

Report of Organizational Actions Affecting Basis of Securities

▶ See separate instructions.

Part I Reporting Issuer

1 Issuer's name		2 Issuer's employer identification number (EIN)	
NOVAN, INC.		20-4427682	
3 Name of contact for additional information	4 Telephone No. of contact	5 Email address of contact	
RICHARD PETERSON	919-485-8080	RPETERSON@NOVAN.COM	
6 Number and street (or P.O. box if mail is not delivered to street address) of contact		7 City, town, or post office, state, and Zip code of contact	
4105 HOPSON ROAD		MORRISVILLE, NC 27560	
8 Date of action		9 Classification and description	
SEPTEMBER 7, 2016		1 FOR 1.2 SHARE REVERSE STOCK SPLIT	
10 CUSIP number	11 Serial number(s)	12 Ticker symbol	13 Account number(s)
N/A	N/A	N/A	N/A

Part II Organizational Action Attach additional statements if needed. See back of form for additional questions.

14 Describe the organizational action and, if applicable, the date of the action or the date against which shareholders' ownership is measured for the action ▶ ON SEPTEMBER 7, 2016, NOVAN, INC. (THE "COMPANY") COMPLETED A 1 FOR 1.2 SHARE REVERSE STOCK SPLIT (THE "REVERSE STOCK SPLIT") OF THE OUTSTANDING SHARES OF COMMON STOCK. PURSUANT TO THE REVERSE STOCK SPLIT, EVERY ONE AND TWO TENTHS (1.2) SHARES OF ISSUED AND OUTSTANDING COMMON STOCK AUTOMATICALLY CONVERTED INTO ONE (1) SHARE OF COMMON STOCK. NO FRACTIONAL SHARES OF COMMON STOCK WERE ISSUED IN CONNECTION WITH THE REVERSE STOCK SPLIT. INSTEAD, SHAREHOLDERS OF OUTSTANDING COMMON STOCK WHO WOULD OTHERWISE BE ENTITLED TO RECEIVE A FRACTIONAL SHARE OF COMMON STOCK AS A RESULT OF THE REVERSE STOCK SPLIT WERE ENTITLED TO CASH IN LIEU THEREOF.

15 Describe the quantitative effect of the organizational action on the basis of the security in the hands of a U.S. taxpayer as an adjustment per share or as a percentage of old basis ▶ THE AGGREGATE TAX BASIS IN THE SHARES RECEIVED IN THE REVERSE STOCK SPLIT, INCLUDING ANY FRACTIONAL SHARES TREATED AS RECEIVED AND THEN EXCHANGED FOR CASH, SHOULD BE EQUAL TO THE TOTAL TAX BASIS IN THE SHARES EXCHANGED, AND THE HOLDING PERIOD OF THE SHARES RECEIVED IN THE REVERSE STOCK SPLIT WILL INCLUDE THE HOLDING PERIOD OF THE SHARES EXCHANGED. A SHAREHOLDER'S TAX BASIS IN 1 SHARE OF COMMON STOCK AFTER THE REVERSE STOCK SPLIT SHOULD EQUAL THE SHAREHOLDER'S TAX BASIS IN THE 1.2 SHARES OF COMMON STOCK EXCHANGED. THIS SHOULD GENERALLY MEAN THAT A SHAREHOLDER'S TAX BASIS IN 1 SHARE OF COMMON STOCK RECEIVED IN THE REVERSE STOCK SPLIT SHOULD EQUAL ONE HUNDRED TWENTY PERCENT (120%) OF THE TAX BASIS THE SHAREHOLDER HAD IN 1 SHARE OF COMMON STOCK IMMEDIATELY PRIOR TO THE REVERSE STOCK SPLIT. A SHAREHOLDER'S TOTAL TAX BASIS IN SUCH COMMON STOCK RECEIVED IN THE REVERSE STOCK SPLIT IMMEDIATELY AFTER THE DEEMED SALE OF FRACTIONAL SHARES SHOULD EQUAL THAT SHAREHOLDER'S TOTAL TAX BASIS IN THAT SHAREHOLDER'S PRE-REVERSE STOCK SPLIT SHARES, LESS THE TAX BASIS ALLOCATED TO THE FRACTIONAL SHARES RECEIVED. EACH SHAREHOLDER SHOULD CONSULT HIS OR HER OWN TAX ADVISOR.

