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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, 2017

OR

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

For the transition period from _____ to _____

Commission File Number: 001-36304

RXi Pharmaceuticals Corporation
(Exact name of registrant as specified in its charter)

Delaware	**45-3215903**
(State of incorporation)	**(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, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	☐	Accelerated filer	☐
Non-accelerated filer	☐ (Do not check if a smaller reporting company)	Smaller reporting company	☒
		Emerging growth company	☒

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 7(a)(2)(B) of the Securities Act. ☒

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 3, 2017, RXi Pharmaceuticals Corporation had 23,697,338 shares of common stock, $0.0001 par value, outstanding.

RXi PHARMACEUTICALS CORPORATION
FORM 10-Q — QUARTER ENDED SEPTEMBER 30, 2017

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PART I — FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

RXi PHARMACEUTICALS CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS
(Amounts in thousands, except share and per share data)
(Unaudited)

	September 30, 2017	December 31, 2016
ASSETS		
Current assets:		
Cash and cash equivalents	$ 5,416	$ 12,906
Restricted cash	50	50
Prepaid expenses	271	150
Total current assets	5,737	13,106
Property and equipment, net	269	114
Notes receivable	—	150
Other assets	27	27
Total assets	$ 6,033	$ 13,397
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 702	$ 917
Accrued expenses	1,901	1,625
Total current liabilities	2,603	2,542
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, $0.0001 par value; 10,000,000 authorized		
Series B convertible preferred stock, par value; 8,100 shares authorized; 5,737 shares issued and outstanding at December 31, 2016	—	3,525
Series C convertible preferred stock, par value; 1,800,000 shares authorized; no shares issued or outstanding	—	—
Common stock, $0.0001 par value, 100,000,000 shares authorized; 23,697,338 and 13,003,179 shares issued and outstanding at September 30, 2017 and December 31, 2016, respectively	2	1
Additional paid-in capital	79,977	73,428
Accumulated deficit	(76,549)	(66,099)
Total stockholders' equity	3,430	10,855
Total liabilities and stockholders' equity	$ 6,033	$ 13,397

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Net revenues	$ —	$ —	$ —	$ 19
Operating expenses:				
Research and development	1,490	1,464	4,166	4,108
Acquired in-process research and development	—	—	3,075	—
General and administrative	986	752	3,209	2,587
Total operating expenses	2,476	2,216	10,450	6,695
Operating loss	(2,476)	(2,216)	(10,450)	(6,676)
Other income (expense):				
Interest income, net	—	4	—	15
Other income (expense), net	—	—	—	6
Total other income	—	4	—	21
Net loss	$ (2,476)	$ (2,212)	$ (10,450)	$ (6,655)
Net loss per common share:				
Basic and diluted	$ (0.11)	$ (0.34)	$ (0.47)	$ (1.02)
Weighted average common shares: basic and diluted	23,511,444	6,576,096	22,167,753	6,548,696

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

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

	Nine Months Ended September 30,	
	2017	**2016**
Cash flows from operating activities:		
Net loss	$(10,450)	$(6,655)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	48	41
Non-cash stock-based compensation	276	649
Acquired in-process research and development	3,075	—
Value of non-marketable equity securities recognized as revenue	—	(9)
Changes in operating assets and liabilities:		
Prepaid expenses and other assets	(121)	(10)
Accounts payable	(417)	(706)
Accrued expenses	276	302
Net cash used in operating activities	(7,313)	(6,388)
Cash flows from investing activities:		
Purchase of short-term investments	—	(2,000)
Maturities of short-term investments	—	5,500
Cash acquired in MirImmune Inc. acquisition	100	—
Cash paid for purchase of property and equipment	(203)	(2)
Net cash (used in) provided by investing activities	(103)	3,498
Cash flows from financing activities:		
Proceeds from the issuance of common stock, net of offering costs	(74)	152
Net cash (used in) provided by financing activities	(74)	152
Net decrease in cash, cash equivalents and restricted cash	(7,490)	(2,738)
Cash, cash equivalents and restricted cash at the beginning of period	12,956	5,167
Cash, cash equivalents and restricted cash at the end of period	$ 5,466	$ 2,429
Supplemental disclosure of non-cash investing and financing activities:		
Conversions of Series B convertible preferred stock into common stock	$ 3,525	$ —
Conversion of Series C convertible preferred stock into common stock	$ 816	$ —
MirImmune Inc. Acquisition:		
Cancellation of notes receivable	$ 150	$ —
Accounts payable assumed	$ 5	$ —
Fair value of securities issued	$ 2,824	$ —

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

RXi PHARMACEUTICALS CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. Nature of Operations

RXi Pharmaceuticals Corporation ("**RXi**," "**we**," "**our**" or the "**Company**") is a clinical-stage company developing innovative therapeutics based on our proprietary self-delivering RNAi (sd-rxRNA®) platform and Samcyprone™ which address significant unmet medical needs. We have a pipeline of discovery, preclinical and clinical product candidates in the areas of dermatology, ophthalmology and cell-based cancer immunotherapy. The Company's clinical development programs include RXI-109, an sd-rxRNA for the treatment of dermal and ocular scarring, and Samcyprone™, a topical immunomodulator, for the treatment of warts. The Company's pipeline, coupled with our extensive patent portfolio, provides for product development and business development opportunities across a broad spectrum of therapeutic areas.

