Radius Health, Inc.
Form 10-Q
August 12, 2011
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2011.

Or

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

For the transition period from to .

Commission File Number 000-53173

Radius Health, Inc.

(Exact name of registrant as specified in its charter)

Delaware	**80-0145732**
(State or other jurisdiction of Incorporation or organization)	(IRS Employer Identification Number)
201 Broadway **Sixth Floor** **Cambridge, Massachusetts** (Address of Principal Executive Offices)	**02142** (Zip Code)

(617) 551-4700

(Registrant s telephone number, including area code)

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

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

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

Large accelerated filer o	Accelerated filer o
Non-accelerated filer o	Smaller reporting company x

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

Number of shares of the registrant s Common Stock, $0.001 par value per share, outstanding as of August 9, 2011: 592,581 shares

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RADIUS HEALTH, INC.

QUARTERLY REPORT FOR THE QUARTER ENDED JUNE 30, 2011

ON FORM 10-Q

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Item 1. Financial Statements Unaudited

Radius Health, Inc.

Condensed Balance Sheets

(Unaudited, in thousands, except per share amounts)

	June 30, 2011	December 31, 2010
Assets		
Current assets:		
Cash and cash equivalents	$ 25,336	$ 10,582
Marketable securities		7,969
Prepaid expenses and other current assets	3,367	282
Total current assets	28,703	18,833
Property and equipment, net	19	31
Other assets	71	105
Total assets	$ 28,793	$ 18,969
Liabilities, convertible preferred stock, redeemable convertible preferred stock and stockholders deficit		
Current liabilities:		
Accounts payable	$ 72	$ 614
Accrued expenses	4,278	2,771
Current portion of note payable	851	
Total current liabilities	5,201	3,385
Note payable, net of current portion and discount	4,877	
Warrant liability	217	
Other liabilities	3,421	
Commitments and contingencies (*Note 9*)		
Series A-1 Convertible Preferred Stock, $.0001 par value; 1,000,000 shares authorized, 413,254 shares issued and outstanding at June 30, 2011 and no shares issued and outstanding at December 31, 2010	22,437	
Series A-2 Convertible Preferred Stock, $.0001 par value; 983,213 shares authorized, 983,208 shares issued and outstanding at June 30, 2011 and no shares issued and outstanding at December 31, 2010	76,751	
Series A-3 Convertible Preferred Stock, $.0001 par value; 142,230 shares authorized, 142,227 shares issued and outstanding at June 30, 2011 and no shares issued and outstanding at December 31, 2010	9,741	
Series A-4 Convertible Preferred Stock, $.0001 par value; 4,000 shares authorized, 3,998 shares issued and outstanding at June 30, 2011 and no shares issued and outstanding at December 31, 2010	271	
Series A-5 Convertible Preferred Stock, $.0001 par value; 7,000 shares authorized, 6,443 shares issued and outstanding at June 30, 2011 and no shares issued and outstanding at December 31, 2010	525	
Series A-6 Convertible Preferred Stock, $.0001 par value; 800,000 shares authorized, no shares issued and outstanding at June 30, 2011 and no shares issued and outstanding at December 31, 2010		
Series A Junior Convertible Preferred Stock, $.0001 par value; 63,000 shares authorized, 61,664 shares issued and outstanding (liquidation value $925,000)		93
Series B Redeemable Convertible Preferred Stock, $.0001 par value; 160,000 shares authorized, 159,999 shares issued and outstanding at liquidation value		38,309

Series C Redeemable Convertible Preferred Stock, $.0001 par value; 101,466 shares authorized, issued and outstanding at liquidation value				105,434
Stockholders deficit:				
Common stock, $.0001 par value; 34,859,964 shares authorized, 591,644 and 322,807 shares issued and outstanding at June 30, 2011 and December 31, 2010, respectively				
Additional paid-in-capital		7,833		3
Accumulated other comprehensive loss				(3)
Accumulated deficit		(102,481)		(128,252)
Total stockholders deficit	$	(94,648)	$	(128,252)
Total liabilities, convertible preferred stock, redeemable convertible preferred stock and stockholders deficit	$	28,793	$	18,969

See accompanying notes.

