

ENERGY PARTNERS LTD  
Form S-4/A  
August 29, 2006  
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As filed with the Securities and Exchange Commission on August 29, 2006

Registration No. 333-135965

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**SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

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**Amendment No. 1**

to

**FORM S-4**

**REGISTRATION STATEMENT**

*Under*

*THE SECURITIES ACT OF 1933*

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**ENERGY PARTNERS, LTD.**

(Exact Name of Registrant as Specified in Its Charter)

**Delaware**  
(State or Other Jurisdiction of  
Incorporation or Organization)

**1311**  
(Primary Standard Industrial  
Classification Code Number)

**72-1409562**  
(I.R.S. Employer  
Identification No.)

**201 St. Charles Avenue, Suite 3400**

**New Orleans, Louisiana 70170**

**(504) 569-1875**

**John H. Peper**

**Executive Vice President,**

**General Counsel and Corporate Secretary**

Energy Partners, Ltd.

201 St. Charles Avenue, Suite 3400

New Orleans, Louisiana 70170

(504) 569-1875

(Address, Including Zip Code, and Telephone Number,

(Name, address, including zip code, and telephone number,

Including Area Code, of Registrant's Principal Executive Offices)

including area code, of agent for service)

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*Copies to:*

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New York, New York 10103-0040

Lafayette, Louisiana 70508

(212) 237-0000

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**Approximate date of commencement of proposed sale to the public:** As soon as practicable after this registration statement becomes effective and the satisfaction or waiver of all other conditions to the merger described herein.

If the securities being registered on this form are being offered in connection with the formation of a holding company and there is compliance with General Instruction G, check the following box. "

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. "

If this form is a post effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. "

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**The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.**

**The information in this joint proxy statement/prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This document is not an offer to sell these securities and we are not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.**

Subject to completion, dated August 29, 2006



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**PROPOSED MERGER YOUR VOTE IS VERY IMPORTANT**

The boards of directors of Energy Partners, Ltd. ( EPL ) and Stone Energy Corporation ( Stone ) have agreed upon a merger in which Stone will combine with EPL. We are sending this joint proxy statement/prospectus to you to ask you to vote in favor of this merger and other matters.

If the merger is consummated, the Stone common stock will be acquired for total consideration estimated at \$2.2 billion, including the refinancing of approximately \$800 million of debt and assuming the merger consideration is based on the closing price of EPL common stock of \$24.14 on August 28, 2006. Each outstanding share of Stone common stock will be converted into the right to receive at the election of the holder (subject to the limitations described below): (i) \$51.00 in cash, or (ii) EPL shares equivalent to the ratio determined by dividing \$51.00 by the market price of EPL shares (based on a 20-day trading average prior to the third trading day preceding the closing), *provided* that the exchange ratio will not be greater than 2.525 or less than 2.066 EPL shares per Stone share. You will receive an election form in a separate mailing for you to indicate the number of your shares of Stone common stock and whether you prefer to receive either cash or EPL common stock. You must sign the form and return it in the separate envelope provided so that it is received prior to the election deadline, which will be 5:00 p.m. Eastern time on the date that is five business days following the effective date of the merger. The election of cash or stock will be subject to a limit on total cash consideration of approximately \$723 million (which includes approximately \$15.1 million attributable to stock options) and a limit on the total number of EPL shares issued of approximately 35 million. As a result, Stone stockholders will hold no more than approximately 46% of the combined company and EPL stockholders will hold no less than approximately 54% of the combined company, assuming the maximum number of shares is issued to Stone's stockholders.

The EPL common stock is listed on the New York Stock Exchange under the symbol EPL.

The Stone common stock is listed on the New York Stock Exchange under the symbol SGY.

Your vote is very important. We cannot complete the merger unless the EPL common stockholders vote to approve the issuance of EPL common stock and the Stone common stockholders vote to adopt the merger agreement.

This document is a prospectus relating to the shares of EPL common stock to be issued in the merger and a joint proxy statement for EPL and Stone to solicit proxies for their respective special meetings of stockholders. It contains answers to frequently asked questions and a summary of the important terms of the merger, the merger agreement, and related transactions, followed by a more detailed discussion.

**For a discussion of certain significant matters that you should consider before voting on the proposed transaction, see Risk Factors beginning on page 17.**

**Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of the EPL common stock to be issued in the merger or passed upon the adequacy or accuracy of this joint proxy statement/prospectus. Any representation to the contrary is a criminal offense.**

This joint proxy statement/prospectus is dated \_\_\_\_\_, 2006 and is first being mailed to stockholders of EPL and Stone on or about \_\_\_\_\_, 2006.

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**ENERGY PARTNERS, LTD.**

**201 St. Charles Avenue, Suite 3400**

**New Orleans, Louisiana 70170**

**(504) 569-1875**

**NOTICE OF SPECIAL MEETING OF STOCKHOLDERS**

**TO BE HELD ON OCTOBER , 2006**

To the Stockholders of Energy Partners, Ltd.:

NOTICE IS HEREBY GIVEN that the special meeting of stockholders of Energy Partners, Ltd. will be held at the Hotel InterContinental New Orleans, 444 St. Charles Ave., New Orleans, Louisiana 70130, on October , 2006 at 9:00 a.m., Central time, for the following purposes:

1. to consider and vote upon a proposal for the EPL stockholders to approve the issuance of EPL common stock to Stone Energy Corporation's stockholders as a result of the merger of Stone with and into EPL Acquisition Corp. LLC, a wholly-owned subsidiary of EPL, as a result of the transactions contemplated by the Agreement and Plan of Merger, dated June 22, 2006, by and among EPL, EPL Acquisition Corp. LLC and Stone;
2. to consider and vote upon a proposed amendment to EPL's certificate of incorporation to increase the number of authorized common shares from 100,000,000 to 150,000,000 if the merger occurs;
3. to consider and vote upon the adoption of EPL's Amended and Restated 2006 Long Term Stock Incentive Plan; and
4. to transact such other business incident to the conduct of the meeting as may properly come before the meeting or any adjournments or postponements thereof.

Only stockholders of record at the close of business on August 28, 2006 (the Record Date), are entitled to notice of and to vote at the special meeting or at any adjournments or postponements thereof, notwithstanding the transfer of any stock on the books of EPL after the Record Date. Each share of EPL common stock is entitled to one vote at the special meeting. The approval of the issuance of EPL common stock and the approval of the adoption of EPL's Amended and Restated 2006 Long Term Stock Incentive Plan require the affirmative vote of a majority of the shares of EPL common stock present and voting, except that broker non-votes will not be counted in determining whether a quorum exists. The approval of the amendment to EPL's certificate of incorporation requires the affirmative vote of a majority of the outstanding shares of EPL common stock. A complete list of stockholders entitled to vote at the special meeting will be available for examination at EPL's offices in New Orleans, Louisiana during normal business hours by any holder of EPL common stock for any purpose relevant to the special meeting for a period of ten days prior to the special meeting. This list will also be available at the special meeting and any EPL stockholder may inspect it for any purpose relevant to the special meeting.

**The board of directors of EPL has approved and adopted the merger agreement and the transactions contemplated by it, declared its advisability, and recommends that EPL stockholders vote at the special meeting to approve the issuance of EPL common stock as a result of the transactions contemplated by the merger agreement and also to approve proposals 2 and 3 above. Approval of the merger is not conditioned upon approval of the proposal to increase the number of authorized common shares or the adoption of the Amended and Restated 2006 Long Term Stock Incentive Plan. As described on page 99, one EPL director has a financial interest as a result of the merger.**

By Order of the Board of Directors

Richard A. Bachmann

Chairman of the Board and Chief Executive Officer

New Orleans, Louisiana

, 2006

**Your vote is important. Even if you plan to attend the special meeting in person, we request that you sign and return the enclosed proxy or voting instruction card and thus ensure that your shares will be represented at the special meeting if you are unable to attend. If you do attend the special meeting and wish to vote in person, you may withdraw your proxy and vote in person.**

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**STONE ENERGY CORPORATION**

**625 E. Kaliste Saloom Road**

**Lafayette, Louisiana 70508**

**NOTICE OF SPECIAL MEETING OF STOCKHOLDERS**

**TO BE HELD ON OCTOBER , 2006**

To the Stockholders of Stone Energy Corporation:

NOTICE IS HEREBY GIVEN that a special meeting of stockholders of Stone Energy Corporation will be held at 625 E. Kaliste Saloom Road, Lafayette, Louisiana 70508, on October , 2006 at 9:30 a.m., Central time, for the following purposes:

1. to consider and vote upon a proposal for the Stone stockholders to adopt the Agreement and Plan of Merger, dated June 22, 2006, by and among Stone, Energy Partners, Ltd. and EPL Acquisition Corp. LLC, pursuant to which Stone will merge with and into EPL Acquisition Corp. LLC, a wholly owned subsidiary of Energy Partners, Ltd.; and
2. to transact such other business incident to the conduct of the meeting as may properly come before the meeting or any adjournments or postponements thereof.

Only stockholders of record at the close of business on August 28, 2006, are entitled to notice of and to vote at the special meeting or at any adjournments or postponements thereof. Each share of Stone common stock is entitled to one vote at the special meeting. The affirmative vote of a majority of the outstanding shares of Stone common stock is required to adopt the merger agreement. A complete list of stockholders entitled to vote at the special meeting will be available for examination at Stone's offices in Lafayette, Louisiana during normal business hours by any holder of Stone common stock for any purpose relevant to the special meeting for a period of ten days prior to the special meeting. This list will also be available at the special meeting and any Stone stockholder may inspect it for any purpose relevant to the special meeting. Holders of Stone common stock are entitled to dissenters' appraisal rights under the Delaware General Corporation Law in respect of the merger.

**The board of directors of Stone has determined that the merger agreement and the transactions contemplated by it are fair to and in the best interests of Stone and its stockholders, and the board of directors of Stone approved the merger agreement, declared its advisability, and recommends that Stone stockholders vote at the special meeting in favor of the adoption of the merger agreement. As described on pages 97 to 99, some Stone directors and executive officers will receive financial benefits as a result of the merger.**

By Order of the Board of Directors,

David H. Welch

President and Chief Executive Officer

Lafayette, Louisiana

, 2006

**Your vote is important. Even if you plan to attend the special meeting in person, we request that you sign and return the enclosed proxy or voting instruction card and thus ensure that your shares will be represented at the special meeting if you are unable to attend. If you do attend the special meeting and wish to vote in person, you may withdraw your proxy and vote in person.**

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**REFERENCES TO ADDITIONAL INFORMATION**

This document incorporates important business and financial information about EPL from documents that are not included in or delivered with this document. You can obtain documents incorporated by reference in this document, other than certain exhibits to those documents, by requesting them in writing or by telephone from EPL at the following address:

**Energy Partners, Ltd.**

201 St. Charles Avenue, Suite 3400

New Orleans, Louisiana 70170

Attention: Corporate Secretary

(504) 569-1875

You will not be charged for any of these documents that you request. **If you would like to request documents from EPL, please do so by September 15, 2006, to receive timely delivery of the documents in advance of the EPL special meeting.**

See Incorporation of Certain Documents by Reference on page 134 and Where You Can Find More Information on page 135.



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**QUESTIONS AND ANSWERS ABOUT THE MERGER**

*Set forth below are commonly asked questions and answers about the merger, including parenthetical page references to the more complete discussion in this document of the questions answered in this section. For a more complete description of the legal and other terms of the merger, please read carefully this entire document and the other available information referred to in *Where You Can Find More Information* on page 135. For an explanation of certain oil and natural gas terms used throughout this document, see *Glossary of Oil and Gas Terms* beginning on page 136.*

**Q: What will happen in the merger?**

A: The proposed merger will combine the businesses of EPL and Stone. At the effective time of the merger, Stone will merge with and into EPL Acquisition Corp. LLC, a wholly-owned direct subsidiary of EPL, with EPL Acquisition Corp. LLC as the surviving entity. EPL will continue as a public company. Following the merger, the combined company will be a primarily domestic independent oil and natural gas company with an anticipated enterprise value of approximately \$3.6 billion based on the closing price of EPL common stock on August 28, 2006.

**Q: Why are EPL and Stone proposing the merger? (see pages 68 to 71)**

A: EPL believes that the consummation of the proposed transaction will result in the following advantages:

***Strengthens Gulf of Mexico Position*** The combination of EPL and Stone will create a premier offshore exploration and production company with a highly attractive portfolio of assets in the Gulf of Mexico. Of the approximately 108 Mmboe of proved reserves owned by Stone as of year end 2005 (inclusive of the additional interest recently acquired in Mississippi Canyon Blocks 109 and 108) that will be added to EPL's asset portfolio, approximately 72% are located in the Gulf of Mexico. The combined company will have a balanced natural gas/oil production ratio (65% natural gas / 35% oil) with a broad portfolio of low, medium and high potential projects across EPL's eastern, central and western Gulf of Mexico operational areas. The merger will also combine Stone's 3-D seismic portfolio and acreage position in the Gulf of Mexico with that of EPL, providing the combined company with a significant informational advantage in the selection of future drilling and development opportunities, including those in the significantly larger acreage position of the combined company. The combined company's increased scope, scale and 3-D seismic portfolio will significantly improve EPL's competitive position in the Gulf of Mexico and accelerate growth and diversification.

***Establishes Rocky Mountain and Williston Basin Positions*** The merger will provide balance and geographic diversity through the addition of Stone's attractive, long-lived reserves located in the Rocky Mountain region, including the Williston Basin. At December 31, 2005, approximately 16% of Stone's estimated proved reserves (16 Mmboe) were located in several Rocky Mountain basins, a resource play characterized by stable, long-lived natural gas production. An additional 8% of Stone's estimated proved reserves (8 Mmboe) were located in the Williston Basin. The addition of the positions in the Rocky Mountain region creates a significant base that will greatly enhance the combined company's reserve and geographic diversification. They also provide significant future exploration and development opportunities in a number of the premier North American onshore resource plays (including the Pinedale Anticline and Jonah fields and the Bakken Shale), and position EPL to acquire additional acreage and drilling opportunities in this region.

***Builds on EPL's Leading Technical and Production Expertise*** EPL and Stone's teams of geoscientists, engineers, landmen and other technical professionals average more than 23 and 24 years of respective experience in the exploration and production business. The addition of Stone's professionals who focus on the Gulf of Mexico provides a unique opportunity to enhance EPL's already strong team of technical professionals. Stone's team in the Rocky Mountain region will provide local expertise necessary to facilitate EPL's

geographic diversification. Given the shortage of experienced oil

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and natural gas personnel in the current labor market, the merger provides a cost effective way of increasing the depth of EPL's technical and finance and administrative teams, positioning EPL to generate and maintain a larger inventory of high-quality drilling prospects and to further develop and exploit a larger and better diversified asset base.

***Provides Opportunities to Improve the Combined Company's Financial Returns*** EPL expects that the merger will:

*Produce \$55 million in annual synergies and associated cost savings.* EPL expects to realize approximately \$55 million in ongoing annual savings through the elimination of redundant transportation, shorebases and procurement, the consolidation of administrative and professional services and the reduction of annual insurance premiums. EPL has developed a comprehensive plan to be implemented promptly following the completion of the merger for achieving these benefits.

*Permit EPL to high-grade the combined company's exploration, development and exploitation opportunities with increased cash flow used to augment EPL's balanced drilling program and reduce debt.* The size and strength of the combined company are expected to allow EPL to high-grade the exploration, development and exploitation opportunities in the combined company's asset base. High-grading of the combined portfolio is anticipated to increase cash flow available for debt reduction through focused capital spending and the results of drilling a balanced portfolio of low, moderate and higher risk opportunities. In addition, the increased resources of the combined entity will enable EPL to pursue larger scale projects that have the potential for increased returns.

*Allow EPL to rationalize the combined company's asset base through property dispositions.* As part of the process of integrating Stone's Gulf of Mexico properties into its existing asset portfolio, EPL will rationalize its asset profile in the Gulf Coast region, including the Gulf of Mexico, by disposing of primarily lower tier properties. Proceeds generated from any such asset sales will be used to reduce debt.

Through its combination with Stone, EPL expects that the combined company's geographically diversified and high-graded assets, together with its exploration and production experience and its technical expertise, will provide a foundation for further increasing reserves, production and cash flow and a strong basis for creating stockholder value.

A: In reaching its decision to approve the merger, the Stone board of directors considered a number of factors, including the following:

in its opinion letter, dated June 17, 2006, to the Stone board of directors, Jefferies & Company, Inc. opined that, as of that date and subject to the assumptions, limitations, qualifications and other matters described in the opinion, the merger consideration was fair, from a financial point of view, to the holders of Stone common stock (other than EPL and its affiliates);

the merger consideration represented a premium of approximately 18% to the closing trading price of Stone's common stock on May 24, 2006, the day prior to the announcement of EPL's unsolicited offer to acquire Stone, and a premium of approximately 4% to the closing trading price of Stone's common stock on June 22, 2006, the day of the execution of the merger agreement;

the merger will permit the combined company to effectively compete with other exploration and production companies, many of which have recently grown through mergers or acquisitions;

the combined company will have increased technical expertise, seismic data, and undeveloped acreage;

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the combined company will have the size and scope to materially participate in the deepwater Gulf of Mexico and other potential areas for growth where Stone believes that significant additional reserves are yet to be discovered;

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the merger is structured as a reorganization, which may permit stockholders tax-free treatment in whole or in part;

the terms of the merger agreement permit Stone to terminate the merger agreement at any time before the meeting to accept a superior proposal, subject to its obligation to comply with procedural requirements of the merger agreement and to pay a termination fee; and

EPL has advanced to Plains Exploration & Production Company ( Plains ) on behalf of Stone, the \$43.5 million termination fee that Stone was required to pay to Plains upon termination of Stone s merger agreement with Plains.

In view of the wide variety of factors considered in connection with its evaluation of the merger and the complexity of these matters, the Stone board of directors did not find it useful and did not attempt to quantify or assign any relative or specific weights to the various factors that it considered in reaching its determination to approve the merger and the merger agreement and to recommend that Stone stockholders vote FOR approval of the merger agreement. In addition, individual members of the Stone board of directors may have given differing weights to different factors. The Stone board of directors conducted an overall analysis of the factors described above, including thorough discussions with, and questioning of, Stone s management and outside legal and financial advisors.

**Q: What happened to the proposed merger with Plains Exploration & Production Company?**

- A. On June 22, 2006, in accordance with the terms of the Agreement and Plan of Merger, dated as of April 23, 2006, among Plains, Plains Acquisition Corporation and Stone (the Plains Merger Agreement ), the Stone board of directors terminated the Plains Merger Agreement in order to proceed with the merger with EPL described in this joint proxy statement/prospectus. In connection with the termination of the Plains Merger Agreement, EPL advanced to Plains, on behalf of Stone, a termination fee of \$43.5 million.

**Q: How will the merger affect Stone common stockholders? What will Stone common stockholders receive for their shares? (see pages 103 to 106)**

- A. Under the terms of the merger agreement, Stone common stockholders will have the right to receive, at the election of the holder (subject to the limitations described below): (i) \$51.00 in cash, or (ii) EPL shares equivalent to the ratio determined by dividing \$51.00 by the market price of EPL shares (based on a 20-day trading average prior to the third trading day preceding the closing), *provided* that the exchange ratio will not be greater than 2.525 or less than 2.066 EPL shares per Stone share. The election of cash or stock will be subject to a limit on total cash consideration of approximately \$723 million (which includes approximately \$15.1 million attributable to stock options) and a limit on the total number of EPL shares issued of approximately 35 million. Therefore, based on the elections made by all of the Stone common stockholders, you may receive a different proportion of cash and/or stock than you elected. This re-allocation mechanism is more fully described in this proxy statement/prospectus under the caption Terms of the Merger Agreement Manner and Basis of Converting Shares Stockholder Elections; Allocation and Proration Procedures. Following the merger, Stone stockholders will own no more than approximately 46% of the combined company, assuming the maximum number of shares are issued to Stone s stockholders.

**Q: What will happen to Stone s stock options and restricted stock in the merger? (see pages 103 to 106)**

- A: Before the merger is completed, Stone will repurchase all outstanding stock options for cash.

Immediately before the merger is completed, all restrictions on Stone restricted stock awards will expire and holders of restricted stock will make the same cash/stock election as holders of Stone common stock. For more information, please see Terms of the Merger



Agreement Manner and Basis of Converting Shares beginning on page 103.

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**Q: What will happen at the EPL meeting in addition to voting on the issuance of EPL shares?**

A: In addition to voting on the issuance of EPL shares as a result of the merger, at the special meeting EPL stockholders will vote to approve a proposed amendment to EPL's certificate of incorporation to increase the number of authorized common shares from 100,000,000 to 150,000,000 if the merger occurs. In addition, EPL stockholders will vote to approve EPL's Amended and Restated 2006 Long Term Stock Incentive Plan. See EPL's Amended and Restated 2006 Long Term Incentive Plan beginning on page 126 for a description of the plan. Approval of the merger is not conditioned upon approval of the proposal to increase the number of authorized common shares or the adoption of the Amended and Restated 2006 Long Term Stock Incentive Plan.

**Q: Will EPL stockholders receive any shares in the merger?**

A: No. EPL stockholders will continue to hold the EPL common stock they owned prior to the effective time of the merger.

**Q: How will EPL fund the cash portion of the merger consideration and the refinancing of the Stone debt?**

A: EPL intends to finance the cash portion of the merger consideration and the refinancing of the Stone debt with its cash resources as well as through a new credit facility that EPL expects to enter into in connection with the merger that will replace its existing credit facility and either a bridge loan or an offering of senior notes. EPL has received a commitment letter from Bank of America, N.A. and affiliates with respect to the new credit facility and the bridge loan. The new credit facility is expected to have a senior secured revolving credit facility of \$600 million, with an initial borrowing base availability of \$350 million, and a second lien term loan. The second lien term loan and either a bridge loan or a senior notes offering is expected to generate gross proceeds to EPL of \$1.55 billion. If the merger had occurred on June 30, 2006, EPL would not have drawn on the new senior secured revolving credit facility to fund the merger consideration and the related transactions. The closing of the credit facilities and the bridge loan or the senior notes offering will be subject to customary closing conditions. EPL's obligation to complete the merger is not contingent on its ability to receive financing under the proposed new credit facilities, the bridge loan or the senior notes. See Financing of the Merger beginning on page 113 for additional information.

**Q: Where will my shares be traded after the merger?**

A: EPL common stock will be traded on the New York Stock Exchange under the symbol EPL. Stone common stock will no longer be traded.

**Q: When do you expect the merger to be completed?**

A: We expect to complete the merger promptly following the EPL special meeting of stockholders and the Stone special meeting of stockholders.

**Q: How do I vote my shares at my stockholder meeting? (see pages 25 to 28)**

A: After carefully reading this document and the information incorporated by reference, indicate on the enclosed proxy how you want to vote, sign it and mail it in the enclosed return envelope as soon as possible so that your shares will be represented at your stockholder meeting. To assure that we obtain your vote, please vote as instructed on your proxy card, even if you plan to attend your stockholder meeting in

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person. If you sign and send in your proxy card and do not indicate how you want to vote, your proxy will be counted as a vote in favor of the proposal submitted to EPL stockholders if you are an EPL stockholder and in favor of the proposals submitted to Stone stockholders if you are a Stone stockholder. You may revoke your proxy on or before the day of your stockholder meeting by following the instructions on page 28. You then may either change your vote or attend your stockholder meeting and vote in person.

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**Q: What happens if I abstain from voting, or do not submit a proxy or vote? (see pages 26 to 27)**

A: If you are an EPL stockholder, an abstention or failure to vote will have no effect on the approval of the issuance of EPL common stock and the approval of EPL's Amended and Restated 2006 Long Term Stock Incentive Plan. However, broker non-votes will not count for the purpose of determining whether a quorum exists. An abstention or failure to vote will have the effect of a vote against the amendment to EPL's certificate of incorporation.

A: If you are a Stone stockholder, any of these actions will have the effect of a vote against adopting the merger agreement.

**Q: What should I do if I want to change my vote? (see page 28)**

A: You can change your vote at any time before your proxy card is voted at your stockholder meeting. You can do this in one of three ways:

you can send a written notice to the company of which you are a stockholder stating that you revoke your proxy;

you can complete and submit a later dated proxy card to that company; or

you can attend your stockholder meeting and vote in person.

However, your attendance alone will not revoke your proxy. If you have instructed a broker to vote your shares, you must follow the procedure your broker provides to change those instructions.

**Q: What vote does my board of directors recommend?**

A: The EPL board of directors recommends that its stockholders vote at the special meeting to approve the proposals, including the issuance of the EPL common stock as a result of the transactions contemplated by the merger agreement. The Stone board of directors recommends that its stockholders vote in favor of the adoption of the merger agreement. As described on pages 97 to 99, some of Stone's directors and executive officers will receive financial benefits as a result of the merger and one of EPL's directors has an interest in the closing of the merger.

**Q: What votes are required? (see page 26)**

A: The approval of the issuance of EPL common stock and of EPL's Amended and Restated 2006 Long Term Stock Incentive Plan require the affirmative vote of a majority of the shares of EPL common stock present and voting, except that broker non-votes will not be counted in determining whether a quorum exists for voting on such share issuance. The approval of the amendment to EPL's certificate of incorporation requires the affirmative vote of a majority of the outstanding shares of EPL common stock as of the record date. Approval of the merger is not conditioned upon approval of the proposal to increase the number authorized common shares or the adoption of the Amended and Restated 2006 Long Term Stock Incentive Plan. Adoption of the merger agreement by Stone stockholders requires the affirmative vote of a majority of the outstanding shares of Stone common stock as of the record date.

**Q: If my broker holds my shares in street name, will my broker vote them for me without my instructions?**

A: No. Your broker will not be able to vote your shares without instructions from you. You should receive instructions regarding election procedures directly from your broker. You should follow the directions provided by your broker to vote your shares or you should instruct your broker to vote your shares, following the procedure your broker provides.