2. Liquidity and Going Concern

The Company has limited cash resources, certain limitations under the purchase agreement with Lincoln Park Capital Fund, LLC ("**LPC**") and has expended substantial funds on the research and development of our product candidates and funding general operations. As a result, we have reported recurring losses from operations since inception and expect that we will continue to have negative cash flows from our operations for the foreseeable future. Historically, the Company's primary source of financing has been the sale of its securities. Our ability to continue to fund our operations is dependent on the amount of cash on hand and our ability to raise additional capital through, but not limited to, equity or debt offerings or strategic opportunities. This is dependent on a number of factors, including the market demand or liquidity of our common stock. There can be no assurance that the Company will be successful in accomplishing these plans. As a result, we have concluded that there is substantial doubt regarding our ability to continue as a going concern for at least one year. If we fail to obtain additional funding when needed, we would be forced to scale back or terminate our operations or to seek to merge with or to be acquired by another company. These financial statements do not include any adjustments to, or classification of, recorded asset amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern.

3. Significant Accounting Policies

Basis of Presentation

The accompanying condensed consolidated 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 consolidated 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, Cash Equivalents and Restricted Cash

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

The following table provides a reconciliation of cash, cash equivalents, and restricted cash reported within the balance sheet that sum to the total of the same such amounts shown in the statement of cash flows (in thousands):

	September 30, 2017	December 31, 2016
Cash and cash equivalents	5,416	12,906
Restricted cash	50	50
Cash, cash equivalents and restricted cash shown in the statement of cash flows	5,466	12,956

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.

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.

Comprehensive Loss

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

Net Loss per Share

The Company accounts for and discloses net loss per share in accordance with FASB ASC Topic 260, "*Earnings per Share.*" Basic and diluted net loss per common share is computed by dividing net loss by the weighted average number of common shares outstanding. 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.

4. Recent Accounting Pronouncements

In August 2016, the FASB issued Accounting Standards Update ("**ASU**") 2016-15, "*Statement of Cash Flows (Topic 230) — Classification of Certain Cash Receipts and Cash Payments*," which clarifies how certain cash receipts and payments are presented and classified in the statement of cash flows. This standard will be effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. Early adoption is permitted. The amendments in ASU 2016-15 should be applied using a retrospective transition method to each period presented. The Company adopted ASU 2016-15 in the first quarter of 2017 and the implementation of this standard had no impact on the Company's financial statements.

In November 2016, the FASB issued ASU 2016-18, "*Statement of Cash Flows (Topic 230) — Restricted Cash,"* which requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash and restricted cash equivalents. With this standard, amounts generally described as restricted cash or restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning of period and end of period total amounts shown on the statement of cash flows. This standard will be effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. Early adoption is permitted. The Company adopted ASU 2016-18 in the first quarter of 2017, and the guidance has been retrospectively applied to all periods presented. The total of cash, cash equivalents and restricted cash is described in Note 3. The adoption of the guidance did not have an impact on the Company's balance sheet or statement of operations.

In January 2017, the FASB issued ASU 2017-01, "*Business Combinations (Topic 805) — Clarifying the Definition of a Business*," which provides a screen to determine when an integrated set of assets and activities are not a business. The screen requires that when substantially all of the fair value of the gross assets acquired (or disposed of) is concentrated in a single identifiable asset or a group of similar identifiable assets, the set is not a business. This screen reduces the number of transactions that need to be further evaluated. This standard will be effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. The Company adopted ASU 2017-01 effective January 1, 2017. The implementation of this standard did not have an impact on the Company's financial statements as the acquisition of MirImmune Inc., ("**MirImmune**"), the Company's transaction that this ASU would have affected, did not meet the definition of a business under either the prior guidance or the new guidance.

In May 2017, the FASB issued ASU 2017-09, "*Compensation — Stock Compensation (Topic 718) — Scope of Modification Accounting*," which provides guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting. This standard will be effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. Early adoption is permitted. The Company adopted ASU 2017-09 in the second quarter of 2017, and the implementation of this standard had no impact on the Company's financial statements.

5. MirImmune Inc. Acquisition

On January 6, 2017, the Company entered into a Stock Purchase Agreement (the "**Stock Purchase Agreement**") and completed its acquisition of MirImmune. Subject to the terms of the Stock Purchase Agreement, RXi Merger Sub, LLC, a Delaware limited liability company and wholly-owned subsidiary of the Company ("**RXi Merger Sub**"), was merged with and into MirImmune, with RXi Merger Sub continuing as the surviving entity and changing its name to "MirImmune, LLC". As a result of the merger, MirImmune, LLC remains and operates as a wholly-owned subsidiary of the Company. Pursuant to the Stock Purchase Agreement, the Company acquired all of the issued and outstanding shares of capital stock of MirImmune for an aggregate of 2,750,371 shares of common stock of the Company and an aggregate of 1,118,224 shares of Series C Convertible Preferred Stock of the Company (the "**Series C Convertible Preferred Stock**"). The shares of common stock and Series C Convertible Preferred Stock were subject to a holdback of 3% of the aggregate closing consideration for any purchase price adjustments. The shares subject to the holdback, adjusted for post-closing items, were released and issued on April 12, 2017.

Upon the closing of the acquisition, the notes receivable outstanding on the Company's balance sheet as of December 31, 2016 were cancelled.

The Company assessed the acquisition of MirImmune under FASB ASC Topic 805, "*Business Combinations*" ("**ASC 805**"). Under ASC 805, the Company determined that the acquired assets did not constitute a business and that the transaction would be accounted for as an asset acquisition. The assets and development programs acquired from MirImmune are at an early stage of development and will require a significant investment of time and capital if we are to be successful in developing them. There is no assurance that we will be successful in developing such assets, and a failure to successfully develop such assets could diminish our prospects. Under ASC 805, the assets acquired are considered to have no alternative future uses, as determining the future economic benefit of the acquired assets at the date of acquisition is highly uncertain. The fair value of the assets was determined using the quoted market price of the Company's common stock on January 6, 2017, the date of the acquisition, and fully expensed as in-process research and development.

