UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2018

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: 0-21990

Mateon Therapeutics, Inc.
(Exact name of registrant as specified in its charter)

Delaware	**13-3679168**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

701 Gateway Blvd, Suite 210
South San Francisco, CA 94080
(Address of principal executive offices, including zip code)

(650) 635-7000
(Registrant's telephone number, including area code)

Not applicable.
(Former name, former address and former fiscal year, if changed since last report)

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 every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

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

Large accelerated filer	☐	Accelerated filer	☐
Non-accelerated filer	☐	Smaller reporting company	☒
Emerging Growth Company	☐		

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

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. ☐

As of November 14, 2018, there were 41,419,934 shares of the Registrant's Common Stock issued and outstanding.

Mateon Therapeutics, Inc.
Cautionary Factors that May Affect Future Results

This report contains "forward-looking statements," which give management's current expectations or forecasts of future events. You can identify these statements by the fact that they do not relate strictly to historic or current facts. They use words such as "potential," "likely," "goal," "may," "should," "expect," "plan," "anticipate," "could," "would," "will," "intend," "project," "estimate," "predict," "future," "seek," "indicate" or "continue," or the negative of these terms and others of similar meaning.

Any or all of our forward-looking statements in this report may turn out to be wrong. They can be affected by inaccurate assumptions we might make or by known or unknown risks and uncertainties. Consequently, no forward-looking statement can be guaranteed. Actual results may vary materially from those set forth in forward-looking statements. Forward-looking statements include, but are not limited to, statements regarding our or our management's expectations, hopes, beliefs, intentions or strategies regarding the future, such as our liquidity and our expectations regarding our needs for and ability to raise additional capital; our ability to continue as a going concern; our estimates regarding anticipated operating losses, future performance, future revenues and projected expenses; our ability to select and capitalize on commercially desirable product opportunities as a result of limited financial resources; our ability to manage our expenses effectively and raise the funds needed to continue our business; our ability to retain the services of our current executive officers, directors and principal consultants; the competitive nature of our industry and the possibility that our products or product candidates may become obsolete; our ability to obtain and maintain regulatory approval of our existing products and any future products we may develop; the clinical development of and the process of commercializing OXi4503 and CA4P (which is also known as combretastatin A4-phosphate, fosbretabulin or fosbretabulin tromethamine and ZYBRESTAT®); the combination of OXi4503 with cytarabine and the combination of CA4P with immune-oncology agents; the initiation, timing, progress and results of our preclinical and clinical trials, research and development programs; regulatory and legislative developments in the United States and foreign countries; the timing, costs and other limitations involved in obtaining regulatory approval for any product; the further preclinical or clinical development and commercialization of our product candidates; our ability to obtain and maintain orphan drug exclusivity for some of our product candidates; the potential benefits of our product candidates over other therapies; our ability to enter into and maintain any collaboration with respect to product candidates; our ability to continue to develop or commercialize our products or product candidates in the event any license agreements in place with third parties expire or are terminated; the performance and conduct of third parties, including our third-party manufacturers and third party service providers used in our clinical trials; our ability to obtain and maintain intellectual property protection for our products and operate our business without infringing upon the intellectual property rights of others; the potential liability exposure related to our products and our insurance coverage for such exposure; the successful development of our sales and marketing capabilities; the size and growth of the potential markets for our products and our ability to serve those markets; the rate and degree of market acceptance of any future products; the volatility of the price of our common stock; the ability to achieve secondary trading of our stock in certain states; the dilutive effects of potential future equity issuances; our expectation that no dividends will be declared on our common stock in the foreseeable future; our ability to maintain an effective system of internal controls; the payment and reimbursement methods used by private or governmental third-party payers; our ability to retain adequate staffing levels; unfavorable global economic conditions; a failure of our internal computer systems or those of our contractors and consultants; potential misconduct or other improper activities by our employees, contractors or consultants; the ability of our business continuity and disaster recovery plans to protect us in the event of a natural disaster; and other factors discussed in our Annual Report on Form 10-K for the year ended December 31, 2017 filed with the Securities and Exchange Commission (the SEC) on April 17, 2018 or any document incorporated by reference herein or therein.

We will not update forward-looking statements, whether as a result of new information, future events or otherwise, unless required by law. You are advised to consult any further disclosures we make in our reports to the SEC, including our reports on Form 10-Q, 8-K and 10-K. Our filings list various important factors that could cause actual results to differ materially from expected results. We note these factors for investors as permitted by the Private Securities Litigation Reform Act of 1995. You should understand that it is not possible to predict or identify all such factors. Consequently, you should not consider any such list to be a complete set of all potential risks or uncertainties.

INDEX

PART I—FINANCIAL INFORMATION

Item 1. Financial Statements

Mateon Therapeutics, Inc.
Condensed Balance Sheets
(in thousands, except per share data)

	September 30, 2018 (Unaudited)	December 31, 2017 (See Note 1)
ASSETS		
Current assets:		
Cash	$ 1,058	$ 1,115
Prepaid expenses and other current assets	91	22
Total current assets	1,149	1,137
Property and equipment, net	—	2
Other assets	—	33
Total assets	$ 1,149	$ 1,172
LIABILITIES AND STOCKHOLDERS' EQUITY/(DEFICIT)		
Current liabilities:		
Accounts payable	$ 772	$ 788
Accrued compensation and employee benefits	15	73
Accrued clinical trial expenses	104	509
Other accrued liabilities	200	279
Total current liabilities	1,091	1,649
Commitments and contingencies		
Stockholders' equity/(deficit):		
Preferred stock, $0.01 par value, 15,000 shares authorized; No shares issued and outstanding	—	—
Common stock, $0.01 par value, 150,000 and 70,000 shares authorized; 41,420 and 26,545 shares issued and outstanding at September 30, 2018 and December 31, 2017, respectively	414	265
Additional paid-in capital	294,030	291,533
Accumulated deficit	(294,386)	(292,275)
Total stockholders' equity/(deficit)	58	(477)
Total liabilities and stockholders' equity/(deficit)	$ 1,149	$ 1,172

See accompanying notes.

Mateon Therapeutics, Inc.
Condensed Statements of Comprehensive Loss
(in thousands, except per share data)
(unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Operating expenses:				
Research and development	$ 95	$ 2,832	$ 662	$ 8,699
General and administrative	585	708	1,711	2,707
Total operating expenses	680	3,540	2,373	11,406
Loss from operations	(680)	(3,540)	(2,373)	(11,406)
Gain on change in fair value of warrants	—	—	250	—
Interest income	5	7	13	33
Other expense	—	(3)	(1)	(5)
Net loss and comprehensive loss	$ (675)	$ (3,536)	$ (2,111)	$(11,378)
Basic and diluted net loss per share attributable to common stock	$ (0.02)	$ (0.13)	$ (0.06)	$ (0.43)
Weighted-average number of common shares outstanding	41,420	26,545	35,846	26,545

See accompanying notes.

Mateon Therapeutics, Inc.
Condensed Statements of Cash Flows
(in thousands)
(unaudited)

	Nine months ended September 30,	
	2018	2017
Operating activities:		
Net loss	$(2,111)	$(11,378)
Adjustments to reconcile net loss to net cash used in operating activities:		
Gain on change in fair value of warrants	(250)	—
Depreciation	2	7
Stock-based compensation	538	642
Changes in operating assets and liabilities:		
Prepaid expenses and other current assets	(36)	993
Accounts payable and accrued expenses	(558)	(403)
Net cash used in operating activities	(2,415)	(10,139)
Investing activities:		
Sale of short-term investments	—	8,512
Financing activities:		
Proceeds from issuance of common stock and warrants, net of issuance costs	2,358	—
Decrease in cash and cash equivalents	(57)	(1,627)
Cash and cash equivalents at beginning of period	1,115	3,535
Cash and cash equivalents at end of period	$ 1,058	$ 1,908

See accompanying notes.

Mateon Therapeutics, Inc.
Notes to Condensed Financial Statements
September 30, 2018
(Unaudited)

1. Summary of Significant Accounting Policies

Description of Business

Mateon Therapeutics, Inc. ("Mateon" or the "Company") is a clinical-stage biopharmaceutical company developing drugs for the treatment of orphan oncology indications, with a program in acute myeloid leukemia ("AML") and myelodysplastic syndromes ("MDS") and a program in immuno-oncology.

Basis of Presentation

The accompanying unaudited condensed financial statements have been prepared in accordance with U.S. generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. The financial statements do not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements. In the opinion of management, however, all adjustments (consisting only of normal recurring adjustments) considered necessary for a fair presentation have been included. Operating results for the three and nine months ended September 30, 2018 are not necessarily indicative of the results that may be expected for any other interim period or for the year ending December 31, 2018.

The balance sheet at December 31, 2017 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements. For further information, refer to the financial statements and footnotes thereto included in the Annual Report on Form 10-K for the Company for the year ended December 31, 2017.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles 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 income and expenses during the reporting period. Actual results could differ from those estimates.

