

May 15, 2013



Aeolus Pharmaceuticals Announces Second Quarter Fiscal Year 2013 Financial Results

MISSION VIEJO, CA -- (Marketwired) -- 05/15/13 -- [Aeolus Pharmaceuticals, Inc.](#) (OTCQB: AOLS), a biotechnology company leveraging significant government funding to develop a platform of novel compounds to protect against radiological and chemical threats and for use in oncology, announced today financial results for the three months and six month ended March 31, 2013.

The Company reported a net loss of approximately \$5,782,000, or \$0.06 per share, which includes a non-cash charge of approximately \$5,020,000 related to increases in the fair value of warrants that are included as a component of other income (expenses) in the statement of operations, for the three months ended March 31, 2013. This compares to a net profit of \$2,763,000, or \$0.02 per share, which includes a non-cash adjustment of approximately \$3,324,000 related to decreases in the fair value of warrants that are included as a component of other income (expenses) in the statement of operations, for the three months ended March 31, 2012.

"During the first two years of our five year \$118 million BARDA contract we successfully reformulated our drug, resulting in more than an 80 percent reduction in the cost of production, and we developed the animal models required for approval of our drug under the 'Animal Rule' and received FDA concurrence on these models," stated John L. McManus, President and Chief Executive Officer. "Over the next 12 months, we will complete and report results for four key animal efficacy studies in pulmonary sub-syndrome of Acute Radiation Syndrome / Delayed Effect of Acute Radiation Exposure and at least four studies in the chemical and gastrointestinal sub-syndrome of Acute Radiation Syndrome indications, which we hope will confirm the positive survival benefits of AEOL 10150 we have already seen against the lethal effects of radiation, nerve agent, chlorine gas, mustard gas and phosgene gas."

Revenue for the three months ended March 31, 2013 was approximately \$859,000, which compares to revenue of \$2,231,000 for the three months ended March 31, 2012. The revenue is from the collaboration with BARDA announced on February 11, 2011. Lower revenue in the 2nd quarter of 2013 reflects both the timing of the initiation of program items as well as revenue recognition under accounting rules.

Research and development expenses decreased to approximately \$618,000 for the three months ended March 31, 2013, from approximately \$1,927,000 for the three months ended March 31, 2012. The decrease in 2nd quarter 2013 expenses reflects both the timing of the initiation of program items as well as revenue recognition under accounting

rules.

General and administrative expenses were approximately \$1,003,000 for the three months ended March 31, 2013 compared to approximately \$865,000 for the three months ended March 31, 2012. The higher expense was primarily due to financing-related banking and legal charges.

Key accomplishments during the quarter include:

- Strengthened balance sheet with \$3.6 million financing, led by BVF Partners L.P., a leading life sciences investment firm, which manages the Biotechnology Value Fund family of funds.
- Cleaned-up capital structure by eliminating warrant liability through the exercise of approximately 95 percent of outstanding warrants.

As of March 31, 2013, the Company had approximately \$1,926,000 in cash and cash equivalents and 134,550,068 common shares outstanding. The Company had accounts receivable of \$1,620,000 and accounts payable of \$2,023,000 on March 31, 2013. Aeolus has filed today with the SEC its Quarterly Report on Form 10-Q for the quarter ended March 31, 2013. Aeolus urges its investors to read this quarterly filing as well as its amended Annual Report on Form 10-K/A, also filed with the SEC, for further details concerning the Company. The Quarterly Report on Form 10-Q and the amended Annual Report on Form 10-K/A are also available on the Company's website, at <http://www.aeoluspharma.com>.

About AEOL 10150

AEOL 10150 is a broad-spectrum catalytic antioxidant specifically designed to neutralize reactive oxygen and nitrogen species. The neutralization of these species reduces oxidative stress, inflammation, and subsequent tissue damage-signaling cascades resulting from radiation exposure. AEOL 10150 could have a profound beneficial impact on people who have been exposed, or are about to be exposed, to high-doses of radiation in the treatment of oncology.

AEOL 10150 has already performed well in preclinical and non-clinical studies, was well-tolerated in two human clinical trials, and has demonstrated statistically significant survival efficacy in an acute radiation-induced lung injury model. The Company believes it could have a profound beneficial impact on people who have been exposed, or are about to be exposed, to high-doses of radiation, whether from cancer therapy or a nuclear event.

About Aeolus Pharmaceuticals

Aeolus Pharmaceuticals is developing a new class of catalytic antioxidant compounds that protects healthy tissue from the damaging effects of radiation. Its first compound, AEOL 10150, is being developed for oncology indications, where it is used in combination with radiation therapy. It is also being developed, with funding by the US Government, as a medical countermeasure against chemical and radiological weapons, where its initial target indications are as a protective agent against the effects of acute radiation syndrome and delayed effects of acute radiation exposure. Aeolus' strategy is to leverage the

substantial investment in toxicology, manufacturing, and preclinical and clinical studies made by US Government agencies in AEOL 10150, including the contract with BARDA valued, with options, at up to \$118.4 million, to efficiently develop the compound for use in oncology.

Forward-Looking Statements

The statements in this press release that are not purely statements of historical fact are forward-looking statements. Such statements include, but are not limited to, those relating to Aeolus' product candidates, as well as its proprietary technologies and research programs, the Company's potential initiation of large efficacy studies, the potential impact of AEOL 10150 and the BARDA Contract. Such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause Aeolus' actual results to be materially different from historical results or from any results expressed or implied by such forward-looking statements. Important factors that could cause results to differ include risks associated with uncertainties of progress and timing of clinical trials, scientific research and product development activities, difficulties or delays in development, testing, obtaining regulatory approval, the need to obtain funding for pre-clinical and clinical trials and operations, the scope and validity of intellectual property protection for Aeolus' product candidates, proprietary technologies and their uses, and competition from other biopharmaceutical companies, and whether BARDA exercises one or more additional options under the BARDA Contract. Certain of these factors and others are more fully described in Aeolus' filings with the Securities and Exchange Commission, including, but not limited to, Aeolus' amended Annual Report on Form 10-K/A for the year ended September 30, 2011. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof.

AEOLUS PHARMACEUTICALS, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except share data)

	March 31, 2013 (Unaudited)	September 30, 2012
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ASSETS		
Current assets:		
Cash and cash equivalents	\$ 1,926	\$ 281
Accounts receivable	1,620	882
Deferred subcontractor cost	1,005	--
Prepays and other current assets	92	61
	-----	-----
Total current assets	4,643	1,224
Investment in CPEC LLC	32	32
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Total assets	\$ 4,675	\$ 1,256
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LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)

Current liabilities:			
Accounts payable and accrued expenses	\$	2,023	\$ 2,272
Deferred revenue	1,046	--	

Total current liabilities	3,069	2,272
Warrant liability	--	19,319
Total liabilities	3,069	21,591
Commitments and Contingencies (Note G)		
Stockholders' equity (deficit):		
Preferred stock, \$.01 par value per share, 10,000,000 shares authorized: Series B nonredeemable convertible preferred stock, 1,600,000 and 1,600,000 shares authorized as of March 31, 2013 and September 30, 2012, respectively; 526,080 and 526,080 shares issued and outstanding as of March 31, 2013 and September 30, 2012, respectively	5	5
Common stock, \$.01 par value per share, 200,000,000 shares authorized; 134,550,068 and 62,731,963 shares issued and outstanding as of March 31, 2013 and September 30, 2012, respectively	1,346	627
Additional paid-in capital	182,724	159,747
Accumulated deficit	(182,469)	(180,714)
Total stockholders' equity (deficit)	1,606	(20,335)
Total liabilities and stockholders' equity (deficit)	\$ 4,675	\$ 1,256

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

AEOLUS PHARMACEUTICALS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)
(In thousands, except share data)

	Three Months Ended		Six Months Ended	
	March 31,		March 31,	
	2013	2012	2013	2012
Revenue:				
Contract Revenue	\$ 859	\$ 2,231	\$ 2,201	\$ 4,446
Costs and expenses:				
Research and development	618	1,927	1,787	3,998
General and administrative	1,003	865	1,659	1,720
Total costs and expenses	1,621	2,792	3,446	5,718
Loss from operations	(762)	(561)	(1,245)	(1,272)
Non-cash financing charges and change in fair value of warrants (Notes D, E and F)	(5,020)	3,324	(510)	7,012

Net income (loss)	\$ (5,782)	\$ 2,763	\$ (1,755)	\$ 5,740
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Net income (loss) per weighted share attributable to common stockholders:				
Basic	\$ (0.06)	\$ 0.02	\$ (0.03)	\$ 0.05
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Diluted	\$ (0.06)	\$ 0.00	\$ (0.03)	\$ (0.01)
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Weighted average common shares outstanding:				
Basic	94,425	60,490	69,664	60,480
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Diluted	94,425	71,858	69,664	76,334
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AEOLUS PHARMACEUTICALS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(In thousands)

	Six Months Ended March 31,	
	2013	2012
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Cash flows from operating activities:		
Net income (loss)	\$ (1,755)	\$ 5,740
Adjustments to reconcile net loss to net cash used in operating activities:		
Stock-based compensation	309	347
Change in fair value of warrants	510	(7,012)
Change in assets and liabilities:		
Accounts receivable	(738)	(803)
Deferred subcontractor cost	(1,005)	--
Prepaid and other assets	(31)	(17)
Accounts payable and accrued expenses	(249)	1,232
Deferred revenue	1,046	--
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Net cash used in operating activities	(1,913)	(513)
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Cash flows provided by financing activities:		
Proceeds from issuance of common stock and warrants	3,616	400
Costs related to the issuance of common stock and warrants	(58)	(15)
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Net cash provided by financing activities	3,558	385
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Net decrease in cash and cash equivalents	1,645	(128)
Cash and cash equivalents at beginning of period	281	518
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Cash and cash equivalents at end of period	\$ 1,926	\$ 390
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Supplemental disclosure of non-cash financing activities:		
Common stock issued for short-term receivable	\$ --	\$ 130

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

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Source: Aeolus Pharmaceuticals