During the nine months ended September 30, 2017, the aggregate fair value of the consideration given of $3,075,000 was fully expensed as in-process research and development expense. The aggregate fair value of the consideration also included transaction costs, liabilities assumed and cancellation of notes receivable.

The Company was restricted from converting any of the Series C Convertible Preferred Stock into common stock to the extent that such conversion was not approved by the Company's stockholders in accordance with the stockholder approval requirements of NASDAQ Marketplace Rule 5635. On June 9, 2017, with the approval of the Company's stockholders in accordance with the NASDAQ stockholder approval requirements, each share of the Series C Convertible Preferred Stock outstanding was automatically converted into one share of common stock, such that there were no shares of Series C Convertible Preferred Stock issued or outstanding at September 30, 2017. On November 7, 2017, the Company filed a Certificate Eliminating the Series C Convertible Preferred Stock from the Certificate of Incorporation of the Company with the Secretary of State of the State of Delaware. Please refer to Note 10 for further discussion of the filing.

Under the terms of the Stock Purchase Agreement, if certain development or commercial milestones are achieved within two years, the Company will be required to either (i) issue a number of shares of common stock (the "**Milestone Shares**") equal to the sum of 2,519,091 shares of common stock, plus an additional number of shares of common stock equal to 13% of the common stock issued upon exercise of any warrants issued under the Company's underwritten public offering in December 2016, but only to the extent that such warrants have been exercised prior to the milestone being achieved or (ii) pay the equivalent value of the Milestone Shares in cash. The Company received shareholder approval in accordance with Rule 5635 of the NASDAQ Marketplace Rules at its 2017 Annual Meeting of Stockholders to issue any shares in satisfaction of the achievement of the milestones.

The Company assessed the Milestone Shares under FASB ASC Topic 480, "*Distinguishing Liabilities from Equity*" ("**ASC 480**"). The Company determined that liability accounting would be required for the Milestone Shares under ASC 480. The Company will record a liability related to the Milestone Shares if and when the milestones are achieved and the consideration becomes payable. At that time, the Company will record the cost of the Milestone Shares as in-process research and development expense. No milestones have been met as of September 30, 2017.

6. 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.

The warrant issued to the Company by Thera Neuropharma, Inc. ("**Thera**") is categorized as Level 3 hierarchy. The estimated fair value inputs utilizing the asset-based approach for the warrant issued to the Company by Thera include the stage of enterprise development, terms of existing contractual arrangements of the entity's equity securities, the achievement of milestones and other unobservable inputs.

Financial assets measured at fair value on a recurring basis are summarized as follows, in thousands:

Description	At September 30, 2017	Quoted Prices in Active Markets (Level 1)	Other Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Warrant in Thera	$ 5	$ —	$ —	$ 5
Total	$ 5	$ —	$ —	$ 5

Description	At December 31, 2016	Quoted Prices in Active Markets (Level 1)	Other Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Warrant in Thera	$ 5	$ —	$ —	$ 5
Total	$ 5	$ —	$ —	$ 5

A reconciliation of the beginning and ending Level 3 assets for the nine months ended September 30, 2017 is as follows (in thousands):

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)
Balance, beginning of period	$ 5
Change in value of the warrant in Thera	—
Balance, end of period	$ 5

Fair Value of Financial Instruments

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

7. Stockholders' Equity

Series B Convertible Preferred Stock — The Company's remaining shares of Series B Convertible Preferred Stock ("**Series B Convertible Preferred Stock**") outstanding at December 31, 2016 were fully converted into 6,374,444 shares of common stock of the Company during the first quarter of 2017, such that there are no shares of Series B Convertible Preferred Stock issued or outstanding at September 30, 2017. On November 7, 2017, the Company filed a Certificate Eliminating the Series B Convertible Preferred Stock from the Certificate of Incorporation of the Company with the Secretary of State of the State of Delaware. Please refer to Note 10 for further discussion of the filing.

Series C Convertible Preferred Stock — In connection with the Stock Purchase Agreement, on January 5, 2017, the Company filed a Certificate of Designation of Preferences, Rights and Limitations of Series C Convertible Preferred Stock (the "**Series C Convertible Preferred Stock Certificate of Designation**") with the Secretary of State of the State of Delaware. The Series C Convertible Preferred Stock Certificate of Designation provides for the issuance of up to 1,800,000 shares of Series C Convertible Preferred Stock. The Series C Convertible Preferred Stock have no voting rights, with certain exceptions as described in the Series C Convertible Preferred Stock Certificate of Designations, and shall receive dividends on an as-converted basis at the same time and in the same form as any dividends paid out on shares of the Company's common stock. Other than as set forth in the previous sentence, no other dividends shall be paid on the Series C Convertible Preferred Stock. The Company has never paid dividends on its common stock and presently has no intention of paying dividends.

Upon its issuance, the Series C Convertible Preferred Stock was assessed under ASC 480. The Company determined that the Series C Convertible Preferred Stock was not within the scope of ASC 480 and therefore, the Series C Convertible Preferred Stock was not considered a liability. The Series C Convertible Preferred Stock was recorded in permanent equity on the Company's balance sheet.