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Radius Health, Inc.

Condensed Statements of Operations

(Unaudited, in thousands, except share and per share amounts)

	Three-Month Period Ended June 30,		Six-Month Period Ended June 30,	
	2011	**2010**	**2011**	**2010**
Operating expenses:				
Research and development	$ 16,553	$ 2,216	$ 20,689	$ 4,706
General and administrative	945	473	1,842	1,117
Loss from operations	(17,498)	(2,689)	(22,531)	(5,823)
Interest income	6	21	20	47
Other income (expense)	12	(15)	22	(15)
Interest expense	(108)		(108)	
Net loss	$ (17,588)	$ (2,683)	$ (22,597)	$ (5,791)
Earnings (loss) attributable to common stockholders - basic and diluted (Note 5)	$ 1,401	$ (5,399)	$ 1,013	$ (11,170)
Earnings (loss) per share (Note 5):				
Basic	$ 2.89	$ (16.85)	$ 2.51	$ (34.86)
Diluted	$ 0.44	$ (16.85)	$ 0.27	$ (34.86)
Weighted average shares:				
Basic	484,237	320,424	403,967	320,424
Diluted	3,175,348	320,424	3,790,913	320,424

See accompanying notes.

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Radius Health, Inc.

Statements of Cash Flows

(Unaudited, in thousands)

	Six-Month Period Ended June 30,	
	2011	**2010**
Operating activities		
Net loss	$ (22,597)	$ (5,791)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	15	40
Stock-based compensation expense	106	9
Research and development expense to be settled in stock	3,421	
Amortization of premium (accretion of discount) on short-term investments, net	21	199
Non-cash interest	30	
Milestone payment settled with stock	1,410	
Changes in operating assets and liabilities:		
Prepaid expenses and other current assets	(3,028)	58
Other long-term assets	31	
Accounts payable	(541)	(685)
Accrued expenses	1,507	(657)
Net cash used in operating activities	(19,625)	(6,827)
Investing activities		
Purchases of property and equipment	(3)	(15)
Purchases of marketable securities	(899)	(14,798)
Sales and maturities of marketable securities	8,850	26,155
Net cash provided by investing activities	7,948	11,342
Financing activities		
Proceeds from the exercise of stock options	152	
Net proceeds from the issuance of preferred stock	20,452	
Proceeds on note payable, net	5,883	
Deferred financing costs	(56)	
Net cash provided by financing activities	26,431	
Net increase in cash and cash equivalents	14,754	4,515
Cash and cash equivalents at beginning of period	10,582	7,896
Cash and cash equivalents at end of period	$ 25,336	$ 12,411
Noncash financing activities		
Accretion of preferred stock issuance costs	$	$ 45
Fair value of preferred stock issued in the recapitalization, net of issuance costs	$ 85,879	$
Accretion of dividends on preferred stock	$ 5,595	$ 5,379
Accretion of preferred stock investor rights/obligations	$	$ 343
Fair value of warrants issued	$ 217	$

See accompanying notes.

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Radius Health, Inc.

Notes to Financial Statements

1. Organization

Radius Health, Inc. (Radius or the Company), which was formerly known as MPM Acquisition Corp. is a pharmaceutical company focused on acquiring and developing new therapeutics for the treatment of osteoporosis and other women s health conditions. The Company s lead product candidate, currently in Phase 3 clinical development is BA058 Injection, a daily subcutaneous injection of our novel synthetic peptide analog of human parathyroid hormone-related protein (hPTHrP) for the treatment of osteoporosis. The BA058 Injection Phase 3 study began dosing in April 2011. The Company is also developing the BA058 Microneedle Patch, a short wear time, transdermal form of BA058 delivered using a microneedle technology from 3M Drug Delivery Systems (3M), currently in Phase 1 clinical development. The Company also has two other product candidates, RAD1901, a selective estrogen receptor modulator, or SERM, in Phase 2 clinical development for the treatment of vasomotor symptoms (hot flashes) in women entering menopause and RAD140, a selective androgen receptor modular, or SARM, currently in pre-investigational new drug, or IND, discovery as a potential treatment for age-related muscle loss, frailty, weight loss associated with cancer cachexia and osteoporosis. As used throughout these unaudited, condensed financial statements, the terms Radius , Company , we , us and our refer to Radius Health, Inc. (f/k/a MPM Acquisition Corp.).

