
Section 1: 10-Q (FORM 10-Q)

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549**

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2015

OR

- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from _____ to _____

Commission File Number: 000-54910

RXi Pharmaceuticals Corporation

(Exact name of registrant as specified in its charter)

Delaware
(State of incorporation)

45-3215903
(I.R.S. Employer
Identification No.)

257 Simarano Drive, Suite 101, Marlborough, MA 01752
(Address of principal executive office) (Zip code)

Registrant's telephone number: (508) 767-3861

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 time 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. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company)

Smaller reporting company

Indicate by checkmark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of November 6, 2015, RXi Pharmaceuticals Corporation had 65,349,121 shares of common stock, \$0.0001 par value, outstanding.

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RXi PHARMACEUTICALS CORPORATION
FORM 10-Q — QUARTER ENDED SEPTEMBER 30, 2015

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CONDENSED BALANCE SHEETS
(Amounts in thousands, except share and per share data)
(Unaudited)

	<u>September 30,</u> <u>2015</u>	<u>December 31,</u> <u>2014</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 4,035	\$ 8,496
Restricted cash	50	50
Short-term investments	8,000	—
Prepaid expenses and other current assets	432	442
Total current assets	12,517	8,988
Property and equipment, net	162	183
Other assets	18	18
Total assets	<u>\$ 12,697</u>	<u>\$ 9,189</u>
LIABILITIES, CONVERTIBLE PREFERRED STOCK AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 222	\$ 285
Accrued expenses and other current liabilities	1,443	1,002
Deferred revenue	—	47
Total current liabilities	1,665	1,334
Commitments and contingencies		
Convertible preferred stock:		
Series A convertible preferred stock, \$0.0001 par value, 15,000 shares authorized; 0 and 5,110 shares issued and outstanding at September 30, 2015 and December 31, 2014, respectively (at liquidation value)	—	5,110
Stockholders' equity:		
Preferred stock, \$0.0001 par value; 10,000,000 authorized		
Series A-1 convertible preferred stock, \$0.0001 par value, 10,000 shares authorized; 0 and 1,578 shares issued and outstanding at September 30, 2015 and December 31, 2014, respectively (at liquidation value)	—	1,578
Common stock, \$0.0001 par value, 100,000,000 shares authorized; 64,949,121 and 21,984,272 shares issued and outstanding at September 30, 2015 and December 31, 2014, respectively	6	2
Additional paid-in capital	65,515	48,047
Accumulated deficit	(54,489)	(46,882)
Total stockholders' equity	11,032	2,745
Total liabilities, convertible preferred stock and stockholders' equity	<u>\$ 12,697</u>	<u>\$ 9,189</u>

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

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RXi PHARMACEUTICALS CORPORATION
CONDENSED STATEMENTS OF OPERATIONS
(Amounts in thousands, except share and per share data)
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Revenue	\$ —	\$ 16	\$ 34	\$ 57
Operating expenses:				
Research and development (1)	1,734	1,459	5,202	4,118
General and administrative (1)	770	766	2,447	2,459
Total operating expenses	<u>2,504</u>	<u>2,225</u>	<u>7,649</u>	<u>6,577</u>
Operating loss	(2,504)	(2,209)	(7,615)	(6,520)
Other income				
Interest income, net	8	4	10	15
Other income (expense), net	—	(1)	(2)	9
Total other income	<u>8</u>	<u>3</u>	<u>8</u>	<u>24</u>
Net loss	(2,496)	(2,206)	(7,607)	(6,496)
Series A and Series A-1 convertible preferred stock dividends	—	(700)	(209)	(3,668)
Net loss applicable to common stockholders	<u>\$ (2,496)</u>	<u>\$ (2,906)</u>	<u>\$ (7,816)</u>	<u>\$ (10,164)</u>
Net loss per common share applicable to common stockholders:				
Basic and diluted	<u>\$ (0.04)</u>	<u>\$ (0.17)</u>	<u>\$ (0.18)</u>	<u>\$ (0.69)</u>
Weighted average common shares: basic and diluted	<u>64,949,121</u>	<u>17,494,109</u>	<u>44,451,927</u>	<u>14,726,417</u>
(1) Non-cash stock-based compensation expenses included in operating expenses are as follows:				
Research and development	\$ 174	\$ 216	\$ 552	\$ 632
General and administrative	211	238	691	770

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

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RXi PHARMACEUTICALS CORPORATION
CONDENSED STATEMENTS OF CASH FLOWS
(Amounts in thousands)
(Unaudited)

	Nine Months Ended	
	September 30,	
	2015	2014
Cash flows from operating activities:		
Net loss	\$ (7,607)	\$ (6,496)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	60	68
Gain on disposal of equipment	—	(10)
Non-cash stock-based compensation	1,243	1,402
Fair value of common stock issued in exchange for patent and technology rights	228	—
Changes in operating assets and liabilities:		
Prepaid expenses and other assets	10	(207)
Accounts payable	(63)	(26)
Accrued expenses and other current liabilities	441	(837)
Deferred revenue	(47)	(57)
Net cash used in operating activities	(5,735)	(6,163)
Cash flows from investing activities:		
Purchase of short-term investments	(8,000)	(5,000)
Maturities of short-term investments	—	3,000
Cash paid for purchase of property and equipment	(39)	(86)
Proceeds from disposal of property and equipment	—	12
Net cash used in investing activities	(8,039)	(2,074)
Cash flows from financing activities:		
Net proceeds from the issuance of common stock	9,266	1,947
Proceeds from the issuance of common stock upon the exercise of warrants	16	—
Proceeds from the issuance of common stock in connection with the employee stock purchase plan	31	30
Net cash provided by financing activities	9,313	1,977
Net decrease in cash and cash equivalents	(4,461)	(6,260)
Cash and cash equivalents at the beginning of period	8,496	11,390
Cash and cash equivalents at the end of period	<u>\$ 4,035</u>	<u>\$ 5,130</u>
Supplemental disclosure of non-cash investing and financing activities:		
Exchange of Series A convertible preferred stock into Series A-1 convertible preferred stock	\$ 2,000	\$ 3,000
Conversion of Series A and Series A-1 convertible preferred stock into common stock	\$ 6,814	\$ 3,582
Fair value of Series A and Series A-1 convertible preferred stock dividends	\$ 209	\$ 3,668
Series A and Series A-1 convertible preferred stock dividends	\$ 126	\$ 447

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

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RXi PHARMACEUTICALS CORPORATION

NOTES TO CONDENSED FINANCIAL STATEMENTS

(Unaudited)

1. Nature of Business and Basis of Presentation

RXi Pharmaceuticals Corporation (“**RXi**,” “**we**,” “**our**” or the “**Company**”) is a biotechnology company focused on discovering and developing innovative therapies, primarily in the areas of dermatology and ophthalmology, that address high unmet medical needs. Our development programs are based on our siRNA technology and immunotherapy agents. Our clinical development programs include, but are not limited to, our proprietary, self-delivering RNAi (sd-rxRNA®) compounds for the treatment of dermal and ocular scarring and an immunomodulating agent, Samcyprone™, for the treatment of such disorders as warts, alopecia areata, non-malignant skin tumors and cutaneous metastases of melanoma. In addition to these clinical programs, we have a pipeline of discovery and preclinical product candidates in our core therapeutic areas, as well as in other areas of interest. The Company’s pipeline, coupled with our extensive patent portfolio, provides support to further discover and develop innovative therapies either on our own or in collaboration with strategic partners.