The Series C Convertible Preferred Stock was then assessed under FASB ASC 815, "*Derivatives and Hedging*" ("**ASC 815**"). The Company believes that the Series C Convertible Preferred Stock is an equity host for the purposes of assessing the embedded conversion option for potential bifurcation. The Company concluded that the conversion option feature is clearly and closely related to the preferred stock host. As such, the conversion feature did not require bifurcation under ASC 815.

Pursuant to the Stock Purchase Agreement, the Company acquired all of the issued and outstanding shares of capital stock of MirImmune for an aggregate of 2,750,371 shares of common stock of the Company and an aggregate of 1,118,224 shares of Series C Convertible Preferred Stock. The Company was restricted from converting any of the Series C Convertible Preferred Stock into common stock to the extent that such conversion was not approved by the Company's stockholders in accordance with the stockholder approval requirements of NASDAQ Marketplace Rule 5635. On June 9, 2017, with the approval of the Company's stockholders in accordance with the NASDAQ stockholder approval requirements, each share of the Series C Convertible Preferred Stock outstanding was automatically converted into one share of common stock, such that there were no shares of Series C Convertible Preferred Stock issued or outstanding at September 30, 2017. Please refer to Notes 5 and 10 for further details on the shares issued in connection with the acquisition of MirImmune.

Lincoln Park Capital Fund, LLC — On August 8, 2017, the Company entered into a purchase agreement (the "**2017 Purchase Agreement**") and a registration rights agreement with LPC, pursuant to which the Company

has the right to sell to LPC up to $15,000,000 in shares of the Company's common stock, subject to certain limitations and conditions set forth in the 2017 Purchase Agreement. As a commitment fee for entering into the 2017 Purchase Agreement, the Company issued to LPC 450,000 shares of Company common stock (the "**Commitment Shares**"). The Commitment Shares had a value per share of $0.58 and were recorded as a cost of capital. The Company intends to use the net proceeds from the 2017 Purchase Agreement for working capital and general corporate purposes. There have been no purchases under the 2017 Purchase Agreement as of September 30, 2017.

Warrants — The following table summarizes the Company's outstanding warrants at September 30, 2017:

Exercise prices	Number of Shares Underlying Warrants	Expiration
$5.20	1,300,002	June 2, 2020
$0.90	12,777,777	December 21, 2021
Total warrants outstanding	14,077,779	

During the second quarter of 2017, outstanding warrants for the purchase of 462 shares of the Company's common stock with an exercise price of $39.00 expired.

No warrants were exercised during the nine months ended September 30, 2017 or 2016.

8. 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, 2017 and 2016, the following assumptions were used:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2017	2016	2017	2016
Risk-free interest rate	1.94 – 2.35%	1.46%	1.73 – 2.49%	1.18 – 2.02%
Expected volatility	83.87 – 91.99%	116.88%	82.99 – 123.01%	79.42 – 116.88%
Weighted average expected volatility	87.93%	116.88%	84.65%	89.12%
Expected lives (in years)	6.25 – 10.00	10.00	5.20 – 10.00	5.20 – 10.00
Expected dividend yield	0.00%	0.00%	0.00%	0.00%

The weighted average fair value of options granted during the three months ended September 30, 2017 and 2016 was $0.49 and $2.27, respectively. The weighted average fair value of options granted during the nine months ended September 30, 2017 and 2016 was $0.49 and $2.15, 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.

The following table summarizes the activity of Company's stock option plan for the nine months ended September 30, 2017:

	Total Number of Shares	Weighted-Average Exercise Price Per Share	Aggregate Intrinsic Value
Balance at December 31, 2016	374,446	$ 27.29	
Granted	330,384	0.69	
Exercised	—	—	
Cancelled	(173,824)	4.48	
Balance at September 30, 2017	531,006	$ 18.20	$ —
Exercisable at September 30, 2017	354,959	$ 26.21	$ —

The Company recorded stock-based compensation expense for the three and nine months ended September 30, 2017 and 2016 as follows, in thousands:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Research and development	$ 7	$ 52	$ 80	$ 212
General and administrative	36	76	196	437
Total stock-based compensation	$ 43	$ 128	$ 276	$ 649

Stock-based compensation expense for the nine months ended September 30, 2017 includes $22,000, recorded in research and development expense, related to stock option modifications in connection with the retirement of the Company's former Chief Development Officer.

9. Net Loss per Share

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

	September 30,	
	2017	2016
Options to purchase common stock	531,006	390,969
Warrants to purchase common stock	14,077,779	1,300,464
Total	14,608,785	1,691,433

10. Subsequent Events

On November 7, 2017, the Company filed a Certificate Eliminating the Series B Convertible Preferred Stock from the Certificate of Incorporation of the Company and a Certificate Eliminating the Series C 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 Certificate of Incorporation all matters set forth in the Certificate of Incorporation, including the related certificates of designation, relating to the previously issued Series B Convertible Preferred Stock and Series C Convertible Preferred Stock. As a result, the 8,100 shares of unissued Series B Convertible Preferred Stock and 1,800,000 shares of unissued Series C Convertible 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.

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" refers to RXi Pharmaceuticals Corporation and our subsidiary, MirImmune, LLC and the ongoing business operations of RXi Pharmaceuticals Corporation and MirImmune, LLC, whether conducted through RXi Pharmaceuticals Corporation or MirImmune, LLC.

This management's discussion and analysis of financial condition as of September 30, 2017 and results of operations for the three and nine months ended September 30, 2017 and 2016 should be read in conjunction with the financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2016 which was filed with the SEC on March 30, 2017.