Pursuant to an Agreement and Plan of Merger (the Merger Agreement or the Merger) entered into in April 2011 by and among the Company (a publicly-reporting, Form 10 shell company at the time), RHI Merger Corp., a Delaware corporation and wholly owned subsidiary of the Company (MergerCo), and Radius Health, Inc., a privately-held Delaware corporation (Former Operating Company), MergerCo merged with and into the Former Operating Company, with the Former Operating Company remaining as the surviving entity and a wholly-owned subsidiary of the Company. This transaction is herein referred to as the Merger . The Merger was effective as of May 17, 2011, upon the filing of a certificate of merger with the Delaware Secretary of State. Following the Merger on May 17, 2011, the Company s Board of Directors approved a transaction pursuant to which the Former Operating Company merged with and into the Company, leaving the Company as the surviving corporation (the Short-Form Merger). As part of the Short-Form Merger, the Company, then named MPM Acquisition Corp., changed its name to Radius Health, Inc. and assumed the operations of the Former Operating Company.

The Company is subject to the risks associated with emerging, technology-oriented companies with a limited operating history, including dependence on key individuals, a developing business model, market acceptance of the Company s product candidates, competitive product candidates, and the continued ability to obtain adequate financing to fund the Company s future operations. The Company has an accumulated deficit of $102.5 million through June 30, 2011. The Company has incurred losses and expects to continue to incur additional losses for the foreseeable future. The Company intends to obtain additional equity and/or debt financing in order to meet working capital requirements and to further develop its product candidates. As part of the Merger and Short-Form Merger in May 2011, the Company assumed the Former Operating Company s agreement with existing and new investors pursuant to which the Former Operating Company received an irrevocable, legally binding commitment for proceeds of $64.3 million from the issuance of shares of Series A-1 Convertible Preferred Stock in three closings. The proceeds from each closing are generally due to the Company upon its written request. The first of the three closings was completed prior to the Merger on May 17, 2011 for gross proceeds of $21.4 million and the Company expects to complete the second and third closings during the remainder of 2011. The Company believes that its existing cash and cash equivalents and the proceeds available from the irrevocable legally binding commitment described above and in Note 4, are sufficient to finance its operations, including its obligations under the Nordic agreement described in Note 14, into the second quarter of 2012.

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2. Basis of Presentation

The accompanying unaudited condensed financial statements and the related disclosures of the Company have been prepared in accordance with accounting principles generally accepted in the United States (GAAP) for interim financial reporting and as required by Regulation S-X, Rule 10-01. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments (including those which are normal and recurring) considered necessary for a fair presentation of the interim financial information have been included. When preparing financial statements in conformity with GAAP, the Company must make estimates and assumptions that affect the reported amounts of assets, liabilities, expenses and related disclosures at the date of the financial statements. Actual results could differ from those estimates. Additionally, operating results for the three and six months ended June 30, 2011 are not necessarily indicative of the results that may be expected for any other interim period or for the fiscal year ending December 31, 2011. For further information, refer to the financial statements and footnotes included in the Company s audited financial statements for the year ended December 31, 2010 included on Form 8-K as filed with the Securities and Exchange Commission (SEC) on May 23, 2011, as amended on July 20, 2011. The accompanying unaudited condensed financial statements and the related disclosures take into account the Merger and Short-Form Merger transactions. In addition, all historical share and per share amounts in the financial statements relating to the Former Operating Company have been retroactively adjusted for all periods presented to give effect to the 15:1 reverse stock split of all of the Former Operating Company s capital stock (the Reverse Stock Split), including reclassifying an amount equal to the reduction in par value to additional paid-in-capital, approved by the Former Operating Company s Board of Directors prior to the Merger on May 17, 2011.