Cash Equivalents

Highly liquid investments with original maturities of three months or less at the date of purchase are considered to be cash equivalents. Cash equivalents are stated at fair value.

Derivative Financial Instruments Indexed to the Company's Common Stock

The Company has generally issued derivative financial instruments, such as warrants, in connection with its equity offerings. The Company evaluates the terms of these derivative financial instruments in order to determine their accounting treatment in the Company's financial statements. Key considerations include whether the financial instruments are freestanding and whether they contain conditional obligations. If the warrants are freestanding, do not contain conditional obligations and meet other classification criteria, the Company accounts for the warrants as an equity instrument. If the warrants are freestanding but contain conditional obligations, then the Company accounts for the warrants as a liability until the conditional obligations are met or are no longer relevant. For financial instruments which are accounted for as a liability, the Company reports changes in their estimated fair value as a gain or loss in the Company's Statement of Comprehensive Loss.

Going Concern Evaluation

The Company has experienced net losses every year since inception and, as of September 30, 2018, had an accumulated deficit of over $294 million. The Company has no source of revenue and does not expect to receive any product revenue in the near future. The Company expects to incur significant additional operating losses over at least the next several years, principally as a result of the Company's continuing clinical trials for its investigational drugs. The principal source of the Company's working capital to date has been the proceeds from the sale of equity. As of September 30, 2018, the Company had $1.1 million in cash and current liabilities of $1.1 million. Based on the Company's planned operations, the Company's management expects its cash to support its operations only into December 2018. Prior to this time, the Company will need to secure additional funding or could be forced to curtail or terminate operations. Because the Company does not currently have a guaranteed source of working capital that will sustain planned operations past December 2018, Management has determined that there is substantial doubt about the Company's ability to continue as a going concern. The Company will need to raise capital in order to fund its planned operations beyond this time. If the Company is unable to access additional funds when needed, it may not be able to continue the development of its investigational drugs and the Company could be required to delay, scale back or eliminate some or all of its development programs and other operations. Any additional equity financing, if available to the Company, may not be available on favorable terms, would most likely be dilutive to its current stockholders and debt financing, if available, may involve restrictive covenants. If the Company accesses funds through collaborative or licensing arrangements, it may be required to relinquish rights to some of its technologies or product candidates that it would otherwise seek to develop or commercialize on its own, on terms that are not favorable to the Company. The Company's ability to access capital when needed is not assured and, if not achieved on a timely basis, will materially harm its business, financial condition and results of operations.

Recent Accounting Pronouncements

In February 2016, the FASB issued ASU No. 2016-2, "Leases (Topic 842)," which requires substantially all leases, including operating leases, to be recognized by lessees on their balance sheet as a right-of-use asset and corresponding lease liability. This ASU is effective for the Company's interim and annual reporting periods beginning January 1, 2019 and early adoption is permitted. The Company is currently evaluating the impact that the adoption of this ASU will have on its financial statements.

In August 2016, The FASB issued ASU No. 2016-15 "Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments," which addresses several cash flow issues that diversify in practice. The new guidance is effective for fiscal years beginning after December 15, 2017 and for interim periods within those years. The Company adopted this ASU as of January 1, 2018, and its adoption did not have a material impact on the Company's financial statements.

2. Stockholders' Equity

April 2018 Private Placement

In April 2018, the Company entered into a private placement transaction, raising net proceeds of approximately $2.4 million from the sale of 14,875,000 shares of common stock and warrants to purchase 14,875,000 shares of common stock. The purchase price of the common stock was $0.20 per share and the exercise price of the warrants is $0.40 per share. The warrants expire two years from the date they initially became exercisable. In connection with the private placement transaction, the Company also issued 1,487,500 warrants to the placement agent. The placement agent warrants have an exercise price of $0.20 per share and expire five years from the date of issuance.

The warrants consist of 7,437,500 Series A warrants (the "Series A Warrants") and 7,437,500 Series B warrants (the "Series B Warrants"). The exercise price of all warrants is payable in cash and there are no cashless exercise provisions.

The Series A Warrants were immediately exercisable upon issuance and expire on April 12, 2020. The Company has accounted for the Series A Warrants as an equity instrument from the date of issuance.

When the Company completed the private placement transaction, the exercisability and expiration of the Series B Warrants were dependent on the Company's receipt of stockholder approval for an increase in the number of authorized shares of the Company's common stock. Accordingly, on the date of issuance, the Company accounted for the Series B Warrants as a liability, utilizing the Black-Scholes option pricing model to determine the fair value of these derivative financial instruments based on the following key measurements and assumptions: $0.26 per share stock price; $0.40 per share exercise price; 2.2 year term to maturity; 2.37% risk-free interest rate and 100.9% annualized volatility, resulting in an estimated fair value of the warrant liability of $886,000.