Basis of Presentation

The accompanying condensed financial statements are unaudited and have been prepared in accordance with accounting principles generally accepted in the United States of America (“**GAAP**”). Certain information and footnote disclosures included in the Company’s annual financial statements have been condensed or omitted. The year-end condensed balance sheet data was derived from audited financial statements, but does not include all disclosures required by GAAP. In the opinion of management, all adjustments (including normal recurring accruals) considered necessary for a fair presentation of the condensed financial statements have been included. Interim results are not necessarily indicative of results for a full year.

Uses of Estimates in Preparation of Financial Statements

The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Cash and Cash Equivalents

The Company considers all highly liquid instruments with an original maturity of three months or less to be cash equivalents. Cash equivalents consist primarily of amounts invested in certificates of deposit.

Restricted Cash

Restricted cash consists of certificates of deposit held by financial institutions as collateral for the Company’s corporate credit cards.

Short-term Investments

Short-term investments consist of certificates of deposit with original maturities ranging from 3 months to 1 year.

Revenue Recognition

The principal source of revenue consists of government research grants. Revenue is recognized provided there is persuasive evidence of an arrangement, the fee is fixed or determinable and collection of the related receivable is reasonably assured, and no contingencies remain outstanding. Payments received prior to the recognition of revenue are recorded as deferred revenue.

Research and Development Expenses

Research and development costs are charged to expense as incurred and relate to salaries, employee benefits, facility-related expenses, supplies, stock-based compensation related to employees and non-employees involved in the Company’s research and development, external services, other operating costs and overhead related to our research and development departments, costs to acquire technology licenses and expenses associated with preclinical activities and our clinical trials. Payments made by the Company in advance for research and development services not yet provided and/or for materials not yet received are recorded as prepaid expenses. Accrued liabilities are recorded related to those expenses for which vendors have not yet billed us with respect to services provided and/or materials that we have received.

Preclinical and clinical trial expenses relate to third-party services, subject-related fees at the sites where our clinical trials are being conducted, laboratory costs, analysis costs, toxicology studies and investigator fees. Costs associated with these expenses are generally payable on the passage of time or when certain milestones are achieved. Expense is recorded during the period incurred or in the period in which a milestone is achieved. In order to ensure that we have adequately provided for preclinical and clinical expenses during the proper period, we maintain an accrual to cover these expenses. These accruals are assessed on a quarterly basis and are based on such assumptions as expected total cost, the number of subjects and clinical trial sites and length of the study. Actual results may differ from these estimates and could have a material impact

on our reported results. Our historical accrual estimates have not been materially different from our actual costs.

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Stock-based Compensation

The Company follows the provisions of the Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) Topic 718, “*Compensation — Stock Compensation*” (“ASC 718”), which requires the measurement and recognition of compensation expense for all stock-based payment awards made to employees, officers and non-employee directors, including stock options. Stock compensation expense based on the grant date fair value estimated in accordance with the provisions of ASC 718 is recognized as an expense over the requisite service period.

For stock options granted as consideration for services rendered by non-employees, the Company recognizes compensation expense in accordance with the requirements of FASB ASC Topic 505-50, “*Equity Based Payments to Non-Employees*.” Non-employee option grants that do not vest immediately upon grant are recorded as an expense over the requisite service period of the underlying stock options. At the end of each financial reporting period prior to vesting, the value of these options, as calculated using the Black-Scholes option-pricing model, will be re-measured using the fair value of the Company’s common stock and the non-cash compensation recognized during the period will be adjusted accordingly. Since the fair market value of options granted to non-employees is subject to change in the future, the amount of the future compensation expense will include fair value re-measurements until the stock options are fully vested.

Net Loss per Share

The Company accounts for and discloses net loss per share attributable to common stockholders in accordance with FASB ASC Topic 260, “*Earnings per Share*.” Basic and diluted net loss per common share is computed by dividing net loss attributable to common stockholders by the weighted average number of common shares outstanding. When the effects are not anti-dilutive, diluted earnings per share is computed by dividing the Company’s net earnings by the weighted average number of common shares outstanding and the impact of all dilutive potential common shares.

Comprehensive Loss

The Company’s net loss is equal to its comprehensive loss for all periods presented.

2. Recent Accounting Pronouncements

In May 2014, the FASB issued Accounting Standards Update (“ASU”) 2014-09, “*Revenue from Contracts with Customers (Topic 606)*.” ASU 2014-09 states that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. On July 9, 2015, the FASB voted to delay the effective date of the new revenue standard by one year but to permit entities to choose to adopt the standard as of the original effective date. The new standard will be effective for the Company on January 1, 2018. The Company is currently evaluating the method of adoption and the potential impact the update may have on its financial position and results of operations.

3. Net Loss per Share Attributable to Common Stockholders

The following table sets forth the potential common shares excluded from the calculation of net loss per common share attributable to common stockholders because their inclusion would be anti-dilutive:

	September 30,	
	2015	2014
Options to purchase common stock	3,308,761	2,987,264
Common stock underlying Series A and Series A-1 convertible preferred stock	—	16,743,495
Warrants to purchase common stock	25,969,615	4,615
Total	<u>29,278,376</u>	<u>19,735,374</u>

4. Fair Value Measurements

The Company follows the provisions of FASB ASC Topic 820, “*Fair Value Measurements and Disclosures*,” for the Company’s financial assets and liabilities that are re-measured and reported at fair value at each reporting period and are re-measured and reported at fair value at least annually using a fair value hierarchy that is broken down into three levels. Level inputs are defined as follows:

Level 1 — quoted prices in active markets for identical assets or liabilities.

Level 2 — other significant observable inputs for the assets or liabilities through corroboration with market data at the measurement date.

Level 3 — significant unobservable inputs that reflect management’s best estimate of what market participants would use to price the assets or liabilities at the measurement date.

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The Company categorized its restricted cash, cash equivalents and short-term investments as Level 2 hierarchy. The assets classified as Level 2 have initially been valued at the applicable transaction price and subsequently valued, at the end of each reporting period, using other market observable data. Observable market data points include quoted prices, interest rates, reportable trades and other industry and economic events. Financial assets measured at fair value on a recurring basis are summarized as follows, in thousands:

<u>Description</u>	<u>September 30, 2015</u>	<u>Quoted Prices In Active Markets (Level 1)</u>	<u>Other Significant Observable Inputs (Level 2)</u>	<u>Unobservable Inputs (Level 3)</u>
Assets:				
Restricted cash	\$ 50	\$ —	\$ 50	\$ —
Cash equivalents	1,500	—	1,500	—
Short-term investments	8,000	—	8,000	—
Total	<u>\$ 9,550</u>	<u>\$ —</u>	<u>\$ 9,550</u>	<u>\$ —</u>

<u>Description</u>	<u>December 31, 2014</u>	<u>Quoted Prices In Active Markets (Level 1)</u>	<u>Other Significant Observable Inputs (Level 2)</u>	<u>Unobservable Inputs (Level 3)</u>
Assets:				
Restricted cash	\$ 50	\$ —	\$ 50	\$ —
Cash equivalents	4,000	—	4,000	—
Total	<u>\$ 4,050</u>	<u>\$ —</u>	<u>\$ 4,050</u>	<u>\$ —</u>

Fair Value of Financial Instruments

The carrying amounts reported in the balance sheet for restricted cash, cash equivalents, short-term investments, accounts payable and accrued expenses approximate their fair values due to their short-term nature.

