UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 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: 001-36754

Neothetics, Inc.

(Exact Name of Registrant as Specified in its Charter)

Delaware	**20-8527075**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
9171 Towne Centre Drive, Suite 250 San Diego, CA	**92122**
(Address of principal executive offices)	**(Zip Code)**

Registrant's telephone number, including area code: (858) 750-1008

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

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

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

Large accelerated filer	☐	Accelerated filer	☐
Non-accelerated filer	☐ (Do not check if a small 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 13(a) of the Exchange Act. ☒

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

As of November 1, 2017, the registrant had 13,850,601 shares of common stock, $0.0001 par value per share, outstanding.

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PART I—FINANCIAL INFORMATION

Item 1. Financial Statements.

Neothetics, Inc.
Condensed Balance Sheets
(Unaudited)

	September 30, 2017	December 31, 2016
Assets		
Current assets:		
Cash and cash equivalents	$ 5,750,266	$ 11,477,852
Prepaid expenses and other current assets	380,005	1,029,546
Total current assets	6,130,271	12,507,398
Restricted cash	93,382	200,000
Property and equipment, net	22,463	109,320
Total assets	$ 6,246,116	$ 12,816,718
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	$ 410,163	$ 503,739
Accrued severance	191,496	109,525
Other accrued expenses	794,739	288,928
Total current liabilities	1,396,398	902,192
Stockholders' equity:		
Preferred stock, $0.0001 par value; 5,000,000 shares authorized; no shares issued and outstanding	—	—
Common stock, $0.0001 par value; 300,000,000 shares authorized; 13,831,747 and 13,828,496 shares issued and outstanding at September 30, 2017 and December 31, 2016, respectively	1,383	1,382
Additional paid-in capital	138,332,367	137,763,499
Accumulated deficit	(133,484,032)	(125,850,355)
Total stockholders' equity	4,849,718	11,914,526
Total liabilities and stockholders' equity	$ 6,246,116	$ 12,816,718

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

Neothetics, Inc.
Condensed Statements of Operations
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Operating expenses:				
Research and development	$ 486,828	$ 964,937	$ 3,592,760	$ 5,653,432
General and administrative	1,332,848	905,176	4,081,001	4,407,408
Total operating expenses	1,819,676	1,870,113	7,673,761	10,060,840
Loss from operations	(1,819,676)	(1,870,113)	(7,673,761)	(10,060,840)
Interest income	13,400	13,935	40,084	50,078
Interest expense	—	(506,302)	—	(1,035,763)
Net loss	$ (1,806,276)	$ (2,362,480)	$ (7,633,677)	$ (11,046,525)
Net loss per share, basic and diluted	$ (0.13)	$ (0.17)	$ (0.55)	$ (0.80)
Weighted average shares used to compute basic and diluted net loss per share	13,831,747	13,816,464	13,830,981	13,786,207

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

Neothetics, Inc.
Condensed Statements of Cash Flows
(Unaudited)

	Nine Months Ended September 30, 2017	2016
Operating activities		
Net loss	$ (7,633,677)	$ (11,046,525)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	25,652	52,896
Loss on disposal of assets	55,705	962
Noncash interest expense on debt	—	100,290
Share-based compensation	565,410	970,381
Changes in operating assets and liabilities:		
Prepaid expenses and other current assets	649,541	1,467,577
Accounts payable and accrued expenses	494,206	(4,911,427)
Net cash used in operating activities	(5,843,163)	(13,365,846)
Investing activities		
Proceeds from sale of property and equipment	5,500	—
Net cash provided by investing activities	5,500	—
Financing activities		
Partial prepayment resulting in loan extinguishment	—	(9,514,058)
Principal payments on bank loan	—	(485,942)
Loan amendment costs	—	(52,400)
Proceeds from issuance of common stock from exercise of options	3,459	33,542
Net cash provided by (used in) financing activities	3,459	(10,018,858)
Net decrease in cash, cash equivalents and restricted cash	(5,834,204)	(23,384,704)
Cash, cash equivalents and restricted cash, beginning of period	11,677,852	37,948,603
Cash, cash equivalents and restricted cash, end of period	$ 5,843,648	$ 14,563,899
Supplemental disclosure of cash flow activity		
Cash paid for interest	—	$ 664,292

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

1. Organization and Basis of Presentation

Neothetics, Inc. (Neothetics or the Company) was incorporated in Delaware on February 1, 2007, under the name Lipothera, Inc. In September 2008, the Company changed its name to Lithera, Inc. In August 2014, the Company changed its name to Neothetics, Inc. The Company is a clinical-stage specialty pharmaceutical company that has been focused on developing therapeutics for the aesthetic market. Our focus has been on localized fat reduction and body contouring. Our lead product candidate, LIPO-202, is a first-in-class injectable formulation of the long-acting ß2-adrenergic receptor agonist, salmeterol xinafoate, which is an active ingredient in the U.S. Food and Drug Administration, or FDA, approved inhaled products SEREVENT DISKUS®, ADVAIR HFA® and ADVAIR DISKUS®. In June 2017, the Company announced that its Phase 2 proof-of-concept clinical trial of its lead product candidate LIPO-202 did not demonstrate improvement on any efficacy measurements or separation from placebo. As a consequence of the negative results from the Phase 2 proof-of-concept clinical trial of its lead product candidate LIPO-202, the Company announced its plans to initiate a process to explore and review a range of strategic alternatives focusing on seeking an acquisition, business combination or partnership that will allow for it to maximize shareholder value from its remaining assets and cash resources. Oppenheimer and Co., Inc. was retained to act as the Company's exclusive financial advisor for this process. Further related to the negative clinical trial results, the Company announced a reduction of the Company's current full-time workforce in order to reduce operating expenses and conserve cash resources.

On October 17, 2017, the Company entered into an Agreement and Plan of Merger and Reorganization (the "Merger Agreement") with Nobelli Merger Sub, Inc., its wholly owned subsidiary ("Merger Sub"), and Evofem Biosciences, Inc., a privately-held Delaware corporation ("Evofem"), pursuant to which, among other things, subject to the satisfaction or waiver of the conditions set forth in the Merger Agreement, Merger Sub will merge with and into Evofem, with Evofem becoming a wholly-owned subsidiary of the Company and the surviving corporation of the merger (the "Merger"). The Merger is intended to qualify for federal income tax purposes as a tax-free reorganization under the provisions of Section 368(a) of the Internal Revenue Code of 1986, as amended.

Immediately prior to the effective time of the Merger (the Effective Time), each outstanding share of Evofem's preferred stock (other than shares of Evofem's Series D preferred stock) will be converted into one share of Evofem common stock. Subject to the terms and conditions of the Merger Agreement, at the Effective Time: (a) each share of Evofem common stock (on an as-converted basis) will be converted solely into the right to receive shares of the Company's common stock (the Company Common Stock) equal to the common stock exchange ratio described in the Merger Agreement; (b) each outstanding shares of Evofem Series D preferred stock will be converted solely into the right to receive shares of the Company Common Stock equal to the Series D preferred stock exchange ratio described in the Merger Agreement; and (c) each outstanding Evofem stock option that has not previously been exercised prior to the Effective Time will be assumed by the Company. Warrants to purchase shares of Evofem capital stock will be assumed by the Company at the Effective Time and then immediately amended and restated to become warrants to purchase up to an aggregate of 12 million shares of the Company Common Stock (the Company Post-Merger Warrants). The exercise price for the Company Post-Merger Warrants will be equal to the average of the closing sale prices of the Company Common Stock as quoted on The NASDAQ Capital Market for the 30 consecutive trading day period commencing with the first trading day immediately following the Effective Time.

