RXi Pharmaceuticals Corp
Form 10-Q
May 12, 2016
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2016

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	**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 x 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 x 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 x

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

As of May 6, 2016, RXi Pharmaceuticals Corporation had 6,534,846 shares of common stock, $0.0001 par value, outstanding.

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RXi PHARMACEUTICALS CORPORATION

FORM 10-Q QUARTER ENDED MARCH 31, 2016

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PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

RXi PHARMACEUTICALS CORPORATION

CONDENSED BALANCE SHEETS

(Amounts in thousands, except share and per share data)

(Unaudited)

	March 31, 2016	December 31, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	$ 4,192	$ 5,117
Restricted cash	50	50
Short-term investments	3,500	5,500
Prepaid expenses	265	311
Total current assets	8,007	10,978
Property and equipment, net	149	163
Other assets	18	18
Total assets	$ 8,174	$ 11,159
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 281	$ 1,163
Accrued expenses	940	1,106
Total current liabilities	1,221	2,269
Commitments and contingencies		
Stockholders equity:		
Preferred stock, $0.0001 par value; 10,000,000 authorized; no shares issued or outstanding		
Common stock, $0.0001 par value, 100,000,000 shares authorized; 6,534,846 shares issued and outstanding	1	1
Additional paid-in capital	66,288	65,994
Accumulated deficit	(59,336)	(57,105)
Total stockholders equity	6,953	8,890
Total liabilities and stockholders equity	$ 8,174	$ 11,159

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 March 31,	
	2016	**2015**
Net revenues	$ 10	$ 34
Operating expenses:		
Research and development (1)	1,305	2,107
General and administrative (1)	950	873
Total operating expenses	2,255	2,980
Operating loss	(2,245)	(2,946)
Other income:		
Interest income, net	7	1
Other income, net	7	
Total other income	14	1
Net loss	(2,231)	(2,945)
Series A and Series A-1 convertible preferred stock dividends		(185)
Net loss applicable to common stockholders	$ (2,231)	$ (3,130)
Net loss per common share applicable to common stockholders:		
Basic and diluted	$ (0.34)	$ (1.32)
Weighted average common shares: basic and diluted	6,534,846	2,376,349
(1) Non-cash stock-based compensation expenses included in operating expenses are as follows:		
Research and development	$ 72	$ 175
General and administrative	222	236

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)

	Three Months Ended March 31,	
	2016	**2015**
Cash flows from operating activities:		
Net loss	$ (2,231)	$ (2,945)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	14	21
Non-cash stock-based compensation	294	411
Fair value of common stock issued in exchange for patent and technology rights		228
Changes in operating assets and liabilities:		
Prepaid expenses	46	91
Accounts payable	(882)	174
Accrued expenses	(166)	95
Deferred revenue		(47)
Net cash used in operating activities	(2,925)	(1,972)
Cash flows from investing activities:		
Maturities of short-term investments	2,000	
Cash paid for purchase of property and equipment		(8)
Net cash provided by (used in) investing activities	2,000	(8)
Cash flows from financing activities:		
Net proceeds from the issuance of common stock		64
Net cash provided by financing activities		64
Net decrease in cash and cash equivalents	(925)	(1,916)
Cash and cash equivalents at the beginning of period	5,117	8,496
Cash and cash equivalents at the end of period	$ 4,192	$ 6,580
Supplemental disclosure of non-cash investing and financing activities:		
Series A and Series A-1 convertible preferred stock dividends	$	$ 105
Fair value of Series A and Series A-1 convertible preferred stock dividends	$	$ 185
Exchange of Series A convertible preferred stock into Series A-1 convertible preferred stock	$	$ 2,000

Conversion of Series A and Series A-1 convertible preferred stock into common stock	$	$ 3,686

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 Significant Accounting Policies

RXi Pharmaceuticals Corporation (**RXi**, **we**, **our** or the **Company**) is a clinical-stage RNAi company developing innovative therapeutics in dermatology and ophthalmology that address significant unmet medical needs. Our development programs are based on our proprietary self-delivering RNAi (sd-rxRNA®) platform and Samcyprone , a topical immunomodulator. Our clinical development programs include RXI-109, an sd-rxRNA for the treatment of dermal and ocular scarring, and 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 for product development and business development opportunities across a broad spectrum of therapeutic areas.