On June 20, 2018, the Company's stockholders approved an increase in the number of authorized shares of common stock, satisfying the conditional obligation of the Series B Warrants. The Series B Warrants became exercisable on June 20, 2018 and expire on June 20, 2020. Following the stockholder approval, the Company determined that liability accounting was no longer appropriate and that equity accounting was appropriate for the Series B Warrants. The Company utilized the Black-Scholes option pricing model to determine the Series B Warrants' fair value as of June 20, 2018, based on the following key measurements and assumptions: $0.22 per share stock price; $0.40 per share exercise price; 2.0 year term to maturity; 2.56% risk-free interest rate and 100.0% annualized volatility, resulting in an estimated fair value of the warrant liability of $636,000.

The decrease in the fair value of the Series B Warrants from the date of issuance through the satisfaction of the conditional criteria has been classified as a "Gain on change in fair value of warrants" in the Statement of Comprehensive Loss.

Outstanding Warrants to Purchase Common Stock

The following is a summary of the Company's outstanding common stock warrants:

Expiration Date	Exercise Price	September 30, 2018	December 31, 2017
		(in thousands)	
04/16/18	$ 3.40	—	1,460
09/23/18	$ 2.80	—	147
02/11/19	$ 2.56	293	293
02/18/19	$ 2.75	1,872	1,872
08/28/19	$ 2.90	2,700	2,700
03/20/20	$ 2.13	234	234
03/25/20	$ 1.71	2,920	2,920
04/12/20	$ 0.40	7,437	—
06/20/20	$ 0.40	7,437	—
04/30/23	$ 0.20	1,488	—
Total Warrants Outstanding		**24,381**	**9,626**

Equity Incentive Plans

The following is a summary of the Company's stock option activity under its equity incentive plans:

	Options Available for Grant	Options Outstanding	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Aggregate Intrinsic Value
	(in thousands)			(years)	(in thousands)
Balance at December 31, 2017	1,846	4,880	$ 1.05	7.6	$ —
Options authorized	2,524	—			
Options granted	(3,033)	3,033	$ 0.22		
Options forfeited	1,127	(1,127)	$ 0.61		
Balance at September 30, 2018	2,464	6,786	$ 0.75	7.3	$ —
Vested and exercisable at September 30, 2018		3,080	$ 0.88	6.8	$ —
Vested and expected to vest at September 30, 2018		6,099	$ 0.61	7.3	$ —
Unvested at September 30, 2018		3,706	$ 0.64		

As of September 30, 2018, there was approximately $0.7 million of unrecognized compensation cost related to stock option awards that is expected to be recognized as expense over a weighted average period of approximately 1.2 years.

The fair value for stock options granted is estimated at the date of grant using the Black-Scholes option pricing model. The Company used the following weighted average assumptions to estimate the fair value of the stock options.

	Nine months ended September 30,	
	2018	2017
Risk-free interest rate	2.8%	2.0%
Expected life (years)	5.2	6.0
Expected volatility	88%	88%
Dividend yield	0%	0%

3. Net Loss Per Share

Basic and diluted net loss per share was calculated by dividing the net loss per share attributed to the Company's common shares by the weighted-average number of common shares outstanding during the period. Diluted net loss per share includes the effect of all dilutive, potentially issuable common equivalent shares as defined using the treasury stock method. All of the Company's common stock equivalents are anti-dilutive due to the Company's net loss position for all periods presented. Accordingly, common stock equivalents of approximately 6,786,000 stock options and 24,381,000 warrants at September 30, 2018 and 5,565,000 stock options and 9,626,000 warrants at September 30, 2017, were excluded from the calculation of weighted average shares for diluted net loss per share.

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

The following discussion and analysis should be read together with the audited financial statements and notes in our Annual Report on Form 10-K for the year ended December 31, 2017, as well as "Management's Discussion and Analysis of Financial Condition and Results of Operations" contained therein. The following discussion and analysis should also be read in conjunction with the unaudited financial statements set forth in Part I, Item 1 of this Quarterly Report on Form 10-Q.

Overview and Recent Developments

We are a clinical-stage biopharmaceutical company developing drugs for the treatment of orphan oncology indications. We currently have two active drug development programs, one for each of our product candidates, OXi4503 and CA4P. Study OX1222 is our ongoing phase 1b study of OXi4503 for the treatment of two related conditions—acute myeloid leukemia, or AML, and myelodysplastic syndromes, or MDS. We are also planning a clinical study, currently named the COSMO study, of CA4P in combination with the checkpoint inhibitor anti-PD-1 to test the effects of CA4P as an immuno-oncology agent for the treatment of patients with advanced melanoma.