Merger

As described above, the Company completed a reverse merger transaction with the Former Operating Company on May 17, 2011, pursuant to which the Company changed its name from MPM Acquisition Corp. to Radius Health, Inc. and assumed the operations of the Former Operating Company.

As of the effective time of the Merger (the Effective Time), the legal existence of MergerCo ceased and all of the shares of the Former Operating Company s common stock, par value $0.01 per share, and shares of the Former Operating Company s preferred stock, par value $0.01 per share, that were outstanding immediately prior to the Merger were cancelled and converted into the right to receive shares of the Company s common or preferred stock, as applicable. Each outstanding share of the Former Operating Company common stock outstanding immediately prior to the Effective Time was automatically converted into the right to receive one share of the Company s common stock, $0.0001 par value per share (the Common Stock) and each outstanding share of the Company s preferred stock outstanding immediately prior to the Effective Time was automatically converted into the right to receive one-tenth of one share of the Company s preferred stock, $0.0001 par value per share (the Preferred Stock) as consideration for the Merger. The December 31, 2010 financial statements, specifically common stock and additional paid-in-capital, have been adjusted to reflect the change in common stock par value.

The Company assumed all options and warrants of the Former Operating Company outstanding immediately prior to the Effective Time, which became exercisable for shares of the Company s Common Stock or Preferred Stock, as the case may be.

Contemporaneously with the closing of the Merger, pursuant to the terms of a Redemption Agreement dated April 25, 2011 by and among the Company and its then-current stockholder, the Company completed the repurchase of 5,000,000 shares of Common Stock from its former sole stockholder in consideration of an aggregate of $50,000. The 5,000,000 shares constituted all of the then issued and outstanding shares of the Company s capital stock, on a fully-diluted basis, immediately prior to the Merger.

Upon completion of the Merger and the Redemption, the former stockholders of the Former Operating Company held 100% of the outstanding shares of capital stock of the Company.

Pursuant to the Merger, the Company assumed all of the Former Operating Company s obligations under its existing contracts. In particular, the Company has assumed the rights and obligations of the Former Operating Company

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under that certain Series A-1 Convertible Preferred Stock Purchase Agreement, dated as of April 25, 2011, as amended, (the Purchase Agreement) with that certain investors listed therein (the Investors) pursuant to which, among other things, the Company is obligated to issue and sell to the Investors up to an aggregate of 789,553 shares of Series A-1 Convertible Preferred Stock, par value $.01 per share (the Series A-1), each at a purchase price per share of $81.42, to be completed in three closings for cash proceeds of $64.3 million. The transactions covered by the Purchase Agreement are referred to herein as the Series A-1 Financing . An initial closing was completed on May 17, 2011 by the Former Operating Company prior to the Merger. Upon notice from the Company, the Investors are obligated to purchase, and the Company is obligated to issue, an additional 263,178 shares of Series A-1 at the Stage II Closing in exchange for cash proceeds of $21.4 million and an additional 263,180 shares of Series A-1 at the Stage III Closing in exchange for cash proceeds of $21.4 million. There are no conditions to funding if the Company notifies the Investors of any such closing.

3. Summary of Significant Accounting Policies

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires the Company s management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Fair Value Measurements

The fair value hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets (Level 1), and the lowest priority to unobservable inputs (Level 3). The Company s financial assets are classified within the fair value hierarchy based on the lowest level of input that is significant to the fair value measurement. The three levels of the fair value hierarchy, and its applicability to the Company s financial assets, are described below:

Level 1 Unadjusted quoted prices in active markets that are accessible at the measurement date of identical, unrestricted assets.

Level 2 Quoted prices for similar assets, or inputs that are observable, either directly or indirectly, for substantially the full term through corroboration with observable market data. Level 2 includes investments valued at quoted prices adjusted for legal or contractual restrictions specific to the security.

