount and timing of our collaborators resources that will be devoted to performing their responsibilities under our agreements with them. Our collaborators may choose to pursue alternative technologies in preference to those being

developed in collaboration with us. The development, validation and commercialization of our product candidates will be delayed if collaborators fail to conduct their responsibilities in a timely manner or in accordance with applicable regulatory requirements or if they breach or terminate their collaboration agreements with us. Disputes with our collaborators could also impair our reputation or result in development delays, decreased revenues and litigation expenses.

If we fail to comply with the covenants and other obligations under our credit facilities, the lenders may be able to accelerate amounts owed under the facilities and may foreclose upon the assets securing our obligations. *

In September 2011, we entered into a credit facility with Hercules Technology Growth Capital, Inc., or Hercules. The facility consists of \$22.0 million in a term loan from Hercules. The balance of the term loan as of September 30, 2014 was \$4.8 million and is payable in monthly installments of principal and interest through March 1, 2015. Borrowings under our credit facility are secured by substantially all of our tangible assets. The covenants set forth in the loan and security agreement require, among other things, that we seek consent from Hercules prior to certain corporate changes and provide certain unaudited financial information within 30 days after the end of each month. If we fail to comply with the covenants and our other obligations under the credit facility, Hercules would be able to accelerate the required repayment of amounts due under the loan agreement and, if they are not repaid, could foreclose upon our assets securing our obligations under the credit facility.

In December 2013, we entered into a \$10.8 million loan and lease agreement with Essex Capital Corporation, or the Essex Capital Facility, to finance the completion and installation of our RT001 commercial fill/finish line, or the Fill/Finish Line. In May

Table of Contents

2014, pursuant to the terms of the Essex Capital Facility, we sold equipment to Essex Capital Corporation, resulting in partial settlement of the outstanding loan balance by \$1.1 million. As of September 30, 2014, we have an outstanding loan balance of \$3.9 million under the Essex Capital Facility. Borrowings under the Essex Capital Facility are secured by substantially all of our tangible assets, excluding intellectual property. The covenants set forth in the Essex Capital Facility require, among other things, that we seek consent from Essex Capital prior to certain corporate events, including the incurrence of additional secured indebtedness or additional liens. If we fail to comply with the covenants and our other obligations under the Essex Capital Facility, Essex Capital would be able to accelerate the required repayment of amounts due under the Essex Capital Facility and, if they are not repaid, could foreclose upon our assets securing our obligations under the Essex Capital Facility, subject to limitations set forth in a subordination agreement between Essex Capital and Hercules. Further, if the Fill/Finish Line is not accepted prior to the one year anniversary of the Essex Notes, or December 20, 2014, we must repay the outstanding balance on the Essex Notes of \$3.9 million.

Unfavorable global economic conditions could adversely affect our business, financial condition or results of operations. *

Our results of operations could be adversely affected by general conditions in the global economy and in the global financial markets. Furthermore, the market for aesthetic medical procedures may be particularly vulnerable to unfavorable economic conditions. We do not expect RT001 for the treatment of crow's feet lines or RT002 for the treatment of frown lines to be reimbursed by any government or third party payor and, as a result, demand for this product will be tied to discretionary spending levels of our targeted patient population. The recent global financial crisis caused extreme volatility and disruptions in the capital and credit markets. A severe or prolonged economic downturn could result in a variety of risks to our business, including weakened demand for RT001, RT002 or any future product candidates, if approved, and our ability to raise additional capital when needed on acceptable terms, if at all. This is particularly true in Europe, which is undergoing a continued severe economic crisis. A weak or declining economy could also strain our suppliers, possibly resulting in supply disruption, or cause our customers to delay making payments for our services. Any of the foregoing could harm our business and we cannot anticipate all of the ways in which the current economic climate and financial market conditions could adversely impact our business.

Risks Related to Our Intellectual Property

If our efforts to protect our intellectual property related to RT001, RT002 or any future product candidates are not adequate, we may not be able to compete effectively in our market.

We rely upon a combination of patents, trade secret protection and confidentiality agreements to protect the intellectual property related to RT001, RT002 and our development programs. Any disclosure to or misappropriation by third parties of our confidential proprietary information could enable competitors to quickly duplicate or surpass our technological achievements, eroding our competitive position in our market.

The strength of patents in the biotechnology and pharmaceutical field involves complex legal and scientific questions and can be uncertain. This uncertainty includes changes to the patent laws through either legislative action to change statutory patent law or court action that may reinterpret existing law in ways affecting the scope or validity of issued patents. The patent applications that we own or license may fail to result in issued patents in the United States or foreign countries. Competitors in the field of cosmetics and botulinum toxin have created a substantial amount of prior art, including scientific publications, patents and patent applications. Our ability to obtain and maintain valid and enforceable patents depends on whether the differences between our technology and the prior art allow our technology to be patentable over the prior art. Even if the patents do successfully issue, third parties may challenge the validity, enforceability or scope of such issued patents or any other issued patents we own or license, which may result in such patents being narrowed, invalidated or held unenforceable. For example, patents granted by the European Patent