In April 2018, we raised net proceeds of approximately $2.4 million in an equity financing transaction. Prior to closing the first tranche of this financing, we had curtailed nearly all operating activities.

Following the financing, we resumed enrollment of patients in Study OX1222, initiating treatment in the sixth cohort with a dose of 12.2 mg/m^2 of OXi4503 combined with cytarabine. This dose of OXi4503 was 25% greater than had been previously evaluated. Following treatment of four patients in the sixth cohort, the FDA placed a partial clinical hold on Study OX1222 based on two potential dose-limiting toxicities (DLTs) observed in these patients. One patient experienced hypotension shortly following initial treatment with OXi4503 and cytarabine, and another patient experienced acute hypoxic respiratory failure approximately two weeks after receiving OXi4503 and cytarabine.

Both events were deemed "possibly-related" to OXi4503, and both patients recovered following treatment. The protocol for Study OX1222 generally defines a DLT as any grade 3 serious adverse event (SAE) where a relationship to OXi4503 cannot be ruled out. When placing the study on partial clinical hold, the FDA indicated that we could continue dosing in the fifth cohort, 9.76 mg/m^2 of OXi4503, and that safety data would need to be reviewed and evaluated by FDA, including any additional data collected on patients receiving 9.76 mg/m^2 of OXi4503, before we could resume enrolling patients at the increased dose in the sixth cohort, or 12.2 mg/m^2 of OXi4503.

Both patients experiencing the potential DLTs described above were classified with progressive disease, as was one additional patient in this cohort who also received OXi4503 at a dose of 12.2 mg/m^2. The fourth patient evaluated in the sixth cohort was classified as having had a partial response (unconfirmed).

The fifth cohort of Study OX1222 is currently open for enrollment at a dose of 9.76 mg/m^2 of OXi4503. Of the four patients studied previously in the fifth cohort, two (50%) were observed to experience complete remissions after one cycle of treatment. None of these earlier-treated patients in the fifth cohort experienced a DLT. We plan to evaluate data from additional patients in the fifth cohort at the 9.76 mg/m^2 of OXi4503 before making further decisions regarding the development of OXi4503 for AML/MDS.

For the immuno-oncology program, our goal is to establish CA4P as a safe and effective therapy for the treatment of advanced melanoma when combined with the checkpoint inhibitor anti-PD-1. To this end we plan to initiate and conduct a clinical trial in a setting where patients with advanced melanoma who have previously failed therapy with anti-PD-1 receive continued anti-PD-1 therapy in combination with CA4P. We have chosen this patient population because they historically have a very poor prognosis regardless of treatment, and consequently responses to the combination including CA4P would likely be due to the addition of CA4P. We believe that CA4P has the potential to increase the beneficial clinical effects of anti-PD-1 monotherapy in these patients. Data from animal models of various human cancer types, for example, show that CA4P in combination with an immuno-oncology agent significantly enhances the number and activity of cancer-fighting T-cells within tumors compared to animals treated with the immuno-oncology agent alone. In these animal models, CA4P significantly increased the number of cancer-fighting T-cells throughout the tumor and doubled the amount of necrosis within the tumor compared to that observed for the immuno-oncology agent alone. Because of these and other findings, we are planning to initiate a clinical trial evaluating CA4P in combination with an approved immuno-oncology agent, such as Opdivo® (nivolumab, marketed by Bristol-Myers Squibb), in patients with advanced metastatic melanoma who have previously failed anti-PD-1 treatment. We are in the process of completing the protocol for this study prior to its submission to regulatory authorities in Italy, which is where our anticipated principal investigator is located. An additional site, located in the United Kingdom, is also planned for this study. We will require additional funding before we will be able to treat any patients in this planned clinical trial.