Level 3 Pricing inputs are unobservable for the asset, that is, inputs that reflect the reporting entity s own assumptions about the assumptions market participants would use in pricing the asset. Level 3 includes private investments that are supported by little or no market activity.

All of the Company s financial assets, comprising cash equivalents and marketable securities, are classified as Level 1 and Level 2 assets as of June 30, 2011 and December 31, 2010 (Note 6). Money market funds are valued using quoted market prices with no valuation adjustments applied. Accordingly, these securities are categorized as Level 1. Assets utilizing Level 2 inputs include government agency securities, including direct issuance bonds, and corporate bonds. These assets are valued using third party pricing resources which generally use interest rates and yield curves observable at commonly quoted intervals of similar assets as observable inputs for pricing.

Redeemable Convertible Preferred Stock

Prior to the Series A-1 Financing on May 17, 2011, the carrying value of the Company s redeemable convertible preferred stock was adjusted by periodic accretions such that the carrying value will equal the redemption amount at the redemption date. The carrying value is also adjusted to reflect dividends that accrue quarterly on the redeemable convertible preferred stock (Note 11). In connection with the recapitalization discussed in Note 4, the Company s Preferred Stock is no longer redeemable, other than upon a deemed liquidation event, as defined.

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Preferred Stock Accounting

The Company accounts for an amendment that adds, deletes or significantly changes a substantive contractual term (e.g., one that is at least reasonably possible of being exercised), or fundamentally changes the nature of the preferred shares as an extinguishment. (Note 4)

Financial Instruments Indexed to and Potentially Settled in the Company s Common stock

The Company evaluates all financial instruments issued in connection with its equity offerings when determining the proper accounting treatment for such instruments in the Company s financial statements. The Company considers a number of generally accepted accounting principles to determine such treatment and evaluates the features of the instrument to determine the appropriate accounting treatment. The Company utilizes the Black-Scholes method or other appropriate methods to determine the fair value of its derivative financial instruments. Key valuation factors in determining the fair value include, but are not limited to, the current stock price as of the date of measurement, the exercise price, the remaining contractual life, expected volatility for the instrument and the risk-free interest rate. For financial instruments that are determined to be classified as liabilities on the balance sheet, changes in fair value are recorded as a gain or loss in the Company s Statement of Operations with the corresponding amount recorded as an adjustment to the liability on its Balance Sheet.

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.

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

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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 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 June 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 calculated as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Net loss	$ (17,588)	$ (2,683)	$ (22,597)	$ (5,791)

Change in unrealized gain on marketable securities	6	7		
Comprehensive loss	$ (17,588)	$ (2,677)	$ (22,597)	$ (5,784)

Recently Adopted Accounting Standards

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

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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 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.

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 June 30, 2011. The issuance of the additional shares did not generate a beneficial conversion feature at the date of issuance or at June 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 June 30, 2011:

Class	Number of Shares
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 June 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 June 30		Six months ended June 30	
	2011	2010	2011	2010
Numerator:				
Net loss	$ (17,588)	$ (2,683)	$ (22,597)	$ (5,791)
Extinguishment of preferred stock	60,937		60,937	
Accretion of preferred stock dividends	(2,719)	(2,716)	(5,595)	(5,379)
Earnings attributable to participating preferred stockholders	(39,229)		(31,732)	
Earnings (loss) attributable to common stockholders - basic	1,401	(5,399)	1,013	(11,170)
Effect of dilutive convertible preferred stock				
Earnings (loss) attributable to common stockholders - diluted	$ 1,401	$ (5,399)	$ 1,013	$ (11,170)
Denominator:				
Weighted-average number of common shares used in earnings (loss) per share - basic	484,237	320,424	403,967	320,424
Effect of dilutive options to purchase common stock	409,113		261,193	
Effect of dilutive convertible preferred stock	2,281,998		3,125,753	
Weighted-average number of common shares used in earnings (loss) per share - diluted	3,175,348	320,424	3,790,913	320,424
Earnings (loss) per share - basic	$ 2.89	$ (16.85)	$ 2.51	$ (34.86)