On April 14, 2016, the Board of Directors of the Company approved a 1-for-10 reverse stock split of the Company s outstanding common stock, which was effected on April 18, 2016. All share and per share amounts in the financial statements have been retroactively adjusted for all periods presented to give effect to the reverse stock split, including reclassifying an amount equal to the reduction in par value to additional paid-in capital.

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 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 over three months to one year.

Revenue Recognition

Revenue is recognized when there is persuasive evidence of an arrangement, the fee is fixed or determinable, delivery has occurred or services have been rendered and collection of the related receivable is reasonably assured. The Company may generate revenue from product sales, license agreements, collaborative research and development arrangements and government grants. 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

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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 Attributable to Common Stockholders

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 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.

2. Recent Accounting Pronouncements

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, which requires companies that are lessees to recognize a right-of-use asset and lease liability for most leases that do not meet the definition of a short-term lease. For income statement purposes, leases will continue to be classified as either operating or financing. Classification will be based on criteria that are largely similar to those applied in current lease accounting. This standard will result in extensive qualitative and quantitative disclosure changes. This standard will be effective for annual reporting periods beginning after December 15, 2018, including interim periods within that reporting period. The Company is currently evaluating the impact of this ASU on its financial position and results of operations.

3. 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.

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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 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:

Description	At March 31, 2016	Quoted Prices in Active Markets (Level 1)	Other Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Restricted cash	$ 50	$	$ 50	$
Short-term investments	3,500		3,500	
Total	$ 3,550	$	$ 3,550	$

Description	At December 31, 2015	Quoted Prices in Active Markets (Level 1)	Other Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Restricted cash	$ 50	$	$ 50	$
Cash equivalents	2,500		2,500	
Short-term investments	5,500		5,500	
Total	$ 8,050	$	$ 8,050	$

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.

4. 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.

Common Stock

On April 14, 2016, the Board of Directors of the Company approved a 1-for-10 reverse stock split of the Company s outstanding common stock, which was effected on April 18, 2016. The number of authorized shares of the Company remain unchanged. Stockholders who would have otherwise been entitled to fractional shares as a result of the reverse stock split received a cash payment in lieu of receiving fractional shares. Shares of common stock underlying outstanding stock options and other equity instruments were proportionately reduced and the respective exercise prices, if applicable, were proportionately increased in accordance with the terms of the agreements governing such securities. All share and per share amounts in the financial statements have been retroactively adjusted for all periods presented to give effect to the reverse stock split, including reclassifying an amount equal to the reduction in par value to additional paid-in capital. Following the implementation of the reverse stock split, the Company regained compliance with the minimum bid price requirement set forth in Nasdaq Listing Rule 5550(a)(2) for continued listing on The Nasdaq Capital Market.

The following table summarizes the Company s warrants outstanding at March 31, 2016:

Exercise prices	Number of Shares Underlying Warrants	Expiration
$39.00	462	April 27, 2017
$ 4.55	1,256,502	July 2, 2016
$ 5.20	1,300,002	June 2, 2020
Total warrants outstanding	2,556,966	

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5. 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 months ended March 31, 2016 and 2015, the following assumptions were used:

	Three Months Ended March 31,	
	2016	2015
Risk-free interest rate	1.18 - 2.02%	1.47 - 1.51%
Expected volatility	79.42 116.70%	90.10 91.16%
Weighted average expected volatility	88.64%	90.29%
Expected lives (in years)	5.20 10.00	6.05 6.25
Expected dividend yield	0.00%	0.00%

The weighted average fair value of options granted during the three month periods ended March 31, 2016 and 2015 was $2.20 and $8.88, 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:

	Total Number of Shares	Weighted-Average Exercise Price Per Share	Aggregate Intrinsic Value
Balance at December 31, 2015	332,376	$ 30.50	
Granted	57,566	2.92	
Exercised			
Cancelled			
Balance at March 31, 2016	389,942	$ 26.40	$
Exercisable at March 31, 2016	263,231	$ 32.50	$

Stock-based compensation expense for the three months ended March 31, 2016 and 2015 was approximately $294,000 and $411,000, respectively. Of this, the Company recognized approximately $1,000 of expense and $16,500 of

income related to non-employee stock options for the same respective periods.