RESULTS OF OPERATIONS

Three and nine months ended September 30, 2018 and 2017

Research and Development expenses

Research and development expenses decreased markedly for both the three and nine months ended September 30, 2018 compared to the same periods in 2017. The decreased research and development expenses in 2018 were due to our termination of the FOCUS clinical trial in late 2017 as well as significant reductions in nearly all operating activities while we sought to obtain additional capital to continue operations. The table below summarizes the most significant components of our research and development expenses for the periods indicated and provides the amount and percentage change in these components (in thousands):

	Three months ended September 30,		Change		Nine months ended September 30,		Change	
	2018	2017	Amount	%	2018	2017	Amount	%
Clinical studies	$ 56	$ 1,875	$(1,819)	-97%	$ 179	$ 4,899	$(4,720)	-96%
Clinical study credits	(205)	—	(205)	n/a	(205)	—	(205)	n/a
Consulting and professional services	122	109	13	12%	319	685	(366)	-53%
Employee compensation and related	52	662	(610)	-92%	150	2,240	(2,090)	-93%
Employee stock-based compensation	42	92	(50)	-54%	147	303	(156)	-51%
Drug manufacturing	10	16	(6)	-38%	37	332	(295)	-89%
Other	18	78	(60)	-77%	35	240	(205)	-85%
Total research and development	**$ 95**	**$ 2,832**	**$(2,737)**	**-97%**	**$ 662**	**$ 8,699**	**$(8,037)**	**-92%**

All research and development activities declined substantially for both the three months and nine months ended September 30, 2018 compared to the same periods in 2017. For the three months ended September 30, 2018, our research and development activities were limited to continuing our OX1222 Study of OXi4503 for relapsed/refractory AML and MDS and planning for a study of CA4P as an immuno-oncology agent in advanced melanoma.

On September 26, 2017, we terminated the FOCUS Study of CA4P in platinum-resistant ovarian cancer—prior to this date, expenses for the FOCUS Study were our largest area of expenditure at the Company in recent years. Due to the limited operating cash at the Company at the

time we terminated the FOCUS Study, we also terminated nearly all research and development employees and nearly all other research and development activities. Accordingly, expenses in all categories of research and development have declined significantly for the 2018 periods compared to the 2017 periods. Clinical study expenses and employee compensation both declined by over 90% for both the three months and nine months ended September 30, 2018 compared to the same periods in 2017. Separately, we received a credit of $205,000 from a clinical study vendor that we recorded during the three months ended September 30, 2018, and no comparable credit existed in 2017. Employee stock-based compensation declined by a lower percentage than employee compensation because we continued vesting certain stock options for former employees that continued to provide services to us. For the 2018 periods, drug manufacturing expenses declined compared to the 2017 periods because we limited the 2018 activities to required drug stability work, documentation and external storage fees for previously manufactured batches of our investigational drugs, whereas 2017 expenditures included additional activities, primarily to support the clinical work on-going at the time. Consulting and professional services expenses declined for the nine months ended September 30, 2018 due to our termination of the FOCUS Study. However, for the three months ended September 30, 2018, consulting and professional services increased based on our reliance on outside consultants to provide services relating to our OX1222 Study in acute myeloid leukemia, whereas for the nine months ended September 30, 2017 these services were performed by employees.

Other expenses include facility related expenses which are generally allocated between research and development and general and administrative expenses based on employee headcount. With virtually no separate research and development headcount for the 2018 periods, there was minimal allocation of facility expenses to research and development, accounting for the significant percentage declines.

Following our April 2018 financing transaction, we resumed enrollment of patients into our study of OXi4503 for AML and MDS. We also incurred start-up costs for planning a study of CA4P in immuno-oncology, evaluating CA4P in combination with Opdivo® (nivolumab, marketed by Bristol-Myers Squibb), in patients with advanced melanoma who have previously failed treatment with Opdivo and consequently have a poor prognosis. For the remainder of 2018, we expect research and development expenses to increase in comparison to the first nine months of 2018, subject to our ability to secure sufficient funding to continue with drug development activities.

General and administrative expenses

General and administrative expenses decreased significantly for both the three and nine months ended September 30, 2018 compared to the same periods in 2017. The decreases in 2018 were primarily due to our reduction of nearly all operating activities through April 2018 while we sought to obtain additional capital to continue operations. The table below summarizes the most significant components of our general and administrative expenses for the periods indicated and the amount and percentage change in these components (in thousands):

	Three months ended September 30,		Change		Nine months ended September 30,		Change	
	2018	2017	Amount	%	2018	2017	Amount	%
Employee compensation and related	$ 132	$ 295	$ (163)	-55%	$ 471	$ 1,218	$ (747)	-61%
Employee stock-based compensation	153	105	48	46%	391	340	51	15%
Consulting and professional services	204	209	(5)	-2%	527	858	(331)	-39%
Other	96	99	(3)	-3%	322	291	31	11%
Total general and administrative	**$ 585**	**$ 708**	**$ (123)**	**-17%**	**$ 1,711**	**$ 2,707**	**$ (996)**	**-37%**