Effect of dilutive options to purchase common stock	(1.33)		(0.98)	
Effect of dilutive convertible preferred stock	(1.13)		(1.25)	
Earnings (loss) per share - diluted	$ 0.44	$ (16.85)	$ 0.27	$ (34.86)

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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 June 30,		Six months ended June 30,	
	2011	2010	2011	2010
Convertible preferred stock	13,557,238	11,808,290	9,267,677	11,808,290
Options to purchase common stock		1,216,718	418,215	1,216,718
Warrants	4,154	266	4,154	266

6. Marketable Securities

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

	June 30, 2011			
(In thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Cash and cash equivalents:				
Cash equivalents	$ 25,336	$	$	$ 25,336
Total	$ 25,336	$	$	$ 25,336

There were no marketable securities at June 30, 2011.

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	December 31, 2010			
(In thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
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 December 31, 2010. The Company evaluated the securities for other-than-temporary impairment based on quantitative and qualitative factors. The Company considered the decline in market value for these securities to be primarily attributable to current economic conditions. The Company does not intend to sell these securities prior to their maturity and it is not more likely than not that the Company will be required to sell these securities before the recovery of their amortized costs bases, which may be at maturity.

7. Fair Value Measurements

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

	June 30, 2011			
(In thousands)	Level 1	Level 2	Level 3	Total
Assets				
Cash and cash equivalents	$ 25,336	$	$	$ 25,336

	June 30, 2011			
(In thousands)	Level 1	Level 2	Level 3	Total
Liabilities				
Warrant liability	$	$	$ 217	$ 217
Other liability			3,421	3,421
			$ 3,638	$ 3,638

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

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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 liabilities, where fair value is determined by Level 3 inputs:

Balance at January 1, 2011	$	
Additions		3,638
Change in fair value		
Balance at June 30, 2011	$	3,638

8. Accrued Expenses

Accrued expenses consist of the following:

(In thousands)	**June 30, 2011**	**December 31, 2010**
Research costs	$ 2,672	$ 1,913
Payroll and employee benefits	764	473
Professional fees	701	243
Vacation	79	79
Restructuring		63
Accrued interest on notes payable	62	
Total accrued expenses	$ 4,278	$ 2,771

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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 June 30, 2011	$	

On January 14, 2011, the Company signed a sublease agreement for office space in Cambridge, Massachusetts that expires on July 31, 2011. Monthly rental payments under this sublease are $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

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 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.

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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 June 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 June 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 June 30, 2011, are as follows:

(In thousands)		
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 June 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

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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, 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 $0.3 million, $0.8 million and $0.1 million on Series A-1, A-2 and A-3, respectively, as of June 30, 2011.

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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-5. 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 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

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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 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	$ 1,715
Granted				
Exercised	(166)	0.92		
Cancelled	(12)	1.36		
Options outstanding at June 30, 2011	1,284	1.20	6.72	2,253
Options exercisable at June 30, 2011	962	1.18	6.15	1,713
Options vested or expected to vest at June 30, 2011	1,273	$ 1.20	$ 6.72	$ 2,235

The total grant-date fair value of stock options that vested during the three- and six-month periods ended June 30, 2011 was approximately $48,000 and $86,000, respectively. The aggregate intrinsic value of options that vested during the three- and six-month periods ended June 30, 2011 was approximately $109,000 and $203,000, respectively.

As of June 30, 2011, there was approximately $29,000 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 six-month periods ended June 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 six-month periods

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ended June 30, 2011, the Company recorded approximately $39,000 and $18,000 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. 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 to Ipsen upon the achievement of certain development and commercialization milestones specified in the Ipsen Agreement, and for the payment of royalties on net sales 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). In connection with the Ipsen Agreement, the Company recorded approximately $0.2 million, $24,000, $0.3 million, and $44,000 in research and developments costs in the three-month periods ended June 30, 2011 and 2010, and the six-month periods ended June 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- and six-month periods ended June 30, 2011. The expense represents the fair value of the Series A-1 shares of $81.42 per share.