Immediately following the Merger, the name of the Company will be changed from "Neothetics, Inc." to "Evofem Biosciences, Inc." The Merger Agreement contemplates that the Board of Directors of the Company will consist of seven members at the Effective Time, six of which will be designated by Evofem and one of which will be designated by the Company. The member to be designated by the Company is expected to be one of the current directors of the Company. The executive officers of the Company immediately after the Effective Time will be designated by Evofem with Evofem's Chief Executive Officer, Saundra Pelletier, being the Company's Chief Executive Officer.

The Merger Agreement contains customary representations, warranties and covenants made by the Company and Evofem, including covenants relating to obtaining the requisite approvals of the stockholders of the Company and Evofem, indemnification of directors and officers, the Company's and Evofem's conduct of their respective businesses between the date of signing the Merger Agreement and the closing of the Merger. Consummation of the Merger is subject to certain closing conditions, including, among other things, approval by the stockholders of the Company and Evofem. The Merger Agreement contains certain termination rights for both the Company and Evofem, and further provides that, upon termination of the Merger Agreement under specified circumstances, the Company may be required to pay Evofem a termination fee of up to $1.5 million or Evofem may be required to pay the Company a termination fee of $1.5 million.

The Merger Agreement contemplates that the Company will also seek approval from its stockholders to effect a reverse stock split intended to increase its trading price above the minimum requirements of The NASDAQ Capital Market. Subject to stockholder

approval, the Company expects to implement the reverse stock split at a ratio to be mutually agreed to by the Company and Evofem within the range approved by the Company's stockholders immediately prior to the Effective Time.

In accordance with the terms of the Merger Agreement, certain affiliated stockholders of Evofem have each entered into a support agreement with Evofem (the Support Agreements). The Support Agreements place certain restrictions on the transfer of the shares of the Evofem held by the respective signatories thereto and include covenants as to the voting of such shares in favor of approving the transactions contemplated by the Merger Agreement and against any actions that could adversely affect the consummation of the Merger.

Concurrently with the execution of the Merger Agreement, the Company entered into a Securities Purchase Agreement with Evofem and certain investors of Evofem (the Securities Purchase Agreement) pursuant to which, conditioned upon and immediately following the Merger, the Company will issue and sell in a private placement transaction (the Financing) $20 million of Company Common Stock and Evofem will issue warrants to purchase shares of Evofem common stock immediately prior to the Effective Time (the Investor Warrants). The Investor Warrants are contemplated to be automatically exercised on a cashless basis at the Effective Time, and the shares of Evofem common stock issued upon exercise of the Investor Warrant will be eligible to receive shares of the Company Common Stock in an amount equal to the common stock exchange ratio upon completion of the Merger. Upon consummation of the Financing, the Merger Agreement contemplates that the Company will terminate its existing Fourth Amended and Restated Investors' Rights Agreement, dated September 22, 2014, by and between the Company and the investors listed therein (the Existing Investors), and enter into a registration rights agreement with certain of the Existing Investors and certain investors of Evofem.

The merger will be treated by Neothetics as a reverse merger under the acquisition method of accounting in accordance with U.S. GAAP. For accounting purposes, Evofem is considered to be acquiring Neothetics in the merger based upon the following factors: (i) Evofem's stockholders are expected to own the majority of the voting interests of the combined company immediately following the closing of the merger; (ii) directors appointed by Evofem will hold 6 out of 7 board seats in the combined company board of directors; and (iii) Evofem's management will hold all key positions in the management of the combined company. The transaction will be accounted for under the acquisition method of accounting under existing U.S. GAAP, which is subject to change and interpretation.

The accompanying unaudited financial statements of the Company should be read in conjunction with the audited financial statements and notes thereto as of and for the year ended December 31, 2016 included in the Company's Annual Report on Form 10-K (Annual Report) filed with the Securities and Exchange Commission (SEC). The accompanying financial statements have been prepared in accordance with U.S. generally accepted accounting principles (GAAP) for interim financial information and in accordance with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, since they are interim statements, the accompanying financial statements do not include all of the information and notes required by GAAP for complete financial statements. In the opinion of management, the accompanying financial statements reflect all adjustments (consisting of normal recurring adjustments) that are necessary for a fair statement of the financial position, results of operations and cash flows for the interim periods presented. Interim results are not necessarily indicative of results for a full year.

The Company has incurred significant net losses from its operations since its inception and has an accumulated deficit of $133.5 million as of September 30, 2017. In the first nine months of 2017, the Company used $5.8 million of cash in operations. At September 30, 2017, the Company had cash and cash equivalents of $5.8 million. There is substantial doubt about the Company's ability to continue as a going concern within one year after the date that the financial statements for the quarter ended September 30, 2017 are issued.

We cannot predict whether and to what extent we will resume drug development activities and what our future cash needs would be for any such activities. If the Merger is not successful, our Board of Directors may decide to pursue a dissolution and liquidation of our Company. In such an event, the amount of cash available for distribution to our shareholders will depend heavily on the timing of such liquidation as well as the amount of cash that will need to be reserved for commitments and contingent liabilities.

The financial statements have been prepared on a going concern basis, which contemplates the realization of assets and settlement of liabilities, in the normal course of business, and do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or amounts and classification of liabilities that may result from the outcome of this uncertainty.

2. Summary of Significant Accounting Policies

Use of Estimates

The preparation of financial statements in conformity 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 expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

The Company considers all highly liquid investments with a maturity of 90 days or less at the date of purchase to be cash equivalents. Cash and cash equivalents include cash in readily available checking and money market accounts.

Restricted Cash

Restricted cash as of September 30, 2017 represents a $93,382 restricted money market account used to secure the standby letter of credit issued in connection with a lease amendment. The restriction will lapse when the standby letter of credit expires (see Note 5 "Debt").

The following table provides a reconciliation of cash, cash equivalents and restricted cash reported within the balance sheets that sum to the total of the same such amounts shown in the statement of cash flows.

	September 30,	
	2017	2016
Cash and cash equivalents	$ 5,750,266	$ 14,363,899
Restricted cash	93,382	200,000
Total cash, cash equivalents and restricted cash	$ 5,843,648	$ 14,563,899

Concentrations of Credit Risk

Financial instruments that potentially subject the Company to significant concentrations of credit risk consist primarily of cash and cash equivalents. The Company maintains deposits in federally insured financial institutions in excess of federally insured limits. The Company has not experienced any losses in such accounts and believes it is not exposed to significant risk on its cash due to the financial position of the depository institution in which those deposits are held.

Fair Value of Financial Instruments

The carrying amounts of prepaid and other current assets, accounts payable and accrued expenses are reasonable estimates of their fair value because of the short maturity of these items.

Property and Equipment

Property and equipment, which primarily consist of office furniture and equipment and computer equipment, are stated at cost and depreciated over the estimated useful lives of the assets (three to five years) using the straight-line method.

Impairment of Long-Lived Assets

Long-lived assets consist primarily of property and equipment. An impairment loss is recorded if and when events and circumstances indicate that assets might be impaired and the undiscounted cash flows estimated to be generated by those assets are less than the carrying amount of those assets. While the Company's current and historical operating losses and negative cash flows are indicators of impairment, management believes that future cash flows to be received support the carrying value of its long-lived assets and, accordingly, has not recognized any impairment losses since inception.

Research and Development Costs

Research and development expenses consist primarily of salaries and related overhead expenses, fees paid to consultants and contract research organizations, costs related to acquiring and manufacturing clinical trial materials, and costs related to compliance with regulatory requirements.

All research and development costs are charged to expense as incurred.

Income Taxes

The Company uses the liability method of accounting for income taxes. Under this method, deferred tax assets and liabilities are determined based on the difference between the financial reporting and the tax reporting basis of assets and liabilities and are measured using the enacted tax rates and laws that are expected to be in effect when the differences are expected to reverse. Valuation allowances are recorded when the realizability of such deferred tax assets is not more likely than not.