6. 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:

	At March 31,	
	2016	**2015**
Options to purchase common stock	389,942	307,926
Common stock underlying Series A and Series A-1 convertible preferred stock		757,120
Warrants to purchase common stock	2,556,966	462
Total	2,946,908	1,065,508

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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 March 31, 2016 and results of operations for the three months ended March 31, 2016 and 2015 should be read in conjunction with the financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2015 which was filed with the SEC on March 30, 2016.

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; 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, 2015 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 RNAi company developing innovative therapeutics in dermatology and ophthalmology that address significant unmet medical needs. Our development programs are based on our proprietary self-delivering RNAi (sd-rxRNA®) platform and Samcyprone , a topical immunomodulator. Our clinical development programs include RXI-109, an sd-rxRNA for the treatment of dermal and ocular scarring, and 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 for product and business development opportunities across a broad spectrum of therapeutic areas.

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 and eye. RXI-109 is currently being evaluated in a Phase 2 clinical trial to prevent or reduce dermal scarring following scar revision surgery of an existing hypertrophic scar and a Phase 1/2 clinical trial 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 less visible at three months after a treatment regimen with RXI-109 than scars at untreated revision sites in those same subjects. Based in part on this new information, two more cohorts were added to Study 1402 in November 2015. The subjects in the two additional cohorts are receiving either eight or nine doses of RXI-109 over a six-month period starting two weeks after scar revision surgery. The Company is currently enrolling subjects for these two new cohorts.

Study 1501, the Company s Phase 1/2 clinical trial in retinal scarring, commenced in November 2015. Study 1501 is a multi-dose, dose escalation study conducted in subjects with AMD. Each subject will receive four doses of RXI-109 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, will be evaluated over the course of the study using numerous assessments to monitor the health in the retina and to assess visual acuity. The Company is currently enrolling subjects in Study 1501.

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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 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. DPCP, the active ingredient in Samcyprone , has long been used to treat warts and has also been used for several other indications, such as to stimulate hair re-growth in alopecia areata and to clear subcutaneous metastases of melanoma. Although it has been used by physicians for several decades, it has never been reviewed or approved by a regulatory authority as a drug. If U.S. Food and Drug Administration approval is granted, Samcyprone™, RXi s proprietary formulation of DPCP, is expected to achieve market exclusivity. Samcyprone is currently being evaluated in a Phase 2a clinical trial for the clearance of recalcitrant warts.

Study 1502, the Company s Phase 2a clinical trial in cutaneous warts, was initiated in December 2015. Study 1502 will include a sensitization phase in which a spot on the subject s upper arm and one wart are treated with a higher dose of Samcyprone . After being sensitized in this way, the subjects will enter into the treatment phase where the wart is 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 will be scored, photographed and measured to monitor the level of clearing. The Company expects to fully enroll subjects in this study before the end of 2016.

The Company continues to advance additional preclinical and discovery programs using our sd-rxRNA technology. Within our ophthalmology program, we are also directing our development efforts toward advancing RXI-109 for the treatment of 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. Elevated CTGF is implicated in the formation of corneal scarring that can occur after eye injury or after certain infections. Scarring of the cornea can impact the transparency of the cornea, and thus negatively impact vision. We are currently working towards a non-invasive delivery formulation of RXI-109 to reduce CTGF in the front of the eye.

Within our dermatology franchise, the Company has selected tyrosinase (**TYR**) and collagenase (**MMP1**) as targets for our self-delivering RNAi platform because they are relevant for both consumer health and therapeutic development. TYR is a key enzyme involved in the synthesis of melanin. RXI-231, an sd-rxRNA compound targeting TYR, is in development as a cosmetic ingredient that may improve the appearance of uneven skin tone and pigmentation. MMP1 is a key enzyme involved in the breakdown of the extracellular matrix. RXI-185, an sd-rxRNA compound targeting MMP1, is in development as a cosmetic ingredient that may improve the appearance of wrinkles or skin laxity. The Company is currently developing topical delivery applications methods, including formulations and micro-needling, for use with these compounds and plans to complete functional and safety testing to initiate human testing of one of these consumer health targets by the end of 2016.