Office may be opposed by any person within nine months from the publication of their grant. Furthermore, even if they are unchallenged, our patents and patent applications may not adequately protect our intellectual property or prevent others from designing around our claims. In addition, recent changes to the patent laws of the United States provide additional procedures for third parties to challenge the validity of issued patents based on patent applications filed after March 15, 2013. If the breadth or strength of protection provided by the patents and patent applications we hold or pursue with respect to RT001, RT002 or any future product candidates is challenged, then it could threaten our ability to commercialize RT001, RT002 or any future product candidates, and could threaten our ability to prevent competitive products from being marketed. Further, if we encounter delays in our clinical trials, the period of time during which we could market RT001, RT002 or any future product candidates under patent protection would be reduced. Since patent applications in the United States and most other countries are confidential for a period of time after filing, we cannot be certain that we were the first to either (i) file any patent application related to our product candidates or (ii) invent any of the inventions claimed in our patents or patent applications. Furthermore, for applications filed before March 16, 2013, or patents issuing from such applications, an interference proceeding can be provoked by a third party, or instituted by the United States Patent and Trademark Office, or USPTO, to determine who was the first to invent any of the subject matter covered by the patent claims of our applications and patents. As of March 16, 2013, the United States transitioned to a first-to-file system for deciding which party should be granted a patent when two or more patent applications are filed by different parties claiming the same invention. A third party that files a patent application in the USPTO before us could therefore be awarded a patent covering an invention of ours even if we had made the invention before it was made by the third party.

Table of Contents

The change to first-to-file from first-to-invent is one of the changes to the patent laws of the United States resulting from the Leahy-Smith America Invents Act signed into law on September 16, 2011. Among some of the other changes to the patent laws are changes that limit where a patentee may file a patent infringement suit and providing opportunities for third parties to challenge any issued patent in the USPTO. Because of a lower evidentiary standard in USPTO proceedings compared to the evidentiary standard in United States federal court necessary to invalidate a patent claim, a third party could potentially provide evidence in a USPTO proceeding sufficient for the USPTO to hold a claim invalid even though the same evidence would be insufficient to invalidate the claim if first presented in a district court action. Accordingly, a third party may attempt to use the USPTO procedures to invalidate our patent claims that would not have been invalidated if first challenged by the third party as a defendant in a district court action.

Even where laws provide protection, costly and time-consuming litigation could be necessary to enforce and determine the scope of our proprietary rights, and the outcome of such litigation would be uncertain. Moreover, any actions we may bring to enforce our intellectual property against our competitors could provoke them to bring counterclaims against us, and some of our competitors have substantially greater intellectual property portfolios than we have.

We also rely on trade secret protection and confidentiality agreements to protect proprietary know-how that may not be patentable, processes for which patents may be difficult to obtain or enforce and any other elements of our product development processes that involve proprietary know-how, information or technology that is not covered by patents.

In an effort to protect our trade secrets and other confidential information, we require our employees, consultants, collaborators and advisors to execute confidentiality agreements upon the commencement of their relationships with us. These agreements require that all confidential information developed by the individual or made known to the individual by us during the course of the individual's relationship with us be kept confidential and not disclosed to third parties. These agreements, however, may not provide us with adequate protection against improper use or disclosure of confidential information, and these agreements may be breached. Adequate remedies may not exist in the event of unauthorized use or disclosure of our confidential information. A breach of confidentiality could significantly affect our competitive position. In addition, in some situations, these agreements may conflict with, or be subject to, the rights of third parties with whom our employees, consultants, collaborators or advisors have previous employment or consulting relationships. To the extent that our employees, consultants or contractors use any intellectual property owned by others in their work for us, disputes may arise as to the rights in any related or resulting know-how and inventions. Also, others may independently develop substantially equivalent proprietary information and techniques or otherwise gain access to our trade secrets and other confidential information.

If we infringe or are alleged to infringe intellectual property rights of third parties, our business could be harmed.

Our research, development and commercialization activities may infringe or otherwise violate or be claimed to infringe or otherwise violate patents owned or controlled by other parties. Competitors in the field of cosmetics and botulinum toxin have developed large portfolios of patents and patent applications in fields relating to our business. For example, there are patents held by third parties that relate to the treatment with botulinum toxin-based products for indications we are currently developing. There may also be patent applications that have been filed but not published that, when issued as patents, could be asserted against us. These third parties could bring claims against us that would cause us to incur substantial expenses and, if successful against us, could cause us to pay substantial damages. Further, if a patent infringement suit were brought against us, we could be forced to stop or delay research, development, manufacturing or sales of the product or product candidate that is the subject of the suit.

As a result of patent infringement claims, or to avoid potential claims, we may choose or be required to seek licenses from third parties. These licenses may not be available on acceptable terms, or at all. Even if we are able to obtain a license, the license would likely obligate us to pay license fees or royalties or both, and the rights granted to us might be nonexclusive, which could result in our competitors gaining access to the same intellectual property. Ultimately, we could be prevented from commercializing a product, or be forced to cease some aspect of our business operations, if, as a result of actual or threatened patent infringement claims, we are unable to enter into licenses on acceptable terms.