Employee compensation and related expenses decreased by 55% and by 61% for the three and nine month periods ended September 30, 2018 compared to the same periods in 2017 due to our 2018 reduction in headcount to only two employees, our Chief Executive and Financial Officers, who each have agreed to receive half of their regular salary to date in 2018. Conversely, employee stock-based compensation increased by 46% for the three months ended September 30, 2018 compared to the three months ended September 30, 2017 primarily due to the expenses associated with stock options granted to our two employees in June 2018 that vest over a shorter period than prior option grants, which results in a greater stock option charge during the shorter vesting period. The percentage increase in stock-based compensation was lower for the nine month period because these shorter vesting stock options were not outstanding for the full year to date period. The intent of these shorter vesting stock option grants was to partially compensate our officers for their materially reduced 2018 salaries. Consulting and professional services expenses were similar for the three month periods ended September 30, 2018 and 2017 due to increases in patent costs for 2018 offsetting decreases elsewhere, as we seek to minimize expenses with a focus primarily on continuing in business and seeking new sources of capital. For the nine months ended September 30, 2018, consulting and professional services declined by 39% compared to the nine months ended September 30, 2017 due to our comprehensive reductions in nearly all areas of the business, partially offset by increased patent costs for the three months ended September 30, 2018.

Other expenses, which include facility related expenses such as rent, insurance expenses and taxes that are not based on income, are allocated between research and development and general and administrative expenses. Because of our curtailed research and development activities for the 2018 periods compared to the 2017 periods, fewer costs were allocated to research and development, and the resulting balance of these expenses that remained in general and administrative expenses was proportionately higher. For three months ended September 30, 2018, the amount within general and administrative expenses was similar to the amount that was in general and administrative expenses for the three months ended September 30, 2017, when there were both greater costs and a greater percentage allocation to research and development. For the nine months ended September 30, 2018, although total other costs were lower, the resulting allocation to general and administrative expenses was higher because of our lower level of research and development activities, particularly during the first several months of the year until we closed the April 2018 equity financing transaction.

For the remainder of 2018, we expect general and administrative expenses to increase in comparison to the first nine months of 2018 as we support the resumption of our clinical trial activity and pursue any additional financing or business development opportunities, subject to our ability to secure sufficient funding to continue planned operations.

Other Income and Expenses

Mateon issued two series of warrants to the investors in its April 2018 equity financing transaction. The Series B Warrants required the Company to receive stockholder approval for additional authorized shares of common stock sufficient to allow for the exercise of the Series B Warrants. Because the Company did not have sufficient shares of authorized common stock at the time of the transaction, the Company accounted for the fair value of the Series B Warrants as a liability, measured at fair value, until the Company received stockholder approval for the additional authorized shares of common stock. The estimated fair value of the Series B Warrants was $886,000 in April 2018 and $636,000 on June 20, 2018, when shareholder approval was received. The decrease in fair value was primarily attributed to a decline in the price of the Company's common stock and a shorter estimated warrant term. The resulting $250,000 gain on change in the fair value of warrants in the second quarter of 2018 was recorded in non-operating income, and there was no comparable line-item for other periods.

LIQUIDITY AND CAPITAL RESOURCES

We measure liquidity by the cash and other capital we have available to fund our operations, which are primarily focused on the development of our drug candidates. To date, we have financed our operations principally through proceeds received from the sale of equity. We have experienced net losses in each year since our inception, and negative cash flows from operations in nearly every year. As of September 30, 2018, we had an accumulated deficit of over $294 million, including a net loss of approximately $2.1 million for the nine months ended September 30, 2018. As of September 30, 2018, we held cash of approximately $1.1 million, which we expect to be only sufficient to fund our planned operating activities into December 2018. If we are unable to secure additional funding prior to this time, we would be required to scale back or conclude our development activities altogether.

We will require additional capital before we can complete the development of OXi4503 and CA4P. Additional funding may not be available to us on acceptable terms, or at all. If we are unable to access additional funds in the near term we may not be able to continue the development of our product candidates and we could be required to terminate operations altogether. Any additional equity financing, if available, may not be available on favorable terms and would be dilutive to our current stockholders. Debt financing, if available, may involve restrictive covenants and could also be dilutive to our current stockholders. If we are able to access funds through collaborative or licensing arrangements, we may be required to relinquish rights to some of our technologies or product candidates that we would otherwise seek to develop or commercialize on our own, on terms that are not favorable to us. Our ability to access capital when needed is not assured and, if access is not achieved on a timely basis, will materially harm our business, financial condition and results of operations.