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 "intends," "believes," "anticipates," "indicates," "plans," "expects," "suggests," "may," "should," "potential," "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; the future success of our strategic partnerships; and our ability to implement cost-saving measures. 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 or clearance of common warts; 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, 2016 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 clinical-stage company developing innovative therapeutics based on our proprietary self-delivering RNAi (sd-rxRNA®) platform and Samcyprone™ which address significant unmet medical needs. We have a pipeline of discovery, preclinical and clinical product candidates in the areas of dermatology, ophthalmology and cell-based cancer immunotherapy. The Company's clinical development programs include RXI-109, an sd-rxRNA for the treatment of dermal and ocular scarring, and Samcyprone™, a topical immunomodulator, for the treatment of warts. The Company's pipeline, coupled with our extensive patent portfolio, provides for product development and business development opportunities across a broad spectrum of therapeutic areas.

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 and eye. RXI-109 is currently being evaluated in a Phase 2 clinical trial, Study 1402, to prevent or reduce dermal scarring following scar revision surgery of an existing hypertrophic scar and a Phase 1/2 clinical trial, Study 1501, to evaluate the safety and clinical activity of RXI-109 to prevent the progression of retinal scarring in subjects with wet age-related macular degeneration ("**AMD**").

Study 1402, the Company's Phase 2 clinical trial in hypertrophic scars, commenced in July 2014. In October 2015, we reported that preliminary data from Study 1402 demonstrated that scars at revision sites were judged to be better at three months after a treatment regimen with five mg/cm intradermal administration of RXI-109 than scars at untreated revision sites in those same subjects. Based in part on this new information, two more cohorts (Cohorts 3 and 4) were added to Study 1402 in November 2015. For these two cohorts, the number of doses was increased to either eight or nine doses of RXI-109 over a six-month period to better cover the extended wound healing/scarring profile of hypertrophic scars. Enrollment of subjects into these two new cohorts completed ahead of schedule during the third quarter of 2016.

In December 2016, the Company announced that preliminary data from the first two cohorts from Study 1402 at nine months confirmed the positive differentiation by a blinded panel of observers from untreated surgery incisions in hypertrophic scars from the previously presented data for a subset of subjects treated with five mg/cm of RXI-109 at three months. In addition, this data extends this observation to all time points, including the post-treatment follow-up period through nine months post-surgery. RXI-109 was safe and well tolerated. Additionally, as expected, the limited three-month data available from Cohort 3 appeared to align with that of the first two cohorts as these subjects all had the same dosing schedule through the third month. A complete read-out of the whole study, including all four cohorts with follow-up until nine months post-surgery, is expected by the end of 2017.

Study 1501, the Company's Phase 1/2 clinical trial in retinal scars, commenced in November 2015, and is a multi-dose, dose escalation study conducted in subjects with AMD with evidence of subretinal fibrosis. Each subject receives four doses of RXI-109 by intraocular injection at one month intervals for a total dosing period of three months. The safety and tolerability of RXI-109, as well as the potential for clinical activity, is evaluated over the course of the study using numerous assessments to monitor the health of the retina and to assess visual acuity. To date, there have been no safety issues that have precluded continuation of dosing. Study 1501 has been completely enrolled, dosing in the third cohort at the highest planned dose level is completed and patient follow-up is ongoing. The Company expects to complete subject participation in the study by the end of 2017 and to share top-line data in early 2018.

Samcyprone™, the Company's second clinical candidate, is a proprietary topical formulation of the small molecule diphenylcyclopropenone ("**DPCP**"), an immunomodulator that works by initiating a T-cell response. The use of Samcyprone™ allows sensitization using much lower concentrations of DPCP than are used with existing compounded DPCP solutions, avoiding hyper-sensitization to subsequent challenge doses. Samcyprone™ is currently being evaluated in a Phase 2a clinical trial, Study 1502, for the clearance of common warts.

Study 1502 was initiated in December 2015. Study 1502 includes a sensitization phase in which a spot on the subject's upper arm and one or more warts are treated with Samcyprone™. After being sensitized in this way, the subjects enter into the treatment phase where up to four warts are treated on a once weekly basis for ten weeks with a ten-fold lower concentration of Samcyprone™ than in the sensitization phase. During the trial, the warts are scored, photographed and measured to monitor the level of clearance.

In December 2016, the Company announced the results from a preliminary review of sensitization and wart clearance data from a subset of subjects that have completed the ten-week treatment phase of Study 1502. Results showed that greater than 90% of the subjects demonstrated a sensitization response, a prerequisite to be able to develop a therapeutic response. Additionally, more than 60% of the subjects responded to the treatment by exhibiting either complete or greater than 50% clearance of all treated warts with up to ten weekly treatments. Samcyprone™ treatment has been generally safe and well tolerated and has had drug-related adverse events relating to local reactions, which are typically expected for this type of treatment due to the sensitization and challenge responses in the skin. The Company added a second cohort, which was fully enrolled in September 2017, to Study 1502 to explore the opportunity to reduce the sensitization dose level, which will be more convenient to physicians and subjects. Early read-outs of the study are anticipated by the end of 2017.

In addition to our clinical programs, we continue to advance our preclinical and discovery programs with our sd-rxRNA technology. RXI-231, our lead sd-rxRNA compound targeting tyrosinase ("**TYR**"), is in cosmetic development as a cosmetic ingredient that may improve the appearance of uneven skin tone and pigmentation. Cosmetics are compounds that affect the appearance of the skin and make no preventative or therapeutic claims. These compounds may be developed more rapidly than therapeutics, therefore the path to market may be much shorter and less expensive. Efficacy and toxicity testing in cell culture and skin equivalents for RXI-231 has been successfully completed and human testing of RXI-231 commenced in June 2017 with a U.S. clinical testing site. The Company has completed irritation and sensitization studies with RXI-231, the first two of three studies planned. Early results from the irritation and sensitization studies demonstrated that RXI-231 is not a skin irritant, and it does not cause allergic contact dermatitis. The third study investigates the potential of RXI-231 to improve the appearance of skin pigmentation induced by UV exposure and is ongoing. Full reports from these studies are expected before the end of 2017.