16 Describe the calculation of the change in basis and the data that supports the calculation, such as the market values of securities and the valuation dates ▶ AS DISCUSSED IN ITEM 15 ABOVE, THE AGGREGATE TAX BASIS IN THE COMMON STOCK RECEIVED IN THE REVERSE STOCK SPLIT, INCLUDING ANY FRACTIONAL SHARES TREATED AS RECEIVED AND THEN EXCHANGED FOR CASH, SHOULD BE EQUAL TO THE TOTAL TAX BASIS IN THE SHARES EXCHANGED. THE MARKET VALUE OF THE COMMON STOCK WAS NOT APPLICABLE IN DETERMINING A SHAREHOLDER'S TAX BASIS IN THE COMMON STOCK RECEIVED IN THE REVERSE STOCK SPLIT.

Part II Organizational Action (continued)

17 List the applicable Internal Revenue Code section(s) and subsection(s) upon which the tax treatment is based ► **SECTION 302 SECTION 1001, SECTION 1031, SECTION 1036, SECTION 1221 AND SECTION 1222. EACH SHAREHOLDER SHOULD CONSULT HIS OR HER OWN TAX ADVISOR WITH RESPECT TO THE QUANTITATIVE EFFECT OF THE REVERSE STOCK SPLIT ON THE TAX BASIS OF SUCH SHAREHOLDER'S COMMON STOCK RECEIVED IN THE REVERSE STOCK SPLIT.**

18 Can any resulting loss be recognized? ► **EXCEPT TO THE EXTENT OF CASH RECEIVED, IF ANY, IN LIEU OF FRACTIONAL SHARES, A SHAREHOLDER SHOULD NOT RECOGNIZE GAIN OR LOSS IN CONNECTION WITH THE REVERSE STOCK SPLIT. SHAREHOLDERS ENTITLED TO FRACTIONAL SHARES IN THE REVERSE STOCK SPLIT ARE DEEMED TO HAVE RECEIVED AND THEN IMMEDIATELY SOLD SUCH FRACTIONAL SHARES FOR CASH. IN GENERAL, IF A SHAREHOLDER RECEIVES CASH IN LIEU OF A FRACTIONAL SHARE, THE SHAREHOLDER SHOULD RECOGNIZE GAIN OR LOSS, SUBJECT TO THE RELEVANT LOSS LIMITATION PROVISIONS OF THE INTERNAL REVENUE CODE, BASED ON THE DIFFERENCE BETWEEN THE CASH RECEIVED AND THE ADJUSTED TAX BASIS IN THE FRACTIONAL SHARE. EACH SHAREHOLDER IS ADVISED TO CONSULT HIS OR HER OWN TAX ADVISOR AS TO THE GAIN OR LOSS RECOGNIZED IN CONNECTION WITH THE DEEMED SALE OF FRACTIONAL SHARES IN THE REVERSE STOCK SPLIT.**

19 Provide any other information necessary to implement the adjustment, such as the reportable tax year ► **THE COMPANY COMPLETED THE REVERSE STOCK SPLIT ON SEPTEMBER 7, 2016, SUCH THAT THE ORGANIZATIONAL ACTION OCCURRED DURING THE COMPANY'S TAXABLE PERIOD ENDING DECEMBER 31, 2016. THE REPORTABLE TAX YEAR IS 2016 FOR CALENDAR YEAR TAXPAYERS. FOR SHAREHOLDERS REPORTING TAXABLE INCOME ON A BASIS OTHER THAN THE CALENDAR YEAR, THE REPORTABLE TAX YEAR OF THE REVERSE STOCK SPLIT IS THE SHAREHOLDER'S TAX YEAR THAT INCLUDES SEPTEMBER 7, 2016.**

Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than officer) is based on all information of which preparer has any knowledge.

Sign Here

Signature ► 

Date ► 10/20/2016

Print your name ► RICHARD PETERSON

Title ► CHIEF FINANCIAL OFFICER

Paid Preparer Use Only

Print/Type preparer's name	Preparer's signature	Date	Check <input type="checkbox"/> if self-employed	PTIN
Firm's name ►			Firm's EIN ►	
Firm's address ►			Phone no.	