There has been substantial litigation and other proceedings regarding patent and other intellectual property rights in the pharmaceutical industry. In addition to infringement claims against us, we may become a party to other patent litigation and other proceedings, including interference, derivation or post-grant proceedings declared or granted by the USPTO and similar proceedings in foreign countries, regarding intellectual property rights with respect to our current or future products. The cost to us of any patent litigation or other proceeding, even if resolved in our favor, could be substantial. Some of our competitors may be able to sustain the costs of such litigation or proceedings more effectively than we can because of their substantially greater financial resources. Patent litigation and other proceedings may also absorb significant management time. Uncertainties resulting from the initiation and continuation of patent litigation or other proceedings could impair our ability to compete in the marketplace. The occurrence of any of the foregoing could have a material adverse effect on our business, financial condition or results of operations.

Table of Contents

We may become involved in lawsuits to protect or enforce our patents or other intellectual property or the patents of our licensors, which could be expensive and time consuming.

Competitors may infringe our intellectual property, including our patents or the patents of our licensors. As a result, we may be required to file infringement claims to stop third party infringement or unauthorized use. This can be expensive, particularly for a company of our size, and time-consuming. In addition, in an infringement proceeding, a court may decide that a patent of ours is not valid or is unenforceable, or may refuse to stop the other party from using the technology at issue on the grounds that our patent claims do not cover its technology or that the factors necessary to grant an injunction against an infringer are not satisfied.

An adverse determination of any litigation or other proceedings could put one or more of our patents at risk of being invalidated or interpreted narrowly and could put our patent applications at risk of not issuing.

Interference, derivation or other proceedings brought at the USPTO may be necessary to determine the priority or patentability of inventions with respect to our patent applications or those of our licensors or collaborators. Litigation or USPTO proceedings brought by us may fail or may be invoked against us by third parties. Even if we are successful, domestic or foreign litigation or USPTO or foreign patent office proceedings may result in substantial costs and distraction to our management. We may not be able, alone or with our licensors or collaborators, to prevent misappropriation of our proprietary rights, particularly in countries where the laws may not protect such rights as fully as in the United States.

Furthermore, because of the substantial amount of discovery required in connection with intellectual property litigation or other proceedings, there is a risk that some of our confidential information could be compromised by disclosure during this type of litigation or proceedings. In addition, during the course of this kind of litigation or proceedings, there could be public announcements of the results of hearings, motions or other interim proceedings or developments or public access to related documents. If investors perceive these results to be negative, the market price for our common stock could be significantly harmed.

We may not be able to protect our intellectual property rights throughout the world.

Filing, prosecuting and defending patents on product candidates in all countries throughout the world would be prohibitively expensive, and our intellectual property rights in some countries outside the United States can be less extensive than those in the United States. In addition, the laws of some foreign countries do not protect intellectual property rights to the same extent as federal and state laws in the United States and in some cases may even force us to grant a compulsory license to competitors or other third parties. Consequently, we may not be able to prevent third parties from practicing our inventions in all countries outside the United States, or from selling or importing products made using our inventions in and into the United States or other jurisdictions. Competitors may use our technologies in jurisdictions where we have not obtained patent protection to develop their own products and further, may export otherwise infringing products to territories where we have patent protection, but enforcement is not as strong as that in the United States. These products may compete with our products and our patents or other intellectual property rights may not be effective or sufficient to prevent them from competing.

Many companies have encountered significant problems in protecting and defending intellectual property rights in foreign jurisdictions. The legal systems of certain countries, particularly certain developing countries, do not favor the enforcement of patents and other intellectual property protection, particularly those relating to biopharmaceuticals, which could make it difficult for us to stop the infringement of our patents or marketing of competing products in violation of our proprietary rights generally. Proceedings to enforce our patent rights in foreign jurisdictions could result in substantial costs and divert our efforts and attention from other aspects of our business, could put our patents

at risk of being invalidated or interpreted narrowly and our patent applications at risk of not issuing and could provoke third parties to assert claims against us. We may not prevail in any lawsuits that we initiate and the damages or other remedies awarded, if any, may not be commercially meaningful. Accordingly, our efforts to enforce our intellectual property rights around the world may be inadequate to obtain a significant commercial advantage from the intellectual property that we develop or license.

In addition, our ability to protect and enforce our intellectual property rights may be adversely affected by unforeseen changes in domestic and foreign intellectual property laws.

Risks Related to Government Regulation

Our business and products are subject to extensive government regulation.

We are subject to extensive, complex, costly and evolving regulation by federal and state governmental authorities in the United States, principally by the FDA, the U.S. Drug Enforcement Administration, or DEA, the Centers for Disease Control and Prevention, or CDC, and foreign regulatory authorities. Failure to comply with all applicable regulatory requirements, including those promulgated under the Federal Food, Drug, and Cosmetic Act, or FDCA, the Public Health Service Act, or PHSA, and Controlled Substances Act, may subject us to operating restrictions and criminal prosecution, monetary penalties and other disciplinary actions, including, sanctions, warning letters, product seizures, recalls, fines, injunctions, suspension, revocation of approvals, or exclusion from future participation in the Medicare and Medicaid programs.

Table of Contents

After our products receive regulatory approval or clearance, we, and our direct and indirect suppliers, remain subject to the periodic inspection of our plants and facilities, review of production processes, and testing of our products to confirm that we are in compliance with all applicable regulations. Adverse findings during regulatory inspections may result in the implementation of Risk Evaluation and Mitigation Strategies, or REMS, programs, completion of government mandated clinical trials, and government enforcement action relating to labeling, advertising, marketing and promotion, as well as regulations governing manufacturing controls noted above.