On January 6, 2017, the Company entered into a Stock Purchase Agreement (the "**Stock Purchase Agreement**") by and among the Company, RXi Merger Sub, LLC, a Delaware limited liability company and wholly owned subsidiary of the Company ("**RXi Merger Sub**"), MirImmune Inc. ("**MirImmune**"), the stockholders of MirImmune set forth on the signature pages thereto (each a "**Seller**" and collectively, the "**Sellers**"), and Alexey Wolfson, Ph.D., in his capacity as the Sellers' Representative. Pursuant to the Stock Purchase Agreement, the Company acquired from the Sellers all of the issued and outstanding shares of capital stock of MirImmune for an aggregate of 2,750,371 shares of common stock of the Company and an aggregate of 1,118,224 shares of Series C Convertible Preferred Stock of the Company (the "**Series C Convertible Preferred Stock**"). On June 9, 2017, with the approval of the Company's stockholders in accordance with the stockholder approval requirements of Nasdaq Marketplace Rule 5635, each share of Series C Convertible Preferred Stock outstanding was automatically converted into one share of common stock, such that no shares of Series C Convertible Preferred Stock remained issued or outstanding. On November 7, 2017, the Company filed a Certificate Eliminating the Series C Convertible Preferred Stock from the Certificate of Incorporation of the Company with the Secretary of State of the State of Delaware. Please refer to Part II, Item 5 of this quarterly report on Form 10-Q for further discussion of the filing.

In connection with and promptly following the closing of the Stock Purchase Agreement, MirImmune was merged with and into RXi Merger Sub (the "**Merger**"), with RXi Merger Sub continuing as the surviving entity and changing its name to "MirImmune, LLC". As a result of the Merger, MirImmune, LLC remains and operates as a wholly-owned subsidiary of the Company.

Building on the work completed by MirImmune prior to its acquisition by the Company, our cell-based cancer immunotherapy program with sd-rxRNA includes lead compounds for a number of immune checkpoint targets that provide long lasting immune checkpoint silencing, individually and in combination, in adoptively transferred cells. An improved efficacy upon the silencing of checkpoints has been demonstrated in various types of adoptively transferred cells relevant in cancer immunotherapy, such as CAR T-cells and tumor infiltrating lymphocytes (TILs). The Company's ongoing discovery programs include, but are not limited to, the evaluation of sd-rxRNA compounds to impact the differentiation of various immune effector cells. The Company has also initiated in vivo evaluations of multiple checkpoint inhibiting sd-rxRNA compounds co-transfected in CAR T-cells in mouse models for solid tumors, with data from these studies expected by the end of 2017.

Additionally, the Company recently selected two sd-rxRNA compounds from its immunotherapy pipeline for preclinical development. For oncology treatments based on adoptive cell transfer (ACT), compounds RXI-762 and RXI-804 suppress the expression of immune checkpoint proteins PD-1 and TIGIT, respectively, which can result in an improved efficacy to the targeted tumors. This decision triggered the selection of a manufacturing facility to initiate production of cGMP grade material, initially for RXI-762. This also supports moving RXI-762 into clinical development as early as 2018 as part of an ACT therapy.

On August 8, 2017, the Company entered into a purchase agreement (the "**2017 Purchase Agreement**") with Lincoln Park Capital Fund, LLC ("**LPC**"), pursuant to which the Company has the right to sell to LPC up to $15,000,000 in shares of the Company's common stock, subject to certain limitations and conditions set forth therein, over the 30-month term of the 2017 Purchase Agreement.

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 and administrative costs. At September 30, 2017, we had an accumulated deficit of $76.5 million. We expect to continue to incur significant losses for the foreseeable future, particularly as we advance our development programs for RXI-109 and Samcyprone™ and expand our program in cell-based cancer immunotherapy.

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, 2016, which we filed with the SEC on March 30, 2017.

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,	
	2017	2016	2017	2016
Net revenues	$ —	$ —	$ —	$ 19
Operating expenses	(2,476)	(2,216)	(10,450)	(6,695)
Operating loss	(2,476)	(2,216)	(10,450)	(6,676)
Net loss	(2,476)	(2,212)	(10,450)	(6,655)

Comparison of the Three and Nine Months Ended September 30, 2017 and 2016

Net Revenues

To date, we have primarily generated revenues through government grants. The following table summarizes our total net revenues, for the periods indicated, in thousands:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Net revenues	$ —	$ —	$ —	$ 19

The Company did not have net revenues for the three and nine months ended September 30, 2017 and the three months ended September 30, 2016.

Net revenues were approximately $19,000 for the nine months ended September 30, 2016, which related to the Company's exclusive license agreements with Thera Neuropharma, Inc. and MirImmune, prior to its acquisition by the Company.

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,	
	2017	2016	2017	2016
Research and development	$ 1,490	$ 1,464	$ 4,166	$ 4,108
Acquired in-process research and development	—	—	3,075	—
General and administrative	986	752	3,209	2,587
Total operating expenses	$ 2,476	$ 2,216	$10,450	$ 6,695

Research and Development Expenses

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.