5. Convertible Preferred Stock

As of September 30, 2015, the Company had authorized for issuance a total of 15,000 shares of Series A convertible preferred stock (“**Series A Preferred Stock**”), \$0.0001 par value per share. There were no shares of Series A Preferred Stock outstanding at September 30, 2015. As described in Note 8, on November 6, 2015, the Company filed a Certificate Eliminating the Series A Convertible Preferred Stock from the Certificate of Incorporation of the Company with the Secretary of State of the State of Delaware, in order to eliminate from the Amended and Restated Certificate of Incorporation of the Company, as amended (the “**Charter**”) all matters set forth in the Charter, including the related certificate of designation, relating to the Series A Preferred Stock.

Dividends

On May 22, 2015, the Company entered into an agreement (the “**Acceleration and Conversion Agreement**”) with Tang Capital Partners, L.P. (“**TCP**”) pursuant to which the Company and TCP agreed to accelerate the next dividend payment date from June 30, 2015 to no later than May 29, 2015, and upon payment of such dividend immediately convert the dividend shares into common stock. In connection therewith, the dividend payment date was accelerated to May 27, 2015. There were no Series A Preferred Shares outstanding after such date.

There were no dividends paid on the Series A Preferred Stock during the three months ended September 30, 2015, as all outstanding shares of Series A Preferred Stock were converted into common stock on May 27, 2015. The Company paid dividends in additional shares of Series A Preferred Stock of 87 shares for the three months ended September 30, 2014. Included in the Company’s net loss applicable to common shareholders related to the fair value of the Series A Preferred Stock dividends was \$421,000 for the three months ended September 30, 2014.

The Company paid dividends in additional shares of Series A Preferred Stock of 105 and 268 shares for the nine months ended September 30, 2015 and 2014, respectively. Included in the Company’s net loss applicable to common shareholders related to the fair value of the Series A Preferred Stock dividends was \$172,000 and \$2,056,000 for the nine months ended September 30, 2015 and 2014, respectively.

Conversion

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There were no conversions of the Series A Preferred Stock during the three months ended September 30, 2015, as all remaining outstanding shares of Series A Preferred Stock were converted into common stock on May 27, 2015. During the three months ended September 30, 2014, there were no shares of Series A Preferred Stock converted into shares of common stock.

During the nine months ended September 30, 2015, 3,215 shares of Series A Preferred Stock were converted into 7,837,400 shares of common stock and during the nine months ended September 30, 2014, 166 shares of Series A Preferred Stock were converted into 405,720 shares of common stock.

6. Stockholders' Equity

The Company currently has authorized for issuance 100,000,000 shares of common stock, par value \$0.0001 per share, and 10,000,000 shares of preferred stock, par value \$0.0001 per share.

Series A-1 Preferred Stock

As of September 30, 2015, the Company had authorized for issuance a total of 10,000 shares of Series A-1 convertible preferred stock ("**Series A-1 Preferred Stock**"), \$0.0001 par value per share. There were no shares of Series A-1 Preferred Stock outstanding at September 30, 2015. As described in Note 8, on November 6, 2015, the Company filed a Certificate Eliminating the Series A-1 Convertible Preferred Stock from the Certificate of Incorporation of the Company with the Secretary of State of the State of Delaware, in order to eliminate from the Charter all matters set forth in the Charter, including the related certificates of designation and increase, relating to the Series A-1 Preferred Stock.

Dividends

On May 22, 2015, the Company entered into the Acceleration and Conversion Agreement with TCP pursuant to which the Company and TCP agreed to accelerate the next dividend payment date from June 30, 2015 to no later than May 29, 2015, and upon payment of such dividend immediately convert the dividend shares into common stock. In connection therewith, the dividend payment date was accelerated to May 27, 2015. There were no Series A-1 Preferred Shares outstanding after such date.

There were no dividends paid on the Series A-1 Preferred Stock during the three months ended September 30, 2015, as all outstanding shares of Series A-1 Preferred Stock were converted into common stock on May 27, 2015. The Company paid dividends in additional shares of Series A-1 Preferred Stock of 57 shares for the three months ended September 30, 2014. Included in the Company's net loss applicable to common shareholders related to the fair value of the Series A-1 Preferred Stock dividends was \$279,000 for the three months ended September 30, 2014.

The Company paid dividends in additional shares of Series A-1 Preferred Stock of 21 and 209 shares for the nine months ended September 30, 2015 and 2014, respectively. Included in the Company's net loss applicable to common shareholders related to the fair value of the Series A-1 Preferred Stock dividends was \$37,000 and \$1,612,000 for the nine months ended September 30, 2015 and 2014, respectively.

Conversion

There were no conversions of the Series A-1 Preferred Stock during the three months ended September 30, 2015, as all remaining outstanding shares of Series A-1 Preferred Stock were converted into common stock on May 27, 2015. During the three months ended September 30, 2014, 2,557 shares of Series A-1 Preferred Stock were converted into 6,232,862 shares of common stock.

During the nine months ended September 30, 2015, 3,599 shares of Series A-1 Preferred Stock were converted into 8,772,903 shares of common stock and during the nine months ended September 30, 2014, 3,416 shares of Series A-1 Preferred Stock were converted into 8,326,721 shares of common stock.

Common Stock

Hapten License Agreement

On December 17, 2014, the Company entered into an assignment and exclusive license agreement, (the "**Hapten Assignment and License Agreement**") with Hapten Pharmaceuticals, LLC ("**Hapten**") under which Hapten agreed, effective at a closing that occurred on February 4, 2015, to sell and assign to us certain patent rights and related assets and rights, including an investigational new drug application and clinical data, for Hapten's Samcyprone™ products for therapeutic and prophylactic use. Upon the closing of the Hapten Assignment and License Agreement on February 4, 2015, the Company paid to Hapten a one-time upfront cash payment of \$100,000 and issued 200,000 shares of common stock, the fair value of which was determined using the quoted market price of the Company's common stock on the date of issuance. Accordingly, the cash payment of \$100,000 and the fair value of the common stock of \$228,000 were recorded as research and development expense during the quarter ended March 31, 2015.