The guidance on accounting for uncertainty in income taxes prescribes a recognition threshold and measurement attribute criteria for the financial statement recognition and measurement of tax positions taken or expected to be taken in a tax return. For those benefits to be recognized, a tax position must be more likely than not to be sustained upon examination by taxing authorities. The Company's policy is to recognize interest expense and penalties related to income tax matters as a component of income tax expense. The Company has not recognized interest and penalties in the balance sheets or statements of operations. The Company is subject to taxation in the U.S. and state jurisdictions. The Company's tax years from inception are subject to examination by the United States and California authorities due to the carryforwards of unutilized net operating losses (NOLs) and research and development credits.

Share-Based Compensation

Share-based compensation expense for stock option grants, restricted stock awards and employee stock purchase plan shares is recorded at the estimated fair value of the award as of the grant date and is recognized as expense on a straight-line basis over the requisite service period of the stock-based award. The estimation of stock options, restricted stock awards and employee stock purchase plan fair value requires management to make estimates and judgments about, among other things, employee exercise behavior, forfeiture rates and volatility of the Company's common stock. The judgments directly affect the amount of compensation expense that will be recognized.

Net Loss Per Share

Basic net loss per share is calculated by dividing the net loss by the weighted average number of common shares outstanding during the period, without consideration for common stock equivalents. Diluted net loss per share is computed by dividing the net loss by the weighted average number of common shares and common share equivalents outstanding during the period. Common stock equivalents are only included when their effect is dilutive. The Company's potentially dilutive securities, which include warrants and outstanding stock options and restricted stock awards under the stock compensation plans, have been excluded from the computation of diluted net loss per share as they would be anti-dilutive. For all periods presented, there is no difference in the number of shares used to compute basic and diluted shares outstanding due to the Company's net loss position.

The following table sets forth the outstanding potentially dilutive securities that have been excluded in the calculation of diluted net loss per share because to do so would be anti-dilutive.

	Nine Months Ended September 30,	
	2017	**2016**
Warrants for common stock	71,257	71,257
Common stock options and restricted stock awards issued and outstanding	1,565,573	1,190,913
	1,636,830	1,262,170

Recent Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (or ASU) 2016-02, Leases. ASU 2016-02 requires that lessees recognize assets and liabilities for the rights and obligations for leases with a lease term of more than one year. The amendments in this ASU are effective for annual periods ending after December 15, 2018. Early adoption is permitted. The Company is evaluating the impact of adoption on its financial statements.

3. Fair Value Measurements

Fair Value of Financial Instruments

The Company's financial instruments consist of cash and cash equivalents, accounts payable, accrued expenses, including warrants issued in connection with financing arrangements, and long-term debt. Fair value estimates of these instruments are made at a specific point in time based on relevant market information. These estimates may be subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. The carrying amount of cash and cash equivalents, accounts payable, and accrued expenses are generally considered to be representative of their respective fair values because of the short-term nature of these instruments. The Company believes that the fair value of long-term debt approximates its carrying value based on the borrowing rates currently available to the Company for loans with similar terms.

The authoritative guidance for fair value measurements defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Market participants are buyers or sellers in the principal market that are (i) independent, (ii) knowledgeable, (iii) able to transact, and (iv) willing to transact. The guidance prioritizes three levels of inputs into the following hierarchy:

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

Level 2 — Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 — Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Assets and liabilities measured at fair value on a recurring basis as of September 30, 2017 and December 31, 2016 are as follows:

		Fair Value Measurements at Reporting Date Using		
	Balance as of Sept 30, 2017	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
Money market fund(1)	$ 5,750,266	$ 5,750,266	$ —	$ —
Total assets	$ 5,750,266	$ 5,750,266	$ —	$ —

(1) Included as a component of cash and cash equivalents on accompanying balance sheet.

		Fair Value Measurements at Reporting Date Using		
	Balance as of December 31, 2016	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
Money market fund(1)	$ 11,477,852	$ 11,477,852	$ —	$ —
Total assets	$ 11,477,852	$ 11,477,852	$ —	$ —

(1) Included as a component of cash and cash equivalents on accompanying balance sheet.

4. Property and Equipment

Property and equipment consist of the following:

	September 30, 2017	December 31, 2016
Office furniture and equipment	$ 100,577	$ 254,049
Less accumulated depreciation and amortization	(78,114)	(144,729)
	$ 22,463	$ 109,320

5. Debt

Loans

In February 2010, and as amended during 2012, the Company entered into a loan and security agreement (2010 Loan and Security Agreement) with Silicon Valley Bank (SVB), for borrowings of $3,750,000, collateralized by all assets of the Company. In connection with the borrowings, the Company issued warrants to the bank for the purchase of a total of 64,865 shares of Series B convertible preferred stock and warrants to purchase 75,000 shares of Series C convertible preferred stock. Effective upon the IPO, this was converted to a warrant to purchase 24,419 shares of common stock at a weighted average exercise price of $9.90 and expire ten years from the date of issuance. The 2010 Loan and Security Agreement was paid in full in June 2014.

In June 2014, the Company entered into a Loan and Security Agreement (Loan Agreement) with Hercules Technology Growth Capital Inc. that provided for borrowings up to $10.0 million available to the Company in two tranches. Upon closing of the Loan Agreement, the Company borrowed $4.0 million. In October 2014, the Company entered into the first amendment of the Loan Agreement and borrowed the remaining $6.0 million available under the agreement.

In connection with the Loan Agreement, in June 2014, the Company issued warrants to purchase shares of Series C convertible preferred stock equal to 4% of the amount advanced under the loan. Effective upon the IPO, this was converted to a warrant to purchase 46,838 shares of common stock at $8.54, which expires eight years after the date of issuance. The fair value of the warrants issued was $207,429, based on the fair value of such Series C warrants at the date of issuance. The warrants' fair value and financing fees of approximately $133,000 were recorded as a debt discount.

In March 2016, the Company entered into the second amendment of the Loan Agreement that provided for a prepayment of the outstanding loan carrying amount of $5.5 million with a prepayment fee of $110,000. In connection with the second amendment, the Company re-priced the outstanding warrants to purchase 46,838 shares of common stock at a new exercise price of $0.62, which expire in September 2022 unless exercised prior to such expiration date. The Company recorded a debt discount of $9,417 associated with the fair value of the warrants issued in connection with the amendment. In addition, the Company incurred loan amendment fees and legal fees of $52,400, which the Company recorded as a debt discount.

In September 2016, the Company prepaid the remaining outstanding balance under the Loan Agreement at a carrying amount of $4.0 million with a prepayment fee of $120,000 and an end of term fee of $300,000. Accordingly, the Loan Agreement was terminated on September 23, 2016. Upon termination of the Loan Agreement, the prepayment fees of $230,000 and unamortized end of term fee of $260,000 were recorded as interest expense.

From June 2014 through payoff in September 2016, the Company paid interest equal to the greater of either 9.0%, plus the Prime Rate as reported in The Wall Street Journal, less 3.25% or 9.0%. The Company recorded total interest expense of $0 and $154,057 related to the Loan Agreement for the three months ended September 30, 2017 and 2016, respectively.

Letter of Credit

In January 2015, the Company executed a lease amendment with LJ Gateway, LLC for new office space. In connection with this lease amendment the Company issued a stand-by letter of credit in the amount of $200,000 in lieu of a security deposit. Pursuant to the terms set forth in the lease amendment, as of March 31, 2017, the stand-by letter of credit was reduced to $93,382. The standby letter of credit is secured by a restricted money market account. The terms of the standby letter of credit expire in May 2020, which is subject to automatic yearly renewal prior to this date.

6. Stockholders' Equity

Warrants

As of September 30, 2017, warrants to purchase 71,257 shares of common stock remain outstanding, of which 24,419 warrants to purchase shares of common stock are at a weighted average exercise price of $9.90 and 46,838 warrants to purchase shares of common stock are at an exercise price of $0.62.