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**Q: What must Stone stockholders do to elect to receive cash or EPL common stock?**

A: To elect to receive cash or EPL common stock for your shares of Stone common stock, you must indicate in the place provided on the election form, which you will receive in a separate mailing, the number of your shares of Stone common stock and whether you prefer to receive cash or stock, sign the form, and return the form in the separate envelope provided so that it is received prior to the election deadline, which is 5:00 p.m. Eastern time on the date that is five business days following the effective date of the merger. If the merger occurs, Stone will promptly make a public announcement of this fact.

You will be able to make one of the following elections on the election form:

to elect to receive shares of EPL common stock with respect to all of your shares of Stone common stock;

to elect to receive cash with respect to all of your shares of Stone common stock; or

to indicate that you make no election, and thus have no preference, with respect to all of your shares of Stone common stock.

If you do not submit an election form prior to the election deadline, you will be deemed to have indicated that you are making no election, and thus have no preference, with respect to your shares of Stone common stock. See Terms of the Merger Agreement Manner and Basis of Converting Shares Stockholder Elections; Allocation; Proration Procedures beginning on page 103.

**Q: Can I revoke or change my election after I mail my form of election?**

A: Yes. You may revoke or change your election at any time before the election deadline. You can do this by sending a written notice of such revocation or change in your election to the exchange agent at the address contained on the election form.

If you revoke your election form and then do not re-submit an election form that is timely, you will be deemed to have indicated that you are making no election with respect to your shares of Stone common stock.

**Q: Are Stone stockholders guaranteed to receive the amount of cash or EPL common stock that they request on their election form?**

A: No. The election of cash or stock will be subject to a limit on total cash consideration of approximately \$723 million (which includes approximately \$15.1 million attributable to stock options) and a limit on the total number of EPL shares issued of approximately 35 million. It is possible, therefore, that if you elect cash for your shares of Stone common stock, you could receive a different proportion of stock and cash than you elected.

**Q: If I make an election to receive cash, under what circumstances will my election be re-allocated?**

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A: Your election will be re-allocated if the total cash elections exceed approximately \$723 million (which includes approximately \$15.1 million attributable to stock options). In that circumstance, you will receive a combination of cash and EPL common stock following a pro rata adjustment of all elections for cash in order to stay within the cash limitation of approximately \$723 million.

**Q: If I make an election to receive EPL common stock, under what circumstances will my election be re-allocated?**

A: Your election may be re-allocated if the total stock elections exceed approximately 35 million shares of EPL. In that circumstance, you will receive a combination of cash and EPL common stock following a pro rata adjustment of all elections for EPL common stock in order to stay within the share limitation of approximately 35 million EPL shares.

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**Q: What happens if I do not make an election or my election form is not received timely?**

A: If the total cash elections exceed approximately \$723 million, you will receive shares of EPL common stock. If the total stock elections exceed approximately 35 million shares, you will receive cash.

In any other event, you will receive cash or EPL common stock based on the amount of each such type of consideration remaining after allocations are made to shares of Stone common stock that made an election.

**Q: How will I receive my shares of EPL common stock or cash?**

A: After receiving the proper documentation from you and determining the proper allocations of cash and EPL common stock to be paid to the Stone stockholders, the exchange agent will forward to you the cash and/or EPL common stock to which you are entitled. More information on the documentation you are required to deliver to the exchange agent may be found under the caption **Terms of the Merger Agreement Manner and Basis of Converting Shares Surrender and Payment** beginning on page 105.

Stockholders will not receive any fractional shares of EPL common stock. Instead, they will receive cash, without interest, for any fractional share of EPL common stock that they might otherwise have been entitled to receive.

**Q: Are Stone stockholders entitled to appraisal rights?**

A: Yes. Stone stockholders are entitled to appraisal rights. Under Delaware law, Stone stockholders have the right to dissent from the merger and, in lieu of receiving the merger consideration, obtain payment in cash of the fair value of your shares of Stone common stock as determined by the Delaware Chancery Court. To exercise appraisal rights, a stockholder must strictly follow the procedures prescribed by Section 262 of the Delaware General Corporation Law. See **Appraisal or Dissenters Rights** beginning on page 99. In addition, the full text of the applicable provisions of Delaware law is included as Annex F to this proxy statement/prospectus.

**Q: Is the merger taxable to Stone stockholders for U.S. federal income tax purposes?**

A: Stone and EPL each expect the merger to qualify as a reorganization pursuant to Section 368(a) of the Internal Revenue Code. The U.S. federal income tax consequences of a reorganization to an exchanging Stone stockholder will depend on the relative mix of cash and EPL common stock received by such Stone stockholder.

**Please review carefully the information under the caption **Material U.S. Federal Income Tax Consequences of the Merger** beginning on page 115 for a description of the material U.S. federal income tax consequences of the merger. The tax consequences to you will depend on your own situation. Please consult your tax advisors for a full understanding of the tax consequences of the merger to you.**

**Q: Is the merger contingent on stockholder approval of all the EPL proposals?**



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A. No. The only vote required by the EPL stockholders to effect the merger is the approval regarding the issuance of EPL common stock.

**Q. Is the consummation of the merger contingent on the approval of any party other than the stockholders of EPL and Stone?**

A. In addition to stockholder approval, the consummation of the merger is contingent upon the following:

any applicable waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976 ( Hart-Scott-Rodino ) must have expired or been terminated; and

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the EPL common stock to be issued in the merger must have been approved for listing on the New York Stock Exchange.

EPL and Stone currently expect each of these conditions to be satisfied prior to or promptly after the stockholder meetings.

**Q: Are there any risks in the merger that I should consider?**

A: Yes. There are risks associated with all business combinations, including the proposed merger. We have described these risks and other risks in more detail under "Risk Factors" beginning on page 17.

**Q: Where can I find more information about the companies?**

A: Both EPL and Stone file periodic reports and other information with the Securities and Exchange Commission, or SEC. You may read and copy this information at the SEC's public reference facility. Please call the SEC at 1-800-SEC-0330 for information about this facility. This information is also available through the Internet site maintained by the SEC at <http://www.sec.gov> and at the offices of the New York Stock Exchange.

In addition, you may obtain some of this information directly from the companies. For a more detailed description of the information available, please see "Where You Can Find More Information" on page 135.

**Q: Who can help answer my questions?**

A: If you have more questions about the merger, please call the Investor Relations Department of EPL at (504) 569-1875 or of Stone at (337) 237-0410.

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**SUMMARY**

*This summary primarily highlights selected information from this document and may not contain all of the information that is important to you. To understand the merger fully and for a more complete description of the terms of the merger, you should read carefully this entire document and the other available information referred to under "Where You Can Find More Information" on page 135. We encourage you to read the merger agreement, the legal document governing the merger, which is included as Annex A to this document and incorporated by reference herein. We have included page references parenthetically to direct you to more complete descriptions of the topics presented in this summary. Unless otherwise stated, all discussions of EPL outstanding shares, shares of restricted stock and options, pro forma for the merger with Stone, assume that all Stone restricted stock is converted into EPL common stock and all Stone stock options are cancelled. We have defined certain oil and natural gas industry terms used in this document in the "Glossary of Oil and Gas Terms" beginning on page 136.*

**The Companies**

**Energy Partners, Ltd.**

**201 St. Charles Avenue, Suite 3400**

**New Orleans, Louisiana 70170**

EPL is an independent oil and natural gas exploration and production company with current operations concentrated in the shallow to moderate depth waters of the Gulf of Mexico Shelf and the Gulf Coast onshore regions and, as a result of an acquisition of undeveloped acreage in early 2006, the deepwater Gulf of Mexico. As of December 31, 2005, EPL had estimated proved reserves of approximately 166.9 Bcf of natural gas and 31.5 Mmbbls of oil, or an aggregate of approximately 59.3 Mmboe, with a standardized measure of discounted future net cash flows of \$1.3 billion. EPL common stock is listed on the New York Stock Exchange under the symbol EPL.

**Stone Energy Corporation**

**625 E. Kaliste Saloom Road**

**Lafayette, Louisiana 70508**

Stone is an independent oil and natural gas company engaged in the acquisition and subsequent exploration, development, operation and production of oil and natural gas properties located in the conventional shelf of the Gulf of Mexico, the deep shelf of the Gulf of Mexico, the deepwater of the Gulf of Mexico, the Rocky Mountain region and the Williston Basin. Stone is also engaged in an exploratory joint venture in Bohai Bay, China. As of June 30, 2006, Stone's property portfolio consisted of 58 active properties (fields) and 59 primary term leases in the Gulf Coast region and 21 active properties (fields) in the Rocky Mountain region. As of December 31, 2005, Stone had estimated proved reserves of approximately 593 Bcf of natural gas, or approximately 99 Mmboe, 73% of which were classified as proved developed and 58% of which were natural gas, with a standardized measure of discounted future net cash flows of \$1.9 billion. Stone common stock is listed on the New York Stock Exchange under the symbol SGY.

**The Merger**

**(see pages 57 to 102)**

Pursuant to the merger agreement, Stone will merge with and into EPL Acquisition Corp. LLC, a wholly-owned subsidiary of EPL.

In the merger, Stone common stockholders will receive, at the election of the holder (subject to the limitations described below): (i) \$51.00 in cash, or (ii) EPL shares equivalent to the ratio determined by dividing \$51.00 by the market price of EPL shares (based on a 20-day trading average prior to the third trading day preceding the closing), *provided* that the exchange ratio will not be greater than 2.525 or less than 2.066 EPL



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shares per Stone share. The election of cash or stock will be subject to a limit on total cash consideration of approximately \$723 million (which includes approximately \$15.1 million attributable to stock options) and a limit on the total number of EPL shares issued of approximately 35 million.

The merger is expected to qualify as a reorganization under Section 368(a) of the Internal Revenue Code. Accordingly, it is expected that (i) the merger will be tax free to EPL stockholders for U.S. federal income tax purposes and (ii) the U.S. federal income tax consequences to an exchanging Stone stockholder will depend on the relative mix of cash and EPL common stock received by such Stone stockholder. It is a condition to the completion of the merger that Stone and EPL receive written opinions from their respective counsel to the effect that the merger will qualify as a reorganization within the meaning of Section 368(a) of the Code. Neither EPL nor Stone intends to waive this closing condition. In the event that either EPL or Stone waives receipt of such opinion from its counsel, however, EPL and Stone will resolicit the approval of their stockholders after providing appropriate disclosure.

**Stone Options.** Before the merger is completed, Stone will repurchase all outstanding options for cash. For more information, please see *Terms of the Merger Agreement Manner and Basis of Converting Shares* beginning on page 103.

**Stone Restricted Stock.** Immediately before the merger is completed, all restrictions on Stone restricted stock awards will expire. For more information, please see *Terms of the Merger Agreement Manner and Basis of Converting Securities* beginning on page 103.

**EPL.** The board of directors of EPL has approved and adopted the merger agreement and the transactions contemplated by it, declared its advisability, and recommends that EPL stockholders vote at the special meeting to approve the issuance of EPL common stock as a result of the transactions contemplated by the merger agreement. See *The Merger Background of the Merger* beginning on page 57. In addition, the EPL board of directors recommends that EPL stockholders vote to approve the amendment to EPL's certificate of incorporation to increase EPL's authorized stock and the approval of EPL's Amended and Restated 2006 Long Term Stock Incentive Plan.

**Stone.** The board of directors of Stone has approved the merger agreement, declared the merger agreement advisable, determined that the merger agreement and the transactions contemplated by it fair to and in the best interests of Stone and its stockholders, and recommends that Stone stockholders vote at the special meeting in favor of the adoption of the merger agreement. See *The Merger Background of the Merger* beginning on page 57. As described on pages 97 to 99, some Stone directors and officers will receive financial benefits as a result of the merger.

**Stockholder Election Mechanics**

(see page 27)

To elect to receive cash or EPL common stock for your shares of Stone common stock, you must indicate in the place provided on the election form, which you will receive in a separate mailing, the number of shares of Stone common stock with respect to which you prefer to receive cash or EPL common stock, sign the form, and return the form in the separate envelope provided so that it is received prior to the election deadline, which is 5:00 p.m., Eastern time, on the date that is five business days following the effective date of the merger. If the merger occurs, Stone will promptly make a public announcement of this fact.

You will be able to make one of the following elections on the election form:

to elect to receive shares of EPL common stock for your shares of Stone common stock;

to elect to receive cash for your shares of Stone common stock; or

to indicate that you make no election, and thus have no preference, with respect to the nature of the consideration for your shares of Stone common stock.



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If you do not submit an election form and the other required documents prior to the election deadline, you will be deemed to have indicated that you are making no election, and thus have no preference, with respect to your shares of Stone common stock.

**Appraisal Rights**

**(see pages 99 to 102)**

Under Delaware law, Stone stockholders are entitled to appraisal rights in connection with the merger. Any Stone stockholder of record who objects to the merger may elect to have his or her shares of Stone common stock appraised under the procedures of Delaware law and to be paid the fair value of his or her shares. The appraised value will not include any value arising from the merger, but may include a fair rate of interest. It is possible that the fair value determined may be more or less than the merger consideration. These procedures require, among other things, that a dissenter:

file with Stone a written demand for appraisal of the stockholder's shares prior to the vote on the merger proposal;

not vote in favor of the merger; and

continuously hold his or her Stone common stock through the effective time of the merger.

If you fail to comply with any of these conditions and the merger is completed, you will lose your appraisal rights with respect to your shares of Stone common stock. See the relevant sections of Delaware law attached as Annex F to this proxy statement.

**Opinions of Financial Advisors**

**(see pages 71 to 96)**

In deciding to recommend the merger, we each considered opinions from our respective financial advisors.

The EPL board of directors received a written opinion from each of Evercore Group L.L.C. and Banc of America Securities LLC to the effect that, as of the date of such opinion, and subject to the assumptions, limitations, qualifications and other matters described therein, the merger consideration was fair, from a financial point of view, to EPL.

Stone received a written opinion from Jefferies & Company, Inc., through its Randall & Dewey division, to the effect that, as of the date of such opinion and subject to the assumptions, limitations, qualifications and other matters described in its opinion, the merger consideration contemplated by the merger was fair, from a financial point of view, to the holders of Stone common stock (other than EPL and its affiliates).

The full texts of these opinions describe, among other things, the assumptions made, the procedures followed, factors considered and limitations on the review undertaken, and are attached as Annexes B-1, B-2 and C. We urge you to read these opinions carefully and in their entirety. The opinions of Evercore Group L.L.C. and Banc of America Securities LLC were provided to the EPL board of directors, and the opinion of Jefferies & Company, Inc. was provided to the Stone board of directors, in each case in connection with their respective evaluations of the merger consideration. None of the opinions address any other aspect of the proposed merger, nor do they constitute a recommendation to any stockholders as to how to vote or act at the EPL or Stone special meetings.

**Board of Directors and Management of EPL Following the Merger**

**(see page 97)**

The board of directors of EPL following the merger will be increased by three director positions to a total of fourteen directors and James H. Stone, Richard A. Pattarozzi and Kay G. Priestly, each of whom is currently a





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director of Stone, will join the board of directors of EPL. The management of EPL following the merger will consist of the same persons as prior to the merger.

**The Stockholder Meetings**

(see pages 25 to 28)

**EPL.** The EPL special meeting will be held for the following purposes:

to consider and vote upon a proposal to approve the issuance of EPL common stock to Stone's stockholders as a result of the merger;

to consider and vote upon a proposed amendment to EPL's certificate of incorporation to increase the number of authorized common shares from 100,000,000 to 150,000,000 if the merger occurs; and

to consider and vote upon approval of EPL's 2006 Amended and Restated Long Term Stock Incentive Plan.

**Stone.** The Stone special meeting will be held to consider and vote upon the approval and adoption of the merger agreement.

**Record Dates**

**EPL.** You may vote at the special meeting of EPL stockholders if you owned EPL common stock at the close of business on August 28, 2006.

**Stone.** You may vote at the annual meeting of Stone stockholders if you owned Stone common stock at the close of business on August 28, 2006.

**Votes Required**

(see page 26)

**EPL.** Each share of EPL common stock outstanding as of the record date will be entitled to one vote at the special meeting. The approval of the issuance of EPL common stock and EPL's Amended and Restated 2006 Long Term Stock Incentive Plan requires the affirmative vote of a majority of the shares of EPL common stock present and voting, except that broker non-votes will not be counted in determining whether a quorum exists. The approval of the amendment to EPL's certificate of incorporation requires the affirmative vote of a majority of the outstanding shares of EPL common stock. Approval of the merger is not conditioned upon approval of the proposal to increase the number of authorized common shares or the adoption of the Amended and Restated 2006 Long Term Stock Incentive Plan.

If you are a holder of EPL common stock and you do not vote your shares or abstain from voting your shares with respect to the proposal to amend the certificate of incorporation, such actions will be the equivalent of a no vote because the adoption of the amendment to the certificate of incorporation requires an affirmative vote of a majority of the outstanding shares of EPL common stock. In addition, broker non-votes will be the equivalent of a no vote because the amendment to the certificate of incorporation requires the affirmative vote of a majority of the outstanding shares of EPL common stock.

**Stone.** Each share of Stone common stock outstanding as of the record date is entitled to one vote at the special meeting. Adoption of the merger agreement by Stone stockholders requires the affirmative vote of a majority of the outstanding shares of Stone common stock.

If you are a holder of Stone common stock and you do not vote your shares or abstain from voting your shares, such actions will be the equivalent of a no vote because the adoption of the merger agreement requires an affirmative vote of a majority of the outstanding shares of Stone common stock. In addition, broker non-votes will be the equivalent of a no vote because the adoption of the merger agreement requires the affirmative vote of a majority of the outstanding shares of Stone common stock.



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**Share Ownership of Management**

(see pages 118 to 121)

*EPL.* As of the record date for the EPL special meeting, there were \_\_\_\_\_ shares of EPL common stock outstanding. Directors and executive officers of EPL beneficially owned approximately 9.4% of the outstanding EPL common stock on the record date.

*Stone.* As of the record date for the Stone special meeting, there were \_\_\_\_\_ shares of Stone common stock outstanding. Directors and executive officers of Stone beneficially owned approximately 8.6% of the shares of Stone common stock on the record date.

*Voting Agreements.* In connection with the merger agreement, the directors of EPL and Stone entered into voting agreements pursuant to which such directors agreed to vote their shares in favor of the transactions. The voting agreements cover all shares beneficially owned by the EPL directors and by the Stone directors.

**Risks Associated with the Merger**

(see pages 17 to 18)

You should be aware of and carefully consider the risks relating to the merger described under Risk Factors. These risks include possible difficulties in combining two companies that have previously operated independently.

**Financing of the Merger**

(see pages 113 to 114)

EPL intends to finance the cash portion of the merger consideration and the refinancing of the Stone debt with its cash resources as well as through a new credit facility that EPL expects to enter into in connection with the merger that will replace its existing credit facility and either a bridge loan or an offering of senior notes of EPL. EPL has received a commitment letter from Bank of America, N.A. and affiliates with respect to the new credit facility and the bridge loan. The new credit facility is expected to have a senior secured revolving credit facility of \$600 million, with an initial borrowing base availability of \$350 million, and a second lien term loan. The second lien term loan and either the bridge loan or the senior notes offering is expected to generate gross proceeds to EPL of \$1.55 billion. If the merger had occurred on June 30, 2006, EPL would not have drawn on the new senior secured revolving credit facility to fund the merger consideration and the related transactions. The closing of the credit facility and the bridge loan or the senior notes offering will be subject to customary closing conditions. EPL's obligation to complete the merger is not contingent on its ability to receive financing under this proposed new credit facility, the bridge loan or the senior notes.

**Accounting Treatment**

(see page 96)

The merger will be accounted for as an acquisition of Stone by EPL using the purchase method of accounting. In addition, EPL will continue to use the successful efforts method of accounting for its oil and natural gas properties.

**Conditions to the Merger**

(see pages 109 to 110)

We will complete the merger only if the conditions to the merger are satisfied, including the following:

the adoption of the merger agreement by Stone common stockholders;



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the approval of the EPL common stock issuance in connection with the merger by the EPL common stockholders;

the receipt of tax opinions from counsel for each of EPL and Stone that the merger constitutes a reorganization under Section 368(a) of the Internal Revenue Code;

the absence of any material adverse effect upon either EPL or Stone;

the absence of any law or court order that prohibits the merger;

the applicable waiting period under Hart-Scott-Rodino has expired or been terminated; and

the shares of EPL common stock to be issued in the merger have been approved for listing on the New York Stock Exchange. Either of us may choose to complete the merger even though a condition has not been satisfied if the law allows us to do so.

**Termination of the Merger Agreement**

(see pages 110 to 111)

We can agree to terminate the merger agreement at any time. In addition, either of us can unilaterally terminate the merger agreement in various circumstances, including the following:

if the merger has not been completed by December 31, 2006 and if the terminating company has not materially breached its obligations under the merger agreement, which breach proximately contributed to the failure to consummate the merger on or prior to such date; and

if EPL stockholders fail to approve the issuance of EPL common stock as a result of the merger or the Stone stockholders fail to adopt the merger agreement.

**Termination Fee**

(see pages 111 to 112)

Upon the occurrence of certain termination events in connection with an offer or proposal regarding a business combination, Stone may be required to pay EPL a termination fee of \$44.0 million.

In addition, upon the occurrence of certain termination events, Stone may be required to reimburse EPL for all or part of the \$43.5 million termination fee advanced by EPL to Plains on behalf of Stone in connection with the termination of Stone's merger agreement with Plains.

Upon the occurrence of certain termination events in connection with an offer or proposal regarding a business combination, EPL may be required to pay Stone a termination fee of \$25.6 million.

**Interests of Certain Persons in the Merger that Differ from Your Interests**

(see pages 97 to 99)

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Certain of EPL's and Stone's directors and executive officers have interests in the merger that differ from, or are in addition to, your interests as stockholders of Stone or EPL. These interests include:

pursuant to Stone severance plans and retention policies, all Stone executive officers will receive cash payments as the result of merger;

all restrictions on restricted stock awards held by Stone officers and directors will expire;

stock options held by Stone officers and directors will be purchased for cash by Stone immediately prior to the merger;

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for six years after the merger, EPL Acquisition Corp. LLC will indemnify and maintain liability insurance for the officers and directors of Stone and its subsidiaries;

each of James H. Stone, Richard A. Pattarozzi and Kay G. Priestly will join EPL's board of directors upon the closing of the transactions contemplated by the merger agreement;

EPL will provide suitable office space for James H. Stone in EPL's headquarters building in lieu of Mr. Stone's current arrangements with Stone; and

William O. Hiltz, a director of EPL, is a senior managing director of Evercore Partners, which is an affiliate of Evercore Group L.L.C., one of EPL's financial advisors that has issued a fairness opinion in connection with the transactions. Evercore Group L.L.C. received a fee upon execution of the merger agreement and will receive an additional fee upon the closing of the transactions.

As of the date of this document, there are no agreements with EPL for the employment of any of Stone's directors (other than as set forth above) or the continuing employment of any of Stone's executive officers. Other than as set forth above, the interests of Stone's directors and executive officers in the merger are limited to their interests as stockholders of Stone.

Stone's directors and executive officers beneficially owned approximately 8.6% of the shares of Stone common stock as of the record date for the Stone special meeting.

**Acquisition Proposals**

(see page 108)

Until the termination of the merger agreement, Stone, and its officers, directors and agents, will not (i) solicit, initiate or encourage an acquisition proposal or any inquiries or the making of any proposal that constitutes or reasonably could be expected to lead to an acquisition proposal, (ii) enter into any agreement with respect to an acquisition proposal or (iii) engage or participate in discussions or negotiations with, or disclose any nonpublic information or furnish any information with respect to, or otherwise cooperate in any way with, an acquisition proposal. Stone may, however, communicate with third parties that make bona fide unsolicited written acquisition proposals that, in its board's good faith determination after consultation with its financial advisors and outside legal counsel, may reasonably be expected to result in a transaction more favorable from a financial point of view to its stockholders.

**Material Differences in the Rights of Stockholders**

(see pages 122 to 124)

Stone and EPL are both Delaware corporations. Upon completion of the merger, your rights as stockholders of EPL will be governed by its charter and bylaws, and Delaware law. Stone stockholders should consider the fact that EPL's charter and bylaws differ in some material respects from Stone's charter and bylaws.

**Comparative Per Share Market Price Information**

(see page 24)

EPL common stock is listed on the New York Stock Exchange under the symbol EPL and Stone common stock is listed on the New York Stock Exchange under the symbol SGY. On May 24, 2006, the last full trading day prior to public announcement of EPL's unsolicited offer to acquire Stone, EPL common stock closed at \$21.56 per share and Stone common stock closed at \$40.76 per share. On August 28, 2006, EPL common stock closed at \$24.14 per share and Stone common stock closed at \$44.35 per share. We urge you to obtain current market quotations before making any decision with respect to the merger.





**Table of Contents****Index to Financial Statements****Summary Selected Financial Information and Other Data****EPL**

The following table sets forth EPL's selected consolidated historical financial information that has been derived from (a) the audited financial statements for each of the years in the five year period ended December 31, 2005 and (b) the unaudited financial statements for the six month periods ended June 30, 2006 and 2005. This disclosure does not include the effect of the merger. You should read this financial information in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations in EPL's Form 10-K for the year ended December 31, 2005 and Form 10-Q for the quarter ended June 30, 2006 and the EPL financial statements and notes thereto incorporated by reference in this document (in thousands, except per share data).