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Lincoln Park Capital Equity Line

During the nine months ended September 30, 2015, the Company sold a total of 50,000 shares of common stock for net proceeds of approximately \$64,000 to Lincoln Park Capital Fund, LLC (“LPC”) pursuant to and subject to the limitations and conditions set forth in that certain purchase agreement (the “LPC Purchase Agreement”) between the Company and LPC dated December 18, 2014. There were no sales made under the LPC Purchase Agreement during the three months ended September 30, 2015. Per the terms of the public offering (see below), the Company cannot access the equity line until the expiration of the 13-month Overallotment Purchase Rights (defined below).

June 2015 Public Offering

On June 2, 2015, the Company sold a total of 26,000,000 units at a price of \$0.40 per unit in a public offering (the “Offering”). Each unit consists of one share of common stock, a 13-month overallotment purchase right to purchase one-half of one share of common stock at a price of \$0.455 per full share of common stock (the “Overallotment Purchase Rights”) and a five-year warrant to purchase one-half of one share of common stock at a price of \$0.52 per full share of common stock (the “Warrants”). As a result of the Offering, the Company received gross proceeds of approximately \$10,400,000 and net proceeds of approximately \$9,200,000 after placement agent fees and estimated Offering expenses, and assuming the Overallotment Purchase Rights and Warrants are not exercised.

The Company first assessed the Overallotment Purchase Rights and the Warrants under FASB ASC Topic 480 (“ASC 480”), “Distinguishing Liabilities and Equity” and determined that the Overallotment Purchase Rights and the Warrants were outside the scope of ASC 480. The Company next assessed the Overallotment Purchase Rights and Warrants under FASB ASC Topic 815 (“ASC 815”), “Derivatives and Hedging.” Under the related guidance, a reporting entity shall not consider a contract to be a derivative instrument if the contract is both (1) indexed to the entity’s own stock and (2) classified in stockholders’ equity. The Company determined that the warrant contracts are indexed to the Company’s stock, as the agreements do not contain any exercise contingencies and the warrants’ settlement amount equals the difference between the fair value of the Company’s common stock price and the warrant contract strike price, and the only variables which could affect the settlement amount would be inputs to the fair value for a fixed-for-fixed option on equity shares. The Company also assessed the classification in stockholders’ equity and determined the warrant contracts meet all of the criteria for classification as equity under ASC 815. Based on this analysis, the Company determined that the Overallotment Purchase Rights and the Warrants should be classified as equity.

No warrants were exercised during the three months ended September 30, 2015. During the nine months ended September 30, 2015, 35,000 warrants were exercised for gross proceeds of \$16,000.

Refer to the Series A Preferred Stock and Series A-1 Preferred Stock conversions described above in this Note and Note 5 for shares issued as a result of the conversions of Series A and Series A-1 Preferred Stock during the three and nine months ended September 30, 2015 and 2014, respectively.

7. Stock-based Compensation

Stock-based Compensation

The Company uses the Black-Scholes option-pricing model to determine the fair value of all its option grants. For valuing options granted during the three and nine months ended September 30, 2015 and 2014, the following assumptions were used:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2015	2014	2015	2014
Risk-free interest rate	1.82 – 2.43%	2.52 %	1.47 – 2.43%	1.60 – 2.73%
Expected volatility	85.29 – 116.81%	103.47%	85.29 – 116.81%	97.91 – 107.01%
Weighted average expected volatility	107.49%	103.47%	89.43%	101.50%
Expected lives (in years)	6.25 – 10.0	10.0	5.20 – 10.0	5.20 – 10.0
Expected dividend yield	0.00%	0.00%	0.00%	0.00%

The weighted average fair value of options granted during the three month periods ended September 30, 2015 and 2014 was \$0.44 and \$2.71, respectively. The weighted average fair value of options granted during the nine month periods ended September 30, 2015 and 2014 was \$0.41 and \$2.46, respectively.

The risk-free interest rate used for each grant was based upon the yield on zero-coupon U.S. Treasury securities with a term similar to the expected life of the related option. The Company’s expected stock price volatility assumption is based upon the volatility of a composition of comparable companies. The expected life assumption for employee grants was based upon the simplified method provided for under ASC 718 and the expected life assumption for non-employees was based upon the contractual term of the option. The dividend yield assumption of zero is based upon the fact that the Company has never paid cash dividends and presently has no intention of paying cash dividends.

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The following table summarizes the activity of the Company's stock option plan for the period from January 1, 2015 to September 30, 2015:

	<u>Total Number of Shares</u>	<u>Weighted- Average Exercise Price Per Share</u>	<u>Weighted- Average Remaining Contractual Term</u>	<u>Aggregate Intrinsic Value</u>
Balance at January 1, 2015	3,000,264	\$ 3.39		
Granted	390,164	0.55		
Exercised	—	—		
Cancelled	(81,667)	3.07		
Balance at September 30, 2015	<u>3,308,761</u>	\$ 3.06	7.39 years	\$ —
Exercisable at September 30, 2015	<u>2,376,045</u>	\$ 3.33	7.00 years	\$ —

Stock-based compensation expense for the three months ended September 30, 2015 and 2014 was approximately \$385,000 and \$454,000, respectively. Of this, the Company recognized approximately \$3,100 and \$24,000 of expense related to non-employee stock options for the same respective periods.

Stock-based compensation expense for the nine months ended September 30, 2015 and 2014 was approximately \$1,243,000 and \$1,402,000 respectively. Of this, the Company recognized approximately \$18,700 of income and \$71,000 of expense related to non-employee stock options for the same respective periods.

8. Subsequent Events

Subsequent to September 30, 2015, 400,000 Overallotment Purchase Rights were exercised for gross proceeds of \$182,000.

On November 6, 2015, the Company filed a Certificate Eliminating the Series A Convertible Preferred Stock from the Certificate of Incorporation of the Company and a Certificate Eliminating the Series A-1 Convertible Preferred Stock from the Certificate of Incorporation of the Company (together, the "**Certificates of Elimination**") with the Secretary of State of the State of Delaware, in order to eliminate from the Charter all matters set forth in the Charter, including the related certificates of designation and increase, relating to the previously issued series of preferred stock of the Company. As a result, the 15,000 shares of unissued Series A Preferred Stock and 10,000 shares of unissued Series A-1 Preferred Stock were returned to the status of authorized but unissued shares of preferred stock of the Company, without designation as to series or preferences or rights. The foregoing summary of the Certificates of Elimination is qualified in its entirety by reference to the full text of the Certificates of Elimination, which are attached hereto as Exhibits 3.1 and 3.2 to this Quarterly Report on Form 10-Q and incorporated herein by reference.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

In this document, "we," "our," "ours," "us," "RXi" and the "Company" refer to RXi Pharmaceuticals Corporation.

This management's discussion and analysis of financial condition as of September 30, 2015 and results of operations for the three and nine months ended September 30, 2015 and 2014 should be read in conjunction with the financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2014 which was filed with the SEC on March 30, 2015.