14. Research Agreements

The Company entered into a Letter of Intent with Nordic 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

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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 June 30, 2011, 57,987 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 June 30, 2011, the fair value of the liability was $3.4 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 and $11.4 million in the three- and six-month periods ended June 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 $0.5 million of research and development expense in the six-month period ended June 30, 2011 for per patient costs incurred for patients that had enrolled in the Clinical Study as of June 30, 2011. As of June 30, 2011, in addition to the $3.4 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 a liability to Nordic of approximately $1.6 million that is included in accrued 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 $1.8 million and $2.4 million for pass through costs in the three- and six-month periods ended June 30, 2011.

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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,

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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 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 (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 by late 2013. 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. In addition to BA058 Injection, we are developing BA058 Microneedle Patch, a short wear time, transdermal form of BA058 that is delivered using a microneedle technology from 3M. BA058 Microneedle Patch is being studied in a Phase 1b clinical study which began in December 2010. The BA058 Microneedle Patch may eliminate the need for daily injections and lead to better treatment compliance for patients.

On May 17, 2011, the Merger and the Short-Form Merger were consummated whereby the Company, then a public shell company, was merged with the Former Operating Company. The Company s 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 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. 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. We are also evaluating strategic alternatives with respect to collaborating with third parties for the future development of

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RAD1901 and RAD140. Our ability to further develop these product candidates will be dependent upon the outcome of our collaboration strategy. Our major sources of working capital have been proceeds from various private financings, primarily the private sales of our preferred stock.

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 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 consolidated 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.

Critical Accounting Policies and Estimates

Our discussion and analysis of our financial condition and results of operations is based upon our financial statements prepared in accordance with generally accepted accounting principles in the U.S., or GAAP. The preparation of these financial statements requires us to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of expenses during the reported periods. These estimates and assumptions are monitored and analyzed by us for changes in facts and circumstances, and material changes in these estimates could occur in the future. These critical estimates and assumptions are based on our historical experience, our observance of trends in the industry, and various other factors that are believed to be reasonable under the circumstances and form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from our estimates under different assumptions or conditions. There have been no significant changes to our critical accounting policies in the three-month period ended June 30, 2011, other than the method used to estimate the fair value of our common and preferred stock in the second quarter of 2011. Our most recent valuation utilized the probability-weighted expected return method, or PWERM, as outlined in the AICPA Technical Practice Aid, *Valuation of Privately-Held-Company Equity Securities Issued as Compensation*, or Practice Aid, 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). 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 the condensed financial statements and to determine the fair value of shares of Series A-5 convertible preferred stock due to Nordic Biosciences at June 30, 2011 as discussed in Note 14 to the condensed financial statements. We had previously used the Option-pricing method to value our common stock which is generally appropriate in situations in which the enterprise has many choices and options available. See Note 3 to our condensed financial statements included elsewhere in this Quarterly Report on Form 10-Q and our financial statements as of December 31, 2010 and 2009 included in Form 8-K filed with the Securities and Exchange Commission, or SEC, on May 23, 2011, as

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amended on July 20, 2011, for additional information about our critical accounting policies, as well as a description of our other significant accounting policies.

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 June 30,		Six months Ended June 30,	
	2011	2010	2011	2010
	(In Thousands)			
Operating expenses:				
Research and development	$ 16,553	$ 2,216	$ 20,689	$ 4,706
General and administrative	945	473	1,842	1,117
Loss from operations	(17,498)	(2,689)	(22,531)	(5,823)
Interest income	6	21	20	47
Other income (expense)	12	(15)	22	(15)
Interest expense	(108)		(108)	
Net loss	$ (17,588)	$ (2,683)	$ (22,597)	$ (5,791)

Three months Ended June 30, 2011 and 2010

	Three months Ended June 30,		Change
	2011	2010	$