Common Stock

On December 1, 2015, the Company entered into a Controlled Equity Offering Sales Agreement, or Sales Agreement, with Cantor Fitzgerald, as a sales agent pursuant to which the Company may offer and sell from time to time, through Cantor Fitzgerald shares of Neothetics common stock, par value $0.0001 per share, having an aggregate offering price of up to $20.0 million. The minimum share price for this Controlled Equity Offering is selected at the discretion of the board of directors. Through September 30, 2017, no shares of common stock have been sold pursuant to this Sales Agreement.

Stock Compensation Plans

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

	Options Outstanding	Weighted Average Exercise Price
Outstanding and exercisable at December 31, 2016	871,203	$ 2.95
Granted	875,300	$ 1.88
Exercised	(3,251)	$ 1.06
Forfeited	(177,679)	$ 2.17
Outstanding and exercisable at September 30, 2017	1,565,573	$ 2.44

The Company recognized non-cash share-based compensation expense related to its 2014 Employee Stock Purchase Plan, restricted stock awards and stock options granted to employees and directors as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
General and administrative	$ 110,976	$ 67,687	$ 365,556	$ 851,837
Research and development	32,364	15,331	199,854	118,544
	$ 143,340	$ 83,018	$ 565,410	$ 970,381

Common Stock Reserved for Future Issuance

The following shares of common stock are reserved for future issuance at September 30, 2017:

Warrants issued and outstanding	71,257
Stock options issued and outstanding	1,565,573
Authorized for future awards under stock compensation plans	2,131,598
Employee Stock Purchase Plan	574,460
	4,342,888

7. Commitments

Operating Leases

The Company entered into a noncancelable operating lease for its facilities on January 20, 2015. The lease expires in March 2020.

On January 31, 2017, the Company entered into an Eleventh Amendment to the Lease with LJ Gateway Office LLC. Concurrent with entering into the Lease Amendment, the Company entered into a Sublease with Abacus Data Systems, Inc. ("Abacus") providing for the sublease of existing office space . This Lease Amendment also provides the Company with additional office space located at Suite No. 250, 9171 Towne Centre Drive, San Diego California, which the Company occupies as its headquarters.

Upon occurrence of Abacus retaining possession of the original premises in February 2017, Abacus received rent abatement for months one, three, and four as well as a discount of 50% off the base rent for months five through nine. Abacus paid the Company a base rent of $27,768 for the second month's rent and $30,317 security deposit. The base rent will increase by three percent on each annual anniversary. In February 2017, the Company recorded $353,000 of sublease liability. The Company has recorded the rental income collected or accrued under the sublease as a reduction of rent expense. Rent expense and sublease rental income under the Lease Amendment and Sublease for the three months ended September 30, 2017 were $75,000 and $75,000, respectively, and for the nine months ended September 30, 2017 were $217,000 and $189,000 respectively.

The following table summarizes the minimum lease payments and sublease receipts under the lease agreements:

	Lease Payments	Sublease Receipts
2017	$ 130,572	$ 69,420
2018	410,848	342,374
2019	431,507	352,644
2020	109,293	90,143
2021	—	—
Total	$ 1,082,220	$ 854,581

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

The following discussion and analysis and the interim financial statements included in this quarterly report on Form 10-Q should be read in conjunction with the financial statements and notes thereto for the year ended December 31, 2016 and the related Management's Discussion and Analysis of Financial Condition and Results of Operations, both of which are contained in our annual report on Form 10-K filed with the Securities and Exchange Commission, or SEC, on March 23, 2017. References to the Company throughout Management's Discussion and Analysis of Financial Condition and Results of Operations are made using the first person notations of "we," "us" and "our."

Forward-Looking Statements

This quarterly report on Form 10-Q contains forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act. All statements, other than statements of historical facts, contained in this document, including statements regarding our business, operations and financial performance and condition, as well as our plans, objectives and expectations for our business operations and financial performance and condition, are forward-looking statements. These statements relate to future events or to our future financial performance and involve known and unknown risks, uncertainties and other factors which may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. The words "anticipate," "believe," "continue," "could," "estimate," "expect," "intend," "may," "might," "plan," "predict," "project," "potential," "should," "target," "will," "would," or the negative of those terms and similar expressions are intended to identify forward-looking statements, although not all forward-looking statements contain these identifying words.

The forward-looking statements in this Form 10-Q include, among other things, statements about:

- our ability to complete the merger or identify and implement an alternative strategic transaction;
- our projections regarding the amount of cash available for distribution to our shareholders in the event of a liquidation;
- the timing of completion of the merger, or an alternative strategic transaction, sale and/or liquidation, if any;
- our future operating expenses and other results of operations, if any;
- our ability to reduce operating expenses and conserve cash resources;
- timing and amount of termination costs incurred in connection with our workforce reduction plan;
- the accuracy of estimates of our expenses, future revenue, capital requirements and our needs for additional financing;
- our ability to obtain funding for our operations in the event we determine to raise additional capital;
- the scope of protection we are able to establish and maintain for intellectual property rights covering our product candidates and technology and our ability to operate our business without infringing on the intellectual property rights of others;
- our ability to retain key personnel;
- the possibility of dissolving our Company;
- our ability to maintain our listing on the NASDAQ Stock Market;
- our agreements with third parties;
- regulatory developments in the United States and foreign countries; and
- our expectations regarding the period during which we qualify as an emerging growth Company under the Jumpstart Our Business Startups Act of 2012, or the JOBS Act.

We may not actually achieve the plans, intentions or expectations disclosed in our forward-looking statements, and you should not place undue reliance on our forward-looking statements. Forward-looking statements should be regarded solely as our current plans, estimates and beliefs. Actual results or events could differ materially from the plans, intentions and expectations disclosed in the forward-looking statements we make. We have included important factors in the cautionary statements included in this document, particularly in the "Risk Factors" section, that we believe could cause actual results or events to differ materially from the forward-looking statements that we make. Moreover, we operate in a very competitive and rapidly changing environment. New risks emerge from time to time. It is not possible for our management to predict all risks, nor can we assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements we may make. Our forward-looking statements do not reflect the potential impact of any future acquisitions, mergers, dispositions, joint ventures or investments we may make.

Overview

We are a clinical-stage specialty pharmaceutical company that historically has been focused on developing therapeutics for the aesthetic market. Our focus has been on localized fat reduction and body contouring. Our lead product candidate, LIPO-202, is a first-in-class injectable formulation of the long-acting ß2-adrenergic receptor agonist, salmeterol xinafoate, which is an active ingredient in the U.S. Food and Drug Administration, or FDA, approved inhaled products SEREVENT DISKUS®, ADVAIR HFA® and ADVAIR DISKUS®. In June 2017, the Company announced that its Phase 2 proof-of-concept clinical trial, LIPO-202-CL-31, did not demonstrate improvement on any efficacy measurements or separation from placebo. As a consequence of the negative results from the Phase 2 proof-of-concept clinical trial of its lead product candidate LIPO-202, the Company announced its plans to initiate a process to explore and review a range of strategic alternatives focusing on seeking an acquisition, business combination or partnership that will allow for it to maximize shareholder value from its remaining assets and cash resources. Oppenheimer and Co., Inc. was retained to act as the Company's exclusive financial advisor for this process. Further related to the negative clinical trial results, the Company implemented a reduction of the Company's current full-time workforce of six employees to two employees in order to reduce operating expenses and conserve cash resources. The workforce was reduced to three employees during the third quarter of 2017 and the reduction to two employees is expected to be completed during the fourth quarter of 2017 or first quarter of 2018.

In February 2016, our Board of Directors established an Operating Committee to assist with many of the responsibilities arising in the day-to-day operations of the Company that normally would be managed by our Chief Executive Officer and President, which position is currently vacant. The Operating Committee currently is comprised of three members of the Board of Directors; Martha J. Demski, Kim Kamdar, Ph.D., and Jeffrey Nugent.