This report contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements can be identified by words such as "intend," "believe," "indicate," "plan," "expect," "may," "should," "designed to," "will" and similar references. Such statements include, but are not limited to, statements about: our ability to successfully develop RXI-109, Samcyprone™ and our other product candidates (collectively "our product candidates"); the future success of our clinical trials with our product candidates; the timing for the commencement and completion of clinical trials; and the future success of our strategic partnerships. Forward-looking statements are neither historical facts nor assurances of future performance. These statements are based only on our current beliefs, expectations and assumptions regarding the future of our business, future plans and strategies, projections, anticipated events and trends, the economy and other future conditions. Because forward-looking statements relate to the future, they are subject to inherent uncertainties, risks and changes in circumstances that are difficult to predict and many of which are outside of our control. Our actual results and financial condition may differ materially from those indicated in the forward-looking statements. Therefore, you should not rely on any of these forward-looking statements. Important factors that could cause our actual results and financial condition to differ materially from those indicated in the forward-looking statements include, among others: the risk that our clinical trials with our product candidates may not be successful in evaluating the safety and tolerability of these candidates or providing evidence of increased surgical scar reduction compared to placebo; the successful and timely completion of clinical trials; uncertainties regarding the regulatory process; the availability of funds and resources to pursue our research and development projects, including our clinical trials with our product candidates; general economic conditions; and those identified in our Annual Report on Form 10-K for the year ended December 31, 2014 under the heading "Risk Factors" and in other filings the Company periodically makes with the Securities and Exchange Commission. Forward-looking statements contained in this Quarterly Report on Form 10-Q speak as of the date hereof and the Company does not undertake to update any of these forward-looking statements to reflect a change in its views or events or circumstances that occur after the date of this report.

Overview

RXi Pharmaceuticals Corporation ("RXi," "we," "our" or the "Company") is a biotechnology company focused on discovering and developing innovative therapies, primarily in the areas of dermatology and ophthalmology, that address high unmet medical needs. Our development programs are based on our siRNA technology and immunotherapy agents. Our clinical development programs include, but are not limited to, our proprietary, self-delivering RNAi (sd-rxRNA®) compounds for the treatment of dermal and ocular scarring and an immunomodulating agent, Samcyprone™, for the treatment of such disorders as warts, alopecia areata, non-malignant skin tumors and cutaneous metastases of melanoma. In addition to these clinical programs, we have a pipeline of discovery and preclinical product candidates in our core therapeutic areas, as well as in other areas of interest. The Company's pipeline, coupled with our extensive patent portfolio, provides support to further discover and develop innovative therapies either on our own or in collaboration with strategic partners.

Our RNAi therapies are designed to "silence," or down-regulate, the expression of a specific gene that may be over-expressed in a disease condition. The Company's first RNAi clinical product candidate, RXI-109, is a self-delivering RNAi compound (sd-rxRNA) that commenced human clinical trials in 2012. RXI-109 is designed to reduce the expression of connective tissue growth factor ("CTGF"), a critical regulator of several biological pathways involved in fibrosis, including scar formation in the skin. RXI-109 is currently being evaluated in Phase 2a clinical trials to prevent or reduce dermal scarring following surgery or trauma, as well as for the management of hypertrophic scars and keloids.

The Company is also directing its development efforts toward advancing RXI-109 forward for the treatment of an ophthalmic indication, of which our current areas of focus include retinal and corneal scarring. To date, we have shown that CTGF protein levels are reduced in a dose-dependent manner in both the retina and cornea following an intravitreal injection of RXI-109 in monkeys. The Company holds an active investigational new drug application ("IND") for RXI-109 as a potential therapeutic for the scarring component of retinal diseases in the eye, such as wet age-related macular degeneration and commenced a Phase 1/2 clinical trial in this indication in November 2015.

In December 2014, the Company broadened its clinical pipeline with an exclusive, global license to Samcyprone™, our second clinical candidate. Samcyprone™ is a proprietary topical formulation of diphenylcyclopropanone (“**DPCP**”), an immunomodulator that works by initiating a T-cell response, and is currently being developed for the treatment of such disorders as warts, alopecia areata, non-malignant skin tumors and cutaneous metastases of melanoma. The use of Samcyprone™ allows sensitization using much lower concentrations of DPCP than possible with existing DPCP solutions, avoiding hyper-sensitization to subsequent challenge doses. In March 2015, the Company was granted Orphan Drug Designation for Samcyprone™ by the U.S. Food and Drug Administration for the treatment of malignant melanoma stage IIb to IV. The Company also expects to initiate a Phase 2a clinical trial for the treatment of cutaneous warts with Samcyprone™ by the end of 2015.

The Company continues to advance additional preclinical and discovery programs using our sd-rxRNA technology. In particular, within our dermatology program, the Company has selected collagenase (“**MMP1**”) and tyrosinase (“**TYR**”) as gene targets for our self-delivering RNAi platform. MMP1 is a matrix metalloproteinase involved in the breakdown of extracellular matrix. Selected reduction of MMP1 may be beneficial in the treatment of skin aging disorders, arthritis, acne scarring, blistering skin disorders, corneal erosions, endometriosis and possible cancer metastasis. TYR is the key enzyme in the synthesis of melanin. Melanin is produced by melanocytes and is the pigment that gives human skin, hair and eyes their color. The inhibition of tyrosinase can play a key role in the management of diseases including cutaneous hyperpigmentation disorders such as lentigines (freckles, age spots and liver spots), and possibly melanoma.

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In October 2015, the Company announced the selection of lead compounds targeting MMP1 and TYR for cosmeceutical development. RXI-185, an sd-rxRNA compound targeting MMP1, is being developed as a cosmeceutical product that may improve skin appearance. RXI-231, an sd-rxRNA compound targeting TYR, is being developed as a cosmeceutical product that may act as a skin lightening agent. These targets, MMP1 and TYR, were selected because they have great potential as clinically relevant pharmaceutical gene targets, however, they also have great potential as cosmeceutical targets. The term “cosmeceuticals” refers to compounds that can affect the appearance of the skin. Cosmeceuticals can be developed more rapidly than pharmaceutical drugs, and the path to market could be much shorter. The Company’s next steps include plans to complete functional and safety testing for both compounds, as well as to develop a method for skin penetration that would be compatible with our compounds.

Since inception, we have incurred significant losses. Substantially all of our losses to date have resulted from research and development expenses in connection with our clinical and research programs and from general administrative costs. At September 30, 2015, we had an accumulated deficit of \$54.5 million. We expect to continue to incur significant losses for the foreseeable future, particularly as we advance our development program for RXI-109 in dermatology and ophthalmology and commence human clinical trials with Samcyprone™.

Research and Development

To date, our research programs have focused on developing technology necessary to make RNAi compounds available by local administration for diseases for which we intend to develop an RNAi therapeutic, identifying and testing RNAi compounds against therapeutically relevant targets in the fields of dermatology and ophthalmology, and identifying lead product candidates and moving those product candidates into the clinic. Since we commenced operations, research and development has comprised a significant proportion of our total operating expenses and is expected to comprise the majority of our spending for the foreseeable future.

