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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 20549**

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**FORM 10-Q**

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(Mark One)

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

For the quarterly period ended June 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

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**Neothetics, Inc.**

(Exact Name of Registrant as Specified in its Charter)

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**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**9171 Towne Centre Drive, Suite 250**  
**San Diego, CA**  
(Address of principal executive offices)

**20-8527075**  
(I.R.S. Employer  
Identification No.)

**92122**  
(Zip Code)

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

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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	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/> (Do not check if a small reporting company)	Smaller reporting company	<input checked="" type="checkbox"/>
Emerging growth company	<input checked="" type="checkbox"/>		

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 August 1, 2017, the registrant had 13,831,747 shares of common stock, \$0.0001 par value per share, outstanding.

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## Table of Contents

	<u>Page</u>
<b>PART I.</b>	
Item 1.	
<a href="#">Financial Statements (Unaudited)</a>	2
<a href="#">Condensed Balance Sheets</a>	2
<a href="#">Condensed Statements of Operations</a>	3
<a href="#">Condensed Statements of Cash Flows</a>	4
<a href="#">Notes to Condensed Financial Statements</a>	5
Item 2.	
<a href="#">Management's Discussion and Analysis of Financial Condition and Results of Operations</a>	11
Item 3.	
<a href="#">Quantitative and Qualitative Disclosures About Market Risk</a>	16
Item 4.	
<a href="#">Controls and Procedures</a>	17
<b>PART II.</b>	
Item 1.	
<a href="#">Legal Proceedings</a>	18
Item 1A.	
<a href="#">Risk Factors</a>	18
Item 2.	
<a href="#">Unregistered Sales of Equity Securities and Use of Proceeds</a>	19
Item 3.	
<a href="#">Defaults Upon Senior Securities</a>	19
Item 4.	
<a href="#">Mine Safety Disclosures</a>	19
Item 5.	
<a href="#">Other Information</a>	19
Item 6.	
<a href="#">Exhibits</a>	19
<a href="#">Signatures</a>	20
<a href="#">Exhibit Index</a>	21

PART I—FINANCIAL INFORMATION

Item 1. Financial Statements.

Neothetics, Inc.  
Condensed Balance Sheets  
(Unaudited)

	June 30, 2017	December 31, 2016
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 7,588,571	\$ 11,477,852
Prepaid expenses and other current assets	502,138	1,029,546
Total current assets	<u>8,090,709</u>	<u>12,507,398</u>
Restricted cash	93,382	200,000
Property and equipment, net	29,457	109,320
Total assets	<u>\$ 8,213,548</u>	<u>\$ 12,816,718</u>
<b>Liabilities and stockholders' equity</b>		
Current liabilities:		
Accounts payable	\$ 548,976	\$ 503,739
Other accrued expenses	1,151,918	398,453
Total current liabilities	<u>1,700,894</u>	<u>902,192</u>
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 June 30, 2017 and December 31, 2016, respectively	1,383	1,382
Additional paid-in capital	138,189,026	137,763,499
Accumulated deficit	<u>(131,677,755)</u>	<u>(125,850,355)</u>
Total stockholders' equity	<u>6,512,654</u>	<u>11,914,526</u>
Total liabilities and stockholders' equity	<u>\$ 8,213,548</u>	<u>\$ 12,816,718</u>

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

**Neothetics, Inc.**  
**Condensed Statements of Operations**  
(Unaudited)

	<u>Three Months Ended June 30,</u>		<u>Six Months Ended June 30,</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Operating expenses:				
Research and development	\$ 1,556,020	\$ 1,428,196	\$ 3,105,931	\$ 4,688,494
General and administrative	1,271,894	1,091,642	2,748,153	3,612,513
Total operating expenses	<u>2,827,914</u>	<u>2,519,838</u>	<u>5,854,084</u>	<u>8,301,007</u>
Loss from operations	(2,827,914)	(2,519,838)	(5,854,084)	(8,301,007)
Interest income	14,149	16,406	26,684	36,143
Interest expense	—	(154,057)	—	(419,181)
Net loss	<u>\$ (2,813,765)</u>	<u>\$ (2,657,489)</u>	<u>\$ (5,827,400)</u>	<u>\$ (8,684,045)</u>
Net loss per share, basic and diluted	<u>\$ (0.20)</u>	<u>\$ (0.19)</u>	<u>\$ (0.42)</u>	<u>\$ (0.63)</u>
Weighted average shares used to compute basic and diluted net loss per share	<u>13,831,747</u>	<u>13,800,997</u>	<u>13,819,751</u>	<u>13,779,290</u>

