

AEOLUS PHARMACEUTICALS, INC.
 Form 4
 July 20, 2006

FORM 4

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

OMB APPROVAL

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Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. See Instruction 1(b).

STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

(Print or Type Responses)

1. Name and Address of Reporting Person *
 Xmark Opportunity Partners, LLC

2. Issuer Name and Ticker or Trading Symbol
 AEOLUS PHARMACEUTICALS, INC. [AOLS.OB]

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

(Last) (First) (Middle)

3. Date of Earliest Transaction (Month/Day/Year)
 06/06/2006

____ Director
 ____ Officer (give title below)
 10% Owner
 ____ Other (specify below)

301 TRESSER BOULEVARD, SUITE 1320

(Street)

4. If Amendment, Date Original Filed(Month/Day/Year)

6. Individual or Joint/Group Filing(Check Applicable Line)
 Form filed by One Reporting Person
 ____ Form filed by More than One Reporting Person

STAMFORD, CT 06901

(City) (State) (Zip)

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1. Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)	4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)	5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price
Common Stock, par value \$0.01 per share	06/06/2006		C(1)(2)(3)		4,300,000 (1) (2) (3)	A	\$ 0.5
					4,402,042 (1) (2) (3) (4)	I	(1) (2) (3) (4)
						(5) (6)	

By partnership, corporation and limited liability company (1) (2) (3) (5) (6)

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

Persons who respond to the collection of information contained in this form are not required to respond unless the form

SEC 1474 (9-02)

displays a currently valid OMB control number.

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(e.g., puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)	5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)	6. