Radius Health, Inc.
Form S-1/A
November 07, 2011

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**As filed with the Securities and Exchange Commission on November 7, 2011**

**Registration No. 333-175091**

# UNITED STATES
# SECURITIES AND EXCHANGE COMMISSION

**Washington, D.C. 20549**

**Amendment No. 4 to**

# FORM S-1

**REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933**

# Radius Health, Inc.

(Exact name of registrant as specified in its charter)

| **Delaware** | **2834** | **80-0145732** |
|---|---|---|
| (State or other jurisdiction of incorporation or organization) | (Primary Standard Industrial Classification Code Number) | (I.R.S. Employer Identification Number) |

**201 Broadway, 6th Floor**
**Cambridge, MA 02139**
**(617) 551-4700**

(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

**C. Richard Lyttle, Ph.D.**
**Chief Executive Officer**
**Radius Health, Inc.**
**201 Broadway, 6th Floor**
**Cambridge, MA 02139**
**(617) 551-4700**

(Name, address, including zip code, and telephone number, including area code, of agent for service)

**Copies to:**

**Julio E. Vega, Esq.**
**Matthew J. Cushing, Esq.**
**Bingham McCutchen LLP**

**One Federal Street**
**Boston, MA 02110**
**(617) 951-8000**

**Approximate date of commencement of proposed sale to the public:**
**Promptly after the effective date of this Registration Statement, subject to applicable contractual lock-up agreements.**

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of check the following box. ý

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) 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. o

If this Form is a post-effective amendment filed pursuant to Rule 462(c) 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. o

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. 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 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 (Do not check if a smaller reporting company) | Smaller reporting company ý |
|---|---|---|---|

**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 SECURITIES AND EXCHANGE COMMISSION, ACTING PURSUANT TO SAID SECTION 8(A), MAY DETERMINE.**

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**The information in this 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 prospectus is not an offer to sell these securities and is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.**

**OFFERING PROSPECTUS**
**SUBJECT TO COMPLETION, DATED NOVEMBER 7, 2011**

# Radius Health, Inc.

## 5,320,600 Shares
## Common Stock

The selling stockholders identified on pages 99-101 of this prospectus are offering on a resale basis a total of up to 5,320,600 shares of our Common Stock, $0.0001 par value per share ("Common Stock"), consisting of (i) 195,552 currently issued shares of our Common Stock to be offered for resale by certain selling stockholders, (ii) 5,112,120 unissued shares of our Common Stock to be offered for resale by certain selling stockholders upon the conversion of 511,212 outstanding shares of our convertible preferred stock, $0.0001 par value per share ("Preferred Stock"), (iii) 88 unissued shares of our Common Stock to be offered for resale by certain selling stockholders upon the exercise of outstanding common stock purchase warrants, and (iv) 12,840 unissued shares of our Common Stock to be offered for resale by certain selling stockholders upon the conversion of 1,284 shares of our Preferred Stock to be issued upon exercise of outstanding preferred stock purchase warrants.

There is not currently, and there has never been, any market for any of our securities. Our securities are not eligible for trading on any national securities exchange, the Nasdaq or other over-the-counter markets, including the OTC Bulletin Board®. The selling stockholders identified herein will be required to sell the common stock (including shares of common stock issued upon conversion of preferred stock and exercise of warrants) registered hereunder at a fixed price of $8.142 per share until such time as such securities are traded on a national securities exchange, the Nasdaq or the OTC Bulletin Board®. At and after such time that such securities are eligible for trading in such a manner, the selling stockholders may sell such securities at the prevailing market price or at a privately negotiated price.

**The securities offered by this prospectus involve a high degree of risk.**
**See "Risk Factors" beginning on page 5.**

**Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved these securities or determined that this prospectus is truthful or complete. A representation to the contrary is a criminal offense.**

The date of this Prospectus is , 2011.

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## PROSPECTUS SUMMARY

*The following summary highlights selected information contained elsewhere in this Prospectus. This summary does not contain all the information that you should consider before investing in our securities. You should carefully read the entire Prospectus, paying particular attention to the risks referred to under the heading "Risk Factors."*

**About This Offering**

This Prospectus relates to the resale of up to 5,320,600 shares of our Common Stock to be offered by the selling stockholders consisting of (i) 195,552 currently issued shares of our Common Stock to be offered for resale by certain selling stockholders, (ii) 5,112,120 unissued shares of our Common Stock to be offered for resale by certain selling stockholders upon the conversion of 511,212 outstanding shares of our Preferred Stock, (iii) 88 unissued shares of our Common Stock to be offered for resale by certain selling stockholders upon the exercise of outstanding common stock purchase warrants, and (iv) 12,840 unissued shares of our Common Stock to be offered for resale by certain selling stockholders upon the conversion of 1,284 shares of our Preferred Stock to be issued upon exercise of outstanding preferred stock purchase warrants.

**Summary of the Shares offered by the Selling Stockholders.**

The following is a summary of the shares being offered by the selling stockholders:

| | |
|---|---|
| Securities Offered | 5,320,600 shares of our Common Stock to be offered by the selling stockholders consisting of:<br><br>(i) 195,552 currently issued shares of our Common Stock to be offered for resale by certain selling stockholders,<br><br>(ii) 5,112,120 unissued shares of our Common Stock to be offered for resale by certain selling stockholders upon the conversion of 511,212 outstanding shares of our Preferred Stock,<br><br>(iii) 88 unissued shares of our Common Stock to be offered for resale by certain selling stockholders upon the exercise of outstanding common stock purchase warrants,<br><br>(iv) 12,840 unissued shares of our Common Stock to be offered for resale by certain selling stockholders upon the conversion of 1,284 shares of our Preferred Stock to be issued upon exercise of outstanding preferred stock purchase warrants. |
| Capital Stock | As of November 7, 2011 there were 592,581 shares of our Common Stock issued and outstanding. Assuming conversion of all outstanding Preferred Stock on the date hereof there would be 16,083,881 shares of Common Stock outstanding. |
| Use of Proceeds | We will not receive any proceeds from the sale of the Common Stock offered by the selling stockholder. However, we will generate proceeds in the event of a cash exercise of the warrants by the selling stockholder. We intend to use those proceeds, if any, for general corporate purposes. |
| Risk Factors | The securities offered hereby involve a high degree of risk. See "Risk Factors" beginning on page 5. |
| Offering Price | All or part of the shares of Common Stock offered hereby may be sold from time to time in amounts and on terms to be determined by the selling stockholder at the time of sale. |

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| | |
|---|---|
| Market for Our Shares | There is not now and never has been any market for our securities and an active market may never develop. |

**The Company**

We were incorporated in the state of Delaware on February 4, 2008 under the name MPM Acquisition Corp. In May 2011, we entered into a reverse merger transaction (the "Merger") with Radius Health, Inc., a Delaware corporation formed on October 3, 2003 (the "Former Operating Company") pursuant to which the Former Operating Company became a wholly-owned subsidiary of ours. Immediately following the merger transaction, the Former Operating Company was merged with and into us, we assumed the business of the Former Operating Company and changed our name to "Radius Health, Inc."

**Recent Developments**

At the effective time of the Merger (the "Effective Time"), all of the shares of the Former Operating Company's common stock, par value $.01 per share (the "Former Operating Company Common Stock"), and shares of the Former Operating Company's preferred stock, par value $.01 per share (the "Former Operating Company Preferred Stock"), that were outstanding immediately prior to the Merger were cancelled and 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 our Common Stock, par value $.0001, and each outstanding share of the Former Operating Company Preferred Stock outstanding immediately prior to the Effective Time was automatically converted into the right to receive one-tenth of one share of our corresponding series of Preferred Stock, par value $.0001, 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 from our former sole stockholder, MPM Asset Management LLC. 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 the Former Operating Company's obligations under its existing contracts, including those filed herewith as material contracts. In particular, we have assumed the rights and obligations of the Former Operating Company under that certain Series A-1 Convertible Preferred Stock Purchase Agreement (the "Original Purchase Agreement") with certain investors listed therein (the "Investors") pursuant to which, among other things, the Former Operating Company agreed to issue and sell to the Investors up to an aggregate of 7,895,535 shares of Series A-1 Convertible Preferred Stock, par value $.01 per share, to be completed in three closings (the initial closing, the "Stage I Closing", the second closing, the "Stage II Closing" and the final closing, the "Stage III Closing") (collectively, the "Series A-1 Financing"). The Original Purchase Agreement was subsequently amended by Amendment No. 1 thereto to eliminate all closing conditions previously provided for in the Original Purchase Agreement (as so amended, the "Purchase Agreement"). Upon notice from us, the Investors are obligated to purchase, and we are obligated to issue, 263,178 shares of our Series A-1 Convertible Preferred Stock ("Series A-1 Preferred Stock") at the Stage II Closing and 263,180 shares of our Series A-1 Preferred Stock 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, we completed a short-form merger with the Former Operating Company and changed our name to "Radius Health, Inc." as the surviving entity of the short-form merger.

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The foregoing description of the Merger Agreement, the Redemption Agreement, Purchase Agreement and the transactions contemplated thereby do not purport to be complete and are qualified in their entireties by reference to the Merger Agreement and the Redemption Agreement, respectively.

On May 23, 2011, the Company entered into a Loan and Security Agreement with General Electric Capital Corporation ("GECC") as agent and a lender, and Oxford Finance LLC ("Oxford" and together with GECC, the "Lenders") 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 (the "Initial Term Loan") 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, the Company 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 (the "Second Term Loan") and the second, which must be funded not later than May 23, 2012, in an aggregate principal amount equal to $12,500,000 (the "Third Term Loan"). 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, the Company agreed to issue to the Lenders (or their respective affiliates or designees) stock purchase warrants (collectively, 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.

**Business Overview**

Our business is focused on acquiring and developing new therapeutics for the treatment of osteoporosis and other women's health conditions. Our lead product candidate is BA058 Injection for the prevention of fracture in women suffering from osteoporosis. BA058 Injection is a daily subcutaneous injection of our novel synthetic peptide analog of human parathyroid hormone-related protein ("hPTHrP"). In April 2011, we began dosing of patients in a pivotal, multinational Phase 3 clinical study and expect to report top-line data from this study in the first quarter of 2014. Based on our clinical and preclinical results to date, we believe that BA058 stimulates the rapid formation of new high quality bone in patients suffering from osteoporosis and may restore bone into the normal range in patients suffering from osteoporosis. In addition to BA058 Injection, we are developing BA058 Microneedle Patch, a short wear time, transdermal form of BA058 that is delivered by using a microneedle technology from 3M Drug Delivery Systems ("3M"). The BA058 Microneedle Patch is currently 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. We believe that development costs for the BA058 Microneedle Patch will be lower than development costs for BA058 Injection as it will not be necessary to conduct an additional fracture study for this follow-on product. As a result of the compressed pathway for the BA058 Microneedle Patch, we expect that marketing approval of the BA058 Microneedle Patch can occur soon after the BA058 Injection.

Osteoporosis is a disease characterized by low bone mass and structural deterioration of bone tissue, leading to an increase in fractures. The prevalence of osteoporosis is growing in developed nations with the aging of the populations. The National Osteoporosis Foundation ("NOF") has estimated that (i) 10 million people in the United States, comprising eight million women and two

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million are men, already have osteoporosis and another 34 million have low bone mass placing them at increased risk for osteoporosis and (ii) osteoporosis was responsible for more than 2 million fractures in the United States in 2005 resulting in an estimated $19 billion in costs. The NOF expects that the number of fractures due to osteoporosis will rise to more than 3 million by 2025.

In addition to BA058 Injection and BA058 Microneedle Patch, we are currently conducting one other clinical and one preclinical program. Our second clinical stage product candidate is RAD1901, a selective estrogen receptor modulator, or SERM, licensed from Eisai Co ("Eisai") in 2006 which has completed an initial Phase 2 clinical study for the treatment of vasomotor symptoms (commonly referred to 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 of the drug candidate established in a previous Phase 1 study. Our third product candidate, RAD140, is a pre-IND discovery. RAD140 is a selective androgen receptor modular, or SARM, that is an orally-active androgen agonist on muscle and bone and is a potential treatment for age-related muscle loss, frailty, weight loss associated with cancer cachexia and osteoporosis.

As of the date of this report, we employed seven full-time employees and three part-time employees, four of whom held Ph.D. or M.D. degrees. Four of our employees were engaged in research and development activities and six were engaged in support administration, including business development, and finance. In addition, we intend to use clinical research organizations and third parties to perform our clinical studies and manufacturing.

**Corporate Offices**

Our executive offices are located at 201 Broadway, 6th Floor, Cambridge, MA 02139. Our telephone number is (617) 551-4700.

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## RISK FACTORS

*An investment in our Common Stock is very risky. You may lose the entire amount of your investment. Prior to making an investment decision, you should carefully review this entire prospectus and consider the following risk factors. Set forth below are risks and uncertainties that could cause actual results to differ materially from the results contemplated by the forward-looking statements contained in this Prospectus. 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 June 30, 2011, we had an accumulated deficit of $102.5 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 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

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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 (for a description of the material terms of the lock-up provisions, see "Description of Capital Stock Restrictions on Alienability" below). 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.

***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.

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***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 June 30, 2011, we have 591,644 shares of Common Stock; 413,254 shares of Series A-1 Convertible Preferred Stock (the "Series A-1 Preferred Stock"); 983,208 shares of Series A-2 Convertible Preferred Stock (the "Series A-2 Preferred Stock"); 142,227 shares of Series A-3 Convertible Preferred Stock (the "Series A-3 Preferred Stock"); 3,998 shares of Series Convertible A-4 Preferred Stock (the "Series A-4 Preferred Stock"); 6,443 shares of Series A-5 Convertible Preferred Stock (the "Series A-5 Preferred Stock"); 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 Related 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 June 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 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 June 30, 2011 we had an accumulated deficit of approximately $102.5 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;

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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 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;

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;

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- 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 monkey. We have not commenced all of these required 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

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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
- 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

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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

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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" 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 does 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

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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 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,

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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.

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 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

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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.

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***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 our 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.

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.

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***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.

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## CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

*This Prospectus, 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 Prospectus 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 Prospectus.*

*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 Prospectus under the caption "Risk Factors." You should read these factors and the other cautionary statements made in this Prospectus as being applicable to all related forward-looking statements wherever they appear in this Prospectus. These risk factors are not exhaustive and other sections of this Prospectus 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.*

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## DESCRIPTION OF THE BUSINESS OF RADIUS HEALTH, INC.

***EXPLANATORY NOTE:*** *Unless otherwise provided in this current report, all references in the balance of this Registration Statement to "we," "us," "our company," "our," or the "Company" refer to the combined Radius Health, Inc. entity after giving effect to the Merger and the Short-Form Merger.*

### *Overview*

We are a pharmaceutical company focused on acquiring and developing new therapeutics for the treatment of osteoporosis and other women's health conditions. Our lead product candidate is BA058 Injection, a daily subcutaneous injection of our novel synthetic peptide analog of human parathyroid hormone-related peptide, or hPTHrP, a naturally-occurring bone building hormone, for the treatment of osteoporosis. In April 2011, we began dosing of patients in a pivotal, multinational Phase 3 clinical study. A Phase 3 clinical study is designed to show advantages of a novel therapy over an inactive placebo and/or an existing therapy for the same medical indication and to identify any additional side effects not determined in earlier clinical trials. We expect to report top-line data from this Phase 3 clinical study in the first quarter of 2014. Based on our clinical and preclinical results to date, we believe that BA058 stimulates the rapid formation of new high quality bone in patients suffering from osteoporosis and may restore bone mineral density, or BMD, in these patients into the normal reference range. 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. We believe that development costs for the BA058 Microneedle Patch will be lower than the development costs for BA058 Injection as it will not be necessary to conduct an additional fracture study for registration of this follow-on product. As a result of the compressed pathway for the BA058 Microneedle Patch, we expect that marketing approval of the BA058 Microneedle Patch can occur soon after the BA058 Injection.

While there are a number of drugs that help to reduce the rate of bone loss in patients suffering from osteoporosis, there are few that are able to build bone. The only approved therapy in the United States that increases BMD into the normal reference range in these patients is Forteo®, a daily subcutaneous injection of recombinant human parathyroid hormone, or rhPTH(1-34). The product is marketed by Eli Lilly and had reported worldwide sales of $830 million in 2010. We believe that BA058 may offer a number of important advantages over Forteo®, including greater efficacy, a faster benefit, a shorter course of therapy, an improved safety profile and no need to refrigerate in use BA058 Injection. We believe, if approved, the BA058 Injection and the BA058 Microneedle Patch will offer an attractive bone anabolic treatment option for prescribing physicians and women with compelling advantages in safety, efficacy and delivery over Forteo®.

Based upon guidance we have received from the United States Food and Drug Administration, or the FDA, and the European Medicines Agency, or the EMA, we believe that a single pivotal placebo-controlled, comparative Phase 3 study will be sufficient to support registration of BA058 Injection for the treatment of osteoporosis in both the United States and the European Union. Our planned 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 will be designed to support, or not, our belief 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. We believe that the study will also show that BMD gains for BA058 patients will be earlier than for Forteo® patients.

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***Market Opportunity for BA058***

Osteoporosis is a disease characterized by low bone mass and structural deterioration of bone tissue, leading to an increase in fractures. The prevalence of osteoporosis is growing in developed nations with the aging of the populations. The NOF has estimated that (i) 10 million people in the United States, comprising eight million women and two million men, already have osteoporosis and another 34 million have low bone mass placing them at increased risk for osteoporosis and (ii) osteoporosis was responsible for more than 2 million fractures in the United States in 2005 resulting in an estimated $19 billion in costs. The NOF expects that the number of fractures due to osteoporosis will rise to 3 million by 2025.

In 2011, Cowen and Company, an investment banking firm, estimated that total worldwide sales of osteoporosis products was $7.6 billion in 2010. There are two main types of osteoporosis drugs now available in the United States: (i) anti-resorptive agents such as bisphosphonates including Actonel®, Boniva® or Reclast®, and Prolia® (a nuclear factor kB ligand, or RANKL, inhibitor marketed by Amgen), as well as calcitonins and selective estrogen receptor modulators such as Evista® marketed by Lilly; and (ii) anabolic agents, with Forteo® being the only approved drug of this type. Anti-resorptive agents act to prevent further bone loss by inhibiting the breakdown of bone whereas anabolic agents stimulate bone formation to build high quality, new bone. The use of bisphosphonates have been associated with infrequent but serious adverse events such as osteonecrosis of the jaw, atrial fibrillation and anomalous fractures resulting from "frozen bone" that have created increasing concern with physicians and patients. Many physicians are seeking alternatives to current anti-resorptive therapies and we believe this will drive greater demand for bone anabolic agents in the future. We believe that there is a significant opportunity for a new anabolic agent such as BA058 that will increase bone mineral density to a greater degree and at a faster rate than Forteo® with added advantages in convenience and safety.

***Our Strategy***

We plan to build a pharmaceutical company focused on acquiring and developing new therapeutics for osteoporosis and women's health by:

- Completing the single, pivotal Phase 3 clinical trial of BA058 Injection for the treatment of osteoporosis in the first quarter of 2014;
- Pursuing the clinical development of BA058 Microneedle Patch as a follow-on product for the treatment of osteoporosis;
- Obtaining regulatory approval of BA058 Injection and BA058 Microneedle Patch for the treatment of osteoporosis, initially in the United States and subsequently in the European Union;
- Collaborating with third parties for the worldwide commercialization of BA058; and
- Collaborating with third parties for the further development and commercialization of RAD1901 and RAD140 on a worldwide basis.

To execute on our strategy, we have built a strong management team and Board of Directors with significant pharmaceutical development, regulatory and commercial experience.

***Our Solution***

In addition to BA058 Injection and BA058 Microneedle Patch, we are currently conducting one other clinical and one preclinical program. Our second clinical stage product candidate is RAD1901, a selective estrogen receptor modulator, or SERM, which we licensed from Eisai in 2006. We previously 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 to confirm the safety profile established in a Phase 1 study. Our third product

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candidate, RAD140, is a pre-Investigational New Drug, or IND, Application discovery stage of development. RAD140 is a selective androgen receptor modular, or SARM, that is an orally-active androgen agonist on muscle and bone and is a potential treatment for age-related muscle loss, frailty, weight loss associated with cancer cachexia and osteoporosis.

The following table summarizes the target indications, dosage forms, and stages of development for our product candidates.

**Radius Product Pipeline**

***Research and Development Expenses***

The following table sets forth our research and development expenses related to BA058 injection, BA058 Microneedle Patch, RAD1901 and RAD140 for the years ended December 31, 2009 and 2010 and the six months ended June 30, 2010 and 2011. We began tracking program expenses for BA058 Injection in 2005, and program expenses from inception to June 30, 2011 were approximately $43.1 million. We began tracking program expenses for BA058 Microneedle Patch in 2007, and program expenses from inception to June 30, 2011 were approximately $8.2 million. We began tracking program expenses for RAD1901 in 2006, and program expenses from inception to June 30, 2011 were approximately $15.3 million. We began tracking program expenses for RAD140 in 2008, and program expenses from inception to June 30, 2011 were approximately $5.2 million. 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.

| | Year ended December 31, | | Six Months ended June 30, | |
|---|---|---|---|---|
| | 2009 | 2010 | 2010 | 2011 |
| | (in thousands) | | | |
| BA058 Injection | $ 3,671 | $ 4,664 | $ 661 | $ 16,774 |
| BA058 Microneedle Patch | 2,819 | 1,863 | 857 | 2,758 |
| RAD1901 | 2,185 | 1,654 | 1,040 | |
| RAD140 | 2,031 | 313 | 287 | 23 |

See "Management's Discussion and Analysis Financial Overview Research and Development Costs" for a more detailed discussion related to our research and development expenses and uncertainties related to predicting how much research and development expense we may incur in connection with our existing or future, in any, product candidates.

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***BA058***

BA058 is a novel synthetic peptide analog of human Parathyroid hormone-related peptide, or hPTHrP, being developed by us as a bone anabolic treatment for osteoporosis. hPTHrP is critical in the formation of the embryonic skeleton and is involved in the regulation of bone formation, able to rebuild bone with low associated risk of inducing the presence of too much calcium in the blood, known as hypercalcemia, as a side-effect. Human PTHrP is different to hPTH in its structure and role. In 2009, the medical journal, Nature Chemical Biology, published results of a study indicating that PTH and PTHrP activate the same PTHR1 receptor but produce divergent effects in bone due to differences in downstream cell signaling. We believe that BA058 is the most advanced hPTHrP analog in clinical development for the treatment of osteoporosis. We acquired and maintain exclusive worldwide rights (except Japan) to certain patents, data and technical information related to BA058 through a license agreement with SCRAS SAS, a French corporation on behalf of itself and its affiliates (together with Ipsen SAS and its other affiliates) dated September 2005. Based on clinical and preclinical data to date, we believe that BA058 has the following important potential advantages over Forteo® rhPTH(1-34), the only approved anabolic agent for osteoporosis in the US:

Greater efficacy,

Faster benefit,

Shorter treatment duration,

Less hypercalcemia,

No additional safety risks, and

No refrigeration required in use.

***BA058 Injection***

In August 2009, we announced positive Phase 2 data that showed BA058 Injection produced faster and greater 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, which was 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 March 2011, we entered an agreement with Nordic Bioscience, or Nordic, to manage the Phase 3 study of BA058 Injection. The study will be conducted in 10 countries at 13 centers operated by the Center for Clinical and Basic Research, or CCBR. CCBR is a leading global clinical research organization with extensive experience in global osteoporosis registration studies. We expect to report top-line data from the Phase 3 study of BA058 Injection in the first quarter of 2014. Before we submit an NDA to the FDA for BA058 as a treatment for osteoporosis, we must complete our pivotal Phase 3 study, a thorough QT study, a renal safety study, an osteosarcoma study in rats, and bone quality studies in rats and monkey. We have not commenced all of these required studies and the results of these studies will have an important bearing on the approval of BA058.

The FDA approval process is lengthy and expensive. While the date of FDA approval of BA058 cannot be predicted, FDA approval is not expected before late 2015 and may not be granted, if ever, for several years thereafter. If we do not obtain the necessary regulatory approvals to commercialize

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BA058, we will not be able to sell the product candidate. Given BA058 is our lead product candidate and the only one currently in late stage development, failure to obtain FDA approval of BA058 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. See our discussion of timing of approval, including factors that may result in potential delays, and related research and development costs matters set forth in this registration statement under "Management's Discussion and Analysis Financial Overview Research and Development Costs". As result of the uncertainties discussed there, we are unable to determine the duration and costs to complete current or future clinical stages of our BA058 product candidate or when, or to what extent, we will generate revenues from the commercialization and sale of any of BA058. Notwithstanding the foregoing, future research and development costs related to BA058 Injection is estimated to be at least an additional $160 million. From January 1, 2009 through June 30, 2011, we have incurred $25.1 million in research and development costs related to BA058 Injection. Any failure by us to obtain, or any delay in obtaining, regulatory approvals for BA058 Injection would significantly increase our need to raise additional working capital funds and materially adversely affect our product development efforts and our business overall. Our continued operations, including the development of the BA058 Injection, 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. We will seek to continue to fund operations from cash on hand and through additional equity and/or debt financing and potential collaboration agreements To date, a significant portion of our financing has been through private placements of Preferred Stock. We can give no assurances that any additional capital that we are able to obtain will be sufficient to meet our needs. 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.

***BA058 Microneedle Patch***

In December 2010, we initiated a combined single and seven-day repeat-dose Phase 1 clinical study of the BA058 Microneedle Patch in healthy subjects with top-line data expected to be available in the fourth quarter of 2011. Following this Phase 1 study, we plan to select a dose range to conduct a Phase 2 clinical study comparing multiple daily doses of the BA058 Microneedle Patch to placebo and BA058 Injection using lumbar spine BMD at 6 months as the primary endpoint. We expect to begin the Phase 2 BA058 Microneedle Patch clinical study in mid 2012 with top-line data available in mid 2013. If the BA058 Injection product is already approved by the FDA, we believe that we will only need to conduct a single non-inferiority Phase 3 clinical study comparing the change in lumbar spine BMD at 12 months for patients dosed with the BA058 Microneedle Patch to patients dosed with the BA058 Injection to show that the effect of the BA058 Microneedle Patch treatment is not worse than that of BA058 Injection.

We believe that development costs for the BA058 Microneedle Patch will be lower than the injectable version as it will not be necessary to conduct an additional fracture study for this follow-on product. As a result of the compressed pathway, we expect that marketing approval of the BA058 Microneedle Patch can occur soon after the BA058 Injection. Therefore, the FDA approval, and the timing of any such approval, is dependent upon the approval of BA058 Injection and therefore is not likely to receive FDA approval, if ever, until at least two years following approval of BA058 Injection, however, any such time estimate is subject to the same potential delays discussed under Management's Discussion and Analysis Financial Overview Research and Development Costs". As result of the uncertainties discussed there, we are unable to determine the costs to complete current or future

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clinical stages of the BA058 Microneedle Patch candidate or when, or to what extent, we will generate revenues from the commercialization and sale of any of BA058. Notwithstanding the foregoing, future research and development costs related to BA058 Microneedle Patch is estimated to be at least an additional $50 million. From January 1, 2009 through June 30, 2011, we have incurred $7.4 million in research and development costs related to the BA058 Microneedle Patch. Any failure by us to obtain, or any delay in obtaining, regulatory approvals for BA058 Microneedle Patch could significantly increase our need to raise additional working capital funds and materially adversely affect our product development efforts and our business overall. Our continued operations, including the development of the BA058 Microneedle Patch, 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. We will seek to continue to fund operations from cash on hand and through additional equity and/or debt financing and potential collaboration agreements. To date, a significant portion of our financing has been through private placements of Preferred Stock. We can give no assurances that any additional capital that we are able to obtain will be sufficient to meet our needs. 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.

***Background on Osteoporosis***

Osteoporosis is a disease characterized by low bone mass and structural deterioration of bone tissue, which can lead to an increase in fractures. A bone density test is the only non-invasive test that can diagnose osteoporosis before a broken bone occurs and is reported using T-scores. The test uses a procedure called bone densitometry (DXA) performed in the radiology or nuclear medicine departments of hospitals or clinics. A BMD t-score is the number of standard deviations above or below the mean BMD for a healthy 30 year old adult of the same sex and ethnicity as the patient. A t-score of -1.0 or above is normal bone density, whereas a t-score of -2.5 or below is a diagnosis of osteoporosis.

On its website, www.nof.org, the National Osteoporosis Foundation (NOF) has estimated that 10 million people in the United States, comprising eight million women and two million men, already have osteoporosis and another 34 million have low bone mass placing them at increased risk for osteoporosis and broken bones. All bones become more fragile and susceptible to fracture as the disease progresses. People tend to be unaware that their bones are getting weaker, and a person with osteoporosis can fracture a bone from even a minor fall. Fractures due to osteoporosis are most likely to occur in the hip, spine and wrist. According to the NOF: osteoporosis was responsible for more than 2 million fractures in the United States in 2005; vertebral (spinal) fractures may result in severe back pain, loss of height or spinal deformities; there were approximately 293,000 Americans age 45 and over admitted to hospitals in 2005 with a fracture of the femoral neck, a common type of hip fracture that is associated with osteoporosis; a women's lifetime risk of a hip fracture is equal to her combined risk of breast, uterine and ovarian cancer; and an average of 24 percent of hip fracture patients aged 50 and over dies in the year following their fracture, while additional 20 percent of patients who were ambulatory before their hip fracture require long-term care.

The debilitating effects of osteoporosis have substantial costs. Loss of mobility, admission to nursing homes and dependence on caregivers are all common consequences of osteoporosis. The NOF has estimated that osteoporosis-related fractures were responsible for $19 billion in costs in 2005.

The prevalence of osteoporosis is growing and, according to the NOF, is significantly under-recognized and under-treated in the population. While the aging of the population is a primary driver of an increase in cases, osteoporosis is also increasing from the use of drugs that induce bone loss, such

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as chronic use of glucocorticoids for asthma, aromatase inhibitors that are increasingly used for breast cancer and the hormone therapies used for prostate cancer.

The range of treatment and prevention options for osteoporosis has expanded in recent years from anti-resorptive drugs that act to prevent bone loss by blocking bone resorption, which is the process by which bone is broken down in the body and the resulting minerals, including calcium, are released into the blood, and now includes bisphosphonates, selective estrogen receptor modulators, calcitonins, and most recently in 2010, a genetic-based therapy known as receptor activator of nuclear factor kappa-B ligand, known as a RANKL inhibitor. Bisphosphonates remain the current standard of care with 2010 world-wide total sales of approximately $4.2 billion according to Cowen and Company's report dated March 2011 and entitled Therapeutic Categories Outlook, led by Actonel®, Boniva®, and Fosamax®. Generic versions of Fosamax® (alendronate) became available in the US in 2008 and have now gained share from branded oral bisphosphonates.

The only anabolic (i.e., stimulating bone formation) drug approved in the U.S. for osteoporosis is Forteo®, which was approved by the FDA in December 2002. In 2011, the medical journal, *Osteoporosis International*, published results of a study indicating that patients' preferences for osteoporosis medications are strongly influenced by the mode of administration. In particular, when given the choice of subcutaneously injected Forteo® versus other therapies, patients preferred the alternative drugs over Forteo, which requires once-daily, self-administered injections and must be refrigerated for storage in use. We believe that this research suggests that there is a substantial opportunity to optimize patient outcomes and expand the market by improved treatment compliance with a bone anabolic drug that offers an alternative to daily injection, is room-temperature-stable and requires a shorter treatment duration, such as the BA058 Microneedle Patch. Forteo® had world-wide sales of $594 million in 2006 and grew to $830 million in sales for 2010.

***Clinical Development Program for BA058***

Radius is developing BA058 for the prevention of fractures in postmenopausal women at risk of fracture from severe osteoporosis. Recognizing both the therapeutic potential of BA058 in this indication as well as the drawbacks inherent in self-injection therapies in this population, Radius is also developing the BA058 Microneedle Patch for transdermal administration of the product using a microneedle technology from 3M. We plan to develop and register BA058 Injection as our lead product, with the BA058 Microneedle Patch as a fast-following product that provides greater patient convenience. The ability of the Microneedle Patch to capitalize on the more extensive fracture study data of BA058 Injection will allow the patch product to be accelerated though later phase development without requiring its own fracture study.

***Planned and Completed BA058 Studies***

***Planned Studies***
***BA058 Injection, Phase 3***

The Phase 3 study for BA058 Injection (Study BA058-05-003) was submitted as a draft protocol to IND 73,176 on December 18, 2009, and was the subject of a Type B End of Phase 2 Meeting conducted with the FDA on January 21, 2010. The protocol was subsequently revised and submitted to the FDA on December 17, 2010. The study is planned to enroll 2,400 patients at 13 medical centers in 10 countries in Europe, Latin America and Asia.

***Study Objectives***

The primary objective of this study is to determine the safety and efficacy of BA058 Injection at a dose of 80 μg when compared to a matching placebo for prevention of vertebral fracture in otherwise healthy ambulatory postmenopausal women at risk of fracture from severe osteoporosis. Patients,

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investigators and independent assessors will be blinded as to treatment for that outcome. The secondary objectives of this study are to determine the safety and efficacy of BA058 at a dose of 80 µg when compared to placebo for prevention of non-vertebral fractures and for change in vertical height. Additional key secondary efficacy outcomes include BMD of spine, hip and femoral neck and hypercalcemia when compared to Forteo®.

***Study Population***

The study will enroll otherwise healthy ambulatory postmenopausal (≥ 5 years) women from 50 to 85 years of age (inclusive) who meet the study entry criteria and have provided written informed consent. The women will have a BMD T-score ≤ -2.5 and > -5.0 at the lumbar spine or hip (femoral neck) by DXA and radiological evidence of two or more mild or one or more moderate lumbar or thoracic vertebral fractures, or history of low trauma forearm, humerus, sacral, pelvic, hip, femoral, or tibial fracture within the past 5 years. Postmenopausal women older than 65 who meet the above fracture criteria but have a T-score ≤ -2.0 and > -5.0 may be enrolled. Women older than 65 who do not meet the fracture criteria may also be enrolled if their T-score is ≤ -3.0 and > -5.0. Osteoporosis is defined as when a patient's T-score is -2.5 or lower, meaning that the patient has a BMD that is two and a half standard deviations below the mean of a thirty year old man or woman, as applicable.

All patients are to be in good general health as determined by medical history, physical examination (including vital signs) and clinical laboratory testing.

***Study Design***

The planned 2,400 eligible patients will be randomized equally to receive one of the following: BA058 at a dose of 80 µg, a matching placebo, or Forteo® at a dose of 20 µg for 18 months. Study drug will be blinded to patients and medical personnel until the randomization process is completed. Treatment with BA058 at a dose of 80 µg or placebo will remain blinded to all parties throughout the study. Forteo® comes as a proprietary prefilled drug and device combination that cannot be repackaged and therefore, its identity cannot be blinded to treating physicians and patients once use begins. Study medication will be self-administered daily by subcutaneous, or SC, injection for a maximum of 18 months.

The dosages of study medications and the number of patients per group are shown in below.

***Study BA058-05-003 Medication Doses and Number of Patients per Group***

| Treatment Regimen | Study Medication | Daily Dose (SC) | Duration | Number of Patients |
|---|---|---|---|---|
| 1 | BA058 | 80 µg | 18 months | 800 |
| 2 | Placebo | | 18 months | 800 |
| 3 | Forteo® | 20 µg | 18 months | 800 |
| | | | Total | 2,400 |

All enrolled patients will also receive Calcium and Vitamin D supplementation from the time of enrollment until the end of the Treatment Period; it will be recommended to patients that they also continue these supplements through the one month follow-up period.

***Primary Efficacy Outcomes***

The primary efficacy endpoint will be the number of BA058-treated patients showing new vertebral fractures at End-of-Treatment when compared to placebo as evaluated by a blinded assessor according to a standardized graded scale of severity of the vertebral deformity. The sample size per treatment

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arm provides 90% power at a two-sided alpha to detect a superiority difference between placebo patients and those who receive BA058 at a dose of 80 μg on vertebral fracture incidence.

***Secondary Efficacy Endpoints***

Secondary efficacy parameters will also include reduction in the incidence of non-vertebral fractures to the wrist, hip and rib, for example, and reduction in moderate and severe vertebral fractures. Other secondary efficacy endpoints will include changes in BMD of the spine, hip, femoral neck and wrist from baseline to end-of-treatment as assessed by DXA.

Additional secondary endpoints will include change in standing height and changes in serum bone formation markers across treatment, such as N-terminal propeptide of type I procollagen PINP, osteocalcin and bone-specific alkaline phosphatase. The frequency of hypercalcemia across treatment groups will also be assessed.

***Safety Outcomes***

Safety evaluations to be performed will include physical examinations, vital signs, 12-lead electrocardiograms, or ECGs, clinical laboratory tests and monitoring and recording of adverse events. Specific safety assessments will include post-dose (4 hours) determination of serum calcium, determination of creatinine clearance, post-dose ECG assessments at selected visits and assessments of postural hypotension (60 minutes post-dose) at selected clinic visits.

Bone biopsy of the iliac crest will be performed in a subset of patients receiving BA058 at a dose of 80 μg and Placebo (up to 100 per group) for assessment of quantitative bone histomorphometry which is the quantative study of the microscopic organization and structure of the bone tissue, and will be read blinded to treatment by an independent blinded assessor. Renal safety will be further evaluated in a subset of 100 patients in each treatment group by renal computed tomography, or CT, scan.

Overall study safety will be monitored by an independent Data Safety Monitoring Board.

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***BA058 Microneedle Patch Phase 2***

We plan to conduct a Phase 2 randomized, placebo-controlled, parallel group dose-finding clinical trial in mid-2012. The study will evaluate the safety and efficacy of the daily BA058 Microneedle Patch in women with osteoporosis. We intend to enroll about 250 patients and the study will be similar in design to the Phase 2 study for BA058 Injection. The study will evaluate the effects of 3 doses of the BA058 Microneedle Patch, compared to placebo and BA058 Injection 80 µg on change in BMD and anabolic bone markers over 6 months of treatment. The study will be powered to detect clinically meaningful changes in BMD and biomarkers as efficacy measures.

Safety will be assessed as changes in incidence of adverse events, changes in laboratory parameters, in particular serum calcium, change from baseline in the patient's vital signs and physical examination.

Study participation will be preceded by 4 weeks of pretreatment with Calcium and Vitamin D supplements and treatment conclusion will be followed by a one month period of safety observation.

***Completed BA058 Studies***
***BA058 Injection, Phase 2***

A Phase 2 dose-finding clinical trial (Study BA058-05-002) was conducted as a randomized, placebo-controlled, parallel group dose-finding study in the United States, Argentina, India and the United Kingdom. The purpose of the study was to evaluate the safety and efficacy of daily injections of BA058 Injection in women with osteoporosis. Postmenopausal women between the ages of 55 to 85 inclusive who had a BMD T-score less than or equal to -2.5 at the lumbar spine or hip (femoral neck) by DXA or a BMD T-score of less than or equal to -2 and a prior low trauma fracture, or an additional risk factor were candidates for this study. The study evaluated the effects of BA058 Injection at multiple doses (0, 20, 40 and 80 µg) on recovery of BMD, a marker of fracture risk, and on biomarkers of anabolic and resorptive activity in bone. The study also included a Forteo® treatment arm for reference. These efficacy measures (BMD and bone biomarkers) were designed for statistical significance. After the initial 24 weeks of treatment, eligible patients were offered a second 24 weeks of their assigned treatment. Safety was assessed throughout the study and reported on at both 6 months and 12 months. BA058 Injection and BA058-placebo were self-administered using a prefilled cartridge in a pen-injector device. Forteo® was self-administered as the marketed product at the approved dose of 20 µg per day by SC injection. Four weeks prior to start of treatment, patients began taking Calcium and Vitamin D supplements that continued throughout the study.

A total of 270 patients (mean age: 65 years) entered the pretreatment period, 222 patients were randomized, and 221 patients received study treatment and were analyzed in the intent to-treat, or ITT, population with 55 continuing into an additional 24 weeks of treatment. A total of 155 patients were included in the Efficacy Population (Per Protocol) in the initial 24 weeks of treatment.

***Initial 24 weeks of treatment***

The efficacy results of Study BA058-05-002 confirm the preclinical and early clinical hypothesis that BA058 Injection induces a dose-dependent increase in BMD and in markers of bone remodeling measurable at both the 12-week and 24-week assessments.

At week 12, in the ITT population the mean percent change in total analyzable spine BMD increased with dose, Figure A. The mean gains in BMD (active treatment  placebo) for the BA058 Injection 40 µg and 80 µg groups were statistically significant ($p = .0013$ and $p < 0.001$, respectively). The difference was not statistically significant in the BA058 20 µg group and just missed significance in the Forteo® group ($p = 0.055$).

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At week 24, the percent change from baseline continued to increase and was statistically significantly proportional to dose (p<0.001), see Figure A below. Again, the mean gain in total analyzable spine BMD was statistically significant for the BA058 Injection 40 µg (p = <0.001) and 80 µg (p < 0.001) groups. The BMD gain at week 24 was also significant for the Forteo® group (p < 0.001), but not for the BA058 Injection 20 µg group.

***Figure A Mean Standard Error of the Mean (SEM) Percent Change from Baseline at weeks 12 and 24 in Total Analyzable Spine BMD***

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An even greater proportional response in BMD was elicited in the hip region. By week 24, mean percent changes in total analyzable hip BMD were 0.4%, 1.4%, 2.0% and 2.6% for the placebo, BA058 at a dose of 20 µg, BA058 at a dose of 40 µg, and BA058 at a dose of 80 µg groups, respectively; mean percent change in the Forteo® (0.5%) group was similar to placebo, see Figure B below. Total hip showed a clear dose response to BA058 and a more than five-fold benefit of BA058 at a dose of 80 µg over Forteo®. A similar relative benefit of BA058 at a dose of 80 µg over Forteo® was seen in all regions of the hip.

***Figure B Mean (SEM) Percent Change from Baseline at weeks 12 and 24 in Total Analyzable Hip BMD (ITT Population, N=221)***

BA058 Injection also induced a dose-dependent rise in major markers of bone anabolic activity studied (N-terminal propeptide of type I procollagen PINP, bone specific alkaline phosphatase BSAP, and osteocalcin). The response to Forteo® was generally somewhat greater for all anabolic markers but also bone resorption markers (C-telopeptides of type I collagen crosslinks, or CTX, and N-telopeptides of type I collagen crosslinks, or NTX), consistent with published data on later gradual loss of Forteo® BMD benefit.

BA058 Injection was well tolerated at all doses and safety events were consistent with usual medical events in a study population of this age and gender. The safety profile was also similar to that of Forteo® and there were no treatment-related significant (serious) adverse events, or SAEs however, adverse events were reported by 74% of patients in the first 6 months of treatment, with a similar incidence across all treatment groups. The majority of on-treatment events were mild to moderate in severity and there were no deaths reported. Seven subjects discontinued due to adverse events,1in the BA058 20 µg group, 1 in the BA058 40 µg group, 3 in the BA058 80 µg group and 2 in the teriparatide group Eight patients (4%) experienced at least 1 severe adverse event and the incidence of such events was similar across treatment groups. Five SAEs, unrelated to treatment, were reported in 3 patients. Local tolerance at the injection site was similar across treatment groups and fewer than 20% of subjects reported any symptoms, such as redness, at the injection site across the many months of injections.

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The level of calcium in the blood, known as serum calcium levels, were monitored throughout the study and clinically significant elevated levels (≥10.5 milligrams per deciliter, or mg/dL) were observed in 40% of the Forteo® group while also observed in 4%, 12%, 19% and 18% of the placebo, BA058 Injection at a dose of 20 µg, 40 µg and 80 µg groups, respectively. Most elevations were noted at the 4-hour post-injection time point.

Blood pressure was assessed throughout the study for postural change. Postural changes in blood pressure (predetermined level of change in systolic or diastolic from lying to standing) were reported in 7 patients, including 0%, 5%, 2%, 2% and 7% of patients in the placebo, BA058 Injection 20 µg, 40 µg, 80 µg and Forteo® groups, respectively. Pre-dose postural changes in blood pressure were similar across treatment groups. There were no clinically meaningful differences in ECG parameters between the placebo and active treatment groups.

Seventeen patients had low titer antibodies against BA058 after 6 months of treatment. Of these, 1 was in the placebo group, 2 were in the BA058 20 µg group, 8 were in the BA058 40 µg group and 6 were in the BA058 80 µg group. There were no associated safety events and no attenuation of treatment efficacy. One antibody-positive patient in the BA058 Injection 40 µg group was found to have evidence of neutralizing activity at 24 weeks without evidence of attenuation of drug efficacy, having a 9.3% gain in total analyzable spine BMD at the week 24 assessment.

***Extended 24 weeks of treatment***

Patients who completed the initial 24 weeks of treatment and continued to meet eligibility criteria were offered participation in the 24-week extension study in which they would continue their assigned treatment. On completion of the regulatory process to approve the study extension, 69 patients remained eligible and 55 participated, including 13, 10, 7, 11 and 14 patients in the BA058 Injection 20 µg, 40 µg, 80 µg, placebo and Forteo® groups, respectively. Forty-eight patients completed the extended treatment period.

BMD continued to increase during the extended 24 weeks of treatment, with the largest percent increases in total analyzable spine BMD, femoral neck BMD and total analyzable hip BMD observed in the BA058 Injection 80 µg group. By week 48, mean percent changes in spine BMD were 0.7%, 5.1%, 9.8% and 12.9% for the placebo, BA058 20 µg, BA058 40 µg and BA058 80 µg, groups, respectively, while mean percent change from baseline in the Forteo® group was 8.6%. At week 48, the mean femoral neck BMD in the BA058 Injection 80 µg group gained 4.1% compared to the mean of the Forteo® group at 2.2%. The respective results for total analyzable hip BMD were 0.7%, 2.2%, 2.1% and 2.7% for the placebo, BA058 20 µg, BA058 40 µg and BA058 80 µg groups, respectively; compared to 1.3% for the Forteo® group.

No treatment-related SAEs or deaths were reported during this time period. Two patients discontinued treatment, one for bilateral femoral hernias (BA058 Injection 80 µg) and one for moderate syncope (BA058 Injection 40 µg). TEAEs occurred in a similar proportion of patients in each treatment group across the 52-week study period and the majority of events were mild or moderate in severity. The profile of events was not different in the second 6 months of study treatment.

Local tolerance of study drug injections was also similar in the second 6 months of treatment. There were no safety signals observed in the evaluation of clinical laboratory parameters.

***Conclusions***

In conclusion, this study demonstrated that treatment with BA058 Injection induces a substantial positive change in BMD at both spine and hip in women with osteoporosis, with a particular advantage over Forteo® at the hip, and achieves this benefit safely and with substantially less hypercalcemia effect than Forteo®.

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***BA058 Injection Phase 1 Trials***

***The First Phase 1 Trial***

The first Phase 1 clinical trial was a single-dose study conducted as a randomized, double-blind, placebo-controlled, parallel-group dose escalation study of BA058 Injection in a vial formulation administered as a single SC dose to healthy male and female subjects with a mean age of 61 years. The study administered single SC doses of 2, 5, 7.5, 10, 15, 20, 40, 60, 80, and 100 µg BA058 Injection or placebo. Sixteen subjects also received 2.5 µg of BA058 Injection by the intravenous, or IV, route and 15 µg subcutaneously in separate study periods. In total, 76 subjects received BA058 while 20 received a placebo. No elevation in serum calcium was observed at doses of 80 µg or lower and no clinically relevant effects of BA058 Injection on ECG or continuous monitoring through the use of a Holter monitor, readings were observed. In summary, this study demonstrated that BA058 Injection is 100% bioavailable when administered by the SC route. BA058 Injection did not induce hypercalcemia and was well tolerated at doses up to 80 µg subcutaneously.

***The Second Phase 1 Trial***

The second Phase 1 clinical trial administered BA058 Injection once daily for seven days. There were 39 study subjects, all healthy postmenopausal women with an average age of 60. Four doses of BA058 Injection (5, 20, 40 or 80 µg) and a matching placebo were studied, with 7 or 8 women receiving each dose for the 7 days of the study. BA058 Injection was well tolerated at all doses and there were no medically important adverse events. All other adverse events were mild or moderate in intensity and did not appear to be related to the dose of study drug. No subjects dropped out or discontinued the study.

BA058 was rapidly absorbed following injection and reached peak blood levels within 1 hour. The drug was rapidly cleared from the circulation, resulting in half-life values ranging from 1.05 to 2.59 hours. Following BA058 administration, serum parathyroid hormone decreased, as would be expected, and serum 1,25-dihydroxyvitamin D and serum P1NP rose in an dose-related manner. 1,25-dihydroxyvitamin D is an activated form of Vitamin D and PINP is a bone protein that is increased when new bone is being formed; both are expected and beneficial effects of the study drug and its class. Serum calcium showed a slight rise following BA058 administration, also an expected effect, but remained within the normal range at all times in all patients other than isolated minor and transient elevations in 2 of 7 placebo and 3 of 32 BA058 subjects.

***The Third Phase 1 Trial***

The third Phase 1 clinical trial was a multi-dose study, with the same design as the Second Phase 1 Trial, but using a liquid prefilled multidose cartridge of BA058 and conducted at doses of 80, 100 and 120 µg. BA058 Injection or placebo was administered daily as a SC dose for 7 days to healthy postmenopausal women. Thirty healthy postmenopausal women with a mean age of 61 years were enrolled and 29 completed treatment.

BA058 Injection was well tolerated at doses of up to 100 µg but not at 120 µg which met criteria for termination of dose escalation. One patient in the 120 µg group was intolerant of study drug and was discontinued. All adverse events were mild or moderate in intensity. No study subject developed serum antibodies to BA058 following the 7 days of exposure. BA058 pharmacokinetics was again characterized by rapid absorption, reaching mean peak plasma concentration within approximately 0.5 hours; mean half-life values ranged from 1.13 to 1.65 hours. Similar responses in serum PTH, 1,25-dihydroxy Vitamin D and serum P1NP were observed. These higher doses of BA058 Injection were not associated with occurrence of hypercalcemia. In summary, BA058 Injection was well tolerated at up to 100 µg once daily for 7 days.

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***BA058 Microneedle Patch***

***First Phase 1 Trial***

The objectives of the Microneedle Patch Phase 1 study were to determine the safety, pharmacokinetics, or PK and time course of delivery of BA058 Microneedle Patch in healthy postmenopausal women and to compare the PK profiles of BA058 Microneedle Patch delivered transdermally to BA058 Injection administered subcutaneously.

This study was a randomized, double-blind, placebo-controlled, ascending single-dose study and enrolled 38 healthy postmenopausal women with a mean age of 57.6. Subjects underwent up to 3 single dose exposures to BA058 Microneedle Patch, Placebo Microneedle Patch or BA058 Injection 80 µg over the course of 3 Study Periods.