Since commencing operations in February 2007, we have invested substantially all of our efforts and financial resources in the research and development and commercial planning for LIPO-202. Through September 30, 2017, we have funded substantially all of our operations through the sale and issuance of our preferred stock, venture debt, convertible debt and the sale of shares in our initial public offering.

We have never been profitable and, as of September 30, 2017, we had an accumulated deficit of $133.5 million. We incurred net losses of $1.8 million and $2.4 million for the three months ended September 30, 2017 and 2016, respectively, and $7.6 million and $11.0 million for the nine months ended September 30, 2017 and 2016, respectively. We expect to continue to incur net operating losses for the foreseeable future. There is substantial doubt about the Company's ability to continue as a going concern within one year after the date that the financial statements for the quarter ended September 30, 2017 are issued.

Recent Developments

On October 17, 2017, the Company entered into an Agreement and Plan of Merger and Reorganization (the "Merger Agreement") with Nobelli Merger Sub, Inc., its wholly owned subsidiary ("Merger Sub"), and Evofem Biosciences, Inc., a privately-held Delaware corporation ("Evofem"), pursuant to which, among other things, subject to the satisfaction or waiver of the conditions set forth in the Merger Agreement, Merger Sub will merge with and into Evofem, with Evofem becoming a wholly-owned subsidiary of the Company and the surviving corporation of the merger (the "Merger"). The Merger is intended to qualify for federal income tax purposes as a tax-free reorganization under the provisions of Section 368(a) of the Internal Revenue Code of 1986, as amended.

Immediately prior to the effective time of the Merger (the "Effective Time"), each outstanding share of Evofem's preferred stock (other than shares of Evofem's Series D preferred stock) will be converted into one share of Evofem common stock. Subject to the terms and conditions of the Merger Agreement, at the Effective Time: (a) each share of Evofem common stock (on an as-converted basis) will be converted solely into the right to receive shares of the Company's common stock (the "Company Common Stock") equal to the common stock exchange ratio described in the Merger Agreement; (b) each outstanding shares of Evofem Series D preferred stock will be converted solely into the right to receive shares of the Company Common Stock equal to the Series D preferred stock exchange ratio described in the Merger Agreement; and (c) each outstanding Evofem stock option that has not previously been exercised prior to the Effective Time will be assumed by the Company. Warrants to purchase shares of Evofem capital stock will be assumed by the Company at the Effective Time and then immediately amended and restated to become warrants to purchase up to an aggregate of 12 million shares of the Company Common Stock (the "Company Post-Merger Warrants"). The exercise price for the Company Post-Merger Warrants will be equal to the average of the closing sale prices of the Company Common Stock as quoted on The NASDAQ Capital Market for the 30 consecutive trading day period commencing with the first trading day immediately following the Effective Time. Under the exchange ratio formulas in the Merger Agreement, as of immediately after the Merger, and including the effect of the Financing (as defined below), the former Evofem securityholders are expected to own approximately 87% of the aggregate number of shares of the issued and outstanding Company Common Stock (the "Post-Closing Shares"), and the stockholders of the Company as of immediately prior to the Merger are expected to own approximately 13% of the aggregate number of Post-Closing Shares. The common stock exchange ratio and Series D preferred stock exchange ratio are subject to adjustment as set forth in Section 1.12(b) of the Merger Agreement.

Immediately following the Merger, the name of the Company will be changed from "Neothetics, Inc." to "Evofem Biosciences, Inc." The Merger Agreement contemplates that the Board of Directors of the Company will consist of seven members at the Effective Time, six of which will be designated by Evofem and one of which will be designated by the Company. The member to be designated by the Company is expected to be one of the current directors of the Company. The executive officers of the Company immediately after the Effective Time will be designated by Evofem with Evofem's Chief Executive Officer, Saundra Pelletier, being the Company's Chief Executive Officer.

The Merger Agreement contains customary representations, warranties and covenants made by the Company and Evofem, including covenants relating to obtaining the requisite approvals of the stockholders of the Company and Evofem, indemnification of directors and officers, the Company's and Evofem's conduct of their respective businesses between the date of signing the Merger Agreement and the closing of the Merger. Consummation of the Merger is subject to certain closing conditions, including, among other things, approval by the stockholders of the Company and Evofem. The Merger Agreement contains certain termination rights for both the Company and Evofem, and further provides that, upon termination of the Merger Agreement under specified circumstances, the Company may be required to pay Evofem a termination fee of up to $1.5 million or Evofem may be required to pay the Company a termination fee of $1.5 million.

The Merger Agreement contemplates that Neothetics will also seek approval from its stockholders to effect a reverse stock split intended to increase its trading price above the minimum requirements of The NASDAQ Capital Market. Subject to stockholder approval, the Company expects to implement the reverse stock split at a ratio to be mutually agreed to by the Company and Evofem within the range approved by the Company's stockholders immediately prior to the Effective Time.

Concurrently with the execution of the Merger Agreement, the Company entered into a Securities Purchase Agreement with Evofem and certain investors of Evofem (the "Securities Purchase Agreement") pursuant to which, conditioned upon and immediately following the Merger, the Company will issue and sell in a private placement transaction (the "Financing") $20 million of Company Common Stock and Evofem will issue warrants to purchase shares of Evofem common stock immediately prior to the Effective Time (the "Investor Warrants"). The Investor Warrants will be automatically exercised on a cashless basis at the Effective Time, and the shares of Evofem common stock issued upon exercise of the Investor Warrant will be eligible to receive shares of the Company Common Stock in an amount equal to the common stock exchange ratio upon completion of the Merger. Upon consummation of the Financing, the Company will terminate its existing Fourth Amended and Restated Investors' Rights Agreement, dated September 22, 2014, by and between the Company and the investors listed therein (the "Existing Investors"), and enter into a registration rights agreement with certain of the Existing Investors and certain investors of Evofem.

The merger will be treated by Neothetics as a reverse merger under the acquisition method of accounting in accordance with U.S. GAAP. For accounting purposes, Evofem is considered to be acquiring Neothetics in the merger based upon the following factors: [(i) Evofem's stockholders are expected to own approximately 87% (after giving effect to the Financing) of the voting interests of the combined company immediately following the closing of the merger; (ii) directors appointed by Evofem will hold 6 out of 7 board seats in the combined company board of directors; and (iii) Evofem's management will hold all key positions in the management of the combined company]. The transaction will be accounted for under the acquisition method of accounting under existing U.S. GAAP, which is subject to change and interpretation.

JOBS Act

In April 2012, the Jumpstart Our Business Startups Act of 2012, or JOBS Act, was signed into law. The JOBS Act contains provisions that, among other things, reduce certain reporting requirements for an "emerging growth company." As an "emerging growth company," we are electing not to take advantage of the extended transition period afforded by the JOBS Act for the implementation of new or revised accounting standards, and as a result, we will comply with new or revised accounting standards on the relevant dates on which adoption of such standards is required for non-emerging growth companies. Section 107 of the JOBS Act provides that our decision not to take advantage of the extended transition period is irrevocable. In addition, we are in the process of evaluating the benefits of relying on the other exemptions and reduced reporting requirements provided by the JOBS Act. Subject to certain conditions set forth in the JOBS Act, if as an "emerging growth company" we choose to rely on such exemptions, we may not be required to, among other things, (i) provide an auditor's attestation report on our system of internal controls over financial reporting pursuant to Section 404 of the Sarbanes-Oxley Act of 2002, as amended, (ii) provide all of the compensation disclosure that may be required of non-emerging growth public companies under the Dodd-Frank Wall Street Reform and Consumer Protection Act, (iii) comply with any requirement that may be adopted by the Public Company Accounting Oversight Board regarding mandatory audit firm rotation or a supplement to the auditor's report providing additional information about the audit and the financial statements (auditor discussion and analysis) and (iv) disclose certain executive compensation-related items such as the correlation between executive compensation and performance and comparisons of the Chief Executive Officer's compensation to median employee compensation. These exemptions will apply for a period of five years following the completion of our IPO or until we no longer meet the requirements of being an "emerging growth company," whichever is earlier.