Further, the Company has identified additional sd-rxRNA compounds like RXI-231 and RXI-185 that are available to move forward on a separate therapeutic development path. For example, selected reduction of MMP1 may be beneficial in the treatment of arthritis, corneal erosions, endometriosis and possible cancer metastasis and the inhibition of tyrosinase can play a key role in the management of diseases such as cutaneous hyperpigmentation disorders and possibly melanoma.

On April 14, 2016, the Board of Directors of the Company approved a 1-for-10 reverse stock split of the Company s outstanding common stock, which was effected on April 18, 2016. The number of authorized shares of the Company remain unchanged. Stockholders who would have otherwise been entitled to fractional shares as a result of the reverse stock split received a cash payment in lieu of receiving fractional shares. Shares of common stock underlying outstanding stock options and other equity instruments were proportionately reduced and the respective exercise prices, if applicable, were proportionately increased in accordance with the terms of the agreements governing such

securities. All share and per share amounts in the financial statements have been retroactively adjusted for all periods presented to give effect to the reverse stock split, including reclassifying an amount equal to the reduction in par value to additional paid-in capital.

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 March 31, 2016, we had an accumulated deficit of $59.3 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 .

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, 2015, which we filed with the SEC on March 30, 2016.

Results of Operations

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

	Three Months Ended March 31,	
	2016	**2015**
Net revenues	$ 10	$ 34
Operating expenses	(2,255)	(2,980)
Operating loss	(2,245)	(2,946)
Net loss	(2,231)	(2,945)
Net loss applicable to common stockholders	$ (2,231)	$ (3,130)

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Comparison of the Three Months Ended March 31, 2016 and 2015

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 March 31,	
	2016	2015
Net revenues	$ 10	$ 34

Net revenues were approximately $10,000 for the three months ended March 31, 2016, as compared with $34,000 for the three months ended March 31, 2015. The decrease was due to a government grant from the National Cancer Institute, a division of the National Institutes of Health, which was completed in 2015. Net revenues for the three months ended March 31, 2016 were due to the Company s out-licensed technology agreement with MirImmune, Inc.

Operating Expenses

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

	Three Months Ended March 31,	
	2016	2015
Research and development	$ 1,305	$ 2,107
General and administrative	950	873
Total operating expenses	$ 2,255	$ 2,980

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. We expect research and development expenses to increase as we expand our discovery, preclinical and clinical activities.

Research and development expenses were $1,305,000 for the three months ended March 31, 2016, compared with $2,107,000 for the three months ended March 31, 2015. The decrease of $802,000, or 38%, was primarily due to a decrease of $699,000 in research and development expenses related to the cash and equity fees payable to Hapten Pharmaceuticals, LLC upon the close of the Samcyprone license agreement and toxicology studies performed in connection with the Company s investigational drug application for retinal scarring, both of which occurred in the first quarter of 2015, as well as a decrease of $103,000 in stock-based compensation expense due to the full vesting of a number of stock option grants as compared with the same period in 2015.

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, consultants, professional services and general corporate expenses.

General and administrative expenses were $950,000 for the three months ended March 31, 2016, compared with $873,000 for the three months ended March 31, 2015. The increase of $77,000, or 9%, was due to an increase of $91,000 in general and administrative expenses primarily related to the increase in the use of professional service providers due to the Company s focus on business development activities in line with our key corporate initiatives as compared with the same period in the prior year offset by a decrease of $14,000 in stock-based compensation expense due to a decrease in the fair value of stock options granted.

Series A and Series A-1 Convertible Preferred Stock Dividends

The following table summarizes our total Series A and Series A-1 convertible preferred stock (**Series A and Series A-1 Preferred Stock**) dividends for the periods indicated, in thousands:

	Three Months Ended March 31,	
	2016	**2015**
Series A and Series A-1 Preferred Stock dividends	$	$ 185

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On May 27, 2015, all shares of Series A and Series A-1 Preferred Stock were fully converted, with no shares remaining outstanding. Consequently, the Company has not paid any dividends on the Series A and Series A-1 Preferred Stock since the second quarter of 2015. Additionally, on November 6, 2015, the Company eliminated both series of preferred stock from its Certificate of Incorporation. As a result, the Company does not have any shares of Series A and Series A-1 Preferred Stock authorized, issued or outstanding.

Liquidity and Capital Resources

We had cash, cash equivalents and short-term investments of $7.7 million as of March 31, 2016, compared with $10.6 million as of December 31, 2015.

On June 2, 2015, we sold 2.6 million units in a public offering at a price of $4.00 per unit (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 $4.55 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 $5.20 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.

On December 18, 2014, the Company entered into a purchase agreement (the **Purchase Agreement**) with Lincoln Park Capital Fund, LLC (**LPC**), pursuant to which the Company has 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 Purchase Agreement. To date, the Company has sold a total of 5,000 shares of common stock to LPC for net proceeds of approximately $64,000. Per the terms of the Offering, the Company cannot sell shares of the Company s common stock to LPC under the Purchase Agreement until the expiration of the Overallotment Purchase Rights.

We believe that our existing cash, cash equivalents and short-term investments, along with the Purchase Agreement with LPC, 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. We expect to incur significant operating losses as we advance our product candidates through the drug development and 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:

	Three Months Ended March 31,	
	2016	2015
Net cash used in operating activities	$ (2,925)	$ (1,972)
Net cash provided by (used in) investing activities	2,000	(8)

Net cash provided by financing activities		64
Net decrease in cash and cash equivalents	$ (925)	$ (1,916)

Net Cash Flow from Operating Activities

Net cash used in operating activities was $2,925,000 for the three months ended March 31, 2016 compared with $1,972,000 for the three months ended March 31, 2015. The increase in cash used in operating activities was due to changes in working capital items of $1,315,000, primarily due to payments related to the manufacturing of RXI-109 and Samcyprone drug product, and changes in non-cash expenses of $352,000 partially offset by a decrease in net loss of $714,000.

Net Cash Flow from Investing Activities

Net cash provided by investing activities was $2,000,000 for the three months ended March 31, 2016 compared with net cash used in investing activities of $8,000 for the three months ended March 31, 2015. The increase in net cash provided by investing activities was related to the maturity of short-term investments during the first quarter of 2016.

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Net Cash Flow from Financing Activities

There were no cash flows from financing activities for the three months ended March 31, 2016. Net cash provided by financing activities was $64,000 for the three months ended March 31, 2015. Net cash provided by financing activities was due to net proceeds received from the issuance of common stock to LPC.

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 6 to our financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2015, which was filed with the SEC on March 30, 2016, 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 March 31, 2016 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, 2015 filed with the SEC on March 30, 2016.

Following the implementation of the reverse stock split, the Company regained compliance with the minimum bid price

requirement set forth in Nasdaq Listing Rule 5550(a)(2) for continued listing on The Nasdaq Capital Market.

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.

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ITEM 5. OTHER INFORMATION

On April 14, 2016, the Board of Directors of the Company approved a 1-for-10 reverse stock split of the Company s outstanding common stock, which was effected on April 18, 2016. Stockholders who would have otherwise been entitled to fractional shares as a result of the reverse stock split received a cash payment in lieu of receiving fractional shares. Shares of common stock underlying outstanding stock options and other equity instruments were proportionately reduced and the respective exercise prices, if applicable, were proportionately increased in accordance with the terms of the agreements governing such securities. Following the implementation of the reverse stock split, the Company regained compliance with the minimum bid price requirement set forth in Nasdaq Listing Rule 5550(a)(2) for continued listing on The Nasdaq Capital Market. The foregoing summary of the reverse stock split is qualified in its entirety by reference to the full text of the Certificate of Amendment to the Amended and Restated Certificate of Incorporation of RXi Pharmaceuticals Corporation, which is attached hereto as Exhibit 3.1 to this Quarterly Report on Form 10-Q and incorporated herein by reference.

ITEM 6. EXHIBITS

EXHIBIT INDEX

		Incorporated by Reference Herein	
Exhibit Number	**Description**	**Form**	**Date**
3.1	Certificate of Amendment to the Amended and Restated Certificate of Incorporation of RXi Pharmaceuticals Corporation	Current Report on Form 8-K (File No. 001-36304)	April 15, 2016
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 March 31,		

2016, formatted in XBRL (eXtensible Business Reporting Language): (1) Condensed Balance Sheets as of March 31, 2016 and December 31, 2015; (2) Condensed Statements of Operations for the Three Months Ended March 31, 2016 and 2015; (3) Condensed Statements of Cash Flows for the Three Months Ended March 31, 2016 and 2015; 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

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

Date: May 12, 2016