The regulatory approval process is highly uncertain and we may not obtain regulatory approval for the commercialization of RT001, RT002 or any future product candidates. *

The research, testing, manufacturing, labeling, approval, selling, import, export, marketing and distribution of drug and biologic products are subject to extensive regulation by the FDA and other regulatory authorities in the United States and other countries, which regulations differ from country to country. Neither we nor any collaboration partner is permitted to market RT001, RT002 or any future product candidates in the United States until we receive approval of a BLA from the FDA. We have not submitted an application or obtained marketing approval for RT001 or RT002 anywhere in the world. Obtaining regulatory approval of a BLA can be a lengthy, expensive and uncertain process. In addition, failure to comply with FDA and other applicable United States and foreign regulatory requirements may subject us to administrative or judicially imposed sanctions or other actions, including:

warning letters;

civil and criminal penalties;

injunctions;

withdrawal of approved products;

product seizure or detention;

product recalls;

total or partial suspension of production; and

refusal to approve pending BLAs or supplements to approved BLAs.

Prior to obtaining approval to commercialize a product candidate in the United States or abroad, we or our collaborators must demonstrate with substantial evidence from well controlled clinical trials, and to the satisfaction of the FDA or other foreign regulatory agencies, that such product candidates are safe and effective for their intended uses. Results from preclinical studies and clinical trials can be interpreted in different ways. Even if we and our collaborator believe the preclinical or clinical data for our product candidates are promising, such data may not be

sufficient to support approval by the FDA and other regulatory authorities. Administering product candidates to humans may produce undesirable side effects, which could interrupt, delay or halt clinical trials and result in the FDA or other regulatory authorities denying approval of a product candidate for any or all targeted indications.

Regulatory approval of a BLA or BLA supplement is not guaranteed, and the approval process is expensive and may take several years. The FDA also has substantial discretion in the approval process. Despite the time and expense expended, failure can occur at any stage, and we could encounter problems that cause us to abandon or repeat clinical trials, or perform additional preclinical studies and clinical trials. The number of preclinical studies and clinical trials that will be required for FDA approval varies depending on the product candidate, the disease or condition that the product candidate is designed to address and the regulations applicable to any particular product candidate. The FDA can delay, limit or deny approval of a product candidate for many reasons, including the following:

a product candidate may not be deemed safe, effective, pure or potent;

FDA officials may not find the data from preclinical studies and clinical trials sufficient;

the FDA might not approve our third party manufacturers' processes or facilities; or

the FDA may change its approval policies or adopt new regulations.

If RT001, RT002 or any future product candidates fail to demonstrate safety and efficacy in clinical trials or do not gain approval, our business and results of operations will be materially and adversely harmed.

Table of Contents

Even if we receive regulatory approval for RT001, RT002 or any future product candidates, we will be subject to ongoing regulatory obligations and continued regulatory review, which may result in significant additional expense, limit or delay regulatory approval and subject us to penalties if we fail to comply with applicable regulatory requirements. *

Once regulatory approval has been granted, RT001, RT002, or any approved product will be subject to continual regulatory review by the FDA and/or non-U.S. regulatory authorities. Additionally, any product candidates, if approved, will be subject to extensive and ongoing regulatory requirements, including labeling and other restrictions and market withdrawal and we may be subject to penalties if we fail to comply with regulatory requirements or experience unanticipated problems with our products.

Any regulatory approvals that we or our collaborators receive for RT001, RT002 or any future product candidates may also be subject to limitations on the approved indications for which the product may be marketed or to the conditions of approval, or contain requirements for potentially costly post-marketing testing, including Phase 4 clinical trials, and surveillance to monitor the safety and efficacy of the product candidate. In addition, if the applicable regulatory agency approves RT001, RT002 or any future product candidates, the manufacturing processes, labeling, packaging, distribution, adverse event reporting, storage, advertising, promotion and recordkeeping for the product will be subject to extensive and ongoing regulatory requirements. These requirements include submissions of safety and other post-marketing information and reports, registration, as well as continued compliance with cGMP and GCP for any clinical trials that we conduct post-approval. Later discovery of previously unknown problems with RT001, RT002 or any future product candidates, including adverse events of unanticipated severity or frequency, or with our third party manufacturers or manufacturing processes, or failure to comply with regulatory requirements, may result in, among other things:

restrictions on the marketing or manufacturing of the product, withdrawal of the product from the market, or voluntary or mandatory product recalls;

finances, warning letters or holds on clinical trials;

refusal by the FDA to approve pending applications or supplements to approved applications filed by us or our strategic collaborators, or suspension or revocation of product license approvals;

product seizure or detention, or refusal to permit the import or export of products; and

injunctions or the imposition of civil or criminal penalties.

Our ongoing regulatory requirements may also change from time to time, potentially harming or making costlier our commercialization efforts. We cannot predict the likelihood, nature or extent of government regulation that may arise from future legislation or administrative action, either in the United States or other countries. If we are slow or unable to adapt to changes in existing requirements or the adoption of new requirements or policies, or if we are not able to maintain regulatory compliance, we may lose any marketing approval that we may have obtained and we may not achieve or sustain profitability, which would adversely affect our business.