Basis of Presentation

Research and Development Expenses

Prior to the discontinuation of our further research and clinical development activities, we devoted substantially all of our resources to research and development efforts relating to our product candidates, including conducting clinical trials, manufacturing capabilities, providing general and administrative support for these operations and protecting our intellectual property. Our research and development expenses have consisted primarily of:

- fees paid to clinical consultants, clinical trial sites and vendors, including CROs in conjunction with implementing and monitoring our preclinical and clinical trials and acquiring and evaluating preclinical and clinical trial data, including all related fees, such as for investigator grants, patient screening fees, laboratory work and statistical compilation and analysis;
- expenses related to preclinical studies, clinical trials and related clinical manufacturing, materials and supplies;
- expenses related to compliance with drug development regulatory requirements in the United States and other foreign jurisdictions; and
- personnel costs, including cash compensation, benefits and share-based compensation expense.

We expense both internal and external research and development costs in the periods in which they are incurred. To date, substantially all our research and development expenses have related to the development of LIPO-202. For the three months ended September 30, 2017 and 2016, we incurred costs of $0.5 million and $1.0 million, respectively, and $3.6 million and $5.7 million, for the nine months ended September 30, 2017 and 2016, respectively, on research and development expenses.

We do not allocate compensation expense to individual product candidates, as we are organized and record expense by functional department and our employees may allocate time to more than one development project. We do not utilize a formal time allocation system to capture expenses on a project-by-project basis.

We expect our research and development expenses to decrease significantly as we discontinued new research and development activities. We will continue to incur research and development expenses in connection with the windup and clinical trial closing costs.

General and Administrative Expenses

Our general and administrative expenses primarily consist of personnel costs, including cash compensation, benefits and share-based compensation expense, associated with our executive, accounting and finance departments. Other general and administrative expenses include costs in connection with patent filing, prosecution and defense, facility, information technology costs and professional fees for legal, consulting, marketing, audit and tax services. We expect our general and administrative expenses to increase for the foreseeable future as the Company entered into a definitive merger agreement on October 17, 2017.

Interest Income

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

Interest Expense

Our interest expense consists of cash and noncash interest costs related to our borrowings. The noncash interest costs consist of the amortization of the fair value of warrants that were issued in connection with our borrowings, with the initial fair value of the warrants being amortized to interest expense over the term of the governing agreements, and the amortization of other debt issuance costs, primarily legal and banker fees, over the period the related convertible notes were outstanding. As we prepaid in full the Hercules debt facility in September 2016, there was no interest expense for the three months ended September 30, 2017.

Critical Accounting Policies and Significant Judgments and Estimates

Our discussion and analysis of our financial condition and results of operations are based on our financial statements, which have been prepared in accordance with U.S. generally accepted accounting principles, or GAAP. The preparation of these financial statements requires management to make estimates and judgments that affect the reported amounts of assets, liabilities and expenses and related disclosure of contingent assets and liabilities. On an ongoing basis, we evaluate these estimates, including those related to stock-based compensation and warrant liabilities. These estimates are based on historical experience and various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for judgments about the carrying values of assets and liabilities and the recognition of revenues and expenses. Actual results may differ from these estimates under different assumptions or conditions. There have been no material changes to our critical accounting policies and estimates from the information provided in Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations – Critical Accounting Policies Involving Management Estimates and Assumptions," included in our Annual Report on Form 10-K for the year ended December 31, 2016.

Results of Operations

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

	Three Months Ended September 30,		Change
	2017	2016	$
	(in thousands)		
Operating expenses:			
Research and development	$ 487	$ 965	$ (478)
General and administrative	1,332	905	427
Total operating expenses	1,819	1,870	(51)
Loss from operations	(1,819)	(1,870)	51
Interest income	13	14	(1)
Interest expense	-	(506)	506
Net loss	$ (1,806)	$ (2,362)	$ 556

Research and Development Expenses. Research and development expenses were $0.5 million and $1.0 million for the three months ended September 30, 2017 and 2016, respectively. The total decrease of approximately $0.5 million was primarily due to a decrease of $0.4 million in expenses incurred during the third quarter of 2016 associated with the preparation of our Phase 2 proof-of-concept clinical trial for the reduction of localized fat deposits under the chin. A decrease of $0.09 million was due to the completion of close out activities for our AbCONTOUR1 and AbCONTOUR2 U.S. Phase 3 clinical trials and the supplemental clinical trials. A decrease of $0.07 million in compensation expenses was due to a reduction in workforce. The decreases were offset by an increase in severance expense of $0.1 million.

General and Administrative Expenses. General and administrative expenses increased by approximately $0.4 million to $1.3 million for the three months ended September 30, 2017 from $0.9 million for the three months ended September 30, 2016. The increase of $0.6 million was primarily due to legal and consulting expenses incurred in connection with the work associated with the contemplated strategic transaction. The increases were offset by a decrease of $0.1 million in rent expense due to the sublease and a decrease of $0.07 in patent expense.

Interest Income. Interest income decreased by $1,000 to $13,000 for the three months ended September 30, 2017 from $14,000 for the three months ended September 30, 2016. The decrease resulted from a lower cash balance during the three months ended September 30, 2017.

Interest Expense. Interest expense decreased by $0.5 million to zero for the three months ended September 30, 2017 from $0.5 million for the three months ended September 30, 2016. The decrease was due to the early repayment of long-term debt in September 2016.

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

	Nine Months Ended September 30,		Change
	2017	2016	$
		(in thousands)	
Operating expenses:			
Research and development	$ 3,593	$ 5,653	$ (2,060)
General and administrative	4,081	4,408	(327)
Total operating expenses	7,674	10,061	(2,387)
Loss from operations	(7,674)	(10,061)	2,387
Interest income	40	50	(10)
Interest expense	—	(1,036)	1,036
Net loss	$ (7,634)	$ (11,047)	$ 3,413

Research and Development Expenses. Research and development expenses were $3.6 million and $5.7 million for the nine months ended September 30, 2017 and 2016, respectively. The decrease of $2.0 million was primarily due to a decrease of $2.3 million of expenses related to the completion of our AbCONTOUR1 and AbCONTOUR2 U.S. Phase 3 clinical trials and related supplemental trials, $1.2 million decrease from research and development activities and $0.4 million decrease due to a reduction in workforce. The decreases were offset by $1.9 million of expenses incurred during the first nine months of 2017 related to the Phase 2 proof-of-concept clinical trial for the reduction of localized fat deposits under the chin.

General and Administrative Expenses. General and administrative expenses decreased by approximately $0.3 million to $4.1 million for the nine months ended September 30, 2017 from $4.4 million for the nine months ended September 30, 2016. The decrease of $0.8 million was due to expenses associated with a reduction in workforce and $0.1 million decrease in patent expense. The decreases were offset by an increase of $0.6 million in legal and consulting expenses in connection with the contemplated strategic transaction.

Interest Income. Interest income decreased by $10,000 to approximately $40,000 for the nine months ended September 30, 2017 from approximately $50,000 for the nine months ended September 30, 2016. The decrease resulted from a lower cash balance during the nine months ended September 30, 2017.

Interest Expense. Interest expense decreased by approximately $1.0 million to zero for the nine months ended September 30, 2017 from $1.0 million for the nine months ended September 30, 2016. The decrease was due to the early prepayment of long-term debt in September 2016.