***Pharmacokinetic Results***

BA058 Microneedle Patch was characterized by a rapid absorption and elimination. The Cmax and half-life times were shorter than for BA058 Injection administration.

***Safety Results***

The BA058 Microneedle Patch was well tolerated. Safety events were similar between the BA058 Microneedle Patch and BA058 Injection, with the majority of adverse events being mild (99%) and, of these, most were reactions at the application site. There was no clinically notable difference in laboratory or cardiac safety parameters across doses of BA058 or routes of administration.

In conclusion, the first Phase 1 study of the BA058 Microneedle Patch demonstrated that BA058 can safely be delivered by this route of administration.

***Second Phase 1 Trial***

A second Phase 1 single day and 7-day application study of the BA058 Microneedle Patch is currently being conducted in the United States using an optimized Microneedle Patch system. The study is designed as a safety, dose-ranging and time-course pharmacokinetic and pharmacodynamic study. This Phase 1 study will investigate optimal dose, wear time and application site for transdermal delivery of BA058 using an optimized microneedle array.

The study will use a matrix design and will first establish optimal wear time before exploring the impact of application site in the range of doses chosen for evaluation. The results obtained using the BA058 Microneedle Patch will be referenced to those of BA058 Injection at a dose of 80 µg.

***Preclinical Pharmacology of BA058***

In pharmacology studies conducted with BA058, the following has been shown:

BA058 is a potent selective agonist of the human PTHR 1 receptor;

In models of calcium mobilization, BA058 has significantly less calcium mobilizing activity at higher doses than the native hPTHrP(1-34), and less activity than hPTH(1-34);

BA058 Injection stimulates the formation of normal, well-organized bone and restores BMD in ovariectomized, osteopenic rats and primates. Additionally, mechanical testing of bones from ovariectomized rats after treatment with BA058 revealed a significant increase in femur and vertebral bone strength. BA058 exhibited the majority of its effects through the growth of trabecular bone without compromising cortical bone. Similar studies in rats with BA058 Microneedle Patch show comparable restoration of bone;

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BA058 Injection was well tolerated over a wide range of doses in two species, rats and primates, for up to 6 months and 9 months, respectively;

Safety pharmacology studies demonstrated no respiratory, gastroenterologic, hematologic, renal or CNS effects. Tachycardia and hypotension were observed in dogs following both intravenous and subcutaneous administration, however such effects were not observed in other species;

The No Observed Adverse Effect Level was 15, 25 and 25 μg/kg/day in rats in the 4-, 13 and 26-week studies, respectively, and 100, 50 and < 10 μg/kg/day in monkeys in the 4-, 13- and 39-week studies;

Repeat SC dose studies in both rats and cynomolgus monkeys at doses up to 300 and 450 μg/kg/day, respectively, revealed a relatively fast absorption (Tmax from 0.083 to 1.0 hr); peak serum concentration and Area under the Curve, a measure of drug exposure, increased as the dose increased.

These preclinical studies suggest that compared to hPTH(1-34), BA058 Injection can potentially be used to restore lost BMD with a reduced risk of hypercalcemia and loss of cortical bone.

***Planned and Active Preclinical Safety Studies for BA058***

A two-year subcutaneous injection carcinogenicity study of BA058 in Fischer 344 albino rats is currently on-going and will assess the carcinogenic potential of BA058. The study is being conducted according to the provisions set forth in Guidance ICH-S1A, ICH-S1B, and ICH-S1C(R2), and the design was accepted by FDA on 15 July 2009. This study will evaluate 3 BA058 dose levels, and the doses were selected based upon findings and tolerance in completed long-term rat toxicology studies and the anticipated tolerance over a 2-year dosing period and, furthermore, represents a good exposure multiple over maximum clinical doses. An active comparator arm is also included; a cohort of rats will be dosed with hPTH (1-34), because it is anticipated that osteosarcoma will be observed over time. The active comparator will allow confirmation of the sensitivity of the model. This study will be conducted in parallel to the Phase 3 clinical program.

Two preclinical bone quality studies will also be conducted, one in female rats who have had their ovaries removed, referred to as ovariectomized, or OVX, rats for up to 12 months of daily BA058 subcutaneous injection, the second study in adult OVX monkeys for up to 18 months. The primary objective of these studies is to demonstrate that long-term treatment with BA058 Injection will not lead to deleterious effects on bone quality by determining BA058's effect on the mass, architecture and strength of bones. These studies will be conducted in parallel to the Phase 3 clinical program and, in both studies, BA058 will be compared to placebo. The 12-month rat study is being performed in OVX skeletally mature Sprague-Dawley rats, an appropriate species for osteoporosis studies as a result of the cancellous bone changes and bone strength changes similarly noted in humans. In this study, a 13-week bone depletion period will occur after ovariectomy/sham surgery and prior to initiation of daily SC injection dosing with vehicle or three different dose levels of BA058.

The 16-month nonhuman primate study is being performed in OVX monkeys, a larger remodeling species whose bone depletion can be induced by estrogen deficiency, as in human menopause. In this study, an approximate 9-month bone depletion period will occur after OVX/sham surgery and prior to initiation of daily SC injection dosing with vehicle or three dose levels of BA058. The specific objectives and measured outcomes of both studies are to investigate the potential safety and efficacy of BA058 on prevention of bone loss. Retention of bone mass, both cortical bone  dominant in long bones, and cancellous bone  dominant in spinal bone, will be assess by BMD. Preservation of cortical and cancellous bone on strength will be determined by biomechanical testing. The mechanisms by which BA058 affects bone will be assessed by evaluation of biomarkers of bone turnover and

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histomorphometric indices of bone turnover. Pharmacokinetics of BA058 and development of antidrug antibodies will also be evaluated.

***Manufacturing of BA058***

BA058 API is manufactured on a contract basis by Lonza, under Good Manufacturing Practices conditions using a solid phase peptide synthesis assembly process, and purification by high pressure liquid chromatography. BA058 Injection is supplied as a liquid in a multi-dose cartridge for use in a pen delivery device. The multi-dose cartridges are manufactured by Vetter. The BA058 Microneedle Patch is manufactured by 3M based on their patented microneedle technology to administer drugs through the skin, as an alternative to subcutaneous injection.

***Patents relating to BA058***

Composition of matter of BA058 is claimed in issued patents in the United States (US 5,969,095), Europe, Australia, Canada, China, Hong Kong, Israel, South Korea, New Zealand, Poland, Russia, Singapore and Taiwan. These cases have a normal patent expiration date of 2016 absent the possibility of patent term extension. The phase 3 clinical dosage of BA058 by the subcutaneous route for use in treating osteoporosis is covered by US 7,803,770 until 2027 in the United States (absent extensions) and a related case is currently pending in Europe, China, Australia, Canada, Japan, Brazil, Mexico, Singapore, South Korea, India, Israel, New Zealand, Norway, Russia and Ukraine. A priority patent application covering various aspects of the BA058 for microneedle patch application has been filed in 2011 in the United States (US app. # 61/478,466). Any claims that might issue from app. # 61/478,466 will have a normal expiry date no earlier than 2031.

***Competition for BA058***

The development and commercialization of new products to treat osteoporosis and women's health is highly competitive, and there will be considerable competition from major pharmaceutical, biotechnology and specialty pharmaceutical companies. Many of our competitors have substantially more resources than we do, including both financial and technical. In addition, many of these companies have longer operating histories and more experience than us in preclinical and clinical development, manufacturing, regulatory, and global commercialization. ***See, "Risk Factors  If we cannot compete successfully for market share against other drug companies, we may not achieve sufficient product revenues and our business will suffer" above.*** Competition for highly qualified employees is intense.

Potential competitors with BA058 include, but are not limited to, Amgen, Merck & Co., Novartis, Lilly and Zosano. Lilly launched Forteo® in December 2002 as the first-to-market anabolic or bone-building agent for the treatment of osteoporosis. Lilly has also announced that it is investigating a transdermal method of delivery of Forteo®. Zosano is also developing a transdermal form of rhPTH(1-34) that would compete with the BA058 Microneedle Patch. We have no products approved for sale and therefore have no share of any therapeutic markets in which we hope to introduce BA058.

***Clinical Development Program for 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 USPTO). RAD1901 is a selective estrogen receptor modulator, or SERM, being developed by us in an oral formulation as a treatment for vasomotor symptoms commonly known as hot flashes.

***Background on Vasomotor Symptoms***

Hot flashes and night sweats are a common symptom during menopause, with up to 85% of women experiencing them during the menopause transition, for a median duration of four years. In

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2008, more than 11.5 million women in the United States were in the 45 to 49 age range to enter menopause. In addition, most women receiving systemic therapy for breast cancer suffer hot flashes, often with more severe or prolonged symptoms than women experiencing menopause. These symptoms can disrupt sleep and interfere with quality of life. An estimated two million women undergo menopause every year in the U.S., with a total population of 50 million postmenopausal women.

Historically, hormone replacement therapy, or HRT, with estrogen and/or progesterone was considered the most efficacious approach to relieving menopausal symptoms such as hot flashes. However, data from the Women's Health Initiative, or WHI, identified increased risks for malignancy and cardiovascular disease associated with estrogen therapy. Sales of HRT declined substantially after the release of the initial WHI data but HRT remains the current standard of care for many women suffering from hot flashes; however, due to concerns about the potential long-term risks and contraindications associated with HRT, we believe that there is a significant need for new therapeutic options to treat vasomotor symptoms. Pfizer's Premarin family remains the market leader for drugs to manage menopausal symptoms with 2010 worldwide sales of $1 billion.

***Pharmacologic Characteristics of RAD1901***

RAD1901 has been shown to bind to the estrogen receptor alpha, or ERα, and to have both estrogen-like and estrogen antagonist effects in different tissues. RAD1901 has also been shown to have both estrogen-like behavioral effects in animals and to reduce vasomotor signs in an animal model of menopausal hot flashes. In bone, RAD1901 protects against castration-induced bone loss while showing no unwanted stimulation of the endometrium. In cell culture, RAD1901 does not stimulate replication of breast cancer cells and antagonizes the stimulating effects of estrogen. Overall, therefore, RAD1901 exhibits a number of properties that would make it a suitable drug candidate for the management of menopausal symptoms, in particular the treatment of vasomotor symptoms.

***Phase 1***

A Phase 1 safety, pharmacokinetic and bioavailability study was conducted in 80 healthy postmenopausal women over a range of doses of RAD1901, including placebo. After single dosing with RAD1901 by mouth, the mean half-life ranged between 27.4 and 32.5 h. Bioavailability was determined to be approximately 10%. Food effect was also investigated and the presence of food was determined to increase absorption and delay clearance of RAD1901.

RAD1901 was generally well tolerated. All TEAEs were of mild intensity, with some increase in frequency at the higher doses in the multiple dose group, most commonly gastrointestinal symptoms and headache. There were no serious adverse events observed.

***Phase 2***

A Phase 2 proof of concept study was conducted in 100 healthy postmenopausal women using 4 doses of RAD1901 (10, 25, 50 and 100 mg) and placebo. The primary study outcome was reduction in the frequency and severity of moderate and severe hot flashes. While a classic dose-response effect was not demonstrated, efficacy was determined to occur at the 10 mg dose level which achieved a statistically significant reduction in the frequency of moderate and severe hot flashes both by linear trend test and by comparison to placebo and in overall (mild-moderate-severe) hot flashes at either the 2-, 3- or 4-week time-points. A similar reduction in composite score (frequency × severity) was identified at all time-points, with a statistically significant difference from placebo achieved at the 2-, 3- or 4-week time-points. Numerical reductions in mean severity and mean daily severity were observed, but did not reach statistical significance.

No serious adverse events were reported during the course of the study. Overall, 69% of patients had an adverse event, generally mild or moderate in severity, with some evidence of dose dependency, and events were most commonly gastrointestinal symptoms and headache. Three severe adverse events

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occurred, one in a placebo patient, and were not considered treatment related. Two patients discontinued treatment due to an adverse event, neither in relation to the 10 mg dose.

As discussed elsewhere in this prospectus, the FDA approval process is lengthy and expensive. Our current strategy is to collaborate with third parties for the further development and commercialization of RAD1901 so the date of FDA approved of RAD1901 cannot be predicted at this time. As a result of the uncertainties around the completion of a partnership arrangement for RAD1901 with third parties, we are unable to determine the duration and costs to complete current or future clinical stages of our RAD1901 product candidate or when, or to what extent, we will generate revenues from the commercialization and sale of RAD 1901. From January 1, 2009 through June 30, 2011, we have incurred $4.9 million in research and development costs related to RAD1901. Any failure by us to obtain, or any delay in obtaining, regulatory approvals for RAD1901 could significantly increase our need to raise additional working capital funds and materially adversely affect our product development efforts and our business overall. We can give no assurances that any additional capital that we are able to obtain will be sufficient to meet our needs. 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, including RAD1901 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.

***Manufacturing of RAD1901***

RAD1901 API is manufactured for Radius on a contract basis by Irix Pharmaceuticals, Inc. The present GMP manufacture of RAD1901 comprises 9 synthetic steps from a non-GMP starting material. The current process of manufacture requires no chromatographic separations. RAD1901 is a chiral material present as essentially one enantiomer.

***Patents related to RAD1901***

RAD1901 as a composition of matter is covered by US patent 7,612,114 (normal expiry 2026 absent Hatch-Waxman extensions). A corresponding case has also been issued in Australia with related cases pending in Canada, India and Europe. A patent application covering methods of using RAD1901 for the treatment of hot flush has been filed in the US (published as US 2010/0105733A1), Europe and Canada and any claims issuing will have a normal expiry of 2027. In addition, a provisional dosage form application has been filed in the United States (US app# 61/334,095) and any claims that might issue from applications claiming priority to US app# 61/334,095 will have a normal expiry date no earlier than 2031.

***Competition for RAD1901***

The development and commercialization of new products to treat women's health is highly competitive, and there will be considerable competition from major pharmaceutical, biotechnology and specialty pharmaceutical companies. Many of our competitors have substantially more resources than we do, including both financial and technical. In addition, many of these companies have longer operating histories and more experience than us in preclinical and clinical development, manufacturing, regulatory and global commercialization. See, "Risk Factors  If we cannot compete successfully for market share against other drug companies, we may not achieve sufficient product revenues and our business may suffer" above.

Potential competitors to Radius in relation to RAD1901 include, but are not limited to, Pfizer (NDA under review) and Depomed (Phase 3) who both have agents in more advanced stages of development than RAD1901. We believe that RAD1901 will be able to compete with other agents for

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the treatment of hot flashes because we expect it to have a similar efficacy and better safety profile than estrogen products, as well as a better efficacy and safety profile than non-estrogen products. We have no products approved for sale and therefore have no share of any therapeutic markets in which we hope to introduce RAD1901.

***RAD140***

***Pharmacologic Characteristics of RAD140***

RAD140 is a nonsteroidal, selective androgen receptor modulator that resulted from an internal drug discovery program that began in 2005. RAD140 has demonstrated potent anabolic activity on muscle and bone in preclinical studies and has completed 28-day preclinical toxicology studies in both rats and monkeys. Because of its high anabolic efficacy, receptor selectivity, potent oral activity and long duration half life, it is believed that RAD140 has clinical potential in a number of indications where the increase in lean muscle mass and/or bone density is beneficial such as treating the weight loss due to cancer cachexia, muscle frailty and osteoporosis.

As discussed elsewhere in this prospectus, the FDA approval process is lengthy and expensive. Our current strategy is to collaborate with third parties for the further development and commercialization of RAD140 so the date of FDA approval of RAD140 cannot be predicted at this time. As a result of the uncertainties around the completion of a partnership arrangement for RAD140 with third parties, we are unable to determine the duration and costs to complete current or future clinical stages of our RAD140 product candidate or when, or to what extent, we will generate revenues from the commercialization and sale of RAD140. From January 1, 2009 through June 30, 2011, we have incurred $2.6 million in research and development costs related to RAD140. Any failure by us to obtain, or any delay in obtaining, regulatory approvals for RAD140 could significantly increase our need to raise additional working capital funds and materially adversely affect our product development efforts and our business overall. We can give no assurances that any additional capital that we are able to obtain will be sufficient to meet our needs. 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, including RAD140 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.

***Patents related to RAD140***

RAD140 as a composition of matter and methods of using RAD140 is covered by pending patent applications in the US (e.g. US app#12/378,812)) and numerous additional countries worldwide. Any patents issued from these filings will have a normal expiry of 2029 absent any extensions.

***Competition for RAD140***

The development and commercialization of new products to treat women's health is highly competitive, and there will be considerable competition from major pharmaceutical, biotechnology and specialty pharmaceutical companies. Many of our competitors have substantially more resources than we do, including both financial and technical. In addition, many of these companies have longer operating histories and more experience than us in preclinical and clinical development, manufacturing, regulatory and global commercialization. See, "Risk Factors  If we cannot compete successfully for market share against other drug companies, we may not achieve sufficient product revenues and our business may suffer" above.

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Potential competitors to Radius in relation to RAD140 include, but are not limited to, GTx (Phase 3) and Ligand (Phase 1/2) who both have agents in more advanced stages of development than RAD140. We believe that RAD140 will be able to compete with other SARM agents because we expect it to have high potency to increase muscle and bone with a strong safety profile. We have no products approved for sale and therefore have no share of any therapeutic markets in which we hope to introduce RAD140.

**Collaborations and License Agreements**

***Nordic Bioscience***

We entered into a Letter of Intent with Nordic 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. Pursuant to the Letter of Intent and the two extensions, we funded an aggregate $1,500,000 of preparatory work by Nordic during 2010 and funded and additional $750,000 of preparatory work by Nordic during 2011. On March 29, 2011, we entered into a Clinical Trial Services Agreement (which superseded and subsumed the Letter of Intent and its two extensions), a Work Statement NB-1 under such Clinical Trial Services Agreement and a related Stock Issuance Agreement with Nordic. Pursuant to Work Statement NB-1, Nordic is managing the Phase 3 clinical study of BA058 Injection and the Company is required to make various payments denominated in both euros and U.S dollars over the course of the Phase 3 study of total €33.9 million and $4.9 million. Pursuant to the Stock Issuance Agreement, Nordic agreed to purchase the equivalent of €371,864 of our Series A-5 Convertible Preferred Stock at a price per share equal to $8.142. Nordic purchased 64,430 shares of Series A-5 Convertible Preferred Stock on May 17, 2011 for proceeds of $525,154 to the Company. The Stock Issuance Agreement provides that Nordic will receive additional shares of equity, having an aggregate value of up to €36.8 million, which shall initially be in the form of shares of Series A-6 Convertible Preferred Stock, at certain times during the performance of the Phase 3 clinical study that is the subject of Work Statement NB-1.

The Clinical Trial Services Agreement has a 5-year term unless it is sooner terminated. The Clinical Trial Services Agreement or any Work Statement may be terminated by mutual agreement of the parties at any time. Either party may also terminate any Work Statement upon a material breach by the other party with respect to such Work Statement unless such other party cures the alleged breach within the notice period specified in the Clinical Trial Services Agreement or if not capable of being cured within such period the party alleged to be in breach commences efforts to cure and makes diligently proceeds to cure. Termination of any Work Statement does not result in termination of the Clinical Services Agreement or any other Work Statements, which remain in force until terminated. Either party may also terminate a Work Statement if force majeure conditions have prevented performance by the other party for more than a specified period of time. We may also terminate a Work Statement with notice to Nordic if authorization and approval to perform any clinical study that is the subject of such Work Statement is withdrawn by the FDA or other relevant health authorities or human or toxicological test results support termination of the clinical study relating to such Work Statement for reasons of safety or if the emergence of any adverse event or side effect in the clinical study relating to such Work Statement is of such magnitude or incidence in our opinion as to support termination. The Clinical Trial Services Agreement contains customary risk allocation clauses with each party indemnifying the other in respect of third party claims arising out of or resulting from: (i) the negligence or intentional misconduct of such party, its employees, agents or representatives in performing its obligations under the Clinical Services Agreement or any Work Statement; and (ii) any breach by such party of its representations and warranties under the Clinical Trial Services Agreement. We have agreed to indemnify Nordic in respect of third party claims for product liability or personal injury arising from or relating to our products or our use of any deliverables. In addition, we separately provide indemnification to the investigative sites performing services pursuant to Work Statement NB-1 in respect of third party claims of injury, illness or adverse side effects to a patient in the study that is

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the subject of Work Statement NB-1 that are attributable to the Radius study drug under indemnification letters with such investigative sites. The Clinical Services Agreement contains other customary clauses and terms as are common in similar agreements in the industry.

***3M***

In December 2008, we entered into a Feasibility Agreement with 3M whereby 3M assessed the feasibility of developing a BA058 microneedle patch product and supplying the product for preclinical studies in an animal model. Upon completion of the feasibility study, during June 2009, we entered into a Development and Clinical Supplies Agreement with 3M under which 3M is responsible to develop a BA058 microneedle patch product and manufacture clinical and toxicology supplies of such patch product for preclinical, Phase 1 and Phase 2 studies on an exclusive basis. We pay 3M for services delivered pursuant to the Development and Clinical Supplies Agreement on a fee for service or a fee for deliverable basis as specified in the Development and Clinical Supplies Agreement. The Feasibility Agreement expired on or around September 2009. We have paid 3M approximately $4,003,000 in respect of services and deliverables delivered pursuant to the Feasibility Agreement and the Development and Clinical Supplies Agreement.

The Development and Clinical Supplies Agreement remains in effect until the completion of the workplan that the parties are performing thereunder, unless it is sooner terminated. Either party may terminate the Development and Clinical Supplies Agreement upon a material breach by the other party unless such other party cures the alleged breach within the notice period specified in the Development and Clinical Supplies Agreement. We are permitted to terminate the Development and Clinical Supplies Agreement without cause by delivering notice to 3M a specified period before the termination date. We are also permitted to terminate within a specified period of time following a specified date with notice to 3M in the event that we have determined that the Phase 1 clinical study for the BA058 microneedle patch product needs to be repeated or that additional clinical data is required with respect thereto in order to initiate the Phase 2 clinical study for the BA058 microneedle patch product. The Development and Clinical Supplies Agreement contains customary risk allocation clauses with 3M indemnifying us in respect of third party claims arising from any personal injury to the extent that such claim results from 3M's breach of warranty with respect to the BA058 Microneedle Patch meeting applicable specifications; and us indemnifying 3M in respect of third party claims arising with from our or our agent's use, testing or clinical studies of the BA058 Microneedle Patch. The Development and Clinical Supplies Agreement contains other customary clauses and terms as are common in similar agreements in the industry.

***Ipsen Pharma***

In September 2005, we entered into a License Agreement with Ipsen under which we exclusively licensed certain Ipsen compound technology and related patents covering BA058 to research, develop, manufacture and commercialize certain compounds and related products in all countries, except Japan (where we do not hold commercialization rights) and France (where our commercialization rights are subject to certain co-marketing and co-promotion rights retained by Ipsen). Ipsen also granted us 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 us an exclusive right and license under certain Ipsen formulation technology and related patents solely for purposes of enabling us to develop, manufacture and commercialize compounds and products covered by the compound technology license in all countries, except Japan (where we do not hold commercialization rights) and France (where our commercialization rights are subject to certain co-marketing and co-promotion rights retained by Ipsen). 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

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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. Specifically, we licensed US Patent No. 5,969,095, (effective filing date 3/29/1996, statutory term expires 3/29/2016) entitled "Analogs of Parathyroid Hormone", US Patent No. 6,544,949, (effective filing date 3/29/1996, statutory term ends 3/29/2016) entitled "Analogs of Parathyroid Hormone" and the corresponding foreign patents and continuing patent applications. In addition, we have rights to joint intellectual property including rights to 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 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. As consideration for the rights to BA058 licensed to us by Ipsen, we paid Ipsen a non-refundable, non-creditable initial license fee of $250,000. The license agreement requires us to make payments to Ipsen upon the achievement of certain development milestones in the range of $750,000 and upon the achievement of certain development, regulatory and commercial milestones in the range of €10,000,000 to €36,000,000, and we have at this time paid $750,000 in milestone payments and issued 17,326 shares of Series A-1 convertible preferred stock to Ipsen on May 17, 2011 in lieu of a €1,000,000 cash payment due to Ipsen upon initiation of the first BA058 Phase 3 clinical study. If we or our sublicensees commercialize a product that includes the compound licensed from Ipsen or any analog thereof, we 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 the rights licensed from Ipsen to a third party, the Company is obligated 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. The license agreement expires on a country by country basis on the later of (i) date the last remaining valid claim in the licensed patents expires, 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 license agreement may be terminated by us with prior notice to Ipsen at any time after the final study report Phase Ib has been delivered to Ipsen. The license agreement may be terminated by Ipsen upon notice to us with immediate effect, if Radius in any country of the world brings an action or proceeding seeking to have any Ipsen patent right declared invalid or unenforceable. The license agreement can also be terminated by Ipsen if we fail to use reasonable commercial efforts to develop the licensed product for sale and commercialization in those countries within the territory where it is commercially reasonable to do so as contemplated by the license agreement, or fail to use reasonable commercial efforts to perform our obligations under the latest revised version of the development plan approved by the joint steering commitee, or fail to use reasonable commercial efforts to launch and sell one licensed product in those countries within the territory where it is commercially reasonable to do so. Either party may also terminate the license agreement upon a material breach by the other party unless such other party cures the alleged breach within the notice period specified in the license agreement. Ipsen may terminate the license agreement in the event that the license agreement is assigned or sublicensed or in the event that a third party acquires us or in the event that we acquire control over a PTH or a PTHrP compound that is in clinical development or is commercially available in the territory and that, following such assignment, sublicense, acquisition, or acquisition of control by us, such assignee, sublicensee, acquirer or we fail to meet the timetable under the latest revised version of the development plan approved by the joint steering committee under the license agreement. Any failure to meet such timetable for purposes of such termination clause is deemed a material breach by us. The

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license agreement contains customary risk allocation clauses with each party indemnifying the other in respect of third party claims arising out of or resulting from: (i) the gross negligence or willful misconduct of such party, its affiliates, licensees, distributors or contractors; (ii) any breach by such party of its representations and warranties or any other provision of the license agreement or any related agreement; (iii) the manufacture on behalf of such party of any licensed product or compound; and (iv) (in the case of Ipsen) the use, development, handling or commercialization of any licensed compound, licensed product or the Ipsen formulation technology by or on behalf of Ipsen or any of its affiliates, licensees, distributors or contractors; and (v) (in the case of radius) the making, use, development, handling or commercialization of any licensed compound or any licensed product by or on our behalf or any of our affiliates, licensees or contractors. The license agreement contains other customary clauses and terms as are common in similar agreements in the industry. The license agreement was amended on September 12, 2007 and May 11, 2011.

In January 2006, we entered into a Pharmaceutical Development Agreement as contemplated by the License Agreement with Ipsen. The Pharmaceutical Development Agreement provides for the supply of quantities of licensed product for use in certain clinical trials. Beaufour Ipsen Industrie SAS, a subsidiary of Ipsen, is responsible for the supply of BA058 Injection in liquid form in a multi-dose cartridge for use in a pen delivery device. The multi-dose cartridges are manufactured for Beaufour Ipsen Industrie SAS by Vetter under a separate agreement between those parties, and the BA058 API is manufactured by Lonza for Radius and is delivered to Vetter for vialing in the multi-dose cartridges. The Pharmaceutical Development Agreement expires upon the completion of the work plan entered into under the Pharmaceutical Development Agreement unless it is sooner terminated. The Pharmaceutical Development Agreement shall automatically terminate upon termination of the Ipsen license Agreement. Radius may terminate the Pharmaceutical Development Agreement at any time and for any reason with a specified prior notice period to Ipsen. Either party may terminate the Pharmaceutical Development Agreement upon a material breach by the other party with respect to the Pharmaceutical Development Agreement or the Ipsen License Agreement unless such other party cures the alleged breach within the notice period specified in the Development and Manufacturing Services Agreement. The Pharmaceutical Development Agreement contains other customary clauses and terms as are common in similar agreements in the industry. The Pharmaceutical Development Agreement was amended in July 2007, February 2009 and June 2010.

***Eisai***

In June 2006, we exclusively licensed the worldwide (except Japan) rights to research, develop, manufacture and commercialize RAD1901 and related products from Eisai. Specifically, we licensed the patent application that subsequently issued as US Patent No. 7612114, (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) entitled "Selective Estrogen Receptor Modulator", the corresponding foreign patent applications and continuing patent applications. As consideration for the rights to RAD1901, we paid Eisai an initial license fee of $500,000. In connection with the License Agreement, we have agreed to pay Eisai certain fees in the range of $1,000,000 to $20,000,000 (inclusive of the $500,000 initial license fee), payable upon the achievement of certain clinical and regulatory milestones. Should a product covered by the licensed technology be commercialized, we will be obligated to pay to Eisai royalties in a variable mid-single digit range 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 the expiration of data protection clauses covering such product in such country; 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. The latest valid claim to expire, barring any extension thereof, is expected on 8/18/2026. 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

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we sublicense the licensed technology 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 low single digit range based on net sales of the sublicensee. The license agreement expires on a country by country basis 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 license agreement may be terminated by Radius with respect to the entire territory with prior notice to Eisai if we reasonably determine that the medical/scientific, technical, regulatory or commercial profile of the licensed product does not justify continued development or marketing. The license agreement can also be terminated by Eisai on a country by country basis at any time prior to the date on which we have filed for either a FDA NDA approval or a EMEA marketing approval with respect to a licensed product, upon prior written notice to Radius if Eisai makes a good faith determination that we have not used commercially reasonable efforts to develop the licensed product in the territory having reference to prevailing principles and time scales associated with the development, clinical testing and government approval of products of a like nature to such licensed product, unless such default is cured within the period specified in the license agreement or if not capable of being cured within such period we commence efforts to cure and make diligent efforts to do so. Either party may also terminate the license agreement upon a material breach by the other party unless such other party cures the alleged breach within the notice period specified in the license agreement. Either party may also terminate the license agreement upon the bankruptcy or insolvency of the other party. Eisai may also terminate the license agreement with prior notice if we are acquired by or to transfer all of our pharmaceutical business assets (or an essential part of such assets) or more than a specified percentage of our voting stock to any third party person or organization, or to otherwise come under the control of, such a person or organization, whether resulting from merger, acquisition, consolidation or otherwise in the event that Eisai reasonably determines that the person or organization assuming control of us is not able to perform the license agreement with the same degree of skill and diligence that we would use, such determination being made with reference to the following criteria with respect to the person or organization assuming control of us: (1) whether such person or organization has the financial resources to assume our obligations with respect to development and commercialization of products; (2) whether such person or organization has personnel with skill and experience adequate to assume our obligations with respect to development and commercialization of products at the stage of development and commercialization as of the date of such change; and (3) whether such person or organization expressly assumes all obligations imposed on us by the license agreement and agrees to dedicate personnel and financial resources to the development and commercialization of the licensed product that are at least as great as those provided by us. Eisai shall further have the right to terminate if the acquiring person or organization (a) has any material and active litigations with Eisai; (b) is a certain type of pharmaceutical company; or (c) is a hostile takeover bidder against Radius which has not been approved by the Board of Directors of Radius as constituted immediately prior to such change of control. The license agreement contains customary risk allocation clauses with each party indemnifying the other in respect of third party claims arising out of or resulting from: (i) the negligence, reckless or intentional acts or omissions of such party, its affiliates, and licensees; (ii) any breach by such party of its representations and warranties; and (iii) any personal injury arising out of the labeling, packaging, package insert, other materials or promotional claims with respect to any licensed product by such party or its affiliates, licensees or distributors in the territory (in the case of Radius) or Japan (in the case of Eisai). The license agreement contains other customary clauses and terms as are common in similar agreements in the industry.

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***Lonza***

In October 2007, we entered into Development and Manufacturing Services Agreement with LONZA. Radius and Lonza have entered into a series of Work Orders pursuant to the Development and Manufacturing Services Agreement pursuant to which Lonza has performed pharmaceutical development and manufacturing services for the our BA058 product. Radius pays Lonza for services rendered and deliverables delivered pursuant to these work orders on a fee for service basis as specified in the applicable work statement. The Development and Manufacturing Services Agreement will expire on April 4, 2013 unless it is sooner terminated, and is subject to renewal by us for successive multiple-year terms with notice to Lonza. The Development and Manufacturing Services Agreement or any Work Order may be terminated by either party upon a material breach by the other party with respect to the Development and Manufacturing Services Agreement unless such other party cures the alleged breach within the notice period specified in the Development and Manufacturing Services Agreement. Either party may also terminate a Work Order if force majeure conditions have prevented performance by the other party for more than a specified period of time with respect to such Work Order. Termination of any Work Order for force majeure shall not result in termination of the Development and Manufacturing Services Agreement or any other Work Orders, which shall remain in force until terminated. Either party may also terminate the Development and Manufacturing Services Agreement upon the bankruptcy or insolvency of the other party. We may also terminate the Development and Manufacturing Services Agreement or any Work Order with prior notice to Lonza for convenience. We may also terminate the Development and Manufacturing Services Agreement or any Work Order if we reasonably determine that Lonza is or will be unable to perform the applicable services in accordance with the agreed upon timeframe and budget set forth in the applicable Work Order, or if Lonza fails to obtain or maintain any material governmental licenses or approvals required in connection with such services. The Development and Manufacturing Services Agreement contains customary risk allocation clauses with each party indemnifying the other in respect of third party claims arising out of or resulting from: (i) the negligence or willful misconduct of such party, its affiliates and their respective officers, directors, employees and agents in performing its obligations under the Developing and Manufacturing Services Agreement; and (ii) any breach by such party of its representations and warranties under the Development and Manufacturing Services Agreement. We have agreed to indemnify Lonza in respect of third party claims arising from or relating to the use of our product.

***Charles River Laboratories***

In March 2004, we entered into a Laboratory Services and Confidentiality Agreement with Charles River Laboratories, Inc. ("CRLI") and amended this agreement on November 7, 2008. Radius has entered into a series of letter agreements with CRLI pursuant to this Laboratory Services and Confidentiality Agreement, covering the performance of certain testing and analytical services concerning our product candidates. We pay CRLI for services rendered and deliverables delivered pursuant to these letter agreements on a fee for service basis. We are permitted to terminate any on-going Study under the Laboratory Services and Confidentiality Agreement at any time with the specified prior notice to CRLI and subject to the payment of applicable Study costs and fees. Either party may terminate the Laboratory Services and Confidentiality Agreement at any time with the specified prior notice to the other party and subject to the completion of any then on-going Studies and the payment by us of any fees for such Studies. Either party may also terminate the Laboratory Services and Confidentiality Agreement upon a material breach by the other party unless such other party cures the alleged breach within the notice period specified in the Laboratory Services and Confidentiality Agreement. The Laboratory Services and Confidentiality Services Agreement contains customary risk allocation clauses with each party indemnifying the other in respect of third party claims arising out of or in connection with the negligence or willful misconduct of such party. Radius also indemnifies CRLI in respect of third party claims arising out of or in connection with (i) the

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manufacture, distribution, use, sales or other disposition by us, or any of our distributors, customers, sublicensees or representatives, of any of our products or processes and/or any other substances which are produced, purified, tested or vialed by CRLI. We also indemnify CRLI against any and all liability that may be incurred as the result of any contact by us or our employees with CRLI's animals, tissues or specimens during visits to CRLI or after delivery of any samples/specimens to us. The Laboratory Services and Confidentiality Agreement contains other customary clauses and terms as are common in similar agreements in the industry.

**Government Regulation**

*U.S. FDA Process.* The research, development, testing, manufacture, labeling, promotion, advertising, distribution, and marketing, among other things, of our products are extensively regulated by governmental authorities in the United States and other countries. In the United States, the FDA regulates drugs under the Federal Food, Drug, and Cosmetic Act, or the "FDCA," and its implementing regulations. Failure to comply with the applicable U.S. requirements may subject us to administrative or judicial sanctions, such as FDA refusal to approve pending New Drug Applications, or NDAs, warning letters, product recalls, product seizures, total or partial suspension of production or distribution, injunctions, and/or criminal prosecution. We expect the BA058, RAD1901 and RAD140 will each be subject to review by the FDA as a drug under NDA standards though we currently only have an active IND in relation to BA058 in the U.S.

*Drug Approval Process.* None of our drugs may be marketed in the U.S. until the drug has received FDA approval. The steps required before a drug may be marketed in the U.S. include:

preclinical laboratory tests, animal studies, and formulation studies;

submission to the FDA of an IND for human clinical testing, which must become effective before human clinical trials may begin;

adequate and well-controlled human clinical trials to establish the safety and efficacy of the drug for each indication;

submission to the FDA of an NDA;

satisfactory completion of an FDA inspection of the manufacturing facility or facilities at which the drug is produced to assess compliance with current good manufacturing practices, or "cGMPs"; and

FDA review and approval of the NDA.

Preclinical tests include laboratory evaluation of product chemistry, toxicity, and formulation, as well as animal studies. The conduct of the preclinical tests and formulation of the compounds for testing must comply with federal regulations and requirements. The results of the preclinical tests, together with manufacturing information and analytical data, are submitted to the FDA as part of an IND, which must become effective before human clinical trials may begin. An IND will automatically become effective 30 days after receipt by the FDA, unless before that time the FDA raises concerns or questions about issues such as the conduct of the trials as outlined in the IND. In such a case, the IND sponsor and the FDA must resolve any outstanding FDA concerns or questions before clinical trials can proceed. The Company cannot be sure that submission of an IND will result in the FDA allowing clinical trials to begin.

Clinical trials involve the administration of the investigational drug to human subjects under the supervision of qualified investigators. Clinical trials are conducted under protocols detailing the objectives of the study, the parameters to be used in monitoring safety, and the effectiveness criteria to be evaluated. Each protocol must be submitted to the FDA as part of the IND.

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Clinical trials necessary for product approval are typically conducted in three sequential Phases, but the Phases may overlap. The study protocol and informed consent information for study subjects in clinical trials must also be approved by an Institutional Review Board for each institution where the trials will be conducted. Study subjects must sign an informed consent form before participating in a clinical trial. Phase 1 usually involves the initial introduction of the investigational drug into people to evaluate its short-term safety, dosage tolerance, metabolism, pharmacokinetics and pharmacologic actions, and, if possible, to gain an early indication of its effectiveness. Phase 1 studies are usually conducted in healthy individuals and are not intended to treat disease or illness. However, Phase 1b studies are conducted in healthy volunteers or in patients diagnosed with the disease, or condition for which the study drug is intended, who demonstrate some biomarker, surrogate, or possibly clinical outcome that could be considered for "proof of concept." Proof of concept in a Phase 1b study typically confirms the hypothesis that the current prediction of biomarker, or outcome benefit is compatible with the mechanism of action. Phase 2 usually involves trials in a limited patient population to (i) evaluate dosage tolerance and appropriate dosage; (ii) identify possible adverse effects and safety risks; and (iii) evaluate preliminarily the efficacy of the drug for specific indications. Several different doses of the drug may be looked at in Phase 2 to see which dose has the desired effects. Patients are monitored for side effects and for any improvement in their illness, symptoms, or both. Phase 3 trials usually further evaluate clinical efficacy and test further for safety by using the drug in its final form in an expanded patient population. A Phase 3 trial usually compares how well the study drug works compared with an inactive placebo and/or another approved medication. One group of patients may receive the new drug being tested, while another group of patients may receive the comparator drug (already-approved drug for the disease being studied), or placebo. There can be no assurance that Phase 1, Phase 2, or Phase 3 testing will be completed successfully within any specified period of time, if at all. Furthermore, the Company or the FDA may suspend clinical trials at any time on various grounds, including a finding that the subjects or patients are being exposed to an unacceptable health risk.

The FDCA permits FDA and the IND sponsor to agree in writing on the design and size of clinical studies intended to form the primary basis of an effectiveness claim in an NDA. This process is known as Special Protocol Assessment or SPA. These agreements may not be changed after the clinical studies begin, except in limited circumstances.

Assuming successful completion of the required clinical testing, the results of the preclinical studies and of the clinical studies, together with other detailed information, including information on the manufacture and composition of the drug, are submitted to the FDA in the form of an NDA requesting approval to market the product for one or more indications. The testing and approval process requires substantial time, effort, and financial resources. The agencies review the application and may deem it to be inadequate to support the registration, and companies cannot be sure that any approval will be granted on a timely basis, if at all. The FDA may also refer the application to the appropriate advisory committee, typically a panel of clinicians, for review, evaluation and a recommendation as to whether the application should be approved. The FDA is not bound by the recommendations of the advisory committee.

The FDA has various programs, including fast track, priority review, and accelerated approval, that are intended to expedite or simplify the process for reviewing drugs, and/or provide for approval on the basis surrogate endpoints. Generally, drugs that may be eligible for one or more of these programs are those for serious or life-threatening conditions, those with the potential to address unmet medical needs, and those that provide meaningful benefit over existing treatments. A company cannot be sure that any of its drugs will qualify for any of these programs, or that, if a drug does qualify, that the review time will be reduced.

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Before approving an NDA, the FDA usually will inspect the facility or the facilities at which the drug is manufactured and will not approve the product unless the manufacturing is in compliance with current good manufacturing practice, or cGMP. If the NDA and the manufacturing facilities are deemed acceptable by the Agency, the FDA may issue an approval letter, or in some cases, an approvable letter followed by an approval letter. Both letters usually contain a number of conditions that must be met in order to secure final approval of the NDA. When and if those conditions have been met to the FDA's satisfaction, the FDA will issue an approval letter. The approval letter authorizes commercial marketing of the drug for specific indications. As a condition of NDA approval, the FDA may require post-marketing testing and surveillance to monitor the drug's safety or efficacy, or impose other conditions.

After approval, certain changes to the approved product, such as adding new indications, making certain manufacturing changes, or making certain additional labeling claims, are subject to further FDA review and approval. Before a company can market products for additional indications, it must obtain additional approvals from FDA. Obtaining approval for a new indication generally requires that additional clinical studies be conducted. A company cannot be sure that any additional approval for new indications for any product candidate will be approved on a timely basis, or at all.

*Post-Approval Requirements.* Often times, even after a drug has been approved by the FDA for sale, the FDA may require that certain post-approval requirements be satisfied, including the conduct of additional clinical studies. If such post-approval conditions are not satisfied, the FDA may withdraw its approval of the drug. In addition, holders of an approved NDA are required to: (i) report certain adverse reactions to the FDA, (ii) comply with certain requirements concerning advertising and promotional labeling for their products, and (iii) continue to have quality control and manufacturing procedures conform to cGMP after approval. The FDA periodically inspects the sponsor's records related to safety reporting and/or manufacturing facilities; this latter effort includes assessment of ongoing compliance with cGMP. Accordingly, manufacturers must continue to expend time, money, and effort in the area of production and quality control to maintain cGMP compliance. We intend to use third party manufacturers to produce our products in clinical and commercial quantities, and future FDA inspections may identify compliance issues at the facilities of our contract manufacturers that may disrupt production or distribution, or require substantial resources to correct. In addition, discovery of problems with a product after approval may result in restrictions on a product, manufacturer, or holder of an approved NDA, including withdrawal of the product from the market.

*Hatch-Waxman Act:* Under the Drug Price Competition and Patent Term Restoration Act of 1984, also known as the Hatch-Waxman Act, Congress created an abbreviated FDA review process for generic versions of pioneer (brand name) drug products. In considering whether to approve such a generic drug product, the FDA requires that an Abbreviated New Drug Application, or ANDA, applicant demonstrate, among other things, that the proposed generic drug product's active ingredient is the same as that of the reference product, that any impurities in the proposed product do not affect the product's safety or effectiveness, and that its manufacturing processes and methods ensure the consistent potency and purity of its proposed product.

The Hatch-Waxman Act provides 5 years of data exclusivity for new chemical entities which prevents FDA from accepting ANDAs and 505(b)(2) applications containing the protected active ingredient. We expect to be eligible for 5 years of data exclusivity following FDA approval of BA058 Injection.

The Hatch-Waxman Act also provides 3 years of exclusivity for applications containing the results of new clinical investigations (other than bioavailability studies) essential to the FDA's approval of new uses of approved products, such as new indications, delivery mechanism, dosage forms, strengths, or conditions of use. For example, if BA058 Injection is approved for commercialization and we are successful in performing a clinical trial of the BA058 Microneedle Patch product that provides a new

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basis for approval (a different delivery mechanism) it is possible that we may become eligible for an additional 3 year period of data exclusivity which protects against the approval of ANDAs and 505(b)(2) applications for the protected use and will not prohibit the FDA from accepting or approving ANDAs or 505(b)(2) applications for other products containing the same active ingredient.

The Hatch-Waxman Act requires NDA applicants and NDA holders to provide certain information about patents related to the drug for listing in the FDA's list of Approved Drug Products with Therapeutic Equivalence Evaluations (commonly known as the Orange Book). ANDA and 505(b)(2) applicants must then certify regarding each of the patents listed with the FDA for the reference product. A certification that a listed patent is invalid or will not be infringed by the marketing of the applicant's product is called a "Paragraph IV certification." If the ANDA or 505(b)(2) applicant provides such a notification of patent invalidity or noninfringement, then the FDA may accept the ANDA or 505(b)(2) application beginning four years after approval of the NDA. If an ANDA or 505(b)(2) application containing a Paragraph IV certification is submitted to the FDA and accepted as a reviewable filing by the agency, the ANDA or 505(b)(2) applicant then must provide, within 20 days, notice to the NDA holder and patent owner stating that the application has been submitted and providing the factual and legal basis for the applicant's opinion that the patent is invalid or not infringed. The NDA holder or patent owner then may file suit against the ANDA or 505(b)(2) applicant for patent infringement. If this is done within 45 days of receiving notice of the Paragraph IV certification, a one-time 30-month stay of the FDA's ability to approve the ANDA or 505(b)(2) application is triggered. The 30-month stay begins at the end of the NDA holder's data exclusivity period, or, if data exclusivity has expired, on the date that the patent holder is notified of the submission of the ANDA. The FDA may approve the proposed product before the expiration of the 30-month stay if a court finds the patent invalid or not infringed or if the court shortens the period because the parties have failed to cooperate in expediting the litigation.

***EU EMA Process***

In the European Union, or the EU, medicinal products are authorized following a similar demanding process as that required in the U.S. Applications are based on the ICH Common Technical Document and must include a detailed plan for pediatric approval, if such approval is sought. Medicinal products must be authorized in one of two ways, either through the decentralized procedure or mutual recognition procedure by the competent authorities of the EU Member States, or through the centralized procedure by the European Commission following an opinion by the European Medicines Agency, or EMA. The authorization process is essentially the same irrespective of which route is used. In light of the fact that there is no policy at the EU level governing pricing and reimbursement, the 27 EU Member States each have developed their own, often varying, approaches. In many EU Member States, pricing negotiations must take place between the Marketing Authorization Holder and the competent national authorities before the product is sold in their market with Marketing Authorization Holders required to provide evidence demonstrating the pharmaco-economic superiority of their product in comparison with directly and indirectly competing products. We have reviewed our development program, proposed Phase 3 study design, and overall non-clinical and clinical data package to support future regulatory approval of the BA058 Injection with EMA but have not initiated any discussions with EMA with respect to seeking regulatory approval of our other products in Europe.

*Good manufacturing practices.* Like the FDA, the EMA, the competent authorities of the EU Member States and other regulatory agencies regulate and inspect equipment, facilities, and processes used in the manufacturing of pharmaceutical and biologic products prior to approving a product. If, after receiving clearance from regulatory agencies, a company makes a material change in manufacturing equipment, location, or process, additional regulatory review and approval may be required. Once we or our partners commercialize products, we will be required to comply with cGMP,

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and product-specific regulations enforced by, the European Commission, the EMA and the competent authorities of EU Member States following product approval. Also like the FDA, the EMA, the competent authorities of the EU Member States and other regulatory agencies also conduct regular, periodic visits to re-inspect equipment, facilities, and processes following the initial approval of a product. If, as a result of these inspections, it is determined that our or our partners' equipment, facilities, or processes do not comply with applicable regulations and conditions of product approval, regulatory agencies may seek civil, criminal, or administrative sanctions and/or remedies against us, including the suspension of our manufacturing operations or the withdrawal of our product from the market.

***Other International Markets Drug approval process***

In some international markets (e.g., China or Japan), although data generated in U.S. or EU trials may be submitted in support of a marketing authorization application, additional clinical trials conducted in the host territory, or studying people of the ethnicity of the host territory, may be required prior to the filing or approval of marketing applications within the country.

***Pricing and Reimbursement***

In the U.S. and internationally, sales of products that we market in the future, and our ability to generate revenues on such sales, are dependent, in significant part, on the availability and level of reimbursement from third-party payors such as state and federal governments, managed care providers, and private insurance plans. Private insurers, such as health maintenance organizations and managed care providers, have implemented cost-cutting and reimbursement initiatives and likely will continue to do so in the future. These include establishing formularies that govern the drugs and biologics that will be offered and also the out-of-pocket obligations of member patients for such products. In addition, particularly in the U.S. and increasingly in other countries, we are required to provide discounts and pay rebates to state and federal governments and agencies in connection with purchases of our products that are reimbursed by such entities. It is possible that future legislation in the U.S. and other jurisdictions could be enacted which could potentially impact the reimbursement rates for the products we are developing and may develop in the future and also could further impact the levels of discounts and rebates paid to federal and state government entities. Any legislation that impacts these areas could impact, in a significant way, our ability to generate revenues from sales of products that, if successfully developed, we bring to market.

There is no legislation at the EU level governing the pricing and reimbursement of medicinal products in the EU. As a result, the competent authorities of each of the 27 EU Member States have adopted individual strategies regulating the pricing and reimbursement of medicinal products in their territory. These strategies often vary widely in nature, scope and application. However, a major element that they have in common is an increased move towards reduction in the reimbursement price of medicinal products, a reduction in the number and type of products selected for reimbursement and an increased preference for generic products over innovative products. These efforts have mostly been executed through these countries' existing price-control methodologies. The government of the UK, while continuing for now to utilize its established Pharmaceutical Pricing Reimbursement Scheme approach, has announced its intentions to phasing in, by 2014, a new value-based pricing approach, at least for new product introductions. Under this approach, in a complete departure from established methodologies, reimbursement levels of each drug will be explicitly based on an assessment of value, looking at the benefits for the patient, unmet need, therapeutic innovation, and benefit to society as a whole. It is increasingly common in many EU Member States for Marketing Authorization Holders to be required to demonstrate the pharmaco-economic superiority of their products as compared to products already subject to pricing and reimbursement in specific countries. In order for drugs to be evaluated positively under such criteria, pharmaceutical companies may need to re-examine, and

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consider altering, a number of traditional functions relating to the selection, study, and management of drugs, whether currently marketed, under development, or being evaluated as candidates for research and/or development.

Future legislation, including the current versions being considered at the federal level in the U.S. and at the national level in EU Member States, or regulatory actions implementing recent or future legislation may have a significant effect on our business. Our ability to successfully commercialize products depends in part on the extent to which reimbursement for the costs of our products and related treatments will be available in the U.S. and worldwide from government health administration authorities, private health insurers and other organizations. Substantial uncertainty exists as to the reimbursement status of newly approved health care products by third-party payors.

***Sales and Marketing***

The FDA regulates all advertising and promotion activities for products under its jurisdiction both prior to and after approval. A company can make only those claims relating to safety and efficacy that are approved by the FDA. Physicians may prescribe legally available drugs for uses that are not described in the drug's labeling and that differ from those tested by us and approved by the FDA. Such off-label uses are common across medical specialties, and often reflect a physician's belief that the off-label use is the best treatment for the patients. The FDA does not regulate the behavior of physicians in their choice of treatments, but FDA regulations do impose stringent restrictions on manufacturers' communications regarding off-label uses. Failure to comply with applicable FDA requirements may subject a company to adverse publicity, enforcement action by the FDA, corrective advertising, consent decrees and the full range of civil and criminal penalties available to the FDA.

We may also be subject to various federal and state laws pertaining to health care "fraud and abuse," including anti-kickback laws and false claims laws. Anti-kickback laws make it illegal for a prescription drug manufacturer to solicit, offer, receive, or pay any remuneration in exchange for, or to induce, the referral of business, including the purchase or prescription of a particular drug. Due to the breadth of the statutory provisions and the absence of guidance in the form of regulations and very few court decisions addressing industry practices, it is possible that our practices might be challenged under anti-kickback or similar laws. False claims laws prohibit anyone from knowingly and willingly presenting, or causing to be presented for payment to third-party payors (including Medicare and Medicaid) claims for reimbursed drugs or services that are false or fraudulent, claims for items or services not provided as claimed, or claims for medically unnecessary items or services. Our activities relating to the sale and marketing of our products may be subject to scrutiny under these laws. Violations of fraud and abuse laws may be punishable by criminal and/or civil sanctions, including fines and civil monetary penalties, the possibility of exclusion from federal health care programs (including Medicare and Medicaid) and corporate integrity agreements, which impose, among other things, rigorous operational and monitoring requirements on companies. Similar sanctions and penalties also can be imposed upon executive officers and employees, including criminal sanctions against executive officers under the so-called "responsible corporate officer" doctrine, even in situations where the executive officer did not intend to violate the law and was unaware of any wrongdoing. Given the remedies that can be imposed on companies and individuals if convicted, allegations of such violations often result in settlements even if the company or individual being investigated admits no wrongdoing. Settlements often include significant civil sanctions, including fines and civil monetary penalties, and corporate integrity agreements. If the government were to allege or convict us or our executive officers of violating these laws, our business could be harmed. In addition, private individuals have the ability to bring similar actions. Our activities could be subject to challenge for the reasons discussed above and due to the broad scope of these laws and the increasing attention being given to them by law enforcement authorities. Further, there are an increasing number of state laws that require manufacturers to make reports to states on pricing and marketing information. Many of these laws contain ambiguities as to

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what is required to comply with the laws. Given the lack of clarity in laws and their implementation, our reporting actions could be subject to the penalty provisions of the pertinent state authorities.

Similar rigid restrictions are imposed on the promotion and marketing of medicinal products in the EU and other countries. Laws (including those governing promotion, marketing and anti-kickback provisions), industry regulations and professional codes of conduct often are strictly enforced. Even in those countries where we are not directly responsible for the promotion and marketing of our products, inappropriate activity by our international distribution partners can have implications for us.

***Other Laws and Regulatory Processes***

We are subject to a variety of financial disclosure and securities trading regulations as a public company in the U.S., including laws relating to the oversight activities of the Securities and Exchange Commission, or SEC, and, if any or our capital stock becomes listed on a national securities exchange, we will be subject to the regulations of such exchange on which our shares are traded. In addition, the Financial Accounting Standards Board, or FASB, the SEC, and other bodies that have jurisdiction over the form and content of our accounts, our financial statements and other public disclosure are constantly discussing and interpreting proposals and existing pronouncements designed to ensure that companies best display relevant and transparent information relating to their respective businesses.

Our international operations are subject to compliance with the Foreign Corrupt Practices Act, or the FCPA, which prohibits corporations and individuals from paying, offering to pay, or authorizing the payment of anything of value to any foreign government official, government staff member, political party, or political candidate in an attempt to obtain or retain business or to otherwise influence a person working in an official capacity. We also may be implicated under the FCPA for activities by our partners, collaborators, contract research organizations, or CROs, vendors or other agents.

Our present and future business has been and will continue to be subject to various other laws and regulations. Various laws, regulations and recommendations relating to safe working conditions, laboratory practices, the experimental use of animals, and the purchase, storage, movement, import and export and use and disposal of hazardous or potentially hazardous substances used in connection with our research work are or may be applicable to our activities. Certain agreements entered into by us involving exclusive license rights or acquisitions may be subject to national or supranational antitrust regulatory control, the effect of which cannot be predicted. The extent of government regulation, which might result from future legislation or administrative action, cannot accurately be predicted.

**Intellectual Property**

As of July 20, 2011, we owned 1 issued U.S. patent, as well as 10 pending U.S. patent applications and 28 pending foreign patent applications in Europe and 16 other jurisdictions. As of July 20, 2011, we had licenses to 9 U.S. patents 1 U.S. patent applications as well as numerous foreign counterparts to many of these patents and patent applications. We licensed these patents and patent applications on an exclusive basis for all countries except Japan though our rights in France with respect to BA058 are subject to certain co-promotion and co-marketing rights held by Ipsen and our rights to sublicense in certain Asia Pacific countries in respect of RAD1901 are subject to a right of first refusal held by Eisai, all as described herein in our discussion of our license agreements with Ipsen and Eisai.

**Employees**

As of the date of this Report, we employed seven full-time employees and three part-time employees, four of whom held Ph.D. or M.D. degrees. Four of our employees were engaged in research and development activities and six were engaged in support administration, including business development, and finance. In addition, we intend to use clinical research organizations and third parties to perform our clinical studies and manufacturing.

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**Properties**

On July 15, 2011, we entered into a Lease (the "Lease") for our executive offices with Broadway Hampshire Associates Limited Partnership (the "Landlord") for approximately 5,672 rentable square feet of space in the building located at 201 Broadway, Cambridge, Massachusetts 02139. Our telephone number is (617) 551-4700.

The Lease has an initial term of three years, commencing on August 1, 2011 and expiring on July 31, 2014. Pursuant to the Lease, our monthly base rent is $15,125.33 in year 1, $15,598.00 in year 2 and $16,070.67 in year 3 and we are required to pay additional monthly rent in an amount equal to our proportionate share of certain taxes and operating expenses, as further set forth in the Lease.

An event of default under the Lease is defined as the occurrence of any of the following events: failure to pay rent within five business days after the same is due and payable; provided, however, on the first occasion of failure to pay rent when due the Landlord will provide us with notice and permit us a five-day period to cure such failure after providing such written notice; failure to pay additional monthly rent within ten days after the same is due and payable; failure to perform or observe any other covenant or obligation under the Lease provided the same is not cured within thirty days; the voluntary filing of bankruptcy or any other petition for the relief of debt, acquiescence in the appointment of a bankruptcy trustee or a consent to the assignment of assets; and the involuntary petition against us under the bankruptcy code which is not dismissed within sixty days.

A copy of the Lease was previously filed on our Current Report on Form 8-K filed with the SEC on August 11, 2011.

**Legal Proceedings**

We are not currently involved in any material legal proceedings.

**Recent Developments**

Pursuant to an Agreement and Plan of Merger dated April 25, 2011 (the "Merger Agreement"), by and among MPM Acquisition Corp. (referred to herein as the "Company", "Radius" or the "Registrant"), RHI Merger Corp., a Delaware corporation and wholly owned subsidiary of the Company ("MergerCo"), and the 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 operating subsidiary of the Company. The Merger was effective as of May 17, 2011, upon the filing of a certificate of merger with the Delaware Secretary of State.

At the Effective Time, the legal existence of MergerCo ceased and all of the shares of the Former Operating Company Common Stock, and shares of the Former Operating Company Preferred Stock, that were outstanding immediately prior to the Merger were cancelled and each outstanding share of Former Operating Company Common Stock outstanding immediately prior to the Effective Time was automatically converted into the right to receive one share of our Common Stock and each outstanding share of Former Operating Company Preferred Stock outstanding immediately prior to the Effective Time was automatically converted into the right to receive one-tenth of one share of our Preferred Stock from the Company as consideration for the Merger. More specifically, each share of Series A-1 Convertible Preferred Stock of Former Operating Company outstanding immediately prior to the Effective Time was converted into the right to receive 0.1 shares of Series A-1 Preferred Stock of the Company; each share of Series A-2 Convertible Preferred Stock of the Former Operating Company outstanding immediately prior to the Effective Time was converted into the right to receive 0.1 shares of Series A-2 Convertible Preferred Stock of the Company; each share of Series A-3 Convertible Preferred Stock of the Former Operating Company outstanding immediately prior to the Effective Time was converted into the right to receive 0.1 shares of Series A-3 Convertible Preferred Stock of

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the Company; each share of Series A-4 Convertible Preferred Stock of the Former Operating Company's outstanding immediately prior to the Effective Time was converted into the right to receive 0.1 shares of Series A-4 Convertible Preferred Stock of the Company; each share of Series A-5 Convertible Preferred Stock of the Former Operating Company's outstanding immediately prior to the Effective Time was converted into the right to receive 0.1 shares of Series A-5 Convertible Preferred Stock of the Company; and each share of Series A-6 Convertible Preferred Stock of the Former Operating Company outstanding immediately prior to the Effective Time was converted into the right to receive 0.1 shares of Series A-6 Convertible Preferred Stock of the Company. The Company will assume all outstanding options and warrants of the Former Operating Company outstanding immediately prior to the Effective Time, which shall become exercisable for shares of Company Common Stock or Company Preferred Stock, as the case may be. See the description of the options and warrants assumed in the merger in sections herein entitled "2003 Long-Term Incentive Plan" and "Description of Capital Stock," respectively. Our entry into the Merger Agreement was disclosed on our Current Report on Form 8-K filed with the Securities and Exchange Commission on April 25, 2011, as amended on September 30, 2011, which is hereby incorporated by reference, including the copy of the Merger Agreement filed as Exhibit 10.1 thereto.

Prior to the closing of the Merger, pursuant to the terms of a Redemption Agreement dated March 25, 2011 by and among us and our then-current stockholders, we completed the repurchase of 5,000,000 shares of Common Stock (the "Redemption") from our former sole stockholder, MPM Asset Management LLC, in consideration of an aggregate of $50,000. The 5,000,000 shares constituted all of the issued and outstanding shares of our capital stock, on a fully-diluted basis, immediately prior to the Merger. Our entry into the Redemption Agreement was disclosed on our Current Report on Form 8-K filed with the Securities and Exchange Commission on April 25, 2011, which is hereby incorporated by reference, including the copy of the Redemption Agreement filed as Exhibit 10.2 thereto. Upon completion of the Merger and the Redemption, the former stockholders of the Former Operating Company held 100% of our outstanding shares of capital stock.

Pursuant to the Merger, we assumed all of the Former Operating Company's obligations under its existing contracts. In particular, we have assumed the obligations of the Former Operating Company under the Original Purchase Agreement with the Investors pursuant to which, among other things, the Former Operating Company agreed to issue and sell to the Investors up to an aggregate of 7,895,535 shares of the Former Operating Company's Preferred Stock, to be completed in the Stage I Closing, the Stage II Closing and the Stage III Closing. The Original Purchase Agreement was subsequently amended by Amendment No. 1 thereto to eliminate all closing conditions previously provided for in the Original Purchase Agreement. Upon notice from us, the Investors are obligated to purchase, and we are obligated to issue, 263,178 shares of our Series A-1 Preferred Closing at the Stage II Closing and 263,180 shares of our Series A-1 Preferred Stock 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. A copy of the Purchase Agreement is attached hereto as Exhibit 10.26, and is incorporated herein by reference.

The foregoing description of the Merger Agreement, the Redemption Agreement, Purchase Agreement and the transactions contemplated thereby do not purport to be complete and are qualified in their entireties by reference to the Merger Agreement and the Redemption Agreement, respectively.

Following the Merger on May 17, 2011, our Board of Directors approved a transaction pursuant to which the Former Operating Company merged with and into us, leaving us as the surviving corporation (the "Short-Form Merger" and together with the Merger, the "Reverse Merger"). In connection with the Short-Form Merger, we relinquished our corporate name and assumed in its place the name "Radius Health, Inc." The Short-Form and name change became effective on May 17, 2011, upon the filing of a Certificate of Ownership an Merger with the Delaware Secretary of State.

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On May 23, 2011, we entered into a Loan and Security Agreement with GEC as agent and a lender, and Oxford, as a lender, pursuant to which the Lenders agreed to make available $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, we issued a Warrant to each of GECC and Oxford for the purchase of 3,070 shares of Series A-1 Preferred stock.

On May 23, 2011, we filed a Current Report on Form 8-K relating to the foregoing and disclosing the Form 10 information required in connection with the Reverse Merger.

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## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

*You should read the following discussions in conjunction with our consolidated financial statements and related notes included in this prospectus. This discussion includes forward-looking statements that involve risk and uncertainties. As a result of many factors, such as those set forth under "Risk Factors," actual results may differ materially from those anticipated in these forward-looking statements.*

### 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, 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

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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.

**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 years ended December 31, 2009 and 2010 and the six months ended June 30, 2010 and 2011. 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 June 30, 2011 were approximately $43,078,000. We began tracking program expenses for BA058 Microneedle Patch in 2007, and program expenses from inception to June 30, 2011 were approximately $8,215,000. We began tracking program expenses for RAD1901 in 2006, and program expenses from inception to June 30, 2011 were approximately $15,290,000. We began tracking program expenses for RAD140 in 2008, and program

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expenses from inception to June 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.

| | Year ended December 31, | | Six Months ended June 30, | |
|---|---|---|---|---|
| | 2009 | 2010 | 2010 | 2011 |
| | (in thousands) | | | |
| BA058 Injection | $ 3,671 | $ 4,664 | $ 661 | $ 16,774 |
| BA058 Microneedle Patch | 2,819 | 1,863 | 857 | 2,758 |
| RAD1901 | 2,185 | 1,654 | 1,040 | |
| RAD140 | 2,031 | 313 | 287 | 23 |

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 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;

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- 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.

*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.

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*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 and 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.

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

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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 years ended December 31, 2009 and 2010 and the six months ended June 30, 2010 and 2011, we recorded approximately $100,000, $100,000, $9,000 and $106,000, 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 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.

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The following table presents the grant dates and related exercise prices of stock options granted from January 1, 2009 to November 7, 2011.

| Date of Issuance | Nature of Issuance | Number of Shares | Exercise or Purchase Price per Share | Per Share Estimated Fair Value of Common Stock(1) | Per Share Weighted Average Estimated Fair Value of Options(2) |
|---|---|---|---|---|---|
| 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 |
| November 7, 2011 | Option grant | 849,709 | $ 3.22 | $ 3.22 | $ 1.83 |

(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 September 30, 2011 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

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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 utilized the fair value of common stock derived from the September 30, 2011 valuation for purposes of the November 7, 2011 option grant. We concluded that there were no significant changes to the assumptions used in the PWERM model between September 30, 2011 and November 7, 2011 that would impact the fair value of our 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 June 30, 2011, and to determine the fair value of shares of Series A-5 convertible preferred stock due to Nordic Bioscienses at June 30, 2011, as discussed in Note 14 to our condensed quarterly financial statements for the period ended June 30, 2011.

**Results of Operations**

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

| | Years ended December 31, | | Six months ended June 30, | |
|---|---|---|---|---|
| | **2009** | **2010** | **2010** | **2011** |
| Revenue: | | | | |
| Option Fee | $ 1,616 | $ | $ | $ |
| Operating expenses: | | | | |
| Research and development | 14,519 | 11,692 | 4,706 | 20,689 |
| General and administrative | 2,668 | 3,630 | 1,117 | 1,842 |
| Restructuring | | 217 | | |
| Loss from operations | (15,571) | (15,539) | (5,823) | (22,531) |
| Other income (expense): | | | | |
| Other income (expense), net | (7) | 824 | (15) | 22 |
| Interest income (expense), net | 489 | 85 | 47 | (88) |
| Net loss | (15,089) | (14,630) | (5,791) | (22,597) |
| Net (loss) earnings attributable to common stockholders | $ (26,494) | $ (26,773) | $ (11,170) | $ 1,013 |

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Six months Ended June 30, 2011 and 2010

*Revenue:* There was no revenue for the six months ended June 30, 2011 or June 30, 2010.

| | Six months Ended June 30, | | Change | |
|---|---|---|---|---|
| | 2010 | 2011 | $ | % |
| | (dollars in thousands) | | | |
| Operating expenses: | | | | |
| Research and development | $ 4,706 | $ 20,689 | $ 15,983 | 340% |
| General and administrative | 1,117 | 1,842 | 725 | 65% |

*Research and development expenses:* For the six months ended June 30, 2011, research and development expense was $20,689,000 compared to $4,706,000 for the six months ended June 30, 2010, an increase of $15,983,000 and 340%. For the six months ended June 30, 2011, we incurred professional contract services associated with the development of BA058 Injection of $16,774,000 compared to $661,000 for the six months ended June 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 $1,901,000 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 $264,000 less on RAD140, and $1,040,000 less for professional contract services associated with the development of RAD1901 in the six months ended June 30, 2011 compared to the six months ended June 30, 2010. We also had reductions in facilities and outside services expenses of approximately $362,000 for the six months ended June 30, 2011 compared to the six months ended June 30, 2010. These reductions were attributable to the closure of our lab in September of 2010.

We began tracking program expenses for BA058 Injection in 2005, and program expenses from inception to June 30, 2011 were approximately $43,078,000. We began tracking program expenses for BA058 Microneedle Patch in 2007, and program expenses from inception to June 30, 2011were approximately $8,215,000. We began tracking program expenses for RAD1901 in 2006, and program expenses from inception to June 30, 2011were approximately $15,290,000. We began tracking program expenses for RAD140 in 2008, and program expenses from inception to June 30, 2011were approximately $5,164,000. These expenses relate primarily to external costs associated with manufacturing, preclinical studies and clinical trial costs.

*General and administrative expense:* For the six months ended June 30, 2011, general and administrative expense was $1,842,000 compared to $1,117,000 for the six months ended June 30, 2010, an increase of $725,000 and 65%. The increase is primarily the result of increased legal and accounting costs.

*Restructuring:* There were no restructuring charges for the six months ended June 30, 2011 and June 30, 2010.

*Interest income (expense), net:* For the six months ended June 30, 2011 interest expense was $108,000 compared to $0 for the six months ended June 30, 2010. 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.

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Years ended December 31, 2010 and 2009

*Revenue:* For the year ended December 31, 2010, revenue was $0 compared to $1,616,000 for the year ended December 31, 2009. The revenue in 2009 relates solely to an option agreement signed with Novartis in 2007 pursuant to which Novartis obtained an option to license the exclusive worldwide rights (except Japan) to all formulations of BA058. Revenue was recognized ratably over the option period based on criteria specified in the agreement. The period of option exclusivity expired in 2009 without exercise by Novartis.

| | Years Ended December 31, | | Change | |
|---|---|---|---|---|
| | 2009 | 2010 | $ | % |
| | (dollars in thousands) | | | |
| Operating expenses: | | | | |
| Research and development | $ 14,519 | $ 11,692 | $ (2,827) | (19)% |
| General and administrative | 2,668 | 3,630 | 962 | 36% |
| Restructuring | | 217 | 217 | 100% |

*Research and development expenses:* For the year ended December 31, 2010, research and development expense was $11,692,000 compared to $14,519,000 for the year ended December 31, 2009, a decrease of $2,827,000 and 19%. For the year ended December 31, 2010, we incurred professional contract services associated with the development of BA058 Injection of approximately $4,664,000 compared to approximately $3,671,000 for the year ended December 31, 2009. The increase is attributable to a $1,000,000 up-front payment to Nordic for Phase 3 study expenses. Offsetting these increases, we incurred $956,000 less in contract services associated with the development of BA058 Microneedle Patch. The decrease was mainly the result of completion of the feasibility agreement with 3M for the Microneedle Patch in 2009. Additionally, we spent $1,717,000 less on RAD140 and $531,000 less on RAD1901 for professional contract services in the year ended December 31, 2010 compared to the year ended December 31, 2009 as we evaluate strategic options of the further development of these programs. Lastly, we experienced reductions in stock-based and other compensation of approximately $125,000, professional fees of approximately $234,000, and facility and other miscellaneous costs of approximately $256,000, for the year ended December 30, 2010 compared to the year ended December 31, 2009. The reduction in compensation was the result of the achievement of certain milestones that generated higher stock-based compensation in 2009. The reduction in professional fees, facilities, and miscellaneous other costs was related to the curtailment in costs for the RAD140 and RAD1901 programs.

*General and administrative expenses:* For the year ended December 31, 2010, general and administrative expense was $3,630,000 compared to $2,668,000 for the year ended December 31, 2009, an increase of approximately $962,000 and 36%. The increase was attributable to an increase in compensation of approximately $279,000 and professional fees of approximately $715,000. The increase in compensation consisted mainly of management bonuses which were higher in 2010 than in 2009. The increase in professional fees included legal and accounting fees. These increases were offset by reductions in other individually insignificant accounts.

*Restructuring:* We incurred restructuring costs of approximately $217,000 in the year ended December 31, 2010 related to lease termination costs associated with vacating our laboratory space. No similar costs were incurred in 2009.

*Other income (expense), net:* Other income (expense) of $824,000 at December 31, 2010 was primarily comprised of approximately $733,000 of grant proceeds from the Internal Revenue Service pursuant to the qualifying therapeutic discovery grant program and approximately $149,000 in proceeds from the sale of equipment.

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*Interest income (expense), net:* Interest income decreased approximately $404,000 from $489,000 in the year ended December 31, 2009 to $85,000 in the year ended December 31, 2010. The decrease is attributable to a lower average cash equivalents and marketable securities balance in 2010.

*Liquidity and Capital resources*

From inception to June 30, 2011, we have incurred an accumulated deficit of $102,481,000, 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 June 30, 2011 was $25,336,000.

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

| | Years ended December 31, | | Change | | Six months ended June 30, | | Change | |
|---|---|---|---|---|---|---|---|---|
| | 2009 | 2010 | $ | % | 2010 | 2011 | $ | % |
| | (dollars in thousands) | | | | (dollars in thousands) | | | |
| Net cash provided by (used in): | | | | | | | | |
| Operating activities | $ (18,293) | $ (12,986) | $ 5,307 | 29% | $ (6,827) | $ (19,625) | $ (12,798) | 187% |
| Investing activities | 17,623 | 15,670 | (1,953) | 11% | 11,342 | 7,948 | (3,394) | 30% |
| Financing activities | (8) | 2 | 10 | 125% | | 26,431 | 26,431 | 100% |
| Net increase (decrease) in cash and cash equivalents | $ (678) | $ 2,686 | $ 3,364 | 496% | $ 4,515 | $ 14,754 | $ 10,239 | 227% |

*Cash Flows From Operating Activities*

The increase of $12,798,000 in net cash used in operations for the six months ended June 30, 2011 compared to the six months ended June 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 $3,028,000 increase in prepaid expenses, a $541,000 decrease in accounts payable and a $1,507,000 increase 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 Injections.

The decrease of $5,307,000 in net cash used in operations for the year ended December 31, 2010 compared to the year ended December 31, 2009 was primarily associated with a $459,000 decrease in net loss and net changes in working capital, including a $2,413,000 million increase in accrued expenses related to preparations to initiate the Phase 3 clinical study for BA058 Injection, a $1,027,000 decrease in accounts payable and a decrease of $1,615,000 million in deferred revenue due to the expiration of the Novartis option agreement in 2009.

*Cash Flows From Investing Activities*

Net cash provided by investing activities decreased by $3,394,000 for the six months ended June 30, 2011 compared to the six months ended June 30, 2010. The decrease was primarily a result of a $3,406,000 decrease in net cash proceeds from maturities of investments, net of purchases, in the six months ended June 30, 2011; offset by $12,000 less cash used for the purchase of equipment.

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Net cash provided by investing activities decreased by $1,953,000 for the year ended December 31, 2010 compared to the year ended December 31, 2009. The decrease was primarily a result of a $2,120,000 decrease in net cash proceeds from the sales and maturities of investments, net of purchases, in the year ended December 31, 2010; offset by $149,000 in proceeds from the sale of equipment.

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 six months ended June 30, 2011 included $20,452,000 of proceeds, net of issuance costs, from the first closing of the Series A-1 and Series A-5 financings, $5,833,000 of proceeds, net of issuance costs, from the Loan and Security Agreement with Oxford Finance Group and General Electric Capital Corporation, and $152,000 of net proceeds from stock option exercises.

There were no significant cash flows from financing activities for the six months ended June 30, 2010 or the years ended December 31, 2010 and December 31, 2009.

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 June 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 second quarter of 2012, but will need additional financing thereafter until we can achieve profitability, if ever.

*Financings*

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

| Issue | Year | No. Shares | Net Proceeds (in thousands) |
|---|---|---|---|
| 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 |

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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 $64.3 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 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

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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.

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 June 30, 2011, 57,987 shares of Series A-6 preferred stock are due to Nordic.

The Company recorded $11,356,000 in the six-month period 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 $453,000 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 $3,421,000 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 a liability to Nordic of approximately $1,594,000 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. The Company recognized research and development expense of $2,361,000 for pass through costs in the six-month period ended June 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 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

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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. 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 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

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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.

***Changes in and Disagreements with Accountants on Accounting and Financial Disclosure***

In connection with the closing of the Merger on May 17, 2011, Ernst & Young LLP ("E&Y"), who was the independent registered public accounting firm for the Former Operating Company prior to the Merger, became the independent registered public accounting firm for the Company and Raich Ende Malter & Co. LLP ("REMC") was dismissed as the independent registered public accountant for the Company. The decision to appoint E&Y and dismiss REMC was recommended, and subsequently approved, by the Board of Directors of the Company.

The reports of REMC on the Company's financial statements for the two years ended December 31, 2009 and December 31, 2010 did not contain an adverse opinion or a disclaimer of opinion, and were not qualified or modified as to audit scope or accounting principles.

In connection with the audits of the Company's financial statements for each of the two years ended December 31, 2010, and in the subsequent interim period through REMC's dismissal, there were no disagreements with REMC on any matters of accounting principles or practices, financial statement disclosures, or auditing scope or procedures, which if not resolved to REMC's satisfaction would have caused REMC to make reference to the matter in their report.

In connection with the audited financial statements of the Company through REMC's dismissal, there have been no reportable events with the Company as set forth in Item 304(a)(1)(v) of Regulation S-K.

The Company has requested that REMC furnish it with a letter addressed to the Securities & Exchange Commission stating whether it agrees with the above statements. A copy of the letter, dated September 28, 2011 has been filed with this report.

***Quantitative and Qualitative Disclosures 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

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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.

We are also exposed to market risk related to changes in interest rates. As of December 31, 2010 and December 31, 2009, we had cash, cash equivalents and short-term investments of $18,551,000 and $31,722,000 million, 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.

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## MANAGEMENT

Each executive officer and each member of our board of directors shall serve until his successor is elected and qualified.

| Name | Age | Position |
|---|---|---|
| C. Richard Lyttle, Ph.D. | 66 | Director, President and Chief Executive Officer |
| Nick Harvey | 51 | Senior Vice President, Chief Financial Officer, Treasurer and Secretary |
| Louis O'Dea, MB | 60 | Senior Vice President, Chief Medical Officer |
| Gary Hattersley, Ph.D. | 45 | Vice President, Biology |
| Alan Auerbach | 42 | Director |
| Jonathan Fleming | 54 | Director |
| Ansbert K. Gadicke, M.D. | 53 | Director |
| Kurt Graves | 43 | Director |
| Martin Muenchbach, Ph.D. | 40 | Director |
| Elizabeth Stoner, M.D. | 61 | Director |

**C. Richard Lyttle, PhD., Director, President and Chief Executive Officer**, 66, has served as a member of our board of directors and as our President and Chief Executive Officer since November 2010. Prior to the Merger and Short-Form Merger, Dr. Lyttle had been President and Chief Executive Officer and a Director of the Former Operating Company since August 2004. Dr. Lyttle is the former Vice President of Discovery for Women's Health and Bone from 1998 to 2004, and the Women's Health Research Institute at Wyeth from 1993 to 2004. Prior to joining Wyeth, Dr. Lyttle was Research Professor of Obstetrics, Gynecology, and Pharmacology at the University of Pennsylvania from 1979 to 1993. He received a PhD in Biochemistry from Queen's University, Kingston, Ontario in 1972, followed by postdoctoral research at the Population Council at the Rockefeller University from 1973 to 1974, the Department of Biology at Queen's University from 1974 to 1976, and at the University of Chicago from 1976 to 1979. Dr. Lyttle was selected as a director because of his business and professional experience.

**Nick Harvey, Senior Vice President, Chief Financial Officer, Treasurer and Secretary**, 51, has served as our Chief Financial Officer, Treasurer and Secretary since November 2010, and served as a member of our board of directors from November 2010 until the consummation of the Merger in May 2011. Prior to the Merger, Mr. Harvey had served as Chief Financial Officer and Senior Vice President of the Former Operating Company since December 2006. Prior to joining the Former Operating Company, Mr. Harvey served as Managing Director of Shiprock Capital, LLC, a venture capital firm, from 2003 to 2006 and remains a member of the Board of that firm. Prior to Shiprock Capital, Mr. Harvey served as Chief Financial Officer of a number of venture-backed companies over a 10-year period, including LifetecNet from 2001 to 2002, Transfusion Technologies from 1999 to 2000, and Transcend Therapeutics from 1993 to 1999. Mr. Harvey received a Bachelor of Economics degree in 1980 and a Bachelor of Laws degree with first-class honors in 1983 from the Australian National University, and an MBA from the Harvard Business School in 1991. Mr. Harvey was selected as a director because of his business and professional experience.

**Louis O'Dea, M.B., Senior Vice President, Chief Medical Officer**, 60, has been Senior Vice President and Chief Medical Officer since the closing of the Merger in May 2011 and, prior to the Merger served in such capacity at the Former Operating Company since March 2006. Prior to joining the Former Operating Company, Dr O'Dea was Vice President and Head of Clinical Development for Reproductive Endocrinology and Metabolism at Serono, Inc. from 2004 to 2006. Joining Serono as a Medical Director in 1993 (1993-95), he was appointed Executive Medical Director in 1995 (1995-1998) and Vice President for Clinical Development in 1999 (1999-2006). From 2000 to 2002, Dr O'Dea served as Regional Medical Officer in Japan. Dr. O'Dea received his Medical Degree from University College Dublin, Ireland, in 1976. He received his postgraduate medical education in Internal Medicine and

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Endocrinology at McGill University, Canada from 1976-84 and is board certified in both specialties in Canada and USA. From 1984-88, Dr O'Dea undertook a Research and Clinical Fellowship in Reproductive Endocrinology at Massachusetts General Hospital, Harvard University and from 1988-95 was a member of the Medical Faculty of McGill University, Montreal, Canada, in the Departments of Medicine and Obstetrics-Gynecology. Dr O'Dea has also served on the Board of Directors of the Eliassen Group from 2007 to 2010 and is an advisor to Lineage Capital.

**Gary Hattersley, PhD., Vice President, Biology**, 45, has served as our Vice President of Biology since the closing of the Merger in May 2011 and had served in the same capacity at the Former Operating Company since April 2008. He also served as the Former Operating Company's Director, Disease Biology & Pharmacology from 2003 to 2008. Prior to joining the Former Operating Company, Dr. Hattersley was a Senior Scientist at Millennium Pharmaceuticals from 2000 to 2003 with responsibility for the discovery and development of novel small-molecule agents for the treatment of osteoporosis and other metabolic bone diseases. Dr. Hattersley also held positions at Genetics Institute/Wyeth Research from 1992 to 2000 investigating the application of the bone morphogenetic proteins in bone and connective tissue repair and regeneration. Dr. Hattersley received a PhD in Experimental Pathology from St. George's Hospital Medical School in London in 1991.

**Alan H. Auerbach**, 42, has been a director since the closing of the Merger in May 2011 and, prior to the Merger, was a director of the Former Operating Company since October 2010. Mr. Auerbach is currently the Founder, Chief Executive Officer and President of Puma Biotechnology, Inc., a company dedicated to in-licensing and developing drugs for the treatment of cancer and founded in 2010. Mr. Auerbach founded Cougar Biotechnology in May 2003 and served as the company's Chief Executive Officer, President and a Member of its Board of Directors until July 2009 when Cougar was acquired by Johnson & Johnson for approximately $1 billion. From July 2009 until January 2010, Mr. Auerbach served as the Co-Chairman of the Integration Steering Committee at Cougar (as part of Johnson & Johnson) that provided leadership and oversight for the development and global commercialization of Cougar's lead product candidate, abiraterone acetate, for the treatment of advanced prostate cancer. Prior to founding Cougar, from June 1998 to April 2003, Mr. Auerbach was a Vice President, Senior Research Analyst at Wells Fargo Securities, where he was responsible for research coverage of small- and middle- capitalization biotechnology companies, with a focus on companies in the field of oncology. He had primary responsibility for technical, scientific and clinical due diligence, as well as selection of biotechnology companies followed by the company. During 2002, Mr. Auerbach ranked second in the NASDAQ/Starmine survey of analyst performance for stock picking in biotechnology. From August 1997 to May 1998, Mr. Auerbach was a Vice President, Research Analyst at the Seidler Companies, Inc., where he was responsible for research coverage of small capitalization biotechnology companies. Prior to his work as a biotechnology analyst, Mr. Auerbach worked for Diagnostic Products Corporation, where he designed and implemented clinical trials in the field of oncology. Mr. Auerbach received a B.S. in Biomedical Engineering from Boston University and an M.S. in Biomedical Engineering from the University of Southern California. Mr. Auerbach was selected as a director because of his business and professional experience, including but not limited to his leadership of Cougar Biotechnology in drug development, private and public financings and a successful sale of the business.

**Jonathan Fleming**, 54, has been a director since the closing of the Merger in May 2011 and, prior to the Merger, was as director of the Former Operating Company since March 2009. Mr. Fleming is the Managing General Partner of Oxford Bioscience Partners ("OBP"), an international venture capital firm specializing in life science technology-based investments, which he joined in August 1996 as a General Partner, with offices in Boston and Connecticut. Mr. Fleming has been in the investment business for more than 20 years and has launched and financed growth companies in the United States, Europe, and Israel. Prior to joining OBP in 1996, Mr. Fleming was a Founding General Partner of MVP Ventures in Boston from 1988 to 1996. He began his investment career with TVM Techno

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Venture Management in Munich, Germany in 1985. Mr. Fleming is also a co-founder of Medica Venture Partners, a venture capital investment firm specializing in early-stage healthcare and biotechnology companies in Israel. Mr. Fleming has been on the Board of Asterand plc (LSE: ATD) since September 2008 and is a director of several private companies including Leerink Swann, a Boston-based investment bank specializing in healthcare companies since June 1998, Laboratory Partners, a clinical diagnostic testing company, since June 2006, and Railrunner, a rail products and services company, since June 1999. Mr. Fleming is a Trustee of the Museum of Science in Boston, a Member of the Board of the New England Healthcare Institute, and a Senior Lecturer at the MIT Sloan School of Business. He holds an MPA from Princeton University and a BA from the University of California, Berkeley. Mr. Fleming brings to our board of directors strategic insight and experience with his long career in venture capital and investing in life sciences technology-based firms for over 20 years.

**Ansbert K. Gadicke, M.D.**, 53, has been a director since the closing of the Merger and, prior to the Merger, served a director of the Former Operating Company since November 2003. Dr. Gadicke is a Co-Founder and Managing Director of MPM Capital since August 1996 to date. He led MPM's effort to build its Advisory and Investment Banking business from 1992 to 1996 and started its Asset Management business in 1996. Prior to founding MPM, Dr. Gadicke was employed by The Boston Consulting Group from 1989 to 1992. Dr. Gadicke received an M.D. from J.W. Goethe University in Frankfurt in 1983. He subsequently held research positions in biochemistry and molecular biology at the German Cancer Research Center from 1984 to 1986, Harvard University from 1987 to 1988, and the Whitehead Institute at MIT from 1988 to 1989. He has published in leading scientific publications including Nature and Cell. Dr. Gadicke is also a director of Cerimon Pharmaceuticals; Dragonfly Sciences; Solasia Pharma K.K., Tokyo; and Verastem, Inc. He previously served as a director of Arriva Pharmaceuticals, BioMarin, Biovitrum, Chiasma, Coelacanth, Idenix, Kourion, MediGene, Omrix Biopharmaceuticals, Pharmasset, Inc.; PharmAthene, Transform, Xanodyne Pharmaceuticals, and ViaCell. He is a member of the Board of Fellows of Harvard Medical School. Dr. Gadicke was selected as a director because of his business and professional experience.

**Kurt Graves,** 43, has been a director since the closing of the Merger in May 2011. Mr. Graves is a global industry leader with more than twenty years of US and global general management experience in top-tier U.S. and Europe-based pharmaceutical and biotechnology companies. Since October 2009, he has been an independent consultant and since August and November of 2010, he has been serving as the Executive Chairman of two private late stage Biotech companies in type 2 diabetes and HCV, Intarcia Therapeutics and Biolex Therapeutics, respectively. Prior to this, he served as an Executive Vice President, Chief Commercial Officer and Head of Strategic Development at Vertex Pharmaceuticals Inc. from July 2007 to October 2009 where he led the development of the company's HCV and CF programs as well as the acquisition of Virochem Pharmaceuticals. Prior to joining Vertex, Mr. Graves held various leadership positions at Novartis Pharmaceuticals from 1999 to June 2007, including a member of the Executive Committee and the Global Head of the General Medicines Business, a $15 billion dollar business with 8 therapeutic area franchises. He was also the first Chief Marketing Officer for the Pharmaceuticals division from September 2003 to June 2007. Prior to that, Mr. Graves served as Senior Vice President & General Manager, US Pharma & Commercial Operations; Vice President, Head of US Marketing & Primary Care Franchises; and Vice President & Business Unit Head: Respiratory, GI, Dermatology and Bone Franchises at Novartis. Prior to joining Novartis, Mr. Graves held various commercial and general management positions since 1990 at Merck and Astra/Merck Pharmaceuticals including US GI Business Unit Head where he was responsible for developing and commercializing for Prilosec(R) and Nexium(R) and the Prilosec OTC alliance with P&G. He has also been a director of Pulmatrix Therapeutics, Alevium Pharmaceuticals, and Springleaf Therapeutics since 2010 as well. Mr. Graves earned his B.S. in Biology from Hillsdale College and has attended numerous executive leadership programs at Harvard, Wharton, and University of Michigan. Mr. Graves was selected as a director because of his business and professional experience.

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**Martin Muenchbach, PhD.,** 40, has been a director since the closing of the Merger in May 2011 and prior to the Merger, he served as an observer to the Board of Directors of the Former Operating Company since February 2007. Dr. Muenchbach launched BB BIOTECH VENTURES II in, and has managed it since, 2004. Previously, he was Partner at BioMedinvest and Investment Advisor at HBM Partners. At BioMedinvest, from 2003 to 2004, he led several of the firm's investments, and served on the board of portfolio companies. Before the merger of HBM Bioventures and NMT New Medical Technologies, he was Investment Manager at NMT from 1999 to 2003, where he was focusing on international private equity investments in biopharmaceutical and biotechnological companies. Before becoming a venture capitalist, from Dr. Muenchbach gained experience in strategic marketing at Sanofi-Synthelabo. Dr. Muenchbach holds a Ph.D. in Protein Chemistry, a MSc in Biochemistry and a Master in Industrial Engineering and Management from the Swiss Federal Institute of Technology (ETH), Zurich. Dr. Muenchbach's current board assignments include BioVascular Inc, Molecular Partners AG, Optimer Pharmaceuticals Inc, and Tioga Pharmaceuticals Inc. Dr. Muenchbach was selected as a director because of his business and professional experience.

**Elizabeth Stoner, M.D.,** 61, has been a director since the closing of the Merger in May 2011. Dr. Stoner is a Managing Director at MPM Capital from October 2007 to date and is based at the Boston office. Dr. Stoner is also the Chief Development Officer of Rhythm Pharmaceuticals. She is an industry veteran with broad expertise in clinical research and pharmaceutical product development. Dr. Stoner joined MPM Capital following a 22 year career at Merck Research Laboratories where she started in 1985. At the time of her retirement from Merck in 2007, she served as a Senior Vice President of Global Clinical Development Operations with responsibility for the Merck's clinical development activities in more than 40 countries. Dr. Stoner also oversaw the clinical development activities of Merck's Japanese partner, Banyu, led the clinical development for the Merck/Schering-Plough Joint Venture for Zetia/Vytorin, and played a critical leadership role in Merck's efforts to transform its worldwide clinical development operations. Earlier in her career at Merck, she had led the Proscar clinical development program from inception to establishing Merck as a leader in the field of prostate disease. As the Endocrine Therapeutic Head, Dr. Stoner's responsibilities included all steroid and lipid metabolism, as well as the growth hormone secretagogue clinical research programs. Prior to her position at Merck, she served as an Assistant Professor of Pediatrics at Cornell University Medical College from 1982 to 1985. She has been a director of Momenta Pharmaceuticals Inc. since October 25, 2007. She also served as director for Metabasis Pharmaceuticals. Dr. Stoner is a Member of the Scientific Advisory Board at Solasia, Inc. She received an M.D. from Albert Einstein College of Medicine, an M.S. in Chemistry from the State University of New York at Stony Brook, and a B.S. in Chemistry from Ottawa University, Kansas. Dr. Stoner was selected as a director because of her knowledge and expertise in the development of pharmaceutical products.

**Terms of Office; Voting Arrangements as to Directors**

Our directors and officers have been appointed for a one-year term or until their respective successors are duly elected and qualified or until their earlier resignation or removal in accordance with our By-Laws.

Pursuant to a stockholders' agreement and our Certificate of Incorporation:

(i) for so long as any shares of Series A-1 Stock are outstanding, the holders of a majority of the shares of Series A-1 Stock outstanding, voting as a separate class, shall have the right to elect two (2) members of the Board of Directors; and

(ii) Oxford Bioscience Partners IV L.P. (together with Saints Capital VI, L.P. and their respective affiliates and certain transferees), HealthCare Ventures VII, L.P. (together with its affiliates and certain transferees) and The Wellcome Trust Limited as trustee of The Wellcome Trust (together with its affiliates and certain transferees) (collectively, the "G3 Holders" and

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individually, each a "Group") voting as a separate class shall have the right to elect one (1) member of the Board of Directors of the Corporation by majority vote of the shares of Series A-1 Stock held by them; provided, however, that in order to be eligible to vote or consent with respect to the election of such member of the Board of Directors, a G3 Holder together with members of such G3 Holders' Group must hold greater than twenty percent (20%) of the shares of Series A-1 Stock purchased under the Series A-1 Stock Purchase Agreement by such G3 Holder and the members of such G3 Holders' Group; and

(iii) MPM Capital L.P., voting as a separate class, shall have the right to elect one (1) member of the Board of Directors of the Corporation by majority vote of the shares of Series A-1 Stock held by MPM Capital L.P.; provided that such member of the Board of Directors shall be an individual with particular expertise in the development of pharmaceutical products; and, provided, further, that in order to be eligible to vote or consent with respect to the election of such member of the Board of Directors, MPM Capital L.P. together with members of the MPM Group (as defined in the Stockholders' Agreement) must hold greater than twenty percent (20%) of the shares of Series A-1 Stock purchased under the Series A-1 Stock Purchase Agreement by MPM Capital L.P. and the members of the MPM Group.

The balance of the board is elected by all of the stockholders acting as a single class and voting on an as-converted basis.

**Certain Relationships and Transactions**

*Significant Employees*

As of the date hereof, we have no significant employees, other than the Company's named executive officers.

*Family Relationships*

There are no family relationships among our directors or executive officers.

*Involvement in Certain Legal Proceedings*

To our knowledge, there have been no events under any bankruptcy act, no criminal proceedings and no Federal or State judicial or administrative orders, judgments, decrees or findings, no violations of any Federal or State securities law, and no violations of any Federal commodities law material to the evaluation of the ability and integrity of any director (existing or proposed), executive officer (existing or proposed), promoter or control person of the Company during the past ten (10) years.

**Transactions with Related Persons**

Since October 2010 until the closing of the Merger and Short-Form Merger, the Former Operating Company funded our ongoing Exchange Act filing requirements and other costs associated with investigating and analyzing an acquisition. Management estimates such amounts to be de minimus. We have utilized the office space and equipment of MPM Asset Management LLC, our sole stockholder prior to the Redemption completed in connection with the Merger and those of the Former Operating Company from time to time, in all cases, at no cost to us.

As described above, Dr. Lyttle, a current director and executive officer was the President and Chief Executive Officer of the Former Operating Company prior to the Merger, and each of Dr. Lyttle, Mr. Auerbach, Dr. Gadicke, and Mr. Fleming, each directors, served as directors of the Former Operating Company prior to the Merger. In addition, certain investment funds affiliated with MPM Asset Management LLC (the sole stockholder of the Company prior to the Merger), MPM BioVentures III Fund, was an investor in the Former Operating Company prior to the Merger.

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Dr. Gadicke, the Managing Director of MPM Capital was a control person of the Company prior to the Merger and affiliated with major stockholders of the the Former Operating Company prior to the Merger. The shares held by MPM Asset Management LLC were repurchased by the Company for an aggregate purchase price of $50,000 plus reimbursement of certain costs for prior audit and legal fees, SEC filing fees, taxes and postage in the aggregate amount of $110,724.81 contemporaneously with the closing of the Merger.

**Policies and Procedures for Review, Approval or Ratification of Transactions with Related Persons**

We do not have any special committee, policy or procedure related to the review, approval or ratification of related party transactions, other than as required by the Delaware General Corporation Law.

**Director Independence**

Our Board is comprised of seven directors. Our securities are not listed on a national securities exchange or on any inter-dealer quotation system which has a requirement that directors be independent. We evaluate independence by the standards for director independence established by applicable laws, rules, and listing standards, including, without limitation, the standards for independent directors established by the New York Stock Exchange, Inc., the NASDAQ National Market, and the Securities and Exchange Commission.

Subject to some exceptions, these standards generally provide that a director will not be independent if (a) the director is, or in the past three years has been, an employee of ours; (b) a member of the director's immediate family is, or in the past three years has been, an executive officer of ours; (c) the director or a member of the director's immediate family has received more than $120,000 per year in direct compensation from us other than for service as a director (or for a family member, as a non-executive employee); (d) the director or a member of the director's immediate family is, or in the past three years has been, employed in a professional capacity by our independent public accountants, or has worked for such firm in any capacity on our audit; (e) the director or a member of the director's immediate family is, or in the past three years has been, employed as an executive officer of a company where one of our executive officers serves on the compensation committee; or (f) the director or a member of the director's immediate family is an executive officer of a company that makes payments to, or receives payments from, us in an amount which, in any twelve-month period during the past three years, exceeds the greater of $1,000,000 or two percent of that other company's consolidated gross revenues.

Of our seven directors, each of Alan Auerbach, Jonathan Fleming, Ansbert K. Gadicke, M.D., Kurt Graves, Martin Muenchbach, Ph.D. and Elizabeth Stoner, M.D. qualify as independent directors under the foregoing standard.

**Board of Directors' Meetings**

During the fiscal year ended December 31, 2010, our board of directors did not meet. We did not hold an annual meeting in 2010. Our board of directors conducted all of its business and approved all corporate action during the fiscal year ended December 31, 2010 by the unanimous written consent of its members, in the absence of formal board meetings.

**Committees of the Board of Directors**

The Board has a separately designated Audit Committee established in accordance with the Securities Exchange Act of 1934, as well as a standing Nominating and Corporate Governance Committee and Compensation Committee. The table below provides membership information for the Board and each committee as of the date of this Registration Statement. We have not adopted any

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procedures by which security holders may recommend nominees to our board of directors. We do not have a diversity policy. We do not have a qualified financial expert at this time because we have not been able to hire a qualified candidate. Further, we believe that we have inadequate financial resources at this time to hire such an expert. We intend to continue to search for a qualified individual for hire.

| | Audit | Nominating and Corporate Governance | Compensation |
|---|---|---|---|
| *Independent Directors* | | | |
| Alan Auerbach | | X | X |
| Jonathan Fleming | X | | |
| Ansbert Gadicke | | X | X |
| Kurt Graves | | X | X |
| Martin Muenchbach | X | | |
| Elizabeth Stoner | X | | |
| *Inside Directors* | | | |
| Dr. Richard Lyttle | | | |

*Audit Committee*

The Audit Committee's responsibilities include:

- appointing, retaining, approving the compensation of and assessing the independence of our registered public accounting firm, including pre-approval of all services performed by our registered public accounting firm;
- overseeing the work of our registered public accounting firm, including the receipt and consideration of certain reports from the firm;
- reviewing and discussing with management and the registered public accounting firm our annual and quarterly financial statements and related disclosures;
- monitoring our internal control over financial reporting, disclosure controls and procedures and code of business conduct and ethics;
- establishing procedures for the receipt and retention of accounting related complaints and concerns;
- meeting independently with our registered public accounting firm and management; and
- preparing the audit committee report required by SEC rules.

The members of the Audit Committee are Jonathan Fleming, Elizabeth Stoner and Martin Muenchbach.

*Compensation Committee*

The Compensation Committee's responsibilities include:

- reviewing and approving corporate goals and objectives relevant to chief executive officer compensation and the compensation structure for our officers;

approving the chief executive officer's compensation;

reviewing and approving, or making recommendations to the board of directors with respect to, the compensation of our other executive officers; and

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overseeing and administering our equity incentive plans.

The members of the Compensation Committee are Alan Auerbach, Ansbert Gadicke and Kurt Graves.

*Nominating and Corporate Governance Committee*

The Nominating and Corporate Governance Committee's responsibilities include:

identifying individuals qualified to become directors;

recommending to the board of directors the persons to be nominated for election as directors and to each of the board's committees;

reviewing and making recommendations to the board with respect to management succession planning;

developing and recommending to the board corporate governance principles; and

overseeing an annual evaluation of the board.

The members of the Nominating and Corporate Governance Committee are Alan Auerbach, Ansbert Gadicke and Kurt Graves.

From time to time, the board may establish other committees to facilitate the management of our business.

**Section 16(a) Beneficial Ownership Reporting Compliance**

Section 16(a) of the Exchange Act requires our directors and officers, and persons who beneficially own more than ten percent (10%) of the Company's Common Stock (collectively, the "Reporting Persons"), to file reports with the SEC of beneficial ownership and reports of changes in beneficial ownership of Common Stock on Forms 3, 4 and 5. Reporting Persons are required by applicable SEC rules to furnish us with copies of all such forms filed with the SEC pursuant to Section 16(a) of the Exchange Act. To our knowledge, based solely on our review of the copies of the Forms 3, 4 and 5 received by it during the fiscal year ended December 31, 2010, the Company believes that all reports required to be filed by such persons with respect to the Company's fiscal year ended December 31, 2010 were timely filed, except the following reports: (a) Form 3 filed by C. Richard Lyttle on April 29, 2011; and (b) Form 3 filed by Nicholas Harvey on April 29, 2011.

**Code of Ethics**

We have not adopted a Code of Business Conduct and Ethics that applies to our principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions in that our officers and directors serve in these capacities.

**Board Leadership Structure and Role on Risk Oversight**

Dr. C. Richard Lyttle currently serves as our Chief Executive Officer, President and Director, and Nick Harvey currently serves as our Chief Financial Officer, Treasurer, and Secretary. At present, we have determined this leadership structure, together with the rest of our board of directors, is appropriate due to our small size and limited operations and resources. Our current directors are exclusively involved in the general oversight of risks that could affect our business. The proposed directors will continue to evaluate our leadership structure and modify such structure as appropriate based on our size, resources, and operations.

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**Indemnification of Directors and Officers**

Section 145 of the DGCL permits indemnification of officers, directors and other corporate agents under certain circumstances and subject to certain limitations. Articles 7 and 8 of our certificate of incorporation provides that we will indemnify, to the fullest extent permitted by Section 145 of the DGCL, as amended from time to time, each person that such section grants the Corporation power to indemnify, including in circumstances in which indemnification is otherwise discretionary under Delaware law. In addition, we have entered into separate indemnification agreements with our directors and executive officers which would require us, among other things, to indemnify them against certain liabilities which may arise by reason of their status or service (other than liabilities arising from willful misconduct of a culpable nature). The indemnification provisions in our certificate of incorporation and the indemnification agreements between us and our directors and executive officers may be sufficiently broad to permit indemnification of our directors and executive officers for liabilities (including reimbursement of expenses incurred) arising under the Securities Act. We also intend to maintain director and officer liability insurance, if available on reasonable terms, to insure our directors and officers against the cost of defense, settlement or payment of a judgment under certain circumstances.

**Legal Proceedings**

We are not aware of any legal proceedings in which any director, officer, or record or beneficial owner of 5% or more of our outstanding capital stock is a party adverse to us or has a material interest adverse to us, or an affiliate of such persons.

**Stockholder Communication with the Board of Directors**

Stockholders may send communications to our board of directors by writing to the Company, c/o Radius Health, Inc., 201 Broadway, 6th Fl., Cambridge, MA, 02116 Attention: Board of Directors.

**Executive and Director Compensation**

The following tables summarize all compensation earned by or paid to our Chief Executive and Financial Officer (Principal Executive and Financial Officer) and other named executive officers during the two fiscal years ended December 31, 2010 and 2009. We have not had any formal policy for determining the compensation of executive officers.

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**SUMMARY COMPENSATION TABLE**

***By Us Prior to the Merger***

Prior to the Merger, we had not issued any stock options or maintained any stock option or other equity incentive plans. Prior to the Merger, we had no plans in place and never maintained any plans that provided for the payment of retirement benefits or benefits that will be paid primarily following retirement including, but not limited to, tax qualified deferred benefit plans, supplemental executive retirement plans, tax-qualified deferred contribution plans and nonqualified deferred contribution plans. Similarly, we had no contracts, agreements, plans or arrangements, whether written or unwritten, that provide for payments to any named executive officers or any other persons following, or in connection with the resignation, retirement or other termination of a named executive officer, or a change in control of us or a change in a named executive officer's responsibilities following a change in control. The following table summarizes all compensation earned by or paid to Chief Executive Officer and Financial Officer during two fiscal years ended December 31, 2010 and 2009

| Name and Principal Position | Year | Salary ($) | Bonus ($) | Stock Awards ($) | Option Awards ($) | Non-Equity Incentive Plan Compensation ($) | Non-qualified Deferred Compensation Earnings ($) | All Other Compensation ($) | Total ($) |
|---|---|---|---|---|---|---|---|---|---|
| Steven St. Peter, | 2010(1) | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| President, Director, Principal Executive Officer and Principal Financial Officer | 2009 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| John Vander Vort, | 2010(1) | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Secretary and Director | 2009 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Richard Lyttle, | 2010(2) | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| President, Director, Principal Executive Officer | 2009 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Nick Harvey, | 2010(2) | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Senior Vice President, Director Principal Financial Officer, Treasurer and Secretary | 2009 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |

Notes:

(1) Resigned in November 2010.

(2) Appointed in November 2010.

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***By the Former Operating Company Prior to the Merger***

The following tables summarize all compensation earned by or paid to the Former Operating Company's Chief Executive and Financial Officer (Principal Executive and Financial Officer) and other named executive officers during the two fiscal years ended December 31, 2010 and 2009. The Former Operating Company did not have any formal policy for determining the compensation of executive officers. Instead, base salaries for our named executive officers typically are established through arm's length negotiation at the time the executive is hired. On an annual basis, our board of directors reviews and evaluates, with input from our President and Chief Executive Officer, the need for adjustment of the base salaries of our executives based on changes and expected changes in the scope of an executive's responsibilities, including promotions, the individual contributions made by and performance of the executive during the prior fiscal year, the executive's performance over a period of years, overall labor market conditions, the relative ease or difficulty of replacing the executive with a well-qualified person, our overall growth and development as a company and general salary trends in our industry.

Each executive officer is eligible to receive an annual performance-based cash bonus, in an amount up to a fixed percentage of his base salary. At the beginning of each year the board develops with input from our President and Chief Executive Officer a list of corporate goals for the year that would be used as a guideline to assess the annual performance of the executive officers. As soon as practical after the year is completed, the board would review actual performance against the stated goals and determine subjectively what it believes to be the appropriate level of cash bonus. Whether or not a cash bonus is paid is entirely at the discretion of the board of directors.

As a public operating company, we intend to create a compensation committee that will be charged with developing a formal policy for determining and reviewing the compensation of executive officers on a regular basis.

| Name and Principal Position | Year | Salary ($) | Bonus ($)(1) | Stock Awards ($) | Option Awards ($) | Non-Equity Incentive Plan Compensation ($) | Non-qualified Deferred Compensation Earnings ($) | All Other Compensation ($)(2) | Total ($) |
|---|---|---|---|---|---|---|---|---|---|
| Richard Lyttle, | 2010 | 378,622 | 189,311 | 0 | 0 | 0 | 0 | 1715 | 569,648 |
| President, Director, and Chief Executive Officer | 2009 | 369,387 | 73,877 | 0 | 0 | 0 | 0 | 1,584 | 444,848 |
| Nick Harvey, | 2010 | 278,492 | 105,827 | 0 | 0 | 0 | 0 | 1,305 | 385,624 |
| Treasurer, Secretary and Chief Fianncial Officer and Director | 2009 | 271,700 | 40,755 | 0 | 0 | 0 | 0 | 851 | 313,306 |
| Louis O'Dea, | 2010 | 319,363 | 130,939 | 0 | 0 | 0 | 0 | 1,032 | 451,334 |
| Sr. Vice-President and Chief Medical Officer | 2009 | 311,574 | 51,410 | 0 | 0 | 0 | 0 | 105 | 363,089 |
| Gary Hattersley, | 2010 | 223,860 | 69,397 | 0 | 0 | 0 | 0 | 240 | 293,497 |
| Vice President, Biology & Pharmacology | 2009 | 218,400 | 27,300 | 0 | 0 | 0 | 0 | 240 | 245,940 |

Notes:

(1) Bonuses related to prior years are shown in same year, even if paid subsequent to year end.

(2) All amounts are attributable to life insurance premiums paid by Radius.

Each of the named executive officers are at-will employees eligible for discretionary bonus and equity incentive awards with certain severance rights discussed further below. Dr. Lyttle, Mr. Harvey, Mr. Hattersley and Mr. O'Dea have target bonus percentages of 50%, 30%, 25% and 33% respectively. For 2010, each had the opportunity to achieve a bonus of 125% of their respective target bonus by achievement of certain corporate goals. These goals included a successful outcome from the End of Phase 2 meeting with the FDA for BA058 Injection (25% weighting), the successful completion of the

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Nordic arrangements to manage the BA058 Injection Phase 3 study for the Company (65% weighting), and successful completion of the Phase 1 study for BA058 Microneedle Patch (35% weighting). The Compensation Committee considered management performance against these goals and determined that bonus payments should be made at 125% of each named executive officer's target bonus percentage.

If his employment is terminated without cause or he resigns for good reason, Dr. Lyttle will receive 12 months salary in severance payments, payable in accordance with the payroll practice then in effect, and for a period of 12 months, the continued payment or subsidy of health insurance benefits to the same extent as being paid or subsidized at the time of termination. Upon a change of control, if not offered a position or terminated within 12 months following the closing, Dr. Lyttle shall be entitled to 18 months salary in severance payments and 50% of his then unvested options will become immediately vested and exercisable. Additionally, if, upon a change of control, certain milestones have not been achieved prior to such change of control and the business plan or objectives of the Company are modified by the successor company such that the expectations of achieving or satisfying such milestones is unreasonable then any unvested options and additional options that would otherwise vest upon achievement of such milestones shall vest effective as of the date the successor company changes or modifies the business plan or objective of the Company.

If his employment is terminated without cause or he resigns with good reason, Mr. Harvey will receive 6 months salary in severance payments, payable in accordance with the payroll practice then in effect, and for a period of 6 months, the continuation of health insurance at no cost to him for 6 months and all options which would have vested in the 6 months following such termination but for such termination shall become immediately exercisable. If the Company is acquired, 50% of his then unvested options will become immediately vested and exercisable.

Following termination of employment without cause, and subject to signing a general release, Mr. Hattersley and Mr. O'Dea are entitled to severance payments equal to 6 months of their then current base salary (minus required withholdings). In addition, if they elect and remain eligible for COBRA coverage during the six month period following the termination of their employment, they are entitled to be reimbursed for the portion of COBRA premium would have been paid by the Company had such person remained employed by Company during such period.

**Compensation of Directors**

No member of our board of directors received any compensation for services as a director of the Company during the fiscal year ended December 31, 2010. Neither we nor the Former Operating Company has had any formal policy governing the compensation of directors.

During the Former Operating Company's fiscal year ended December 31, 2010, the Former Operating Company granted to Alan Auerbach options to acquire 256,666 shares of Radius Common Stock at an exercise price of $1.35 per share. The following table summarizes all compensation earned by or paid to Mr. Auerbach in the fiscal year ended December 31, 2010. Mr. Auerbach was not a director of the Former Operating Company in 2009. Mr. Auerbach's options were assumed by us in the Merger.

| Name and Principal Position | Year | Salary ($) | Bonus ($) | Stock Awards ($) | Option Awards ($)(1) | Non-Equity Incentive Plan Compensation ($) | Non-qualified Deferred Compensation Earnings ($) | All Other Compensation ($) | Total ($)(1) |
|---|---|---|---|---|---|---|---|---|---|
| Alan H. Auerbach (Director)(2) | 2010 | 0 | 0 | 0 | $ 194,040 | 0 | 0 | 0 | $ 194,040 |

(1) The value of the option award was calculated based on 256,666 options outstanding at December 31, 2010 multiplied by the fair value per share of $0.756 that was derived using the Black-Scholes-Merton option pricing model. This model used the following assumptions in valuing the options; expected dividend yield of 0, risk-free interest rate of 1.92%, expected term of 6.25 years, and volatility of 58%.

(2) At December 31, 2010 Mr. Auerbach has 256,666 options outstanding and zero stock awards outstanding.

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**Grants of Plan-Based Awards and Equity Awards**

No plan-based awards or equity awards were granted to any of our or the Former Operating Company's named executive officers or directors during the fiscal year ended December 31, 2010.

**Option Exercises and Stock Vested; Outstanding Equity Awards at Fiscal Year End**

No unexercised options or warrants were held by any of our named executive officers at December 31, 2010. No options to purchase our capital stock were exercised by any of our named executive officers, nor was any restricted stock held by such executive officers vested during the fiscal year ended December 31, 2010.

During the fiscal year ended December 31, 2010, no Former Operating Company options held by named executive officers, director or proposed director were exercised. At the end of such period, the following options (which will be assumed in the Merger by the Company) were held by our named executive officers, directors and proposed Company directors. We assumed all of the Former Operating Company's options in the Merger:

| | Number of Unexercised Securities | | | |
|---|---|---|---|---|
| **Name** | **Exercisable** | **Unexercisable** | **Exercise Price** | **Expiration** |
| C. Richard Lyttle | 101,562 | 6,770(1) | $ 1.50 | 10/28/14 |
| | 148,605 | 9,906(1) | $ 0.90 | 7/12/17 |
| | 190,005 | 12,667(1) | $ 1.20 | 5/8/18 |
| | 80,977 | 5,398(1) | $ 1.50 | 12/3/18 |
| Nicholas Harvey | 66,711 | 16,677(2) | $ 0.90 | 7/12/17 |
| | 51,459 | 11,875(3) | $ 1.20 | 5/8/18 |
| | 13,496 | 13,496(4) | $ 1.20 | 12/3/18 |
| Louis O'Dea | 13,141 | 9,500(5) | $ 1.50 | 2/15/16 |
| | 34,622 | 6,924(6) | $ 0.90 | 7/12/17 |
| | 57,634 | 13,300(7) | $ 1.20 | 5/8/18 |
| | 15,115 | 15,115(8) | $ 1.20 | 12/3/18 |
| Gary Hattersley | 10,833 | 0 | $ 1.50 | 12/16/13 |
| | 5,416 | 0 | $ 1.50 | 2/15/16 |
| | 20,804 | 2,972(9) | $ 0.90 | 7/12/17 |
| | 24,700 | 5,700(10) | $ 1.20 | 5/8/18 |
| | 6,478 | 6,478(11) | $ 1.20 | 12/3/18 |
| Alan Auerbach | 0 | 138,973(12) | $ 1.35 | 10/12/20 |
| | 0 | 117,693(13) | $ 1.35 | 10/12/20 |

(1) These stock options vest on the execution of an out-licensing partnership which the Board of Directors deemed satisfied on the signing of the Clinical Trial Services Agreement with Nordic on March 29, 2011.

(2) These stock options vest on the execution of an out-licensing partnership which the Board of Directors deemed satisfied on the signing of the Clinical Trial Services Agreement with Nordic on March 29, 2011.

(3) These stock options vest as to 3,958 shares (as rounded) on January 1, April 1, July 1 of 2011.

(4) These stock options vest as to 1,687 shares on the first day of each quarter ending October 1, 2012.

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(5) These stock options vest on the randomization of the first patient in the Phase 3 study of BA058 Injection which occurred in April 26, 2011.

(6) These stock options vest as to 3,462 shares on January 1 and April 1 of 2011.

(7) These stock options vest as to 4,433 shares (as rounded) on January 1, April 1, July 1 of 2011.

(8) These stock options vest as to 1,889 shares (as rounded) on the first day of each quarter ending October 1, 2012.

(9) These stock options vest as to 1,486 shares on January 1 and April 1 of 2011.

(10) These stock options vest as to 1,900 shares on January 1, April 1, July 1 of 2011.

(11) These stock options vest as to 809 shares (as rounded) on the first day of each quarter ending October 1, 2012.

(12) These stock options vest as to 11,581 shares (as rounded) on the first day of each quarter ending October 1, 2013.

(13) These stock options vest as to 9,808 shares (as rounded) on the first day of each quarter ending October 1, 2013.

**2003 Long-Term Incentive Plan**

Generally, in the Merger, we assumed the Former Operating Company's 2003 Long-Term Incentive Plan (the "2003 Plan") and all options to acquire common stock of the Former Operating Company issued thereunder. The 2003 Plan is intended to assist us and our affiliates in attracting and retaining employees and consultants of outstanding ability and to promote the identification of their interests with those of our stockholders and our affiliates. Under the 2003 Plan, we are authorized to issue incentive stock options, nonstatutory stock options, rights, incentive stock grants, performance stock grants and restricted stock. Only incentive stock options and non-statutory stock options have been granted under the 2003 Plan. As of November 7, 2011, we have 1,270,350 options issued and unexercised, 1,040,879 of which are vested. As of November 7, 2011 upon the adoption of our 2011 Equity Incentive Plan (described below in " 2011 Equity Incentive Plan") (the "2011 Plan"), the Company will no longer issue any awards under the 2003 Plan. If an option or right issued under the 2003 Plan expires or terminates for any reason (other than termination by virtue of the exercise of a related option or related right, as the case may be) without having been fully exercised, if shares of restricted stock are forfeited, or if shares covered by an incentive share award or performance award issued under the 2003 Plan are not issued or are forfeited, the unissued or forfeited shares that had been subject to the award become available for the grant of additional awards under the 2011 Plan.

*Administration.* The Compensation Committee of the Board administers the 2003 Plan. In the event that there is no compensation committee, the Board administers plan. The Compensation Committee or the Board may delegate authority to administer the 2003 Plan to any other committee. Subject to the terms of the 2003 Plan, the plan administrator (the Board or its authorized committee) selects the recipients of awards and determine the:

number of shares of common stock covered by the awards and the dates upon which such awards become exercisable or any restrictions lapse, as applicable;

type of award and the price and method of payment for each such award;

vesting period for options and restricted stock, and any acceleration;

exercise price or purchase price of awards; and

duration of options.

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*Incentive Stock Options.* Incentive stock options granted under the 2003 Plan are intended to qualify as incentive stock options under Section 422 of the Internal Revenue Code and are granted pursuant to incentive stock option agreements. The plan administrator determines the exercise price for an incentive stock option, which may not be less than 100% of the fair market value of the stock underlying the option determined on the date of grant. Notwithstanding the foregoing, incentive options granted to employees who own, or are deemed to own, more than 10% of our voting stock, must have an exercise price not less than 110% of the fair market value of the stock underlying the option determined on the date of grant.

*Nonstatutory Stock Options.* Nonstatutory stock options granted under the 2003 Plan are granted pursuant to nonstatutory stock option agreements. The plan administrator determines the exercise price for a nonstatutory stock option.

*Vesting.* Options granted under the 2003 Plan generally vest in sixteen (16) quarterly installments, each quarterly installment being equal in number of shares as possible (as determined by the Company in its reasonable discretion), with the first quarterly installment vesting one quarter after the date of the grant, and an additional quarterly installment vesting on the first day of each calendar quarter thereafter, until all of the shares subject to the option are fully vested and the option may be exercised as to 100% of the shares issuable upon exercise thereof.

*Rights.* Stock appreciation rights granted under the 2003 Plan are granted pursuant to award agreements. Rights were available for grant under the 2003 Plan (a) in connection with, an at the same time as, the grant of an option under the 2003 Plan, (b) by amendment of an outstanding option granted under the 2003 Plan, or (c) independent of any option granted under the 2003 Plan. A right granted under the 2003 Plan in relation to an option granted under the 2003 Plan are referred to as a related right. Upon exercise, in whole or in part, the holder is entitled to receive either cash or that number of shares, or a combination thereof, in an amount having an aggregate fair market value, as determined under the 2003 Plan, as of the exercise date not to exceed the number of shares subject to the portion of the right exercised multiplied by an amount equal to the excess of (x) the fair market value of the right as of the exercise date over (b) either (i) the fair market value on the grant date if the right is not a related right or (ii) the exercise price of the related option if the right is a related right. The exercise, in whole or in part, of a related right reduces the number of shares subject to the related option and an exercise of a related options will reduce the number of shares subject to the related right.

*Restricted Stock Awards.* Restricted stock awards granted under the 2003 Plan are granted pursuant to restricted stock award agreements. The purchase price for restricted stock awards are determined by the plan administrator. Restricted stock awards may be subject to a repurchase right in accordance with a vesting schedule determined by the plan administrator.

*Performance Awards.* Performance awards granted under the 2003 Plan are granted pursuant award agreements that provide for the payment of cash and/or issuance of shares on terms and conditions determined by the plan administrator.

*Other Equity Awards.* The plan administrator may grant other awards based in whole or in part by reference to our common stock.

*Changes to Capital Structure.* In the event of certain types of changes in our capital structure, such as a share split, the number of shares reserved under the 2003 Plan and the number of shares and exercise price or strike price, if applicable, of all outstanding awards will be appropriately adjusted.

*Dividends.* Any award under the 2003 Plan may confer upon the recipient the right to receive dividend payments or dividend equivalent payments with respect to the shares subject to the award.

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Such dividend payments may be paid currently or credited to an account in favor of the recipient. Such dividends may be settled in cash or shares, as determined by the plan administrator.

**2011 Equity Incentive Plan**

We adopted a new equity incentive plan entitled the 2011 Equity Incentive Plan (the "2011 Plan") on November 7, 2011. The 2011 Plan provides for the grant of incentive stock options, or ISOs, to employees, and for the grant of nonqualified stock options to purchase shares of Common Stock, restricted stock, restricted stock units, stock appreciation rights, stock grants, performance units and performance awards to employees, consultants and non-employee directors, for the purposes of encouraging their ownership of Common Stock and providing additional incentives to promote the success of our business through the grant of awards of or pertaining to the Common Stock. ISOs are intended to be "incentive stock options," as that term is defined in Section 422 of the Code.

The Employee Retirement Income Security Act of 1974 does not govern the 2011 Plan. In addition, the 2011 Plan does not qualify under Section 401(a) of the Code.

*Securities Subject to the 2011 Plan.* Under the terms of the 2011 Plan, the aggregate number of shares of Common Stock that may be subject to options and other awards is equal to the sum of (i) 2,000,000 shares of Common Stock; (ii) any shares underlying awards outstanding under the 2003 Plan as of November 7, 2011 that, on or after that date, are forfeited or lapse without the issuance of shares; and (iii) any shares available for issuance under the 2011 Plan as of November 7, 2011. The maximum number of shares of Common Stock that may be issued under the 2011 Plan, including ISOs, is 3,597,889. The shares of Common Stock covered by the 2011 Plan are authorized but unissued shares, treasury shares or Common Stock purchased on the open market.

To the extent that an award terminates, expires or lapses for any reason or is settled in cash, any shares subject to the award (to the extent of such termination, expiration, lapse or cash settlement) may be used again for new grants under the 2011 Plan. Shares tendered or withheld to satisfy the grant or exercise price or tax withholding obligation pursuant to any award or the exercise price of an option may be used again for new grants under the 2011 Plan.

The maximum number of shares of Common Stock that may be subject to one or more awards to a participant pursuant to the 2011 Plan during any calendar year is 1,250,000 and the maximum amount that may be paid to a participant in cash during any calendar year with respect to cash-based awards is $2,000,000. However, these limits will not apply to certain awards granted under the 2011 Plan until the earliest to occur of the first material modification of the 2011 Plan following the date on which our Common Stock is listed on any securities exchange or designated on an interdealer quotation system (the "Public Trading Date"), the issuance of all of the shares reserved for issuance under the 2011 Plan, the expiration of the 2011 Plan or the first meeting of our stockholders at which directors are to be elected that occurs after the close of the third calendar year following the calendar year in which the Public Trading Date occurs.

*Administration.* The 2011 Plan provides that the Compensation Committee of the Board currently administers the 2011 Plan, although the Board may exercise any powers and responsibilities assigned to the Compensation Committee at any time.

The Compensation Committee has the authority to administer and interpret the 2011 Plan, including the power to determine eligibility, the types and sizes of awards, the price, timing and other terms and conditions of awards and the acceleration or waiver of any vesting or forfeiture restriction. The Compensation Committee may delegate to an executive officer or officers the authority to grant awards to non-officer employees and to consultants, in accordance with any guidelines as the Compensation Committee may determine.

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*Eligibility.* Persons eligible to participate in the 2011 Plan include employees, consultants and non-employee directors of the Company and its affiliates, as determined by the Compensation Committee. Only employees of the Company and certain of its parent and subsidiary corporations are eligible to receive grants of options intended to qualify as ISOs.

*Stock Options.* The 2011 Plan authorizes the grant of stock options, including ISOs and nonqualified stock options. Under the 2011 Plan, the exercise price of ISOs granted pursuant to the 2011 Plan will not be less than 100% of the fair market value of the Common Stock on the date of grant, and the exercise price of nonqualified stock options granted pursuant to the 2011 Plan will be determined by the Compensation Committee. Stock options are subject to such vesting and exercisability conditions as are determined by the Compensation Committee and set forth in a written stock option agreement. In no event may an ISO have a term extending beyond the tenth anniversary of the date of grant. ISOs granted to any person who owns, as of the date of grant, stock possessing more than ten percent of the total combined voting power of all classes of the Company's stock, however, are required to have an exercise price that is not less than 110% of the fair market value of the Common Stock on the date of grant and may not have a term extending beyond the fifth anniversary of the date of grant. The aggregate fair market value of the shares with respect to which options intended to be ISOs are exercisable for the first time by an employee in any calendar year may not exceed $100,000, or such other amount as the Code provides without being treated as a nonqualified stock option.

*Stock Appreciation Rights.* A stock appreciation right, or a SAR, is the right to receive payment of an amount equal to the excess of the fair market value of a share of Common Stock on the date of exercise of the SAR over the grant price of the SAR. The grant price of each SAR granted under the 2011 Plan will be no less than the fair market value of a share of Common Stock on the date of grant of the SAR. The Compensation Committee is authorized to issue SARs in such amounts and on such terms and conditions as it may determine, consistent with the terms of the 2011 Plan.

*Restricted Stock.* Restricted stock is the grant of shares of Common Stock at a price, if any, determined by the Compensation Committee, which shares are nontransferable and may be subject to forfeiture until specified vesting conditions are met. Restricted stock will be evidenced by a written agreement. During the period of restriction, restricted stock is subject to restrictions and vesting requirements, as provided by the Compensation Committee. The restrictions may lapse in accordance with a schedule or other conditions determined by the Compensation Committee.

*Restricted Stock Units.* A restricted stock unit provides for the issuance of a share of Common Stock at a future date upon the satisfaction of specific conditions set forth in the applicable award agreement. The Compensation Committee will specify, or permit the restricted stock unit holder to elect, the conditions and dates upon which payments under the restricted stock units will made, which dates may not be earlier than the date as of which the restricted stock units vest and which conditions and dates will be subject to compliance with Section 409A of the Code. On the distribution dates, the Company will transfer to the participant one unrestricted, fully transferable share of the Common Stock (or the fair market value of one such share of Common Stock in cash) for each restricted stock unit scheduled to be paid out on such date and not previously forfeited.

*Performance Units.* Performance units represent the participant's right to receive an amount, based on the value of the Common Stock, if performance goals established by the Compensation Committee are achieved. The Compensation Committee will determine the applicable performance period, the performance goals and such other conditions that apply to the performance unit.

*Performance Awards.* A performance award is cash bonus award, stock bonus award, performance award or incentive award that is paid in cash, shares of Common Stock or a combination of both, as determined by the Compensation Committee. The Compensation Committee will determine the

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applicable performance period, the performance goals and such other conditions that apply to the performance award.

*Stock Grants.* A stock grant is a grant in the form of shares of Common Stock. The number or value of shares of any stock grant will be determined by the Compensation Committee.

*Qualified Performance-Based Awards.* Any award under the 2011 Plan, other than a stock grant, may be issued as a qualified performance-based award that is earned based on the attainment of performance criteria. The Compensation Committee may grant qualified performance-based awards to employees who are or may be "covered employees," as defined in Section 162(m) of the Code, that are intended to be performance-based compensation within the meaning of Section 162(m) of the Code in order to preserve the deductibility of these awards for federal income tax purposes. The qualified performance-based awards may be linked to any one or more of the performance criteria set forth in the 2011 Plan or other specific criteria determined by the Compensation Committee.

*Dividends, Dividend Equivalents.* The 2011 Plan authorizes the Compensation Committee to provide a participant with the right to receive dividends or dividend equivalents with respect to shares of Common Stock covered by an award granted under the 2011 Plan. Dividends and dividend equivalents may be settled in cash or shares of Common Stock, as determined by the Compensation Committee.

*Payment Method.* The Compensation Committee determines the methods by which payments by any option granted under the 2011 Plan may be paid, including, without limitation: (1) cash or check, (2) by placing a market sell order with a broker with respect to shares of Common Stock then-issuable upon exercise or vesting of an award, and directly the broker to pay a sufficient portion of the net proceeds of the sale to the Company in satisfaction of the aggregate payments required; provided that payment of such proceeds is then made to the Company upon settlement of such sale, (3) shares of Common Stock issuable pursuant to the award or previously held, or (4) such other legal consideration deemed acceptable by the Compensation Committee.

*Forfeiture of Unvested Awards; Leave of Absence.* Upon the termination of service of the holder of an option or stock appreciation right, unless otherwise provided by the Compensation Committee, the award generally will expire on a date not later than three months after the termination of service. Except as otherwise determined by the Compensation Committee, in the event that the employment or services of the holder of an award is terminated, the unvested portion of the award will generally be forfeited or may be subject to repurchase by the Company, and will cease to vest or become exercisable after the termination.

The Compensation Committee may provide that an award will continue to vest for some or all of the period of a leave of absence, or that vesting of an award will be tolled during a leave of absence, consistent with applicable law.

*Transferability.* Generally, awards under the 2011 Plan may only be transferred by will or the laws of descent and distribution, unless and until such award has been exercised or the shares underlying such award have been issued and all restrictions applicable to such shares have lapsed. However, subject to certain terms and conditions, the Compensation Committee may permit a holder to transfer an nonqualified stock option or shares of restricted stock to any "family member" under applicable securities laws.

*Adjustments; Corporate Transactions.* In the event of a declaration of a stock dividend, a stock split, a reverse stock split, a recapitalization, a reclassification, a reorganization or a similar occurrence, the Compensation Committee will make appropriate adjustments to:

the number and kind of shares available for future grants;

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the number and kind of shares covered by each outstanding award;

the grant or exercise price under each outstanding award; and

the repurchase right of each share of restricted stock.

In the event that such a corporate action occurs that is not included in the list of actions covered in the immediately preceding sentence, the Compensation Committee may equitably adjust any outstanding awards under the 2011 Plan in such manner as it may deem equitable and appropriate.

In the event of a merger or consolidation, the sale or exchange of all Common Stock, the sale, transfer or disposition of all or substantially all of our assets or a liquidation or dissolution of the Company, the Compensation Committee may take one or more of the following actions with respect to outstanding options and SARs:

provide for the assumption or substitution of the awards;

cancel the awards;

accelerate the awards in whole or in part;

cash out the awards;

convert the awards into the right to receive liquidation proceeds; or

any combination of the above.

Upon a liquidation or dissolution of the Company, except as otherwise provided in an applicable award agreement, all forfeiture restrictions and/or performance goals with respect to an award will automatically be deemed terminated or satisfied, as applicable.

In the event of a "change of control" of the Company (as defined in the 2011 Plan), the Compensation Committee will take any action it deems necessary or appropriate, including to accelerate an award in whole or in part. A SAR granted in tandem with a stock option that can only be exercised during limited periods following a change of control of the Company may entitle the holder to receive an amount based on the highest price paid or offered for the Common Stock in a transaction relating to the change of control or paid during the thirty-day period immediately preceding the change of control.

*Termination or Amendment.* The Board may terminate, amend or modify the 2011 Plan at any time. However, stockholder approval of an amendment is required to increase the aggregate share limit, change the description of eligible participants or to the extent necessary to comply with applicable law.

The term of the 2011 Plan will expired on the tenth anniversary of the date on which it was originally approved by the Board. No ISO may be granted pursuant to the 2011 Plan after the earlier of the tenth anniversary of the date on which the 2011 Plan was adopted by the Board or the tenth anniversary of the approval of the 2011 Plan by our stockholders.

*Tax Withholding.* The Company may require participants to discharge applicable withholding tax obligations with respect to any award granted to the participant. The plan administrator may in its discretion allow a holder to meet any such withholding tax obligations by electing to have us withhold shares of Common Stock otherwise issuable under any award (or allow the return of shares of Common Stock) having a fair market value equal to the sums required to be withheld.

*Certain Restrictions on Resale.* Purchases and sales of Common Stock by our directors and officers and beneficial owners of more than 10% of the outstanding shares of Common Stock (including shares acquired under the 2011 Plan or otherwise) may, under certain circumstances, subject such persons to

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reporting and/or liability under Section 16 of the Exchange Act. Our officers and directors and beneficial owners of more than 10% of Common Stock, are advised to consult with their own legal advisors regarding the reporting requirements under Section 16 of the Exchange Act that may be applicable to awards granted to them under the 2011 Plan and before engaging in transactions involving any shares of Common Stock.

A participant under the 2011 Plan that is not considered our "affiliate," as defined in Rule 144 under the Securities Act of 1933, as amended (the "Securities Act"), may resell the shares of Common Stock acquired under the 2011 Plan without restriction (subject to compliance with Section 16(b) under the Exchange Act). A participant under the 2011 Plan that is considered our "affiliate," which is likely if such participant is either a director or an officer, may resell such shares in compliance with the requirements of Rule 144 under the Securities Act without registration; however, such participant will be subject to the volume limitation and manner of sale restrictions set forth in Rule 144 under the Securities Act.

If, however, a participant under the 2011 Plan is an employee, director, officer or beneficial owner of more than 10% of the outstanding shares of Common Stock, and is aware of material inside information regarding us or any aspect of our business, such participant cannot sell shares of Common Stock, whether purchased through the 2011 Plan or otherwise, before the information has been disseminated by us to the public. Generally, "material inside information" is information that is both important to us (*e.g.,* may impact our stock price) *and* nonpublic (not yet disclosed through press releases, newspaper articles or otherwise to the public which buys and sells securities).

Additionally, we intend to adopt an insider trading compliance program. Upon the adoption of such program, if a 2011 Plan participant is a director, officer or an employee, such participant will generally be prohibited from purchasing or selling any security of the Company, including shares of Common Stock acquired through the 2011 Plan, during the period beginning two weeks before the end of any fiscal quarter of the Company and ending two full trading days after the public release of earnings data for such fiscal quarter. Transactions in our Common Stock will also need to be pre-cleared by our Chief Financial Officer.

**Employment Agreements**

Each of the named executive officers are at-will employees eligible for discretionary bonus and equity incentive awards with certain severance rights discussed further below. The Company entered into at-will employment agreements with each of the named executive officers on the date set forth next to such officer's name below. The table below also sets forth for each of the named executive officers such officer's initial salary. The initial salary of each named executive officer has been reviewed and adjusted on an annual basis in accordance with procedures established from time to time by the Company's board of directors. Each agreement, provides that such named executive officer is eligible to receive annual performance bonuses. See, "Summary Compensation Table  By the Former Operating Company prior to the Merger" for the current base salary and annual performance bonus target for each named executive officer.

| Name: | Agreement Date | Initial Base Salary |
|---|---|---|
| Richard Lyttle | July 2, 2004 | $ 300,000 |
| Nick Harvey | November, 15, 2006 | $ 250,000 |
| Louis O'Dea | January 30, 2006 | $ 279,000 |
| Gary Hattersley | November 14, 2003 | $ 130,000 |

Mr. Harvey's agreement provides for indemnification against all liabilities, claims, damages, costs and expenses arising from his serving as an officer. The agreements provided for initial stock option grants and vesting, all of which are fully vested, paid vacation and access to our benefits programs.

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If his employment is terminated without cause or he resigns for good reason, Dr. Lyttle will receive 12 months salary in severance payments, payable in accordance with the payroll practice then in effect, and for a period of 12 months, the continued payment or subsidy of health insurance benefits to the same extent as being paid or subsidized at the time of termination. Upon a change of control, if not offered a position or terminated within 12 months following the closing, Dr. Lyttle shall be entitled to 18 months salary in severance payments and 50% of his then unvested options will become immediately vested and exercisable. Additionally, if, upon a change of control, certain milestones have not been achieved prior to such change of control and the business plan or objectives of the Company are modified by the successor company such that the expectations of achieving or satisfying such milestones is unreasonable then any unvested options and additional options that would otherwise vest upon achievement of such milestones shall vest effective as of the date the successor company changes or modifies the business plan or objective of the Company.

If his employment is terminated without cause or he resigns with good reason, Mr. Harvey will receive 6 months salary in severance payments, payable in accordance with the payroll practice then in effect, and for a period of 6 months, the continuation of health insurance at no cost to him for 6 months and all options which would have vested in the 6 months following such termination but for such termination shall become immediately exercisable. If the Company is acquired, 50% of his then unvested options will become immediately vested and exercisable.

Following termination of employment without cause, and subject to signing a general release, Mr. Hattersley and Mr. O'Dea are entitled to severance payments equal to 6 months of their then current base salary. In addition, if they elect and remain eligible for COBRA coverage during the such six month period, they are entitled to be reimbursed for the portion of COBRA premium would have been paid by the Company had such person remained employed by Company during such period.

**Estimated Benefits and Payments Upon Termination of Employment**

The following table describes the potential payments and benefits upon termination of our named executive officers' employment before or after a change in control of our company as described above,

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as if each officer's employment terminated as of December 31, 2010, the last business day of the 2010 fiscal year.

| Name | Benefit | Termination Other than for Cause after a Change in Control | Termination Other than for Cause not in a Change in Control |
|---|---|---|---|
| Richard Lyttle | Severance | $ 567,933 | $ 378,622 |
| | Option Acceleration | $ 3,584 | $ 0 |
| | COBRA Premiums | $ 25,691(1) | $ 17,127(1) |
| | Vacation Payout | $ 14,562 | $ 14,562 |
| | Total Value | $ 611,770 | $ 410,311 |
| Nick Harvey | Severance | $ 139,246 | $ 139,246 |
| | Option Acceleration | $ 5,655 | $ 1,694 |
| | COBRA Premiums | $ 12,845 | $ 12,845 |
| | Vacation Payout | $ 10,711 | $ 10,711 |
| | Total Value | $ 168,457 | $ 164,496 |
| Louis O'Dea | Severance | $ 159,682 | $ 159,682 |
| | Option Acceleration | $ 0 | $ 0 |
| | COBRA Premiums | $ 10,919 | $ 10,919 |
| | Vacation Payout | $ 12,283 | $ 12,283 |
| | Total Value | $ 182,884 | $ 182,884 |
| Gary Hattersley | Severance | $ 111,930 | $ 111,930 |
| | Option Acceleration | $ 0 | $ 0 |
| | COBRA Premiums | $ 10,919(2) | $ 10,919(2) |
| | Vacation Payout | $ 8,527 | $ 8,527 |
| | Total Value | $ 131,376 | $ 131,376 |

(1) Dr. Lyttle is not currently enrolled in our medical plan. Dr. Lyttle is eligible to enroll in our medical plan and upon his enrollment would be entitled to this amount in the event of his termination without cause.

(2) Mr. Hattersley is not currently enrolled in our medical or dental plans. Mr. Hattersley is eligible to enroll in such plans and upon his enrollment would be entitled to this amount in the event of his termination without cause.

For purposes of valuing the severance and vacation payments in the table above, we used each executive officer's base salary in effect at the end of 2010 and the number of accrued but unused vacation days at the end of 2010.

The value of option acceleration shown in the table above was calculated based on the assumption that the officer's employment was terminated and the change in control (if applicable) occurred on December 31, 2010 and that the fair market value of our common stock on that date was $1.35. The value of the vesting acceleration was calculated by multiplying the number of unvested shares subject to each option by the difference between the fair market value of our common stock as of December 31, 2010 and the exercise price of the option.

**Pension Benefits**

No named executive officers received or held pension benefits during the fiscal year ended December 31, 2010.

**Nonqualified Deferred Compensation**

No nonqualified deferred compensation was offered or issued to any named executive officer during the fiscal year ended December 31, 2010.

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## SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth information regarding beneficial ownership of our Common Stock as of November 7, 2011 by: (i) each person known by the Company to be the beneficial owner calculated in accordance with Rule 13d-3(d)(1) promulgated under the Exchange Act of more than 5% of the outstanding shares of Common Stock; (ii) each director and executive officer of the Company; and (iii) all officers and directors as a group. Unless otherwise stated in the table or its footnotes, the person and entities listed below have the sole voting power and investment power with respect to the shares set forth next to one's name. Unless otherwise noted, the address of each stockholder below is c/o Radius Health, Inc., 201 Broadway, 6th Floor, Cambridge, MA 02139.

| Name, (Title) and Address | Shares Beneficially Owned | Title of Class | Percentage of Class(1)(a) | Percentage of Converted Common Stock(1)(b) |
|---|---|---|---|---|
| C. Richard Lyttle, Ph.D. (Chief Executive Officer, President and Director) | 590,637(2) | Common Stock | 52.90% | |
| | | Converted Common Stock | | 3.56% |
| Nick Harvey (Chief Financial Officer, Treasurer, and Secretary) | 179,513(3) | Common Stock | 24.19% | |
| | | Converted Common Stock | | 1.11% |
| Louis O'Dea | 201,055(4) | Common Stock | 26.32% | |
| | | Converted Common Stock | | 1.24% |
| Gary Hattersley | 86,163(5) | Common Stock | 12.69% | |
| | | Converted Common Stock | | 0.53% |
| Dr. Ansbert Gadicke (Director) | 6,563,550(6) | Common Stock | 91.72% | |
| | 200,909(7) | Series A-1 Preferred Stock | 48.62% | |
| | 402, 115(8) | Series A-2 Preferred Stock | 40.90% | |
| | 53,331(9) | Series A-3 Preferred Stock | 37.50% | |
| | | Converted Common Stock | | 40.81% |
| Alan H. Auerbach (Director) | 106,943(10) | Common Stock | 15.29% | |
| | | Converted Common Stock | | 0.66% |
| Jonathan Fleming (Director) | 1,364,834(11) | Common Stock | 70.28% | |
| | 109,718(12) | Series A-2 Preferred Stock | 11.16% | |
| | 25,233(13) | Series A-3 Preferred Stock | 17.74% | |
| | | Converted Common Stock | | 8.39% |
| Kurt Graves (Director) | 42,776(14) | Common Stock | 6.73% | |
| | | Converted Common Stock | | 0.27% |
| | | Common Stock | | |

| | | | | |
|---|---|---|---|---|
| Dr. Martin Muenchbach (Director) | 1,487,580(15) | | 71.51% | |
| | 43,596(16) | Series A-1 Preferred Stock | 10.55% | |
| | 105,162(17) | Series A-2 Preferred Stock | 10.70% | |
| | | Converted Common Stock | | 9.25% |
| Elizabeth Stoner (Director) | 10,000(18) | Common Stock | 1.66% | |
| | | Converted Common Stock | | 0.06% |
| Entities Affiliated with: MPM Bioventures III, L.P. | 6,563,550(19) | Common Stock | 91.72% | |
| c/o MPM Capital | 200,909(20) | Series A-1 Preferred Stock | 48.62% | |
| 200 Carendon St | 402,115(21) | Series A-2 Preferred Stock | 40.90% | |
| 54th Fl. | 53,331(22) | Series A-3 Preferred Stock | 37.50% | |
| Boston, MA 02116 | | Converted Common Stock | | 40.81% |

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| Name, (Title) and Address | Shares Beneficially Owned | Title of Class | Percentage of Class(1)(a) | Percentage of Converted Common Stock(1)(b) |
|---|---|---|---|---|
| The Wellcome Trust Limited as trustee of The Wellcome Trust | 2,358,470(23) | Common Stock | 79.92% | |
| 215 Euston Road | 25,522(24) | Series A-1 Preferred Stock | 6.18% | |
| London NW1 2BE England | 210,325 | Series A-2 Preferred Stock | 21.39% | |
| | | Converted Common Stock | | 14.66% |
| HealthCare Ventures VII, L.P. | 1,899,033(25) | Common Stock | 78.85% | |
| 55 Cambridge Parkway, | 19,651(26) | Series A-1 Preferred Stock | 4.76% | |
| Suite 102 | 98,278 | Series A-2 Preferred Stock | 10.00% | |
| Cambridge, | 63,663 | Series A-3 Preferred Stock | 44.76% | |
| Massachusetts 02142-1234 | | Converted Common Stock | | 11.81% |
| Entities Affiliated with: Saints Captial VI, L.P. | 1,528,584(27) | Common Stock | 72.59% | |
| 475 Sansome Street | 16,375(28) | Series A-1 Preferred Stock | 3.96% | |
| Suite 1850 | 109,718(29) | Series A-2 Preferred Stock | 11.16% | |
| San Francisco, CA 94111 | 25,233(30) | Series A-3 Preferred Stock | 17.74% | |
| | | Converted Common Stock | | 9.50% |
| BB Biotech Ventures II, L.P.(29) | 1,487,580(31) | Common Stock | 71.51% | |
| Traflagar Court | 43,596(32) | Series A-1 Preferred Stock | 10.55% | |
| Les Banques | 105,162 | Series A-2 Preferred Stock | 10.70% | |
| St. Peter Port | | Converted Common Stock | | 9.25% |
| Guernsey Channel Islands GY1 3QL | | | | |
| Entities Affiliated with: Oxford Bioscience Partners | 1,364,834(33) | Common Stock | 70.28% | |
| 222 Berkley Street | 109,718(34) | Series A-2 Preferred Stock | 11.16% | |
| Suite 1650 | 25,233(35) | Series A-3 Preferred Stock | 17.74% | |
| Boston, MA 02116 | | Converted Common Stock | | 8.49% |
| Healthcare Private Equity Limited Partnership | 628,910(36) | Common Stock | 51.49% | |
| Edinburgh One | 6,805 | Series A-1 Preferred Stock | 1.65% | |
| Morrison Street | 56,086 | Series A-2 Preferred Stock | 5.70% | |
| Edinburgh EH3 8BE | | Converted Common Stock | | 3.91% |

| | | | | |
|---|---|---|---|---|
| U.K | | | | |
| Brookside Capital Partners | | | | |
| Fund, L.P. Bain Capital, LLC | 409,400(37) | Common Stock | 40.86% | |
| 111 Huntington Avenue | | Series A-1 Preferred | | |
| | 40,940 | Stock | 9.91% | |
| Boston, MA 02199 | | Converted Common | | |
| | | Stock | | 2.55% |
| BB Biotech Growth N.V. | | | | |
| | 409,400(38) | Common Stock | 40.86% | |
| Asset Management BAB N.V. | | Series A-1 Preferred | | |
| | 40,940 | Stock | 9.91% | |
| Ara Hill Top Building, Unit A-5 | | Converted Common | | |
| | | Stock | | 2.55% |
| Pletterijweg Oost 1 | | | | |
| Curaçao, Dutch Caribbean | | | | |
| Ipsen Pharma SAS | | | | |
| | 173,260(39) | Common Stock | 22.62% | |
| 65, quai Georges Gorse | | Series A-1 Preferred | | |
| | 17,326 | Stock | 4.19% | |
| 92100 Boulogne Billancourt | | Converted Common | | |
| | | Stock | | 1.08% |
| France | | | | |

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| Name, (Title) and Address | Shares Beneficially Owned | Title of Class | Percentage of Class(1)(a) | Percentage of Converted Common Stock(1)(b) |
|---|---|---|---|---|
| Stavros C. Manolagas<br>35 River Ridge Circle<br>Little Rock, AR 72227 | 91,040 | Common Stock<br>Converted Common Stock | 15.36% | 0.57% |
| Nordic Bioscience<br>Herlev Hovedgade 207<br>2730 Herlev<br>Denmark | 64,430(40)<br>6,443 | Common Stock<br>Series A-5 Preferred Stock<br>Converted Common Stock | 9.81%<br>100% | 0.40% |
| Michael Rosenblatt<br>130 Lake Ave<br>Newton, MA 02459 | 41,357 | Common Stock<br>Converted Common Stock | 6.98% | 0.26% |
| John Katzenellenbogen Trust<br>704 West Pennsylvania Avenue<br>Urbana, Illinois 61801 | 49,399(41) | Common Stock<br>Converted Common Stock | 8.34% | 0.31% |
| Chris Miller<br>11Edgar Walker Court<br>Hingham, MA 02043 | 33,355 | Common Stock<br>Converted Common Stock | 5.63% | 0.21% |
| Bart Henderson<br>48 Prentiss Lane<br>Belmont, MA 02478 | 30,468 | Common Stock<br>Converted Common Stock | 5.14% | 0.19% |
| All Officers and Directors as a group (10 individuals) | 10,633,041 | Common Stock<br>Converted Common Stock | 95.80% | 61.91% |

(1)

(a) Because shares of Preferred Stock vote together with Common Stock on an as-converted basis the percentages of beneficial ownership calculated in accordance with Rule 13d-3(d)(1) promulgated under the Exchange Act and reported in this column do not reflect the beneficial owner's voting percentage of our outstanding capital stock. See Note (1)(b).

(1)

(b) A more accurate reflection of each beneficial owner's voting percentage is their percentage of the Preferred Stock and the Common Stock voting together as a single class (the "Converted Common Stock"), assuming the conversion of all issued and outstanding shares of Preferred Stock. In order to provide accurate disclosure of the relevant beneficial ownership percentage of each beneficial owner included in this table we have set forth each such beneficial owner's ownership percentage (calculated in accordance with Rule 13d-3 of the Exchange Act) of the Converted Common Stock in this column. See Note (1)(a).

(2)

Includes 523,971 options to purchase our Common Stock anticipated to be exercisable within 60 days after November 7, 2011.

(3)

Includes 149,513 options to purchase our Common Stock anticipated to be exercisable within 60 days after November 7, 2011.

(4) Includes 171,848 options to purchase our Common Stock anticipated to be exercisable within 60 days after November 7, 2011.

(5) Consists of 86,163 options to purchase our Common Stock anticipated to be exercisable within 60 days after November 7, 2011.

(6) Includes 82,220 shares of Common Stock issuable upon conversion of 8,222 shares of Company Series A-1 Preferred Stock, 121,940 shares of Common Stock issuable upon conversion of 12,194 shares of Company Series A-2 Preferred Stock, 29,850 shares of Common Stock issuable upon conversion of 2,985 shares of Company Series A-3 Preferred Stock issued to MPM BioVentures III, L.P. ("BV III"), in the Merger; 1,222,900 shares of Common Stock issuable upon conversion of 122,290 shares of Company Series A-1 Preferred Stock, 1,813,640 shares of Common Stock issuable upon conversion of 181,364 shares of Company Series A-2 Preferred Stock, and 443,950 shares of Common Stock issuable upon conversion of 44,395 shares of Company Series A-3 Preferred Stock issued to MPM BioVentures III-QP, L.P. ("BV III QP"), in the Merger; 103,350 shares of Common Stock issuable upon conversion of 10,335 shares of Company Series A-1

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Preferred Stock, 153,270 shares of Common Stock issuable upon conversion of 15,327 shares of Company Series A-2 Preferred Stock, and 37,520 shares of Common Stock issuable upon conversion of 3,752 shares of Company Series A-3 Preferred Stock issued to MPM BioVentures III GmbH & Co. Beteiligungs K.G. ("BV III KG"), in the Merger; 36,930 shares of Common Stock issuable upon conversion of 3,693 shares of Company Series A-1 Preferred Stock, 54,770 shares of Common Stock issuable upon conversion of 5,477 shares of Company Series A-2 Preferred Stock, and 13,400 shares of Common Stock issuable upon conversion of 1,340 shares of Company Series A-3 Preferred Stock issued to MPM BiVentures III Parallel Fund, L.P. ("BV III PF"), in the Merger; 23,680 shares of Common Stock issuable upon conversion of 2,368 shares of Company Series A-1 Preferred Stock, 35,110 shares of Common Stock issuable upon conversion of 3,511 shares of Company Series A-2 Preferred Stock, and 8,590 shares of Common Stock issuable upon conversion of 859 shares of Company Series A-3 Preferred Stock issued to MPM Asset Management Investors 2003 BVIII LLC ("AM LLC") in the Merger; 540,010 shares of Common Stock issuable upon conversion of 54,001 shares of Company Series A-1 Preferred Stock, and 1,842,420 shares of Common Stock issuable upon conversion of 184,242 shares of Company Series A-2 Preferred Stock issued to MPM Bio IV NVS Strategic Fund, L.P. ("MPM NVS") in the Merger. Additionally, BV III has committed to purchase an aggregate of 6,874 shares of Company Series A-1 Preferred Stock at two subsequent closings, BV III QP has committed to purchase an aggregate of 102,238 shares of Company Series A-1 Preferred Stock at two subsequent closings, BV III KG has committed to purchase an aggregate of 8,640 shares of Company Series A-1 Preferred Stock at two subsequent closings, BV III PF has committed to purchase an aggregate of 3,087 shares of Company Series A-1 Preferred Stock at two subsequent closings, AM LLC has committed to purchase an aggregate of 1,979 shares of Company Series A-1 Preferred Stock at two subsequent closings, and MPM NVS has committed to purchase an aggregate of 60,536 shares of Company Series A-1 Preferred Stock at two subsequent closings. MPM BioVentures III GP, L.P. ("BV III LP") and MPM BioVentures III LLC ("BV3LLC") are the direct and indirect general partners of BV III, BV III QP, BV III KG, and BV III PF. MPM BioVentures IV GP LLC ("BV IV GP") and MPM BioVentures IV LLC ("BV4LLC") are the direct and indirect general partners of MPM NVS. BV3LLC is the General Partner of BV III LP. Ansbert Gadicke, Luke Evnin, Nicholas Galakatos, Michael Steinmetz, Dennis Henner, Nicholas Simon and Kurt Wheeler are the Members of BV3LLC and the managers of AM LLC. All members of BV3LLC share all power to vote, acquire, hold and dispose of all shares and warrants. Each member disclaims beneficial ownership of the securities except to the extent of their pecuniary interest therein. BV4LLC is the Managing Member of BV IV GP. Ansbert Gadicke, Luke Evnin, John Vander Vort, William Greene, James Scopa, Vaughn Kailian and Steven St. Peter are the Members of MPM BioVentures IV LLC. All members share all power to vote, acquire, hold and dispose of all shares and warrants. Each member disclaims beneficial ownership of the securities except to the extent of their pecuniary interest therein. Each entity mentioned above and Dr. Gadicke disclaim beneficial ownership of all shares not held by it or him of record. Beneficial ownership information is based on information known to the Company and a Schedule 13D filed with the SEC on May 27, 2011 by BV III, BV III QP, BV III KG, BV III PF, AM LLC, MPM NVS, Luke Evnin, Ansbert Gadicke, Nicholas Galakatos, Michael Steinmetz, Kurt Wheeler, Nicholas Simon III, Dennis Henner, Ashley L. Dombkowski, William Greene, Vaughn Kailian, James Paul Scopa, Steven St. Peter, and John Vander Vort.

(7)

Includes of 8,222 shares of Company Series A-1 Preferred Stock issued to BV III in the Merger; 122,290 shares of Company Series A-1 Preferred Stock issued to BV III QP in the Merger; 10,335 shares of Company Series A-1 Preferred Stock issued to BV III KG in the Merger; 3,693 shares of Company Series A-1 Preferred Stock issued to BV III PF in the Merger; 2,368 shares of Company Series A-1 Preferred Stock, issued to AM LLC in the Merger; and 54,001 shares of Company Series A-1 Preferred Stock issued to MPM NVS in the Merger. BV III LP and BV3LLC, are the direct and indirect general partners of BV III, BV III QP, BV III KG, and BV III PF. BV IV GP and BV4LLC are the direct and indirect general partners of MPM NVS. BV3LLC is the General Partner of BV III LP. Ansbert Gadicke, Luke Evnin, Nicholas Galakatos, Michael Steinmetz, Dennis Henner, Nicholas Simon and Kurt Wheeler are the Members of BV3LLC and the managers of AM LLC. All members share all power to vote, acquire, hold and dispose of all shares and warrants. Each member disclaims beneficial ownership of the securities except to the extent of their pecuniary interest therein. BV4LLC is the Managing Member of BV IV GP. Ansbert Gadicke, Luke Evnin, John Vander Vort, William Greene, James Scopa, Vaughn Kailian and Steven St. Peter are the Members of MPM BioVentures IV LLC. All members share all power to vote, acquire, hold and dispose of all shares and warrants. Each member disclaims beneficial ownership of the securities except to the extent of their pecuniary interest therein. Each entity mentioned above and Dr. Gadicke disclaim beneficial ownership of all shares not held by it or him of record. Beneficial ownership information is based on information known to the Company and a Schedule 13D filed with the SEC on May 27, 2011 by BV III, BV III QP, BV III KG, BV III PF, AM LLC, MPM NVS, Luke Evnin, Ansbert Gadicke, Nicholas Galakatos, Michael Steinmetz, Kurt Wheeler, Nicholas Simon III, Dennis Henner, Ashley L. Dombkowski, William Greene, Vaughn Kailian, James Paul Scopa, Steven St. Peter, and John Vander Vort.

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(8)

Includes 12,194 shares of Company Series A-2 Preferred Stock issued BV III in the Merger; 181,364 shares of Company Series A-2 Preferred Stock issued to BV III QP in the Merger, 15,327 shares of Company Series A-2 Preferred Stock issued BV III KG in the Merger; 5,477 shares of Company Series A-2 Preferred Stock issued to BV III PF in the Merger; 3,511 shares of Company Series A-2 Preferred Stock issued to AM LLC in the Merger; and 184,242 shares of Company Series A-2 Preferred Stock issued to MPM NVS in the Merger. BV III LP and BV3LLC, are the direct and indirect general partners of BV III, BV III QP, BV III KG, and BV III PF. BV IV GP and BV4LLC are the direct and indirect general partners of MPM NVS. BV3LLC is the General Partner of BV III LP. Ansbert Gadicke, Luke Evnin, Nicholas Galakatos, Michael Steinmetz, Dennis Henner, Nicholas Simon and Kurt Wheeler are the Members of BV3LLC and the managers of AM LLC. All members share all power to vote, acquire, hold and dispose of all shares and warrants. Each member disclaims beneficial ownership of the securities except to the extent of their pecuniary interest therein. BV4LLC is the Managing Member of BV IV GP. Ansbert Gadicke, Luke Evnin, John Vander Vort, William Greene, James Scopa, Vaughn Kailian and Steven St. Peter are the Members of MPM BioVentures IV LLC. All members share all power to vote, acquire, hold and dispose of all shares and warrants. Each member disclaims beneficial ownership of the securities except to the extent of their pecuniary interest therein. Each entity mentioned above and Dr. Gadicke disclaim beneficial ownership of all shares not held by it or him of record. Beneficial ownership information is based on information known to the Company and a Schedule 13D filed with the SEC on May 27, 2011 by BV III, BV III QP, BV III KG, BV III PF, AM LLC, MPM NVS, Luke Evnin, Ansbert Gadicke, Nicholas Galakatos, Michael Steinmetz, Kurt Wheeler, Nicholas Simon III, Dennis Henner, Ashley L. Dombkowski, William Greene, Vaughn Kailian, James Paul Scopa, Steven St. Peter, and John Vander Vort.

(9)

Includes 2,985 shares of Company Series A-3 Preferred Stock issued to BV III in the Merger; 44,395 shares of Company Series A-3 Preferred Stock issued BV III QP, in the Merger; 3,752 shares of Company Series A-3 Preferred Stock issued to BV III KG, in the Merger; 1,340 shares of Company Series A-3 Preferred Stock issued to BV III PF, in the Merger; and 859 shares of Company Series A-3 Preferred Stock issued to AM LLC in the Merger. BV III LP and BV3LLC, are the direct and indirect general partners of BV III, BV III QP, BV III KG, and BV III PF. BV IV GP and BV4LLC are the direct and indirect general partners of MPM NVS. BV3LLC is the General Partner of BV III LP. Ansbert Gadicke, Luke Evnin, Nicholas Galakatos, Michael Steinmetz, Dennis Henner, Nicholas Simon and Kurt Wheeler are the Members of BV3LLC and the managers of AM LLC. All members share all power to vote, acquire, hold and dispose of all shares and warrants. Each member disclaims beneficial ownership of the securities except to the extent of their pecuniary interest therein. BV4LLC is the Managing Member of BV IV GP. Ansbert Gadicke, Luke Evnin, John Vander Vort, William Greene, James Scopa, Vaughn Kailian and Steven St. Peter are the Members of MPM BioVentures IV LLC. All members share all power to vote, acquire, hold and dispose of all shares and warrants. Each member disclaims beneficial ownership of the securities except to the extent of their pecuniary interest therein. Each entity mentioned above and Dr. Gadicke disclaim beneficial ownership of all shares not held by it or him of record. Beneficial ownership information is based on information known to the Company and a Schedule 13D filed with the SEC on May 27, 2011 by BV III, BV III QP, BV III KG, BV III PF, AM LLC, MPM NVS, Luke Evnin, Ansbert Gadicke, Nicholas Galakatos, Michael Steinmetz, Kurt Wheeler, Nicholas Simon III, Dennis Henner, Ashley L. Dombkowski, William Greene, Vaughn Kailian, James Paul Scopa, Steven St. Peter, and John Vander Vort.

(10)

Consists of 106,943 options to purchase our Common Stock anticipated to be exercisable within 60 days after November 7, 2011.

(11)

Includes 15,173 shares of Common Stock and 1,086,280 shares of Common Stock issuable upon conversion of 108,628 shares of Company Series A-2 Preferred Stock, 249,830 shares of Common Stock issuable upon conversion of 24,983 shares of Company Series A-3 Preferred Stock (the "OBP IV Shares") held directly by OBP IV Holdings LLC ("OBP IV"); and 151 shares of Common Stock and 10,900 shares of Common Stock issuable upon conversion of 1,090 shares of Company Series A-2 Preferred Stock, 2,500 shares of Common Stock issuable upon conversion of 250 shares of Company Series A-3 Preferred Stock (the "mRNA II Shares") held directly by mRNA II Holdings LLC ("mRNA II"). The OBP IV Shares and the mRNA II Shares are referred to herein as the "Oxford Shares." The OBP IV Shares are indirectly held by Oxford Bioscience Partners IV L.P. ("OBP LP"), a member of OBP IV. The mRNA II Shares are indirectly held by mRNA Fund II L.P. ("mRNA LP"), a member of mRNA II. The Oxford Shares are indirectly held by OBP Management IV L.P. ("OBP Management IV"), the sole general partner of each of OBP LP and mRNA LP; Jonathan Fleming and Alan Walton, the individual general partners of OBP Management IV; Saints Capital Granite, L.P. ("Saints LP"), a member of OBP IV and mRNA II; Saints Capital Granite, LLC ("Saints LLC"), the sole general partner of Saints LP; and Scott Halsted, David P. Quinlivan, and Kenneth B. Sawyer, the individual managers of Saints LLC. Jonathan Fleming and Alan Walton, the individual general partners of OBP Management IV, share all voting and investment power on behalf of

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OBP Management IV. Scott Halsted, David P. Quinlivan, and Kenneth B. Sawyer, the individual managers of Saints LLC, share all voting and investment power on behalf of Saints LLC. Each of the entities and individuals mentioned above disclaim beneficial ownership within the meaning of Section 16 of the Securities Exchange Act of 1934, as amended, or otherwise of such portion of the Oxford Shares in which such entity or individual has no actual pecuniary interest therein. Beneficial ownership information is based on information known to the Company and a Schedule 13D filed with the SEC on May 27, 2011 by OBP IV, mRNA II, mRNA Fund II, OBP Management IV, Saints LP, Saints LLC, Jonathan Fleming, Alan Walton, Scott Halsted, David P. Quinlivan, and Kenneth B. Sawyer.

(12)

Includes 108,628 shares of Company Series A-2 Preferred Stock held directly by OBP IV (the "OBP IV A-2 Shares") and 1,090 shares of Company Series A-2 Preferred Stock held directly by mRNA II (the "mRNA II A-2 Shares"). The OBP IV A-2 Shares are indirectly held by OBP LP, a member of OBP IV. The mRNA II A-2 Shares are indirectly held by mRNA LP, a member of mRNA II. The OBP IV A-2 Shares and the mRNA II A-2 Shares are referred to herein as the "Oxford A-2 Shares". The Oxford A-2 Shares are indirectly held by OBP Management IV, the sole general partner of each of OBP LP and mRNA LP; Jonathan Fleming and Alan Walton, the individual general partners of OBP Management IV; Saints LP, a member of OBP IV and mRNA II; Saints LLC, the sole general partner of Saints LP; and Scott Halsted, David P. Quinlivan, and Kenneth B. Sawyer, the individual managers of Saints LLC. Jonathan Fleming and Alan Walton, the individual general partners of OBP Management IV, share all voting and investment power on behalf of OBP Management IV. Scott Halsted, David P. Quinlivan, and Kenneth B. Sawyer, the individual managers of Saints LLC, share all voting and investment power on behalf of Saints LLC. Each of the entities and individuals mentioned above disclaim beneficial ownership within the meaning of Section 16 of the Securities Exchange Act of 1934, as amended, or otherwise of such portion of the Saints A-2 Shares in which such entity or individual has no actual pecuniary interest therein. Beneficial ownership information is based on information known to the Company and a Schedule 13D filed with the SEC on May 27, 2011 by OBP IV, mRNA II, mRNA Fund II, OBP Management IV, Saints LP, Saints LLC, Jonathan Fleming, Alan Walton, Scott Halsted, David P. Quinlivan, and Kenneth B. Sawyer.

(13)

Includes 24,983 shares of Company Series A-3 Preferred Stock held directly by OBP IV (the "OBP IV A-3 Shares") and 250 shares of Company Series A-3 Preferred Stock held directly by mRNA II (the mRNA II A-3 Shares"). The OBP IV A-3 Shares are indirectly held by OBP LP, a member of OBP IV. The mRNA II A-3 Shares are indirectly held by mRNA LP, a member of mRNA II. The OBP IV A-3 Shares and the mRNA II A-3 Shares are referred to herein as the "Oxford A-3 Shares". The Oxford A-3 Shares are indirectly held by OBP Management IV, the sole general partner of each of OBP LP and mRNA LP; Jonathan Fleming and Alan Walton, the individual general partners of OBP Management IV; Saints LP, a member of OBP IV and mRNA II; Saints LLC, the sole general partner of Saints LP; and Scott Halsted, David P. Quinlivan, and Kenneth B. Sawyer, the individual managers of Saints LLC. Jonathan Fleming and Alan Walton, the individual general partners of OBP Management IV, share all voting and investment power on behalf of OBP Management IV. Scott Halsted, David P. Quinlivan, and Kenneth B. Sawyer, the individual managers of Saints LLC, share all voting and investment power on behalf of Saints LLC. Each of the entities and individuals mentioned above disclaim beneficial ownership within the meaning of Section 16 of the Securities Exchange Act of 1934, as amended, or otherwise of such portion of the Saints A-3 Shares in which such entity or individual has no actual pecuniary interest therein. Beneficial ownership information is based on information known to the Company and a Schedule 13D filed with the SEC on May 27, 2011 by OBP IV, mRNA II, mRNA Fund II, OBP Management IV, Saints LP, Saints LLC, Jonathan Fleming, Alan Walton, Scott Halsted, David P. Quinlivan, and Kenneth B. Sawyer.

(14)

Consists of 42,776 options to purchase our Common Stock anticipated to be exercisable within 60 days after November 7, 2011.

(15)

Includes 435,960 shares of Common Stock issuable upon conversion of 43,596 shares of Company Series A-1 Preferred Stock (the "BBBV LP A-1 Preferred Stock"), and 1,051,620 shares of Common Stock issuable upon conversion of 105,162 shares of Company Series A-2 Preferred Stock (together with the BBBV LP A-1 Preferred Stock the "BBBV LP Shares") issued to BB Biotech Ventures II L.P. ("BBBV LP") in the Merger. Additionally, BBBV LP has committed to purchase an aggregate of 40,940 shares of Company Series A-1 Preferred Stock at two subsequent closings. BB Biotech Ventures GP (Guernsey) Limited ("BBBV Limited") is the General Partner of BBBV LP. Jan Bootsma, Pascal Mahieux, and Ben Morgan are the directors of BBBV Limited. Dr. Muenchbach, the Senior Investment Advisor Private Equity at Bellevue Asset Management AG, advises Asset Management BAB N.V. ("AMB NV") who, pursuant to a services agreement with BAM AG, advises the directors of BBBV Limited mentioned above. Jan Bootsma, Pascal Mahieux, Ben Morgan and Dr. Muenchbach share all voting and investment power over the BBBV LP shares. Each of the foregoing, except BBBV LP in the case of the BBBV LP Shares, disclaims beneficial ownership of the BBBV LP Shares except to the extent of their pecuniary interest therein, if any. Beneficial ownership information is based on information known to the Company and a Schedule 13D filed with the

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SEC on May 27, 2011 by BBBV LP, BBBV Limited, Jan Bootsma, Pascal Mahieux, Ben Morgan, and Martin Muenchbach.

(16)

Includes 43,596 shares of Company Series A-1 Preferred Stock issued to BBBV LP in the Merger. BBBV LP has committed to purchase an aggregate of 40,940 shares of Company Series A-1 Preferred Stock at two subsequent closings. Voting and investment power with respect to these shares is shared by the general partners of this fund. BBBV Limited is the General Partner of BBBV LP. Jan Bootsma, Pascal Mahieux and Ben Morgan are the directors of BBBV Limited. Dr. Muenchbach, the Senior Investment Advisor Private Equity at Bellevue Asset Management AG, advises Asset Management BAB N.V. ("AMB NV") who, pursuant to a services agreement with BAM AG, advises the directors of BBBV Limited mentioned above. Jan Bootsma, Pascal Mahieux, Ben Morgan and Dr. Muenchbach share all voting and investment power over the BBBV LP shares. Each of the foregoing, except BBBV LP in the case of the BBBV LP Shares, disclaims beneficial ownership of the BBBV LP Shares except to the extent of their pecuniary interest therein, if any. Beneficial ownership information is based on the information known to the Company and a Schedule 13D filed with the SEC on May 27, 2011 by BBBV LP, BBBV Limited, Jan Bootsma, Pascal Mahieux, Ben Morgan, and Martin Muenchbach.

(17)

Includes 105,162 shares of Company Series A-2 Preferred Stock issued to BBBV LP in the Merger. Voting and investment power with respect to these shares is shared by the general partners of this fund. BBBV Limited is the General Partner of BBBV LP. Jan Bootsma, Pascal Mahieux and Ben Morgan are the directors of BBBV Limited. Dr. Muenchbach, the Senior Investment Advisor Private Equity at Bellevue Asset Management AG, advises Asset Management BAB N.V. ("AMB NV") who, pursuant to a services agreement with BAM AG, advises the directors of BBBV Limited mentioned above. Jan Bootsma, Pascal Mahieux, Ben Morgan and Dr. Muenchbach share all voting and investment power over the BBBV LP shares. Each of the foregoing, except BBBV LP in the case of the BBBV LP Shares, disclaims beneficial ownership of the BBBV LP Shares except to the extent of their pecuniary interest therein, if any. Beneficial ownership information is based on the information known to the Company and a Schedule 13D filed with the SEC on May 27, 2011 by BBBV LP, BBBV Limited, Jan Bootsma, Pascal Mahieux, Ben Morgan, and Martin Muenchbach.

(18)

Consists of 10,000 options to purchase our Common Stock anticipated to be exercisable within 60 days after November 7, 2011.

(19)

Includes 82,220 shares of Common Stock issuable upon conversion of 8,222 shares of Company Series A-1 Preferred Stock, 121,940 shares of Common Stock issuable upon conversion of 12,194 shares of Company Series A-2 Preferred Stock, 29,850 shares of Common Stock issuable upon conversion of 2,985 shares of Company Series A-3 Preferred Stock issued to BV III, in the Merger; 1,222,900 shares of Common Stock issuable upon conversion of 122,290 shares of Company Series A-1 Preferred Stock, 1,813,640 shares of Common Stock issuable upon conversion of 181,364 shares of Company Series A-2 Preferred Stock, and 443,950 shares of Common Stock issuable upon conversion of 44,395 shares of Company Series A-3 Preferred Stock issued to BV III QP, in the Merger; 103,350 shares of Common Stock issuable upon conversion of 10,335 shares of Company Series A-1 Preferred Stock, 153,270 shares of Common Stock issuable upon conversion of 15,327 shares of Company Series A-2 Preferred Stock, and 37,520 shares of Common Stock issuable upon conversion of 3,752 shares of Company Series A-3 Preferred Stock issued to BV III KG, in the Merger; 36,930 shares of Common Stock issuable upon conversion of 3,693 shares of Company Series A-1 Preferred Stock, 54,770 shares of Common Stock issuable upon conversion of 5,477 shares of Company Series A-2 Preferred Stock, and 13,400 shares of Common Stock issuable upon conversion of 1,340 shares of Company Series A-3 Preferred Stock issued BV III PF, in the Merger; 23,680 shares of Common Stock issuable upon conversion of 2,368 shares of Company Series A-1 Preferred Stock, 35,110 shares of Common Stock issuable upon conversion of 3,511 shares of Company Series A-2 Preferred Stock, and 8,590 shares of Common Stock issuable upon conversion of 859 shares of Company Series A-3 Preferred Stock issued to AM LLC in the Merger; 540,010 shares of Common Stock issuable upon conversion of 54,001 shares of Company Series A-1 Preferred Stock, and 1,842,420 shares of Common Stock issuable upon conversion of 184,242 shares of Company Series A-2 Preferred Stock issued to MPM NVS in the Merger. Additionally BV III has committed to purchase an aggregate of 6,874 shares of Company Series A-1 Preferred Stock at two subsequent closings, BV III QP has committed to purchase an aggregate of 102,238 shares of Company Series A-1 Preferred Stock at two subsequent closings, BV III KG has committed to purchase an aggregate of 8,640 shares of Company Series A-1 Preferred Stock at two subsequent closings, BV III PF has committed to purchase an aggregate of 3,087 shares of Company Series A-1 Preferred Stock at two subsequent closings, AM LLC has committed to purchase an aggregate of 1,979 shares of Company Series A-1 Preferred Stock at two subsequent closings, and MPM NVS has committed to purchase an aggregate of 60,536 shares of Company Series A-1 Preferred Stock at two subsequent closings. All voting and investment power is shared with Dr. Gadicke and the other general partners of these funds. BV III LP and BV3LLC are the direct and indirect general partners of BV III,

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BV III QP, BV III KG, and BV III PF. BV IV GP and BV IV LLC are the direct and indirect general partners of MPM NVS. BV3LLC is the General Partner of BV III LP. Ansbert Gadicke, Luke Evnin, Nicholas Galakatos, Michael Steinmetz, Dennis Henner, Nicholas Simon and Kurt Wheeler are the Members of BV3LLC and the managers of AM LLC. All members of BV3LLC share all power to vote, acquire, hold and dispose of all shares and warrants. Each member disclaims beneficial ownership of the securities except to the extent of their pecuniary interest therein. BV4LLC is the Managing Member of BV IV GP. Ansbert Gadicke, Luke Evnin, John Vander Vort, William Greene, James Scopa, Vaughn Kailian and Steven St. Peter are the Members of MPM BioVentures IV LLC. All members share all power to vote, acquire, hold and dispose of all shares and warrants. Each member disclaims beneficial ownership of the securities except to the extent of their pecuniary interest therein. Each fund mentioned above disclaims beneficial ownership of all shares not held by it of record. Beneficial ownership information is based on information known to the Company and a Schedule 13D filed with the SEC on May 27, 2011 by BV III, BV III QP, BV III KG, BV III PF, AM LLC, MPM NVS, Luke Evnin, Ansbert Gadicke, Nicholas Galakatos, Michael Steinmetz, Kurt Wheeler, Nicholas Simon III, Dennis Henner, Ashley L. Dombkowski, William Greene, Vaughn Kailian, James Paul Scopa, Steven St. Peter, and John Vander Vort.

(20)

Includes of 8,222 shares of Company Series A-1 Preferred Stock issued to BV III in the Merger; 122,290 shares of Company Series A-1 Preferred Stock issued to BV III QP, in the Merger; 10,335 shares of Company Series A-1 Preferred Stock, issued to BV III KG, in the Merger; 3,693 shares of Company Series A-1 Preferred Stock issued to BV III PF in the Merger; 2,368 shares of Company Series A-1 Preferred Stock, issued to AM LLC in the Merger; and 54,001 shares of Company Series A-1 Preferred Stock issued to MPM NVS in the Merger. BV III has committed to purchase an aggregate of 6,874 shares of Company Series A-1 Preferred Stock at two subsequent closings, BV III QP has committed to purchase an aggregate of 102,238 shares of Company Series A-1 Preferred Stock at two subsequent closings, BV III KG has committed to purchase an aggregate of 8,640 shares of Company Series A-1 Preferred Stock at two subsequent closings, BV III PF has committed to purchase an aggregate of 3,087 shares of Company Series A-1 Preferred Stock at two subsequent closings, AM LLC has committed to purchase an aggregate of 1,979 shares of Company Series A-1 Preferred Stock at two subsequent closings, and MPM NVS has committed to purchase an aggregate of 60,536 shares of Company Series A-1 Preferred Stock at two subsequent closings. Voting and investment power is shared with Dr. Gadicke and the other general partners of these funds. BV III LP and BV3LLC, are the direct and indirect general partners of BV III, BV III QP, BV III KG, and BV III PF. BV IV GP and BV4LLC are the direct and indirect general partners of MPM NVS. BV3LLC is the General Partner of BV III LP. Ansbert Gadicke, Luke Evnin, Nicholas Galakatos, Michael Steinmetz, Dennis Henner, Nicholas Simon and Kurt Wheeler are the Members of BV3LLC and the managers of AM LLC. All members share all power to vote, acquire, hold and dispose of all shares and warrants. Each member disclaims beneficial ownership of the securities except to the extent of their pecuniary interest therein. BV4LLC is the Managing Member of BV IV GP. Ansbert Gadicke, Luke Evnin, John Vander Vort, William Greene, James Scopa, Vaughn Kailian and Steven St. Peter are the Members of MPM BioVentures IV LLC. All members have share all power to vote, acquire, hold and dispose of all shares and warrants. Each member disclaims beneficial ownership of the securities except to the extent of their pecuniary interest therein. Beneficial ownership information is based on information known to the Company and a Schedule 13D filed with the SEC on May 27, 2011 by BV III, BV III QP, BV III KG, BV III PF, AM LLC, MPM NVS, Luke Evnin, Ansbert Gadicke, Nicholas Galakatos, Michael Steinmetz, Kurt Wheeler, Nicholas Simon III, Dennis Henner, Ashley L. Dombkowski, William Greene, Vaughn Kailian, James Paul Scopa, Steven St. Peter, and John Vander Vort.

(21)

Includes 12,194 shares of Company Series A-2 Preferred Stock issued to BV III in the Merger; 181,364 shares of Company Series A-2 Preferred Stock issued to BV III QP, in the Merger 15,327 shares of Company Series A-2 Preferred Stock issued to BV III KG in the Merger; 5,477 shares of Company Series A-2 Preferred Stock issued to BV III PF, in the Merger; 3,511 shares of Company Series A-2 Preferred Stock issued to AM LLC in the Merger; and 184,242 shares of Company Series A-2 Preferred Stock issued to MPM NVS in the Merger. All voting and investment power is shared with Dr. Gadicke and the other general partners of these funds. BV III LP and BV3LLC, are the direct and indirect general partners of BV III, BV III QP, BV III KG, and BV III PF. BV IV GP and BV4LLC are the direct and indirect general partners of MPM NVS. BV3LLC is the General Partner of BV III LP. Ansbert Gadicke, Luke Evnin, Nicholas Galakatos, Michael Steinmetz, Dennis Henner, Nicholas Simon and Kurt Wheeler are the Members of BV3LLC and the managers of AM LLC. All members share all power to vote, acquire, hold and dispose of all shares and warrants. Each member disclaims beneficial ownership of the securities except to the extent of their pecuniary interest therein. BV4LLC is the Managing Member of BV IV GP. Ansbert Gadicke, Luke Evnin, John Vander Vort, William Greene, James Scopa, Vaughn Kailian and Steven St. Peter are the Members of MPM BioVentures IV LLC. All members share all power to vote, acquire, hold and dispose of all shares and warrants. Each member disclaims beneficial ownership of the securities except to the extent of their pecuniary interest therein. Beneficial ownership information is based

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on information known to the Company and a Schedule 13D filed with the SEC on May 27, 2011 by BV III, BV III QP, BV III KG, BV III PF, AM LLC, MPM NVS, Luke Evnin, Ansbert Gadicke, Nicholas Galakatos, Michael Steinmetz, Kurt Wheeler, Nicholas Simon III, Dennis Henner, Ashley L. Dombkowski, William Greene, Vaughn Kailian, James Paul Scopa, Steven St. Peter, and John Vander Vort.

(22)

Includes 2,985 shares of Company Series A-3 Preferred Stock issued to BV III in the Merger; 44,395 shares of Company Series A-3 Preferred Stock issued to BV III QP in the Merger; 3,752 shares of Company Series A-3 Preferred Stock issued to BV III KG, in the Merger; 1,340 shares of Company Series A-3 Preferred Stock issued BV III PF, in the Merger; and 859 shares of Company Series A-3 Preferred Stock issued to AM LLC in the Merger. All voting and investment power is shared with Dr. Gadicke and the other general partners of these funds. BV III LP and BV3LLC, are the direct and indirect general partners of BV III, BV III QP, BV III KG, and BV III PF. BV IV GP and BV4LLC are the direct and indirect general partners of MPM NVS. BV3LLC is the General Partner of BV III LP. Ansbert Gadicke, Luke Evnin, Nicholas Galakatos, Michael Steinmetz, Dennis Henner, Nicholas Simon and Kurt Wheeler are the Members of BV3LLC and the managers of AM LLC. All members share all power to vote, acquire, hold and dispose of all shares and warrants. Each member disclaims beneficial ownership of the securities except to the extent of their pecuniary interest therein. BV4LLC is the Managing Member of BV IV GP. Ansbert Gadicke, Luke Evnin, John Vander Vort, William Greene, James Scopa, Vaughn Kailian and Steven St. Peter are the Members of MPM BioVentures IV LLC. All members share all power to vote, acquire, hold and dispose of all shares and warrants. Each member disclaims beneficial ownership of the securities except to the extent of their pecuniary interest therein. Beneficial ownership information is based on information known to the Company and a Schedule 13D filed with the SEC on May 27, 2011 by BV III, BV III QP, BV III KG, BV III PF, AM LLC, MPM NVS, Luke Evnin, Ansbert Gadicke, Nicholas Galakatos, Michael Steinmetz, Kurt Wheeler, Nicholas Simon III, Dennis Henner, Ashley L. Dombkowski, William Greene, Vaughn Kailian, James Paul Scopa, Steven St. Peter, and John Vander Vort.

(23)

Includes 255,220 shares of Common Stock issuable upon conversion of 25,522 shares of Company Series A-1 Preferred Stock, and 2,103,250 shares of Common Stock issuable upon conversion of 210,325 shares of Company Series A-2 Preferred Stock issued to The Wellcome Trust Limited as trustee of The Wellcome Trust in the Merger. Additionally, The Wellcome Trust Limited as trustee of The Wellcome Trust has committed to purchase an aggregate of 51,044 shares of Company Series A-1 Preferred Stock at two subsequent closings. Responsibility for the activities of the Wellcome Trust lies with the Board of Governors of The Wellcome Trust Limited that is comprised of William Castell, Kay Davies, Peter Davies, Christopher Fairburn, Richard Hynes, Anne Johnson, Roderick Kent, Eliza Manningham-Buller, Peter Rigby and Peter Smith. The Board of Governors share all voting and investment power with respect to the shares held by The Wellcome Trust Limited as trustee of the Wellcome Trust. Beneficial ownership information is based on information known to the Company and a Schedule 13D filed with the SEC on May 25, 2011 by The Wellcome Trust Limited as trustee of The Wellcome Trust.

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The Wellcome Trust Limited as trustee of The Wellcome Trust has committed to purchase an aggregate of 51,044 shares of Company Series A-1 Preferred Stock at two subsequent closings. Responsibility for the activities of the Wellcome Trust lies with the Board of Governors of The Wellcome Trust Limited that is comprised of William Castell, Kay Davies, Peter Davies, Christopher Fairburn, Richard Hynes, Anne Johnson, Roderick Kent, Eliza Manningham-Buller, Peter Rigby and Peter Smith. The Board of Governors share all voting and investment power with respect to the shares held by The Wellcome Trust Limited as trustee of the Wellcome Trust. Beneficial ownership information is based on information known to the Company and a Schedule 13D filed with the SEC on May 25, 2011 by The Wellcome Trust Limited as trustee of The Wellcome Trust.

(25)

Includes 83,113 shares of Common Stock and 196,510 shares of Common Stock issuable upon conversion of 19,651 shares of Company Series A-1 Preferred Stock, 982,780 shares of Common Stock issuable upon conversion of 98,278 shares of Company Series A-2 Preferred Stock, 636,630 shares of Common Stock issuable upon conversion of 63,663 shares of Company Series A-3 Preferred Stock issued to HealthCare Ventures VII, L.P. ("HCVVII") in the Merger. Additionally, HCVVII has committed to purchase an aggregate of 39,302 shares of Company Series A-1 Preferred Stock at two subsequent closings. HealthCare Partners VII, L.P. ("HCPVII") is the General Partner of HCVVII. The General Partners of HCPVII are James H. Cavanaugh, Ph.D., Harold R. Werner, John W. Littlechild, Christopher Mirabelli, Ph.D., and Augustine Lawlor. The General Partners of HCPVII share all voting and investment power on behalf of HCPVII. Beneficial ownership information is based on information known to the Company and a Schedule 13D filed with the SEC on May 27, 2011 by HCVVII, HCPVII, James H. Cavanaugh, Ph.D., Harold R. Werner, John W. Littlechild, Christopher Mirabelli, Ph.D., and Augustine Lawlor.

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HCVVII has committed to purchase an aggregate of 39,302 shares of Company Series A-1 Preferred Stock at two subsequent closings. HealthCare Partners VII, L.P. ("HCPVII") is the General Partner of HCVVII.

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The General Partners of HCPVII are James H. Cavanaugh, Ph.D., Harold R. Werner, John W. Littlechild, Christopher Mirabelli, Ph.D., and Augustine Lawlor. The General Partners of HCPVII share all voting and investment power on behalf of HCPVII. Beneficial ownership information is based on information known to the Company and a Schedule 13D filed with the SEC on May 27, 2011 by HCVVII, HCPVII, James H. Cavanaugh, Ph.D., Harold R. Werner, John W. Littlechild, Christopher Mirabelli, Ph.D., and Augustine Lawlor.

(27)

Includes: (i) 15,173 shares of Common Stock (the "OBP IV Common Shares") held directly by OBP IV; (ii) 1,498,240 shares of Common Stock (the "OBP IV Conversion Shares" and, together with the OBP IV Common Shares, the "OBP IV Saints Shares") issuable to OBP IV upon the conversion of 16,213 shares of Company Series A-1 Preferred Stock held directly by OBP IV, 108,628 shares of Company Series A-2 Preferred Stock held directly by OBP IV and 24,983 shares of Company Series A-3 Preferred Stock held directly by OBP IV; (iii) 151 shares of Common Stock (the "mRNA II Common Shares") held directly by mRNA II; (iv) 15,020 shares of Common Stock (the "mRNA II Conversion Shares" and, together with the mRNA II Common Shares, the "mRNA Saints II Shares") issuable to mRNA II upon the conversion of 162 shares of Company Series A-1 Preferred Stock held directly by mRNA II, 1,090 shares of Company Series A-2 Preferred Stock held directly by mRNA II and 250 shares of Company Series A-3 Preferred Stock held directly by mRNA II. The OBP IV Saints Shares and the mRNA Saints II Shares are referred to herein as the "Saints Shares." The Saints Shares are indirectly held by Saints LP, a member of OBP IV and Saints LLC, the sole general partner of Saints LP, and the individual managers of Saints LLC. The individual managers of Saints LLC are Scott Halsted, David P. Quinlivan, and Kenneth B. Sawyer. The individual managers of Saints LLC share all voting and investment power on behalf of Saints LLC. Additionally, other than with respect to the Common Stock issuable upon the conversion of the 16,213 shares of Company Series A-1 Preferred Stock held directly by OBP IV and the 162 shares of Company Series A-1 Preferred Stock held directly by mRNA II, the Saints Shares are indirectly held by OBP LP, a member of OBP IV. The mRNA II Shares are indirectly held by mRNA LP, a member of mRNA II. The Saints Shares are indirectly held by (i) OBP Management IV, the sole general partner of each of OBP LP and mRNA LP and (ii) Jonathan Fleming and Alan Walton, the individual general partners of OBP Management IV. Jonathan Fleming and Alan Walton, the individual general partners of OBP Management IV, share all voting and investment power on behalf of OBP Management IV. Each of the entities and individuals mentioned above disclaim beneficial ownership within the meaning of Section 16 of the Securities Exchange Act of 1934, as amended, or otherwise of such portion of the Saints Shares in which such entity or individual has no actual pecuniary interest therein. Beneficial ownership information is based on information known to the Company and a Schedule 13D filed with the SEC on May 27, 2011 by OBP IV, mRNA II, mRNA Fund II, OBP Management IV, Saints LP, Saints LLC, Jonathan Fleming, Alan Walton, Scott Halsted, David P. Quinlivan, and Kenneth B. Sawyer.

(28)

Includes: 16,213 shares of Company Series A-1 Preferred Stock held directly by OBP IV (the "OBP IV A-1 Shares"), and 162 shares of Company Series A-1 Preferred Stock held directly by mRNA II (together with the OBP IV A-1 Shares, the "Saints A-1 Shares"). The Saints A-1 Shares are indirectly held by Saints LP, a member of OBP IV and mRNA II, Saints LLC, the sole general partner of Saints LP, and the individual managers of Saints LLC. The individual managers of Saints LLC are Scott Halsted, David P. Quinlivan, and Kenneth B. Sawyer. The individual managers of Saints LLC share all voting and investment power on behalf of Saints LLC. Each entity mentioned above and Messrs. Halsted, Quinlivan and Sawyer disclaim beneficial ownership within the meaning of Section 16 of the Securities Exchange Act of 1934, as amended, or otherwise of such portion of the Saints A-1 Shares in which such entity or individual has no actual pecuniary interest therein. Beneficial ownership information is based on information known to the Company and a Schedule 13D filed with the SEC on May 27, 2011 by OBP IV, mRNA II, mRNA Fund II, OBP Management IV, Saints LP, Saints LLC, Jonathan Fleming, Alan Walton, Scott Halsted, David P. Quinlivan, and Kenneth B. Sawyer.

(29)

Includes: 108,628 shares of Company Series A-2 Preferred Stock held directly by OBP IV (the "OBP IV A-2 Shares") and 1,090 shares of Company Series A-2 Preferred Stock held directly by mRNA II (together with the OBP IV A-2 Shares, the "Saints A-2 Shares"). The Saints A-2 Shares are indirectly held by OBP Management IV, the sole general partner of each of OBP LP and mRNA LP; Jonathan Fleming and Alan Walton, the individual general partners of OBP Management IV; Saints LP, a member of OBP IV and mRNA II; Saints LLC, the sole general partner of Saints LP; and Scott Halsted, David P. Quinlivan, and Kenneth B. Sawyer, the individual managers of Saints LLC. Jonathan Fleming and Alan Walton, the individual general partners of OBP Management IV, share all voting and investment power on behalf of OBP Management IV. Scott Halsted, David P. Quinlivan, and Kenneth B. Sawyer, the individual managers of Saints LLC share all voting and investment power on behalf of Saints LLC. Each of the entities and individuals mentioned above disclaim beneficial ownership within the meaning of Section 16 of the Securities Exchange Act of 1934, as amended, or otherwise of such portion of the Saints A-2 Shares in which such entity or individual has no actual pecuniary interest therein. Beneficial ownership information is

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based on information known to the Company and a Schedule 13D filed with the SEC on May 27, 2011 by OBP IV, mRNA II, mRNA Fund II, OBP Management IV, Saints LP, Saints LLC, Jonathan Fleming, Alan Walton, Scott Halsted, David P. Quinlivan, and Kenneth B. Sawyer.

(30)

Includes: 24,983 shares of Company Series A-3 Preferred Stock held directly by OBP IV (the "OBP IV A-3 Shares"); and 250 shares of Company Series A-3 Preferred Stock held directly by mRNA II (together with the OBP IV A-3 Shares, the "Saints A-3 Shares"). The Saints A-3 Shares are indirectly held by OBP Management IV, the sole general partner of each of OBP LP and mRNA LP; Jonathan Fleming and Alan Walton, the individual general partners of OBP Management IV; Saints LP, a member of OBP IV and mRNA II; Saints LLC, the sole general partner of Saints LP; and Scott Halsted, David P. Quinlivan, and Kenneth B. Sawyer, the individual managers of Saints LLC. Jonathan Fleming and Alan Walton, the individual general partners of OBP Management IV, share all voting and investment power on behalf of OBP Management IV. Scott Halsted, David P. Quinlivan, and Kenneth B. Sawyer, the individual managers of Saints LLC share all voting and investment power on behalf of Saints LLC. Each of the entities and individuals mentioned above disclaim beneficial ownership within the meaning of Section 16 of the Securities Exchange Act of 1934, as amended, or otherwise of such portion of the Saints A-3 Shares in which such entity or individual has no actual pecuniary interest therein. Beneficial ownership information is based on information known to the Company and a Schedule 13D filed with the SEC on May 27, 2011 by OBP IV, mRNA II, mRNA Fund II, OBP Management IV, Saints LP, Saints LLC, Jonathan Fleming, Alan Walton, Scott Halsted, David P. Quinlivan, and Kenneth B. Sawyer.

(31)

Includes 435,960 shares of Common Stock issuable upon conversion of 43,596 shares of Company Series A-1 Preferred Stock (the "BBBV LP A-1 Preferred Stock"), and 1,051,620 shares of Common Stock issuable upon conversion of 105,162 shares of Company Series A-2 Preferred Stock (together with the BBBV LP A-1 Preferred Stock the "BBBV LP Shares") issued to BB Biotech Ventures II L.P. ("BBBV LP") in the Merger. Additionally, BBBV LP has committed to purchase an aggregate of 40,940 shares of Company Series A-1 Preferred Stock at two subsequent closings. BB Biotech Ventures GP (Guernsey) Limited ("BBBV Limited") is the General Partner of BBBV LP. Jan Bootsma, Pascal Mahieux, and Ben Morgan are the directors of BBB Limited and share all investment and voting power with respect to these shares. Additionally, Martin Muenchbach, the Senior Investment Advisor Private Equity at Bellevue Asset Management AG, advises Asset Management BAB N.V. ("AMB NV") who, pursuant to a services agreement with BAM AG, advises the directors of BBBV Limited, may be deemed to have voting and investment control over the shares held by BBBV LP given such advisory role. Each of the foregoing, except BBBV LP in the case of the BBBV LP Shares, disclaims beneficial ownership of the BBBV LP Shares except to the extent of their pecuniary interest therein, if any. Beneficial ownership information is based on information known to the Company and a Schedule 13D filed with the SEC on May 27, 2011 by BBBV LP, BBBV Limited, Jan Bootsma, Pascal Mahieux, Ben Morgan, and Martin Muenchbach.

(32)

BBBV LP has committed to purchase an aggregate of 40,940 shares of Company Series A-1 Preferred Stock at two subsequent closings. BB Biotech Ventures GP (Guernsey) Limited ("BBBV Limited") is the General Partner of BBBV LP. Jan Bootsma, Pascal Mahieux, and Ben Morgan are the directors of BBB Limited and share all investment and voting power with respect to these shares. Additionally, Martin Muenchbach, the Senior Investment Advisor Private Equity at Bellevue Asset Management AG, advises Asset Management BAB N.V. ("AMB NV") who, pursuant to a services agreement with BAM AG, advises the directors of BBBV Limited, may be deemed to have voting and investment control over the shares held by BBBV LP given such advisory role. Each of the foregoing, except BBBV LP in the case of the BBBV LP Shares, disclaims beneficial ownership of the BBBV LP Shares except to the extent of their pecuniary interest therein, if any. Beneficial ownership information is based on information known to the Company and a Schedule 13D filed with the SEC on May 27, 2011 by BBBV LP, BBBV Limited, Jan Bootsma, Pascal Mahieux, Ben Morgan, and Martin Muenchbach.

(33)

Includes the OBP IV Shares and the mRNA II Shares. The OBP IV Shares are indirectly held by OBP LP, a member of OBP IV. The mRNA II Shares are indirectly held by mRNA LP, a member of mRNA II. The Oxford Shares are indirectly held by OBP Management IV, the sole general partner of each of OBP LP and mRNA LP; Jonathan Fleming and Alan Walton, the individual general partners of OBP Management IV; Saints LP, a member of OBP IV and mRNA II; Saints LLC, the sole general partner of Saints LP; and Scott Halsted, David P. Quinlivan, and Kenneth B. Sawyer, the individual managers of Saints LLC. Jonathan Fleming and Alan Walton, the individual general partners of OBP Management IV, share all voting and investment power on behalf of OBP Management IV. Scott Halsted, David P. Quinlivan, and Kenneth B. Sawyer, the individual managers of Saints LLC share all voting and investment power on behalf of Saints LLC. Each of the entities and individuals mentioned above disclaim beneficial ownership within the meaning of Section 16 of the Securities Exchange Act of 1934, as amended, or otherwise of such portion of the OBP IV Shares and mRNA Fund II Shares in which such entity or individual has no actual pecuniary interest therein. Beneficial ownership information is based on information known to the Company and a

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Schedule 13D filed with the SEC on May 27, 2011 by OBP IV, mRNA II, mRNA Fund II, OBP Management IV, Saints LP, Saints LLC, Jonathan Fleming, Alan Walton, Scott Halsted, David P. Quinlivan, and Kenneth B. Sawyer.

(34)

Includes: 108,628 shares of Company Series A-2 Preferred Stock held directly by OBP IV and 1,090 shares of Company Series A-2 Preferred Stock held directly by mRNA II. The Oxford A-2 Shares are indirectly held by OBP Management IV, the sole general partner of each of OBP LP and mRNA LP; Jonathan Fleming and Alan Walton, the individual general partners of OBP Management IV; Saints LP, a member of OBP IV and mRNA II; Saints LLC, the sole general partner of Saints LP; and Scott Halsted, David P. Quinlivan, and Kenneth B. Sawyer, the individual managers of Saints LLC. Jonathan Fleming and Alan Walton, the individual general partners of OBP Management IV, share all voting and investment power on behalf of OBP Management IV. Scott Halsted, David P. Quinlivan, and Kenneth B. Sawyer, the individual managers of Saints LLC share all voting and investment power on behalf of Saints LLC. Each of the entities and individuals mentioned above disclaim beneficial ownership within the meaning of Section 16 of the Securities Exchange Act of 1934, as amended, or otherwise of such portion of the Saints A-2 Shares in which such entity or individual has no actual pecuniary interest therein. Beneficial ownership information is based on information known to the Company and a Schedule 13D filed with the SEC on May 27, 2011 by OBP IV, mRNA II, mRNA Fund II, OBP Management IV, Saints LP, Saints LLC, Jonathan Fleming, Alan Walton, Scott Halsted, David P. Quinlivan, and Kenneth B. Sawyer.

(35)

Includes: 24,983 shares of Company Series A-3 Preferred Stock held directly by OBP IV and 250 shares of Company Series A-3 Preferred Stock held directly by mRNA II. The Oxford A-3 Shares are indirectly held by OBP Management IV, the sole general partner of each of OBP LP and mRNA LP; Jonathan Fleming and Alan Walton, the individual general partners of OBP Management IV; Saints LP, a member of OBP IV and mRNA II; Saints LLC, the sole general partner of Saints LP; and Scott Halsted, David P. Quinlivan, and Kenneth B. Sawyer, as the individual managers of Saints Capital Granite, LLC. Jonathan Fleming and Alan Walton, the individual general partners of OBP Management IV, share all voting and investment power on behalf of OBP Management IV. Scott Halsted, David P. Quinlivan, and Kenneth B. Sawyer, the individual managers of Saints LLC share all voting and investment power on behalf of Saints LLC. Each of the entities and individuals mentioned above disclaim beneficial ownership within the meaning of Section 16 of the Securities Exchange Act of 1934, as amended, or otherwise of such portion of the Saints A-2 Shares in which such entity or individual has no actual pecuniary interest therein. Beneficial ownership information is based on information known to the Company and a Schedule 13D filed with the SEC on May 27, 2011 by OBP IV, mRNA II, mRNA Fund II, OBP Management IV, Saints LP, Saints LLC, Jonathan Fleming, Alan Walton, Scott Halsted, David P. Quinlivan, and Kenneth B. Sawyer.

(36)

Includes 68,050 shares of Common Stock issuable upon conversion of 6,805 shares of Company Series A-1 Preferred Stock, and 560,860 shares of Common Stock issuable upon conversion of 56,086 shares of Company Series A-2 Preferred Stock. Healthcare Private Equity Limited Partnership ("HPELP") is a limited partnership which has one general partner, Waverley Healthcare Private Equity Limited ("Waverley GP") and one limited partner, Scottish Widows plc. As general partner, Waverley GP has authority under the HPELP limited partnership agreement ("LPA") to conduct and manage the business of HPELP. Andrew November and Archie Struthers are the directors of Waverly GP and share all of the voting and investment power over the shares held by HPELP. The controlling shareholder of Waverley GP is SWIP Group Limited. The ultimate controlling entity of SWIP Group Limited is Lloyds Banking Group plc, a public listed company with many shareholders. The board of directors of Lloyds Banking Group plc consists of nine non-executive directors (Sir Winifried Bischoff, Lord Leitch, Anita Frew, Glen Moreno, David Roberts, T Timothy Ryan Jnr, Martin Scicluna and Anthony Watson) and three executive directors (Antonito Horta-Osorio, G Truett Tate and Tim Tookey). The Chairman (Sir Winifried Bischoff) is responsible for leadership of the board. The Group Chief executive (Antonio Horto-Osorio) is responsible for the day to day management of the business of Lloyds Banking Group plc, in accordance with the strategy and long term objectives approved by the board. Beneficial ownership information is based on information known to the Company. The nine non-executive directors and three executive directors of Lloyds Banking Group plc do not have any sole or shared voting or investment power with respect to the shares held by HPELP.

(37)

Includes 409,400 shares of Common Stock issuable upon conversion of 40,940 shares of Company Series A-1 Preferred Stock. Brookside Capital Investors, L.P. ("Brookside Investors") is the sole general partner of Brookside Capital Partners Fund, L.P. ("Partners Fund"). Brookside Capital Management, LLC is the sole general partner of Brookside Investors. The control persons of Brookside Capital Management are Executive Committee members: Dewey J. Awad, Domenic J. Ferrante, Matthew V. McPherron, William E. Pappendick IV, John M. Toussaint. The Executive Committee members share all voting and investment power on behalf of Brookside Capital Management, LLC. Beneficial ownership information is based on information known to the Company.

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(38) Includes 409,400 shares of Common Stock issuable upon conversion of 40,940 shares of Company Series A-1 Preferred Stock. BB Biotech Growth N.V. ("BB Growth") is a wholly-owned subsidiary of BB Biotech AG ("BB Biotech"). The directors and executive officers of BB Biotech are Dr. Thomas D. Szucs, Chairman and Director; Dr. Clive Meanwell, Vice Chairman and Director; and Dr. Erich Hunziker, Director. The directors and executive officers of BB Growth are Dr. Thomas D. Szucs, Statutory Director; Deanna Chemaly, Statutory Director; and Hugo Jan van Neutegem, Statutory Director. Beneficial ownership information is based on information known to the Company and a Schedule 13D filed with the SEC on June 3, 2011 by BB Biotech and BB Growth. The directors and executive officers of BB Biotech and BB Growth share all voting and investment power with respect to these shares.

(39) Includes 173,260 shares of Common Stock issuable upon conversion of 17,326 shares of Company Series A-1 Preferred Stock. Ipsen Pharma SAS ("Ipsen Pharma") is a société par actions simplifiée organized under the laws of France and is a wholly-owned subsidiary of Ipsen S.A. ("Ipsen"), a société anonyme organized under the laws of France. Ipsen's majority shareholder is Mayroy, a société anonyme organized under the laws of Luxembourg. The directors and executive officers of Ipsen Pharma are Christophe Jean, Director; Claude Bertrand, Director; Etienne De Blois, Director; Philippe Robert-Gorsse, Director; Eric Drape, Director; Claire Giraut, Director; Jean Fabre, Director; Jean-Pierre Dubuc, Director; Didier Veron, Director; and Marc De Garidel, President. The directors of Ipsen are Marc De Garidel, Director and Chief Executive Officer; Anne Beaufour, Director; Henri Beaufour, Director; Hervé Couffin, Director; Antoine Flochel, Director; Gérard Hauser, Director; Pierre Martinet, Director; René Merkt, Director; Yves Rambaud, Director; Klaus-Peter Schwabe, Director and Christophe Vérot, Director. The executive officers of Ipsen are Claire Giraut, Etienne de Blois, Christophe Jean, Claude Bertrand, and Eric Drape. The directors of Mayroy are Anne Beaufour, Antoine Flochel, Beech Tree SA, Bee Master B.V. Holding BV, Henri Beaufour, Klaus Peter Schwabe, and Jean-Pierre Diehl. The directors and officers of Ipsen, Mayroy and Ipsen Pharma share all voting and investment powers with respect to these shares. Beneficial ownership information is based on information known to the Company and a Schedule 13D filed with the SEC on June 23, 2011 by Ipsen Pharma and Ipsen.

(40) Includes 64,430 shares of Common Stock issuable upon conversion of 6,443 shares of Company Series A-5 Preferred Stock held by Nordic Bioscience Clinical Development VII A/S ("Nordic VII"). Nordic VII beneficially owns 0.40% of the Fully-Diluted Shares. Nordic VII is a wholly-owned subsidiary of Nordic Bioscience Clinical Development A/S ("Nordic A/S"). Nordic A/S is wholly-owned subsidiary of Nordic Bioscience Holding A/S ("Nordic Holding"). Nordic Holding is majority owned by C.C. Consulting A/S ("C.C. Consulting"). Claus Chrstiansen, MD, and Bente Riis Chrstiansen each own 50% of C.C. Consulting and share all voting and investment power with respect to these shares. The entities and individuals mentioned above disclaim beneficial ownership of the share except to the extent of their pecuniary interest therein. Beneficial ownership information is based on information known to the Company and a Schedule 13D filed with the SEC on June 17, 2011 by Nordic VII.

(41) Includes 8,961 shares of Common Stock held by Mr. Katzenellenbogen. Mr. Katzenellenbogen is the trustee of the Katzenellenbogen Trust and has sole voting and investment power with respect to such shares. The Katzenellenbogen Trust may be deemed to beneficially own the shares held by Mr. Katzenellenbogen.

## MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

There is not currently, and there has never been, any market for any of our securities. Our securities are not eligible for trading on any national securities exchange, the Nasdaq or other over-the-counter markets, including the OTC Bulletin Board®.

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## USE OF PROCEEDS

We will not receive any proceeds from the resale of any of the shares offered by this prospectus by the selling stockholders. With respect to the underlying shares being offered hereby, we would receive gross proceeds of approximately $320,551 assuming the exercise of all warrants for cash. To the extent any of these warrants are exercised, we intend to use the proceeds to for general working capital and administrative functions. The warrants are exercisable on a cashless basis and the warrant holders are not required to exercise the warrants, accordingly, there is no guarantee that we will receive any cash from the exercise of warrants.

## DETERMINATION OF OFFERING PRICE

All shares being offered will be sold by existing stockholders without our involvement, consequently the actual price of the stock will be $8.142 until our common stock is eligible for trading on a national securities exchange, Nasdaq or the OTC Bulletin Board. At and after such time, the actual price of the stock will be determined by prevailing market prices at the time of sale or by private transactions negotiated by the selling stockholders and the independent decisions of the selling stockholders.

## SELLING STOCKHOLDERS

This prospectus covers the resale by the selling stockholders identified below of 5,320,600 shares of our Common Stock, including 195,552 shares of our Common Stock currently outstanding, 5,112,120 shares issuable upon conversion of Preferred Stock, and 12,928 shares issuable upon the exercise of warrants and conversion of the underlying securities.

The following table sets forth the number of shares of our Common Stock beneficially owned by the selling stockholders as of October 6, 2011, and after giving effect to this offering. To our knowledge, other than as indicated in the footnotes to table below, none of the selling stockholders are broker-dealers or affiliates of broker-dealers. No broker-dealer received shares of Preferred Stock or Common Stock, or warrants to purchase any shares of our Capital Stock as compensation for underwriting services. Each affiliate of a broker-dealers purchased their shares in the ordinary course of their business and at the time of each purchase of shares offered hereby, no selling stockholder had any agreement or understanding, directly or indirectly, with any person to distribute those shares.

| Selling Stockholder | Shares Owned Before Offering(a) | Number of Outstanding Shares of Common Stock Offered by Selling Stockholder | Number of Shares of Common Stock Issuable Upon Conversion of Outstanding Shares of Preferred Stock Offered by Selling Stockholder | Number of Shares of Common Stock Offered by Selling Stockholder upon Exercise of Certain Warrants | Number of Shares of Common Stock Offered by Selling Stockholder Registered Hereunder | Percentage Ownership After Offering(a) |
|---|---|---|---|---|---|---|
| MPM Bioventures III, L.P.(1) | 234,010 | | 77,220 | | 77,220 | 1.45% |
| MPM Bioventures III-QP, L.P.(1) | 3,480,490 | | 1,148,560 | | 1,148,560 | 21.59% |
| MPM Bioventures III GMBH & Co. Beteiligungs KG(1) | 294,140 | | 97,070 | | 97,070 | 1.82% |
| MPM Bioventures III Parallel Fund, L.P.(1) | 105,100 | | 34,680 | | 34,680 | 0.00%* |

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| Selling Stockholder | Shares Owned Before Offering(a) | Number of Outstanding Shares of Common Stock Offered by Selling Stockholder | Number of Shares of Common Stock Issuable Upon Conversion of Outstanding Shares of Preferred Stock Offered by Selling Stockholder | Number of Shares of Common Stock Offered by Selling Stockholder upon Exercise of Certain Warrants | Number of Shares of Common Stock Offered by Selling Stockholder Registered Hereunder | Percentage Ownership After Offering(a) |
|---|---|---|---|---|---|---|
| MPM Asset Management Investors 2003 BVIII LLC(1) | 67,380 | | 22,230 | | 22,230 | 0.00%* |
| MPM Bio IV NVS Strategic Fund, L.P.(1) | 2,382,430 | | 786,200 | | 786,200 | 14.78% |
| The Wellcome Trust Limited, as Trustee of The Wellcome Trust(2) | 2,358,470 | | 778,290 | | 778,290 | 14.63% |
| HealthCare Ventures VII, L.P.(3) | 1,899,033 | 27,427 | 599,260 | | 626,687 | 11.78% |
| OBP IV Holdings LLC(4) | 1,513,413 | 5,007 | 494,410 | | 499,417 | 9.39% |
| mRNA Fund II Holdings LLC(4) | 15,171 | 50 | 4,960 | | 5,010 | 0.00%* |
| BB Biotech Ventures II, L.P.(5) | 1,487,580 | | 490,900 | | 490,900 | 9.23% |
| Healthcare Private Equity Limited Partnership(6) | 628,910 | | 207,540 | | 207,540 | 3.90% |
| Dr. Raymond F. Schinazi | 26,950 | | 8,900 | | 8,900 | 0.00%* |
| David E. Thompson Revocable Trust(7) | 18,150 | | 5,990 | | 5,990 | 0.00%* |
| Hostetler Family Trust UTD 3/18/92(8) | 3,071 | 1,013 | | | 1,013 | 0.00%* |
| H.Watt Gregory, III | 12,270 | | 4,050 | | 4,050 | 0.00%* |
| The Richman Trust dated 2/6/83(9) | 6,000 | | 1,980 | | 1,980 | 0.00%* |
| The Breining Family Trust dated August 15, 2003(10) | 3,750 | | 1,240 | | 1,240 | 0.00%* |
| Dr. Dennis A. Carson | 533 | 176 | | | 176 | 0.00%* |
| Bronson Van Wyck | 363 | 120 | | | 120 | 0.00%* |
| The Jonnie K. Westbrook Revocable Trust, Dated March 17, 2000(11) | 363 | 120 | | | 120 | 0.00%* |
| Nordic Bioscience Clinical Development VII A/S(12) | 64,430 | | 21,260 | | 21,260 | 0.00%* |
| Brookside Capital Partners Fund, L.P.(13) | 409,400 | | 135,100 | | 135,100 | 2.54% |
| BB Biotech Growth N.V.(14) | 409,400 | | 135,100 | | 135,100 | 2.54% |
| Ipsen Pharma SAS(15) | 173,260 | | 57,180 | | 57,180 | 1.07% |
| GE Capital Equity Investments, Inc.(16) | 15,350 | | | 5,070 | 5,070 | 0.00%* |
| Oxford Finance LLC(17) | 15,350 | | | 5,070 | 5,070 | 0.00%* |
| Leerink Swann LLC(18) | 8,180 | | | 2,700 | 2,700 | 0.00%* |
| Stavros C. Manolagas | 91,040 | 30,043 | | | 30,043 | 0.00%* |
| Dr. Michael Rosenblatt | 41,357 | 13,648 | | | 13,648 | 0.00%* |

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| Selling Stockholder | Shares Owned Before Offering(a) | Number of Outstanding Shares of Common Stock Offered by Selling Stockholder | Number of Shares of Common Stock Issuable Upon Conversion of Outstanding Shares of Preferred Stock Offered by Selling Stockholder | Number of Shares of Common Stock Offered by Selling Stockholder upon Exercise of Certain Warrants | Number of Shares of Common Stock Offered by Selling Stockholder Registered Hereunder | Percentage Ownership After Offering(a) |
|---|---|---|---|---|---|---|
| Dr. John Potts, Jr and Susanne K. Potts Irrevocable Trust for Stephen K. Potts dated 6-15-05(19) | 20,291 | 6,696 | | | 6,696 | 0.00%* |
| Dr. John Thomas Potts, Jr. | 4,496 | 1,484 | | | 1,484 | 0.00%* |
| John A. Katzenellenbogen Trust Under Agreement Dated August 2, 1999(20) | 40,438 | 13,345 | | | 13,345 | 0.00%* |
| John Katzenellenbogen, Ph.D. | 8,961 | 2,957 | | | 2,957 | 0.00%* |
| Bart Henderson | 30,468 | 10,054 | | | 10,054 | 0.00%* |
| Board of Trustees of the University of Arkansas | 17,333 | 5,720 | | | 5,720 | 0.00%* |
| Sillicon Valley Bank(21) | 266 | | | 88 | 88 | 0.00%* |
| Benjamin C. Lane | 8,125 | 2,681 | | | 2,681 | 0.00%* |
| Ruff Trust(22) | 5,124 | 1,691 | | | 1,691 | 0.00%* |
| H2 Enterprises, LLC(23) | 5,124 | 1,691 | | | 1,691 | 0.00%* |
| Dr. Karl Y. Hostetler | 5,124 | 1,691 | | | 1,691 | 0.00%* |
| Stavroula Kousteni, Ph.D. | 421 | 139 | | | 139 | 0.00%* |
| Robert L. Jilka, Ph.D. | 572 | 189 | | | 189 | 0.00%* |
| Dr. Robert S. Weinstein | 421 | 139 | | | 139 | 0.00%* |
| Teresita M. Bellido, Ph.D. | 234 | 77 | | | 77 | 0.00%* |
| Dotty Paquin | 891 | 294 | | | 294 | 0.00%* |
| Thomas E. Sparks, Jr. | 883 | 291 | | | 291 | 0.00%* |
| Samuel Ho | 833 | 275 | | | 275 | 0.00%* |
| Charles O'Brien, Ph.D. | 13,015 | | 19,043 | 19,247 | | |
| Commercial | 135,835 | 147,089 | | 141,014 | 121,490 | 115,638 |
| Agricultural | 16,265 | 14,099 | | 15,985 | 19,761 | 19,355 |
| Multi-family residential | 11,797 | 9,357 | | 13,157 | 12,259 | 10,391 |
| Credit cards | 2,680 | 2,788 | | 2,812 | 2,771 | 2,356 |
| Other | 91 | 670 | | 83 | 324 | 106 |
| Total Loans | $478,453 | $ 465,819 | | $451,570 | $445,147 | $ 434,403 |

The following table shows the Company’s loan maturity and interest rate sensitivity as of December 31, 2013:

| (Dollars in thousands) | Less Than 1 Year | 1-5 Years | Over 5 Years | Total |
|---|---|---|---|---|
| Commercial and agricultural loans | $ 54,889 | $ 93,301 | $ 3,910 | $ 152,100 |
| Multi-family residential | 2,555 | 8,559 | 683 | 11,797 |
| Real Estate – mortgage | 89,119 | 115,775 | 7,736 | 212,630 |
| Real Estate – construction | 57,238 | 10,364 | 910 | 68,512 |
| Consumer – installment/other | 8,308 | 24,995 | 111 | 33,414 |

| | | | | |
|---|---|---|---|---|
| Total | $ 212,109 | $ 252,994 | $ 13,350 | $ 478,453 |

| | | | | |
|---|---|---|---|---|
| Loans with predetermined rates | $ 26,749 | $ 44,270 | $ 9,536 | $ 80,555 |
| Loans with variable or adjustable rates | 185,360 | 208,724 | 3,814 | 397,898 |
| Total | $ 212,109 | $ 252,994 | $ 13,350 | $ 478,453 |

PART II, Continued

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations, Continued

Analysis of Loan Portfolio, continued

Residential real estate loans are generally made for a period not to exceed 25 years and are secured by a first deed of trust which normally does not exceed 90% of the appraised value. If the loan to value ratio exceeds 90%, the Company requires additional collateral, guarantees or mortgage insurance. On approximately 90% of the real estate loans, interest is adjustable after each one, three or five year period. Fixed rate loans are generally made for a fifteen-year or a twenty-year period with an interest rate adjustment after ten years.

Since 1992, fixed rate real estate loans have been funded with fixed rate borrowings from the Federal Home Loan Bank, which allows the Company to control its interest rate risk. In addition, the Company makes home equity loans secured by second deeds of trust with total indebtedness not to exceed 90% of the appraised value. Home equity loans are made for three, five or ten year periods at a fixed rate or as a revolving line of credit.

Construction loans may be made to individuals, who have arranged with a contractor for the construction of a residence, or to contractors that are involved in building pre-sold, spec-homes or subdivisions. The majority of commercial loans are made to small retail, manufacturing and service businesses. Consumer loans are made for a variety of reasons; however, approximately 73% of the loans are secured by automobiles and trucks.

Prior to the recession, real estate values in the Company's market area for commercial, agricultural and residential property increased, on the average, between 5% and 8% annually depending on the location and type of property. However, due to the slowing economy and declining real estate sales it is estimated that values peaked in 2007 or 2008. Depending on a number of factors, including property type, location and price point, the decline in value ranges from relatively modest, perhaps 10%, to more severe, up to 30%. Values appear to have bottomed out in 2011, with modest increases in both 2012 and 2013. Approximately 88% of the Company's loans are secured by real estate; however, policies relating to appraisals and loan to value ratios are adequate to control the related risk. Unemployment rates in the Company's market area continue to be below both the national and state averages.

The Bank has identified loan concentrations of greater than 25% of capital in the real estate development category. While the Bank has not developed a formal policy limiting the concentration level to any particular loan type or industry segment, it has established target limits on both a nominal and percentage of capital basis. Concentrations are monitored and reported to the board of directors quarterly. Concentration levels have been used by management to determine how aggressively they may price or pursue new loan requests. At December 31, 2013, there are no industry categories of loans that exceed 10% of total loans.

Nonaccrual and Past Due Loans

Nonperforming loans include nonaccrual loans and loans 90 days or more past due. Nonaccrual loans are loans on which interest accruals have been suspended or discontinued permanently. The Company would have earned approximately $636,000 in additional interest income had the loans on nonaccrual loans been current and performing. Nonperforming loans totaled $12,582,000 at December 31, 2013 compared to $13,386,000 at December 31, 2012. At December 31, 2013 $327,000 of loans 90 days or more past due were not on nonaccrual status. Approximately 94% of these nonperforming loans are secured by real estate. Although management expects that there may be additional loan losses, the bank is generally well secured and continues to actively work with its customers to effect payment. As of December 31, 2013, the Company holds $2,628,000 of real estate which was acquired through foreclosure.

Nonperforming loans have decreased approximately $805,000 since December 31, 2012.

PART II, Continued

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations, Continued

Nonaccrual and Past Due Loans, continued

The following is a summary of information pertaining to risk elements and impaired loans:

| (Dollars in thousands) | December 31, 2013 | September 30, 2013 | June 30, 2013 | March 31, 2013 | December 31, 2012 |
|---|---|---|---|---|---|
| Nonaccrual Loans: | | | | | |
| Real Estate | $9,963 | $9,590 | $11,026 | $8,164 | $9,611 |
| Commercial | 1,890 | 2,272 | 2,355 | 2,690 | 2,914 |
| Home Equity | 402 | 434 | 471 | 474 | 740 |
| Other | - | 20 | 34 | 108 | 121 |
| | | | | | |
| Loans past due 90 days or more: | | | | | |
| Real Estate | 246 | - | - | 172 | - |
| Commercial | 4 | - | - | 74 | - |
| Home Equity | 61 | 10 | - | - | - |
| Other | 16 | 12 | 2 | 3 | - |
| | | | | | |
| Total Nonperforming loans | $12,582 | $12,338 | $13,888 | $11,685 | $13,386 |
| | | | | | |
| Nonperforming loans as a percentage of loans held for investment | 2.63 % | 2.57 % | 2.95 % | 2.51 % | 2.87 % |
| | | | | | |
| Net Charge Offs to Total Loans Held for Investment(1) | .78 % | .59 % | .44 % | .17 % | .64 % |
| | | | | | |
| Allowance for loan and lease losses to nonperforming loans | 65.05 % | 67.59 % | 58.25 % | 70.68 % | 60.91 % |

(1)Interim periods are on an annualized basis.

Potential Problem Loans

Loans classified for regulatory purposes as loss, doubtful, substandard, or special mention do not represent or result from trends or uncertainties which management reasonably expects will materially impact future operating results, liquidity or capital resources. Nor do they represent material credits about which management is aware of any information which causes it to have serious doubts as to the ability of such borrowers to comply with the loan repayment terms. As of December 31, 2013, management is not aware of any potential problem loans which are not already classified for regulatory purposes or on the watch list as part of the Bank's internal grading system.

PART II, Continued

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations, Continued

Loan Losses and the Allowance for Loan Losses

In evaluating the portfolio, loans are segregated into loans with identified potential losses, pools of loans by type and a general allowance based on a variety of criteria. Loans with identified potential losses include examiner and bank classified loans. Classified relationships in excess of $500,000 and loans identified as Troubled Debt Restructuring are reviewed individually for impairment under ASC 310. A variety of factors are taken into account when reviewing these credits, including borrower cash flow, payment history, fair value of collateral, company management, industry and economic factors. Loan relationships that are determined to have no impairment are placed back into the appropriate loan pool and reviewed under ASC 450.

Loans that are not impaired are categorized by call report code and an estimate is calculated based on actual loss experience over the last two years. Dealer finance loans utilize a five year loss history. The Company will monitor the net losses for this division and adjust based on how the portfolio performs since the department was established in 2012. A general allowance for inherent losses has been established to reflect other unidentified losses within the portfolio. The general allowance is calculated using eight environmental factors (loan growth, unemployment, past due/criticized loans, interest rates, changes in underwriting practices, local real estate industry conditions, and experience of lending staff) with a range for worst and best case. The general allowance assists in managing recent changes in portfolio risk that may not be captured in individually impaired loans or in the homogeneous pools based on two year loss histories. The Board approves the loan loss provision for each quarter based on this evaluation. An effort is made to keep the actual allowance at or above the midpoint of the range established by the evaluation process.

The allowance for loan losses of $8,184,000 at December 31, 2013 is equal to 1.71% of total loans held for investment. This compares to an allowance of $8,154,000 (1.75%) at December 31, 2012 and 1.54% at December 31, 2011. Management and the Board of Directors have made a concentrated effort at increasing the allowance during the recent recession to reflect the increased risks within the portfolio. The overall level of the allowance is comparable with peer group averages and management feels the current reserve level is appropriate. Management has reached this conclusion based on historical losses, delinquency rates, collateral values of delinquent loans and a thorough review of the loan portfolio.

Loan losses, net of recoveries, totaled $3,745,000 in 2013 which is equivalent to .78% of total loans outstanding. Over the preceding three years, the Company has had an average loss rate of .68%, compared to a .59% loss rate for its peer group.

PART II, Continued

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations, Continued

Loan Losses and the Allowance for Loan Losses, continued

A summary of the activity in the allowance for loan losses follows:

| (Dollars in thousands) | 2013 | 2012 | 2011 | 2010 | 2009 |
|---|---|---|---|---|---|
| Balance at beginning of period | $8,154 | $6,937 | $5,786 | $3,836 | $2,189 |
| Provision charged to expenses | 3,775 | 4,200 | 4,000 | 4,300 | 4,210 |
| Loan losses: | | | | | |
| Construction/land development | 2,127 | 1,480 | 1,263 | 249 | 677 |
| Farmland | - | - | - | 3 | - |
| Real Estate | 173 | 482 | 474 | 181 | 267 |
| Multi-family | - | - | - | 958 | - |
| Commercial Real Estate | 201 | 424 | 381 | 346 | 395 |
| Home Equity – closed end | 159 | 69 | 222 | 200 | 16 |
| Home Equity – open end | 68 | - | 83 | - | - |
| Commercial & Industrial – Non Real Estate | 986 | 776 | 423 | 332 | 1,096 |
| Consumer | 173 | 45 | 90 | 117 | 117 |
| Dealer Finance | 17 | - | - | - | - |
| Credit Cards | 121 | 71 | 106 | 97 | 71 |
| Total loan losses | 4,025 | 3,347 | 3,042 | 2,483 | 2,639 |
| Recoveries: | | | | | |
| Construction/land development | 40 | 192 | - | - | - |
| Farmland | - | 3 | - | - | - |
| Real Estate | - | - | 8 | 2 | 6 |
| Multi-family | - | - | 48 | 52 | - |
| Commercial Real Estate | 42 | 48 | 16 | 2 | - |
| Home Equity – closed end | - | - | 3 | - | - |
| Home Equity – open end | 29 | - | 27 | - | - |
| Commercial & Industrial – Non Real Estate | 127 | 62 | 24 | - | - |
| Consumer | 14 | 27 | 42 | 56 | 36 |
| Dealer Finance | - | - | - | - | - |
| Credit Cards | 28 | 32 | 25 | 21 | 34 |
| Total recoveries | 280 | 364 | 193 | 133 | 76 |
| Net loan losses | (3,745) | (2,983) | (2,849) | (2,350) | (2,563) |
| Balance at end of period | $8,184 | $8,154 | $6,937 | $5,786 | $3,836 |
| | | | | | |
| Allowance for loan losses as a percentage of loans | 1.71% | 1.75% | 1.54% | 1.30% | .88% |
| Net loan losses to loans outstanding | .78% | .64% | .63% | .53% | .59% |

Refer to Note 6 to the Consolidated Financial Statements for the allocation of the allowance for loan losses.

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PART II, Continued

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations, Continued

Deposits and Borrowings

The average deposit balances and average rates paid for 2013, 2012 and 2011 were as follows:

Average Deposits and Rates Paid (Dollars in thousands)

| | December 31, | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2013 | | | 2012 | | | 2011 | | |
| | Amount | | Rate | Amount | | Rate | Amount | | Rate |
| Noninterest-bearing | $ 90,170 | | | $ 75,983 | | | $ 68,141 | | |
| | | | | | | | | | |
| Interest-bearing: | | | | | | | | | |
| Interest Checking | $ 120,482 | .66 | % | $ 121,209 | .99 | % | $ 119,453 | 1.34 | % |
| Savings Accounts | 52,714 | .23 | % | 45,120 | .40 | % | 38,248 | .50 | % |
| Time Deposits: | | | | | | | | | |
| CDARS | 8,581 | .53 | % | 10,339 | .69 | % | 22,775 | 1.04 | % |
| $100,000 or more | 69,130 | .87 | % | 67,562 | 1.01 | % | 73,299 | 1.59 | % |
| Less than $100,000 | 121,075 | 1.39 | % | 136,244 | 1.61 | % | 119,090 | 1.85 | % |
| Total Interest-bearing | 371,982 | 1.17 | % | 380,474 | 1.14 | % | 372,865 | 1.45 | % |
| Total deposits | $ 462,152 | .70 | % | $ 456,457 | .95 | % | $ 441,006 | 1.22 | % |

Noninterest-bearing demand deposits, which are comprised of checking accounts, increased $14,187,000 or 18.67% from $75,983,000 at December 31, 2012 to $90,170,000 at December 31, 2013. Interest-bearing deposits, which include interest checking accounts, money market accounts, regular savings accounts and time deposits, decreased $8,492,000 or 2.23% from $380,474,000 at December 31, 2012 to $371,982,000 at December 31, 2013. Total interest checking (including money market) account balances decreased $727,000 or .60% from $121,209,000 at December 31, 2012 to $120,482,000 at December 31, 2013. Total savings account balances increased $7,594,000 or 16.83% from $45,120,000 at December 31, 2012 to $52,714,000 at December 31, 2013.

Time deposits decreased $15,359,000 or 7.17% from $214,145,000 at December 31, 2012 to $198,786,000 at December 31, 2013. This is comprised of an increase in certificates of deposit of $100,000 and more of $1,568,000 or 2.32% from $67,562,000 at December 31, 2012 to $69,130,000 at December 31, 2013, a decrease in certificates of deposit of less than $100,000 of $15,169,000 or 11.13% from $136,244,000 at December 31, 2012 to $121,075,000 at December 31, 2013 and a decrease in CDARs deposits of $1,758,000 or 17.00% from $10,339,000 at December 31, 2012 to $8,581,000 at December 31, 2013. The Bank joined the CDARS network in 2008, which allows it to offer over $50 million in FDIC insurance on a certificate of deposit.

The maturity distribution of certificates of deposit of $100,000 or more is as follows:

| (Actual Dollars in thousands) | 2013 | 2012 |
|---|---|---|
| Less than 3 months | $ 14,360 | $ 10,225 |
| 3 to 6 months | 5,485 | 7,541 |
| 6 to 12 months | 15,219 | 20,234 |
| 1 year to 5 years | 34,610 | 30,585 |
| | | |
| Total | $ 69,674 | $ 68,585 |

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PART II, Continued

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations, Continued

Deposits and Borrowings, continued

Non-deposit borrowings include repurchase agreements, federal funds purchased, Federal Home Loan Bank (FHLB) borrowings, (both short term and long term) and subordinated debt. Non-deposit borrowings are an important source of funding for the Bank. These sources assist in managing short and long term funding needs, often at rates that are more favorable than raising additional funds within the deposit portfolio.

Borrowings from the Federal Home Loan Bank are used to support the Bank's lending program and allow the Bank to mange interest rate risk by laddering maturities and matching funding terms to the terms of various loan types in the loan portfolio. There were no new long term borrowings in 2013 or 2012. Repayment of amortizing and fixed maturity loans through FHLB totaled $26,214,000 for the year. These loans carry an average rate of 3.37% at December 31, 2013.

Contractual Obligations and Scheduled Payments (dollars in thousands)

| | December 31, 2013 | | | | |
|---|---|---|---|---|---|
| | Less than One Year | One Year Through Three Years | Three Years Through Five Years | More than Five Years | Total |
| Securities sold under agreements to repurchase | $3,423 | - | - | - | $3,423 |
| FHLB Short term advances | - | - | - | - | - |
| Federal Funds Purchased | - | - | - | - | - |
| FHLB long term advances | 11,500 | - | - | - | 11,500 |
| Subordinated Debt | - | - | 3,578 | 6,613 | 10,191 |
| Total | $14,923 | $- | $3,578 | $6,613 | $25,114 |

See Note 11 (Short Term Debt) and Note 12 (Long Term Debt) to the Consolidated Financial Statements for a discussion of the rates, terms, and conversion features on these advances.

Stockholders' Equity

Total stockholders' equity increased $4,757,000 or 9.63% in 2013. While net income totaled $4,715,793, noncontrolling interest net income totaled $107,185, sales of common stock totaled $213,429 and changes in other comprehensive income increased $1,477,837, and capital was reduced by dividends ($1.706 million) and minority interest distributions of $51,088. As of December 31, 2013, book value per share was $21.56 compared to $19.76 as of December 31, 2012. Dividends are paid to stockholders on a quarterly basis in uniform amounts unless unexpected fluctuations in net income indicate a change to this policy is needed.

Banking regulators have established a uniform system to address the adequacy of capital for financial institutions. The rules require minimum capital levels based on risk-adjusted assets. Simply stated, the riskier an entity's investments, the more capital it is required to maintain. The Bank, as well as the Company, is required to maintain these minimum capital levels. The two types of capital guidelines are Tier I capital (referred to as core capital) and Tier II capital (referred to as supplementary capital). At December 31, 2013, the Company had Tier I

capital of 12.13% of risk weighted assets and combined Tier I and II capital of 15.37% of risk weighted assets. Regulatory minimums at this date were 4% and 8%, respectively. The Bank has maintained capital levels far above the minimum requirements throughout the year. In the unlikely event that such capital levels are not met, regulatory agencies are empowered to require the Company to raise additional capital and/or reallocate present capital.

In addition, the regulatory agencies have issued guidelines requiring the maintenance of a capital leverage ratio. The leverage ratio is computed by dividing Tier I capital by average total assets. The regulators have established a minimum of 3% for this ratio, but can increase the minimum requirement based upon an institution's overall financial condition. At December 31, 2013, the Company reported a leverage ratio of 9.37%. The Bank's leverage ratio was also substantially above the minimum.

PART II, Continued

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations, Continued

Market Risk Management

Most of the Company's net income is dependent on the Bank's net interest income. Rapid changes in short-term interest rates may lead to volatility in net interest income resulting in additional interest rate risk to the extent that imbalances exist between the maturities or repricing of interest bearing liabilities and interest earning assets. The net interest margin increased .10% in 2013 following an increase of .05% in 2012. Due to a slowing of the national economy and market turbulence related to the sub-prime mortgage lending crisis, the Federal Reserve began cutting short term interest rates in September 2007. The Federal Reserve has cut short term rates a total of 5.00% to a target of 0 to .25%.

Net interest income is also affected by changes in the mix of funding that supports earning assets. For example, higher levels of non-interest bearing demand deposits and leveraging earning assets by funding with stockholder's equity would result in greater levels of net interest income than if most of the earning assets were funded with higher cost interest-bearing liabilities, such as certificates of deposit.

Liquid assets, which include cash and cash equivalents, federal funds sold, interest bearing deposits and short term investments averaged $27,004,000 for 2013. The Bank historically has had a stable core deposit base and, therefore, does not have to rely on volatile funding sources. Because of the stable core deposit base, changes in interest rates should not have a significant effect on liquidity. The Bank's membership in the Federal Home Loan Bank has historically provided liquidity as the Bank borrows money that is repaid over a five to ten year period and uses the money to make fixed rate loans. The matching of the long-term receivables and liabilities helps the Bank reduce its sensitivity to interest rate changes. The Company reviews its interest rate gap periodically and makes adjustments as needed. There are no off balance sheet items that will impair future liquidity.

The following table depicts the Company's interest rate sensitivity, as measured by the repricing of its interest sensitive assets and liabilities as of December 31, 2013. As the notes to the table indicate, the data was based in part on assumptions as to when certain assets or liabilities would mature or reprice. The analysis indicates an asset sensitive one-year cumulative GAP position of 15.35% of total earning assets, compared to 15.58% in 2012. Approximately 46.12% of rate sensitive assets and 39.80% of rate sensitive liabilities are subject to repricing within one year. Short term assets (less than one year) decreased $63,001,000 during the year, while total earning assets decreased $39,756,000. The decrease is attributed to a decrease in Loans Held for Sale of $73,000,000. Growth in the loan held for investment portfolio was concentrated in real estate secured loans and the Dealer Finance division. Short term liabilities decreased $55,601,000, while total interest bearing liabilities decreased $54,644,000. The decrease in short term liabilities is primarily due to the maturity FHLB borrowings during 2013 as a result of the decrease in Loans Held for Sale. Due to the relatively flat yield curve, management has aggressively cut deposit rates. These actions and the decrease in total earning assets have resulted in a slightly lower one year cumulative gap than prior year.

PART II, Continued

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations, Continued

Market Risk Management, continued

The following GAP analysis shows the time frames as of December 31, 2013, in which the Company's assets and liabilities are subject to repricing:

| (Dollars in thousands) | 1-90 Days | 91-365 Days | 1-5 Years | Over 5 Years | Not Classified | Total |
|---|---|---|---|---|---|---|
| Rate Sensitive Assets: | | | | | | |
| Loans held for investment | $132,381 | $77,048 | $252,994 | $13,350 | $- | $475,773 |
| Loans held for sale | 3,804 | - | - | - | - | 3,804 |
| Federal Funds Sold | 2 | - | - | - | - | 2 |
| Investments securities | 20,000 | 106 | 9,065 | 1,201 | - | 30,372 |
| Credit Cards | 2,680 | - | - | - | - | 2,680 |
| Interest bearing bank deposits | 708 | - | - | - | - | 708 |
| Total | 159,575 | 77,154 | 262,059 | 14,551 | - | 513,339 |
| | | | | | | |
| Rate Sensitive Liabilities: | | | | | | |
| Interest bearing demand deposits | - | 30,960 | 67,984 | 18,512 | - | 117,456 |
| Savings | - | 11,659 | 34,975 | 11,658 | - | 58,292 |
| Certificates of deposit $100,000 and over | 14,360 | 20,704 | 34,610 | - | - | 69,674 |
| Other certificates of deposit | 19,946 | 45,400 | 60,984 | - | - | 126,330 |
| | | | | | | |
| Total Deposits | 34,306 | 108,723 | 198,553 | 30,170 | - | 371,752 |
| Short-term debt | 3,423 | - | - | - | - | 3,423 |
| Long-term debt | 4,000 | 7,500 | 3,578 | 6,613 | - | 21,691 |
| Total | 41,729 | 116,223 | 202,131 | 36,783 | - | 396,866 |
| | | | | | | |
| Discrete Gap | 117,846 | (39,069) | 59,928 | (22,232) | | 116,473 |
| Cumulative Gap | 117,846 | 78,777 | 138,705 | 116,473 | | |
| As a % of Earning Assets | 22.96 % | 15.35 % | 27.02 % | 22.69 % | | |

In preparing the above table, no assumptions are made with respect to loan prepayments or deposit run off. Loan principal payments are included in the earliest period in which the loan matures or can be repriced. Principal payments on installment loans scheduled prior to maturity are included in the period of maturity or repricing. Proceeds from the redemption of investments and deposits are included in the period of maturity. Estimated maturities on deposits which have no stated maturity dates were derived from guidance contained in FDICIA 305.

PART II, Continued

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations, Continued

Recent Accounting Pronouncements

The Comprehensive Income topic of the ASC was amended in June 2011. The amendment eliminates the option to present other comprehensive income as a part of the statement of changes in stockholders' equity and requires consecutive presentation of the statement of net income and other comprehensive income. The amendments will be applicable to the Company on January 1, 2012 and will be applied retrospectively. In December 2011, the topic was further amended to defer the effective date of presenting reclassification adjustments from other comprehensive income to net income on the face of the financial statements. Companies should continue to report reclassifications out of accumulated other comprehensive income consistent with the presentation requirements in effect prior to the amendments while FASB finalizes its conclusions regarding future requirements. In February 2013, the FASB further amended the Comprehensive Income topic clarifying the conclusions from such redeliberations. Specifically, the amendments do not change the current requirements for reporting net income or other comprehensive income in financial statements. However, the amendments do require an entity to provide information about the amounts reclassified out of accumulated other comprehensive income by component. In addition, in certain circumstances an entity is required to present, either on the face of the statement where net income is presented or in the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income. The amendments were effective for the Company on a prospective basis for reporting periods beginning after December 15, 2012. These amendments did not have a material effect on the Company's financial statements.

In April 2013, the FASB issued guidance addressing application of the liquidation basis of accounting. The guidance is intended to clarify when an entity should apply the liquidation basis of accounting. In addition, the guidance provides principles for the recognition and measurement of assets and liabilities and requirements for financial statements prepared using the liquidation basis of accounting. The amendments will be effective for entities that determine liquidation is imminent during annual reporting periods beginning after December 15, 2013, and interim reporting periods therein and those requirements should be applied prospectively from the day that liquidation becomes imminent. Early adoption is permitted. The Company does not expect these amendments to have any effect on its financial statements.

In July 2013, the FASB issued guidance to eliminate the diversity in practice regarding presentation of unrecognized tax benefits in the statement of financial position. Under the clarified guidance, an unrecognized tax benefit, or a portion of an unrecognized tax benefit, will be presented in the financial statements as a reduction to a deferred tax asset unless certain criteria are met. The requirements should be applied prospectively to all unrecognized tax benefits that exist at the effective date. Retrospective application is permitted. The amendments will be effective for the Company for reporting periods beginning after December 15, 2013. The Company does not expect these amendments to have a material effect on its financial statements.

In December 2013, the FASB amended the Master Glossary of the FASB Codification to define "Public Business Entity" to minimize the inconsistency and complexity of having multiple definitions of, or a diversity in practice as to what constitutes, a nonpublic entity and public entity within U.S. GAAP. The amendment does not affect existing requirements, however will be used by the FASB, the Private Company Council ("PCC"), and the Emerging Issues Task Force ("EITF") in specifying the scope of future financial accounting and reporting guidance. The Company does not expect this amendment to have any effect on its financial statements.

Other accounting standards that have been issued by the FASB or other standards-setting bodies are not expected to have a material effect on the Company's financial position, result of operations or cash flows.

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PART II, Continued

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations, Continued

Quarterly Results (unaudited)

The table below lists the Company's quarterly performance for the years ended December 31, 2013 and 2012:

| (Dollars in thousands) | 2012 Fourth | Third | Second | First | Total |
|---|---|---|---|---|---|
| Interest and Dividend Income | $ 6,400 | $ 6,458 | $ 6,509 | $ 6,599 | $ 25,966 |
| Interest Expense | 1,073 | 1,194 | 1,228 | 1,278 | 4,773 |
| Net Interest Income | 5,327 | 5,264 | 5,281 | 5,321 | 21,193 |
| Provision for Loan Losses | 750 | 1,000 | 1,125 | 900 | 3,775 |
| Net Interest Income after Provision, For Loan Losses | 4,577 | 4,264 | 4,156 | 4,421 | 17,418 |
| Non-Interest Income | 939 | 1,026 | 1,094 | 866 | 3,925 |
| Non-Interest Expense | 3,890 | 3,662 | 3,565 | 3,603 | 14,720 |
| Income before taxes | 1,626 | 1,628 | 1,685 | 1,684 | 6,623 |
| Income Tax Expense | 442 | 445 | 552 | 468 | 1,907 |
| Net Income | $ 1,184 | $ 1,183 | $ 1,133 | $ 1,216 | $ 4,716 |
| Net Income Per Share | $ .47 | $ .47 | $ .45 | $ .49 | $ 1.88 |

| (Dollars in thousands) | 2011 Fourth | Third | Second | First | Total |
|---|---|---|---|---|---|
| Interest and Dividend Income | $6,984 | $7,026 | $6,522 | $6,693 | $27,225 |
| Interest Expense | 1,402 | 1,573 | 1,623 | 1,696 | 6,294 |
| Net Interest Income | 5,582 | 5,453 | 4,899 | 4,997 | 20,931 |
| Provision for Loan Losses | 1,500 | 900 | 900 | 900 | 4,200 |
| Net Interest Income after Provision, For Loan Losses | 4,082 | 4,553 | 3,999 | 4,097 | 16,731 |
| Non-Interest Income | 960 | 995 | 909 | 763 | 3,627 |
| Non-Interest Expense | 3,333 | 3,464 | 3,314 | 3,251 | 13,362 |
| Income before taxes | 1,709 | 2,084 | 1,594 | 1,609 | 6,996 |
| Income Tax Expense | 465 | 702 | 454 | 474 | 2,095 |

| | | | | | |
|---|---|---|---|---|---|
| Net Income | $1,244 | $1,382 | $1,140 | $1,135 | $4,901 |
| Net Income Per Share | $.48 | $.56 | $.46 | $.46 | $1.96 |

Item 8. Financial Statements and Supplementary Data

F & M Bank Corp. and Subsidiaries
Consolidated Balance Sheets
December 31, 2013 and 2012

| | 2013 | 2012 |
|---|---|---|
| Assets | | |
| Cash and due from banks (notes 3 and 15) | $ 5,834,596 | $ 7,960,633 |
| Money market funds | 708,049 | 1,035,581 |
| Federal funds sold | 2,000 | - |
| Cash and cash equivalents | 6,544,645 | 8,996,214 |
| | | |
| Interest bearing deposits (note 15) | - | 248,000 |
| Securities: | | |
| Held to maturity - fair value of $106,387 and $107,234 in 2013 and 2012, respectively (note 4) | 106,387 | 107,234 |
| Available for sale (note 4) | 30,265,781 | 8,678,001 |
| Other investments (note 4) | 8,113,600 | 10,021,938 |
| Loans held for sale | 3,804,425 | 77,206,517 |
| Loans held for investment (notes 5) | 478,453,008 | 465,819,073 |
| Less allowance for loan losses (note 6) | (8,184,376 ) | (8,154,074 ) |
| Net Loans Held for Investment | 470,268,632 | 457,664,999 |
| | | |
| Other real estate owned (note 9) | 2,628,418 | 2,883,947 |
| Bank premises and equipment, net (note 8) | 6,525,057 | 6,445,061 |
| Interest receivable | 1,498,112 | 1,702,847 |
| Goodwill (note 23) | 2,669,517 | 2,669,517 |
| Bank owned life insurance (note 24) | 12,121,772 | 11,662,106 |
| Other assets | 8,241,821 | 8,617,754 |
| Total Assets | $ 552,788,167 | $ 596,904,135 |
| | | |
| Liabilities | | |
| Deposits: (note 10) | | |
| Noninterest bearing | $ 92,396,921 | $ 84,749,470 |
| Interest bearing: | | |
| Demand | 92,562,273 | 95,366,552 |
| Money market accounts | 24,894,002 | 24,559,248 |
| Savings | 58,292,273 | 47,602,255 |
| Time deposits over $100,000 | 69,673,722 | 68,585,313 |
| All other time deposits | 126,330,053 | 132,932,701 |
| Total Deposits | 464,149,244 | 453,795,539 |
| | | |
| Short-term debt (note 11) | 3,423,078 | 34,597,352 |
| Accrued liabilities | 9,383,610 | 11,221,998 |
| Subordinated debt (note 12) | 10,191,000 | 10,191,000 |
| Long-term debt (note 12) | 11,500,000 | 37,714,286 |
| Total Liabilities | 498,646,932 | 547,520,175 |

| | | |
|---|---|---|
| Commitments and Contingencies (note 16) | | |
| | | |
| Stockholders’ Equity (Note 22) | | |
| Common stock $5 par value, 6,000,000 shares authorized, 2,511,735 and 2,499,544 shares issued and outstanding for 2013 and 2012, respectively | 12,558,675 | 12,497,720 |
| Retained earnings (note 19) | 42,089,165 | 38,926,779 |
| Noncontrolling interest | 418,228 | 362,131 |
| Accumulated other comprehensive income (loss) | (924,833) | (2,402,670) |
| Total Stockholders' Equity | 54,141,235 | 49,383,960 |
| Total Liabilities and Stockholders' Equity | $ 552,788,167 | $ 596,904,135 |

F & M Bank Corp. and Subsidiaries
Consolidated Statements of Income
For the years ended 2013, 2012 and 2011

| | 2013 | 2012 | 2011 |
|---|---|---|---|
| Interest and Dividend Income | | | |
| Interest and fees on loans held for investment | $ 25,070,039 | $ 25,247,444 | $ 25,964,303 |
| Interest on loans held for sale | 647,622 | 1,736,361 | 1,331,055 |
| Interest on deposits and federal funds sold | 54,679 | 30,363 | 58,385 |
| Interest on debt securities | 193,244 | 210,371 | 193,554 |
| Dividends on equity securities | - | - | 132,882 |
| Total Interest and Dividend Income | 25,965,584 | 27,224,539 | 27,680,179 |
| | | | |
| Interest Expense | | | |
| Interest on demand deposits | 791,245 | 1,194,567 | 1,598,793 |
| Interest on savings deposits | 119,020 | 182,479 | 191,428 |
| Interest on time deposits over $100,000 | 781,950 | 908,389 | 1,163,079 |
| Interest on all other time deposits | 1,549,273 | 2,035,900 | 2,443,329 |
| | | | |
| Total interest on deposits | 3,241,488 | 4,321,335 | 5,396,629 |
| Interest on short-term debt | 23,956 | 51,380 | 40,288 |
| Interest on long-term debt | 1,507,299 | 1,921,356 | 2,281,734 |
| Total Interest Expense | 4,772,743 | 6,294,071 | 7,718,651 |
| | | | |
| Net Interest Income | 21,192,841 | 20,930,468 | 19,961,528 |
| | | | |
| Provision for Loan losses (note 6) | 3,775,000 | 4,200,000 | 4,000,000 |
| | | | |
| Net Interest Income After Provision for Loan Losses | 17,417,841 | 16,730,468 | 15,961,528 |
| | | | |
| Noninterest Income | | | |
| Service charges on deposit accounts | 1,117,910 | 1,168,221 | 1,102,909 |
| Insurance and other commissions | 868,464 | 868,965 | 548,548 |
| Other operating income | 1,537,397 | 1,254,490 | 1,173,371 |
| Income on bank owned life insurance | 508,658 | 481,681 | 353,367 |
| Gain on the sale of securities (note 4) | - | - | 1,024,539 |
| Total Noninterest Income | 4,032,429 | 3,773,357 | 4,202,734 |
| | | | |
| Noninterest Expenses | | | |
| Salaries | 6,524,515 | 5,823,204 | 5,537,557 |
| Employee benefits (note 14) | 2,146,871 | 1,972,835 | 1,790,665 |
| Occupancy expense | 606,935 | 553,655 | 543,220 |
| Equipment expense | 547,948 | 549,564 | 593,483 |
| Amortization of intangibles (notes 2 and 23) | - | - | 45,771 |
| FDIC insurance assessment | 704,103 | 706,673 | 771,696 |
| Other real estate owned expenses | 214,832 | 303,802 | 210,345 |
| Other operating expenses | 3,974,791 | 3,451,645 | 3,399,081 |
| Total Noninterest Expenses | 14,719,995 | 13,361,378 | 12,891,818 |
| | | | |
| Income before Income Taxes | 6,730,275 | 7,142,447 | 7,272,444 |

| | | | |
|---|---|---|---|
| Income Tax Expense (note 13) | 1,907,297 | 2,095,397 | 2,522,728 |
| | | | |
| Consolidated Net Income | 4,822,978 | 5,047,050 | 4,749,716 |
| | | | |
| Net Income - Noncontrolling interest | (107,185) | (145,966) | (61,525) |
| Net Income-F & M Bank Corp. | $ 4,715,793 | $ 4,901,084 | $ 4,688,191 |
| | | | |
| Per Share Data | | | |
| Net Income | 1.88 | 1.96 | 1.91 |
| Cash Dividends | .68 | .64 | .60 |
| Average Common Shares Outstanding | 2,504,015 | 2,496,300 | 2,449,864 |

F & M BANK CORP.
Consolidated Statements of Comprehensive Income
For the years ended 2013, 2012 and 2011

| | Years Ended December 31, | | |
|---|---|---|---|
| | 2013 | 2012 | 2011 |
| Net Income: | | | |
| Net income – F & M Bank Corp | $ 4,715,793 | $ 4,901,084 | $ 4,688,191 |
| Net income attributable to noncontrolling interest | 107,185 | 145,966 | 61,525 |
| Total net income | 4,822,978 | 5,047,050 | 4,749,716 |
| | | | |
| Other comprehensive income (loss): | | | |
| Prior Year Prepaid Pension Adjustment | - | - | (52,093) |
| | | | |
| Pension plan adjustment | 2,314,274 | (557,609) | (1,677,486) |
| Tax effect | (786,853) | 189,587 | 570,346 |
| Pension plan adjustment, net of tax | 1,527,421 | (368,022) | (1,107,140) |
| | | | |
| Unrealized holding gains (losses) | | | |
| on available-for-sale securities | (75,127) | 26,470 | 84,125 |
| Other than temporary impairment losses | - | - | - |
| Reclassification adjustment for gains realized in income | - | - | (1,024,539) |
| Net unrealized gains (losses) | (75,127) | 26,470 | (940,414) |
| Tax effect | 25,543 | (9,000) | 319,741 |
| Unrealized holding gain (losses), net of tax | (49,584) | 17,470 | (620,673) |
| Total comprehensive income | $ 6,300,815 | $ 4,696,498 | $ 2,969,810 |

F & M Bank Corp. and Subsidiaries
Consolidated Statements of Changes in Stockholders' Equity
For the years ended December 31, 2013, 2012 and 2011

| | Common Stock | Retained Earnings | Noncontrolling Interest | Accumulated Other Comprehensive Income (Loss) | Total |
|---|---|---|---|---|---|
| Balance December 31, 2010 | 11,530,430 | 30,837,090 | 186,133 | (324,305 ) | 42,229,348 |
| Net income | | 4,688,191 | 61,525 | | 4,749,716 |
| Prepaid pension adjustment | | (52,093 ) | | | (52,093 ) |
| Other comprehensive income (loss) | | | | (1,727,813) | (1,727,813 ) |
| Minority Interest Contributed Capital (Distributions) | | | (31,493 ) | | (31,493 ) |
| Dividends on common stock | | (1,466,271 ) | | | (1,466,271 ) |
| Stock issued (186,630 shares) | 933,150 | 1,545,175 | - | - | 2,478,325 |
| Balance December 31, 2011 | 12,463,580 | 35,552,092 | 216,165 | (2,052,118) | 46,179,719 |
| Net income | | 4,901,084 | 145,966 | | 5,047,050 |
| Other comprehensive income (loss) | | | | (350,552 ) | (350,552 ) |
| | | | | | |
| Dividends on common stock | | (1,597,673 ) | | | (1,597,673 ) |
| Stock issued (6,828 shares) | 34,140 | 71,276 | - | - | 105,416 |
| Balance December 31, 2012 | $ 12,497,720 | $ 38,926,779 | $ 362,131 | $ (2,402,670) | $ 49,383,960 |
| Net income | | 4,715,793 | 107,185 | | 4,822,978 |
| Prepaid pension adjustment | | | | | |
| Other comprehensive income (loss) | | | | 1,477,837 | 1,477,837 |
| Minority Interest Contributed Capital (Distributions) | | | (51,088 ) | | (51,088 ) |
| Dividends on common stock | | (1,705,881 ) | | | (1,705,881 ) |
| Stock issued (12,141 shares) | 60,955 | 152,474 | - | - | 213,429 |
| Balance December 31, 2013 | $ 12,558,675 | $ 42,089,165 | $ 418,228 | $ (924,833 ) | $ 54,141,235 |

F & M Bank Corp. and Subsidiaries
Consolidated Statements of Cash Flows
For the years ended December 31, 2013, 2012 and 2011

| | 2013 | 2012 | 2011 |
|---|---|---|---|
| Cash Flows from Operating Activities | | | |
| Net income | $ 4,715,793 | $ 4,901,084 | $ 4,688,191 |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: | | | |
| (Gain) loss on the sale of securities | - | - | (1,024,539) |
| Other than temporary impairment losses | - | - | - |
| Depreciation | 581,625 | 597,920 | 607,140 |
| Amortization (Accretion) of securities | 45,416 | 74,190 | 71,855 |
| Loans held for sale originated | 79,778,381 | 76,622,865 | 54,894,308 |
| Sale of loans held for sale originated | (71,169,362) | (81,529,577) | (55,435,746) |
| Provision for loan losses | 3,775,000 | 4,200,000 | 4,000,000 |
| Benefit (expense) for deferred taxes | (568,858) | 494,733 | (1,392,538) |
| Decrease in interest receivable | 204,735 | 113,014 | 185,365 |
| (Increase) decrease in other assets | (967,516) | 1,729,648 | (765,002) |
| Increase (decrease) in accrued expenses | 1,731,973 | 528,576 | 2,523,711 |
| Amortization of limited partnership investments | 581,737 | 550,989 | 465,870 |
| Loss on sale of other real estate owned | 97,155 | 200,865 | 128,040 |
| Amortization of intangibles | - | - | 45,771 |
| Gain on sale of property and equipment | - | - | (89,409) |
| Income from life insurance investment | (508,658) | (481,681) | (295,899) |
| Net Cash Provided by Operating Activities | 18,297,421 | 8,002,626 | 8,607,118 |
| | | | |
| Cash Flows from Investing Activities | | | |
| (Increase) decrease in interest bearing bank deposits | 248,000 | (95,585) | 1,738,982 |
| Purchase of bank owned life insurance | - | (4,063,687) | - |
| Proceeds from maturities of securities available for sale | 10,712,508 | 20,647,760 | 19,875,231 |
| Proceeds from sales of securities available for sale | - | - | 4,191,425 |
| Purchases of securities available for sale | (31,093,384) | (17,946,019) | (22,395,643) |
| Net increase in loans held for investment | (17,149,156) | (18,806,297) | (12,720,338) |
| Net (increase) decrease in loans held for sale participations | 64,793,073 | (11,756,993) | (36,237,137) |
| Net purchase of property and equipment | (661,621) | (565,898) | (202,320) |
| Proceeds from sale of other real estate owned | 928,897 | 1,564,272 | 1,802,034 |
| Net Cash Provided By ( Used in) Investing Activities | 27,778,317 | (31,022,447) | (43,947,766) |
| | | | |
| Cash Flows from Financing Activities | | | |
| Net change in demand and savings deposits | 15,867,944 | 19,689,196 | 21,442,181 |
| Net change in time deposits | (5,514,239) | (1,840,280) | (10,546,315) |
| Net change in short-term debt | (31,174,274) | 16,058,389 | 13,183,971 |
| Dividends paid in cash | (1,705,881) | (1,597,673) | (1,466,271) |
| Proceeds from long-term debt | - | - | 5,999,000 |
| Proceeds for issuance of subordinated debt | - | - | 247,000 |
| Payments to repurchase common stock | - | - | - |
| Proceeds from issuance of common stock | 213,429 | 105,416 | 2,478,325 |
| Repayments of long-term debt | (26,214,286) | (9,392,857) | (7,927,321) |

| | | | |
|---|---|---|---|
| Net Cash Provided by (Used in) Financing Activities | (48,527,307) | 23,022,191 | 23,410,570 |
| Net Increase (Decrease) in Cash and Cash Equivalents | (2,451,569) | 2,370 | (11,930,078) |
| Cash and Cash Equivalents, Beginning of Year | 8,996,214 | 8,993,844 | 20,923,922 |
| Cash and Cash Equivalents, End of Year | $ 6,544,645 | $ 8,996,214 | $ 8,993,844 |
| Supplemental Disclosure: | | | |
| Cash paid for: | | | |
| Interest expense | $ 6,500,592 | $ 6,245,244 | $ 10,308,998 |
| Income taxes | 800,000 | 1,700,000 | 1,600,000 |
| Transfers from loans to other real estate owned | 1,337,890 | 1,972,032 | 2,963,814 |
| Noncash exchange of other real estate owned | (569,245) | (567,171) | 484,532 |

F & M Bank Corp. and Subsidiaries
Notes to the Consolidated Financial Statements
December 31, 2013 and 2012

NOTE 1 NATURE OF OPERATIONS:

F & M Bank Corp. (the "Company"), through its subsidiary Farmers & Merchants Bank (the "Bank"), operates under a charter issued by the Commonwealth of Virginia and provides commercial banking services. As a state chartered bank, the Bank is subject to regulation by the Virginia Bureau of Financial Institutions and the Federal Reserve Bank. The Bank provides services to customers located mainly in Rockingham, Shenandoah and Page Counties in Virginia, and the adjacent counties of Augusta, Virginia and Hardy, West Virginia. Services are provided at nine branch offices, a Dealer Finance Division and a loan production office. The Company offers insurance, mortgage lending and financial services through its subsidiaries, TEB Life Insurance, Inc., Farmers & Merchants Financial Services, Inc, and VBS Mortgage, LLC.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The accounting and reporting policies of the Company and its subsidiaries conform to generally accepted accounting principles and to accepted practice within the banking industry.

The following is a summary of the more significant policies:

Principles of Consolidation

The consolidated financial statements include the accounts of Farmers and Merchants Bank, TEB Life Insurance Company, Farmers & Merchants Financial Services, Inc. and VBS Mortgage, LLC, (net of minority interest). Significant inter-company accounts and transactions have been eliminated.

Use of Estimates in the Preparation of Financial Statements

In preparing the financial statements, management is required to make estimates and assumptions that affect the reported amounts in those statements; actual results could differ significantly from those estimates. Material estimates that are particularly susceptible to significant changes in the near term are the determination of the allowance for loan losses, which is sensitive to changes in local and national economic conditions, and the other than temporary impairment of investments in the investment portfolio.

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, deposits at other financial institutions whose initial maturity is ninety days or less and Federal funds sold.

Investment Securities

Management reviews the securities portfolio and classifies all securities as either held to maturity or available for sale at the date of acquisition. Securities that the Company has both the positive intent and ability to hold to maturity (at time of purchase) are classified as held to maturity securities. All other securities are classified as available for sale. Securities held to maturity are carried at historical cost and adjusted for amortization of premiums and accretion of discounts, using the effective interest method. Securities available for sale are carried at fair value with any valuation adjustments reported, net of deferred taxes, as a part of other accumulated comprehensive income.

Interest, amortization of premiums and accretion of discounts on securities are reported as interest income using the effective interest method. Gains (losses) realized on sales and calls of securities are determined on the specific identification method.

Accounting for Historic Rehabilitation and Low Income Housing Partnerships

The Company periodically invests in low income housing partnerships whose primary benefit is the distribution of federal income tax credits to partners. The Company recognizes these benefits and the cost of the investments over the life of the partnership (usually 15 years). In addition, state and federal historic rehabilitation credits are generated from some of the partnerships. Amortization of these investments is prorated based on the amount of benefits received in each year to the total estimated benefits over the life of the projects. All benefits have been shown as investment income, in other income on the statements of income, since income tax benefits are the only anticipated benefits of ownership.

F & M Bank Corp. and Subsidiaries
Notes to the Consolidated Financial Statements
December 31, 2013 and 2012

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

Loans Held for Investment

Loans are carried on the balance sheet net of any unearned interest and the allowance for loan losses. Interest income on loans is determined using the effective interest method on the daily amount of principal outstanding except where serious doubt exists as to collectability of the loan, in which case the accrual of income is discontinued.

Loans Held for Sale

Consists of fixed rate loans made through its subsidiary, VBS Mortgage and loans purchased from Gateway Savings Bank, Oakland, CA.

VBS Mortgage originates conforming mortgage loans for sale in the secondary market. The bank (VBS) gives the customer a rate commitment at the time the rate is locked. The bank then immediately gets a rate lock-in from the investor that will be buying the loan upon closing. Both the rate lock and the purchase commitments (which is a blanket agreement) are best effort agreements, subject to final approval and underwriting. Because either party can walk away from these agreements prior to closing, neither the rate lock commitment nor the purchase commitment is considered a derivative contract. The bank provides a warehouse line for the Mortgage sub after closing, until the loan is purchased by the investor. The average time on the line is two or three weeks. Although VBS does have a line, loans are actually assigned to bank at closing and then reassigned prior to purchase from investor. There were $2.6 million mortgage loans held for resale at the end of the year. All of these loans are under contract to deliver to an investor as a specified price. Because of this and the short holding period, these loans are carried at par and a gain is recorded at transfer to the investor. The effect of not marking these loans to market is not material to the current year financial statements.

Gateway Savings Bank loans are originated by a network of mortgage loan originators throughout the United States. A take out commitment is in place at the time the loans are purchased. The Gateway arrangement has been used since 2003 as a higher yielding alternative to federal funds sold or investment securities. These loans are short-term, residential real estate loans that have an average life in our portfolio of approximately two weeks. The Bank holds these loans during the period of time between loan closing and when the loan is paid off by the ultimate secondary market purchaser.

Allowance for Loan Losses

The provision for loan losses charged to operations is an amount sufficient to bring the allowance for loan losses to an estimated balance that management considers adequate to absorb potential losses in the portfolio. Loans are charged against the allowance when management believes the collectability of the principal is unlikely. Recoveries of amounts previously charged-off are credited to the allowance. Management’s determination of the adequacy of the allowance is based on an evaluation of the composition of the loan portfolio, the value and adequacy of collateral, current economic conditions, historical loan loss experience, and other risk factors. Management believes that the allowance for loan losses is adequate. While management uses available information to recognize losses on loans, future additions to the allowance may be necessary based on changes in economic conditions, particularly those affecting real estate values. In addition, regulatory agencies, as an integral part of their examination process, periodically review the Company’s allowance for loan losses. Such agencies may require the Company to recognize

additions to the allowance based on their judgments about information available to them at the time of their examination.

F & M Bank Corp. and Subsidiaries
Notes to the Consolidated Financial Statements
December 31, 2013 and 2012

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

Allowance for Loan Losses continued

A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan by loan basis for commercial and construction loans by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral dependent.

Other Real Estate Owned (OREO)

As of December 31, 2013, the Bank had $2.63 million classified as OREO on the balance sheet, compared to $2.88 million as of December 31, 2012. The table in Note 9 reflects the OREO activity in 2013. The Company's policy is to carry OREO on its balance sheet at the lower of cost or market. Values are reviewed periodically and additional losses are recognized if warranted based on market conditions.

Nonaccrual Loans

Loans are placed on nonaccrual status when they become ninety days or more past due, unless there is an expectation that the loan will either be brought current or paid in full in a reasonable period of time.

F & M Bank Corp. and Subsidiaries
Notes to the Consolidated Financial Statements
December 31, 2013 and 2012

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

Bank Premises and Equipment

Bank premises and equipment are stated at cost less accumulated depreciation. Depreciation is charged to income over the estimated useful lives of the assets on a combination of the straight-line and accelerated methods. The ranges of the useful lives of the premises and equipment are as follows:

Buildings and Improvements 10 - 40 years
Furniture and Fixtures 5 - 20 years

Maintenance, repairs, and minor improvements are charged to operations as incurred. Gains and losses on dispositions are reflect–ed in other income or expense.

Intangible Assets

The Company adopted ASC 350 on January 1, 2002 and determined that the core deposit intangible would continue to be amortized over the estimated useful life. Core deposit intangibles were amortized on a straight-line basis over ten years which ended in 2011.

Goodwill

In June 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standard ASC 805, Business Combinations and ASC 350, Intangibles. ASC 805 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001. Additionally, it further clarifies the criteria for the initial recognition and measurement of intangible assets separate from goodwill. ASC 350 became effective for fiscal years beginning after December 15, 2001 and prescribes the accounting for goodwill and intangible assets subsequent to initial recognition. The provisions of ASC 350 discontinue the amortization of goodwill and intangible assets with indefinite lives. Instead, these assets are subject to an impairment review on an annual basis and more frequently if certain impairment indicators are in evidence. ASC 350 also requires that reporting units be identified for the purpose of assessing potential future impairments of goodwill.

Goodwill totaled $2,669,517 at December 31, 2013 and 2012. The goodwill is no longer amortized, but instead tested for impairment at least annually. Based on the testing, there were no impairment charges for 2013, 2012 or 2011.

Pension Plans

The Bank has a qualified noncontributory defined benefit pension plan which covers all full time employees hired prior to April 1, 2012. The benefits are primarily based on years of service and earnings. On December 31, 2006 the Company adopted ASC 325-960 “Defined Benefit Pension Plans” (formerly SFAS No. 158), which was issued in September of 2006 to require recognition of the over-funded or under-funded status of pension and other postretirement benefit plans on the balance sheet. Under ASC 325-960, gains and losses, prior service costs and credits, and any remaining transition amounts that have not yet been recognized through net periodic benefit cost will be recognized in accumulated other comprehensive income, net of tax effects, until they are amortized as a component of net periodic cost.

Advertising Costs

The Company follows the policy of charging the cost of advertising to expense as incurred. Total advertising costs included in other operating expenses for 2013, 2012, and 2011 were $278,555, $251,258, and $185,793, respectively.

F & M Bank Corp. and Subsidiaries
Notes to the Consolidated Financial Statements
December 31, 2013 and 2012

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

Income Taxes

Amounts provided for income tax expense are based on income reported for financial statement purposes rather than amounts currently payable under income tax laws. Deferred taxes, which arise principally from temporary differences between the period in which certain income and expenses are recognized for financial accounting purposes and the period in which they affect taxable income, are included in the amounts provided for income taxes.

In 2006, the FASB issued ASC 740 (formerly Interpretation No. 48), “Income Taxes.” ASC 740 clarifies the accounting for uncertainty in income taxes recognized in an enterprise’s financial statements in accordance with SFAS No. 109, “Accounting for Income Taxes.” FIN 48 also prescribes a recognition threshold and measurement of a tax position taken or expected to be taken in an enterprise’s tax return. FIN 48 is effective for fiscal years beginning after December 15, 2006. Accordingly, the Company adopted FIN 48 effective January 1, 2007. The adoption of FIN 48 did not have any impact on the Company’s consolidated financial position.

Comprehensive Income

Accounting principles generally require that recognized revenue, expenses, gains and losses be included in net income. Certain changes in assets and liabilities and changes in pension plan funding status, such as unrealized gains and losses on available-for-sale securities and gains or losses on certain derivative contracts, are reported as a separate component of the equity section of the balance sheet. Such items, along with operating net income, are components of comprehensive income.

Earnings per Share

Earnings per share are based on the weighted average number of shares outstanding. The Company had no potentially dilutive instruments during the three-year period ended December 31, 2013.

Derivative Financial Instruments and Change in Accounting Principle

On January 1, 2001, the Company adopted ASC 815 “Derivative and Hedging Investments” (formerly SFAS No. 133). This statement requires that all derivatives be recognized as assets or liabilities in the balance sheet and measured at fair value.

Under ASC 815, the gain or loss on a derivative designated and qualifying as a fair value hedging instrument, as well as the offsetting gain or loss on the hedging item attributable to the risk being hedged, is recognized currently in earnings in the same accounting period. The effective portion of the gain or loss on a derivative designated and qualifying as a cash flow hedging instrument is initially reported as a component of other comprehensive income and subsequently reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. The ineffective portion of the gain or loss on the derivative instrument, if any, is recognized currently in earnings.

Interest rate derivative financial instruments receive hedge accounting treatment only if they are designated as a hedge and are expected to be, and are, effective in substantially reducing interest rate risk arising from the assets and liabilities identified as exposing the Company to risk. Those derivative financial instruments that do not meet the hedging criteria discussed below would be classified as trading activities and would be recorded at fair value with changes in fair value recorded in income. Derivative hedge contracts must meet specific effectiveness tests (i.e., over time the change in their fair values due to the designated hedge risk must be within 80 to 125 percent of the opposite change in the fair value of the hedged assets or liabilities). Changes in fair value of the derivative financial instruments must be effective at offsetting changes in the fair value of the hedging items due to the designated hedge risk during the term of the hedge. Further, if the underlying financial instrument differs from the hedged asset or liability, there must be a clear economic relationship between the prices of the two financial instruments. If periodic assessment indicates derivatives no longer provide an effective hedge, the derivatives contracts would be closed out and settled or classified as a trading activity.

F & M Bank Corp. and Subsidiaries
Notes to the Consolidated Financial Statements
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NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

Recent Accounting Pronouncements

Standards that have been issued or proposed by the FASB or other standards-setting bodies are not expected to have a material impact on the Company's financial position, results of operations or cash flows.

Subsequent Events

On March 20, 2014, F&M Bank Corp. (the "Company") entered into securities purchase agreements (the "Purchase Agreements") with a limited number of institutional and other accredited investors, including certain directors and executive officers of the Company (each, a "Purchaser" and collectively, the "Purchasers"), to sell a total of 774,231 newly issued shares of the Company's common stock, par value $5.00 per share ("Common Stock") at a purchase price of $16.50 per share, for an aggregate gross purchase price of approximately $12.8 million (the "Private Placement"). The net proceeds of the Private Placement, after placement agent discounts and commissions and estimated expenses, are approximately $12 million. The Private Placement also closed on March 20, 2014.

Further information on the transaction can be found in the 8-k and press release filed with the Securities and Exchange Commission on March 21, 2014.

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NOTE 3 CASH AND DUE FROM BANKS:

The Bank is required to maintain average reserve balances based on a percentage of deposits. The average balance of cash, which the Federal Reserve Bank requires to be on reserve, was $25,000 for the years ended December 31, 2013 and 2012.

NOTE 4 INVESTMENT SECURITIES:

The amortized cost and fair value of securities held to maturity are as follows:

| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|---|---|---|---|---|
| December 31, 2013 | | | | |
| U. S. Treasuries | $ 106,387 | $ - | $ - | $ 106,387 |
| December 31, 2012 | | | | |
| U. S. Treasuries | $ 107,234 | $ - | $ - | $ 107,234 |

The amortized cost and fair value of securities available for sale are as follows:

| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|---|---|---|---|---|
| December 31, 2013 | | | | |
| Government sponsored enterprises | $ 29,075,893 | $ 11,460 | $ 22,253 | $ 29,065,100 |
| Mortgage-backed obligations of federal agencies | 1,208,533 | - | 7,852 | 1,200,681 |
| Marketable equities | - | - | - | - |
| Corporate bonds | - | - | - | - |
| Total Securities Available for Sale | $ 30,284,426 | $ 11,460 | $ 30,105 | $ 30,265,781 |
| | | | | |
| December 31, 2012 | | | | |
| Government sponsored enterprises | $ 7,012,432 | $ 18,780 | $ 482 | $ 7,030,730 |
| Mortgage-backed obligations of federal agencies | 1,609,086 | 38,185 | - | 1,647,271 |
| Marketable equities | - | - | - | - |
| Corporate bonds | - | - | - | - |
| Total Securities Available for Sale | $ 8,621,518 | $ 56,965 | $ 482 | $ 8,678,001 |

The amortized cost and fair value of securities at December 31, 2013, by contractual maturity are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

| | Securities Held to Maturity | | Securities Available for Sale | |
|---|---|---|---|---|
| | Amortized Cost | Fair Value | Amortized Cost | Fair Value |

| | | | | |
|---|---|---|---|---|
| Due in one year or less | $ 106,387 | $ 106,387 | $ 20,000,000 | $ 20,000,000 |
| Due after one year through five years | - | - | 9,075,893 | 9,065,100 |
| Due after five years | - | - | 1,208,533 | 1,200,681 |
| Total | $ 106,387 | $ 106,387 | $ 30,284,426 | $ 30,265,781 |

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NOTE 4 INVESTMENT SECURITIES (CONTINUED):

There were no sales of debt or equity securities during 2013 or 2012. Following is a table reflecting gains and losses on debt and equity securities in 2011:

| | 2011 |
|---|---|
| Gains | $ 1,110,960 |
| Losses | (86,421) |
| Net Gains | $ 1,024,539 |

The carrying value (which approximates fair value) of securities pledged by the Bank to secure deposits and for other purposes amounted to $10,255,000 at December 31, 2013 and $8,678,000 at December 31, 2012.

Other investments consist of investments in seventeen low-income housing and historic equity partnerships (carrying basis of $5,948,000), stock in the Federal Home Loan Bank (carrying basis of $1,232,000), and various other investments (carrying basis of $933,000). The interests in the low-income housing and historic equity partnerships have limited transferability and the interests in the other stocks are restricted as to sales. The market values of these securities are estimated to approximate their carrying value as of December 31, 2013. At December 31, 2013, the Company was committed to invest an additional $3,781,553 in seven low-income housing limited partnerships. These funds will be paid as requested by the general partner to complete the projects. This additional investment has been reflected in the above carrying basis and in accrued liabilities on the balance sheet.

The primary purpose of the investment portfolio is to generate income and meet liquidity needs of the Company through readily saleable financial instruments. The portfolio includes fixed rate bonds, whose prices move inversely with rates and variable rate bonds. At the end of any accounting period, the investment portfolio has unrealized gains and losses. The Company monitors the portfolio, which is subject to liquidity needs, market rate changes and credit risk changes, to see if adjustments are needed. The primary concern in a loss situation is the credit quality of the business behind the instrument. Bonds deteriorate in value due to credit quality of the individual issuer and changes in market conditions. These losses relate to market conditions and the timing of purchases.

A summary of these losses (in thousands) is as follows:

| | Less than 12 Months | | More than 12 Months | | Total | |
|---|---|---|---|---|---|---|
| | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses |
| 2013 | | | | | | |
| Government sponsored enterprises | $ 4,984 | $ (22) | $ - | $ - | $ 4,984 | $ (22) |
| Mortgage backed obligations | 1,191 | (8) | - | - | 1,191 | (8) |
| Total | $ 6,175 | $ (30) | $ - | $ - | $ 6,175 | $ (30) |
| | | | | | | |
| 2012 | | | | | | |
| Government sponsored enterprises | $ 2,000 | $ (.5) | $ - | $ - | $ 2,000 | $ (.5) |

| | | | | | | |
|---|---|---|---|---|---|---|
| Mortgage backed obligations | - | - | - | - | - | - |
| Total | $ 2,000 | $ (.5) | $ - | $ - | $ 2,000 | $ (.5) |

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NOTE 4 INVESTMENT SECURITIES (CONTINUED):

Management evaluates securities for other-than-temporary impairment on at least a quarterly basis, and more frequently when economic or market conditions warrant such evaluation. Consideration is given to (1) the length of time and the extent to which the fair value has been less than the cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery of fair value. The Company does not intend to sell these securities and it is more likely than not that the Company will not be required to sell these securities before recovery of their amortized cost. The Company did not recognize and other-than-temporary impairment losses in 2013, 2012 or 2011.

NOTE 5 LOANS:

Loans held for investment as of December 31:

| | 2013 | 2012 |
|---|---|---|
| Construction/Land Development | $68,512,341 | $71,251,440 |
| Farmland | 13,197,398 | 12,258,884 |
| Real Estate | 154,628,068 | 144,066,274 |
| Multi-Family | 11,797,010 | 9,356,823 |
| Commercial Real Estate | 113,415,234 | 123,819,228 |
| Home Equity – closed end | 10,228,264 | 10,983,902 |
| Home Equity – open end | 47,357,787 | 49,761,711 |
| Commercial & Industrial – Non-Real Estate | 25,903,011 | 25,109,925 |
| Consumer | 10,162,457 | 12,697,877 |
| Credit cards | 2,679,718 | 2,787,915 |
| Dealer Finance | 20,571,720 | 3,725,094 |
| Total | $478,453,008 | $465,819,073 |

The Company has pledged loans as collateral for borrowings with the Federal Home Loan Bank of Atlanta totaling $164,605,000 and $147,392,000 as of December 31, 2013 and 2012, respectively. During 2005, the Company switched to a blanket lien on its entire residential real estate portfolio and also began pledging commercial and home equity loans.

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NOTE 5 LOANS (CONTINUED):

The following is a summary of information pertaining to impaired loans (in thousands):

| December 31, 2013 | Recorded Investment | Unpaid Principal Balance | Related Allowance | Average Recorded Investment | Interest Income Recognized |
|---|---|---|---|---|---|
| Impaired loans without a valuation allowance: | | | | | |
| Construction/Land Development | $ 3,960 | $ 4,543 | $ - | $ 5,750 | $ 153 |
| Farmland | 1,459 | 1,459 | - | 1,475 | 67 |
| Real Estate | 49 | 49 | - | 529 | 3 |
| Multi-Family | - | - | - | - | - |
| Commercial Real Estate | 851 | 851 | - | 616 | 56 |
| Home Equity – closed end | 308 | 308 | - | 284 | 25 |
| Home Equity – open end | - | - | - | 20 | - |
| Commercial & Industrial – Non-Real Estate | 242 | 242 | - | 64 | 12 |
| Consumer | - | - | - | - | - |
| Credit cards | - | - | - | - | - |
| Dealer Finance | - | - | - | - | - |
| | 6,869 | 7,452 | - | 8,738 | 316 |
| | | | | | |
| Impaired loans with a valuation allowance | | | | | |
| Construction/Land Development | 8,291 | 9,716 | 1,560 | 10,855 | 175 |
| Farmland | - | - | - | - | - |
| Real Estate | 1,145 | 1,145 | 154 | 966 | 48 |
| Multi-Family | - | - | - | - | - |
| Commercial Real Estate | 818 | 1,118 | 282 | 1,171 | 4 |
| Home Equity – closed end | 180 | 180 | 17 | 409 | 3 |
| Home Equity – open end | 100 | 100 | 9 | 93 | 5 |
| Commercial & Industrial – Non-Real Estate | - | - | - | 141 | - |
| Consumer | 2 | 2 | - | 1 | 1 |
| Credit cards | - | - | - | - | - |
| Dealer Finance | - | - | - | - | - |
| | 10,536 | 12,261 | 2,022 | 13,636 | 236 |
| | | | | | |
| Total impaired loans | $ 17,405 | $ 19,713 | $ 2,022 | $ 22,374 | $ 552 |

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NOTE 5 LOANS (CONTINUED):

The following is a summary of information pertaining to impaired loans (in thousands):

| December 31, 2012 | Recorded Investment | Unpaid Principal Balance | Related Allowance | Average Recorded Investment | Interest Income Recognized |
|---|---|---|---|---|---|
| Impaired loans without a valuation allowance: | | | | | |
| Construction/Land Development | $5,743 | $5,743 | $- | $1,493 | $279 |
| Farmland | 1,481 | 1,481 | - | 301 | 76 |
| Real Estate | - | - | - | 2,561 | - |
| Multi-Family | - | - | - | - | - |
| Commercial Real Estate | 541 | 541 | - | 168 | 23 |
| Home Equity – closed end | - | - | - | 153 | - |
| Home Equity – open end | - | - | - | 274 | - |
| Commercial & Industrial – Non-Real Estate | - | - | - | 56 | - |
| Consumer | - | - | - | 135 | - |
| Credit cards | - | - | - | - | - |
| Dealer Finance | - | - | - | - | - |
| | 7,765 | 7,765 | - | 5,141 | 378 |
| | | | | | |
| Impaired loans with a valuation allowance | | | | | |
| Construction/Land Development | 9,881 | 10,466 | 1,363 | 7,875 | 217 |
| Farmland | - | - | - | - | - |
| Real Estate | 637 | 901 | 146 | 1,089 | 38 |
| Multi-Family | - | - | - | - | - |
| Commercial Real Estate | 1,286 | 1,585 | 253 | 1,092 | 4 |
| Home Equity – closed end | 415 | 415 | 29 | 319 | 9 |
| Home Equity – open end | 90 | 250 | 78 | 193 | 19 |
| Commercial & Industrial – Non-Real Estate | 433 | 707 | 277 | 1,005 | - |
| Consumer | 2 | 2 | - | 13 | - |
| Credit cards | - | - | - | - | - |
| Dealer Finance | - | - | - | - | - |
| | 12,744 | 14,326 | 2,146 | 11,586 | 287 |
| | | | | | |
| Total impaired loans | $20,509 | $22,091 | $2,146 | $16,727 | $665 |

The Recorded Investment is defined as the principal balance, net of deferred fees, less principal payments and charge-offs.

Loans held for sale consists of loans originated by VBS Mortgage and the Bank’s commitment to purchase residential mortgage loan participations from Gateway Bank. Loans held for sale at December 31, 2013 and 2012 was $3,804,000 and $77,207,000, respectively.

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F & M Bank Corp. and Subsidiaries
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NOTE 5 LOANS (CONTINUED):

The volume of loans purchased fluctuates due to a number of factors including changes in secondary market rates, which affects demand for mortgage loans; the number of participating banks involved in the program; the number of mortgage loan originators selling loans to the lead bank and the funding capabilities of the lead bank. Loans held for sale as of December 31, 2013 and 2012 were $3,804,425 and $77,206,517, respectively.

NOTE 6 ALLOWANCE FOR LOAN LOSSES:

A summary of changes in the allowance for loan losses is shown in the following schedule:

| December 31, 2013 (in thousands) | Beginning Balance | Charge-offs | Recoveries | Provision | Ending Balance | Percentage of loans in each category to total | Individually Evaluated for Impairment | Collectively Evaluated for Impairment |
|---|---|---|---|---|---|---|---|---|
| Allowance for loan losses: | | | | | | | | |
| Construction/Land Development | $ 2,771 | $ 2,127 | $ 40 | $ 3,323 | $ 4,007 | 48.96 % | $ 1,560 | $ 2,447 |
| Farmland | (2) | - | - | - | (2) | (.03 %) | - | (2) |
| Real Estate | 924 | 173 | - | (351) | 400 | 4.89 % | 154 | 246 |
| Multi-Family | (37) | - | - | 37 | - | - | - | - |
| Commercial Real Estate | 1,113 | 201 | 42 | (177) | 777 | 9.49 % | 282 | 495 |
| Home Equity – closed end | 360 | 159 | - | (44) | 157 | 1.92 % | 17 | 140 |
| Home Equity – open end | 659 | 68 | 29 | (144) | 476 | 5.82 % | 9 | 467 |
| Commercial & Industrial – Non-Real Estate | 2,113 | 986 | 127 | 210 | 1,464 | 17.89 % | - | 1,464 |
| Consumer | 51 | 173 | 14 | 264 | 156 | 1.91 % | - | 156 |
| Dealer Finance | 72 | 17 | - | 573 | 628 | 7.68 % | - | 628 |
| Credit Cards | 130 | 121 | 28 | 84 | 121 | 1.48 % | - | 121 |
| Unallocated | - | - | - | - | - | - | - | - |
| Total | $ 8,154 | $ 4,025 | $ 280 | $ 3,775 | $ 8,184 | 100 % | $ 2,022 | $ 6,162 |

A summary of changes in the allowance for loan losses is shown in the following schedule:

| December 31, 2012 (in thousands) | Beginning Balance | Charge-offs | Recoveries | Provision | Ending Balance | Percentage of loans in each category to total | Individually Evaluated for Impairment | Collectively Evaluated for Impairment |
|---|---|---|---|---|---|---|---|---|

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Allowance for loan losses: | | | | | | | | | |
| Construction/Land Development | $ 2,071 | $ 1,481 | $ 192 | $ 1,989 | $ 2,771 | 33.98 | % | $ 1,363 | $ 1,408 |
| Farmland | 145 | - | 3 | (150) | (2) | (.02 | %) | - | (2) |
| Real Estate | 625 | 482 | - | 781 | 924 | 11.33 | % | 146 | 778 |
| Multi-Family | 92 | - | - | (129) | (37) | (.45 | %) | - | (37) |
| Commercial Real Estate | 2,285 | 424 | 48 | (796) | 1,113 | 13.65 | % | 253 | 949 |
| Home Equity – closed end | 91 | 69 | - | 338 | 360 | 4.42 | % | 29 | 243 |
| Home Equity – open end | 867 | - | - | (208) | 659 | 8.07 | % | 78 | 580 |
| Commercial & Industrial – Non-Real Estate | 457 | 776 | 62 | 2,370 | 2,113 | 25.90 | % | 277 | 1,836 |
| Consumer | 128 | 44 | 27 | (60) | 51 | .65 | % | - | 51 |
| Dealer Finance | - | - | - | 72 | 72 | .88 | % | - | 72 |
| Credit Cards | 176 | 71 | 32 | (7) | 130 | 1.59 | % | - | 130 |
| Unallocated | - | - | - | - | - | - | | - | - |
| Total | $ 6,937 | $ 3,347 | $ 364 | $ 4,200 | $ 8,154 | 100 | % | $ 2,146 | $ 6,008 |

F & M Bank Corp. and Subsidiaries
Notes to the Consolidated Financial Statements
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NOTE 6 ALLOWANCE FOR LOAN LOSSES (CONTINUED):

Recorded Investment in Loan Receivables (in thousands):

| December 31, 2013 | Loan Receivable | Individually Evaluated for Impairment | Collectively Evaluated for Impairment |
|---|---|---|---|
| Construction/Land Development | $ 68,512 | $ 14,259 | $ 54,253 |
| Farmland | 13,197 | 1,459 | 11,738 |
| Real Estate | 154,628 | 1,194 | 153,434 |
| Multi-Family | 11,797 | - | 11,797 |
| Commercial Real Estate | 113,415 | 1,969 | 111,446 |
| Home Equity – closed end | 10,228 | 488 | 9,740 |
| Home Equity –open end | 47,358 | 100 | 47,258 |
| Commercial & Industrial – Non-Real Estate | 25,903 | 242 | 25,661 |
| Consumer | 10,163 | 2 | 10,161 |
| Dealer Finance | 20,572 | | 20,572 |
| Credit Cards | 2,680 | - | 2,680 |
| Total | $ 478,453 | $ 19,713 | $ 458,740 |

| December 31, 2012 | Loan Receivable | Individually Evaluated for Impairment | Collectively Evaluated for Impairment |
|---|---|---|---|
| Construction/Land Development | $ 71,251 | $ 16,206 | $ 60,787 |
| Farmland | 12,259 | 1,481 | 12,259 |
| Real Estate | 144,066 | 901 | 143,165 |
| Multi-Family | 9,357 | - | 9,357 |
| Commercial Real Estate | 123,819 | 2,128 | 122,233 |
| Home Equity – closed end | 10,984 | 415 | 10,569 |
| Home Equity –open end | 49,762 | 250 | 49,512 |
| Commercial & Industrial – Non-Real Estate | 25,110 | 708 | 24,402 |
| Consumer | 12,698 | 2 | 12,696 |
| Dealer Finance | 3,725 | | 3,725 |
| Credit Cards | 2,788 | - | 2,788 |
| Total | $ 465,819 | $ 22,091 | $ 451,493 |

Aging of Past Due Loans Receivable (in thousands)

| | 30-59 Days Past due | 60-89 Days Past Due | Greater than 90 Days (excluding non-accrual) | Non-Accrual Loans | Total Past Due | Current | Total Loan Receivable |
|---|---|---|---|---|---|---|---|

| December 31, 2013 | | | | | | | |
|---|---|---|---|---|---|---|---|
| Construction/Land Development | $ 167 | $ 735 | $ - | $ 8,556 | $ 9,458 | $ 59,054 | $ 68,512 |
| Farmland | - | - | - | - | - | 13,197 | 13,197 |
| Real Estate | 4,659 | 920 | 246 | 1,407 | 7,232 | 147,396 | 154,628 |
| Multi-Family | 107 | - | - | - | 107 | 11,690 | 11,797 |
| Commercial Real Estate | 858 | - | - | 1,474 | 2,332 | 111,083 | 113,415 |
| Home Equity – closed end | 122 | 79 | 10 | 180 | 391 | 9,837 | 10,228 |
| Home Equity – open end | 549 | 39 | 51 | 222 | 861 | 46,497 | 47,358 |
| Commercial & Industrial – Non-Real Estate | 148 | 20 | 4 | 416 | 588 | 25,315 | 25,903 |
| Consumer | 169 | 71 | 5 | - | 245 | 9,918 | 10,163 |
| Dealer Finance | 335 | 72 | 11 | - | 418 | 20,154 | 20,572 |
| Credit Cards | 21 | 3 | - | - | 24 | 2,656 | 2,680 |
| Total | $ 7,135 | $ 1,939 | $ 327 | $ 12,255 | $ 21,656 | $ 456,797 | $ 478,453 |

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NOTE 6 ALLOWANCE FOR LOAN LOSSES (CONTINUED):

CREDIT QUALITY INDICATORS (in thousands)
AS OF DECEMBER 31, 2013
Corporate Credit Exposure
Credit Risk Profile by Creditworthiness Category

| | Grade 1 Minimal Risk | Grade 2 Modest Risk | Grade 3 Average Risk | Grade 4 Acceptable Risk | Grade 5 Marginally Acceptable | Grade 6 Watch | Grade 7 Substandard | Grade 8 Doubtful | Total |
|---|---|---|---|---|---|---|---|---|---|
| Construction/Land Development | $- | $- | $3,166 | $ 25,657 | $ 11,116 | $2,946 | $ 25,627 | $- | $68,512 |
| Farmland | 69 | - | 1,406 | 5,206 | 4,816 | 143 | 1,557 | - | 13,197 |
| Real Estate | - | 562 | 68,241 | 52,190 | 19,037 | 7,821 | 6,777 | - | 154,628 |
| Multi-Family | - | 668 | 4,442 | 2,275 | 4,412 | - | - | - | 11,797 |
| Commercial Real Estate | - | 1,897 | 18,062 | 55,350 | 21,677 | 13,406 | 3,023 | - | 113,415 |
| Home Equity – closed end | - | - | 4,574 | 3,117 | 1,870 | 281 | 386 | - | 10,228 |
| Home Equity – open end | - | 1,482 | 13,308 | 26,734 | 4,840 | 327 | 667 | - | 47,358 |
| Commercial & Industrial (Non-Real Estate) | 815 | 92 | 3,631 | 16,265 | 3,108 | 1,516 | 476 | - | 25,903 |
| Total | $884 | $4,701 | $116,830 | $ 186,794 | $ 70,876 | $26,440 | $ 38,513 | $- | $445,038 |

Consumer Credit Exposure
Credit Risk Profile Based on Payment Activity

| | Credit Cards | Consumer |
|---|---|---|
| Performing | $2,680 | $30,719 |
| Non performing | - | 16 |
| Total | $2,680 | $30,735 |

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NOTE 6 ALLOWANCE FOR LOAN LOSSES (CONTINUED):

CREDIT QUALITY INDICATORS (in thousands)
AS OF DECEMBER 31, 2012
Corporate Credit Exposure
Credit Risk Profile by Creditworthiness Category

| | Grade 1 Minimal Risk | Grade 2 Modest Risk | Grade 3 Average Risk | Grade 4 Acceptable Risk | Grade 5 Marginally Acceptable | Grade 6 Watch | Grade 7 Substandard | Grade 8 Doubtful | Total |
|---|---|---|---|---|---|---|---|---|---|
| Construction/Land Development | $ - | $ 831 | $ 4,400 | $ 16,616 | $ 15,783 | $ 9,013 | $ 24,608 | $ - | $ 71,251 |
| Farmland | 70 | - | 1,544 | 4,327 | 4,214 | 524 | 1,580 | - | 12,259 |
| Real Estate | - | 448 | 36,342 | 69,670 | 22,413 | 6,472 | 8,721 | - | 144,066 |
| Multi-Family | - | 632 | 2,185 | 1,815 | 4,725 | - | - | - | 9,357 |
| Commercial Real Estate | - | 2,033 | 18,663 | 56,624 | 28,650 | 4,910 | 12,939 | - | 123,819 |
| Home Equity – closed end | - | - | 2,280 | 6,198 | 1,268 | 530 | 708 | - | 10,984 |
| Home Equity – open end | - | 1,460 | 15,294 | 26,595 | 4,735 | 694 | 869 | 115 | 49,762 |
| Commercial & Industrial (Non-Real Estate) | - | 87 | 3,505 | 15,448 | 3,621 | 531 | 1,918 | - | 25,110 |
| Total | $ 70 | $ 5,491 | $ 84,213 | $ 197,293 | $ 85,409 | $ 22,674 | $ 51,343 | $ 115 | $ 446,608 |

Consumer Credit Exposure
Credit Risk Profile Based on Payment Activity

| | Credit Cards | Consumer |
|---|---|---|
| Performing | $2,788 | $16,404 |
| Non performing | - | 19 |
| Total | $2,788 | $16,423 |

Description of loan grades:

Grade 1 – Minimal Risk: Excellent credit, superior asset quality, excellent debt capacity and coverage, and recognized management capabilities.

Grade 2 – Modest Risk: Borrower consistently generates sufficient cash flow to fund debt service, excellent credit, above average asset quality and liquidity.

Grade 3 – Average Risk: Borrower generates sufficient cash flow to fund debt service. Employment (or business) is stable with good future trends. Credit is very good.

Grade 4 – Acceptable Risk: Borrower's cash flow is adequate to cover debt service; however, unusual expenses or capital expenses must by covered through additional long term debt. Employment (or business) stability is reasonable, but future trends may exhibit slight weakness. Credit history is good. No unpaid judgments or collection items appearing on credit report.

Grade 5 – Marginally acceptable: Credit to borrowers who may exhibit declining earnings, may have leverage that is materially above industry averages, liquidity may be marginally acceptable. Employment or business stability may be weak or deteriorating. May be currently performing as agreed, but would be adversely affected by developing factors such as layoffs, illness, reduced hours or declining business prospects. Credit history shows weaknesses, past dues, paid or disputed collections and judgments, but does not include borrowers that are currently past due on obligations or with unpaid, undisputed judgments.

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NOTE 6 ALLOWANCE FOR LOAN LOSSES (CONTINUED):

Grade 6 – Watch: Loans are currently protected, but are weak due to negative balance sheet or income statement trends. There may be a lack of effective control over collateral or the existence of documentation deficiencies. These loans have potential weaknesses that deserve management's close attention. Other reasons supporting this classification include adverse economic or market conditions, pending litigation or any other material weakness. Existing loans that become 60 or more days past due are placed in this category pending a return to current status.

Grade 7 – Substandard: Loans' having well-defined weaknesses where a payment default and or loss is possible, but not yet probable. Cash flow is inadequate to service the debt under the current payment, or terms, with prospects that the condition is permanent. Loans classified as substandard are inadequately protected by the current net worth and paying capacity of the borrower and there is the likelihood that collateral will have to be liquidated and/or guarantor(s) called upon to repay the debt. Generally, the loan is considered collectible as to both principal and interest, primarily because of collateral coverage, however, if the deficiencies are not corrected quickly; there is a probability of loss.

Grade 8 – Doubtful: The loan has all the characteristics of a substandard credit, but available information indicates it is unlikely the loan will be repaid in its entirety. Cash flow is insufficient to service the debt. It may be difficult to project the exact amount of loss, but the probability of some loss is great. Loans are to be placed on non-accrual status when any portion is classified doubtful.

NOTE 7 TROUBLED DEBT RESTRUCTURING

In the determination of the allowance for loan losses, management considers troubled debt restructurings and subsequent defaults in these restructurings by adjusting the loan grades of such loans, which figure into the environmental factors associated with the allowance. Defaults resulting in charge-offs affect the historical loss experience ratios which are a component of the allowance calculation. Additionally, specific reserves may be established on restructured loans evaluated individually.

| | | December 31, 2013 | |
|---|---|---|---|
| | Number of Contracts | Pre-Modification Outstanding Recorded Investment | Post-Modification Outstanding Recorded Investment |
| Troubled Debt Restructurings | | | |
| Construction/Land Development | 1 | $ 937 | $ 937 |
| Real Estate | 1 | 50 | 50 |
| Commercial Real Estate | 1 | 312 | 312 |
| Commercial & Industrial – Non- Real Estate | 1 | 201 | 201 |
| | | $ 1,500 | $ 1,500 |

During the twelve months ended December 31, 2013, the Bank modified 4 loans that were considered to be troubled debt restructurings. These modifications include rate adjustments, revisions to amortization schedules, suspension of principal payments for a temporary period, re-advancing funds to be applied as payments to bring the loan(s) current,

or any combination thereof.

As of December 31, 2013, there were no loans restructured in the previous twelve months, in default. A restructured loan is considered in default when it becomes 90 days past due.

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NOTE 7 TROUBLED DEBT RESTRUCTURING (CONTINUED):

During the twelve months ended December 31, 2013, one loans that had previously been restructured, was in default. A restructured loan is considered in default when it becomes 90 days past due.

| | | December 31, 2012 | |
|---|---|---|---|
| | | Pre-Modification Outstanding | Post-Modification Outstanding |
| | Number of Contracts | Recorded Investment | Recorded Investment |
| Troubled Debt Restructurings | | | |
| Construction/Land Development | 1 | $ 4,628 | $ 4,628 |
| Real Estate | 1 | 147 | 147 |
| | | $ 4,775 | $ 4,775 |

During the twelve months ended December 31, 2012, the Bank modified 2 loans that were considered to be troubled debt restructurings. These modifications include rate adjustments, revisions to amortization schedules, suspension of principal payments for a temporary period, re-advancing funds to be applied as payments to bring the loan(s) current, or any combination thereof.

| | | December 31, 2012 | |
|---|---|---|---|
| | | Pre-Modification Outstanding | Post-Modification Outstanding |
| | Number of Contracts | Recorded Investment | Recorded Investment |
| Troubled Debt Restructurings that subsequently defaulted during the period: | | | |
| Real Estate | 1 | 147 | 147 |
| | | $ 147 | $ 147 |

During the twelve months ended December 31, 2012, one loans that had previously been restructured, was in default. A restructured loan is considered in default when it becomes 90 days past due.

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Notes to the Consolidated Financial Statements
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NOTE 8 BANK PREMISES AND EQUIPMENT

Bank premises and equipment as of December 31 are summarized as follows:

| | 2013 | 2012 |
|---|---|---|
| Land | $ 1,418,003 | $ 1,418,003 |
| Buildings and improvements | 6,771,867 | 6,717,360 |
| Furniture and equipment | 5,963,779 | 5,649,560 |
| | 14,153,649 | 13,784,923 |
| Less - accumulated depreciation | (7,628,592 ) | (7,339,862 ) |
| Net | $ 6,525,057 | $ 6,445,061 |

Provisions for depreciation of $581,625 in 2013, $597,920 in 2012, and $607,140 in 2011 were charged to operations.

NOTE 9 OTHER REAL ESTATE OWNED

The tables below reflect OREO activity for 2013 and 2012:

Other Real Estate Owned
(dollars in thousands)

| | 2013 | 2012 |
|---|---|---|
| Balance beginning of year | $ 2,883,947 | $ 3,074,199 |
| Property acquired at foreclosure | 1,337,890 | 1,972,032 |
| Capital improvements on foreclosed property | 11,329 | 170,024 |
| Sale of other real estate owned financed by Bank | (569,245 ) | (567,171 ) |
| Sales of foreclosed properties | (964,149 ) | (1,545,191 ) |
| Valuation adjustments | (71,354 ) | (219,946 ) |
| Balance as of December 31 | $ 2,628,418 | $ 2,883,947 |

F & M Bank Corp. and Subsidiaries
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NOTE 10 DEPOSITS:

The composition of deposits at December 31, 2013 and 2012 was as follows:

| | December 31, | |
|---|---|---|
| | 2013 | 2012 |
| Noninterest bearing demand deposits | $ 92,396,921 | $ 84,749,470 |
| Savings and interest bearing demand deposits: | | |
| Interest checking accounts | 117,456,275 | 119,925,800 |
| Savings accounts | 58,292,273 | 47,602,255 |
| Time Deposits: | | |
| Balances of less than $100,000 | 126,330,053 | 132,932,701 |
| Balances of $100,000 and more | 69,673,722 | 68,585,313 |
| Total Deposits | $ 464,149,244 | $ 453,795,539 |

At December 31, 2013, the scheduled maturities of time deposits are as follows:

| | |
|---|---|
| 2014 | $99,185,070 |
| 2015 | 51,108,868 |
| 2016 | 17,159,054 |
| 2017 | 13,722,424 |
| 2018 and after | 14,828,359 |
| Total | $196,003,775 |

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Notes to the Consolidated Financial Statements
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NOTE 11 SHORT-TERM DEBT:

Short-term debt information is summarized as follows:

| | Maximum Outstanding at any Month End | Outstanding at Year End | Average Balance Outstanding | Weighted Average Interest Rate | Year End Interest Rate |
|---|---|---|---|---|---|
| 2013 | | | | | |
| Federal funds purchased | $- | $- | $42,838 | .01 % | .97 % |
| FHLB short term | 17,500,000 | - | 2,938,356 | .23 % | .49 % |
| Securities sold under agreements to repurchase | 3,522,999 | 3,423,078 | 3,190,186 | .14 % | .28 % |
| Totals | | $3,423,078 | $6,171,380 | .38 % | .39 % |
| 2012 | | | | | |
| Federal funds purchased | $9,283,000 | $9,283,000 | $776,617 | .51 % | .90 % |
| FHLB short term | 32,500,000 | 22,500,000 | 8,088,798 | .46 % | .37 % |
| Securities sold under agreements to repurchase | 4,773,045 | 2,814,352 | 3,949,934 | .35 % | .38 % |
| Totals | | $34,597,352 | $12,815,349 | .41 % | .41 % |
| 2011 | | | | | |
| Federal funds purchased | $7,825,000 | $- | $1,254,400 | .93 % | - |
| FHLB daily rate credit | 15,000,000 | 15,000,000 | 3,191,781 | .36 % | .36 % |
| Securities sold under agreements to repurchase | 5,691,856 | 3,538,963 | 4,398,638 | .39 % | .39 % |
| Totals | | $18,538,963 | $8,844,819 | .45 % | .38 % |

Repurchase agreements are secured transactions with customers and generally mature the day following the date sold. Federal funds purchased are unsecured overnight borrowings from other financial institutions. FHLB daily rate credit, which is secured by the loan portfolio, is a variable rate loan that acts as a line of credit to meet financing needs.

As of December 31, 2013, the Company had unsecured lines of credit with correspondent banks totaling $26,000,000, which may be used in the management of short-term liquidity.

F & M Bank Corp. and Subsidiaries
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NOTE 12 LONG-TERM DEBT:

There were no new borrowings from the Federal Home Loan Bank of Atlanta (FHLB) in 2013 and 2012. The company borrowed $5,000,000 in 2011. The interest rates on the notes payable are fixed at the time of the advance and range from 2.94% to 3.92%; the weighted average interest rate was 3.37% and 2.39% at December 31, 2013 and 2012, respectively. The balance of these obligations at December 31, 2013 and December 31, 2012 were $11,500,000 and $37,714,286, respectively. The long-term debt is secured by qualifying mortgage loans owned by the Company.

In August 2009, the Company began to issue Subordinated debt agreements with local investors bearing terms of 7 to 10 years. Interest rates are fixed on the notes for the full term but vary by maturity. Rates range from 7.0% on the 7 year note to 8.05% on the ten year note. As of December 31, 2013 and 2012 the balance outstanding was $10,191,000. Due to their terms (greater than five years) and priority (subordinate to deposits and other borrowings) this debt is counted with capital for purposes of calculating the Total Risk Based Capital Ratio.

The maturities of long-term debt, including Federal Home Loan Bank of Atlanta borrowings and Subordinated debt agreements, as of December 31, 2013 are as follows:

| | |
|---|---|
| 2014 | $11,500,000 |
| 2015 | - |
| 2016 | 956,000 |
| 2017 | 2,622,000 |
| Thereafter | 6,613,000 |
| Total | $21,691,000 |

F & M Bank Corp. and Subsidiaries
Notes to the Consolidated Financial Statements
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NOTE 13 INCOME TAX EXPENSE:

The components of the income tax expense are as follows:

| | 2013 | 2012 | 2011 |
|---|---|---|---|
| Current expense | | | |
| Federal | $ 1,338,439 | $ 2,590,130 | $ 1,130,190 |
| Deferred (benefit) expense | | | |
| Federal | 636,452 | (412,621) | 1,348,005 |
| State | (67,594) | (82,112) | 44,533 |
| Total Deferred (benefit) expense | 568,858 | (494,733) | 1,392,538 |
| Total Income Tax Expense | $ 1,907,297 | $ 2,095,397 | $ 2,522,728 |
| | | | |
| Amounts in above arising from gains (losses) on security transactions | $ 0 | $ 0 | $ 207,342 |

| The deferred tax effects of temporary differences are as follows: | 2013 | 2012 | 2011 |
|---|---|---|---|
| LIH Partnership Losses | $ (72,955) | $ (44,640) | $ (43,906) |
| Securities impairment | - | - | 961,648 |
| Deferred Tax Asset Valuation Allowance | - | - | 385,496 |
| Local & Historic State Credits Recognized | (67,594) | (82,112) | 44,533 |
| Provision for loan losses | 96,159 | (224,835) | (135,662) |
| Non-qualified deferred compensation | (64,140) | (35,161) | (50,456) |
| Depreciation | 86,551 | (42,919) | 51,534 |
| Other real estate owned | (3,746) | - | - |
| Pension expense | 84,282 | 97,067 | 231,699 |
| Goodwill tax amortization | 64,920 | 61,424 | 61,424 |
| Secondary accrual on nonaccrual loans | 444,482 | (223,557) | (114,231) |
| Other | 899 | - | 459 |
| Deferred Income Tax Expense (Benefit) | $ 568,858 | $ (494,733) | $ 1,392,538 |

The components of the deferred taxes as of December 31 are as follows:

| Deferred Tax Assets: | 2013 | 2012 |
|---|---|---|
| Allowance for loan losses | $ 1,788,360 | $ 1,884,519 |
| Split Dollar Life Insurance | 4,440 | 5,339 |
| Nonqualified deferred compensation | 527,909 | 463,769 |
| Secondary accrual on nonaccrual loans | - | 444,482 |
| Securities impairment | 532,211 | 518,190 |
| Core deposit amortization | 298,019 | 298,019 |
| State historic tax credits | 26,432 | 28,004 |
| Other real estate owned | 3,746 | - |
| Pension plan | 470,091 | 1,256,944 |
| Other | - | - |
| Total Assets | $ 3,651,208 | $ 4,899,266 |

| Deferred Tax Liabilities: | | 2013 | | 2012 |
|---|---|---|---|---|
| Unearned low income housing credits | $ | 661,841 | $ | 668,734 |
| Depreciation | | 363,946 | | 277,395 |
| Pension | | 1,423,461 | | 1,339,179 |
| Goodwill tax amortization | | 791,771 | | 726,851 |
| Securities available for sale | | (6,339) | | 19,204 |
| Other | | (74,926) | | (15,992) |
| Total Liabilities | | 3,159,754 | | 3,015,371 |
| Net Deferred Tax Asset (included in Other Assets on Balance Sheet) | $ | 491,454 | $ | 1,883,895 |

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NOTE 13 INCOME TAX EXPENSE (CONTINUED):

The following table summarizes the differences between the actual income tax expense and the amounts computed using the federal statutory tax rates:

| | 2013 | 2012 | 2011 |
|---|---|---|---|
| Tax expense at federal statutory rates | $ 2,251,851 | $ 2,378,804 | $ 2,451,712 |
| Increases (decreases) in taxes resulting from: | | | |
| State income taxes, net | 9,229 | 6,132 | 4,714 |
| Partially exempt income | (44,676) | (49,828) | (79,063) |
| Tax-exempt income | (197,482) | (188,932) | (151,906) |
| Prior year LIH credits | (61,768) | 97,857 | 62,289 |
| Deferred Tax Asset Valuation Allowance | - | - | 385,496 |
| Other | (49,857) | (148,636) | (150,514) |
| Total Income Tax Expense | $ 1,907,297 | $ 2,095,397 | $ 2,522,728 |

NOTE 14 EMPLOYEE BENEFITS:

The Bank has a qualified noncontributory defined benefit pension plan which covers substantially all of its employees. The benefits are primarily based on years of service and earnings. On December 31, 2006 the Company adopted ASC 325-960 “Defined Benefit Pension Plans” (formerly “SFAS 158”), which was issued in September of 2006 and amended SFAS 87 and SFAS 106 to require recognition of the over-funded or under-funded status of pension and other postretirement benefit plans on the balance sheet. Under ASC 325-960, gains and losses, prior service costs and credits, and any remaining transition amounts under SFAS 87 and SFAS 106 that have not yet been recognized through net periodic benefit cost will be recognized in accumulated other comprehensive income, net of tax effects, until they are amortized as a component of net periodic cost.

The following table provides a reconciliation of the changes in the benefit obligations and fair value of plan assets for 2013, 2012 and 2011:

| | 2013 | 2012 | 2011 |
|---|---|---|---|
| Change in Benefit Obligation | | | |
| Benefit obligation, beginning | $ 8,931,940 | $ 7,296,932 | $ 5,858,283 |
| Service cost | 599,933 | 518,634 | 445,422 |
| Interest cost | 350,314 | 327,924 | 321,515 |
| Actuarial gain (loss) | (1,300,094) | 1,066,019 | 1,179,018 |
| Benefits paid | (648,525) | (277,569) | (507,306) |
| Benefit obligation, ending | $ 7,933,568 | $ 8,931,940 | $ 7,296,932 |
| | | | |
| Change in Plan Assets | | | |
| Fair value of plan assets, beginning | $ 8,123,437 | $ 6,760,513 | $ 6,317,920 |
| Actual return on plan assets | 1,462,314 | 890,493 | (50,101) |
| Employer contribution | 750,000 | 750,000 | 1,000,000 |
| Benefits paid | (648,525) | (277,569) | (507,306) |
| Fair value of plan assets, ending | 9,687,226 | 8,123,437 | 6,760,513 |
| Funded status at the end of the year | $ 1,753,658 | $ (808,503) | $ (536,419) |

The fair value of plan assets is measured based on the fair value hierarchy as discussed in Note 21, “Fair Value Measurements” to the Consolidated Financial Statements. The valuations are based on third party data received as of the balance sheet date. All plan assets are considered Level 1 assets, as quoted prices exist in active markets for identical assets.

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NOTE 14 EMPLOYEE BENEFITS (CONTINUED):

| | 2013 | 2012 | 2011 |
|---|---|---|---|
| Amount recognized in the Balance Sheet | | | |
| Accrued prepaid benefit cost | $ 3,136,277 | $ 2,888,390 | $ 2,602,865 |
| Unfunded pension benefit obligation under ASC 325-960 | (1,382,619) | (3,696,893) | (3,139,284) |
| | | | |
| Amount recognized in accumulated other comprehensive income | | | |
| Net Gain/(Loss) | $ (1,485,455) | $ (3,814,965) | $ (3,272,592) |
| Prior service cost | 102,836 | 118,072 | 133,308 |
| Net obligation at transition | - | - | - |
| Amount recognized | (1,382,619) | (3,696,893) | (3,139,284) |
| Deferred Taxes | 470,090 | 1,256,944 | 1,067,357 |
| Amount recognized in accumulated comprehensive income | $ (912,529) | $ (2,439,949) | $ (2,071,927) |
| | | | |
| (Accrued) Prepaid benefit detail | | | |
| Benefit obligation | $ (7,933,568) | $ (8,931,940) | $ (7,296,932) |
| Fair value of assets | 9,687,226 | 8,123,437 | 6,760,513 |
| Unrecognized net actuarial loss | 1,485,455 | 3,814,965 | 3,272,592 |
| Unrecognized transition obligation | | | |
| Unrecognized prior service cost | (102,836) | (118,072) | (133,308) |
| Prepaid (accrued) benefits | $ 3,136,277 | $ 2,888,390 | $ 2,602,865 |
| | | | |
| Components of net periodic benefit cost | | | |
| Service cost | $ 599,933 | $ 518,634 | $ 445,422 |
| Interest cost | 350,314 | 327,924 | 321,515 |
| Expected return on plan assets | (636,081) | (540,069) | (504,436) |
| Amortization of prior service cost | (15,236) | (15,236) | (7,777) |
| Amortization of transition obligation | | | |
| Recognized net actuarial (gain) loss | 203,183 | 173,222 | 63,845 |
| Net periodic benefit cost | $ 502,113 | $ 464,475 | $ 318,569 |
| | | | |
| Additional disclosure information | | | |
| Accumulated benefit obligation | $ 5,474,048 | $ 6,214,325 | $ 5,182,301 |
| Vested benefit obligation | $ 5,388,808 | $ 6,087,194 | $ 4,924,537 |
| Discount rate used for net pension cost | 4.00 % | 4.50 % | 5.50 % |
| Discount rate used for disclosure | 5.00 % | 4.00 % | 4.50 % |
| Expected return on plan assets | 8.00 % | 8.00 % | 8.00 % |
| Rate of compensation increase | 3.00 % | 3.00 % | 4.00 % |
| Average remaining service (years) | 14 | 14 | 15 |

Funding Policy

It is the Bank's policy to contribute at least the annual pension cost each year as determined by the plan administrator. In some years the Bank will contribute additional amounts up to the maximum tax deductible amount depending on a variety of factors including liquidity and expected return on plan assets. Based on current information, the 2014 contribution will be $1,500,000 and pension cost for 2014 will be approximately $201,000.

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NOTE 14 EMPLOYEE BENEFITS (CONTINUED):

Long-Term Rate of Return

The plan sponsor selects the expected long-term rate of return on assets assumption in consultation with their advisors and the plan actuary, and with concurrence from their auditor. This rate is intended to reflect the average rate of earnings expected to be earned on the funds invested or to be invested to provide plan benefits. Historical performance is reviewed, especially with respect to real rates of return (net of inflation) for the major asset classes held or anticipated to be held by the trust. Undue weight is not given to recent experience, which may not continue over the measurement period, with higher significance placed on current forecasts of future long-term economic conditions.

Because assets are held in a qualified trust, anticipated returns are not reduced for taxes. Further – solely for this purpose the plan is assumed to continue in force and not terminate during the period during which the assets are invested. However, consideration is given to the potential impact of current and future investment policy, cash flow into and out of the trust, and expenses (both investment and non-investment) typically paid from plan assets (to the extent such expenses are not explicitly estimated within periodic cost).

Asset Allocation

The following table provides the pension plan’s asset allocation as of December 31:

| | 2013 | | 2012 | |
|---|---|---|---|---|
| Mutual funds - equity | 62 | % | 62 | % |
| Mutual funds –fixed income | 38 | % | 38 | % |
| Cash and equivalents | 0 | % | 0 | % |

The trust fund is sufficiently diversified to maintain a reasonable level of risk without imprudently sacrificing return, with a targeted asset allocation of 40% fixed income and 60% equity. The Investment Manager selects investment fund managers with demonstrated experience and expertise, and funds with demonstrated historical performance, for the implementation of the Plan’s investment strategy. The Investment Manager will consider both actively and passively managed investment strategies and will allocate funds across the asset classes to develop an efficient investment structure.

Estimated Future Benefit Payments

| | |
|---|---|
| 2014 | $768,279 |
| 2015 | 110,416 |
| 2016 | 134,820 |
| 2017 | 59,750 |
| 2018 | 1,225,125 |
| 2019-2023 | 4,678,165 |
| | $6,976,555 |

Employee Stock Ownership Plan (ESOP)

The Company sponsors an ESOP which provides stock ownership to substantially all employees of the Bank. The Plan provides total vesting upon the attainment of five years of service. Contributions to the plan are made at the discretion of the Board of Directors and are allocated based on the compensation of each employee relative to total compensation paid by the Bank. All shares issued and held by the Plan are considered outstanding in the computation of earnings per share. Dividends on Company stock are allocated and paid to participants at least annually. Shares of Company stock, when distributed, have restrictions on transferability. The Company contributed $360,000 in 2013, $270,000 in 2012, and $360,000 in 2011 to the Plan and charged this expense to operations. The shares held by the ESOP totaled 176,485 and 166,585 at December 31, 2013 and 2012, respectively.

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NOTE 14 EMPLOYEE BENEFITS (CONTINUED):

401K Plan

The Company sponsors a 401(k) savings plan under which eligible employees may choose to save up to 20 percent of their salary on a pretax basis, subject to certain IRS limits. Under the Safe Harbor rules employees are automatically enrolled at 3% (in the third year this increases by 1% per year up to 6%) of their salary unless elected otherwise. The Company matches a hundred percent of the first 1% contributed by the employee and fifty percent from 2% to 6% of employee contributions. Vesting in the contributions made by the bank is 100% after two years of service. Contributions under the plan amounted to $183,468, $165,724 and $153,252 in 2013, 2012 and 2011, respectively.

Deferred Compensation Plan

The Company has a nonqualified deferred compensation plan for several of its key employees and directors. The Company may make annual contributions to the plan, and the employee or director has the option to defer a portion of their salary or bonus based on qualifying annual elections. Contributions to the plan totaled $90,000 in 2013, $85,000 in 2012 and $60,000 in 2011.

NOTE 15 CONCENTRATIONS OF CREDIT:

The Company had cash deposits in other commercial banks totaling $1,512,428 and $878,223 at December 31, 2013 and 2012, respectively.

The Company grants commercial, residential real estate and consumer loans to customers located primarily in the northwestern portion of the State of Virginia. Loan concentration areas greater than 25% of capital include land development. Collateral required by the Company is determined on an individual basis depending on the purpose of the loan and the financial condition of the borrower. Approximately 88% of the loan portfolio is secured by real estate.

NOTE 16 COMMITMENTS:

The Company makes commitments to extend credit in the normal course of business and issues standby letters of credit to meet the financing needs of its customers. The amount of the commitments represents the Company's exposure to credit loss that is not included in the balance sheet. As of the balance sheet dates, the Company had the following commitments outstanding:

| | 2013 | 2012 |
|---|---|---|
| Commitments to loan money | $ 103,782,380 | $ 100,721,250 |
| Standby letters of credit | 985,331 | 1,216,216 |

The Company uses the same credit policies in making commitments to lend money and issue standby letters of credit as it does for the loans reflected in the balance sheet.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Company evaluates each customer's creditworthiness on a case-by-case basis. Collateral required, if any, upon extension of credit is based on management's credit evaluation of the borrower’s ability to pay. Collateral held varies but may include accounts receivable, inventory, property, plant and equipment.

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NOTE 16 COMMITMENTS (CONTINUED):

The Bank leases three of its branch offices and both of its loan production offices on long term lease arrangements which had initial terms of either three, five or ten years. Lease expense was $121,025, $95,558 and $85,430 for 2013, 2012 and 2011, respectively. As of December 31, 2013, the required lease payments for the next five years are as follows:

| | |
|---|---|
| 2014 | $97,772 |
| 2015 | 77,604 |
| 2016 | 32,940 |
| 2017 | 13,620 |
| Thereafter | - |

NOTE 17 ON BALANCE SHEET DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES:

Derivative Financial Instruments

The Company has stand alone derivative financial instruments in the form of forward option contracts. These transactions involve both credit and market risk. The notional amounts are amounts on which calculations, payments, and the value of the derivative are based. Notional amounts do not represent direct credit exposures. Direct credit exposure is limited to the net difference between the calculated amounts to be received and paid, if any. Such difference, which represents the fair value of the derivative instruments, is reflected on the Company's balance sheet as derivative assets and derivative liabilities.

The Company is exposed to credit-related losses in the event of nonperformance by the counterparties to these agreements. The Company controls the credit risk of its financial contracts through credit approvals, limits and monitoring procedures, and does not expect any counterparties to fail their obligations. The Company deals only with primary dealers.

Derivative instruments are generally either negotiated OTC contracts or standardized contracts executed on a recognized exchange. Negotiated OTC derivative contracts are generally entered into between two counterparties that negotiate specific agreement terms, including the underlying instrument, amount, exercise prices and maturity.

The Company issues to customers certificates of deposit with an interest rate that is derived from the rate of return on the stock of the companies that comprise The Dow Jones Industrial Average. In order to manage the interest rate risk associated with this deposit product, the Company has purchased a series of forward option contracts. These contracts provide the Company with a rate of return commensurate with the return of The Dow Jones Industrial Average from the time of the contract until maturity of the related certificate of deposit. These contracts are accounted for as fair value hedges. Because the certificates of deposit can be redeemed by the customer at anytime and the related forward options contracts cannot be cancelled by the Company, the hedge is not considered effective.

At December 31, the information pertaining to the forward option contracts, included in other assets and other liabilities on the balance sheet, is as follows:

| | 2013 | 2012 |
|---|---|---|

| | | |
|---|---|---|
| Notional amount | $ 91,223 | $ 91,223 |
| Fair market value of contracts | 30,741 | 15,134 |

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NOTE 18 TRANSACTIONS WITH RELATED PARTIES:

During the year, officers and directors (and companies controlled by them) were customers of and had transactions with the Company in the normal course of business. These transactions were made on substantially the same terms as those prevailing for other customers and did not involve any abnormal risk.

Loan transactions with related parties are shown in the following schedule:

| | 2013 | 2012 |
|---|---|---|
| Total loans, beginning of year | $ 7,299,706 | $ 8,195,678 |
| New loans | 6,127,927 | 5,382,676 |
| Relationship Change | 702,135 | - |
| Repayments | (6,343,710) | (6,278,648) |
| Total loans, end of year | $ 7,786,058 | $ 7,299,706 |

NOTE 19 DIVIDEND LIMITATIONS ON SUBSIDIARY BANK:

The principal source of funds of F & M Bank Corp. is dividends paid by the Farmers and Merchants Bank. The Federal Reserve Act restricts the amount of dividends the Bank may pay. Approval by the Board of Governors of the Federal Reserve System is required if the dividends declared by a state member bank, in any year, exceed the sum of (1) net income of the current year and (2) income net of dividends for the preceding two years. As of January 1, 2014, approximately $7,003,000 was available for dividend distribution without permission of the Board of Governors. Dividends paid by the Bank to the Company totaled $1,550,000 in 2013, $1,100,000 in 2012 and $930,000 in 2011.

NOTE 20 DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS:

ASC 825 “Financial Instruments” (formerly SFAS 107) defines the fair value of a financial instrument as the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced liquidation or sale. As the majority of the Bank's financial instruments lack an available trading market, significant estimates, assumptions and present value calculations are required to determine estimated fair value. The following presents the carrying amount, fair value and placement in the fair value hierarchy of the Company’s financial instruments as of December 31, 2013 and December 31, 2012. This table excludes financial instruments for which the carrying amount approximates the fair value, which would be Level 1; inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets. All financial instruments below are considered Level 2; inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.

| | 2013 | | 2012 | |
|---|---|---|---|---|
| | Estimated Fair Value | Carrying Value | Estimated Fair Value | Carrying Value |
| Financial Assets (in thousands) | | | | |
| Loans | $ 512,250 | $ 478,453 | $ 488,164 | $ 465,819 |

| | | | | |
|---|---|---|---|---|
| Financial Liabilities | | | | |
| Time deposits | 197,729 | 196,004 | 203,539 | 201,518 |
| Long-term debt | 12,613 | 11,500 | 39,551 | 37,714 |

The carrying value of cash and cash equivalents, other investments, deposits with no stated maturities, short-term borrowings, and accrued interest approximate fair value. The fair value of securities was calculated using the most recent transaction price or a pricing model, which takes into consideration maturity, yields and quality. The remaining financial instruments were valued based on the present value of estimated future cash flows, discounted at various rates in effect for similar instruments entered into during the month of December of each year.

F & M Bank Corp. and Subsidiaries
Notes to the Consolidated Financial Statements
December 31, 2013 and 2012

NOTE 21 FAIR VALUE MEASUREMENTS

Accounting Standards Codification (ASC 820), "Fair Value Measurement Disclosures" (formerly "FAS No. 157"), defines fair value, establishes a framework for measuring fair value, establishes a three-level valuation hierarchy for disclosure of fair value measurement and enhances disclosure requirements for fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

Level 1 - Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.
Level 2 - Inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.
Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The following sections provide a description of the valuation methodologies used for instruments measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy:

Securities: Where quoted prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities would include highly liquid government bonds, mortgage products and exchange traded equities. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics, or discounted cash flow. Level 2 securities would include U.S. agency securities, mortgage-backed agency securities, obligations of states and political subdivisions and certain corporate, asset backed and other securities. In certain cases where there is limited activity or less transparency around inputs to the valuation, securities are classified within Level 3 of the valuation hierarchy.

Loans Held for Sale: Loans held for sale are short-term loans purchased at par for resale to investors at the par value of the loan. These loans are generally repurchased within 15 days. Because of the short-term nature and fixed repurchased price, the book value of these loans approximates fair value.

Impaired Loans: ASC 310 applies to loans measured for impairment using the practical expedients permitted by SFAS No. 114, "Accounting by Creditors for Impairment of a Loan," including impaired loans measured at an observable market price (if available), or at the fair value of the loan's collateral (if the loan is collateral dependent). Fair value of the loan's collateral, when the loan is dependent on collateral, is determined by appraisals or independent valuation which is then adjusted for the cost related to liquidation of the collateral.

Other Real Estate Owned: Certain assets such as other real estate owned (OREO) are initially measured at fair value less cost to sell. We believe that the fair value component in its valuation follows the provisions of ASC 310.

For level 3 assets and liabilities measured at fair value on a recurring basis or non-recurring basis as of December 31, 2013 significant unobservable inputs used in the fair value measurements were as follows:

| | Fair Value at December 31, | Valuation Technique | Significant Unobservable Inputs | Range |
|---|---|---|---|---|

| | | 2013 | | | | |
|---|---|---|---|---|---|---|
| Impaired Loans | $ | 10,239 | Discounted appraised value | Discount for selling costs and age of appraisals | 15%-55 | % |
| Other Real Estate Owned | $ | 2,628 | Discounted appraised value | Discount for selling costs and age of appraisals | 15%-55 | % |

F & M Bank Corp. and Subsidiaries
Notes to the Consolidated Financial Statements
December 31, 2013 and 2012

NOTE 21 FAIR VALUE MEASUREMENTS (CONTINUED):

Assets and Liabilities Recorded at Fair Value on a Recurring Basis (in thousands)

| December 31, 2013 | Total | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|
| Government sponsored enterprises | $ 29,065 | $ - | $ 29,065 | $ - |
| Mortgage-backed obligations of federal agencies | 1,201 | - | 1,201 | - |
| Investment securities available for sale | 30,266 | - | 30,266 | - |
| | | | | |
| Total assets at fair value | $ 30,266 | $ - | $ 30,266 | $ - |
| | | | | |
| Total liabilities at fair value | $ - | $ - | $ - | $ - |
| | | | | |
| Derivative financial instruments at fair value | $ 31 | $ - | $ 31 | $ - |
| December 31, 2012 | Total | Level 1 | Level 2 | Level 3 |
| Government sponsored enterprises | $ 7,031 | $ - | $ 7,031 | $ - |
| Mortgage-backed obligations of federal agencies | 1,647 | - | 1,647 | - |
| Investment securities available for sale | 8,678 | - | 8,678 | - |
| | | | | |
| Total assets at fair value | $ 8,678 | $ - | $ 8,678 | $ - |
| | | | | |
| Total liabilities at fair value | $ - | $ - | $ - | $ - |
| | | | | |
| Derivative financial instruments at fair value | $ 15 | $ - | $ 15 | $ - |

Assets and Liabilities Recorded at Fair Value on a Non-Recurring Basis (in thousands)

| December 31, 2013 | Total | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|
| Other Real Estate Owned | 2,628 | - | - | 2,628 |
| | | - | - | |
| Construction/Land Development | 8,156 | - | - | 8,156 |
| Farmland | - | - | - | - |
| Real Estate | 991 | - | - | 991 |
| Multi-Family | - | - | - | - |
| Commercial Real Estate | 836 | - | - | 836 |
| Home Equity – closed end | 163 | - | - | 163 |
| Home Equity – open end | 91 | - | - | 91 |
| Commercial & Industrial – Non-Real Estate | - | - | - | - |
| Consumer | 2 | - | - | 2 |
| Credit cards | - | - | - | - |
| Dealer Finance | - | - | - | - |
| Impaired loans | 10,239 | - | - | 10,239 |
| | | | | |
| Total assets at fair value | $ 12,867 | - | $ - | 12,867 |

| | | | | |
|---|---|---|---|---|
| Total liabilities at fair value | $ - | $ - | $ - | $ - |

F & M Bank Corp. and Subsidiaries
Notes to the Consolidated Financial Statements
December 31, 2013 and 2012

NOTE 21 FAIR VALUE MEASUREMENTS, CONTINUED

Assets and Liabilities Recorded at Fair Value on a Non-Recurring Basis (in thousands)

The table below presents the recorded amount of assets and liabilities measured at fair value on a non-recurring basis.

| December 31, 2012 | Total | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|
| Other Real Estate Owned | 2,884 | - | - | 2,884 |
| | | - | - | |
| Construction/Land Development | 9,100 | - | - | 9,100 |
| Farmland | - | - | - | - |
| Real Estate | 756 | - | - | 756 |
| Multi-Family | - | - | - | - |
| Commercial Real Estate | 1,422 | - | - | 1,422 |
| Home Equity – closed end | 298 | - | - | 298 |
| Home Equity – open end | 171 | - | - | 171 |
| Commercial & Industrial – Non-Real Estate | 431 | - | - | 431 |
| Consumer | 2 | - | - | 2 |
| Credit cards | - | - | - | - |
| Dealer Finance | - | - | - | - |
| Impaired loans | 12,180 | - | - | 12,180 |
| | | | | |
| Total assets at fair value | $ 15,064 | - | $ - | 15,064 |
| | | | | |
| Total liabilities at fair value | $ - | $ - | $ - | $ - |

There were no significant transfers between levels 1 and 2. Level 3 assets consist of Other Real Estate Owned and Impaired loans. These assets have been valued based on Managements' estimate. These estimates were derived from a review of appraisal, tax assessments and discussions with appraisers and realtors.

NOTE 22 REGULATORY MATTERS

The Company and its subsidiary bank are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company must meet specific capital guidelines that involve quantitative measures of the Company's assets, liabilities, and certain off balance-sheet items as calculated under regulatory accounting practices. The Company's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation, to ensure capital adequacy, require the Company to maintain minimum amounts and ratios. These ratios are defined in the regulations and the amounts are set forth in the table below. Management believes, as of December 31, 2013, that the Company and its subsidiary bank meet all capital adequacy requirements to which they are subject.

As of the most recent notification from the Federal Reserve Bank Report of Examination (which was as of May 13, 2013), the subsidiary bank was categorized as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Company must maintain minimum total risk based, Tier I risk-based, and Tier I leverage ratios as set forth in the table. There are no conditions or events since that notification that management believes have changed the institution's category.

F & M Bank Corp. and Subsidiaries
Notes to the Consolidated Financial Statements
December 31, 2013 and 2012

NOTE 22 REGULATORY MATTERS (CONTINUED):

The Company's actual consolidated capital ratios are presented in the following table (dollars in thousands):

| | Analysis of Capital At December 31, | | | Regulatory Requirements | |
|---|---|---|---|---|---|
| | 2013 | 2012 | 2011 | Adequately Capitalized | Well Capitalized |
| Tier1 capital: | | | | | |
| Common stock | $ 12,559 | $ 12,498 | $ 12,464 | | |
| Retained earnings | 42,089 | 38,927 | 35,553 | | |
| Intangible assets | (2,670) | (2,670) | (2,670) | | |
| Accumulated other comprehensive income | - | - | - | | |
| Total Tier 1 Capital | $ 51,978 | $ 48,755 | $ 45,347 | | |
| Tier 2 capital: | | | | | |
| Qualifying subordinated debt | $ 8,487 | $ 9,284 | $ 10,000 | | |
| Allowance for loan losses | 5,389 | 5,716 | 5,401 | | |
| Unrealized gains on AFS equity securities | - | - | - | | |
| Total risked based capital | $ 65,854 | $ 63,755 | $ 60,748 | | |
| Risk-weighted assets | $ 428,349 | $ 456,066 | $ 431,095 | | |
| Capital ratios: | | | | | |
| Total risk-based ratio | 15.37 % | 13.98 % | 14.09 % | 8.00% | 10.00% |
| Tier 1 risk-based ratio | 12.13 % | 10.69 % | 10.52 % | 4.00% | 6.00% |
| Total assets leverage ratio | 9.37 % | 8.29 % | 8.03 % | 3.00% | 5.00% |

The actual capital ratios for the subsidiary bank are presented in the following table (dollars in thousands):

| | Analysis of Capital At December 31, | | | Regulatory Requirements | |
|---|---|---|---|---|---|
| | 2013 | 2012 | 2011 | Adequately Capitalized | Well Capitalized |
| Tier1 capital: | | | | | |
| Common stock | $ 500 | $ 500 | $ 500 | | |
| Capital surplus | 18,971 | 18,971 | 18,971 | | |
| Retained earnings | 35,361 | 32,310 | 28,358 | | |
| Intangible assets | (2,670) | (2,670) | (2,670) | | |
| Accumulated other comprehensive income | - | - | - | | |
| Total Tier 1 Capital | $ 52,162 | $ 49,111 | $ 45,159 | | |
| Tier 2 capital: | | | | | |
| Qualifying subordinated debt | $ 8,487 | $ 9,284 | $ 10,000 | | |
| Allowance for loan losses | 5,384 | 5,716 | 5,396 | | |
| | - | - | - | | |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Unrealized gains on AFS securities | | | | | | | | | |
| Total risked based capital | $ 66,033 | | $ 64,111 | | $ 60,555 | | | | |
| Risk-weighted assets | $ 427,957 | | $ 454,804 | | $ 430,728 | | | | |
| Capital ratios: | | | | | | | | | |
| Total risk-based ratio | 15.43 | % | 14.10 | % | 14.06 | % | 8.00% | 10.00% | |
| Tier 1 risk-based ratio | 12.19 | % | 10.80 | % | 10.48 | % | 4.00% | 6.00% | |
| Total assets leverage ratio | 9.41 | % | 8.36 | % | 8.00 | % | 3.00% | 5.00% | |

F & M Bank Corp. and Subsidiaries
Notes to the Consolidated Financial Statements
December 31, 2013 and 2012

NOTE 23 INTANGIBLES:

Goodwill associated with the purchase of the Edinburg and Woodstock branches and VBS Mortgage totaled $2,638,677 and $30,840, respectively, at the acquisition date.

NOTE 24 INVESTMENTS IN LIFE INSURANCE CONTRACTS

The Bank currently offers a variety of benefit plans to all full time employees. While the costs of these plans are generally tax deductible to the Bank, the cost has been escalating greatly in recent years. To help offset escalating benefit costs and to attract and retain qualified employees, the Bank purchased Bank Owned Life Insurance (BOLI) contracts that will provide benefits to employees during their lifetime. Dividends received on these policies are tax-deferred and the death benefits under the policies are tax exempt. Rates of return on a tax-equivalent basis are very favorable when compared to other long-term investments which the Bank might make.

NOTE 25 PARENT CORPORATION ONLY FINANCIAL STATEMENTS:

Balance Sheets
December 31, 2013 and 2012

| | 2013 | 2012 |
|---|---|---|
| Assets | | |
| Cash and cash equivalents | $ 77,952 | $ 144,136 |
| Investment in subsidiaries | 54,325,282 | 49,740,095 |
| Securities available for sale | - | - |
| Limited partnership investments | - | 1,065,165 |
| Deferred income taxes | - | - |
| Other assets | 8,700 | 8,503 |
| Total Assets | $ 54,411,934 | $ 50,957,899 |
| | | |
| Liabilities | | |
| Long term debt | $ - | $ - |
| Accrued interest payable | - | - |
| Other liabilities | 160 | 35,582 |
| Deferred income taxes | 103,198 | 122,540 |
| Due to subsidiaries | - | 174,170 |
| Demand obligations for low income housing investment | 167,341 | 1,241,647 |
| Total Liabilities | $ 270,699 | $ 1,573,939 |
| | | |
| Stockholders' Equity | | |
| Common stock par value $5 per share, 6,000,000 | | |
| shares authorized, 2,611,735 and 2,499,544 shares issued | | |
| and outstanding for 2013 and 2012, respectively | $ 12,558,675 | $ 12,497,720 |
| Retained earnings | 42,089,165 | 38,926,779 |
| Noncontrolling interest | 418,228 | 362,131 |

| | | | | |
|---|---|---|---|---|
| Accumulated other comprehensive income (loss) | | (924,833) | | (2,402,670) |
| Total Stockholders' Equity | | 54,141,235 | | 49,383,960 |
| Total Liabilities and Stockholders' Equity | $ | 54,411,934 | $ | 50,957,899 |

F & M Bank Corp. and Subsidiaries
Notes to the Consolidated Financial Statements
December 31, 2013 and 2012

NOTE 25 PARENT CORPORATION ONLY FINANCIAL STATEMENTS (CONTINUED):

Statements of Net Income and Retained Earnings
For the years ended December 31, 2013, 2012 and 2011

| | 2013 | 2012 | 2011 |
|---|---|---|---|
| Income | | | |
| Dividends from affiliate | $ 1,550,000 | $ 1,100,000 | $ 930,000 |
| Investment income | - | - | - |
| Dividend income | - | - | 56,742 |
| Interest Income | 5 | 17 | 31 |
| Other than temporary impairment losses | - | - | - |
| Security gains (losses) | - | - | 467,483 |
| Other income | - | 350 | |
| Net limited partnership income (loss) | 90,863 | 11,930 | (23,869) |
| Total Income | 1,640,868 | 1,112,297 | 1,430,387 |
| | | | |
| Expenses | | | |
| Interest expense | - | - | 142,317 |
| Administrative expenses | 60,209 | 185,834 | 277,356 |
| Total Expenses | 60,209 | 185,834 | 419,673 |
| | | | |
| Net income before income tax expense (benefit) and undistributed subsidiary net income | 1,580,659 | 926,463 | 1,010,714 |
| | | | |
| Income Tax Expense (Benefit) | (83,880) | (22,500) | 396,163 |
| | | | |
| Income before undistributed subsidiary net income | 1,664,539 | 948,963 | 614,551 |
| | | | |
| Undistributed subsidiary net income | 3,051,254 | 3,952,121 | 4,073,640 |
| | | | |
| Net Income | $ 4,715,793 | $ 4,901,084 | $ 4,688,191 |
| | | | |
| Retained earnings, beginning of year | $ 38,926,779 | $ 35,552,092 | $ 30,837,090 |
| Adoption of FAS 106 | | | |
| Stock issuance | 152,474 | 71,276 | 1,545,175 |
| Stock repurchase | - | - | - |
| Prior year prepaid pension adjustment | - | - | (52,093) |
| Dividends on common stock | (1,705,881) | (1,597,673) | (1,466,271) |
| Retained Earnings, End of Year | $ 42,089,165 | $ 38,926,779 | $ 35,552,092 |

F & M Bank Corp. and Subsidiaries
Notes to the Consolidated Financial Statements
December 31, 2013 and 2012

NOTE 25 PARENT CORPORATION ONLY FINANCIAL STATEMENTS (CONTINUED):

Statements of Cash Flows
For the years ended December 31, 2013, 2012 and 2011

| | 2013 | 2012 | 2011 |
|---|---|---|---|
| Cash Flows from Operating Activities | | | |
| Net income | $ 4,715,793 | $ 4,901,084 | $ 4,688,191 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Undistributed subsidiary income | (3,051,254) | (3,952,121) | (4,073,640) |
| Loss on sale of securities | - | - | (467,483) |
| Deferred tax (benefit) expense | 8,577 | (18,567) | (460,289) |
| Decrease (increase) in other assets | (174,367) | 201,537 | 1,207,414 |
| Increase (decrease) in other liabilities | (1,109,728) | 992,626 | (273,391) |
| Net change in deferred tax credits | (27,918) | (15,727) | 23,145 |
| Amortization of limited partnership investments | 65,165 | 65,164 | 98,497 |
| Net Cash Provided by Operating Activities | $ 426,268 | $ 2,173,996 | $ 742,444 |
| | | | |
| Cash Flows from Investing Activities | | | |
| Proceeds from sales of securities available for sale | $ - | $ - | $ 2,466,223 |
| Change in loans receivable | 1,000,000 | - | - |
| Purchase of securities available for sale | - | (1,000,000) | (38,245) |
| Net Cash Provided by (Used in) Investing Activities | $ 1,000,000 | $ (1,000,000) | $ 2,427,978 |
| | | | |
| Cash Flows from Financing Activities | | | |
| Payments on long-term debt | $ - | $ - | $ (3,999,750) |
| Change in short term debt | - | - | - |
| Payments to repurchase common stock | - | - | - |
| Proceeds from issuance of common stock | 213,429 | 105,416 | 2,478,325 |
| Dividends paid in cash | (1,705,881) | (1,597,673) | (1,466,271) |
| Net Cash Used in Financing Activities | (1,492,452) | (1,492,257) | (2,987,696) |
| | | | |
| Net Increase (decreases) in Cash and Cash Equivalents | (66,184) | (318,261) | 182,726 |
| | | | |
| Cash and Cash Equivalents, Beginning of Year | $ 144,136 | $ 462,397 | $ 279,671 |
| Cash and Cash Equivalents, End of Year | $ 77,952 | $ 144,136 | $ 462,397 |

F & M Bank Corp. and Subsidiaries
Notes to the Consolidated Financial Statements
December 31, 2013 and 2012

NOTE 26 INVESTMENT IN VBS MORTGAGE, LLC

On November 3, 2008, the Bank acquired a 70% ownership interest in VBS Mortgage, LLC (formerly Valley Broker Services, DBA VBS Mortgage). VBS originates both conventional and government sponsored mortgages for sale in the secondary market. As of December 31, 2013 and 2012, VBS' summarized balance sheet and income statement were as follows:

Balance Sheets
December 31, 2013 and 2012

| | 2013 | 2012 |
|---|---|---|
| Assets | | |
| Cash and cash equivalents | $ 490,225 | $ 547,630 |
| Interest bearing deposits with banks | - | - |
| Loans Receivable | 871,674 | 532,712 |
| Property and equipment, net | 53,903 | 47,473 |
| Other Assets | 187,356 | 427,439 |
| Total Assets | $ 1,603,158 | $ 1,555,254 |
| | | |
| Liabilities | | |
| Other liabilities | $ 209,065 | $ 348,150 |
| Total Liabilities | $ 209,065 | $ 348,150 |
| | | |
| Equity | | |
| Capital | $ 219,634 | $ 219,634 |
| Retained earnings | 1,174,459 | 987,470 |
| Total Equity | $ 1,394,093 | $ 1,207,104 |
| Total Liabilities and Equity | $ 1,603,158 | $ 1,555,254 |

Statements of Income
For the years ended December 31, 2013, 2012 and 2011

| | 2013 | 2012 | 2011 |
|---|---|---|---|
| Income | | | |
| Mortgage origination income | $ 2,528,108 | $ 2,378,023 | $ 1,635,487 |
| Other Income | 42,092 | 40,022 | 16,237 |
| Total Income | 2,570,200 | 2,418,045 | 1,651,724 |
| | | | |
| Expenses | | | |
| | | | |
| Salaries and employee benefits | $ 1,461,797 | $ 1,254,735 | $ 880,698 |
| Occupancy and equipment expense | 164,717 | 157,514 | 125,469 |
| Management and professional fees | 301,558 | 268,337 | 258,608 |
| Other | 284,845 | 250,902 | 181,866 |

| | | | |
|---|---|---|---|
| Total Expenses | 2,212,917 | 1,931,488 | 1,446,641 |
| Net income(loss) | $ 357,283 | $ 486,557 | $ 205,083 |

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
F&M Bank Corp. and Subsidiaries
Timberville, Virginia

We have audited the accompanying consolidated balance sheets of F&M Bank Corp. and subsidiaries (“the Company”) as of December 31, 2013 and 2012, and the related consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2013. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of F&M Bank Corp. and subsidiaries as of December 31, 2013 and 2012, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2013, in conformity with U.S. generally accepted accounting principles.

/s/ Elliott Davis, LLC

Richmond, Virginia
March 28, 2014

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

Disclosure Controls and Procedures. The Company, under the supervision and with the participation of management, including the Company's Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the design and operation of its disclosure controls and procedures as of the end of the period covered by this Annual Report on Form 10-K. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that the Company's disclosure controls and procedures were effective as of December 31, 2013 to ensure that information required to be disclosed by the Company in reports that it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms and is accumulated and communicated to the Company's management, including its Chief Executive Officer and Chief Financial Officer as appropriate to allow timely decisions regarding required disclosures.

Management's Report on Internal Control over Financial Reporting. Management is responsible for establishing and maintaining adequate internal control over financial reporting (as such term is defined in Rule 13a-15(f) and Rule 15d – 15(f) under the Exchange Act). Our internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of our assets that could have a material effect on the financial statements.

Because of the inherent limitations in any internal control, no matter how well designed, misstatements may occur and not be prevented or detected. Accordingly, even effective internal control over financial reporting can provide only reasonable assurance with respect to financial statement preparation. Further, the evaluation of the effectiveness of internal control over financial reporting was made as of a specific date, and continued effectiveness in future periods is subject to the risks that controls may become inadequate because of changes in conditions or that the degree of compliance with the policies and procedures may decline.

Management conducted an evaluation of the effectiveness of our system of internal control over financial reporting as of December 31, 2013 based on the framework set forth in "Internal Control - Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission in 1992. Based on its evaluation, management concluded that, as of December 31, 2013, F&M's internal control over financial reporting was effective.

This annual report does not include an attestation report of the Company's registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's registered public accounting firm pursuant to rules of the Securities and Exchange Commission that permit the Company to provide only management's report in this annual report.

Changes in Internal Control over Financial Reporting. There were no changes in the Company's internal control over financial reporting during the Company's quarter ended December 31, 2013 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Item 9B. Other Information

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

Information regarding directors, executive officers and the audit committee financial expert is incorporated by reference from the Company's definitive proxy statement for the Company's 2013 Annual Meeting of Shareholders to be held May 10, 2014 ("Proxy Statement"), under the captions "Election of Directors," "Board of Directors and Committees," and "Executive Officers."

Information on Section 16(a) beneficial ownership reporting compliance for the directors and executive officers of the Company is incorporated by reference from the Proxy Statement under the caption "Section 16(a) Beneficial Ownership Reporting Compliance."

The Company has adopted a broad based code of ethics for all employees and directors. The Company has also adopted a code of ethics tailored to senior officers who have financial responsibilities. A copy of the codes may be obtained without charge by request from the corporate secretary.

Item 11. Executive Compensation

This information is incorporated by reference from the Proxy Statement under the caption "Executive Compensation."

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

This information is incorporated by reference from the Proxy Statement under the caption "Ownership of Company Common Stock" and "Executive Compensation" and from Item 5 of this 10-K.

Item 13. Certain Relationships and Related Transactions, and Directors Independence

This information is incorporated by reference from the Proxy Statement under the caption "Interest of Directors and Officers in Certain Transactions."

Item 14. Principal Accounting Fees and Services

This information is incorporated by reference from the Proxy Statement under the caption "Principal Accounting Fees."

PART IV

Item 15. Exhibits and Financial Statement Schedules

The following financial statements are filed as a part of this report:

(a)(1) Financial Statements

The following consolidated financial statements and reports of independent auditors of the Company are in Part II, Item 8 on pages 33 thru 67:

Consolidated Balance Sheets - December 31, 2013 and 2012
Consolidated Statements of Income - Years ended December 31, 2013, 2012 and 2011
Consolidated Statements of Comprehensive Income - Years ended December 31, 2013, 2012 and 2011
Consolidated Statements of Changes in Stockholders' Equity – Years ended December 31, 2013, 2012 and 2011
Consolidated Statements of Cash Flows - Years ended December 31, 2013, 2012 and 2011
Notes to the Consolidated Financial Statements
Report of Independent Registered Public Accounting Firm

(a)(2) Financial Statement Schedules

All schedules are omitted since they are not required, are not applicable, or the required information is shown in the consolidated financial statements or notes thereto.

(a)(3) Exhibits

The following exhibits are filed as a part of this form 10-K:

| Exhibit No. | |
|---|---|
| 3.1 | Restated Articles of Incorporation of F & M Bank Corp., incorporated herein by reference from F & M Bank Corp.'s, Quarterly Report on Form 10-Q, filed November 14, 2013. |
| 3.2 | Amended and Restated Bylaws of F & M Bank Corp., incorporated herein by reference from F & M Bank Corp.'s, Annual Report on Form 10-K, filed March 8, 2002. |
| 4.1 | Form of Subordinated Note. The Company agrees to furnish to the Commission upon request a copy of such agreement which it has elected not to file under the provisions of Item 601(b)(4)(iii) of Regulation S-K. |
| 10.1 | Change in Control Severance Plan, incorporated herein by reference from Exhibit 10.1 to F&M Bank Corp.'s Registration Statement on Form S-1, filed December 22, 2010. |
| 10.2 | VBA Executives Deferred Compensation Plan for Farmers & Merchants Bank. |
| 10.3 | VBA Directors Non-Qualified Deferred Compensation Plan for Farmers & Merchants Bank. |
| 23.1 | Consent of Elliott Davis, LLC |
| 31.1 | Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 31.2 | Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 32.1 | Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 101 | The following materials from F&M Bank Corp.'s Annual Report on Form 10-K for the year ended December 31, 2013, formatted in Extensible Business Reporting Language (XBRL), include: (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Income, (iii) Consolidated Statements of Comprehensive Income, (iv) Consolidated Statements of Changes in Stockholders' Equity, (v) Consolidated Statements of Cash Flows and (vi) |

related notes (furnished herewith).

Shareholders may obtain, free of charge, a copy of the exhibits to this Report on Form 10-K by writing Larry A. Caplinger, Corporate Secretary, at F & M Bank Corp., P.O. Box 1111, Timberville, VA 22853 or our website at www.fmbankva.com .

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

F & M Bank Corp.
(Registrant)

| | |
|---|---|
| By: /s/ Dean W. Withers | October 30, 2014 |
| Dean W. Withers | Date |
| Director, President and Chief Executive Officer | |

| | |
|---|---|
| By: /s/ Carrie A. Comer | October 30, 2014 |
| Carrie A. Comer | Date |
| Senior Vice President and Chief Financial Officer | |

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and as of the date indicated.

| Signature | Title | Date |
|---|---|---|
| /s/ Larry A. Caplinger<br>Larry A. Caplinger | Director | October 30, 2014 |
| /s/ Thomas L. Cline<br>Thomas L. Cline | Director, Chairman | October 30, 2014 |
| /s/ John N. Crist<br>John N. Crist | Director | October 30, 2014 |
| /s/ Ellen R. Fitzwater<br>Ellen R. Fitzwater | Director | October 30, 2014 |
| /s/ Daniel J. Harshman<br>Daniel J. Harshman | Director | October 30, 2014 |
| Richard S. Myers | Director | October 30, 2014 |
| /s/ Michael W. Pugh<br>Michael W. Pugh | Director | October 30, 2014 |
| Christopher S. Runion | Director | October 30, 2014 |
| /s/ Ronald E. Wampler<br>Ronald E. Wampler | Director | October 30, 2014 |

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Exhibit Index:

| | |
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