If we fail to obtain regulatory approvals in foreign jurisdictions for RT001, RT002 or any future product candidates, we will be unable to market our products outside of the United States.

In addition to regulations in the United States, we will be subject to a variety of foreign regulations governing manufacturing, clinical trials, commercial sales and distribution of our future products. Whether or not we obtain FDA approval for a product candidate, we must obtain approval of the product by the comparable regulatory authorities of foreign countries before commencing clinical trials or marketing in those countries. The approval procedures vary among countries and can involve additional clinical testing, and the time required to obtain approval may differ from that required to obtain FDA approval. Clinical trials conducted in one country may not be accepted by regulatory authorities in other countries. Approval by the FDA does not ensure approval by regulatory authorities in other countries, and approval by one or more foreign regulatory authorities does not ensure approval by regulatory authorities in other foreign countries or by the FDA. The foreign regulatory approval process may include all of the risks associated with obtaining FDA approval. We may not be able to file for regulatory approvals or to do so on a timely basis, and even if we do file, we may not receive necessary approvals to commercialize our products in markets outside of the United States.

If approved, RT001, RT002 or any future products may cause or contribute to adverse medical events that we are required to report to regulatory agencies and if we fail to do so, we could be subject to sanctions that would materially harm our business.

Some participants in our clinical trials have reported adverse events after being treated with RT001. If we are successful in commercializing RT001 or any other products, FDA and foreign regulatory agency regulations require that we report certain information about adverse medical events if those products may have caused or contributed to those adverse events. The timing of our obligation to report would be triggered by the date we become aware of the adverse event as well as the nature of the event. We may fail to report adverse events we become aware of within the prescribed timeframe. We may also fail to appreciate that we have become aware of a reportable adverse event, especially if it is not reported to us as an adverse event or if it is an adverse event that is unexpected or removed in time from the use of our products. If we fail to comply with our reporting obligations, the FDA or a foreign regulatory agency could take action including criminal prosecution, the imposition of civil monetary penalties, seizure of our products, or delay in approval or clearance of future products.

Table of Contents

We may in the future be subject to various U.S. federal and state laws pertaining to health care fraud and abuse, including anti-kickback, self-referral, false claims and fraud laws, and any violations by us of such laws could result in fines or other penalties. *

While we do not expect that RT001, if approved for the treatment of crow's feet lines, or RT002, if approved for the treatment of glabellar lines, will subject us to the various U.S. federal and state laws intended to prevent health care fraud and abuse, we may in the future become subject to such laws. The federal anti-kickback statute prohibits the offer, receipt, or payment of remuneration in exchange for or to induce the referral of patients or the use of products or services that would be paid for in whole or part by Medicare, Medicaid or other federal health care programs. Remuneration has been broadly defined to include anything of value, including cash, improper discounts, and free or reduced price items and services. Many states have similar laws that apply to their state health care programs as well as private payors. Violations of the anti-kickback laws can result in exclusion from federal health care programs and substantial civil and criminal penalties.

The federal False Claims Act, or FCA, imposes liability on persons who, among other things, present or cause to be presented false or fraudulent claims for payment by a federal health care program. The FCA has been used to prosecute persons submitting claims for payment that are inaccurate or fraudulent, that are for services not provided as claimed, or for services that are not medically necessary. The FCA includes a whistleblower provision that allows individuals to bring actions on behalf of the federal government and share a portion of the recovery of successful claims. If our marketing or other arrangements were determined to violate anti-kickback or related laws, including the FCA, then our revenues could be adversely affected, which would likely harm our business, financial condition, and results of operations.

State and federal authorities have aggressively targeted medical technology companies for alleged violations of these anti-fraud statutes, based on improper research or consulting contracts with doctors, certain marketing arrangements that rely on volume-based pricing, off-label marketing schemes, and other improper promotional practices. Companies targeted in such prosecutions have paid substantial fines in the hundreds of millions of dollars or more, have been forced to implement extensive corrective action plans, and have often become subject to consent decrees severely restricting the manner in which they conduct their business. If we become the target of such an investigation or prosecution based on our contractual relationships with providers or institutions, or our marketing and promotional practices, we could face similar sanctions, which would materially harm our business.

Also, the U.S. Foreign Corrupt Practices Act and similar worldwide anti-bribery laws generally prohibit companies and their intermediaries from making improper payments to non-U.S. officials for the purpose of obtaining or retaining business. We cannot assure you that our internal control policies and procedures will protect us from reckless or negligent acts committed by our employees, future distributors, partners, collaborators or agents. Violations of these laws, or allegations of such violations, could result in fines, penalties or prosecution and have a negative impact on our business, results of operations and reputation.

Legislative or regulatory healthcare reforms in the United States may make it more difficult and costly for us to obtain regulatory clearance or approval of RT001, RT002 or any future product candidates and to produce, market, and distribute our products after clearance or approval is obtained.

From time to time, legislation is drafted and introduced in Congress that could significantly change the statutory provisions governing the regulatory clearance or approval, manufacture, and marketing of regulated products or the reimbursement thereof. In addition, FDA regulations and guidance are often revised or reinterpreted by the FDA in ways that may significantly affect our business and our products. Any new regulations or revisions or reinterpretations of existing regulations may impose additional costs or lengthen review times of RT001, RT002 or any future product

candidates. We cannot determine what effect changes in regulations, statutes, legal interpretation or policies, when and if promulgated, enacted or adopted may have on our business in the future. Such changes could, among other things, require:

changes to manufacturing methods;

recall, replacement, or discontinuance of one or more of our products; and

additional recordkeeping.