There are risks in any new field of drug discovery that preclude certainty regarding the successful development of a product. We cannot reasonably estimate or know the nature, timing and costs of the efforts necessary to complete the development of, or the period in which material net cash inflows are expected to commence from, any product candidate. Our inability to make these estimates results from the uncertainty of numerous factors, including but not limited to:

- Our ability to advance product candidates into preclinical research and clinical trials;
- The scope and rate of progress of our preclinical program and other research and development activities;
- The scope, rate of progress and cost of any clinical trials we commence;
- The cost of filing, prosecuting, defending and enforcing patent claims and other intellectual property rights;
- Clinical trial results;
- The terms and timing of any collaborative, licensing and other arrangements that we may establish;
- The cost and timing of regulatory approvals;
- The cost of establishing clinical and commercial supplies of our product candidates and any products that we may develop;
- The cost and timing of establishing sales, marketing and distribution capabilities;
- The effect of competing technological and market developments; and
- The effect of government regulation and insurance industry efforts to control healthcare costs through reimbursement policy and other cost management strategies.

Failure to complete any stage of the development of our product candidates in a timely manner could have a material adverse effect on our operations, financial position and liquidity.

Critical Accounting Policies and Estimates

There have been no significant changes to our critical accounting policies since the beginning of this fiscal year. Our critical accounting policies are described in the “Management’s Discussion and Analysis of Financial Condition and Results of Operations” section of our Annual Report on Form 10-K for the year ended December 31, 2014, which we filed with the SEC on March 30, 2015.

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Results of Operations

The following data summarizes the results of our operations for the periods indicated, in thousands:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Revenue	\$ —	\$ 16	\$ 34	\$ 57
Operating expenses	(2,504)	(2,225)	(7,649)	(6,577)
Operating loss	(2,504)	(2,209)	(7,615)	(6,520)
Net loss	(2,496)	(2,206)	(7,607)	(6,496)
Net loss applicable to common stockholders	\$ (2,496)	\$ (2,906)	\$ (7,816)	\$ (10,164)

Comparison of the Three and Nine Months Ended September 30, 2015 and 2014

Revenue

To date, the Company's principal source of revenue has consisted of government grants. The following table summarizes our total revenue for the periods indicated, in thousands:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Revenue	\$ —	\$ 16	\$ 34	\$ 57

No revenue was recognized for the three months ended September 30, 2015, compared with \$16,000 for the three months ended September 30, 2014. The decrease of \$16,000, or 100%, was due to the completion of work on the Company's outstanding government grant during the three months ended March 31, 2015.

Total revenue was approximately \$34,000 for the nine months ended September 30, 2015, compared with \$57,000 for the nine months ended September 30, 2014. The decrease of \$23,000, or 40%, was due to the completion of work on the Company's outstanding government grant during the three months ended March 31, 2015.

Operating Expenses

The following table summarizes our total operating expenses, for the periods indicated, in thousands:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Research and development	\$ 1,734	\$ 1,459	\$ 5,202	\$ 4,118
General and administrative	770	766	2,447	2,459
Total operating expenses	\$ 2,504	\$ 2,225	\$ 7,649	\$ 6,577

Research and Development

Research and development expenses consist of compensation-related costs for our employees dedicated to research and development activities, fees related to our Scientific Advisory Board members, expenses related to our ongoing research and development efforts primarily related to our clinical trials, drug manufacturing, outside contract services, licensing and patent fees and laboratory supplies and services for our research programs. We expect research and development expenses to increase as we expand our discovery, preclinical and clinical activities.

Total research and development expenses were approximately \$1,734,000 for the three months ended September 30, 2015, compared with \$1,459,000 for the three months ended September 30, 2014. The increase of \$275,000, or 19%, was primarily due to an increase of \$317,000 in research and development expenses driven by a new drug manufacture of RXI-109 that commenced early in the quarter, offset by decreases in employee and non-employee stock-based compensation expense related to the change in the fair value of options quarter over quarter.

Total research and development expenses were approximately \$5,202,000 for the nine months ended September 30, 2015, compared with \$4,118,000 for the nine months ended September 30, 2014. The increase of \$1,084,000, or 26%, was primarily due to an increase of \$1,164,000 in research and development expenses related to the new drug manufacture of RXI-109 that began early in the third quarter of the year, subject- and trial-related fees for the Company's second hypertrophic Phase 2a trial 1402 and Samcyprone™-related fees in preparation for the planned Phase 2 trial in cutaneous warts, offset by a decrease of \$90,000 in non-employee stock-based compensation related to the change in the fair value of options year over year.

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General and Administrative

General and administrative expenses consist primarily of compensation-related costs for our employees dedicated to general and administrative activities, legal fees, audit and tax fees, consultants, professional services and general corporate expenses.

General and administrative expenses were approximately \$770,000 for the three months ended September 30, 2015, compared with \$766,000 for the three months ended September 30, 2014. General and administrative expenses for the three months ended September 30, 2015 were consistent with general and administrative expenses in the same quarter of the prior year.

General and administrative expenses were approximately \$2,447,000 for the nine months ended September 30, 2015, compared with \$2,459,000 for the nine months ended September 30, 2014. The decrease of \$12,000, or less than 1%, was primarily due to a decrease in employee stock-based compensation expense, offset by an increase in consulting expenses.

Series A and Series A-1 Preferred Stock Dividends

The following table summarizes our Series A and Series A-1 Preferred Stock dividends for the periods indicated, in thousands:

	<u>Three Months Ended</u> <u>September 30,</u>		<u>Nine Months Ended</u> <u>September 30,</u>	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
Series A and Series A-1 Preferred Stock dividends	\$ —	\$ 700	\$ 209	\$ 3,668

There were no dividends paid on the Series A and Series A-1 Preferred Stock during the three months ended September 30, 2015, as all outstanding shares of Series A and Series A-1 Preferred Stock were converted into common stock on May 27, 2015. \$700,000 in dividends were paid on the Series A and Series A-1 Preferred Stock for the three months ended September 30, 2014. The decrease of \$700,000, or 100%, was due to the full conversion of Series A and Series A-1 Preferred Stock during the three months ended June 30, 2015, resulting in no further accumulation and payment of dividends on these series of preferred stock during the three months ended September 30, 2015.

Total Series A and Series A-1 Preferred Stock dividends were approximately \$209,000 for the nine months ended September 30, 2015, compared with \$3,668,000 for the nine months ended September 30, 2014. The decrease of \$3,459,000, or 94%, was due to a decrease in the Company's common stock price on the dividend payment dates and the number of preferred shares earning dividends each quarter and the full conversion of Series A and Series A-1 Preferred Stock during the three months ended June 30, 2015 resulting in no further accumulation and payment of dividends on these series of preferred stock.

No shares of the Series A and Series A-1 Preferred Stock remained outstanding at September 30, 2015, and as a result no further dividends will continue to accrue. On November 6, 2015, the Company filed the Certificates of Elimination with respect to the Series A and Series A-1 Preferred Stock, as described further in Item 5.

Liquidity and Capital Resources

We had cash, cash equivalents and short-term investments of approximately \$12.0 million as of September 30, 2015, compared with approximately \$8.5 million in cash and cash equivalents as of December 31, 2014.