	Six Months						
	Ended June 30, 2006 (unaudited)		2005	Years Ended December 31,			2001
	2006	2005	2005	2004	2003	2002	2001
<b>Statement of Operations Data:</b>							
Revenue	\$ 230,425	\$ 203,955	\$ 402,947	\$ 295,446	\$ 230,187	\$ 134,544	\$ 148,169
Costs and expenses:							
Lease operating	30,297	27,062	51,482	40,617	36,693	34,400	36,543
Taxes, other than on earnings	5,186	5,422	10,372	9,263	7,650	6,572	7,190
Exploration expenditures and dry hole costs	42,379	29,627	82,844	35,935	17,353	10,735	15,141
Depreciation, depletion and amortization	96,777	53,152	103,649	92,353	81,927	64,513	46,870
General and administrative	24,737	20,062	43,205	30,974	28,004	24,168	19,833
Other expenses	1,877	321		236		756	1,929
Total costs and expenses	201,253	135,646	291,552	209,378	171,627	141,144	127,506
Business interruption recovery	23,283		20,632				
Income (loss) from operations	52,455	68,309	132,027	86,068	58,560	(6,600)	20,663
Interest expense, net	(9,531)	(8,088)	(17,340)	(13,136)	(9,794)	(6,881)	(1,587)
Income (loss) before income taxes and cumulative effect of change in accounting principle	42,924	60,221	114,687	72,932	48,766	(13,481)	19,076
Income taxes	(15,536)	(21,750)	(41,592)	(26,516)	(17,784)	4,682	(7,102)
Net income (loss) before cumulative effect of change in accounting principle	27,388	38,471	73,095	46,416	30,982	(8,799)	11,974
Cumulative effect of change in accounting principle					2,268		
Net income (loss) (1)	27,388	38,471	73,095	46,416	33,250	(8,799)	11,974
Net income (loss) available to common stockholders (2)	\$ 27,388	\$ 37,527	\$ 72,151	\$ 43,017	\$ 29,705	\$ (12,129)	\$ 11,974
Earnings and dividends per share:							
<b>Basic:</b>							
Before cumulative effect of change in accounting principle	\$ 0.72	\$ 1.03	\$ 1.94	\$ 1.31	\$ 0.89	\$ (0.44)	\$ 0.45
Earnings (loss) per share	\$ 0.72	\$ 1.03	\$ 1.94	\$ 1.31	\$ 0.96	\$ (0.44)	\$ 0.45
<b>Diluted:</b>							
Before cumulative effect of change in accounting principle	\$ 0.68	\$ 0.95	\$ 1.79	\$ 1.20	\$ 0.87	\$ (0.44)	\$ 0.44
Earnings (loss) per share	\$ 0.68	\$ 0.95	\$ 1.79	\$ 1.20	\$ 0.93	\$ (0.44)	\$ 0.44
Cash dividends declared	\$	\$	\$	\$	\$	\$	\$

- (1) The 2003 net income includes a cumulative effect of change in accounting principle resulting from the adoption of Financial Accounting Standards No. 143, Accounting for Asset Retirement Obligations (Statement 143), which increased net income \$2.3 million, net of deferred income taxes of \$1.3 million.
- (2) Net income (loss) available to common stockholders is computed by subtracting preferred stock dividends and accretion of discount of \$0.9 million, \$3.4 million, \$3.5 million and \$3.3 million from net income (loss) for the years ended December 31, 2005, 2004, 2003 and 2002, respectively.



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	Six Months			Years Ended December 31,			
	Ended June 30,		2005	2004	2003	2002	2001
	2006	2005					
	(unaudited)						
<b>Cash Flow Data:</b>							
Net cash provided by operating activities	\$ 174,930	\$ 144,533	\$ 269,969	\$ 165,074	\$ 136,702	\$ 25,417	\$ 91,847
Net cash used in investment activities	(204,961)	(308,005)	(449,159)	(176,713)	(110,057)	(54,380)	(121,067)
Net cash provided by (used in) financing activities	36,121	75,629	92,442	784	77,631	29,079	25,871
<b>Balance Sheet Data (at end of period):</b>							
Total assets	\$ 1,077,728	\$ 931,285	\$ 931,285	\$ 647,678	\$ 544,181	\$ 384,220	\$ 242,777
Long-term debt, including current maturities	270,000	235,109	235,109	150,217	150,416	103,779	25,493
Stockholders' equity	439,071	394,593	394,593	315,049	261,485	191,922	164,867

**Table of Contents****Index to Financial Statements****Stone**

The following table sets forth a summary of Stone's selected historical financial information for the six-month periods ended June 30, 2006 and 2005 and for each of the years in the five-year period ended December 31, 2005. The financial data for the six-month periods ended June 30, 2006 and 2005 is unaudited and reflects all adjustments (consisting only of normal recurring adjustments) which are, in the opinion of Stone's management, necessary for a fair presentation of Stone's financial position and operating results for such interim periods. The results of operations for the six-month period ended June 30, 2006 are not necessarily indicative of results for the full year. This disclosure does not include the effect of the merger. You should read this financial information in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations of Stone and Stone's financial statements and notes thereto elsewhere in this document (in thousands, except per share data).

	Six Months						
	Ended June 30, 2006 (unaudited)	2005	2005	Year Ended December 31, 2004	2003	2002	2001
<b>Statement of Operations Data:</b>							
Operating revenue:							
Oil production	\$ 149,035	\$ 144,107	\$ 244,469	\$ 214,153	\$ 174,139	\$ 155,913	\$ 103,053
Natural gas production	176,510	197,284	391,771	330,048	334,166	221,582	292,446
Derivative income	2,068						
Total operating revenue	327,613	341,391	636,240	544,201	508,305	377,495	395,499
Operating expenses:							
Lease operating expenses	67,422	57,608	114,664	100,045	72,786	76,673	54,072
Production taxes	8,102	6,425	13,179	7,408	5,975	5,039	6,408
Depreciation, depletion and amortization	141,176	134,420	241,426	210,861	188,813	175,496	164,150
Accretion expense	6,085	3,579	7,159	5,852	6,292		
Write-down of oil and gas properties							302,161
Derivative expense			3,388	4,099	8,711	15,968	2,604
Bad debt expense (1)							2,343
Salaries, general and administrative expenses	17,670	10,506	23,957	16,629	17,506	14,041	13,527
Total operating expenses	240,455	212,538	403,773	344,894	300,083	287,217	545,265
Income (loss) from operations	87,158	128,853	232,467	199,307	208,222	90,278	(149,766)
Other (income) expenses:							
Interest expense	12,807	11,765	23,151	16,835	19,860	23,141	4,895
Other expense				1,541	538		
Early extinguishment of debt				845	4,661		
Merger expenses	46,483						25,785
Merger expenses reimbursement	(18,200)						
Other income	(2,660)	(1,831)	(3,894)	(4,018)	(3,133)	(3,328)	(2,997)
Total other expenses, net	38,430	9,934	19,257	15,203	21,926	19,813	27,683
Income (loss) before income taxes	48,728	118,919	213,210	184,104	186,296	70,465	(177,449)
Income tax provision (benefit)	26,172	41,528	76,446	64,436	65,203	24,662	(60,784)
Income (loss) before cumulative effects of accounting changes, net of tax	22,556	77,391	136,764	119,668	121,093	45,803	(116,665)
Cumulative effects of accounting changes, net of tax (2)					2,099		
Net income (loss)	\$ 22,556	\$ 77,391	\$ 136,764	\$ 119,668	\$ 123,192	\$ 45,803	\$ (116,665)
Earnings and dividends per common share:							
Income (loss) before cumulative effects of accounting changes per share	\$ 0.83	\$ 2.89	\$ 5.07	\$ 4.50	\$ 4.60	\$ 1.74	\$ (4.47)
Earnings (loss) per common share	\$ 0.83	\$ 2.89	\$ 5.07	\$ 4.50	\$ 4.67	\$ 1.74	\$ (4.47)
	\$ 0.83	\$ 2.86	\$ 5.02	\$ 4.45	\$ 4.56	\$ 1.73	\$ (4.47)

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Income (loss) before cumulative effects of accounting changes per share  
assuming dilution

Earnings (loss) per common share assuming dilution	\$	0.83	\$	2.86	\$	5.02	\$	4.45	\$	4.64	\$	1.73	\$	(4.47)
Cash dividends declared	\$		\$		\$		\$		\$		\$		\$	

- (1) Relates to 100% allowance for production receivable due from Enron North America.  
(2) Cumulative effects of accounting changes relate to the adoption of Statement 143 and change to the Units of Production method of DD&A.

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	Six Months						
	Ended June 30, 2006      2005		2005	Year Ended December 31, 2004      2003      2002			2001
	(unaudited)						
<b>Cash Flow Data:</b>							
Net cash provided by operating activities	\$ 171,352	\$ 250,235	\$ 461,213	\$ 369,668	\$ 390,811	\$ 222,891	\$ 315,617
Net cash used in investing activities	(277,759)	(290,930)	(499,932)	(475,159)	(341,180)	(216,570)	(656,847)
Net cash provided by (used in) financing activities	268,081	82,350	94,170	112,648	(60,140)	8,133	275,828
<b>Balance Sheet Data (at end of period):</b>							
Working capital (deficit)	\$ 189,977	\$ 10,228	\$ 16,506	\$ (28,598)	\$ (38,474)	\$ (1,212)	\$ (18,097)
Oil and natural gas properties, net	1,964,003	1,687,447	1,810,959	1,517,308	1,216,141	963,494	924,229
Total assets	2,509,361	1,920,800	2,140,317	1,695,664	1,332,485	1,094,930	1,032,105
Long-term debt, less current portion	827,000	558,000	563,000	482,000	370,000	431,000	426,000
Stockholders' equity	982,162	855,612	944,123	772,934	644,111	522,601	484,735

**Table of Contents****Index to Financial Statements****Summary Oil and Natural Gas Reserve and Operating Data**

The following table sets forth certain information with respect to EPL's and Stone's oil and natural gas reserve and operating data. The following information should be read in connection with the information contained in the financial statements and notes thereto incorporated by reference in and included elsewhere in this document. The information set forth below is not necessarily indicative of future results (in thousands, except per unit amounts).

	For the Six Months Ended June 30,		Years Ended December 31,		
	2006	2005	2005	2004	2003
	(unaudited)				
<b>EPL:</b>					
<b>Estimated net proved reserves (at end of period):</b>					
Oil (Mbbbls)			31,478	28,770	27,414
Natural gas (Mmcf)			166,949	149,835	134,404
Total (Mboe)			59,303	53,743	49,815
Percent oil			53%	54%	55%
Percent proved developed			72%	78%	69%
<b>Standardized measure of discounted future net cash flows (unaudited)</b>			\$ 1,261,246	\$ 667,668	\$ 529,415
<b>Net Production:</b>					
Oil (Mbbbls)	1,392	1,851	2,914	3,171	2,912
Natural gas (Mmcf)	19,417	17,750	32,277	30,048	28,688
Total (Mboe)	4,628	4,809	8,293	8,179	7,693
<b>Average sales price, net of hedging:</b>					
Oil (per Bbl)	\$ 60.53	\$ 45.74	\$ 46.45	\$ 35.01	\$ 28.02
Natural gas (per Mcf)	7.52	6.71	8.26	6.11	5.16
Total (per Boe)	49.74	42.35	48.47	36.01	29.86
<b>Impact of hedging:</b>					
Oil (per Bbl)	\$	\$ (1.46)	\$ (3.15)	\$ (4.40)	\$ (1.67)
Natural gas (per Mcf)	(0.05)		(0.24)	(0.04)	(0.23)
<b>Average costs (per Boe):</b>					
Lease operating expense	\$ 6.37	\$ 5.52	\$ 6.08	\$ 4.93	\$ 4.76
Taxes, other than on earnings	1.12	1.13	1.25	1.13	0.99
Depreciation, depletion and amortization	20.91	11.05	12.50	11.29	10.65
<b>Stone:</b>					
<b>Estimated net proved reserves (at end of period):</b>					
Oil (Mbbbls)			41,509	42,385	44,508
Natural gas (Mmcf)			344,088	413,902	380,280
Total (Mboe)			98,857	111,369	107,888
Percent oil			42%	38%	41%
Percent proved developed			73%	77%	79%
<b>Standardized measure of discounted future net cash flows</b>			\$ 1,932,979	\$ 1,612,459	\$ 1,464,076
<b>Net Production:</b>					
Oil (Mbbbls)	2,338	2,969	4,838	5,438	5,727
Natural gas (Mmcf)	22,168	31,531	54,129	55,544	62,536
Total (Mboe)	6,033	8,224	13,860	14,695	16,150
<b>Average sales price, net of effective hedging:</b>					
Oil (per Bbl)	\$ 63.74	\$ 48.54	\$ 50.53	\$ 39.38	\$ 30.41
Natural gas (per Mcf)	7.96	6.26	7.24	5.94	5.34
Total (per Boe)	53.96	41.51	45.91	37.03	31.47
<b>Impact of hedging:</b>					
Oil (per Bbl)	\$	\$ (0.47)	\$ (2.26)	\$	\$
Natural gas (per Mcf)	0.63	(0.21)	(0.57)	(0.18)	(0.03)
<b>Production expense (including production taxes) (per Boe)</b>					
	\$ 12.52	\$ 7.79	\$ 9.22	\$ 7.31	\$ 4.88





**Table of Contents****Index to Financial Statements****Summary Unaudited Pro Forma Condensed Consolidated Financial Data**

The following table sets forth summary unaudited pro forma condensed consolidated financial data which are presented to give effect to the merger and related transactions and the acquisition of additional interests in Mississippi Canyon Blocks 109 and 108. The pro forma adjustments are described in the notes accompanying our unaudited pro forma condensed consolidated financial statements included elsewhere in this proxy statement and are based on preliminary estimates and certain assumptions that management of the companies believes are reasonable under the circumstances. The unaudited pro forma condensed consolidated statement of operations data assumes the merger occurred on January 1, 2005 and the unaudited pro forma condensed consolidated balance sheet data assumes the merger occurred on June 30, 2006. This unaudited pro forma condensed consolidated financial data is not necessarily indicative of the results of operations or the financial position that would have occurred had the merger been consummated on the assumed dates nor is it necessarily indicative of future results of operations or financial position. The unaudited pro forma financial data should be read together with the historical financial statements of EPL incorporated by reference into this document and the historical financial statements of Stone and the unaudited pro forma condensed consolidated financial statements and accompanying notes included in this document.

	Pro Forma	
	Six Months	
	Ended	Year Ended
	June 30,	December 31,
	2006	2005
	(amounts in thousands,	
	except per share data)	
<b>Statement of Operations:</b>		
<b>Revenues:</b>		
Oil and natural gas	\$ 555,749	\$ 1,038,245
Other	4,949	4,836
	560,698	1,043,081
<b>Costs and expenses:</b>		
Lease operating expenses	102,543	185,575
Exploration expenditures, dryhole costs and impairments	142,319	220,169
Depreciation, depletion and amortization	249,016	446,564
Derivative expense		3,388
General and administrative	61,872	92,346
Other expense	1,877	
Total costs and expenses	557,627	948,042
Business interruption recovery	23,283	20,632
	26,354	115,671
<b>Income from operations</b>	26,354	115,671
Interest expense, net	(81,781)	(161,840)
	(55,427)	(46,169)
<b>Income (loss) before income taxes</b>	(55,427)	(46,169)
Income taxes	19,954	16,621
	(35,473)	(29,548)
<b>Net income (loss)</b>	(35,473)	(29,548)
Less dividends earned and accretion of discount on preferred stock		(944)
	\$ (35,473)	\$ (30,492)
<b>Net income (loss) available to common stockholders</b>	\$ (35,473)	\$ (30,492)

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Basis earnings (loss) per share	\$ (0.48)	\$ (0.42)
Diluted earnings (loss) per share	\$ (0.48)	\$ (0.42)
<b>Weighted average common shares used in computing earnings (loss) per share:</b>		
Basic	73,209	72,121
Diluted	73,209	72,121

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	<b>June 30,</b>
	<b>2006</b>
<b>Balance Sheet Data:</b>	
<b>Assets</b>	
Cash and cash equivalents	\$ 63,761
Other current assets	431,959
Property and equipment, net	3,802,125
Other assets	22,553
<b>Liabilities and Stockholders Equity Data:</b>	
Current liabilities	\$ 498,636
Long-term debt	1,820,000
Other long-term liabilities	183,849
Deferred income taxes	722,489
Stockholders equity	1,095,424

**Table of Contents****Index to Financial Statements****Summary Unaudited Pro Forma Oil and Natural Gas Reserve and Operations Data**

The following table sets forth summary unaudited pro forma information with respect to EPL's and Stone's combined estimated net proved oil and natural gas reserves, average prices and expenses for the six months ended June 30, 2006 and as of and for the year ended December 31, 2005.

	As of or for the	
	Six Months Ended	Year Ended
	June 30,	December 31,
	2006	2005
<b>Estimated net proved reserves:</b>		
Proved reserves:		
Oil (Mbbbls)		72,987
Natural gas (Mmcf)		511,037
Total (Mboe)		158,160
Net proved developed reserves:		
Oil (Mbbbls)		57,203
Natural gas (Mmcf)		344,974
Total (Mboe)		114,699
Percent oil		46%
Percent proved developed		73%
Reserve additions (Mboe)		17,450
Reserve life (years)		7.3
<b>Standardized measure of discounted future net cash flows (in thousands):</b>		
Future cash inflows		\$ 9,306,862
Future production costs		(1,938,975)
Future development costs		(1,042,161)
Future income tax expense		(1,758,759)
Future net cash flows, after tax		4,566,967
10% annual discount for estimated timing of cash flows		(1,372,742)
Standardized measure of discounted future net cash flows		\$ 3,194,225
<b>Net production:</b>		
Oil (Mbbbls)	3,730	7,752
Natural gas (Mmcf)	41,585	86,406
Total (Mboe)	11,644	22,153
<b>Average sales price, net of hedging:</b>		
Oil (per Bbl)	\$ 62.54	\$ 49.00
Natural Gas (per Mcf)	7.75	7.62
Total (per Boe)	47.73	46.87
<b>Production expense (per Boe)</b>	<b>\$ 7.67</b>	<b>\$ 7.31</b>

**Table of Contents****Index to Financial Statements****Comparative Per Share Data**

The following table sets forth (a) the historical income from continuing operations and book value per share of EPL common stock in comparison to the pro forma income from continuing operations and book value per share after giving effect to the merger as a purchase of Stone and (b) the historical income from continuing operations and book value per share of Stone common stock in comparison with the equivalent pro forma income from continuing operations and book value per share attributable to the shares of EPL common stock which will be issued for each share of Stone (assuming each Stone stockholder receives 50% of the merger consideration in stock and 50% of the merger consideration in cash). Neither EPL nor Stone has declared dividends on their common stock since their respective formations. The information presented in this table should be read in conjunction with (i) the pro forma combined financial statements appearing elsewhere herein, (ii) the financial statements of EPL and the notes thereto incorporated by reference herein and (iii) the financial statements of Stone and the notes thereto appearing elsewhere herein.

	Six Months Ended	Year Ended
	June 30, 2006	December 31, 2005
Historical EPL		
Earnings Per Share:		
Basic	\$ 0.72	\$ 1.94
Diluted	\$ 0.68	\$ 1.79
Book Value Per Share Diluted	\$ 10.84	\$ 9.68
Historical Stone		
Earnings Per Share:		
Basic	\$ 0.83	\$ 5.07
Diluted	\$ 0.83	\$ 5.02
Book Value Per Share Diluted	\$ 35.93	\$ 34.65
Pro Forma Combined (unaudited)		
Earnings (Loss) Per Share:		
Basic	\$ (0.48)	\$ (0.42)
Diluted	\$ (0.48)	\$ (0.42)
Book Value Per Share Diluted	\$ 14.96	\$ 14.21

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**RISK FACTORS**

*You should consider carefully the following risk factors, together with all of the other information included in, or incorporated by reference into, this document before deciding how to vote. This document also contains forward-looking statements that involve risks and uncertainties. Please read Cautionary Statements Concerning Forward-Looking Statements.*

**Risks Relating to the Merger**

**Stone stockholders may receive merger consideration that is inconsistent with their elections.**

Although Stone stockholders will be able to elect to receive cash or EPL common stock for their shares, the merger agreement provides that the election of cash or stock will be subject to a limit on total cash consideration of approximately \$723 million (which includes approximately \$15.1 million attributable to stock options) and a limit on the total number of EPL shares issued of approximately 35 million. Because of this limitation, if you elect to receive cash, your election may be re-allocated if the total cash elections exceed approximately \$723 million. Conversely, if you elect to receive EPL common stock, your election may be re-allocated if the total stock elections exceed approximately 35 million shares.

For a more detailed description of the merger consideration, see Terms of the Merger Agreement Manner and Basis of Converting Shares Stockholder Elections; Allocation; Proration Procedures beginning on page 103.

**Research and Development**

The Company accounts for research and development costs by expensing such costs to operations as incurred. Research and development costs primarily consist of personnel costs, outsourced research activities including pre-clinical and clinical trial services and manufacturing services, laboratory supplies, and license fees.

Nonrefundable advance payments for goods or services to be received in the future for use in research and development activities are deferred and capitalized. The capitalized amounts will be expensed as the related goods are delivered or the services are performed. If expectations change such that the Company does not expect it will need the goods to be delivered or the services to be rendered, capitalized nonrefundable advance payments would be charged to expense.

**Stock-Based Compensation**

The Company recognizes, as expense, the grant date fair value of all share-based payments to employees. The Company accounts for transactions in which services are received from non-employees in exchange for equity instruments based on the estimated fair value of such services received or of the equity instruments issued, whichever is more reliably measured. The fair value of unvested non-employee awards are remeasured at each reporting period and expensed over the vesting term of the underlying stock options.

**Segment Information**

The Company makes operating decisions based on performance of the enterprise as a whole and uses the financial statements for decision making. The Company operates in one business segment, which focuses on drug discovery and development.

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**Net Income (Loss) Per Common Share**

Net income (loss) per common share is calculated using the two-class method, which is an earnings allocation formula that determines net income (loss) per share for the holders of the Company's common shares and participating securities. All series of Preferred Stock, excluding the Former Operating Company's Series A Convertible Preferred Stock, contain participation rights in any dividend paid by the Company and are deemed to be participating securities. Net income available to common shareholders and participating convertible preferred shares is allocated to each share on an as-converted basis as if all of the earnings for the period had been distributed. The participating securities do not include a contractual obligation to share in losses of the Company and are not included in the calculation of net loss per share in the periods that have a net loss.

Diluted net income per share is computed using the more dilutive of (a) the two-class method, or (b) the if-converted method. The Company allocates net income first to preferred stockholders based on dividend rights and then to common and preferred stockholders based on ownership interests. The weighted-average number of common shares outstanding gives effect to all potentially dilutive common equivalent shares, including outstanding stock options, warrants, and potential issuance of stock upon the issuance of Series A-6 Convertible Preferred Stock (Series A-6) as settlement of the liability to Nordic Bioscience (Nordic). Common equivalent shares are excluded from the computation of diluted net income (loss) per share if their effect is anti-dilutive.

**Income Taxes**

The Company accounts for income taxes under the liability method. Deferred tax assets and liabilities are determined based on differences between financial reporting and income tax basis of assets and liabilities, as well as net operating loss carryforwards, and are measured using the enacted tax laws that will be in effect when the differences reverse. Deferred tax assets are reduced by a valuation allowance to reflect the uncertainty associated with their ultimate realization. The effect on deferred taxes of a change in tax rate is recognized in income or loss in the period that includes the enactment date.

The Company uses judgment to determine the recognition threshold and measurement attribute for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. Any material interest and penalties related to unrecognized tax benefits are recognized in income tax expense.

Due to uncertainty surrounding the realization of the favorable tax attributes in future tax returns, the Company has recorded a full valuation allowance against otherwise realizable net deferred tax assets as of September 30, 2011 and December 31, 2010.

**Comprehensive Income (Loss)**

All components of comprehensive income (loss) are required to be disclosed in the condensed financial statements. Comprehensive income (loss) is defined as the change in equity of a business enterprise during a period from transactions, and other events and circumstances from non-owner sources and consists of net loss and changes in unrealized gains and losses on available-for-sale securities. Comprehensive loss was



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calculated as follows (in thousands):

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2011	2010	2011	2010
Net loss	\$ (9,424)	\$ (4,550)	\$ (32,021)	\$ (10,341)
Unrealized (loss) gain on marketable securities		(3)	3	(18)
Comprehensive loss	\$ (9,424)	\$ (4,553)	\$ (32,018)	\$ (10,355)

**Recently Adopted Accounting Standard**

In October 2009, the FASB issued ASU 2009-13. ASU 2009-13 amends existing revenue recognition accounting pronouncements that are currently within the scope of FASB ASC Subtopic 605-25 (previously included within EITF 00-21, *Revenue Arrangements with Multiple Deliverables* ( EITF 00-21 ). The consensus to ASU 2009-13 provides accounting principles and application guidance on whether multiple deliverables exist, how the arrangement should be separated, and the consideration allocated. This guidance eliminates the requirement to establish the fair value of undelivered products and services and instead provides for separate revenue recognition based upon management's estimate of the selling price for an undelivered item when there is no other means to determine the fair value of that undelivered item. EITF 00-21 previously required that the fair value of the undelivered item be the price of the item either sold in a separate transaction between unrelated third parties or the price charged for each item when the item is sold separately by the vendor. Under EITF 00-21, if the fair value of all of the elements in the arrangement was not determinable, then revenue was deferred until all of the items were delivered or fair value was determined. This new approach is effective prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after June

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15, 2010. On January 1, 2011, the Company adopted ASU 2009-13 on a prospective basis. The adoption did not have a material impact on the Company's financial position or results of operations, but could have an impact on how the Company accounts for any future collaboration agreements, should the Company enter into any such agreements in the future.