Each of these would likely entail substantial time and cost and could materially harm our business and our financial results. In addition, delays in receipt of or failure to receive regulatory clearances or approvals for any future products would harm our business, financial condition, and results of operations.

Table of Contents

Risks Related to the Ownership of Our Common Stock

The trading price of our common stock is volatile, and purchasers of our common stock could incur substantial losses. *

The trading price of our common stock is highly volatile and could be subject to wide fluctuations in response to various factors, some of which are beyond our control. The stock markets in general, and the markets for pharmaceutical, biopharmaceutical and biotechnology stocks in particular, have experienced extreme volatility that may have been for reasons that are unrelated to the operating performance of the issuer. The market price for our common stock may be influenced by many factors, including:

regulatory or legal developments in the United States and foreign countries;

results from or delays in clinical trials of our product candidates, including our Phase 3 clinical program for RT001 and our Phase 2 clinical program for RT002;

announcements of regulatory approval or disapproval of RT001, RT002 or any future product candidates;

FDA or other U.S. or foreign regulatory actions affecting us or our industry;

introductions and announcements of new products by us, any commercialization partners or our competitors, and the timing of these introductions and announcements;

variations in our financial results or those of companies that are perceived to be similar to us;

changes in the structure of healthcare payment systems;

announcements by us or our competitors of significant acquisitions, licenses, strategic partnerships, joint ventures or capital commitments;

market conditions in the pharmaceutical and biopharmaceutical sectors and issuance of securities analysts reports or recommendations;

quarterly variations in our results of operations or those of our future competitors;

changes in financial estimates or guidance, including our ability to meet our future revenue and operating profit or loss estimates or guidance;

sales of substantial amounts of our stock by insiders and large stockholders, or the expectation that such sales might occur;

general economic, industry and market conditions;

additions or departures of key personnel;

intellectual property, product liability or other litigation against us;

expiration or termination of our potential relationships with customers and strategic partners; and

the other factors described in this Risk Factors section.

These broad market fluctuations may adversely affect the trading price or liquidity of our common stock.

In addition, in the past, stockholders have initiated class action lawsuits against pharmaceutical companies following periods of volatility in the market prices of these companies' stock. Such litigation, if instituted against us, could cause us to incur substantial costs and divert management's attention and resources.

If securities or industry analysts do not publish research or publish unfavorable research about our business, our stock price and trading volume could decline. *

As a smaller company, it may be difficult for us to attract or retain the interest of equity research analysts. A lack of research coverage may adversely affect the liquidity of and market price of our common stock. We will not have any control of the equity research analysts or the content and opinions included in their reports. The price of our stock could decline if one or more equity research analysts downgrade our stock or issue other unfavorable commentary or research. If one or more equity research analysts ceases coverage of our company, or fails to publish reports on us regularly, demand for our stock could decrease, which in turn could cause our stock price or trading volume to decline.

Sales of substantial amounts of our common stock in the public markets, or the perception that such sales might occur, could cause the market price of our common stock to drop significantly, even if our business is doing well.*

Sales of a substantial number of shares of our common stock in the public market could occur at any time. If our stockholders sell, or the market perceives that our stockholders intend to sell, substantial amounts of our common stock in the public market, the market price of our common stock could decline significantly.

Substantially all of our existing stockholders were subject to lock-up agreements with the underwriters of our IPO that restricted the stockholders' ability to transfer shares of our common stock through August 4, 2014, which was 180 days from the date of our IPO. In connection with our follow-on public offering, we, all of our directors and executive officers and certain of our other stockholders agreed to extend these lock-up restrictions through September 16, 2014, which was 90 days after the date of our follow-on public offering, other than with respect to 25,000 shares held by

one of our executive officers which will be subject to the restrictions described above for an additional period ending 60 days after the date of our follow-on public offering.

Table of Contents

Subject to certain limitations, on August 5, 2014, approximately 3,242,899 shares became eligible for sale upon the expiration of the IPO lock-up period. On September 17, 2014, an additional 8,545,523 shares became eligible for sale, also subject to certain limitations, upon expiration of the subsequent follow-on lock-up period. Shares issued or issuable upon exercise of options and warrants vested as of the expiration of the applicable lock-up period were also eligible for sale upon such expiration. Sales of stock by these stockholders could have a material adverse effect on the trading price of our common stock.

As of September 30, 2014, certain holders of approximately 10,068,447 shares of our common stock, including shares issuable upon the exercise of outstanding warrants, are entitled to certain rights with respect to the registration of their shares under the Securities Act of 1933, as amended, or the Securities Act, subject to the lock-up arrangements described above. Registration of these shares under the Securities Act would result in the shares becoming freely tradable without restriction under the Securities Act, except for shares held by our affiliates as defined in Rule 144 under the Securities Act. Any sales of securities by these stockholders could have a material adverse effect on the trading price of our common stock.