On June 2, 2015, the Company sold a total of 26,000,000 units at a price of \$0.40 per unit in a public offering (the "**Offering**"). Each unit consists of one share of common stock, a 13-month overallotment purchase right to purchase one-half of one share of common stock at a price of \$0.455 per full share of common stock (the "**Overallotment Purchase Rights**") and a five-year warrant to purchase one-half of one share of common stock at a price of \$0.52 per full share of common stock (the "**Warrants**"). As a result of the Offering, the Company received net proceeds of approximately \$9.2 million after placement agent fees and estimated Offering expenses, and assuming the Overallotment Purchase Rights and Warrants are not exercised.

During the nine months ended September 30, 2015, the Company sold a total of 50,000 shares of common stock for net proceeds of approximately \$64,000 to Lincoln Park Capital Fund, LLC ("**LPC**") pursuant to and subject to the limitations and conditions set forth in that certain purchase agreement (the "**LPC Purchase Agreement**") between the Company and LPC dated December 18, 2014. There have been no other sales under the LPC Purchase Agreement to date. Per the terms of the Offering, the Company cannot access the equity line until the expiration of the Overallotment Purchase Rights.

We believe that our existing cash, cash equivalents and short-term investments should be sufficient to fund our operations for at least the next twelve months. We have generated significant losses to date, have not generated any product revenue to date and may not generate product revenue in the foreseeable future, or ever. In the future, we will be dependent on obtaining funding from third parties, such as proceeds from the issuance of debt, sale of equity, funded research and development programs and payments under partnership and collaborative agreements, in order to maintain our operations and meet our obligations to licensors. There is no guarantee that debt, additional equity or other funding will be available to the Company on acceptable terms, or at all. If we fail to obtain additional funding when needed, we may be forced to scale back or terminate operations or to seek to merge with or to be acquired by another company.

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Net Cash Flow from Operating Activities

Net cash used in operating activities was \$5,735,000 and \$6,163,000 for the nine months ended September 30, 2015 and 2014, respectively. The decrease in cash used in operating activities of \$428,000 was primarily due to changes in operating assets and liabilities of \$1,468,000 partially offset by an increase in net loss of \$1,111,000 and an increase in non-cash items of \$71,000.

Net Cash Flow from Investing Activities

Net cash used in investing activities for the nine months ended September 30, 2015 was \$8,039,000, of which \$8,000,000 was attributable to the purchase of short-term investments and the remainder to fixed asset purchases. Net cash used in investing activities for the nine months ended September 30, 2014 was \$2,074,000 and primarily related to the purchase of short-term investments of \$5,000,000 offset by short-term investments of \$3,000,000 maturing during the period.

Net Cash Flow from Financing Activities

Net cash provided by financing activities was \$9,313,000 for the nine months ended September 30, 2015 and was primarily due to net proceeds of \$9,266,000 from the issuance of 26 million units in connection with the Offering in June 2015 and from the issuance of shares of our common stock to LPC in connection with the LPC Purchase Agreement. Net cash provided by financing activities was \$1,977,000 for the nine months ended September 30, 2014 and was primarily due to net proceeds of \$1,947,000 for the issuance of shares of our common stock to LPC during the prior year period.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements or relationships.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable.

ITEM 4. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

As of the end of the period covered by this quarterly report on Form 10-Q, Dr. Geert Cauwenbergh, our Chief Executive Officer and acting Chief Financial Officer (the “**Certifying Officer**”), evaluated the effectiveness of our disclosure controls and procedures. Disclosure controls and procedures are controls and procedures designed to reasonably assure that information required to be disclosed in our reports filed under the Securities Exchange Act of 1934 (the “**Exchange Act**”), such as this Form 10-Q, is recorded, processed, summarized and reported within the time periods specified in the SEC rules and forms. Disclosure controls and procedures are also designed to reasonably assure that such information is accumulated and communicated to our management, including the Certifying Officer, as appropriate to allow timely decisions regarding required disclosure. Based on these evaluations, the Certifying Officer has concluded, that, as of the end of the period covered by this quarterly report on Form 10-Q:

- (a) Our disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed by us in the reports we file or submit under the Exchange Act was recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms; and
- (b) Our disclosure controls and procedures were effective to provide reasonable assurance that material information required to be disclosed by us in the reports we file or submit under the Exchange Act was accumulated and communicated to our management, including the Certifying Officer, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting

There has not been any change in our internal control over financial reporting that occurred during the quarterly period ended September 30, 2015 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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PART II — OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

None.

ITEM 1A. RISK FACTORS

You should consider the “Risk Factors” included under Item 1A. of our Annual Report on Form 10-K for the year ended December 31, 2014 filed with the SEC on March 30, 2015.

We may not be able to regain compliance with the continued listing requirements of The Nasdaq Capital Market.

On May 7, 2015, we received written notice (the “**Notification Letter**”) from the Nasdaq Stock Market (“**Nasdaq**”) notifying us that we are not in compliance with the minimum bid price requirements set forth in Nasdaq Listing Rule 5550(a)(2) for continued listing on The Nasdaq Capital Market. Nasdaq Listing Rule 5550(a)(2) requires listed securities to maintain a minimum bid price of \$1.00 per share, and Listing Rule 5810(c)(3)(A) provides that a failure to meet the minimum bid price requirement exists if the deficiency continues for a period of 30 consecutive business days. Based on the closing bid price of our common stock for the 30 consecutive business days prior to the date of the Notification Letter, we no longer meet the minimum bid price requirement. The Notification Letter provided an initial 180-day period to regain compliance, which was extended for a second 180-day period on November 4, 2015. As a result of the extension, we have until May 2, 2016 to regain compliance by maintaining a closing bid price of at least \$1.00 per share for a minimum of 10 consecutive business days. In the event that we do not regain compliance by that date, Nasdaq may commence delisting proceedings, which could adversely impact us by, among other things, reducing the liquidity and market price of our common stock; reducing the number of investors willing to hold or acquire our common stock; limiting our ability to issue additional securities in the future; and limiting our ability to fund our operations.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

On November 6, 2015, the Company filed a Certificate Eliminating the Series A Convertible Preferred Stock from the Certificate of Incorporation of the Company and a Certificate Eliminating the Series A-1 Convertible Preferred Stock from the Certificate of Incorporation of the Company (together, the “**Certificates of Elimination**”) with the Secretary of State of the State of Delaware, in order to eliminate from the Charter all matters set forth in the Charter, including the related certificates of designation and increase, relating to the previously issued series of preferred stock of the Company. As a result, the 15,000 shares of unissued Series A Preferred Stock and 10,000 shares of unissued Series A-1 Preferred Stock were returned to the status of authorized but unissued shares of preferred stock of the Company, without designation as to series or preferences or rights. The foregoing summary of the Certificates of Elimination is qualified in its entirety by reference to the full text of the Certificates of Elimination, which are attached hereto as Exhibits 3.1 and 3.2 to this Quarterly Report on Form 10-Q and incorporated herein by reference.