**New Accounting Pronouncements**

In June 2011, the Financial Accounting Standards Board issued Accounting Standard Update No. 2011-05, *Comprehensive Income* (ASU No. 2011-05), which will require companies to present the components of net income and other comprehensive income either as one continuous statement or as two consecutive statements. ASU No. 2011-05 eliminates the option to present components of other comprehensive income as part of the statement of changes in stockholders' equity. The update does not change the items which must be reported in other comprehensive income, how such items are measured or when they must be reclassified to net income. ASU No. 2011-05 is effective for interim and annual periods beginning after December 15, 2011. We do not expect ASU No. 2011-05 to have a material impact on our financial statements or results of operations.

In May 2011, FASB issued ASU No. 2011-04, *Fair Value Measurement (Topic 82) Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs* (ASU 2011-04). The amendments in this update will ensure that fair value has the same meaning in U.S. GAAP and in IFRS and that their respective fair value measurement and disclosure requirements are the same. This update is effective prospectively for interim and annual periods beginning after December 15, 2011. Early adoption by public entities is not permitted, and the Company is therefore required to adopt this ASU on January 1, 2012. The Company has not completed its review of ASU 2011-04, but it does not expect the adoption to have a material impact on the Company's results of operations, financial position or cash flows.

**4. Recapitalization**

Subsequent to the Reverse Stock Split and prior to the Merger, the Former Operating Company underwent a recapitalization pursuant to which the preferred stock of the Company (Series A Convertible Preferred Stock (Series A), Series B Convertible Preferred Stock (Series B), and Series C Convertible Preferred Stock (Series C), collectively Old Preferred Stock) was exchanged for a new series of convertible preferred stock (Series A-2 Convertible Preferred Stock (Series A-2), Series A-3 Convertible Preferred Stock (Series A-3), Series A-4 Convertible Preferred Stock (Series A-4), collectively with Series A-5 Convertible Preferred Stock (Series A-5), New Preferred Stock) to the extent that the existing stockholder participated in the Series A-1 Financing in an amount at least at the level its Pro Rata Share, as defined in the Purchase Agreement. According to the amended Articles of Incorporation of the Former Operating Company, stockholders who did not participate in the Series A-1 Financing in an amount at least equal to their Pro Rata Share amount were subject to a forced conversion (the Forced Conversion) to common stock, at a rate of 1 share of common stock for every 5 shares of old preferred stock to be so converted. As a result, 21,661 shares of Series A, 177,697 shares of Series B and 314,496 shares of Series C converted into 102,767 shares of the Company's common stock on May 17, 2011.

The 9,832,133 shares of Series C convertible preferred stock that remained outstanding after the Forced Conversion, were recapitalized and exchanged for 9,832,133 shares of Series A-2, the 1,422,300 shares of Series B convertible preferred stock that remained outstanding after the Forced Conversion, were recapitalized and exchanged for 1,422,300 shares of Series A-3, and the 40,003 shares of Series A convertible preferred stock that remained outstanding after the Forced Conversion, were exchanged for 40,003 shares of Series A-4. All prior dividends that had accrued on the original Series B and Series C Preferred Stock through May 17, 2011 were forfeited by the holders as part of the recapitalization. In addition, the holders of the original Series B and Series C Preferred Stock waived their contingent redemption rights on such shares.

Certain investors participated in the Series A-1 Financing in an amount in excess of their Pro Rata Share amount and as consideration for investing such excess amount, received that number of additional shares of Series A-1 as set forth within the Purchase Agreement. The Former Operating Company issued 1,327,506 additional shares of Series A-1 in exchange for this additional investment.

In accordance with the Purchase Agreement, the Company received net cash proceeds of \$20.7 million as consideration for the issuance of 3,959,351 shares of Series A-1 through September 30, 2011. The issuance of the additional shares did not generate a beneficial conversion feature at the date of issuance or at September 30, 2011.

Subsequent to the recapitalization and financing, pursuant to the Merger, each outstanding share of preferred stock was converted into the right to receive one-tenth of one share of Preferred Stock. After the recapitalization, Series A-1 and Series A-5 (as described in Note 14) financings and the Merger, the Company had the following shares of preferred stock outstanding at September 30, 2011:

<b>Class</b>	<b>Number of Shares</b>
Series A-1	413,254
Series A-2	983,208
Series A-3	142,227
Series A-4	3,998
Series A-5	6,443

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The Company has accounted for the recapitalization and exchange of the Old Preferred Stock for the New Preferred Stock as an extinguishment of the Old Preferred Stock due to the significance of the changes to the substantive contractual terms of the preferred stock, which included the forfeiture of accrued dividends on the Series A and B, the removal of the contingent redemption feature pursuant to which the Series B and Series C was redeemable at the option of the holder at a future determinable date, and the addition of a mandatory conversion provision to common stock upon the listing of the Company's Common Stock on a national securities exchange, among other changes. Refer to Note 11 for the rights and preferences on the New Preferred Stock. Accordingly, the Company has recorded the difference between the fair value of the new shares of Preferred Stock issued in the exchange and the carrying value of the old preferred shares as a gain of \$60.9 million that was recorded within stockholders' deficit. The Company allocated \$8.2 million to additional paid-in capital to recover the amount of additional paid-in capital that had previously been reduced by dividends accreted on Series B and Series C that was forfeited as part of the recapitalization, and the balance of \$52.7 million was recorded to accumulated deficit. The gain on extinguishment is reflected as a preferred stock redemption in the calculation of net income available to common stockholders in accordance with Accounting Standards Codification (ASC) 260 *Earnings Per Share*. The fair value of the Series A-1, Series A-2, Series A-3 and Series A-4 was determined using the probability-weighted expected return method. (See Note 7)

In connection with the Series A-1 Financing, the Former Operating Company issued to a placement agent, and in the Merger, the Company assumed, a warrant to purchase 818 shares of Series A-1 Preferred Stock. The warrant has an exercise price of \$81.42 and expires on May 17, 2016. The warrant is classified as a liability on the Company's balance sheet and was recorded as a component of the issuance costs related to the Series A-1 Financing. The Company recorded the warrant at a fair value of \$35,000, using the Black-Scholes option pricing model. The revaluation of the warrant at September 30, 2011 was not material to the financial statements.

**5. Net Income (Loss) Per Share**

Basic and diluted net income (loss) per share is calculated as follows:

(In thousands, except share and per share numbers)	Three months ended September 30,		Nine months ended September 30,	
	2011	2010	2011	2010
<b>Numerator:</b>				
Net loss	\$ (9,424)	\$ (4,550)	\$ (32,021)	\$ (10,341)
Extinguishment of preferred stock			60,937	
Accretion of preferred stock	(2,526)	(3,772)	(8,121)	(9,151)
Earnings attributable to participating preferred stockholders			(20,082)	
Earnings (loss) attributable to common stockholders - basic	(11,950)	(8,322)	713	(19,492)
Effect of dilutive convertible preferred stock				
Earnings (loss) attributable to common stockholders - diluted	\$ (11,950)	\$ (8,322)	\$ 713	\$ (19,492)
<b>Denominator:</b>				
Weighted-average number of common shares used in earnings (loss) per share - basic	592,459	320,437	467,488	320,437
Effect of dilutive options to purchase common stock			416,936	
Effect of dilutive convertible preferred stock			2,522,191	
Weighted-average number of common shares used in earnings (loss) per share - diluted	592,459	320,437	3,406,615	320,437

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Earnings (loss) per share - basic	\$	(20.17)	\$	(25.97)	\$	1.53	\$	(60.83)
Effect of dilutive options to purchase common stock						(0.72)		
Effect of dilutive convertible preferred stock						(0.60)		
Earnings (loss) per share - diluted	\$	(20.17)	\$	(25.97)	\$	0.21	\$	(60.83)

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The following potentially dilutive securities, prior to the use of the treasury stock method, have been excluded from the computation of diluted weighted-average shares outstanding, as they would be anti-dilutive:

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2011	2010	2011	2010
Convertible preferred stock	1,607,747	11,808,290	6,666,555	11,808,290
Options to purchase common stock	1,282,165	1,215,845	278,810	1,215,845
Warrants	4,154	1,333	4,154	1,333

**6. Marketable Securities**

Available-for-sale marketable securities and cash and cash equivalents consist of the following:

(In thousands)	Amortized Cost	September 30, 2011		Fair Value
		Gross Unrealized Gains	Gross Unrealized Losses	
Cash and cash equivalents:				
Cash	\$ 291	\$	\$	\$ 291
Money market	19,648			19,648
Total	\$ 19,939	\$	\$	\$ 19,939

There were no marketable securities at September 30, 2011.

(In thousands)	Amortized Cost	December 31, 2010		Fair Value
		Gross Unrealized Gains	Gross Unrealized Losses	
Cash and cash equivalents:				
Cash	\$ 232	\$	\$	\$ 232
Money market	6,452			6,452
Corporate commercial paper	2,892			2,892
Corporate debt securities	1,006			1,006
Total	\$ 10,582	\$	\$	\$ 10,582
Marketable securities:				
Corporate debt securities	\$ 5,023	\$	\$ (3)	\$ 5,020
Corporate commercial paper	2,948	1		2,949
Total	\$ 7,971	\$ 1	\$ (3)	\$ 7,969

There were no debt securities that had been in an unrealized loss position for more than 12 months at September 30, 2011. The Company evaluated the securities for other-than-temporary impairment based on quantitative and qualitative factors, noting none.

**7. Fair Value Measurements**

The following tables summarize the assets and liabilities measured at fair value on a recurring basis in the accompanying consolidated balance sheet as of September 30, 2011 based on the criteria discussed in Note 3:

(In thousands)	September 30, 2011			Total
	Level 1	Level 2	Level 3	
<b>Assets</b>				
Cash	\$ 291	\$	\$	\$ 291
Money market	19,648			19,648
Stock dividend other current asset			1,541	1,541
	\$ 19,939	\$	\$ 1,541	\$ 21,480

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(In thousands)	September 30, 2011			Total
	Level 1	Level 2	Level 3	
<b>Liabilities</b>				
Warrant liability	\$	\$	\$ 204	\$ 204
Other liability			7,306	7,306
	\$	\$	\$ 7,510	\$ 7,510

Fair value for Level 1 is based on quoted market prices. Fair value for Level 2 is based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active and model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the assets. Inputs are obtained from various sources including market participants, dealers and brokers.

The warrant liability represents the liability for the warrants issued to the placement agent (Note 4) and to the lenders in connection with the Loan and Security Agreement (Note 10). The warrant liability is calculated using the Black-Scholes option pricing method. This method of valuation includes using inputs such as the valuation of the Company's various classes of preferred stock, historical volatility, the term of the warrant and risk free interest rates. The fair value of the Company's shares of common and preferred stock was estimated using the probability-weighted expected return method, or PWERM, which considers the value of preferred and common stock based upon analysis of the future values for equity assuming various future outcomes. Accordingly, share value is based upon the probability-weighted present value of expected future net cash flows, considering each of the possible future events, as well as the rights and preferences of each share class. PWERM is complex as it requires numerous assumptions relating to potential future outcomes of equity, hence, the use of this method can be applied: (i) when possible future outcomes can be predicted with reasonable certainty; and (ii) when there is a complex capital structure (i.e., several classes of preferred and common stock). The Company had previously used the Option-pricing method to value its common stock. The Option-pricing method treats common stock and preferred stock as call options on the enterprise's value, with exercise prices based on the liquidation preference of the preferred stock. The Company utilized the PWERM approach in its most recent valuation based on the Company's expectations regarding the time to becoming a listed, publicly-traded entity as well as the recent Series A-1 financing and the initiation of the BA058 Injection Phase 3 study that resolved sufficient uncertainty regarding a discrete range of outcomes that could be identified and evaluated. As such the valuation of the warrant liability was determined to be a Level 3 valuation.

The other liability represents the liability to issue shares of Series A-6 to Nordic for services rendered in connection with the Company's Phase 3 clinical study of BA058 Injection (Note 14). The liability is calculated based upon the number of shares earned by Nordic through the performance of clinical trial services multiplied by the estimated fair value of the Company's Series A-6 at each reporting date. The estimated fair value of the Series A-6 is determined using the PWERM method described above.

The following table provides a roll forward of the fair value of the assets, where fair value is determined by Level 3 inputs:

(In thousands)		
Balance at January 1, 2011	\$	
Additions		1,632
Change in fair value		(91)
Balance at September 30, 2011	\$	1,541

The following table provides a roll forward of the fair value of the liabilities, where fair value is determined by Level 3 inputs:



(In thousands)

Balance at January 1, 2011	\$	
Additions		7,291
Change in fair value		219
Balance at September 30, 2011	\$	7,510

Table of Contents**8. Accrued Expenses**

Accrued expenses consist of the following:

(In thousands)	September 30, 2011	December 31, 2010
Research costs	\$ 1,653	\$ 1,913
Payroll and employee benefits	367	473
Professional fees	602	243
Vacation	79	79
Restructuring		63
Accrued interest on notes payable	86	
Total accrued expenses	\$ 2,787	\$ 2,771

**9. Commitments**

In September 2010, the Company recorded restructuring charges of \$0.2 million related to lease termination costs associated with vacating its laboratory space. The restructuring liability is included in accrued expenses in the balance sheet at December 31, 2010. All remaining payments were made by February 28, 2011.

The following table displays the restructuring activity and liability balances:

(In thousands)	
Balance at December 31, 2010	\$ 63
Payments	(63)
Balance at September 30, 2011	\$

On January 14, 2011, the Company signed a sublease agreement for office space in Cambridge, Massachusetts that expired on July 31, 2011. Monthly rental payments under this sublease were \$9,000 and the Company moved into the new space in February 2011. On July 15, 2011, the Company entered into an operating lease agreement to remain in the same Cambridge, Massachusetts location. The term of the lease is August 1, 2011 through July 31, 2014. Monthly rental payments under the new lease are approximately \$15,000 for the first 12 months and approximately \$16,000 for the 24 months thereafter.

**10. Loan and Security Agreement**

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On May 23, 2011, the Company entered into a loan and security agreement (the Loan and Security Agreement ) with Oxford Finance Corporation and General Electric Capital Corporation (collectively, the Lender ) pursuant to which the Lender agreed to lend the Company up to \$25.0 million. Upon entering into the Loan and Security Agreement, the Company borrowed \$6.3 million from the Lender ( Term Loan A ). Under the terms of the Loan and Security Agreement, the Company may, in its sole discretion, borrow from the Lender up to an additional \$6.3 million, at any time on or before November 22, 2011 ( Term Loan B ) and up to an additional \$12.5 million, at any time on or before May 22, 2012 ( Term Loan C , collectively with Term Loan A and Term Loan B, the Term Loans ). The Company's obligations under the Loan and Security Agreement are secured by a first priority security interest in substantially all of the assets of the Company.

The Company is required to pay interest on Term Loan A on a monthly basis through and including December 1, 2011. Beginning December 1, 2011 through the maturity of Term Loan A on November 22, 2014, the Company will be required to make payments of outstanding principal and interest on Term Loan A in 36 equal monthly installments. Interest is payable on Term Loan A at an annual interest rate of 10%. If the Company enters into Term Loan B or Term Loan C, interest on each term loan will accrue at an annual fixed rate equal to greater of (i) 10% or (ii) the sum of (a) the three year Treasury Rate as published the Board of Governors of the Federal Reserve System in Federal Reserve Statistical Release H.15 entitled Selected Interest Rates , plus (b) 9.19%. Payments due under Term Loan B or Term Loan C, if borrowed, are interest only, payable monthly, in arrears, for six months following the funding of each term loan, and will consist of 36 and 30 payments of principal and interest, respectively, which are payable monthly, in arrears, and all unpaid principal and accrued and unpaid interest on Term Loan B or Term Loan C would be due and payable 42 months after the funding of any each term loan.

Upon the last payment date of the amounts borrowed under the Loan and Security Agreement, whether on the maturity date of one of the Term Loans, on the date of any prepayment or on the date of acceleration in the event of a default, the Company will be

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required to pay the Lender a final payment fee equal to 3.5% of any of the Term Loans borrowed. In addition, if the Company repays all or a portion of the Term Loans prior to maturity, it will pay the Lender a prepayment fee of 3% of the total amount prepaid if the prepayment occurs prior to the first anniversary of the funding of the relevant Term Loan, 2% of the total amount prepaid if the prepayment occurs between the first and second anniversary of the funding of the relevant Term Loan, and 1% of the total amount prepaid if the prepayment occurs on or after the second anniversary of the funding of the relevant Term Loan.

Upon the occurrence of an event of default, including payment defaults, breaches of covenants, a material adverse change in the collateral, the Company's business, operations or condition (financial or otherwise) and certain levies, attachments and other restraints on the Company's business, the interest rate will be increased by five percentage points and all outstanding obligations will become immediately due and payable. The Loan and Security Agreement also contains a subjective acceleration clause, which provides the Lender the ability to demand repayment of the loan early upon a material adverse change, as defined. The portion of the Term Loan A that is not due within 12 months of September 30, 2011 has been classified as long-term, as the Company believes a material adverse change is remote.

In connection with the Loan and Security Agreement, the Company issued to the Lender a warrant to purchase 3,070 shares of the Company's Series A-1 Preferred Stock (the Warrant). The Warrant is exercisable, in whole or in part, immediately, and has a per share exercise price of \$81.42 and may be exercised on a cashless basis. The Warrant expires on May 23, 2021. The exercise price may be adjusted in the event the Company issues shares of the Series A-1 at a price lower than \$81.42 per share. The warrant is classified as a liability in the Company's balance sheet and will be remeasured at its estimated fair value at each reporting period. The changes in fair value are recorded as other income (expense) in the Statement of Operations.

The initial fair value of the Warrant issued in connection with Term Loan A was \$0.2 million and was recorded as a discount to Term Loan A. The fair value of the warrant at September 30, 2011 was \$0.2 million. The Company also paid the Lender a facility fee of \$0.3 million and reimbursed the Lender certain costs associated with the Loan and Security Agreement of \$0.1 million, both of which were also recorded as a discount to Term Loan A. The discount is being amortized to interest expense over the 42 month period that Term Loan A is outstanding using the effective interest method.

Future principal payments under the Loan and Security Agreement at September 30, 2011, are as follows:

<b>(In thousands)</b>		
2011	\$	156
2012		1,875
2013		1,875
2014		2,344
Total	\$	6,250

**11. Convertible Preferred Stock**

The rights, preferences, and privileges of the Series A-1, Series A-2, Series A-3, Series A-4, Series A-5 and Series A-6 are as follows:

## Conversion

Each preferred stockholder has the right, at their option at any time, to convert any such shares of Preferred Stock into such number of fully paid shares as is determined by dividing the original purchase price of \$81.42 by the conversion price ( *Optional Conversion* ). The conversion price of the Preferred Stock as of September 30, 2011 was \$8.142 per share (the *Conversion Price* ), which represents a conversion ratio of one share of Preferred Stock into ten shares of Common Stock. Upon the *Optional Conversion*, the holder of the converted Preferred Stock is entitled to payment of all accrued, whether or not declared, but unpaid dividend in shares of the Common Stock of the Company at the then effective conversion price of shares of Preferred Stock.

In the event an investor does not timely and completely fulfill their future funding obligations as defined in the Purchase Agreement (as described in Note 3) (i) the shares of Preferred Stock then held by the investor automatically convert into shares of the Company's common stock at a rate of one share of common stock for every ten shares of Preferred Stock to be converted and (ii) the Company has the right to repurchase all of the shares of Common Stock issued upon conversion at a purchase price equal to the par value of the repurchased shares of Common Stock ( *Subsequent Closing Adjustment* ). Upon a *Subsequent Closing Adjustment*, the holder of the converted Preferred Stock is entitled to payment of any declared, accrued, but unpaid dividends in shares of the Common Stock of the Company.

Each share of Preferred Stock is automatically convertible into fully paid and non-assessable shares of Common Stock at the applicable *Conversion Price* then in effect upon (i) a vote of the holders of at least 70% of the outstanding shares of Series A-1,

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Series A-2 and Series A-3 to convert all shares of Preferred Stock or (ii) the Common Stock becoming listed for trading on a national stock exchange ( Special Mandatory Conversion ). Upon a Special Mandatory Conversion, all accrued, whether or not declared, but unpaid dividends shall be paid in cash or shares at the discretion of the Company's Board of Directors, at the then effective conversion price of shares of Preferred Stock.

**Redemption**

The shares of Preferred Stock are not currently redeemable.

**Dividends**

Holders of shares of Series A-1 are entitled to receive dividends at a rate of 8% per annum, compounding annually, which accrue on a quarterly basis commencing on the date of issuance of the shares of Series A-1. Dividends are payable, as accrued, upon liquidation, event of sale, and conversion to common stock as described above. The holders of shares of Series A-1 are also entitled to dividends declared or paid on any shares of Common Stock.

Following payment in full of required dividends to the holders of Series A-1, holders of Series A-2 are entitled to receive dividends at a rate of 8% per annum, compounding annually, which accrue on a quarterly basis commencing on the date of issuance of the shares of Series A-2. Dividends are payable, as accrued, upon liquidation, event of sale, and conversion to common stock as described above. The holders of shares of Series A-2 are also entitled to dividends declared or paid on any shares of Common Stock.

Following payment in full of required dividends to the holders of Series A-1 and Series A-2, holders of Series A-3 are entitled to receive dividends at a rate of 8% per annum, compounding annually, which accrue on a quarterly basis commencing on the date of issuance of the shares of Series A-3. Holders of Series A-5 are entitled to receive the Series A-5 Accruing Dividend paid in shares of Series A-6 as described in Note 14. Holders of shares of Series A-6 are entitled to receive dividends on shares of Series A-6, when and if declared by the Board of Directors at a rate to be determined by the Board of Directors. Dividends are payable, as accrued, upon liquidation, event of sale and conversion to Common Stock as described above. The holders of shares of Series A-3, A-5 and A-6 are also entitled to dividends declared or paid on any shares of Common Stock.

Following payment in full of required dividends to the holders of Series A-1, Series A-2, Series A-3, and Series A-5, holders of Series A-4 are entitled to receive dividends on shares of Series A-4, when and if declared by the Board of Directors at a rate to be determined by the Board of Directors. Dividends are payable, as accrued, upon liquidation, event of sale, and conversion to Common Stock as described above. The holders of shares of Series A-4 are also entitled to dividends declared or paid on any shares of Common Stock.

Dividends on the Preferred Stock are payable, at the sole discretion of the Board of Directors, in cash or in shares of the Company's common stock, when and if declared by the Board of Directors, upon liquidation or upon an event of sale at the current market price of shares of common stock. Upon conversion, dividends are payable in shares of the common stock at the then effective conversion price of shares of Preferred Stock.

The Company has accrued dividends of \$1.0 million, \$2.4 million and \$0.4 million on Series A-1, A-2 and A-3, respectively, as of September 30, 2011.

### **Voting**

The preferred stockholders are entitled to vote together with the holders of the Common Stock as one class on an as-if converted basis.

In addition, as long as the shares of Series A-1 are outstanding, the holders of Series A-1, voting as a separate class, have the right to elect two members of the Company's Board of Directors.

### **Liquidation**

The shares of Series A-1 rank senior to all other classes of Preferred Stock. Series A-2 ranks junior to Series A-1 and senior to Series A-3, Series A-4, Series A-5 and Series A-6. Series A-3, Series A-5 and Series A-6 rank equally but junior to Series A-1 and Series A-2 and senior to Series A-4. Series A-4 ranks senior to the Company's Common Stock.

In the event of a liquidation, dissolution, or winding-up of the Company, the holders of the Series A-1 are entitled to be paid first out of the assets available for distribution, before any payment is made to the Series A-2, Series A-3, Series A-4, Series A-5 and Series A-6. Payment to the holders of Series A-1 shall consist of the original issuance price of \$81.42, plus all accrued but unpaid dividends. After the distribution to the holders Series A-1, the holders of Series A-2, will be entitled to receive an amount per share

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equal to the original purchase price per share of \$81.42, plus any accrued but unpaid dividends. After the distribution to the holders Series A-1 and Series A-2, the holders of Series A-3, Series A-5 and Series A-6, will be entitled to receive an amount per share equal to the original purchase price per share of \$81.42, plus any accrued but unpaid or declared and unpaid dividends, as appropriate. After the distribution to the holders Series A-1, Series A-2, Series A-3, Series A-5 and Series A-6, the holders of Series A-4 will be entitled to receive an amount per share equal to the original purchase price per share of \$81.42, plus any declared and unpaid dividends. If the assets of the Company are insufficient to pay the full preferential amounts to the holders of Series A-1, the assets will be distributed ratably among the holders of Series A-1 in proportion to their aggregate liquidation preference amounts. If the assets of the Company are insufficient to pay the full preferential amounts to the holders of Series A-2, the assets will be distributed ratably among the holders of Series A-2 in proportion to their aggregate liquidation preference amounts. If the assets of the Company are insufficient to pay the full preferential amounts to the holders of Series A-3, Series A-5 and Series A-6, the assets will be distributed ratably among the holders of Series A-3, Series A-5 and Series A-6 in proportion to their aggregate liquidation preference amounts. If the assets of the Company are insufficient to pay the full preferential amounts to the holders of Series A-4, the assets will be distributed ratably among the holders of Series A-4 in proportion to their aggregate liquidation preference amounts. After all liquidation preference payments have been made to the holders of the Preferred Stock, the holders of the Preferred Stock shall participate in the distribution of the remaining assets with the holders of the Company's Common Stock on an as-if converted basis.

In the event of, and simultaneously with, the closing of an event of sale of the Company (as defined in the Company's Amended Articles of Incorporation), the Company shall redeem all of the shares of Series A-1, Series A-2, Series A-3, Series A-4, Series A-5 and Series A-6 then outstanding at the Special Liquidation Price, as defined. If the event of sale involves consideration other than cash, the Special Liquidation Price may be paid with such consideration having a value equal to the Special Liquidation Price. The Special Liquidation Price shall be equal to an amount per share, which would be received by each Preferred Stockholder if, in connection with the event of sale, all the consideration paid in exchange for the assets or the shares of capital stock of the Company was actually paid to and received by the Company, and the Company was immediately liquidated thereafter and its assets distributed pursuant to the liquidation terms above.

**Registration Rights**

In accordance with the Amended and Restated Stockholders Agreement (the "Stockholders Agreement"), the Company is required to file a registration statement with the Securities and Exchange Commission (the "SEC") covering the registration of at least 85% of the outstanding shares of the Preferred Stock within 60 days of the closing of the Merger. Pursuant to the terms of the Stockholders Agreement, if the registration statement is not filed within 60 days of the closing of the Merger or if the registration statement has not been declared effective by the SEC at the later of (i) 90 days after the closing date of the Merger or (ii) in the event the SEC reviews the registration statement and has comments, 180 days after the closing of the Merger, the Company will be required pay liquidated damages on a monthly basis equal to 1% of the aggregate purchase price paid by the holders of the Preferred Stock. The total amount of liquidated damages will be limited to 16% of the aggregate purchase price paid by the holders of the Preferred Stock.

**12. Stock-based Compensation**

*2003 Long-Term Incentive Plan*

The 2003 Long-Term Incentive Plan (the "Incentive Plan") provides for the granting of incentive stock options, nonqualified options and stock grants to key employees and consultants of the Company. The exercise price of the incentive stock options, as determined by the Board of Directors, must be at least 100% (110% in the case of incentive stock options granted to a stockholder owning in excess of 10% of the Company's common stock) of the common stock fair value as of the date of the grant. The provisions of the Incentive Plan limit the exercise of



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incentive stock options, but in no case may the exercise period extend beyond ten years from the date of grant (five years in the case of incentive stock options granted to a stockholder owning in excess of 10% of the Company's common stock). Stock options generally vest over a four-year period. The Company has authorized 2,015,666 shares of common stock for issuance under the Incentive Plan.

A summary of stock option activity is as follows:

(In thousands, except for per share amounts)	Shares	Weighted-Average Exercise Price	Weighted-Average Contractual Life (In Years)	Aggregate Intrinsic Value
Options outstanding at December 31, 2010	1,462	\$ 1.20	7.28	\$ 2,992
Granted				
Exercised	(167)	0.92		
Cancelled	(13)	1.35		
Options outstanding at September 30, 2011	1,282	1.20	6.47	2,583
Options exercisable at September 30, 2011	1,053	1.18	5.98	2,149
Options vested or expected to vest at September 30, 2011	1,274	\$ 1.20	6.47	\$ 2,568

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The total grant-date fair value of stock options that vested during the three- and nine-month periods ended September 30, 2011 was approximately \$61,000 and \$147,000, respectively. The aggregate intrinsic value of options that vested during the three- and nine-month periods ended September 30, 2011 was approximately \$218,000 and \$421,000, respectively.

As of September 30, 2011, there was approximately \$19,000 of total unrecognized compensation expense related to unvested employee share-based compensation arrangements, which is expected to be recognized over a weighted-average period of approximately 0.6 years, respectively.

During 2009 and 2010, the Company's Board of Directors granted 1,666 and 10,000 stock options, respectively, to a Scientific Advisory Board member of the Company. There were no stock options granted in the three- and nine-month periods ended September 30, 2011. The Company records stock-based compensation expense for such options as they vest, and remeasures the fair value of the options at each reporting period. During the three- and nine-month periods ended September 30, 2011, the Company recorded approximately \$18,000 and \$57,000 of stock-based compensation expense, respectively.

### **13. License Agreements**

On September 27, 2005, the Company entered into a license agreement (the "Ipsen Agreement"), as amended, with SCRAS S.A.S, a French corporation on behalf of itself and its affiliates (collectively, "Ipsen"). Under the Ipsen Agreement, Ipsen granted to the Company an exclusive right and license under certain Ipsen compound technology and related patents to research, develop, manufacture and commercialize certain compounds and related products in all countries, except Japan and (subject to certain co-marketing and co-promotion rights retained by Ipsen) France. With respect to France, if Ipsen exercises its co-marketing and co-promotion rights then Ipsen may elect to receive a percentage of the aggregate revenue from the sale of products by both parties in France (subject to a mid-double digit percentage cap) and Ipsen shall bear a corresponding percentage of the costs and expenses incurred by both parties with respect to such marketing and promotion efforts in France; Ipsen shall also pay Radius a mid-single digit royalty on Ipsen's allocable portion of aggregate revenue from the sale of products by both parties in France. BA058 (the Company's bone growth drug) is subject to the Ipsen Agreement. Ipsen also granted the Company an exclusive right and license under the Ipsen compound technology and related patents to make and have made compounds or product in Japan. Ipsen also granted the Company an exclusive right and license under certain Ipsen formulation technology and related patents solely for purposes of enabling the Company to develop, manufacture and commercialize compounds and products covered by the compound technology license in all countries, except Japan and (subject to certain co-marketing and pro-promotion rights retained by Ipsen) France. In consideration for these licenses, the Company made a nonrefundable, non-creditable payment of \$0.3 million to Ipsen, which was expensed during 2005. The Ipsen Agreement provides for further payments in the range of \$10,000,000 to \$36,000,000 to Ipsen upon the achievement of certain development and commercialization milestones specified in the Ipsen Agreement, and for the payment of fixed 5% royalties on net sales of any product by the Company or our sublicensees on a country-by-country basis until the later of the last to expire of the licensed patents or for a period of 10 years after the first commercial sale in such country of any product that includes the compound licensed from Ipsen or any analog thereof.

If the Company sublicenses the rights licensed from Ipsen, then the Company will also be required to pay Ipsen a percentage of certain payments received from such sublicensee (in lieu of milestone payments not achieved at the time of such sublicense). The applicable percentage is in the low double digit range. In addition, if we or our sublicensees commercialize a product that includes a compound discovered by us based on or derived from confidential Ipsen know-how, we will be obligated to pay to Ipsen a fixed low single digit royalty on net sales of such product on a country-by-country basis until the later of the last to expire of our patents that cover such product or for a period of 10 years after the first commercial sale of such product in such country. In connection with the Ipsen Agreement, the Company recorded approximately \$0.4 million, \$0.6 million, \$0.7 million, and \$0.6 million in research and developments costs in the three-month periods ended September 30, 2011 and 2010, and the nine-month periods ended September 30, 2011 and 2010, respectively. The costs were incurred by Ipsen and charged to the Company for the manufacture of the clinical supply of the licensed compound.

On May 11, 2011, the Company entered into a second amendment to the Ipsen Agreement pursuant to which Ipsen agreed to accept shares of Series A-1 in lieu of cash as consideration for a milestone payment due to Ipsen following the initiation of the first BA058 Phase 3 study. The number of shares of Series A-1 to be issued to Ipsen was determined based upon the U.S. dollar exchange rate for the euro two business days prior to closing. On May 17, 2011, the Company issued 17,326 shares of Series A-1 to Ipsen to settle the obligation. Accordingly, the Company recorded research and development expense of \$1.4 million during the three-month period ended June 30, 2011. The expense represents the fair value of the Series A-1 shares of \$81.42 per share.

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**14. Research Agreements**

The Company entered into a letter of intent with Nordic (the Letter of Intent ) on September 3, 2010, pursuant to which it funded preparatory work by Nordic in respect of a Phase 3 clinical study of BA058 Injection. The Letter of Intent was extended on December 15, 2010 and on January 31, 2011. On March 29, 2011, the Company and Nordic entered into a Clinical Trial Services Agreement, a Work Statement NB-1 (the Work Statement ) under such Clinical Trial Services Agreement and a related Stock Issuance Agreement. Pursuant to the Work Statement, Nordic is managing the Phase 3 clinical study (the Clinical Study ) of BA058 Injection and Nordic will be compensated for such services in a combination of cash and shares of Series A-6.

Pursuant to the Work Statement, the Company is required to make certain per patient payments denominated in both euros and U.S. dollars for each patient enrolled in the Clinical Study followed by monthly payments for the duration of the study and final payments in two equal euro-denominated installments and two equal U.S. Dollar-denominated installments. Changes to the Clinical Study schedule may alter the timing, but not the aggregate amounts, of the payments. The Work Statement provides for a total of 33.9 million of euro-denominated payments and 4.9 million of U.S. Dollar-denominated payments over the course of the Clinical Study.

Pursuant to the Stock Issuance Agreement, Nordic agreed to purchase the equivalent of 0.4 million of Series A-5 Preferred Stock at \$8.142 per share. 64,430 shares of Series A-5 were issued to Nordic on May 17, 2011, which generated proceeds of \$0.5 million to the Company. These shares were exchanged in the Merger for an aggregate of 6,443 shares of Series A-5 through a reverse stock split.

The Stock Issuance Agreement provides that Nordic is entitled to receive quarterly stock dividends, payable in shares of Series A-6, having an aggregate value of up to 36.8 million (the Series A-5 Accruing Dividend ). This right to receive the Series A-5 Accruing Dividend is non-transferrable and will remain with Nordic in the event it sells the shares of Series A-5 or in the event the shares of Series A-5 are converted into common stock in accordance with the Company's amended Articles of Incorporation.

The Series A-5 Accruing Dividend is determined based upon the estimated period that will be required to complete the Clinical Study. On the last Business Day of each calendar quarter (each, an Accrual Date ), beginning with the quarter ended June 30, 2011, the Company has a liability to issue shares of Series A-6 to Nordic that is referred to as the Applicable Quarterly Amount and is equal to (A) 36.8 million minus the aggregate value of any prior Series A-5 Accruing Dividend accrued divided by (B) the number of calendar quarters it will take to complete the Clinical Study. To calculate the aggregate number of shares of Series A-6 due to Nordic in each calendar quarter, the Company converts the portion of 36.8 million to accrue in such calendar quarter into U.S. dollars using the simple average of the exchange rate for buying U.S. dollars with euros for all Mondays in such calendar quarter. The Company then calculates the aggregate number of shares of Series A-6 to accrue in such calendar quarter by dividing the U.S. dollar equivalent of the Applicable Quarterly Amount, by the fair market value as of the applicable Accrual Date, and rounding down the resulting quotient to the nearest whole number. Such shares due to Nordic will be issued when declared or paid by the Company's Board of Directors, who are required to do so upon Nordic's request, or upon an event of sale. As of September 30, 2011, 115,974 shares of Series A-6 are due to Nordic.

Prior to the issuance of shares of Series A-6 to Nordic, the liability to issue shares of Series A-6 will be accounted for as a liability in the Company's Balance Sheet. As of September 30, 2011, the fair value of the liability was \$7.3 million based upon the fair value of the Series A-6 as determined using PWERM. Changes in the value from the date of accrual to the date of issuance of the shares are recorded as a gain or loss in other income (expense) in the Statement of Operations.

The Company recognizes research and development expense for the amounts due to Nordic under the Work Statement ratably over the estimated per patient treatment period beginning upon enrollment in the Clinical Study, or a twenty-month period. The Company recorded \$10.6 million of research and development expense in the nine-month period ended September 30, 2011 reflecting costs incurred for preparatory and other start-up costs to initiate the Clinical Study in April 2011. The Company recorded an additional \$2.0 million of research and development expense in the nine-month period ended September 30, 2011 for per patient costs incurred for patients that had enrolled in the Clinical Study as of September 30, 2011. As of September 30, 2011, in addition to the \$7.3 million liability that is reflected in other liabilities on the Balance Sheet that will be settled in shares of Series A-6, as noted above, the Company has an asset resulting from payments to Nordic of approximately \$3.2 million that is included in prepaid expenses on the Balance Sheet.

The Company is also responsible for certain pass through costs in connection with the Clinical Study. Pass through costs are expensed as incurred or upon delivery. The Company recognized research and development expense of \$2.5 million and \$4.9 million for pass through costs in the three- and nine-month periods ended September 30, 2011, respectively.

#### **15. Subsequent Event**

As discussed in Note 1 and Note 2, the Company is obligated to issue and sell 789,553 additional shares of Series A-1 in two

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stages. On October 26, 2011, the Company initiated the Stage II Closing of the Series A-1 Financing. Investors were notified by the Company of the Stage II Closing, which will occur on November 18, 2011. At the closing, the Company will issue 263,178 shares of Series A-1 each at a purchase price per share of \$81.42, totaling cash proceeds of \$21.4 million.

**Item 2. Management's Discussion and Analysis of Financial Condition and results of Operation**

***Cautionary Statement***

*This Quarterly Report on Form 10-Q, including the information incorporated by reference herein, contains, in addition to historical information, forward-looking statements. We may, in some cases, use words such as project, believe, anticipate, plan, expect, estimate, intend, continue, should, would, could, potentially, will, may or similar words and expressions that convey uncertainty of future events or outcomes to identify these forward-looking statements. Forward-looking statements in this Quarterly Report on Form 10-Q may include, among other things, statements about:*

- the progress of, timing of and amount of expenses associated with our research, development and commercialization activities;*
  
- the success of our clinical studies for our product candidates;*
  
- our ability to obtain U.S. and foreign regulatory approval for our product candidates and the ability of our product candidates to meet existing or future regulatory standards;*
  
- our expectations regarding federal, state and foreign regulatory requirements;*
  
- the therapeutic benefits and effectiveness of our product candidates;*
  
- the safety profile and related adverse events of our product candidates;*
  
- our ability to manufacture sufficient amounts of BA058, RAD1901, and RAD140 for commercialization activities with target characteristics;*
  
- our plans with respect to collaborations and licenses related to the development, manufacture or sale of our product candidates;*

- our expectations as to future financial performance, expense levels and liquidity sources;
- our ability to compete with other companies that are or may be developing or selling products that are competitive with our product candidates;
- anticipated trends and challenges in our potential markets;
- our ability to attract and motivate key personnel; and
- other factors discussed elsewhere in this Quarterly Report on Form 10-Q.

*The outcome of the events described in these forward-looking statements is subject to known and unknown risks, uncertainties and other factors that could cause actual results to differ materially from the results anticipated by these forward-looking statements. These important factors include our financial performance, our ability to attract and retain customers, our development activities and those factors we discuss in this Quarterly Report on Form 10-Q and in our Current Report on Form 8-K filed with the SEC on May 23, 2011 and amended on July 20, 2011 under the caption Risk Factors. You should read these factors and the other cautionary statements made in this Quarterly Report on Form 10-Q as being applicable to all related forward-looking statements wherever they appear in this Quarterly Report on Form 10-Q. These risk factors are not exhaustive and other sections of this Quarterly Report on Form 10-Q may include additional factors which could adversely impact our business and financial performance.*

You should read the following discussion of our financial condition and results of operations in conjunction with our financial statements and related notes set forth in this report. Unless the context otherwise requires, we, , our, us and similar expressions used in this Management s Discussion and Analysis of Financial Condition and Results of Operation section refer to Radius Health, Inc., a Delaware corporation ( Radius ).

## Overview

We are a pharmaceutical company focused on acquiring and developing new therapeutics for the treatment of osteoporosis

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and other women's health conditions. We have three product candidates in development, the most advanced is BA058 Injection that has begun dosing of patients in a pivotal Phase 3 clinical study for the prevention of fractures in women suffering from osteoporosis. We are also developing the BA058 Microneedle Patch, a short wear time, transdermal form of BA058 that is based on a microneedle technology from 3M that is currently being studied in a Phase 1b clinical study. We believe that the BA058 Microneedle Patch may eliminate the need for injections and lead to better treatment compliance for patients. Our second clinical stage product candidate is RAD1901 which has completed an initial Phase 2 clinical study for the treatment of vasomotor symptoms, commonly known as hot flashes, in women entering menopause. Our third product candidate, RAD140, in pre-IND discovery, is a potential treatment for age-related muscle loss, frailty, weight loss associated with cancer cachexia and osteoporosis.

BA058 is a novel synthetic peptide analog of Parathyroid hormone-related peptide (hPTHrP) being developed by us as a bone anabolic treatment for osteoporosis. hPTHrP is a critical cytokine for the regulation of bone formation, able to rebuild bone with low associated risk of inducing hypercalcemia as a side-effect. In August 2009, we announced positive Phase 2 data that showed BA058 Injection produced faster and greater bone mineral density (BMD) increases at the spine and the hip after 6 months and 12 months of treatment than did Forteo®, which was a comparator in our study. Key findings were that the highest dose of BA058 tested of 80 µg increased mean lumbar spine BMD at 6 and 12 months by 6.7% and 12.9% compared to the increases seen with Forteo® trial arms of 5.5% and 8.6%, respectively. BA058 also produced increases in mean femoral neck BMD at the hip at 6 and 12 months of 3.1% and 4.1% compared to increases for Forteo® of 1.1% and 2.2%, respectively. We believe there to be a strong correlation between an increased level of BMD and a reduction in the risk of fracture for patients with osteoporosis. BA058 was generally safe and well tolerated in this study, with adverse events similar between the BA058, placebo and Forteo® groups. In addition, the occurrence of hypercalcemia as a side-effect was half that seen with Forteo® for the 80 µg dose of BA058. In April 2011, we began dosing of patients in a pivotal Phase 3 clinical study managed by Nordic and expect to report top-line data from this study in the first quarter of 2014. Our planned Phase 3 study will enroll a total of 2,400 patients to be randomized equally to receive daily doses of one of the following: 80 micrograms (µg) of BA058, a matching placebo, or the approved dose of 20 µg of Forteo® for 18 months. The study is powered to show that BA058 is superior to (i) placebo for fracture and (ii) Forteo® for greater BMD improvement at major skeletal sites and for a lower occurrence of hypercalcemia, a condition in which the calcium level in a patient's blood is above normal.

On May 17, 2011, the Merger and the Short-Form Merger were consummated whereby we, then a public shell company, was merged with the Former Operating Company. Our efforts and resources are focused primarily on acquiring and developing BA058 and our other pharmaceutical product candidates, raising capital and recruiting personnel. We have no product sales to date and we will not receive any product sales until we receive approval for BA058 Injection from the FDA, or equivalent foreign regulatory bodies. However, developing pharmaceutical products is a lengthy and very expensive process. Assuming we do not encounter any unforeseen delays during the course of developing BA058, we do not expect to complete development and file for marketing approval in the United States for BA058 Injection and BA058 Microneedle Patch until approximately late 2014 and 2016, respectively. Accordingly, our success depends not only on the safety and efficacy of BA058, but also on our ability to finance the development of these products, which will require substantial additional funding to complete development and file for marketing approval. Our ability to raise this additional financing will depend on our ability to execute on the BA058 development plan, complete patient enrollment in clinical studies in a timely fashion, manage and coordinate on a cost-effective basis all the required components of the BA058 Injection NDA package and scale-up the BA058 Microneedle Patch manufacturing capacity, as well as overall capital market conditions for development-stage companies.

In addition, we currently have no sales, marketing or distribution capabilities and thus our ability to market BA058 will depend in part on our ability to enter into and maintain collaborative relationships for such capabilities, the collaborator's strategic interest in the products under development and such collaborator's ability to successfully market and sell any such products. Our ability to secure a collaborator for BA058 will depend on the strength of our clinical data. However, we believe that there are certain favorable trends that will interest third parties to collaborate on BA058 including, increasing prevalence of osteoporosis due to an increase in the elderly population in most developed countries, increased availability and reimbursement of diagnostic facilities, growing physician and patient awareness regarding the importance of treating osteoporosis, and concerns regarding the long term safety profiles of the bisphosphonates prompting physicians to be interested in new therapies for osteoporosis. We are also evaluating strategic alternatives with respect to collaborating with third parties for the future development of RAD1901 and RAD140. Our ability to further develop these product candidates will be dependent upon the outcome of our collaboration strategy.



**Recent Developments**

At the effective time of the Merger (the Effective Time ), all of the shares of the Former Operating Company s common and preferred stock, par value \$.01 per share, that were outstanding immediately prior to the Merger were cancelled and automatically converted into the right to receive one share of our Common Stock and the right to receive one-tenth of one share of our corresponding series of our Preferred Stock as consideration for the Merger. In the Merger, we assumed all options and warrants of the Former Operating Company outstanding immediately prior to the Effective Time. Prior to the Merger, pursuant to the terms of a Redemption Agreement dated April 25, 2011, we completed the repurchase of all of our capital stock issued and outstanding immediately prior to the Merger. Upon completion of the Merger and the Redemption, the former stockholders of the Former

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Operating Company held 100% of the outstanding shares of our capital stock. Pursuant to the Merger, we assumed all of the Former Operating Company's obligations under its existing contracts, including those filed herewith as material contracts. In particular, we assumed the rights and obligations of the Former Operating Company under that certain Purchase Agreement pursuant to which, among other things, Company agreed to issue and sell to the Investors up to an aggregate of 7,895,535 shares of Series A-1, to be completed in three closings (as described above in the notes to our unaudited condensed financial statements included in this Quarterly Report on Form 10-Q). Upon notice from the Company, the Investors are obligated to purchase, and we are obligated to issue, 263,178 shares of our Series A-1 at the Stage II Closing and 263,180 shares of our Series A-1 at the Stage III Closing, each at a purchase price per share of \$81.42. There are no conditions to funding if we notify the Investors of any such closing. As a final step in the reverse merger process, the Company completed a short-form merger with the Former Operating Company and changed its name to Radius Health, Inc.

**Financial Overview**

*Research and Development Expenses*

Research and development expenses consist primarily of salaries and related personnel costs, fees paid to consultants and outside service providers for regulatory and quality assurance support, licensing of drug compounds, and other expenses relating to the manufacture, development, testing and enhancement of our product candidates. We expense our research and development cost as they are incurred.

Our lead product candidate is BA058 and it represents the largest portion of our research and development expenses for our product candidates. BA058 is a novel synthetic peptide analog of hPTHrP being developed by as a treatment for osteoporosis in both injection and transdermal routes of administration. BA058 Injection is currently in a Phase 3 study and BA058 Microneedle Patch is in a Phase 1b study. Our other clinical stage program is RAD1901, a selective estrogen receptor modulator, or SERM, which has completed an initial Phase 2 clinical study for the treatment of vasomotor symptoms, commonly known as hot flashes in women entering menopause. A Phase 2 study is designed to test the efficacy of a novel treatment and confirm the safety profile established in a Phase 1 trial. Our third product candidate, RAD140 is a selective androgen receptor modular, or SARM, is in pre-IND development.

The following table sets forth our research and development expenses related to BA058 injection, BA058 Microneedle Patch, RAD1901 and RAD140 for the three- and nine- month periods ended September 30, 2011 and 2010. No research and development expenses in relation to our product candidates are currently borne by third parties. We began tracking program expenses for BA058 Injection in 2005, and program expenses from inception to September 30, 2011 were approximately \$48,129,000. We began tracking program expenses for BA058 Microneedle Patch in 2007, and program expenses from inception to September 30, 2011 were approximately \$10,200,000. We began tracking program expenses for RAD1901 in 2006, and program expenses from inception to September 30, 2011 were approximately \$15,310,000. We began tracking program expenses for RAD140 in 2008, and program expenses from inception to September 30, 2011 were approximately \$5,164,000. These expenses relate primarily to external costs associated with manufacturing, preclinical studies and clinical trial costs.

Costs related to facilities, depreciation, share-based compensation and research and development support services are not directly charged to programs as they benefit multiple research programs that share resources.

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	Three months ended September 30,		Nine Months ended September 30,	
	2011	2010	2011	2010
	(in thousands)			
BA058 Injection	\$ 5,051	\$ 1,400	\$ 21,825	\$ 2,061
BA058 Microneedle Patch	1,985	365	4,743	1,222
RAD1901	20	559	20	1,598
RAD140		26	23	313

The majority of our external costs are spent on BA058, as costs associated with later stage clinical trials are, in most cases, more significant than those incurred in earlier stages of our pipeline. In April 2011, we began dosing of patients in a pivotal Phase 3 clinical study of BA058 Injection for the treatment of osteoporosis. In addition, in December 2010, we initiated a Phase 1b clinical study for BA058 Microneedle Patch. We expect that future development costs related to the BA058 Injection and BA058 Microneedle Patch programs will increase significantly through possible marketing approval in the United States in late 2015 and 2017. For the BA058 Injection future development costs may exceed \$160,000,000 including \$125,000,000 for clinical costs, \$18,000,000 for license and milestone payments and NDA filing fees, \$10,000,000 for preclinical costs and \$7,000,000 for manufacturing costs. For the BA058 Microneedle Patch future development costs may exceed \$50,000,000, including \$28,000,000

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for clinical costs, \$18,000,000 for manufacturing costs, \$4,000,000 for preclinical costs and NDA filing fees. We expect to finance these future development costs of BA058 with our existing cash and cash equivalents and with the additional proceeds from the second and third closings of the Series A-1 financing available and proceeds of \$18,250,000 pursuant to a loan and security agreement. In addition, our current strategy is to collaborate with third parties for the further development and commercialization of RAD1901 and RAD140 so we do not expect that that Company will incur substantial future costs for these programs as these costs will be borne by third parties. Our ability to further develop these product candidates will be dependent upon our ability to secure a third party partner and it is not possible to project the future development costs for RAD1901 and RAD140 or possible marketing approval timeline at this time.

The successful development of the BA058 Injection and BA058 Microneedle Patch is subject to numerous risks and uncertainties associated with developing drugs, including the variables listed below. A change in the outcome of any of these variables with respect to the development of any of our product candidates could mean a significant change in the costs and timing associated with the development of that product candidate.

BA058 Injection is our only product candidate in late stage development, and our business currently depends heavily on its successful development, regulatory approval and commercialization. We have no drug products for sale currently and may never be able to develop marketable drug products. We have not submitted an NDA to the FDA or comparable applications to other regulatory authorities. Obtaining approval of an NDA is an extensive, lengthy, expensive and uncertain process, and the FDA may delay, limit or deny approval of BA058 Injection for many reasons, including:

- we may not be able to demonstrate that BA058 is safe and effective as a treatment for osteoporosis to the satisfaction of the FDA;
- the results of its clinical studies may not meet the level of statistical or clinical significance required by the FDA for marketing approval;
- the FDA may disagree with the number, design, size, conduct or implementation of our clinical studies;
- the clinical research organization, or CRO, that we retain to conduct clinical studies may take actions outside of our control that materially adversely impact our clinical studies or we could experience significant delays in enrollment in any of our clinical trials;
- the FDA may not find the data from preclinical studies and clinical studies sufficient to demonstrate that BA058's clinical and other benefits outweigh its safety risks;
- the FDA may disagree with our interpretation of data from our preclinical studies and clinical studies or may require that we conduct additional studies;

- the FDA may not accept data generated at its clinical study sites;
- if our NDA is reviewed by an advisory committee, the FDA may have difficulties scheduling an advisory committee meeting in a timely manner or the advisory committee may recommend against approval of our application or may recommend that the FDA require, as a condition of approval, additional preclinical studies or clinical studies, limitations on approved labeling or distribution and use restrictions;
- the FDA may require development of a Risk Evaluation and Mitigation Strategy, or REMS, as a condition of approval;
- the FDA may identify deficiencies in the manufacturing processes or facilities of our third-party manufacturers;
- the FDA may change its approval policies or adopt new regulations.

We are unable to determine the duration and costs to be incurred by the Company to continue development of RAD1901 and RAD140 until such time as we are able to secure a third party partner to collaborate on the further development and commercialization of these products. We anticipate that we will make determinations as to which additional programs to pursue and how much funding to direct to each program on an ongoing basis in response to the scientific and clinical data of each product candidate, progress on securing a third party partner, as well as ongoing assessments of such product candidate's commercial potential and our ability to fund such product development. If we are unable to continue to fund the development of RAD1901 and/or RAD140 and are unable to secure a third party partner for these product candidates, our business will be adversely affected and we will depend solely on the successful development, regulatory approval and commercialization of the BA058 Injection and BA058 Microneedle Patch.

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*General and Administrative Expenses*

General and administrative expenses consist primarily of salaries and related expense for executive, finance and other administrative personnel, professional fees, business insurance, rent, general legal activities, and other corporate expenses. We expect our general and administrative expenses to increase as a result of higher costs associated with being a public company.

Our results include non-cash compensation expense as a result of the issuance of stock and stock option grants. Compensation expense for options granted to employees and directors (excluding directors who are also scientific advisory board member or consultants) represent the difference between the fair value of our common stock and the exercise price of the options at the date of grant. Compensation for options granted to consultants has been determined based upon the fair value of the equity instruments issued and the unvested portion of such option grants is re-measured at each reporting period. The stock-based compensation expense is included in the respective categories of expense in the statement of operations (research and development and general and administrative expenses). We expect to record additional non-cash compensation expense in the future, which may be significant.

*Interest Income and Interest Expense*

Interest income reflects interest earned on our cash, cash equivalents and marketable securities.

Interest expense reflects interest due on a Loan and Security Agreement under which we made the final payment in 2009, and interest due on a second Loan and Security Agreement which we entered into on May 23, 2011.

*Accretion of Preferred Stock*

Accretion of preferred stock reflects the periodic accretions of issuance costs, dividends and the investor rights/obligations on the Former Operating Company's Series B and C redeemable convertible preferred stock and accretion of dividends on the Former Operating Company's Series A-1, A-2 and A-3 convertible preferred stock.

**Critical Accounting Policies and Estimates**

The preparation of our financial statement requires us to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and expenses during the reported periods. We believe the following accounting policies are critical because they require us to make judgments and estimates about matters that are uncertain at the time we make the estimate, and different estimates, which would have been reasonable could have been used, which would have resulted in different financial results.

*Accrued Clinical Expenses*

As part of the process of preparing our financial statements, we are required to estimate our accrued expenses. This process involves reviewing open contracts and purchase orders, communicating with our personnel to identify services that have been performed on our behalf and estimating the level of service performed and the associated cost incurred for the service when we have not yet been invoiced or otherwise notified of actual cost. Payments under some of the contracts we have with parties depend on factors, such as the milestones accomplished, successful enrollment of certain numbers of patients, site initiation and the completion of clinical trial milestones. Examples of estimated accrued clinical expenses include:

- fees paid to investigative sites and laboratories in connection with clinical studies;
- fees paid to CROs in connection with clinical studies, if CROs are used; and
- fees paid to contract manufacturers in connection with the production of clinical study materials.

In accruing clinical expenses, we estimate the time period over which services will be performed and the level of effort to be expended in each period. If possible, we obtain information regarding unbilled services directly from these service providers. However, we may be required to estimate the cost of these services based on information available to us. If we underestimate or overestimate the cost associated with a trial or service at a given point in time, adjustments to research and development expenses may be necessary in future periods. Historically, our estimated accrued clinical expenses have approximated actual expense incurred. Subsequent changes in estimates may result in a material change in our accruals.

*Research and Development Expenses*

We account for research and development costs by expensing such costs to operations as incurred. Research and development costs primarily consist of personnel costs, outsourced research activities, laboratory supplies, and license fees.

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Nonrefundable advance payments for goods or services to be received in the future for use in research and development activities are deferred and capitalized. The capitalized amounts will be expensed as the related goods are delivered or the services are performed. If expectations change such that we do not expect we will need the goods to be delivered or the services to be rendered, capitalized nonrefundable advance payments would be charged to expense.

*Stock-based Compensation*

We recognize the compensation cost of employee stock-based awards using the straight-line method over the requisite service period of the award, which is typically the vesting period. During the three and nine months ended September 30, 2011 and 2010, we recorded approximately \$9,000, \$13,000, \$77,000, and \$70,000, respectively, of employee stock-based compensation expense. We estimate the fair value of each option award using the Black-Scholes-Merton option-pricing model.

In calculating the estimated fair value of our stock options, the Black-Scholes-Merton option-pricing model requires the consideration of the following six variables for purposes of estimating fair value:

- The stock option exercise price,
- The expected term of the option,
- The grant date price of the Company's Common Stock, which is issuable upon exercise of the option,
- The expected volatility of the Company's Common Stock,
- The expected dividends on the Company's Common Stock, and
- The risk-free rate for the expected option term.

The expected term of the stock options granted represents the period of time that options granted are expected to be outstanding. For options granted prior to January 1, 2008, the expected term was calculated using the simplified method as prescribed by the SEC's Staff Accounting Bulletin No. 107, Share-Based Payment. For options granted after January 1, 2008, we calculated the expected term using similar assumptions. The expected volatility is a measure of the amount by our stock price is expected to fluctuate during the term of the options granted. We



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determine the expected volatility based on a review of the historical volatility of similar publicly held companies in the biotechnology field over a period commensurate with the option's expected term. We have never declared or paid any cash dividends on our Common Stock and we do not expect to do so in the foreseeable future. Accordingly, we use an expected dividend yield of zero. The risk-free interest rate is the implied yield available on U.S. Treasury issues with a remaining life consistent with the option's expected term on the date of grant. We apply an estimated forfeiture rate to current period expense to recognize compensation expense only for those awards expected to vest. We estimate forfeitures based upon historical data, adjusted for known trends, and will adjust the estimate of forfeitures if actual forfeitures differ or are expected to differ from such estimates. Subsequent changes in estimated forfeitures are recognized through a cumulative adjustment in the period of change and also will impact the amount of stock-based compensation expense in future periods.

The following table presents the grant dates and related exercise prices of stock options granted from January 1, 2009 to September 30, 2011.

<b>Date of Issuance</b>	<b>Nature of Issuance</b>	<b>Number of Shares</b>	<b>Exercise or Purchase Price per Share</b>	<b>Per Share Estimated Fair Value of Common Stock(1)</b>	<b>Per Share Weighted Average Estimated Fair Value of Options(2)</b>
April 9, 2009	Option grant	9,666	\$ 1.20	\$ 1.20	\$ 0.70
December 2, 2009	Option grant	5,000	\$ 1.20	\$ 1.20	\$ 0.68
October 12, 2010	Option grant	256,666	\$ 1.35	\$ 1.35	\$ 0.76
November 30, 2010	Option grant	1,666	\$ 1.35	\$ 1.35	\$ 0.76

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(1) The per share estimated fair value of Common Stock represents the determination by our board of directors of the fair value of our Common Stock as of the date of grant, taking into account various objective and subjective factors and including the results, if applicable, of valuations of our Common Stock as discussed in the pages that follow.

(2) Our estimate of the per share weighted average fair value for stock option grants was computed based upon the Black-Scholes option-pricing model with the assumptions through December 31, 2010 as disclosed in our financial statements included elsewhere in the Registration Statement.

We have historically granted stock options at exercise prices not less than the fair value of our Common Stock as determined by our board of directors, with input from management. Our board of directors has historically determined, with input from management, the estimated fair value of our Common Stock on the date of grant based on a number of objective and subjective factors, including:

- the prices at which we sold shares of convertible Preferred Stock;
- the superior rights and preferences of securities senior to our Common Stock at the time of each grant;
- the likelihood of achieving a liquidity event such as an initial public offering or sale of our company;
- our historical operating and financial performance and the status of our research and product development efforts; and
- achievement of enterprise milestones, including our entering into collaboration and license agreements;

Our board of directors also considered valuations provided by management in determining the fair value of our Common Stock. Such valuations were prepared as of December 3, 2008, December 2, 2009, October 1, 2010, June 30, 2011, and September 30, 2011 and valued our Common Stock at \$1.05, \$1.20, \$1.35, \$2.96, and \$3.22 per share, respectively. The valuations have been used to estimate the fair value of our Common Stock as of each option grant date listed and in calculating stock-based compensation expense. Our board of directors has consistently used the most recent valuation provided by management for determining the fair value of our Common Stock unless a specific event occurs that necessitates an interim valuation.

The valuations were based on the guidance from the *Valuation of Privately-Held-Company Equity Securities Issued as Compensation* that was developed by staff of the American Institute of Certified Public Accountants and a task force comprising representatives from the appraisal, preparer, public accounting, venture capital, and academic communities. The option-pricing method was selected to value Radius Common Stock based on our stage of development and the degree of uncertainty surrounding the future success of clinical trials for our product

candidates. For the valuations prepared as of December 3, 2008, December 2, 2009 and October 1, 2010, the option-pricing method treats common stock and preferred stock as call options on the enterprise's value, with exercise prices based on the liquidation preference of the preferred stock. Under this method, the common stock has value only if the funds available for distribution to stockholders exceed the value of the liquidation preference at the time of a liquidity event (for example, merger of sale), assuming the enterprise has funds available to make a liquidation preference meaningful and collectible by the shareholders.

In the model, the exercise price is based on a comparison with the enterprise value rather than, as in the case of a regular call option, a comparison with a per-share stock price. Thus, common stock is considered to be a call option with a claim on the enterprise at an exercise price equal to the remaining value immediately after the preferred stock is liquidated. We used the Black-Scholes model to price the call option. Under the option-pricing method we had to consider the various terms of the stockholder agreements -including the level of seniority among the securities, dividend policy, conversion ratios, and cash allocations -upon liquidation of the enterprise.

For the valuations prepared as of June 30, 2011 and September 30, 2011, we utilized the probability-weighted expected return method, or PWERM, as outlined in the AICPA Technical Practice Aid, *Valuations of Privately-Held-Company Equity Securities Issued as Compensation*, or Practice Aid, which considers the value of preferred and common stock based upon the probability-weighted present value of expected future net cash flows, considering each of the possible future events, as well as the rights and preferences of each share class. PWERM is complex as it requires numerous assumptions relating to potential future outcomes of equity, hence, the use of this method can be applied: (i) when possible future outcomes can be predicted with reasonable certainty; and (ii) when there is a complex capital structure (i.e., several classes of preferred and common stock). We also used this methodology to estimate the fair value of our preferred stock, which we used in the preferred stock extinguishment, discussed in Note 4 to our condensed quarterly financial statements for the period ended September 30, 2011, and to determine the fair value of shares of Series A-6 convertible preferred stock due to Nordic Bioscience at September 30, 2011, as discussed in Note 14 to our condensed quarterly financial statements for the period ended September 30, 2011.

Table of Contents**Results of Operations**

The following discussion summarizes the key factors our management believes are necessary for an understanding of our financial statements.

	Three months Ended September 30,		Nine months Ended September 30,	
	2011	2010	2011	2010
	(In Thousands)			
Operating expenses:				
Research and development	\$ 7,646	\$ 3,061	\$ 28,336	\$ 7,767
General and administrative	1,221	1,035	3,062	2,152
Restructuring		470		470
Loss from operations	(8,867)	(4,566)	(31,398)	(10,389)
Interest income	2	21	22	68
Other income (expense)	(301)	(5)	(279)	(20)
Interest expense	(258)		(366)	
Net loss	\$ (9,424)	\$ (4,550)	\$ (32,021)	\$ (10,341)

Three months Ended September 30, 2011 and 2010

	Three months Ended September 30,		Change	
	2011	2010	\$	%
	(In thousands)			
Operating expenses:				
Research and development	\$ 7,646	\$ 3,061	\$ 4,585	150%
General and administrative	1,221	1,035	186	18%
Restructuring		470	(470)	(100)%

*Research and development expenses:* For the three months ended September 30, 2011, research and development expense was \$7,646,000 compared to \$3,061,000 for the three months ended September 30, 2010, an increase of \$4,585,000 and 150%. For the three months ended September 30, 2011, we incurred professional contract services associated with the development of BA058 Injection of \$5,051,000 compared to \$1,400,000 for the three months ended September 30, 2010. The increase was primarily the result of expenses incurred to initiate our Phase 3 study which began dosing patients in April 2011. We expect this higher level of BA058 Injection expenses to be maintained or increase over the course of the Phase 3 study. However, there will be variability from quarter to quarter driven primarily by the rate of patient enrollment, the euro/dollar exchange rate, and fluctuations in the value of Radius stock issued to Nordic under the Stock Issuance Agreement. Additionally, we incurred \$1,620,000 more in contract services associated with the development of BA058 Microneedle Patch in relation to the manufacture of Phase 2 clinical supplies. Offsetting these increases, we spent \$26,000 less on RAD140, and \$539,000 less for professional contract services associated with the development of RAD1901 in the three months ended September 30, 2011 compared to the three months ended September 30, 2010. We also had reductions in facilities expense of approximately \$106,000 for the three months ended September, 2011 compared to the three months ended September 30, 2010. This was attributable to the closure of our lab in September of 2010.

*General and administrative expenses:* For the three months ended September 30, 2011, general and administrative expense was \$1,221,000 compared to \$1,035,000 for the three months ended September 30, 2010, an increase of \$186,000 and 18%. The increase is primarily the result

of increased legal, accounting, and marketing costs, as well as business insurance.

*Restructuring expenses:* We incurred restructuring costs of approximately \$470,000 in the three months ended September 30, 2010, primarily related to lease termination costs associated with vacating our laboratory space. No similar costs were incurred in the three months ended September 30, 2011.

*Other income (expense):* For the three months ended September 30, 2011, other expense, net of other income, was \$301,000. Other expense primarily reflects changes in the fair value of the Series A-6 Preferred Stock liability from the date of the initial accrual to the reporting date as discussed in Note 14 to our condensed quarterly financial statements for the period ended September 30, 2011.

*Interest expense:* For the three months ended September 30, 2011, interest expense was \$258,000. Interest expense reflects interest due on our Loan and Security Agreement with Oxford Finance Group and General Electric Capital Corporation that was effective on May 23, 2011. No similar costs were incurred in the three months ended September 30, 2011.

Table of ContentsNine months Ended September 30, 2011 and 2010

	Nine months Ended September 30		Change	
	2011	2010	\$	%
	(In thousands)			
<b>Operating expenses:</b>				
Research and development	\$ 28,336	\$ 7,767	\$ 20,569	265%
General and administrative	3,062	2,152	910	42%
Restructuring		470	(470)	(100)%

*Research and development expenses:* For the nine months ended September 30, 2011, research and development expense was \$28,336,000 compared to \$7,767,000 for the nine months ended September 30, 2010, an increase of \$20,569,000 and 265%. For the nine months ended September 30, 2011, we incurred professional contract services associated with the development of BA058 Injection of \$21,825,000 compared to \$2,061,000 for the nine months ended September 30, 2010. The increase was primarily the result of expenses incurred to initiate our Phase 3 study which began dosing of patients in April 2011. We expect this higher level of BA058 Injection expenses to be maintained or increase over the course of the Phase 3 study. However, there will be variability from quarter to quarter driven primarily by the rate of patient enrollment, the euro/dollar exchange rate, and fluctuations in the value of Radius stock issued to Nordic under the Stock Issuance Agreement. Additionally, we incurred \$3,521,000 more in contract services associated with the development of BA058 Microneedle Patch in relation to the manufacture of toxicology and Phase 2 clinical supplies. Offsetting these increases, we spent \$290,000 less on RAD140, and \$1,579,000 less for professional contract services associated with the development of RAD1901 in the nine months ended September 30, 2011 compared to the nine months ended September 30, 2010. We also had reductions in facilities expenses of approximately \$410,000 for the nine months ended September 30, 2011 compared to the nine months ended September 30, 2010. These reductions were attributable to the closure of our lab in September of 2010.

*General and administrative expenses:* For the nine months ended September 30, 2011, general and administrative expense was \$3,062,000 compared to \$2,152,000 for the nine months ended September 30, 2010, an increase of \$910,000 and 42%. The increase is primarily the result of increased legal, accounting, and marketing costs, as well as business insurance.

*Restructuring expenses:* We incurred restructuring costs of approximately \$470,000 in the nine months ended September 30, 2010, primarily related to lease termination costs associated with vacating our laboratory space. No similar costs were incurred in the nine months ended September 30, 2011.

*Other income (expense):* For the nine months ended September 30, 2011, other expense, net of other income, was \$279,000. Other expense primarily reflects changes in the fair value of the Series A-6 Preferred Stock liability from the date of the initial accrual to the reporting date as discussed in Note 14 to our condensed quarterly financial statements for the period ended September 30, 2011.

*Interest expense:* For the nine months ended September 30, 2011 interest expense was \$366,000. Interest expense reflects interest due on our Loan and Security Agreement with Oxford Finance Group and General Electric Capital Corporation that was effective on May 23, 2011. No similar costs were incurred in the nine months ended September 30, 2011.

*Liquidity and Capital resources*

From inception to September 30, 2011, we have incurred an accumulated deficit of \$111,905,000, primarily as a result of expenses incurred through a combination of research and development activities related to our various product candidates and expenses supporting those activities.

We have financed our operations since inception primarily through the private sale of preferred stock as well as the receipt of \$5,000,000 in fees associated with an option agreement. Total cash, cash equivalents and marketable securities as of September 30, 2011 was \$19,939,000.

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The following table sets forth the major sources and uses of cash for each of the periods set forth below:

	Nine months ended		Change	
	September 30,	September 30,		
	2011	2010	\$	%
	(In thousands)			
Net cash provided by (used in):				
Operating activities	\$ (24,627)	\$ (9,363)	\$ (15,624)	163%
Investing activities	7,906	10,739	(2,833)	(26)%
Financing activities	\$ 26,078		\$ 26,078	100%
Net increase in cash and cash equivalents	\$ 9,357	\$ 1,376	\$ 7,981	580%

*Cash Flows From Operating Activities*

The increase of \$15,624,000 in net cash used in operations for the nine months ended September 30, 2011 compared to the nine months ended September 30, 2010 was primarily associated with an increase in net loss and net changes in working capital related to expenses incurred to initiate the Phase 3 clinical study for BA058 Injection. The changes in working capital included a \$2,961,000 increase in prepaid expenses, a \$1,360,000 increase in accounts payable and a \$75,000 decrease in accrued expenses, all of which were attributable due to the timing of payments made in connection with our Phase 3 clinical study for BA058 Injection.

*Cash Flows From Investing Activities*

Net cash provided by investing activities decreased by \$2,833,000 for the nine months ended September 30, 2011 compared to the nine months ended September 30, 2010. The decrease was primarily a result of a \$2,803,000 decrease in cash proceeds from the maturities of investments, net of purchases, in the three months ended September 30, 2011.

Our investing cash flows will be impacted by the timing of purchases and sales of marketable securities. All of our marketable securities have contractual maturities of less than one year. Due to the short-term nature of our marketable securities, we would not expect our operational results or cash flows to be significantly affected by a change in market interest rates due to the short-term duration of our investments.

*Cash Flows From Financing Activities*

Cash flows from financing activities for the nine months ended September 30, 2011 included \$20,098,000 of proceeds, net of issuance costs, from the first closing of the Series A-1 and Series A-5 financings, \$5,883,000 of proceeds, net of issuance costs, from the Loan and Security Agreement with Oxford Finance Group and General Electric Capital Corporation, and \$153,000 of net proceeds from stock option exercises.



There were no significant cash flows from financing activities for the nine months ended September 30, 2010.

Our continued operations will depend on whether we are able to raise additional funds through various potential sources, such as equity and debt financing and potential collaboration agreements. Through September 30, 2011, a significant portion of our financing has been through private placements of Preferred Stock, as well as drawings under a term loan facility. We will seek to continue to fund operations from cash on hand and through additional equity and/or debt financing and potential collaboration agreements. We can give no assurances that any additional capital that we are able to obtain will be sufficient to meet our needs. Based on our existing resources, which include the \$21,428,000 of proceeds from the first closing of the Series A-1 Financing on May 17, 2011 and an irrevocable legally binding commitment effective May 11, 2011, for additional proceeds of \$42,857,000 from the issuance of Series A-1 in two additional closings which are expected to take place in 2011, as well as a term loan of an aggregate principal amount of up to \$25,000,000, \$6,250,000 of which was drawn on May 23, 2011 and is repayable over a term of 42 months, we believe that we have sufficient capital to fund our operations into the first quarter of 2013, but will need additional financing thereafter until we can achieve profitability, if ever.

Table of Contents*Financings*

Through September 30, 2011, we received aggregate net cash proceeds of \$126.3 million from the sale of shares of our preferred stock as follows:

<b>Issue</b>	<b>Year</b>	<b>No. Shares</b>	<b>Net Proceeds (in thousands)</b>
Series B redeemable convertible preferred stock	2003, 2004, 2005	1,599,997	23,775
Series C redeemable convertible preferred stock	2006, 2007, 2008	10,146,629	82,096
Series A-1 convertible preferred stock	2011	3,959,351	19,927
Series A-5 convertible preferred stock	2011	64,430	525
		15,770,407	\$ 126,323

On May 11, 2011 accredited investors in a Series A-1 convertible preferred stock financing ( Series A-1 Private Placement ) entered into an irrevocable legally binding commitment to purchase \$64,285,000 million of Series A-1 Preferred Stock in three closings. The first closing of the Series A-1 Private Placement occurred on May 17, 2011 and we received gross proceeds of approximately \$21,428,000 through the sale of 2,631,845 shares of Series A-1 Preferred Stock. Those shares were exchanged in the Merger for an aggregate of 263,177 shares of Series A-1 Preferred Stock. Shares of the Series A-1 Preferred Stock are convertible, in whole or in part, at the option of the holder at any time into shares of our Common Stock initially on a one-for-ten basis at an initial conversion price of \$8.142 per share.

The Series A-1 Private Placement provides for additional Stage II and Stage III closings upon notice by us to the same accredited investors for an additional 526,358 shares of Series A-1 Preferred Stock in consideration of gross proceeds of an additional \$42,857,000. We expect to affect the Stage II and Stage III closings in 2011. Concurrently with the Stage I Closing of the Series A-1 Private Placement, we issued 64,430 shares of Series A-5 Preferred Stock to Nordic for gross proceeds of approximately \$525,000. These shares were exchanged in the Merger for 6,443 shares of Series A-5 convertible preferred stock.

On May 23, 2011, we entered into a Loan and Security Agreement with GECC as agent and a lender, and Oxford, as a lender, pursuant to which the Lenders agreed to make available to the Company \$25,000,000 in the aggregate over three term loans. The Initial Term Loan was made on May 23, 2011 in an aggregate principal amount equal to \$6,250,000 and is repayable over a term of 42 months, including a six month interest only period. The Initial Term Loan bears interest at 10%. Pursuant to the Agreement, we may request two (2) additional term loans, the first, which must be funded not later than November 23, 2011, in an aggregate principal amount equal to \$6,250,000 and the second, which must be funded not later than May 23, 2012, in an aggregate principal amount equal to \$12,500,000. In the event the Second Term Loan is not funded on or before November 23, 2011, the Lenders' commitment to make the Second Term Loan shall be terminated and the total commitment shall be reduced by \$6,250,000. In the event the Third Term Loan is not funded on or before May 23, 2012, the Lenders' commitment to make the Third Term Loan shall be terminated and the total commitment shall be further reduced by \$12,500,000. Pursuant to the agreement, we agreed to issue to the Lenders (or their respective affiliates or designees) the Warrants to purchase in the aggregate a number of shares of our Series A-1 Preferred Stock equal to the quotient of (a) the product of (i) the amount of the applicable term loan multiplied by (ii) four percent (4%) divided by (b) the exercise price equal to \$81.42 per share. The exercise period of each Warrant to be issued will expire ten (10) years from the date such Warrants are issued. On May 23, 2011, the Company issued a Warrant to each of GECC and Oxford for the purchase of 3,070 shares of Series A-1 Preferred Stock.