Provisions in our corporate charter documents and under Delaware law could discourage takeover attempts and lead to management entrenchment, and the market price of our common stock may be lower as a result.*

Certain provisions in our amended and restated certificate of incorporation and amended and restated bylaws may make it difficult for a third party to acquire, or attempt to acquire, control of our company, even if a change in control was considered favorable by you and other stockholders. For example, our board of directors has the authority to issue up to 5,000,000 shares of preferred stock. Our board of directors can fix the price, rights, preferences, privileges, and restrictions of the preferred stock without any further vote or action by our stockholders. The issuance of shares of preferred stock may delay or prevent a change in control transaction. As a result, the market price of our common stock and the voting and other rights of our stockholders may be adversely affected. An issuance of shares of preferred stock may result in the loss of voting control to other stockholders.

Our charter documents also contain other provisions that could have an anti-takeover effect, including:

only one of our three classes of directors will be elected each year;

no cumulative voting in the election of directors;

the ability of our board of directors to issue shares of preferred stock and determine the price and other terms of those shares, including preferences and voting rights, without stockholder approval;

the exclusive right of our board of directors to elect a director to fill a vacancy or newly created directorship;

stockholders will not be permitted to take actions by written consent;

stockholders cannot call a special meeting of stockholders;

stockholders must give advance notice to nominate directors or submit proposals for consideration at stockholder meetings;

the ability of our board of directors, by a majority vote, to amend the bylaws; and

the requirement for the affirmative vote of at least 66 2/3% or more of the outstanding common stock to amend many of the provisions described above.

In addition, we are subject to the anti-takeover provisions of Section 203 of the Delaware General Corporation Law, which regulates corporate acquisitions. These provisions could discourage potential acquisition proposals and could delay or prevent a change in control transaction. They could also have the effect of discouraging others from making tender offers for our common stock, including transactions that may be in your best interests. These provisions may also prevent changes in our management or limit the price that certain investors are willing to pay for our stock.

Our amended and restated certificate of incorporation also provides that the Court of Chancery of the State of Delaware will be the exclusive forum for substantially all disputes between us and our stockholders.

Insiders have substantial control over us, which could limit your ability to influence the outcome of key transactions, including a change of control.*

As of September 30, 2014, our directors, executive officers and each of our stockholders who own greater than 5% of our outstanding common stock and their affiliates, in the aggregate, owned approximately 39.6% of the outstanding shares of our common stock. As a result, these stockholders, if acting together, would be able to influence or control matters requiring approval by our stockholders, including the election of directors and the approval of mergers, acquisitions or other extraordinary transactions. They may have interests that differ from yours and may vote in a way with which you disagree and that may be adverse to your interests. This concentration of ownership may have the effect of delaying, preventing or deterring a change of control of our company, could deprive our stockholders of an opportunity to receive a premium for their common stock as part of a sale of our company and might affect the market price of our common stock.

Table of Contents

Claims for indemnification by our directors and officers may reduce our available funds to satisfy successful third party claims against us and may reduce the amount of money available to us.

Our amended and restated certificate of incorporation and amended and restated bylaws provide that we will indemnify our directors and officers, in each case to the fullest extent permitted by Delaware law.

In addition, as permitted by Section 145 of the Delaware General Corporation Law, our amended and restated bylaws and our indemnification agreements that we have entered into with our directors and officers provide that:

We will indemnify our directors and officers for serving us in those capacities, or for serving other business enterprises at our request, to the fullest extent permitted by Delaware law. Delaware law provides that a corporation may indemnify such person if such person acted in good faith and in a manner such person reasonably believed to be in or not opposed to the best interests of the registrant and, with respect to any criminal proceeding, had no reasonable cause to believe such person's conduct was unlawful.

We may, in our discretion, indemnify employees and agents in those circumstances where indemnification is permitted by applicable law.

We are required to advance expenses, as incurred, to our directors and officers in connection with defending a proceeding, except that such directors or officers shall undertake to repay such advances if it is ultimately determined that such person is not entitled to indemnification.

We will not be obligated pursuant to our amended and restated bylaws to indemnify a person with respect to proceedings initiated by that person against us or our other indemnitees, except with respect to proceedings authorized by our board of directors or brought to enforce a right to indemnification.

The rights conferred in our amended and restated bylaws are not exclusive, and we are authorized to enter into indemnification agreements with our directors, officers, employees and agents and to obtain insurance to indemnify such persons.

We may not retroactively amend our amended and restated bylaw provisions to reduce our indemnification obligations to directors, officers, employees and agents.

Because we do not anticipate paying any cash dividends on our common stock in the foreseeable future, capital appreciation, if any, will be your sole source of gains.

We have not declared or paid cash dividends on our common stock to date. We currently intend to retain our future earnings, if any, to fund the development and growth of our business. In addition, the terms of any existing or future debt agreements may preclude us from paying dividends. As a result, capital appreciation, if any, of our common stock will be your sole source of gain for the foreseeable future.

We are an emerging growth company, and if we decide to comply only with reduced disclosure requirements applicable to emerging growth companies, our common stock could be less attractive to investors.