There have been no changes to our critical accounting policies and significant judgments and estimates from our Annual Report on Form 10-K for the year ended December 31, 2017.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

There have been no changes to our market risks from our Annual Report on Form 10-K for the year ended December 31, 2017.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

The SEC requires that as of the end of the period covered by this Quarterly Report on Form 10-Q, the Chief Executive Officer (CEO) and the Chief Financial Officer (CFO) evaluate the effectiveness of the design and operation 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, or the Exchange Act, and report on the effectiveness of the design and operation of our disclosure controls and procedures. Based upon that evaluation, our CEO and CFO concluded that our disclosure controls and procedures were effective, as of September 30, 2018, to ensure that we record, process, summarize and report the information we must disclose in reports that we file or submit under the Exchange Act, within the time periods specified in the SEC's rules and forms, and is accumulated and communicated to our management, including our CEO and CFO, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting, identified in connection with the evaluation of such control that occurred during the last fiscal quarter, which have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Important Considerations

The effectiveness of our disclosure controls and procedures and our internal control over financial reporting is subject to various inherent limitations, including cost limitations, judgments used in decision making, assumptions about the likelihood of future events, the soundness of our systems, the possibility of human error, and the risk of fraud. Moreover, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions and the risk that the degree of compliance with policies or procedures may deteriorate over time. Because of these limitations, there can be no assurance that any system of disclosure controls and procedures or internal control over financial reporting will be successful in preventing all errors or fraud or in making all material information known in a timely manner to the appropriate levels of management.

PART II—OTHER INFORMATION

Item 1. Legal Proceedings

From time to time, we may become involved in legal proceedings arising in the ordinary course of our business.

On July 20, 2018, Accelovance, Inc., a clinical trial vendor that the Company used in 2016 and 2017, notified the Company that it had filed an action in Superior Court of California, San Mateo County against Mateon alleging that Mateon failed to pay certain amounts owed under a 2016 Clinical Development Master Services Agreement and various amendments to and work orders under that agreement. On November 13, 2018, Accelovance and the Company entered into a settlement agreement under which Accelovance agreed to dismiss the action and Mateon agreed to make certain payments. The Company has accounted for the terms of the settlement agreement in the financial statements included within this Quarterly Report on Form 10-Q.

Item 1A. Risk Factors

There have been no material changes to the risk factors as described in our Annual Report on Form 10-K for the year ended December 31, 2017.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Not applicable.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

None.

Item 5. Other Information

None.

Item 6. Exhibits

Exhibit Number	Description
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) and 15d-14(a).
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) and 15d-14(a).
32.1*	Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
	The following materials from Mateon Therapeutics, Inc.'s Quarterly Report on Form 10-Q for the quarter ended September 30, 2018 formatted in XBRL (eXtensible Business Reporting Language): (i) Condensed Balance Sheets at September 30, 2018 and December 31, 2017, (ii) Condensed Statements of Comprehensive Loss for the three and nine months ended September 30, 2018 and 2017, (iii) Condensed Statements of Cash Flows for the nine months ended September 30, 2018 and 2017, and (iv) Notes to Condensed Financial Statements

* Furnished herewith.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Mateon Therapeutics, Inc.
(Registrant)

Date: November 14, 2018

By: /s/ **William D. Schwieterman**
William D. Schwieterman
Chief Executive Officer
(Principal Executive Officer)

Date: November 14, 2018

By: /s/ **Matthew M. Loar**
Matthew M. Loar
Chief Financial Officer
(Principal Financial Officer)

Exhibit 31.1

Certification Under Section 302

I, William D. Schwieterman, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Mateon Therapeutics, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) 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) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report 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 14, 2018

By: /s/ **William D. Schwieterman**
William D. Schwieterman
Chief Executive Officer

Exhibit 31.2

Certification Under Section 302

I, Matthew M. Loar, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Mateon Therapeutics, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) 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) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report 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 14, 2018

By: /s/ **Matthew M. Loar**
Matthew M. Loar
Chief Financial Officer

Exhibit 32.1

Certification
Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
(Subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code)

Pursuant to section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of section 1350, chapter 63 of title 18, United States Code), each of the undersigned officers of Mateon Therapeutics, Inc. (the "Company"), does hereby certify, to such officer's knowledge, that:

The Quarterly Report on Form 10-Q for the three and nine months ended September 30, 2018 (the "Form 10-Q") of the Company fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, and the information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 14, 2018

By: /s/ **William D. Schwieterman**
William D. Schwieterman
Chief Executive Officer

Date: November 14, 2018

By: /s/ **Matthew M. Loar**
Matthew M. Loar
Chief Financial Officer

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.