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

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

	Six Months Ended June 30,	
	2017	2016
<b>Operating activities</b>		
Net loss	\$ (5,827,400)	\$ (8,684,045)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	18,658	35,424
Loss on disposal of assets	55,705	—
Noncash interest expense on debt	—	100,322
Share-based compensation	422,069	887,363
Changes in operating assets and liabilities:		
Prepaid expenses and other current assets	527,408	1,219,320
Accounts payable and accrued expenses	798,702	(3,801,309)
Net cash used in operating activities	<u>(4,004,858)</u>	<u>(10,242,925)</u>
<b>Investing activities</b>		
Proceeds from sale of property and equipment	5,500	—
Net cash provided by investing activities	<u>5,500</u>	<u>—</u>
<b>Financing activities</b>		
Partial prepayment resulting in loan extinguishment	—	(5,514,058)
Principal payments on bank loan	—	(485,942)
Loan amendment costs	—	(52,400)
Proceeds from issuance of common stock from exercise of options	3,459	18,525
Net cash provided by (used in) financing activities	<u>3,459</u>	<u>(6,033,875)</u>
Net decrease in cash, cash equivalents and restricted cash	(3,995,899)	(16,276,800)
Cash, cash equivalents and restricted cash, beginning of period	11,677,852	37,948,603
Cash, cash equivalents and restricted cash, end of period	<u>\$ 7,681,953</u>	<u>\$ 21,671,803</u>
<b>Supplemental disclosure of cash flow activity</b>		
Cash paid for interest	—	\$ 366,567

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

**Neothetics, Inc.**  
**Notes to Unaudited 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. 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. has been retained to act as the Company's exclusive financial advisor for this process. Further related to the negative trial results, the Company announced 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 Company's evaluation of potential business alternatives entails numerous significant risks and uncertainties, including the risks and uncertainties set forth in Item 1A under the heading "Risk Factors" of this Quarterly Report on Form 10-Q and in the Company's Annual Report on Form 10-K. There can be no assurance that our evaluation of potential business alternatives will result in any transaction.

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 \$131.7 million as of June 30, 2017. In the first six months of 2017, the Company used \$4.0 million of cash in operations. At June 30, 2017, the Company had cash and cash equivalents of \$7.6 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 June 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 our process to identify and evaluate a potential merger or sale 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 June 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.

	<b>June 30,</b>	
	<b>2017</b>	<b>2016</b>
Cash and cash equivalents	\$ 7,588,571	\$ 21,471,803
Restricted cash	93,382	200,000
Total cash, cash equivalents and restricted cash	<u>\$ 7,681,953</u>	<u>\$ 21,671,803</u>

### **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.

	Six Months Ended June 30,	
	2017	2016
Warrants for common stock	71,257	71,257
Common stock options and restricted stock awards issued and outstanding	1,654,348	1,372,861
	<u>1,725,605</u>	<u>1,444,118</u>

### **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 June 30, 2017 and December 31, 2016 are as follows:

	Balance as of June 30, 2017	Fair Value Measurements at Reporting Date Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Assets</b>				
Money market fund <sup>(1)</sup>	\$ 7,588,571	\$ 7,588,571	\$ —	\$ —
Total assets	\$ 7,588,571	\$ 7,588,571	\$ —	\$ —

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

	Balance as of December 31, 2016	Fair Value Measurements at Reporting Date Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Assets</b>				
Money market fund <sup>(1)</sup>	\$ 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:

	June 30, 2017	December 31, 2016
Office furniture and equipment	\$ 100,577	\$ 254,049
Less accumulated depreciation and amortization	(71,120)	(144,729)
	\$ 29,457	\$ 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 June 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 June 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 June 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 six months ended June 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	(88,904)	\$ 1.35
Outstanding and exercisable at June 30, 2017	1,654,348	\$ 2.47

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 June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
General and administrative	\$ 176,394	\$ 111,840	\$ 254,580	\$ 784,150
Research and development	114,579	60,836	167,489	103,213
	<u>\$ 290,973</u>	<u>\$ 172,676</u>	<u>\$ 422,069</u>	<u>\$ 887,363</u>

**Common Stock Reserved for Future Issuance**

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

Warrants issued and outstanding	71,257
Stock options issued and outstanding	1,654,348
Authorized for future awards under stock compensation plans	2,042,823
Employee Stock Purchase Plan	574,460
	<u>4,342,888</u>

**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 approximately 11,107 rentable square feet. This Lease Amendment provides for additional space consisting of approximately 3,580 square feet 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 June 30, 2017 were \$49,000 and \$74,900, respectively, and for the six months ended June 30, 2017 were \$142,300 and \$114,100 respectively.