Research and development expenses were $1,490,000 for the three months ended September 30, 2017, compared with $1,464,000 for the three months ended September 30, 2016. The increase of $26,000, or 2%, was due to an increase of $71,000 in research and development expenses primarily driven by subject fees for the second cohort in the Samcyprone™ Phase 2 clinical trial and preclinical work in the Company's new immunotherapy program that was integrated into the Company with the acquisition of MirImmune in the first quarter of 2017, offset by a decrease of $45,000 in stock-based compensation expense.

Research and development expenses were $4,166,000 for the nine months ended September 30, 2017, compared with $4,108,000 for the nine months ended September 30, 2016. The increase of $58,000, or 1%, was due to an increase of $190,000 in research and development expenses primarily driven by work in the Company's new immunotherapy program that commenced in the first quarter of 2017, offset by a decrease of $132,000 in stock-based compensation expense.

Acquired In-process Research and Development Expense

In January 2017, the Company acquired all of the issued and outstanding capital stock of MirImmune, a privately-held biotechnology company that was engaged in the development of cancer immunotherapies, in exchange for securities of the Company. The value of the consideration given, including transaction costs, liabilities assumed and cancellation of notes receivable, was recorded as in-process research and development expense.

Acquired in-process research and development expense related to the acquisition of MirImmune was $3,075,000 for the nine months ended September 30, 2017. The Company did not have acquired in-process research and development expense for the three and nine months ended September 30, 2016 and the three months ended September 30, 2017.

General and Administrative Expenses

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, consulting fees, professional service fees and general corporate expenses.

General and administrative expenses were $986,000 for the three months ended September 30, 2017, compared with $752,000 for the three months ended September 30, 2016. The increase of $234,000, or 31%, was due to an increase of $274,000 in general and administrative expenses primarily due to payroll-related expenses, including severance benefits, with the hire of the Company's former chief business officer in connection with the acquisition of MirImmune, resulting in a higher employee headcount as compared to the same period of the prior year, offset by a decrease of $40,000 in stock-based compensation expense.

General and administrative expenses were $3,209,000 for the nine months ended September 30, 2017, compared with $2,587,000 for the nine months ended September 30, 2016. The increase of $622,000, or 24%, was due to an increase of $863,000 in general and administrative expenses primarily due to payroll-related expenses, including severance benefits, with the hire of the Company's former chief business officer in connection with the acquisition of MirImmune, resulting in a higher employee headcount as compared to the same period of the prior year, and legal fees and accounting-related expenses. These increases were offset by a decrease of $241,000 in stock-based compensation expense.

Liquidity and Capital Resources

On December 18, 2014, the Company entered into a purchase agreement (the "**2014 Purchase Agreement**") with Lincoln Park Capital Fund, LLC ("**LPC**"), pursuant to which the Company had the right to sell to LPC up to $10.8 million in shares of the Company's common stock, subject to certain limitations and conditions set forth in the 2014 Purchase Agreement. The 2014 Purchase Agreement expired on April 17, 2017. Under the 2014 Purchase Agreement, the Company sold a total of 70,000 shares of common stock to LPC for net proceeds of approximately $216,000.

On December 21, 2016, the Company closed an underwritten public offering (the "**Offering**") of (i) 3,797,777 Class A Units, at a public offering price of $0.90 per unit, consisting of one share of the Company's common stock and a five-year warrant to purchase one share of common stock at an exercise price of $0.90 per share (the "**Warrants**") and (ii) 8,082 Class B Units, at a public offering price of $1,000 per unit, consisting of one share of Series B Convertible Preferred Stock (the "**Series B Convertible Preferred Stock**"), which was convertible into 1,111.11 shares of common stock, and 1,111.11 Warrants. The Class A Units include an additional 1,666,666 Class A Units pursuant to the exercise by the underwriters of their over-allotment option. The total net proceeds of the Offering, including the exercise of the over-allotment option, were $10,051,000 after deducting underwriting discounts and commissions and offering expenses paid by the Company.

On August 8, 2017, the Company entered into the 2017 Purchase Agreement with LPC, pursuant to which the Company has the right to sell to LPC up to $15,000,000 in shares of the Company's common stock, subject to certain limitations and conditions set forth therein, over the 30-month term of the 2017 Purchase Agreement. As a commitment fee for entering into the 2017 Purchase Agreement, the Company issued to LPC 450,000 shares of Company common stock at a value per share of $0.58. As of September 30, 2017, there have been no purchases under the 2017 Purchase Agreement.

We had cash of $5.4 million as of September 30, 2017, compared with cash of $12.9 million as of December 31, 2016. Based on the Company's cash, operational spending rate, and limitations under the 2017 Purchase Agreement, the Company has concluded that there is substantial doubt regarding our ability to fund the Company's 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. We expect to incur significant operating losses as we advance our product candidates through drug development and the regulatory process. 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 research and business development 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 us on acceptable terms, or at all. If we fail to obtain additional funding when needed, we would be forced to scale back or terminate our operations or to seek to merge with or to be acquired by another company.

The following table summarizes our cash flows for the periods indicated, in thousands:

	Nine Months Ended September 30,	
	2017	2016
Net cash used in operating activities	$(7,313)	$(6,388)
Net cash (used in) provided by investing activities	(103)	3,498
Net cash (used in) provided by financing activities	(74)	152
Net decrease in cash, cash equivalents and restricted cash	$(7,490)	$(2,738)

Net Cash Flow from Operating Activities

Net cash used in operating activities was $7,313,000 for the nine months ended September 30, 2017, compared with $6,388,000 for the nine months ended September 30, 2016. The increase in cash used in operating activities was primarily due to an increase in net loss of $3,795,000, offset by changes in non-cash expenses of $2,718,000 mainly related to the fair value of consideration recorded as acquired in-process research and development expense for the acquisition of MirImmune in January 2017.