*Research and Development Agreements:*

We entered into a letter of intent with Nordic (the Letter of Intent ) on September 3, 2010, pursuant to which we funded preparatory work by Nordic in respect of a Phase 3 clinical study of BA058 Injection. The Letter of Intent was extended on December 15, 2010 and on January 31, 2011. On March 29, 2011, we and Nordic entered into a Clinical Trial Services Agreement, a Work Statement NB-1 (the Work Statement ) under such Clinical Trial Services Agreement and a related Stock Issuance Agreement, as amended. Pursuant to the Work Statement, Nordic is managing the Phase 3 clinical study ( Clinical Study ) of BA058 Injection and Nordic will be compensated for such services in a combination of cash and shares of Series A-6 convertible preferred stock.

Pursuant to the Work Statement, we are required to make certain per patient payments denominated in both euros and U.S. dollars for each patient enrolled in the Clinical Study followed by monthly payments for the duration of the study and final payments in two equal euro-denominated installments and two equal U.S. Dollar-denominated installments. Changes to the Clinical Study schedule may alter the timing, but not the aggregate amounts, of the payments. The Work Statement provides for a total of 33,867,000 of euro-denominated payments and 4,856,000 of U.S. Dollar-denominated payments over the course of the Clinical Study.

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Pursuant to the Stock Issuance Agreement, Nordic agreed to purchase the equivalent of 371,864 of Series A-5 at \$8.142 per share. 64,430 shares of Series A-5 Preferred Stock were issued to Nordic on May 17, 2011, which generated proceeds of \$525,000 to the Company. These shares were exchanged in the Merger for an aggregate of 6,443 shares of Series A-5 convertible preferred stock.

The Stock Issuance Agreement provides that Nordic is entitled to receive quarterly stock dividends, payable in shares of Series A-6 convertible preferred stock, having an aggregate value of up to 36,814,531 (the Series A-5 Accruing Dividend). This right to receive the Series A-5 Accruing Dividend is non-transferrable and will remain with Nordic in the event it sells the shares of Series A-5 preferred stock or in the event the shares of Series A-5 Preferred Stock are converted into common stock in accordance with the Company's amended certificate of incorporation. As of September 30, 2011, 115,974 shares of Series A-6 preferred stock are due to Nordic.

The Company recorded \$10,606,000 of research and development expense in the nine-month period ended September 30, 2011 reflecting costs incurred for preparatory and other start-up costs to initiate the Clinical Study in April 2011. The Company recorded an additional \$1,554,000 and \$2,007,000 of research and development expense in the three- and nine-month periods ended September 30, 2011, respectively, for per-patient costs incurred for patients that had enrolled in the Clinical Study as of September 30, 2011. As of September 30, 2011, in addition to the \$7,306,000 liability that is reflected in other liabilities on the Balance Sheet that will be settled in shares of Series A-6 Preferred Stock, as noted above, the Company has an asset resulting from payments to Nordic of approximately \$3,157,000 that is included in prepaid expenses on the Balance Sheet.

The Company is also responsible for certain pass through costs in connection with the Clinical Study. The Company recognized research and development expense of \$2,536,000 and \$4,897,000 for pass through costs in the three- and nine-month periods ended September 30, 2011.

*License Agreement Obligations*

BA058

In September, 2005, we exclusively licensed the worldwide rights (except Japan) to BA058 and analogs from Ipsen. Of particular relevance, our licensed US Patent No. 5,969,095, (effective filing date 3/29/1996, statutory term expires 3/29/2016) entitled Analogs of Parathyroid Hormone that claims BA058 and US Patent No. 6,544,949, (effective filing date 3/29/1996, statutory term expires 3/29/2016) entitled Analogs of Parathyroid Hormone that claims methods of treating osteoporosis using BA058 and pharmaceutical compositions comprising BA058, and the corresponding foreign patents and continuing patent applications. In addition, we have rights to joint intellectual property related to BA058 including rights to the jointly derived intellectual property contained in US7803770, (effective filing date 10/3/2007, statutory term expires 10/3/2027, plus 175 days of patent term adjustment due to delays in patent prosecution by the USPTO) and related patent applications both in the United States and worldwide (excluding Japan) that cover the method of treating osteoporosis using the phase 3 clinical dosage strength and form. In consideration for the rights to BA058 and in recognition of certain milestones having been met to date, we have paid to Ipsen an aggregate amount of \$1,000,000 US dollars. The license agreement further requires us to make payments upon the achievement of certain future clinical and regulatory milestones. The range of milestone payments that could be paid under the agreement is 10,000,000 to 36,000,000. Should BA058 become commercialized, we or our sublicensees will be obligated to pay to Ipsen a fixed 5% royalty based on net sales of the product on a country by country basis until the later of the last to expire of the licensed patents or for a period of 10 years after the first commercial sale in such country. The date of the last to expire of the licensed patents, barring any extension thereof, is expected to be 3/26/2028. In the event that we sublicense BA058 to a third party, we are obligated to pay a percentage of certain payments received from such sublicensee (in lieu of milestone payments not achieved at the time of such sublicense). The applicable percentage is in the low double digit range. In addition, if we or our sublicensees commercialize a product that includes a compound discovered by us based on or derived from confidential Ipsen know-how,

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we will be obligated to pay to Ipsen a fixed low single digit royalty on net sales of such product on a country-by-country basis until the later of the last to expire of our patents that cover such product or for a period of 10 years after the first commercial sale of such product in such country. Effective May 11, 2011, Ipsen agreed to accept shares of Series A-1 Preferred Stock in lieu of a cash milestone payment of 1,000,000. We issued 173,263 shares of Series A-1 Preferred Stock to Ipsen on May 17, 2011 to settle the liability. These shares were exchanged in the Merger for an aggregate of 17,326 shares of Series A-1 Convertible Preferred Stock. The license agreement contains other customary clauses and terms as are common in similar agreements in the industry.

### RAD1901

In June, 2006, we exclusively licensed the worldwide rights (except Japan) to RAD1901 from Eisai. In particular, we have licensed US Patent No. 7,612,114 (effective filing date 12/25/2003, statutory term extended to 8/18/26 with 967 days of patent term adjustment due to delays by the USPTO). In consideration for the rights to RAD1901 and in recognition of certain milestones having been met to date, we have paid to Eisai an aggregate amount of \$1,500,000 US dollars. The range of milestone payments

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that could be paid under the agreement is \$1,000,000 to \$20,000,000. The license agreement further requires Radius to make payments upon the achievement of certain future clinical and regulatory milestones. Should RAD1901 become commercialized, we will be obligated to pay to Eisai a royalty in a variable mid-single digit range based on net sales of the product on a country by country basis for a period that expires on the later of (i) date the last remaining valid claim in the licensed patents expires, lapses or is invalidated in that country, the product is not covered by data protection clauses, and the sales of lawful generic version of the product account for more than a specified percentage of the total sales of all pharmaceutical products containing the licensed compound in that country; or (ii) a period of 10 years after the first commercial sale of the licensed products in such country unless it is sooner terminated. The latest valid claim to expire, barring any extension thereof, is expected in 8/18/2026. The royalty rate shall then be subject to reduction and the royalty obligation will expire at such time as sales of lawful generic version of such product account for more than a specified minimum percentage of the total sales of all products that contain the licensed compound. We were also granted the right to sublicense with prior written approval from Eisai, but subject to a right of first negotiation held by Eisai if we seek to grant sublicenses limited to particular Asian countries. If we sublicense RAD1901 to a third party, we will be obligated to pay Eisai, in addition to the milestones referenced above, a fixed low double digit percentage of certain fees we receive from such sublicensee and royalties in a variable mid-single digit range based on net sales of the sublicensee. The license agreement contains other customary clauses and terms as are common in similar agreements in the industry.

*Net Operating Loss Carryforwards*

As of December 31, 2010, we had federal and state net operating loss carryforwards of approximately \$85,000,000 and \$75,000,000, respectively. If not utilized, the net operating loss carryforwards will begin expiring in 2024 and 2016 for federal and state purposes, respectively.

Under Section 382 of the Code, substantial changes in our ownership may limit the amount of net operating loss carryforwards that could be utilized annually in the future to offset taxable income. Specifically, this limitation may arise in the event of a cumulative change in ownership of our company of more than 50% within a three-year period. Any such annual limitation may significantly reduce the utilization of the net operating loss carryforwards before they expire. The closing of this offering, together with private placements and other transactions that have occurred since our inception, may trigger an ownership change pursuant to Section 382, which could limit the amount of net operating loss carryforwards that could be utilized annually in the future to offset taxable income, if any. Any such limitation, whether as the result of this offering, prior private placements, sales of Common Stock by our existing stockholders or additional sales of Common Stock by us after this offering, could have a material adverse effect on our results of operations in future years. We have not completed a study to assess whether an ownership change has occurred, or whether there have been multiple ownership changes since our inception, due to the significant costs and complexities associated with such study. In each period since our inception, we have recorded a valuation allowance for the full amount of our deferred tax asset, as the realization of the deferred tax asset is uncertain. As a result, we have not recorded any federal or state income tax benefit in our statement of operations.

*Internal Control Over Financial Reporting*

We are not currently required to comply with Section 404 of the Sarbanes-Oxley Act and are therefore not required to make an assessment of the effectiveness of our internal control over financial reporting. Further, our independent registered public accounting firm has not been engaged to express, nor have they expressed, an opinion on the effectiveness of our internal control over financial reporting. In connection with our becoming a public company, we intend to hire additional accounting personnel with public company and SEC reporting experience and to focus on implementing appropriate internal controls and other procedures.

**Off-Balance Sheet Arrangements**

We do not have any off-balance sheet arrangements or any relationships with unconsolidated entities of financial partnerships, such as entities often referred to as structured finance or special purpose entities.

**New Accounting Standards**

Refer to Note 3, *Recently Adopted Accounting Standards*, in Notes to Condensed Financial Statements, for a discussion of new accounting standards.

**Item 3. Quantitative and Qualitative Disclosure about Market Risk**

Our primary exposure to market risk is foreign currency exposure. A substantial portion of our BA058 development costs are denominated in euro and an immediate 10 percent adverse change in the dollar/euro exchange rate will result in increased costs and would have a material adverse impact on our financial statements and require us to raise additional capital to complete the development of our products. We do not hedge our foreign currency exchange rate risk.

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We are also exposed to market risk related to changes in interest rates. As of September 30, 2011 and December 31, 2010, we had cash, cash equivalents and short-term investments of \$19,939,000 and \$18,551,000, respectively, consisting of money market funds, U.S. Treasuries, Certificates of Deposit and cash equivalents. This exposure to market risk is interest rate sensitivity, which is affected by changes in the general level of U.S. interest rates, particularly because our investments are in short-term marketable securities. Our short-term investments are subject to interest rate risk and will fall in value if market interest rates increase. Due to the short-term duration of our investment portfolio and the low risk profile of our investments, an immediate 10 percent change in interest rates would not have a material effect on the fair market value of our portfolio. We have the ability to hold our short-investments until maturity, and therefore we would not expect our operations results or cash flows to be affected by any significant degree by the effect of a change in market interest rates on our investments. We carry our investments based on publicly available information. We do not currently have any hard to value investment securities or securities for which a market is not readily available or active.

In addition, the amounts outstanding under Initial Term Loan from GECC and Oxford are fixed at an annual interest rate of 10%. The Loan and Security Agreement entered into with GECC and Oxford in May of 2011 allows for additional borrowings in the form of two additional term loans. In the event, we enter into the additional term loans, the interest rate will be the greater of (i) 10% or (ii) the sum of (a) the three year Treasury Rate as published the Board of Governors of the Federal Reserve System in Federal Reserve Statistical Release H.15 entitled "Selected Interest Rates", plus (b) 9.19%. In the event we make additional borrowings under the Loan and Security Agreement, changes in the three year Treasury Rate may increase the interest rates we would pay on such term loans and increase our cost of capital which may have a significant impact to our financial condition.

We are not subject to significant credit risk as this risk does not have the potential to materially impact the value of assets and liabilities.

**Item 4. Controls and Procedures**

**Evaluation of Disclosure Controls and Procedures**

As required by Rule 13a-15(b) of the Securities Exchange Act of 1934, as amended (the "1934 Act"), the Company's management, including the Chief Executive Officer and the Chief Financial Officer, the Company's principal executive officer and principal financial officer, respectively, conducted an evaluation as of the end of the period covered by this Quarterly Report on Form 10-Q of the effectiveness of the design and operation of the Company's disclosure controls and procedures. Based on that evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective at the reasonable assurance level in ensuring that information required to be disclosed by the Company in the reports that it files or submits under the 1934 Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms.

**PART II OTHER INFORMATION**

**Item 1. Legal Proceedings**



We are not currently a party to any material litigation, and we are not aware of any pending or threatened litigation against us that could have a material adverse effect on our consolidated financial position, results of operations or cash flows.

**Item**            **Risk Factors**  
**1A.**

*Set forth below and elsewhere in this Quarterly Report on Form 10-Q and in other documents we file with the SEC are risks and uncertainties that could cause actual results to differ materially from the results contemplated by the forward-looking statements contained in this Quarterly Report on Form 10-Q. Because of the following factors, as well as other variables affecting our operating results, past financial performance should not be considered as a reliable indicator of future performance and investors should not use historical trends to anticipate results or trends in future periods.*

**Risks Relating to our Securities**

***We have a history of operating losses, expect to incur significant and increasing operating losses in the future, and may never be consistently profitable.*** We have a limited operating history for you to evaluate our business. We have no approved products and have generated no product revenue from sales. We have primarily incurred operating losses. As of September 30, 2011, we had an accumulated deficit of \$111.9 million. We have spent, and expect to continue to spend, significant resources to fund the research and development of BA058 Injection and our other drug candidates. While we may have net income in future periods as the result of non-recurring collaboration revenue, we expect to incur substantial operating losses over the next several years as our clinical trial and drug manufacturing activities increase. As a result, we expect that our accumulated deficit will also increase

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significantly.

Our drug candidates are in varying stages of preclinical and clinical development and may never be approved for sale or generate any revenue. We will not be able to generate product revenue unless and until one of our drug candidates successfully completes clinical trials and receives regulatory approval. Since even our most advanced drug candidate requires substantial additional clinical development, we do not expect to receive revenue from our drug candidates for several years, if at all. Even if we eventually generate revenues, we may never be profitable, and if we do achieve profitability, we may not be able to sustain or increase profitability on a quarterly or annual basis.

***There is not now and never has been any market for our securities and an active market may never develop. You may therefore be unable to re-sell shares of our securities at times and prices that you believe are appropriate.*** There is no market - active or otherwise - for our Common Stock or our Preferred Stock and neither is eligible for listing or quotation on any securities exchange, automated quotation system (e.g., NASDAQ) or any other over-the-counter market, such as the OTC Bulletin Board® (the OTCBB ) or the Pink Sheets® (the Pink Sheets ). Even if we are successful in obtaining approval to have our Common stock quoted on the OTCBB, it is unlikely that an active market for our Common Stock will develop any time soon thereafter. Accordingly, our Common Stock is highly illiquid. Because of this illiquidity, you will likely experience difficulty in re-selling such shares at times and prices that you may desire.

***There is no assurance that our Common Stock will be listed on NASDAQ or any other securities exchange.*** We plan to seek listing of our Common Stock on NASDAQ or another national securities exchange or listed for quotation on the OTCBB, as soon as practicable. However, there is no assurance we will be able to meet the initial listing standards of either of those or any other stock exchange or automated quotation systems, or that we will be able to maintain a listing of our Common Stock on either of those or any other stock exchange or automated quotation system. We anticipate seeking a listing of our Common stock on the OTCBB, the Pink Sheets or another over-the-counter quotation system, before our Common Stock is listed on the NASDAQ or a national securities exchange. An investor may find it more difficult to dispose of shares or obtain accurate quotations as to the market value of our Common Stock while our Common Stock is listed on the OTCBB. If our Common Stock is listed on the OTCBB, we would be subject to an SEC rule that, if it failed to meet the criteria set forth in such rule, imposes various practice requirements on broker-dealers who sell securities governed by the rule to persons other than established customers and accredited investors. Consequently, such rule may deter broker-dealers from recommending or selling our Common Stock, which may further limit its liquidity. This would also make it more difficult for us to raise additional capital.

Shares of our Capital Stock issued in the Merger are not freely tradable under Securities Laws which will limit stockholders' ability to sell such shares of our Capital Stock. Shares of our Preferred Stock and our Common Stock issued as consideration in the Merger pursuant the Merger Agreement are deemed Restricted Securities under the federal securities laws, and consequently such shares may not be resold without registration under the Securities Act of 1933, as amended (the Securities Act ), or without an exemption from the Securities Act. Further, Rule 144 covering resales of unregistered securities and promulgated under the Securities Act will not be available for resale of our capital stock unless or until one year following the date on which we file the information required by Form 10 as to the performance of our business. In addition, all shares of our Preferred Stock issued in the Merger will be subject to a lock-up provision set forth in the applicable stockholders agreement. Each certificate evidencing shares of our capital stock to be issued pursuant to the Merger Agreement will bear a restrictive legend as to the nature of the restrictions on the transfer of such shares.

***Because we became an operating company by means of a reverse merger, we may not be able to attract the attention of major brokerage firms.*** Additional risks may exist as a result of our becoming a public reporting operating company through a reverse merger. Security analysts of major brokerage firms may not provide coverage of our capital stock or business. Because we became a public reporting operating company through a reverse merger, there is no incentive to brokerage firms to recommend the purchase of our Common Stock. No assurance can be given that brokerage firms will want to provide analyst coverage of our capital stock or business in the future.

*The resale of shares covered by a registration statement could adversely affect the market price of our Common Stock in the public market, should one develop, which result would in turn negatively affect our ability to raise additional equity capital.* The sale, or availability for sale, of our Common Stock in the public market pursuant to a registration statement may adversely affect the prevailing market price of our Common Stock and may impair our ability to raise additional capital by selling equity or equity-linked securities. Once effective, a registration statement will register the resale of a significant number of shares of our Common Stock. The resale of a substantial number of shares of our Common Stock in the public market could adversely affect the market price for our Common Stock and make it more difficult for you to sell shares of our Common Stock at times and prices that you feel are appropriate. Furthermore, we expect that, because there will be a large number of shares registered pursuant to a registration statement, selling stockholders will continue to offer shares covered by such registration statement for a significant period of time, the precise duration of which cannot be predicted. Accordingly, the adverse market and price pressures resulting from an offering pursuant to a registration statement may continue for an extended period of time and continued negative pressure on the market price of our Common Stock could have a material adverse effect on our ability to raise additional equity capital.

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***We are subject to Sarbanes-Oxley and the reporting requirements of federal securities laws, which can be expensive.*** As a public reporting company, we are subject to the Sarbanes-Oxley Act of 2002, as well as the information and reporting requirements of the Securities Exchange Act of 1934, as amended, (the Exchange Act ) and other federal securities laws. The costs of compliance with the Sarbanes-Oxley Act and of preparing and filing annual and quarterly reports, proxy statements and other information with the SEC, and furnishing audited reports to stockholders, will cause our expenses to be higher than they would be if we were privately held.

***For so long as shares of our Preferred Stock remain outstanding, if we are sold in a transaction yielding less than the liquidation preference payable in the aggregate to holders of outstanding Preferred Stock, holders of our Common Stock may not receive any proceeds from such transaction and may lose their investment entirely.*** As of September 30, 2011, we have 592,581 shares of Common Stock; 413,254 shares of Series A-1; 983,208 shares of Series A-2; 142,227 shares of Series A-3 3,998 shares of Series A-4; 6,443 shares of Series A-5; assumed warrants to acquire 3,388 shares of Series A-1 Preferred Stock; and assumed warrants to acquire 266 shares of Common Stock. As more fully described herein and in our Certificate of Incorporation, shares of our Preferred Stock outstanding at the time of a sale or liquidation of the Company will have a right to receive proceeds, if any, from any such transactions, before any payments are made to holders of our Common Stock. In the event that there are not enough proceeds to satisfy the entire liquidation preference of our Preferred Stock, holders of our Common Stock will receive nothing in respect of their equity holdings in the Company.

**Risks Relating to our Business**

***We currently have no product revenues and will need to raise additional capital to operate our business.*** To date, we have generated no product revenues. Until, and unless, we receive approval from the U.S. Food and Drug Administration, or FDA, and other regulatory authorities for its product candidates, we cannot sell our drugs and will not have product revenues. Currently, our only product candidates are BA058, RAD1901, and RAD140, and none of these products is approved by the FDA for sale. Therefore, for the foreseeable future, we will have to fund our operations and capital expenditures from cash on hand, licensing fees and grants and potentially, future offerings of our Common Stock or Preferred Stock. Currently, we believe that our cash balance as of September 30, 2011, which includes the \$20.4 million in net proceeds received on May 17, 2011 from the first closing of the Series A-1 Financing, plus the proceeds of the two subsequent closings of the Series A-1 Financing which are available to us with no closing or other conditions, are sufficient to fund our operations into the second quarter of 2012. However, changes may occur that would consume our available capital before that time, including changes in and progress of our development activities, acquisitions of additional candidates and changes in regulation.

***We will need to seek additional sources of financing, which may not be available on favorable terms, if at all.*** Notwithstanding the expected completion of the subsequent two closings of the Series A-1 Financing, if we do not succeed in timely raising additional funds on acceptable terms, we may be unable to complete planned pre-clinical and clinical trials or obtain approval of any product candidates from the FDA and other regulatory authorities. In addition, we could be forced to discontinue product development, reduce or forego sales and marketing efforts and forego attractive business opportunities. Any additional sources of financing will likely involve the issuance of additional equity securities, which will have a dilutive effect on stockholders.

***We are not currently profitable and may never become profitable.*** We have a history of net losses and expect to incur substantial losses and negative operating cash flow for the foreseeable future, and may never achieve or maintain profitability. For the years ended December 31, 2010 and 2009, we had a net loss of \$14.6 million and \$15.1 million, respectively. As of September 30, 2011 we had an accumulated deficit of approximately \$111.9 million. Even if we succeed in developing and commercializing one or more product candidates, we expect to incur substantial losses for the foreseeable future and may never become profitable. We also expect to continue to incur significant operating and capital expenditures and anticipate that our expenses will increase substantially in the foreseeable future as we:

- continue to undertake pre-clinical development and clinical trials for product candidates;
- seek regulatory approvals for product candidates;
- implement additional internal systems and infrastructure; and
- hire additional personnel.

We also expect to experience negative cash flow for the foreseeable future as we fund our operating losses and capital expenditures. As a result, we will need to generate significant revenues in order to achieve and maintain profitability. We may not be able to generate these revenues or achieve profitability in the future. Our failure to achieve or maintain profitability could negatively impact the value of our securities.

*We have a limited operating history upon which to base an investment decision.* We are a development-stage company and have

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not demonstrated an ability to perform the functions necessary for the successful commercialization of any product candidates. The successful commercialization of any product candidates will require us to perform a variety of functions, including:

- continuing to undertake pre-clinical development and clinical trials;
  
- participating in regulatory approval processes;
  
- formulating and manufacturing products; and
  
- conducting sales and marketing activities.

Our operations have been limited to organizing and staffing our company, acquiring, developing and securing its proprietary technology and undertaking pre-clinical and clinical trials of our product candidates. These operations provide a limited basis for you to assess our ability to commercialize our product candidates and the advisability of investing further in our securities.

We are heavily dependent on the success of the BA058 Injection, which is still under clinical development. We cannot be certain that BA058 Injection will receive regulatory approval or be successfully commercialized even if we receive regulatory approval. BA058 Injection is our only product candidate in late stage development, and our business currently depends heavily on its successful development, regulatory approval and commercialization. We have no drug products for sale currently and may never be able to develop marketable drug products. The research, testing, manufacturing, labeling, approval, sale, marketing and distribution of drug products are subject to extensive regulation by the FDA and other regulatory authorities in the United States and other countries, which regulations differ from country to country. We are not permitted to market BA058 Injection in the United States until it receives approval of a New Drug Application, or NDA, from the FDA, or in any foreign countries until it receives the requisite approval from such countries. In addition, the approval of BA058 Microneedle Patch as a follow-on product is dependent on an earlier approval of BA058 Injection. We have not submitted an NDA to the FDA or comparable applications to other regulatory authorities. Obtaining approval of an NDA is an extensive, lengthy, expensive and uncertain process, and the FDA may delay, limit or deny approval of BA058 Injection for many reasons, including:

- we may not be able to demonstrate that BA058 is safe and effective as a treatment for osteoporosis to the satisfaction of the FDA;
  
- the results of its clinical studies may not meet the level of statistical or clinical significance required by the FDA for marketing approval;
  
- the FDA may disagree with the number, design, size, conduct or implementation of our clinical studies;

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- the clinical research organization, or CRO, that we retain to conduct clinical studies may take actions outside of our control that materially adversely impact our clinical studies;
- the FDA may not find the data from preclinical studies and clinical studies sufficient to demonstrate that BA058's clinical and other benefits outweigh its safety risks;
- the FDA may disagree with our interpretation of data from our preclinical studies and clinical studies or may require that we conduct additional studies;
- the FDA may not accept data generated at its clinical study sites;
- if our NDA is reviewed by an advisory committee, the FDA may have difficulties scheduling an advisory committee meeting in a timely manner or the advisory committee may recommend against approval of our application or may recommend that the FDA require, as a condition of approval, additional preclinical studies or clinical studies, limitations on approved labeling or distribution and use restrictions;
- the FDA may require development of a Risk Evaluation and Mitigation Strategy, or REMS, as a condition of approval;
- the FDA may identify deficiencies in the manufacturing processes or facilities of our third-party manufacturers; or
- the FDA may change its approval policies or adopt new regulations.