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ITEM 6. EXHIBITS

EXHIBIT INDEX

<u>Exhibit Number</u>	<u>Description</u>	<u>Incorporated by Reference Herein</u>	
		<u>Form</u>	<u>Date</u>
3.1	Certificate Eliminating the Series A Convertible Preferred Stock from the Certificate of Incorporation of RXi Pharmaceuticals Corporation*		
3.2	Certificate Eliminating the Series A-1 Convertible Preferred Stock from the Certificate of Incorporation of RXi Pharmaceuticals Corporation*		
31.1	Sarbanes-Oxley Act Section 302 Certification of Chief Executive Officer and Chief Financial Officer*		
32.1	Sarbanes-Oxley Act Section 906 Certification of Chief Executive Officer and Chief Financial Officer.*		
101	The following financial information from the Quarterly Report on Form 10-Q of RXi Pharmaceuticals Corporation for the quarter ended September 30, 2015, formatted in XBRL (eXtensible Business Reporting Language): (1) Condensed Balance Sheets as of September 30, 2015 and December 31, 2014; (2) Condensed Statements of Operations for the Three and Nine Months ended September 30, 2015 and 2014; (3) Condensed Statements of Cash Flows for the Nine Months ended September 30, 2015 and 2014; and (4) Notes to Condensed Financial Statements (Unaudited).*		

* Filed herewith.

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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.

RXi Pharmaceuticals Corporation (Registrant)

By: /s/ Geert Cauwenbergh

Geert Cauwenbergh, Dr. Med. Sc.
President, Chief Executive Officer and acting Chief
Financial Officer

Date: November 12, 2015

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Section 2: EX-3.1 (EX-3.1)

Exhibit 3.1

**CERTIFICATE ELIMINATING
THE SERIES A CONVERTIBLE
PREFERRED STOCK FROM THE
CERTIFICATE OF INCORPORATION**

OF

RXI PHARMACEUTICALS CORPORATION

Pursuant to the provisions of Section 151(g) of the General Corporation Law of the State of Delaware (the "DGCL"), it is hereby certified that:

1. The name of the corporation is RXi Pharmaceuticals Corporation (the "Corporation").
2. The designation of the series of shares of stock of the Corporation to which this certificate relates is Series A Convertible Preferred Stock, par value \$0.0001 per share (the "Series A Preferred Stock").
3. The voting powers, designations, preferences, and the relative, participating, optional, or other rights, and the qualifications, limitations, and restrictions of the said series of shares of stock were provided for in a resolution adopted by the Board of Directors of the Corporation (the "Board") on January 23, 2012 pursuant to authority expressly vested in it by the Certificate of Incorporation of the Corporation. That certain Certificate of Designations, Preferences and Rights of Series A Convertible Preferred Stock, dated as of February 1, 2012, setting forth the said resolution, has been heretofore filed with the Secretary of State of the State of Delaware pursuant to the provisions of Section 151(g) of the DGCL.
4. The Board has adopted the following resolutions:

NOW, THEREFORE, BE IT RESOLVED, that none of the authorized shares of Series A Preferred Stock are outstanding;

RESOLVED FURTHER, that no shares of Series A Preferred Stock will be issued; and

RESOLVED FURTHER, that each of the officers of the Corporation, acting alone or with one or more such officers be, and hereby is, authorized, empowered and directed to file a certificate setting forth these resolutions with the Secretary of State of the State of Delaware pursuant to the provisions of Section 151(g) of the DGCL for the purpose of eliminating from the Certificate of Incorporation of the Corporation all reference to the Series A Preferred Stock.

IN WITNESS WHEREOF, the Corporation has caused this Certificate of Elimination to be signed by its duly authorized officer this 6th day of November, 2015.

RXI PHARMACEUTICALS CORPORATION

By: /s/ Geert Cauwenbergh

Geert Cauwenbergh, Dr. Med. Sc.
Chief Executive Officer

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Section 3: EX-3.2 (EX-3.2)

Exhibit 3.2

**CERTIFICATE ELIMINATING
THE SERIES A-1 CONVERTIBLE
PREFERRED STOCK FROM THE
CERTIFICATE OF INCORPORATION**

OF

RXI PHARMACEUTICALS CORPORATION

Pursuant to the provisions of Section 151(g) of the General Corporation Law of the State of Delaware (the "DGCL"), it is hereby certified that:

1. The name of the corporation is RXi Pharmaceuticals Corporation (the "Corporation").
2. The designation of the series of shares of stock of the Corporation to which this certificate relates is Series A-1 Convertible Preferred Stock, par value \$0.0001 per share (the "Series A-1 Preferred Stock").

3. The voting powers, designations, preferences, and the relative, participating, optional, or other rights, and the qualifications, limitations, and restrictions of the said series of shares of stock were provided for in a resolution adopted by the Board of Directors of the Corporation (the "Board") on August 13, 2013 pursuant to authority expressly vested in it by the Certificate of Incorporation of the Corporation. That certain Certificate of Designations, Preferences and Rights of Series A-1 Convertible Preferred Stock, dated as of August 13, 2013 and amended by that certain Certificate of Increase of Series A-1 Convertible Preferred Stock, dated as of January 24, 2014, setting forth the said resolution, has been heretofore filed with the Secretary of State of the State of Delaware pursuant to the provisions of Section 151(g) of the DGCL.

4. The Board has adopted the following resolutions:

NOW, THEREFORE, BE IT RESOLVED, that none of the authorized shares of Series A-1 Preferred Stock are outstanding;

RESOLVED FURTHER, that no shares of Series A-1 Preferred Stock will be issued; and

RESOLVED FURTHER, that each of the officers of the Corporation, acting alone or with one or more such officers be, and hereby is, authorized, empowered and directed to file a certificate setting forth these resolutions with the Secretary of State of the State of Delaware pursuant to the provisions of Section 151(g) of the DGCL for the purpose of eliminating from the Certificate of Incorporation of the Corporation all reference to the Series A-1 Preferred Stock.

IN WITNESS WHEREOF, the Corporation has caused this Certificate of Elimination to be signed by its duly authorized officer this 6th day of November, 2015.

RXI PHARMACEUTICALS CORPORATION

By: /s/ Geert Cauwenbergh
Geert Cauwenbergh, Dr. Med. Sc.
Chief Executive Officer

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Section 4: EX-31.1 (EX-31.1)

Exhibit 31.1

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Geert Cauwenbergh, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of RXi Pharmaceuticals Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. I am responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report my conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. I have disclosed, based on my most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting.

Dated: November 12, 2015

/s/ Geert Cauwenbergh
Geert Cauwenbergh, Dr. Med. Sc.
President, Chief Executive Officer and acting Chief
Financial Officer
(as Principal Executive and Financial Officer)

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Section 5: EX-32.1 (EX-32.1)

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of RXi Pharmaceuticals Corporation (the “Company”) on Form 10-Q for the period ended September 30, 2015 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), the undersigned officer of the Company certifies, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that to his knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the Company’s financial condition and result of operations.

/s/ Geert Cauwenbergh

Geert Cauwenbergh, Dr. Med. Sc.
President, Chief Executive Officer and acting Chief
Financial Officer
(as Principal Executive and Financial Officer)

November 12, 2015

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