Liquidity and Capital Resources

We have incurred losses and negative cash flows from operating activities for the nine months ended September 30, 2017 and 2016. As of September 30, 2017, we had an accumulated deficit of $133.5 million. We anticipate that we will continue to incur net losses for the foreseeable future and incur additional costs associated with being a public company. We expect that our research and development expenses will decrease significantly due to the discontinuation of further research and development activities. We expect our general and administrative expenses to increase for the foreseeable future as the Company entered into a definitive merger agreement on October 17, 2017. The Company may have to liquidate its assets and might realize significantly less than the values at which they are carried on the financial statements. Based on our current operating plans, we do not expect that our existing capital resources will be sufficient to fund our operations beyond the first half of 2018. These factors raise substantial doubt about our ability to continue as a going concern. The financial statements have been prepared on a going concern basis and do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or amounts and classification of liabilities that may result from the outcome of this uncertainty.

Prior to our IPO in November 2014, we funded our operations primarily through private placements of our convertible preferred stock, warrants, venture debt and convertible debt. In November 2014, we completed our IPO of 4,650,000 shares of common stock at an offering price of $14.00 per share. We received net proceeds of approximately $57.7 million, after deducting underwriting discounts, commissions and offering-related transaction costs. At September 30, 2017, we had cash and cash equivalents of approximately $5.8 million.

On December 1, 2015, the Company entered into a Controlled Equity Offering Sales Agreement (the “Sales Agreement”) with Cantor Fitzgerald & Co., as a sales agent (“Cantor Fitzgerald”) pursuant to which the Company may offer and sell from time to time, through Cantor Fitzgerald shares of Neothetics common stock, par value $0.0001 per share, having an aggregate offering price of up to $20.0 million. As of September 30, 2017, no shares were issued pursuant to the Sales Agreement.

Summary Statement of Cash Flows

The following table sets forth a summary of the net cash flow activity for each of the periods set forth below (in thousands):

	Nine Months Ended September 30,	
	2017	2016
Net cash used in operating activities	$ (5,843)	$ (13,366)
Net cash provided by investing activities	6	—
Net cash provided by (used in) financing activities	3	(10,019)
Net decrease in cash, cash equivalents and restricted cash	$ (5,834)	$ (23,385)

Cash Flows from Operating Activities. Net cash used in operating activities was $5.8 million and $13.4 million for the nine months ended September 30, 2017 and 2016, respectively. The decrease in cash used in operations for nine months ended September 30, 2017 compared to September 30, 2016 was primarily due to the decrease in net loss of $3.4 million and changes in accounts payable and accrued expenses of $5.4 million. The decreases were offset by the $0.8 million change in prepaid expenses and $0.4 million change in share-based compensation.

Cash Flows from Investing Activities. Net cash provided by investing activities was $6,000 and zero for the nine months ended September 30, 2017 and 2016, respectively. During the nine months ended September 30, 2017, cash provided by investing activities consisted of proceeds from sale of property and equipment.

Cash Flows from Financing Activities. Net cash provided by financing activities was approximately $3,000 for the nine months ended September 30, 2017 and net cash used by financing activities was $10.0 million for the nine months ended September 30, 2016. During the nine months ended September 30, 2017, cash provided in financing activities included proceeds from issuance of common stock from exercise of options. During the nine months ended September 30, 2016, cash used by financing activities included prepayment of long-term debt.

Operating and Capital Expenditure Requirements

Our future capital requirements are difficult to forecast. We expect that our research and development expenses will decrease significantly due to the discontinuation of further research and development activities. We expect our general and administrative expenses to increase for the foreseeable future as the Company entered into a definitive merger agreement on October 17, 2017.

Contractual obligations and commitments

In January 2015, the Company entered into a noncancelable operating lease (see Note 7 "Commitments"). Other than described in Note 5 and Note 7 there have been no material changes outside the ordinary course of our business to the contractual obligations we reported in "Item 7 – Management's Discussion and Analysis of Financial Condition and Results of Operations – Contractual obligations and commitments" in our annual report on Form 10-K for the year ended December 31, 2016.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements (as defined by applicable regulations of the Securities and Exchange Commission) that are reasonably likely to have a current or future material effect on our financial condition, results of operations, liquidity, capital expenditures or capital resources.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

As of September 30, 2017, there have been no material changes in our market risk from that described in "Item 7A. Quantitative and Qualitative Disclosures About Market Risk" in our annual report on Form 10-K for the year ended December 31, 2016.

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our principal executive officer and principal financial officer, has evaluated the effectiveness of our disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended, as of the end of the period covered by this quarterly report on Form 10-Q. Based on such evaluation, our

principal executive officer and principal financial officer has concluded that as of such date, our disclosure controls and procedures were effective.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting that occurred during our latest fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II—OTHER INFORMATION

Item 1. Legal Proceedings.

We are from time to time subject to various claims and legal actions in the ordinary course of our business. We believe that there are currently no legal actions that would reasonably be expected to have a material adverse effect on our results of operations or financial condition.

Item 1A. Risk Factors.

The risk factors set forth below contain material changes to the risk factors previously disclosed and included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2016. An investment in our common stock involves a high degree of risk. You should consider carefully the risks and uncertainties described under Item 1A of Part I of our Annual Report on Form 10-K, as updated in this Item 1A (collectively, Risk Factors) together with all other information contained or incorporated by reference in this report before you decide to invest in our common stock. If any of the Risk Factors were to actually occur, our business, financial condition, results of operations and our future growth prospects could be materially and adversely affected. Under the circumstances, the trading price of our common stock could decline, and you may lose all or part of your investment.

If we do not consummate the merger or another strategic transaction, our Board of Directors may decide to pursue a dissolution and liquidation of our Company. In such an event, the amount of cash available for distribution to our shareholders will depend heavily on the timing of such liquidation as well as the amount of cash that will need to be reserved for commitments and contingent liabilities.

There can be no assurance that we will complete the merger with Evofem or successfully identify an alternative strategic transaction. If we are unable to complete the merger or another strategic transaction, our Board of Directors may decide to pursue a dissolution and liquidation of our Company. In such an event, the amount of cash available for distribution to our shareholders will depend heavily on the timing of such decision, as with the passage of time the amount of cash available for distribution will be reduced as we continue to fund our operations while we seek a strategic acquisition, business combination or partnership. In addition, if our Board of Directors were to approve and recommend, and our shareholders were to approve, a dissolution and liquidation of our Company, we would be required under Delaware corporate law to pay our outstanding obligations, as well as to make reasonable provision for contingent and unknown obligations, prior to making any distributions in liquidation to our shareholders. Our commitments and contingent liabilities may include (i) obligations under our employment and separation agreements with certain employees that provide for severance and other payments following a termination of employment occurring for various reasons, including a change in control of our Company; and (ii) non-cancelable lease obligations and related credit facilities. As a result of this requirement, a portion of our assets may need to be reserved pending the resolution of such obligations. In addition, we may be subject to litigation or other claims related to a dissolution and liquidation of our Company. If a dissolution and liquidation were pursued, our Board of Directors, in consultation with its advisors, would need to evaluate these matters and make a determination about a reasonable amount to reserve. Accordingly, holders of our common stock could lose all or a significant portion of their investment in the event of a liquidation, dissolution or winding up of our Company.

Our business to date has been almost entirely dependent on the success of LIPO-202, which recently failed to demonstrate efficacy measurements in our Phase 2 proof-of-concept clinical trial. Following the analysis of the data from our Phase 2 trial, we decided to substantially suspend further research and development while we seek a strategic acquisition, business combination or partnership, and there is no guarantee that this strategic path will be successful.

On June 26, 2017, we announced that top-line safety and efficacy results from our Phase 2 proof-of-concept clinical trial, LIPO-202-CL-31, did not demonstrate improvement on any efficacy measurements or separation from placebo. We had previously devoted substantially all of our research, development and clinical efforts and financial resources toward the development of LIPO-202. As a result of the negative results from our Phase 2 trial, we suspended further research and development of LIPO-202 and our pre-clinical programs to reduce operating expenses while we seek a strategic alternative.