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

	Lease Payments		Sublease Receipts	
2017	\$	261,144	\$	111,072
2018		410,848		342,374
2019		431,507		352,645
2020		109,293		90,143
2021		—		—
Total	<u>\$</u>	<u>1,212,792</u>	<u>\$</u>	<u>896,234</u>

## 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 identify and implement a potential strategic transaction, including the possible merger, sale of our Company or our asset and/or a liquidation and distribution of the remaining cash to our shareholders;
- our projections regarding the amount of cash available for distribution to our shareholders in the event of a liquidation;
- the timing of a merger, 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. 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. has been 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 Company expects that this workforce reduction will be effectuated during the third quarter of 2017. If our process to identify and evaluate a potential merger or sale is not successful, our Board of Directors may decide to pursue a dissolution and liquidation of our Company. In such 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.

We currently have no plans to resume drug development activities, provided, further, that we cannot predict whether and to what extent we will ever resume drug development activities and what our future cash needs would be for any such activities.

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 June 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 June 30, 2017, we had an accumulated deficit of \$131.7 million. We incurred net losses of \$2.8 million and \$2.7 million for the three months ended June 30, 2017 and 2016, respectively, and \$5.8 million and \$8.7 million for the six months ended June 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 June 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.

## **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 suspension 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 June 30, 2017 and 2016, we incurred costs of \$1.6 million and \$1.4 million, respectively, and \$3.1 million and \$4.7 million, for the six months ended June 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 for the foreseeable future due to the suspension of further research and development activities

#### ***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 due to the Company initiating 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.

#### ***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 June 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 June 30, 2017 and 2016

	Three Months Ended June 30,		Change
	2017	2016	\$
	(in thousands)		
Operating expenses:			
Research and development	\$ 1,556	\$ 1,428	\$ 128
General and administrative	1,272	1,092	180
Total operating expenses	2,828	2,520	308
Loss from operations	(2,828)	(2,520)	(308)
Interest income	14	16	(2)
Interest expense	-	(154)	154
Net loss	\$ (2,814)	\$ (2,658)	\$ (156)

*Research and Development Expenses.* Research and development expenses were \$1.6 million and \$1.4 million for the three months ended June 30, 2017 and 2016, respectively. The increase of approximately \$0.2 million was primarily due to an increase of \$0.7 million in expenses incurred during the second quarter of 2017 associated with our Phase 2 proof-of-concept clinical trial for the reduction of localized fat deposits under the chin. The increase was offset by a decrease of \$0.4 million in expenses related to the close out activities for our AbCONTOUR1 and AbCONTOUR2 U.S. Phase 3 clinical trials and the supplemental clinical trials and a decrease of \$0.1 million in compensation expenses due to a reduction in workforce.

*General and Administrative Expenses.* General and administrative expenses increased by approximately \$0.2 million to \$1.3 million for the three months ended June 30, 2017 from \$1.1 million for the three months ended June 30, 2016. The increase was primarily due to expenses incurred in the second quarter of 2017 for cash retention bonuses to certain of the Company's employees to incentivize the Company's employees to remain with the Company through the receipt and analysis of the data from the Company's Phase 2 proof-of-concept clinical trial for the reduction of localized fat deposits under the chin.

*Interest Income.* Interest income decreased by \$2,000 to \$14,000 for the three months ended June 30, 2017 from \$16,000 for the three months ended June 30, 2016. The decrease resulted from a lower cash balance during the three months ended June 30, 2017.

*Interest Expense.* Interest expense decreased by \$154,000 to zero for the three months ended June 30, 2017 from \$154,000 for the three months ended June 30, 2016. The decrease was due to the early repayment of long-term debt in September 2016.

## Comparison of the Six Months Ended June 30, 2017 and 2016

	Six Months Ended June 30,		Change
	2017	2016	\$
	(in thousands)		
Operating expenses:			
Research and development	\$ 3,106	\$ 4,688	\$ (1,582)
General and administrative	2,748	3,613	(865)
Total operating expenses	5,854	8,301	(2,447)
Loss from operations	(5,854)	(8,301)	2,447
Interest income	27	36	(9)
Interest expense	—	(419)	419
Net loss	\$ (5,827)	\$ (8,684)	\$ (2,857)