Net Cash Flow from Investing Activities

Net cash used in investing activities was $103,000 for the nine months ended September 30, 2017, compared with net cash provided by investing activities of $3,498,000 for the nine months ended September 30, 2016. The decrease in net cash flow from investing activities was primarily related to the purchase of laboratory equipment in the current year as compared with maturities of short-term investments in the prior year.

Net Cash Flow from Financing Activities

Net cash used in financing activities was $74,000 for the nine months ended September 30, 2017, compared with net cash provided by financing activities of $152,000 for the nine months ended September 30, 2016. The decrease in net cash flow from financing activities was due to net proceeds received from the issuance of common stock as compared with the same period in the prior year.

Off-Balance Sheet Arrangements

In connection with certain license agreements, we are required to indemnify the licensor for certain damages arising in connection with the intellectual property rights licensed under the agreement. In addition, we are a party to a number of agreements entered into in the ordinary course of business that contain typical provisions that obligate us to indemnify the other parties to such agreements upon the occurrence of certain events. These indemnification obligations are considered off-balance sheet arrangements in accordance with ASC Topic 460, "*Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others*." To date, we have not encountered material costs as a result of such obligations and have not accrued any liabilities related to such obligations in our financial statements. See Note 8 to our financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2016, which was filed with the SEC on March 30, 2017, for further discussion of these indemnification agreements.

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, 2017 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II — OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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, 2016 filed with the SEC on March 30, 2017.

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

On February 2, 2017, 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 August 2, 2017. As a result of the extension, we have until January 29, 2018 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 and our common stock will trade, if at all, on the over-the counter market, such as the OTC Bulletin Board or OTCQX market, 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 7, 2017, the Company filed a Certificate Eliminating the Series B Convertible Preferred Stock from the Certificate of Incorporation of the Company and a Certificate Eliminating the Series C 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 Certificate of Incorporation all matters set forth in the Certificate of Incorporation, including the related certificates of designation, relating to the previously issued Series B Convertible Preferred Stock and Series C Convertible Preferred Stock. As a result, the 8,100 shares of unissued Series B Convertible Preferred Stock and 1,800,000 shares of unissued Series C Convertible 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.

ITEM 6. EXHIBITS

EXHIBIT INDEX

Exhibit Number	Description	Incorporated by Reference Herein	
		Form	Date
3.1	Certificate Eliminating the Series B Convertible Preferred Stock from the Certificate of Incorporation of RXi Pharmaceuticals Corporation*		
3.2	Certificate Eliminating the Series C Convertible Preferred Stock from the Certificate of Incorporation of RXi Pharmaceuticals Corporation*		
10.1	Purchase Agreement, dated August 8, 2017, between RXi Pharmaceuticals Corporation and Lincoln Park Capital Fund, LLC	Registration Statement on Form S-1 (File No. 333-220062)	August 18, 2017
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, 2017, formatted in XBRL (eXtensible Business Reporting Language): (1) Condensed Consolidated Balance Sheets as of September 30, 2017 and December 31, 2016; (2) Condensed Consolidated Statements of Operations for the Three and Nine Months Ended September 30, 2017 and 2016; (3) Condensed Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2017 and 2016; and (4) Notes to Condensed Consolidated Financial Statements (Unaudited).*		

* Filed herewith.

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

By: /s/ Geert Cauwenbergh
Geert Cauwenbergh, Dr. Med. Sc.
President, Chief Executive Officer and acting Chief Financial Officer

Date: November 8, 2017

Exhibit 3.1

CERTIFICATE ELIMINATING
THE SERIES B 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 B Convertible Preferred Stock, par value $0.0001 per share (the "Series B 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 resolutions adopted by the Board of Directors of the Corporation (the "Board") on December 15, 2016 pursuant to authority expressly vested in it by the Certificate of Incorporation of the Corporation. That certain Certificate of Designation of Preferences, Rights and Limitations of Series B Convertible Preferred Stock, dated as of December 19, 2016, setting forth the said resolutions, 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 B Preferred Stock are outstanding;

RESOLVED FURTHER, that no shares of Series B 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 B Preferred Stock.

IN WITNESS WHEREOF, the Corporation has caused this Certificate of Elimination to be signed by its duly authorized officer this 7th day of November, 2017.

RXI PHARMACEUTICALS CORPORATION

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

[SIGNATURE PAGE TO CERTIFICATE OF ELIMINATION – SERIES B PREFERRED STOCK]

Exhibit 3.2

CERTIFICATE ELIMINATING
THE SERIES C 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 C Convertible Preferred Stock, par value $0.0001 per share (the "Series C 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 resolutions adopted by the Board of Directors of the Corporation (the "Board") on January 4, 2017 pursuant to authority expressly vested in it by the Certificate of Incorporation of the Corporation. That certain Certificate of Designation of Preferences, Rights and Limitations of Series C Convertible Preferred Stock, dated as of January 5, 2017, setting forth the said resolutions, 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 C Preferred Stock are outstanding;

RESOLVED FURTHER, that no shares of Series C 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 C Preferred Stock.

IN WITNESS WHEREOF, the Corporation has caused this Certificate of Elimination to be signed by its duly authorized officer this 7th day of November, 2017.

RXI PHARMACEUTICALS CORPORATION

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

[SIGNATURE PAGE TO CERTIFICATE OF ELIMINATION – SERIES C PREFERRED STOCK]

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 8, 2017

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

Exhibit 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, 2017 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 8, 2017