We are an emerging growth company, as defined in the JOBS Act and, for as long as we continue to be an emerging growth company, we may choose to take advantage of exemptions from various reporting requirements applicable to other public companies but not to emerging growth companies, including not being required to comply with the auditor attestation requirements of Section 404 of the Sarbanes-Oxley Act of 2002, reduced disclosure obligations regarding executive compensation in our periodic reports and proxy statements and exemptions from the requirements of holding a nonbinding advisory vote on executive compensation and shareholder approval of any golden parachute payments not previously approved. We will remain an emerging growth company until the earlier of (1) the last day of the fiscal year (a) following the fifth anniversary of the closing of our IPO, (b) in which we have total annual gross revenues of over \$1.0 billion or (c) in which we are deemed to be a large accelerated filer, which means the market value of our common stock held by non-affiliates exceeds \$700 million as of the prior June 30th, and (2) the date on which we have issued more than \$1.0 billion in non-convertible debt during the prior three-year period. We cannot predict if investors will find our common stock less attractive if we choose to rely on these exemptions. If some investors find our common stock less attractive as a result of any choices to reduce future disclosure, there may be a less active trading market for our common stock and our stock price may be more volatile.

Table of Contents

Under the JOBS Act, emerging growth companies that become public can delay adopting new or revised accounting standards until such time as those standards apply to private companies. We have irrevocably elected not to avail ourselves of this exemption from new or revised accounting standards and, therefore, we will be subject to the same new or revised accounting standards as other public companies that are not emerging growth companies.

ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds
Recent Sales of Unregistered Securities

None.

Use of Proceeds

On February 5, 2014, our registration statement on Form S-1 (File No. 333-193154) was declared effective for our IPO, pursuant to which we sold 6,900,000 shares of common stock at a public offering price of \$16.00 per share for an aggregate gross offering proceeds of \$110.4 million. As a result of the IPO, we received net proceeds of \$98.6 million, after deducting underwriting discounts, commissions and other offering expenses. On June 18, 2014 our registration statement on Form S-1 (File No. 333-196582) was declared effective for our follow-on public offering pursuant to which we sold 4,600,000 shares of common stock at a price of \$30.50 per share for aggregate gross proceeds of \$140.3 million. As a result of the follow-on public offering, we received net proceeds of \$131.3 million, after deducting underwriting discounts, commissions, and other offering expenses. None of the expenses associated with the IPO and follow-on offering were paid to directors, officers or persons owning ten percent or more of our common stock or to their associates, or to our affiliates.

As of September 30, 2014, the net offering proceeds are held in our checking and money market fund accounts. There has been no material change in the planned use of proceeds from our IPO as described in our final prospectus filed with the SEC pursuant to Rule 424(b) on February 6, 2014, or from our follow-on public offering as described in our final prospectus filed with the SEC pursuant to Rule 424(b) on June 19, 2014.

ITEM 3. Defaults upon Senior Securities

None.

ITEM 4. Mine Safety Disclosures

Not applicable.

ITEM 5. Other Information

None.

ITEM 6. Exhibits

Edgar Filing: Revance Therapeutics, Inc. - Form 10-Q

The documents listed in the Exhibit Index of this Quarterly Report on Form 10-Q are herein incorporated by reference.

Table of Contents

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.

REVANCE THERAPEUTICS, INC.

Date: November 13, 2014

By: /s/ L. Daniel Browne
L. Daniel Browne
President and Chief Executive Officer

(Duly Authorized Principal Executive Officer)

Date: November 13, 2014

By: /s/ Lauren P. Silvernail
Lauren P. Silvernail
Chief Financial Officer and Executive Vice
President of Corporate Development

(Duly Authorized Principal Financial Officer)

Table of Contents**EXHIBIT INDEX**

Exhibit Number	Exhibit Description	Incorporated by Reference to the Company's				Filed Herewith
		Form	File No.	Exhibit No.	Filed On	
3.1	Amended and Restated Certificate of Incorporation	8-K	001-36294	3.1	February 11, 2014	
3.2	Amended and Restated Bylaws	S-1	333-193154	3.4	December 31, 2013	
4.1	Amended and Restated Investor Rights Agreement, effective as of February 5, 2014, among Revance Therapeutics, Inc. and certain of its stockholders	S-1/A	333-193154	4.3	January 27, 2014	
4.2	Form of Common Stock Certificate	S-1/A	333-193154	4.4	February 3, 2014	
10.1	Revance Therapeutics, Inc. 2014 Inducement Plan					X
10.2	Executive Employment Agreement dated September 2, 2014 by and between Revance Therapeutics, Inc. and Arthur P. Bertolino					X
31.1	Certification of Principal Executive Officer pursuant to Rule 13a-14(a) and 15d-14(a) promulgated under the Exchange Act					X
31.2	Certification of Principal Financial Officer pursuant to Rule 13a-14(a) and 15d-14(a) promulgated under the Exchange Act					X
32.1	Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002					X
32.2	Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002					X

Edgar Filing: Revance Therapeutics, Inc. - Form 10-Q

101.INS	XBRL Instance Document	X
101.SCH	XBRL Taxonomy Extension Schema Document	X
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document	X
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document	X
101.LAB	XBRL Taxonomy Extension Labels Linkbase Document	X
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document	X

The certifications attached as Exhibit 32.1 and 32.2 that accompany this Quarterly Report on Form 10-Q pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, and shall not be deemed filed by the registrant with the Securities and Exchange Commission for purposes of Section 18 of the Exchange Act. Such certifications shall not be deemed incorporated by reference into any filing under the Securities Act or the Exchange Act, except to the extent that the registrant specifically incorporates it by reference.