*Research and Development Expenses.* Research and development expenses were \$3.1 million and \$4.7 million for the six months ended June 30, 2017 and 2016, respectively. The decrease of \$1.6 million was primarily due to a decrease of \$2.2 million of expenses related to the completion of our AbCONTOUR1 and AbCONTOUR2 U.S. Phase 3 clinical trials and related supplemental trials, \$0.6 million decrease from research and development activities and \$0.5 million decrease due to a reduction in workforce, all of which were incurred in 2016. The decreases were offset by \$1.7 million of expenses incurred during the first six 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 \$0.9 million to \$2.7 million for the six months ended June 30, 2017 from \$3.6 million for the six months ended June 30, 2016. The decrease of \$0.9 million was due to expenses associated with a reduction in workforce and \$0.1 million of expenses for debt repayment fees, all of which were incurred in 2016. The decreases were offset by a net \$0.1 million loss in facility sublease and rent expense incurred during the first six months of 2017.

*Interest Income.* Interest income decreased by \$9,000, to approximately \$27,000 for the six months ended June 30, 2017 from approximately \$36,000 for the six months ended June 30, 2016. The decrease resulted from a lower cash balance during the six months ended June 30, 2017.

*Interest Expense.* Interest expense decreased by approximately \$419,000 to zero for the six months ended June 30, 2017 from \$419,000 for the six months ended June 30, 2016. The decrease was due to the early prepayment of long-term debt in 2016.

### Liquidity and Capital Resources

We have incurred losses and negative cash flows from operating activities for the six months ended June 30, 2017 and 2016. As of June 30, 2017, we had an accumulated deficit of \$131.7 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 for the foreseeable future due to the suspension of further research and development activities. We expect our general and administrative expenses to increase for the foreseeable future due to the Company initiating 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. 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 June 30, 2017, we had cash and cash equivalents of approximately \$7.6 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 Neothermics common stock, par value \$0.0001 per share, having an aggregate offering price of up to \$20.0 million. As of June 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):

	Six Months Ended June 30,	
	2017	2016
Net cash used in operating activities	\$ (4,005)	\$ (10,243)
Net cash provided by investing activities	6	-
Net cash provided by (used in) financing activities	3	(6,034)
Net decrease in cash, cash equivalents and restricted cash	<u>\$ (3,996)</u>	<u>\$ (16,277)</u>

*Cash Flows from Operating Activities.* Net cash used in operating activities was \$4.0 million and \$10.2 million for the six months ended June 30, 2017 and 2016, respectively. The decrease in cash used in operations for six months ended June 30, 2017 compared to June 30, 2016 was primarily due to the decrease in net loss of \$2.9 million and changes in accounts payable and accrued expenses of \$4.6 million. The decreases were offset by the \$0.5 million change in share-based compensation and the change in prepaid expenses of \$0.7 million.

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

*Cash Flows from Financing Activities.* Net cash provided in financing activities was approximately \$3,000 for the three months ended June 30, 2017 and net cash used by financing activities was \$6.0 million for six months ended June 30, 2016. During the six months ended June 30, 2017, cash provided in financing activities included proceeds from issuance of common stock from exercise of options. During the six months ended June 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 for the foreseeable future due to the suspension of further research and development activities. We expect our general and administrative expenses to increase for the foreseeable future due to the Company initiating 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.

### 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 June 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 currently not a party to any material legal proceedings.

### 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.

***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 have 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 do not consummate a 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 the process to identify a strategic transaction will result in a successful alternative for our business. If no transaction is completed, 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.

***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 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 be limited to two 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 decrease our headcount by approximately 70% from six full-time employees to two full-time employees. 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 June 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 June 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.**

### **Unregistered Sales of Equity Securities**

None.

### **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.**

A list of exhibits is set forth on the Exhibit Index immediately following the signature page of this quarterly report on Form 10-Q and is incorporated herein by reference.

**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: August 10, 2017

By: \_\_\_\_\_  
/s/ Susan A. Knudson  
**Susan A. Knudson**  
**Chief Financial Officer**  
**(Principal Executive Officer and Principal Financial Officer)**

**EXHIBIT INDEX**

<b>Exhibit Number</b>	<b>Exhibit Title</b>	<b>Filed with this Form 10-Q</b>	<b>Incorporated by Reference</b>		
			<b>Form</b>	<b>File No.</b>	<b>Date Filed</b>
3.1	Amended and Restated Certificate of Incorporation.		S-1	333-199449	10/17/2014
3.2	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
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			
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document	X			

**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 June 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: August 10, 2017

By: \_\_\_\_\_  
/s/ Susan A. Knudson  
**Susan A. Knudson**  
**Chief Financial Officer**  
**(Principal Executive Officer and Principal Financial Officer)**

**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 June 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: August 10, 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.