Before we submit an NDA to the FDA for BA058 as a treatment for osteoporosis, we must initiate and complete our pivotal Phase 3 study, a thorough QT study (a study designed to assess the potential arrhythmia liability of a drug by measuring the effect on the start to finish time of the ventricular main part of the cardiac contraction, also known as the QT interval), a renal safety study, an osteosarcoma study in rats, and bone quality studies in rats and monkeys. We have not commenced all of these required

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studies and the results of these studies will have an important bearing on the approval of BA058. In addition to fracture and BMD, our pivotal Phase 3 study will measure a number of other potential safety indicators, including anti-BA058 antibodies which will have an important bearing on the approval of BA058. In addition, the results from the rat carcinogenicity study, which includes hPTH(1-34), a daily subcutaneous injection of recombinant human parathyroid hormone as a comparator, may show that BA058 dosing results in more osteosarcomas than PTH which may have a material adverse bearing on approval of BA058.

If we do not obtain the necessary U.S. or worldwide regulatory approvals to commercialize any product candidate, we will not be able to sell our product candidates. We cannot assure you that we will receive the approvals necessary to commercialize any of our product candidates (BA058, RAD1901, and RAD140), or any product candidate we acquire or develop in the future. We will need FDA approval to commercialize our product candidates in the U.S. and approvals from the FDA-equivalent regulatory authorities in foreign jurisdictions to commercialize our product candidates in those jurisdictions. In order to obtain FDA approval of any product candidate, we must submit to the FDA an NDA demonstrating that the product candidate is safe for humans and effective for its intended use. This demonstration requires significant research and animal tests, which are referred to as pre-clinical studies, as well as human tests, which are referred to as clinical trials. Satisfaction of the FDA's regulatory requirements typically takes many years, depends upon the type, complexity and novelty of the product candidate and requires substantial resources for research, development and testing. We cannot predict whether our research and clinical approaches will result in drugs that the FDA considers safe for humans and effective for indicated uses. The FDA has substantial discretion in the drug approval process and may require us to conduct additional pre-clinical and clinical testing or to perform post-marketing studies. The approval process may also be delayed by changes in government regulation, future legislation or administrative action or changes in FDA policy that occur prior to or during its regulatory review. Delays in obtaining regulatory approvals may:

- delay commercialization of, and our ability to derive product revenues from, our product candidate;
  
- impose costly procedures on us; and
  
- diminish any competitive advantages that we may otherwise enjoy.

Even if we comply with all FDA requests, the FDA may ultimately reject one or more of our NDAs. We may never obtain regulatory clearance for any of our product candidates (BA058, RAD1901, and RAD140). Failure to obtain FDA approval of any of our product candidates will severely undermine our business by leaving us without a saleable product, and therefore without any source of revenues, until another product candidate can be developed. There is no guarantee that we will ever be able to develop or acquire another product candidate.

In foreign jurisdictions, we must receive approval from the appropriate regulatory authorities before we can commercialize any drugs. Foreign regulatory approval processes generally include all of the risks associated with the FDA approval procedures described above. We cannot assure you that we will receive the approvals necessary to commercialize our product candidates for sale outside the United States.

***Most of our product candidates are in early stages of clinical trials.*** Except for BA058, each of our other product candidates (RAD1901 and RAD140), are in early stages of development and requires extensive pre-clinical and clinical testing. We cannot predict with any certainty if or when we might submit an NDA for regulatory approval for any of our product candidates or whether any such NDA will be accepted.



***Clinical trials are very expensive, time-consuming and difficult to design and implement.*** Human clinical trials are very expensive and difficult to design and implement, in part because they are subject to rigorous regulatory requirements. A substantial portion of our BA058 development costs are denominated in euro and any adverse movement in the dollar/euro exchange rate will result in increased costs and require us to raise additional capital to complete the development of our products. The clinical trial process is also time consuming. We estimate that clinical trials of BA058 Injection will take at least three years to complete. Furthermore, failure can occur at any stage of the trials, and we could encounter problems that cause us to abandon or repeat clinical trials. The commencement and completion of clinical trials may be delayed by several factors, including:

- unforeseen safety issues;
  
- determination of dosing issues;
  
- lack of effectiveness during clinical trials;
  
- slower than expected rates of patient recruitment;
  
- inability to monitor patients adequately during or after treatment; and

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- inability or unwillingness of medical investigators to follow our clinical protocols.

In addition, we or the FDA may suspend our clinical trials at any time if it appears that we are exposing participants to unacceptable health risks or if the FDA finds deficiencies in our Investigational New Drug, or IND, submissions or the conduct of these trials. Therefore, we cannot predict with any certainty the schedule for future clinical trials.

***The results of our clinical trials may not support its product candidate claims.*** Even if our clinical trials are completed as planned, we cannot be certain that the results will support our product candidate claims. Success in pre-clinical testing and early clinical trials does not ensure that later clinical trials will be successful, and we cannot be sure that the results of later clinical trials will replicate the results of prior clinical trials and pre-clinical testing. Our Phase 3 study of BA058 Injection for fracture prevention may not replicate the positive efficacy results for BMD from our Phase 2 study. The clinical trial process may fail to demonstrate that our product candidates are safe for humans and effective for indicated uses. This failure would cause us to abandon a product candidate and may delay development of other product candidates. Any delay in, or termination of, our clinical trials will delay the filing of our NDAs with the FDA and, ultimately, our ability to commercialize our product candidates and generate product revenues. In addition, our clinical trials to date involve a small patient population. Because of the small sample size, the results of these clinical trials may not be indicative of future results.

***Physicians and patients may not accept and use our drugs.*** Even if the FDA approves one or more of our product candidates, physicians and patients may not accept and use it. Acceptance and use of our product will depend upon a number of factors including:

- perceptions by members of the health care community, including physicians, about the safety and effectiveness of our drug;
- cost-effectiveness of our product relative to competing products;
- availability of reimbursement for our product from government or other healthcare payers; and
- effectiveness of marketing and distribution efforts by us and its licensees and distributors, if any.

Because we expect sales of our current product candidates, if approved, to generate substantially all of its product revenues for the foreseeable future, the failure of these drugs to find market acceptance would harm our business and could require us to seek additional financing.

***Our drug-development program depends upon third-party researcher, investigators and collaborators who are outside our control.*** We depend upon independent researchers, investigators and collaborators, such as Nordic Bioscience Clinical Development VII A/S ( Nordic ), to conduct our pre-clinical and clinical trials under agreements with us. These third parties are not our employees and we cannot control the amount or timing of resources that they devote to our programs. These third parties may not assign as great a priority to our programs or pursue them as

diligently as we would if we were undertaking such programs ourselves. If outside collaborators fail to devote sufficient time and resources to our drug-development programs, or if their performance is substandard, the approval of our FDA applications, if any, and our introduction of new drugs, if any, will be delayed. These collaborators may also have relationships with other commercial entities, some of whom may compete with us. If our collaborators assist competitors at our expense, our competitive position would be harmed.

***We will rely exclusively on third parties to formulate and manufacture our product candidate.*** We have no experience in drug formulation or manufacturing and do not intend to establish our own manufacturing facilities. We lack the resources and expertise to formulate or manufacture our own product candidates. We have entered into agreements with contract manufacturers to manufacture BA058 Injection for use in clinical trial activities. These contract manufacturers are currently our only source for the production and formulation of BA058. We currently do not have sufficient clinical supplies of BA058 to complete the planned Phase 3 study for BA058 Injection but believe that our contract manufacturers will be able to produce sufficient supply of BA058 to complete all of the planned BA058 clinical studies. However, if our contract manufacturers are unable to produce, in a timely manner, adequate clinical supplies to meet the needs of our clinical studies, we would be required to seek new contract manufacturers that may require us to modify our finished product formulation and modify or terminate our clinical studies for BA058. Any modification of our finished product or modification or termination of our Phase 3 clinical study could adversely affect our ability to obtain necessary regulatory approvals and significantly delay or prevent the commercial launch of the product, which would materially harm our business and impair our ability to raise capital.

We depend on a number of single source contract manufacturers to supply key components of BA058. For instance, we depend on Lonza Group Ltd. ( Lonza ), which produces supplies of bulk drug product of BA058 to support the BA058 Injection and BA058 Microneedle Patch clinical studies and potential commercial launch. We also depend on Beaufort Ipsen Industrie S.A.S. and its subcontractor VETTER Pharma Fertigung GmbH & Co ( Vetter ) for the production of finished supplies of BA058 Injection and we depend on 3M for the production of BA058 Microneedle Patch. Because of our dependence on Vetter for the fill and finish

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part of the manufacturing process for BA058 Injection, we are subject to the risk that Vetter may not have the capacity from time to time to produce sufficient quantities of BA058 to meet the needs of our clinical studies or be able to scale to commercial production of BA058. Because the manufacturing process for BA058 Microneedle Patch requires the use of 3M's proprietary technology, 3M is our sole source for finished supplies of BA058 Microneedle Patch.

While we are currently in discussions, to date, neither we nor our collaborators have entered into a long-term agreement with Lonza, Vetter or 3M, who each currently produces BA058 product on a purchase order basis for us. Accordingly, Lonza, Vetter and 3M could terminate their relationship at any time and for any reason. If our relationship with any of these contract manufacturers is terminated, or if they are unable to produce BA058 in required quantities, on a timely basis or at all, our business and financial condition would be materially harmed. If any of our current product candidates or any product candidates we may develop or acquire in the future receive FDA approval, we will rely on one or more third-party contractors to manufacture its drugs. Our anticipated future reliance on a limited number of third-party manufacturers exposes us to the following risks:

- We may be unable to identify manufacturers on acceptable terms or at all because the number of potential manufacturers is limited and the FDA must approve any replacement contractor. This approval would require new testing and compliance inspections. In addition, a new manufacturer would have to be educated in, or develop substantially equivalent processes for, production of our products after receipt of FDA approval, if any.
- Our third-party manufacturers might be unable to formulate and manufacture our drugs in the volume and of the quality required to meet our clinical needs and commercial needs, if any.
- Our future contract manufacturers may not perform as agreed or may not remain in the contract manufacturing business for the time required to supply our clinical trials or to successfully produce, store and distribute its products.
- Drug manufacturers are subject to ongoing periodic unannounced inspection by the FDA, the Drug Enforcement Administration, and corresponding state agencies to ensure strict compliance with good manufacturing practice and other government regulations and corresponding foreign standards. We do not have control over third-party manufacturers' compliance with these regulations and standards.
- If any third-party manufacturer makes improvements in the manufacturing process for our products, we may not own, or may have to share, the intellectual property rights to the innovation.

Each of these risks could delay our clinical trials, the approval, if any, of our product candidates by the FDA or the commercialization of our product candidates or result in higher costs or deprive us of potential product revenues.

*We have no experience selling, marketing or distributing products and no internal capability to do so.* We currently have no sales, marketing or distribution capabilities. We do not anticipate having the resources in the foreseeable future to allocate to the sales and marketing of our proposed products. Our future success depends, in part, on our ability to enter into and maintain collaborative relationships for such capabilities,

the collaborator's strategic interest in the products under development and such collaborator's ability to successfully market and sell any such products. We intend to pursue collaborative arrangements regarding the sales and marketing of our products, however, there can be no assurance that we will be able to establish or maintain such collaborative arrangements, or if able to do so, that they will have effective sales forces. To the extent that we decide not to, or are unable to, enter into collaborative arrangements with respect to the sales and marketing of our proposed products, significant capital expenditures, management resources and time will be required to establish and develop an in-house marketing and sales force with technical expertise. There can also be no assurance that we will be able to establish or maintain relationships with third party collaborators or develop in-house sales and distribution capabilities. To the extent that we depend on third parties for marketing and distribution, any revenues we receive will depend upon the efforts of such third parties, and there can be no assurance that such efforts will be successful. In addition, there can also be no assurance that we will be able to market and sell our products in the United States or overseas.

***If we cannot compete successfully for market share against other drug companies, we may not achieve sufficient product revenues and our business will suffer.*** The market for our product candidates is characterized by intense competition and rapid technological advances. If any of our product candidates receives FDA approval, it will compete with a number of existing and future drugs and therapies developed, manufactured and marketed by others. If we fail to develop BA058 Microneedle Patch, our commercial opportunity for BA058 will be limited. Existing or future competing products may provide greater therapeutic convenience or clinical or other benefits for a specific indication than our products, or may offer comparable performance at a lower cost. If our products fail to capture and maintain market share, we may not achieve sufficient product revenues and our business will suffer.

We will compete against fully integrated pharmaceutical companies and smaller companies that are collaborating with larger pharmaceutical companies, academic institutions, government agencies and other public and private research organizations. Many

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of these competitors have oncology compounds already approved or in development. In addition, many of these competitors, either alone or together with their collaborative partners, operate larger research and development programs or have substantially greater financial resources than we do, as well as significantly greater experience in:

- developing drugs;
  
- undertaking pre-clinical testing and human clinical trials;
  
- obtaining FDA and other regulatory approvals of drugs;
  
- formulating and manufacturing drugs; and
  
- launching, marketing and selling drugs.

***Developments by competitors may render our products or technologies obsolete or non-competitive.*** The biotechnology and pharmaceutical industries are intensely competitive and subject to rapid and significant technological change. Some of the drugs that we are attempting to develop, such as BA058, RAD1901 and RAD140 will have to compete with existing therapies. In addition, a large number of companies are pursuing the development of pharmaceuticals that target the same diseases and conditions that we are targeting. We face competition from pharmaceutical and biotechnology companies in the United States and abroad. In addition, companies pursuing different but related fields represent substantial competition. Many of these organizations competing with us have substantially greater capital resources, larger research and development staffs and facilities, longer drug development history in obtaining regulatory approvals and greater manufacturing and marketing capabilities than we do. These organizations also compete with us to attract qualified personnel and parties for acquisitions, joint ventures or other collaborations, and therefore, we may not be able to hire or retain qualified personnel to run all facets of our business.

***If our efforts to protect our intellectual property related to BA058, RAD1901 and/or RAD140 fail to adequately protect these assets, we may suffer the loss of the ability to license or successfully commercialize one or more of these candidates.*** Our commercial success is significantly dependent on intellectual property related to that product portfolio. We are either the licensee or assignee of numerous issued and pending patent applications that cover various aspects of our assets including BA058, RAD1901 and RAD140.

Patents covering BA058 as a composition of matter have been issued in the United States (US patent No. 5,969,095), Europe and several additional countries. Because the BA058 composition of matter case was filed in 1996, it is expected to have a normal expiry of approximately 2016 in the United States (this date does not include the possibility of Hatch-Waxman patent term extension of up to 5 years) and additional countries where it has issued.

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We and Ipsen Pharma SAS (Ipsen SAS) are also coassignees to US patent No. 7,803,770 that we believe provides exclusivity until 2028 in the United States (absent any extensions) for the method of treating osteoporosis with the intended therapeutic dose for BA058 Injection. Because patents are both highly technical and legal documents that are frequently subject to intense litigation pressure, there is risk that one or more of the issued patents that are believed to cover BA058 Injection when marketed will be found to be invalid, unenforceable and/or not infringed. In the absence of product exclusivity in the market, there is a high likelihood of multiple competitors selling the same product with a corresponding drop in pricing power and/or sales volume.

Currently, additional intellectual property covering the BA058 Microneedle Patch is the subject of a US provisional patent application with a priority date of 2011 and any issued claims resulting from this application will expire no earlier than 2031. However, pending patent applications in the United States and elsewhere may not issue since the interpretation of the legal requirements of patentability in view claimed inventions are not always predictable. Additional intellectual property covering the BA058 Microneedle Patch technology exists in the form of proprietary information contained by trade secrets. These can be accidentally disclosed to, independently derived by or misappropriated by competitors, possibly reducing or eliminating the exclusivity advantages of this form of intellectual property, thereby allowing those competitors more rapid entry into the market place with a competitive product thus reducing our marketing advantage of the BA058 Microneedle Patch. In addition, trade secrets may in some instances become publicly available required disclosures in regulatory files. Alternatively, competitors may sometimes reverse engineer a product once it becomes available on the market. Even where a competitor does not use an identical technology for the delivery of BA058, it is possible that they could achieve an equivalent or even superior result using another technology. Such occurrences could lead to either one or more alternative competitor products available on the market and/or one or more generic competitor products on the market with a corresponding decrease in market share and/or price for the BA058 Microneedle Patch.

Patents covering RAD1901 as a composition of matter have been issued in the United States, Australia and is pending in Europe and several additional countries. The RAD1901 composition of matter patent in the United States expires in 2026 (not including any Hatch-Waxman extension). Additional patent applications relating to methods of treating vasomotor symptoms, clinical

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dosage strengths and combination treatment modalities all covering RAD1901 have been filed. Since patents are both highly technical and legal documents that are frequently subject to intense litigation pressure, there is risk that one or more of the issued patents that are believed to cover RAD1901 when marketed will be found to be invalid, unenforceable and/or not infringed when subject to said litigation. In the absence of product exclusivity in the market, there is a high likelihood of multiple competitors selling the same product with a corresponding drop in pricing power and/or sales volume. Pending patent applications in the United States and elsewhere may not issue since the interpretation of the legal requirements of patentability in view of any claimed invention before that patent office are not always predictable. As a result, we could encounter challenges or difficulties in building, maintaining and/or defending its intellectual property rights protecting and defending our intellectual property both in the United States and abroad.

Patent applications covering RAD140 and other SARM compounds that are part of the SARM portfolio have been filed in the United States and elsewhere. Since the RAD140 composition of matter case was effectively filed in 2009, if issued, it is expected to have a normal expiry of approximately 2029 in the United States (this does not include the possibility of United States Patent and Trademark Office (USPTO) patent term adjustment or Hatch-Waxman extension) and additional countries if/when it issues. Since patents are both highly technical and legal documents that are frequently subject to intense litigation pressure, there is risk that even if one or more RAD140 patents does issue and is asserted that the patent(s) will be found invalid, unenforceable and/or not infringed when subject to said litigation. Finally, the intellectual property laws and practices can vary considerably from one country to another and also can change with time. As a result, we could encounter challenges or difficulties in building, maintaining and/or defending its intellectual property rights protecting and defending our intellectual property both in the United States and abroad.

***Payments, fees, submissions and various additional requirements must be met in order for pending patent applications to advance in prosecution and issued patents to be maintained. Rigorous compliance with these requirements is essential to procurement and maintenance of patents integral to the product portfolio.*** Periodic maintenance fees, renewal fees, annuity fees and various other governmental fees on patents and/or applications will come due for payment periodically throughout the lifecycle of patent applications and issued patents. In order to help ensure that we comply with any required fee payment, documentary and/or procedural requirements as they might relate to any patents for which we is an assignee or co-assignee, we employ competent legal help and related professionals as needed to comply with those requirements. Our outside patent counsel uses Computer Packages, Inc. for patent annuity payments. Failure to meet a required fee payment, document production of procedural requirement can result in the abandonment of a pending patent application or the lapse of an issued patent. In some instances the defect can be cured through late compliance but there are situations where the failure to meet the required event cannot be cured. Such an occurrence could compromise the intellectual property protection around a preclinical or clinical candidate and possibly weaken or eliminate our ability to protect our eventual market share for that product.

***If we infringe the rights of third parties we could be prevented from selling products, forced to pay damages, and defend against litigation.*** If our products, methods, processes and other technologies infringe the proprietary rights of other parties, we could incur substantial costs and may have to:

- obtain licenses, which may not be available on commercially reasonable terms, if at all;
  
- abandon an infringing drug candidate;
  
- redesign its products or processes to avoid infringement;



- stop using the subject matter claimed in the patents held by others;

- pay damages; or

- defend litigation or administrative proceedings which may be costly whether we win or lose, and which could result in a substantial diversion of its financial and management resources.

***Our ability to generate product revenues will be diminished if our drugs sell for inadequate prices or patients are unable to obtain adequate levels of reimbursement.*** Our ability to commercialize its drugs, alone or with collaborators, will depend in part on the extent to which reimbursement will be available from:

- government and health administration authorities;

- private health maintenance organizations and health insurers; and

- other healthcare payers.

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***Significant uncertainty exists as to the reimbursement status of newly approved healthcare products.*** Healthcare payers, including Medicare, are challenging the prices charged for medical products and services. Government and other healthcare payers increasingly attempt to contain healthcare costs by limiting both coverage and the level of reimbursement for drugs. Even if one of our product candidates is approved by the FDA, insurance coverage may not be available, and reimbursement levels may be inadequate, to cover such drug. If government and other healthcare payers do not provide adequate coverage and reimbursement levels for one of our products, once approved, market acceptance of such product could be reduced.

***We may not successfully manage our growth.*** Our success will depend upon the expansion of our operations and the effective management of its growth, which will place a significant strain on our management and on administrative, operational and financial resources. To manage this growth, we may be required to expand our facilities, augment our operational, financial and management systems and hire and train additional qualified personnel. If we are unable to manage this growth effectively, our business would be harmed.

***We may be exposed to liability claims associated with the use of hazardous materials and chemicals.*** Our research and development activities may involve the controlled use of hazardous materials and chemicals. Although we believe that our safety procedures for using, storing, handling and disposing of these materials comply with federal, state and local laws and regulations, we cannot completely eliminate the risk of accidental injury or contamination from these materials. In the event of such an accident, we could be held liable for any resulting damages and any liability could materially adversely affect its business, financial condition and results of operations. In addition, the federal, state and local laws and regulations governing the use, manufacture, storage, handling and disposal of hazardous or radioactive materials and waste products may require us to incur substantial compliance costs that could materially adversely affect its business, financial condition and results of operations.

***We rely on key executive officers and scientific and medical advisors, and their knowledge of our business and technical expertise would be difficult to replace.*** We are highly dependent on its principal scientific, regulatory and medical advisors. We do not have key person life policies for any of our officers. The loss of the technical knowledge and management and industry expertise of any of our key personnel could result in delays in product development, loss of customers and sales and diversion of management resources, which could adversely affect our operating results.

***If we are unable to hire additional qualified personnel, our ability to grow our business may be harmed.*** We will need to hire additional qualified personnel with expertise in pre-clinical testing, clinical research and testing, government regulation, formulation and manufacturing and sales and marketing. We compete for qualified individuals with numerous biopharmaceutical companies, universities and other research institutions. Competition for such individuals is intense, and we cannot be certain that our search for such personnel will be successful. Attracting and retaining qualified personnel will be critical to our success.

***We may incur substantial liabilities and may be required to limit commercialization of our products in response to product liability lawsuits.*** The testing and marketing of medical products entail an inherent risk of product liability. If we cannot successfully defend our self against product liability claims, we may incur substantial liabilities or be required to limit commercialization of our products. Our inability to obtain sufficient product liability insurance at an acceptable cost to protect against potential product liability claims could prevent or inhibit the commercialization of pharmaceutical products we develop, alone or with collaborators.

**CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS**

Certain statements contained in this Form 10-Q that are forward-looking in nature are based on the current beliefs of our management as well as assumptions made by and information currently available to management, including statements related to the markets for our products, general trends in our operations or financial results, plans, expectations, estimates and beliefs. In addition, when used in this Form 10-Q, the words project, believe, anticipate, plan, expect, estimate, intend, continue, should, would, could, potentially, will, may, or variants, as they relate to us or our management, may identify forward-looking statements. These statements reflect our judgment as of the date of this Form 10-Q with respect to future events, the outcome of which is subject to risks, which may have a significant impact on our business, operating results or financial condition. You are cautioned that these forward-looking statements are inherently uncertain. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results or outcomes may vary materially from those described herein. We undertake no obligation to update forward-looking statements. The risks identified under the heading Risk Factors in this Form 10-Q, among others, may impact forward-looking statements contained in this Form 10-Q.

Table of Contents**Item 2. Unregistered Sales Of Equity Securities and Use of Proceeds****ISSUER PURCHASES OF EQUITY SECURITIES**

<b>Period</b>	<b>(a) Total Number of Shares (or Units) Purchased</b>	<b>(b) Average Price Paid per Share (or Unit)</b>	<b>(c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs</b>	<b>(d) Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs</b>
July 1, 2011-July 31, 2011	0	N/A	N/A	N/A
Aug. 1, 2011-Aug. 31 2011	0	N/A	N/A	N/A
Sept. 1, 2011-Sept. 30, 2011	0	N/A	N/A	N/A
<b>Total</b>	0	N/A	N/A	N/A

**Item 3. Defaults Upon Senior Securities**

None.

**Item 4. Removed and Reserved****Item 5. Other Information**

None.

**Item 6. Exhibits.**

The following is an index of the exhibits included in this report:

<b>Exhibit No.</b>	<b>Description</b>
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- 3.1 Certificate of Incorporation, as amended(1)
- 3.2 By-Laws(2)
- 4.1 Amended and Restated Stockholders Agreement, dated May 17, 2011, by and among the Company, as successor to Radius Health, Inc., and the Stockholders listed therein(3)
- 31.1 Certification of the Company's Principal Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, with respect to registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2011
- 31.2 Certification of the Company's Principal Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, with respect to registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2011
- 32.1 Certification of the Company's Principal Executive Officer and Principal Financial Officer Pursuant to 18 U.S.C Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 101 The following materials from Radius Health, Inc.'s Quarterly Report on Form 10-Q for the quarter ended September 30, 2011, formatted in XBRL (Extensible Business Reporting Language): (i) the Condensed Balance Sheets, (ii) the Condensed Statement of Operations, (iii) the Condensed Statements of Cash Flows and (iv) the Notes to Unaudited Financial Statements

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- (1) Incorporated by reference to the Company's Registration Statement on Form S-1 filed on October 6, 2011.
  - (2) Incorporated by reference to the Company's Current Report on Form 8-K filed on September 30, 2011.
  - (3) Incorporated by reference to the Company's Current Report on Form 8-K filed October 24, 2011.

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**SIGNATURES**

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

**RADIUS HEALTH, INC.**

By:

/s/ C. Richard Lyttle  
**C. Richard Lyttle**  
**President and Chief Executive Officer**  
**(Principal Executive Officer)**

Date: November 14, 2011

**RADIUS HEALTH, INC.**

By:

/s/ B. Nicholas Harvey  
**B. Nicholas Harvey**  
**Chief Financial Officer**  
**(Principal Accounting and Financial Officer)**

Date: November 14, 2011