There can be no assurance that our process to identify and evaluate potential strategic alternatives will result in any definitive offer to acquire our Company or any of its assets or enter into any strategic combination or partnership. Moreover, if any transaction is made, what the terms thereof will be or that any transaction will be approved or consummated. If any definitive offer to acquire our Company or assets or enter into any strategic combination or partnership is received, there can be no assurance that a definitive agreement will be executed or that, if a definitive agreement is executed, the transaction will be consummated. In addition, there can be no assurance that any transaction, involving our Company and/or assets, that is consummated would enhance shareholder value. There also can be no assurance that we will conduct drug development activities in the future.

If we fail to continue to meet all applicable NASDAQ Capital Market requirements and NASDAQ determines to delist our common stock, the delisting could adversely affect the market liquidity of our common stock and the market price of our common stock could decrease.

Our common stock is listed on The NASDAQ Capital Market. In order to maintain our listing, we must meet minimum financial and other requirements, including requirements for a minimum amount of capital, a minimum price per share and continued business operations so that we are not characterized as a "public shell company". If we are unable to complete the merger with Evofem for any reason, our stock price may fall below the minimum price per share requirement. If we are unable to comply with NASDAQ's listing standards, NASDAQ may determine to delist our common stock from The NASDAQ Capital Market. If our common stock is delisted for any reason, it could reduce the value of our common stock and its liquidity.

As a result of the Phase 2 clinical trial data and the reductions in our workforce that we announced in July 2017, we will have a limited number of full-time employees and may not be successful in retaining these key employees. If we are unable to retain these key employees, our ability to identify and consummate a transaction will be seriously jeopardized.

On July 10, 2017, we announced workforce reductions, which decreased our headcount by approximately 50% from six full-time employees to three full-time employees during the third quarter. We intend to further reduce our headcount to two full-time employees. We expect this reduction to two employees to occur during the fourth quarter of 2017 or first quarter of 2018. Our focus on exploring strategic activities may yield unintended consequences, such as attrition beyond our planned reductions in workforce and employment uncertainty which may cause our remaining employees to seek alternate employment. Competition among biotechnology companies for qualified employees is intense, and the ability to retain our key employees is critical to our ability to effectively manage our resources following the Phase 2 trial data and to consummate a transaction or continue operations. Additional attrition could have a material adverse effect on our business. In addition, as a result of the reduction in our workforce, we face an increased risk of employment litigation.

Based on our operating plans, management believes the our current cash and cash equivalents will not be sufficient to fund our operations beyond second half of 2018, and as a result, there is substantial doubt about our ability to continue as a going concern within one year after the date that the financial statements for the quarter ended September 30, 2017 are issued.

Our recurring losses from operations, liquidity position, and debt service requirements raises substantial doubt about our ability to continue as a going concern within one year after the date that the financial statements for the quarter ended September 30, 2017 are issued. Our ability to continue as a going concern could materially limit our ability to raise additional funds through the issuance of new debt or equity securities or otherwise. Future audit reports from our independent registered public accounting firm on our financial statements may also include an explanatory paragraph with respect to our ability to continue as a going concern. To date, our operating losses have been funded primarily from outside sources of invested capital and gross profits. We have had, and we will likely continue to have, an ongoing need to raise additional cash from outside sources to fund our future operations. However, no assurance can be given that additional capital will be available when required or on terms acceptable to us. If we are unsuccessful in our efforts to raise any such additional capital, we would be required to take actions that could materially and adversely affect our business, including significant reductions in our research, development and administrative operations (including reduction of our employee base), possible surrender or other disposition of our rights to some technologies or product opportunities, delaying of our clinical trials or curtailing or ceasing operations. We also cannot give assurance that we will achieve sufficient revenues in the future to achieve profitability and cash flow positive operations to allow us to continue as a going concern. The perception that we may not be able to continue as a going concern may cause third parties to choose not to deal with us due to concerns about our ability to meet our contractual obligations, which could have a material adverse effect on our business.

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.

None.

Item 6. Exhibits.

Exhibit Number	Exhibit Title	Filed with this Form 10-Q	Incorporated by Reference		
			Form	File No.	Date Filed
2.1*	Agreement and Plan of Merger and Reorganization, dated October 17, 2017, by and among Neothetics, Inc., Evofem Biosciences, Inc. and Nobelli Merger Sub, Inc.		8-K	001-36754	10/17/2017
2.2	Form of Support Agreement, by and between Evofem Biosciences, Inc. and certain of its stockholders.		8-K	001-36754	10/17/2017
3.1	Amended and Restated Certificate of Incorporation.		S-1	333-199449	10/17/2014
3.3	Amended and Restated Bylaws.		S-1	333-199449	10/17/2014
4.2	Warrant to Purchase Stock, dated February 23, 2010, issued to Silicon Valley Bank.		S-1	333-199449	10/17/2014
4.3	Warrant to Purchase Stock, dated March 30, 2012, issued to Silicon Valley Bank.		S-1	333-199449	10/17/2014
4.4	Warrant to Purchase Stock, dated August 17, 2012, issued to Silicon Valley Bank.		S-1	333-199449	10/17/2014
4.5	Warrant Agreement, dated June 11, 2014, by and between the Registrant and Hercules Technology III, L.P.		S-1	333-199449	10/17/2014
4.6	Fourth Amended and Restated Investors' Rights Agreement, dated September 22, 2014, by and between the Registrant and the investors listed therein.		S-1	333-199449	10/17/2014
4.7	Warrant Modification Agreement, dated March 30, 2016, by and between the Registrant and Hercules Technology III, L.P.		10-Q	001-36754	05/12/2016
10.1	Form of Lock-Up Agreement.		8-K	001-36754	10/17/2017
10.2	Securities Purchase Agreement, dated October 17, 2017, by and among the Company, Evofem Biosciences, Inc. and the investors listed therein.		8-K	001-36754	10/17/2017
31.1‡	Certification of Chief Financial Officer pursuant to Rules 13a-14 and 15d-14 promulgated pursuant to the Securities Exchange Act of 1934, as amended.	X			
32.1‡	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	X			
101.INS	XBRL Instance Document	X			
101.SCH	XBRL Taxonomy Extension Schema Document	X			
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document	X			
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document	X			
101.LAB	XBRL Taxonomy Extension Label Linkbase Document	X			

Exhibit Number	Exhibit Title	Filed with this Form 10-Q	Incorporated by Reference		
			Form	File No.	Date Filed
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document	X			

*The schedules and exhibits to the Merger Agreement have been omitted pursuant to Item 601(b)(2) of Regulation S-K. A copy of any omitted schedule and/or exhibit will be furnished to the Securities and Exchange Commission upon request.

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.

Company Name

Date: November 8, 2017

By: /s/ Susan A. Knudson

Susan A. Knudson
Chief Financial Officer
(Principal Executive Officer and Principal Financial Officer)

Exhibit 31.1

CERTIFICATION PURSUANT TO
RULES 13a-14(a) AND 15d-14(a) UNDER THE SECURITIES EXCHANGE ACT OF 1934,
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Susan A. Knudson, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Neothetics, Inc. for the quarter ended September 30, 2017;

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 small business issuer as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are 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, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) [paragraph omitted in accordance with Exchange Act Rule 13a-14(a)];

   (c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our 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 (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the 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 control over financial reporting.

Date: November 8, 2017

By: /s/ Susan A. Knudson

Susan A. Knudson
Chief Financial Officer
(Principal Executive Officer and Principal 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 Neothetics, Inc. (the "Company") on Form 10-Q for the period ending September 30, 2017 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

(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 financial condition and result of operations of the Company.

Date: November 8, 2017

By: /s/ Susan A. Knudson

Susan A. Knudson
Chief Financial Officer
(Principal Executive Officer and Principal Financial Officer)

The foregoing certification is being furnished solely pursuant to 18 U.S.C. Section 1350 and is not being filed as part of the Report or as a separate document.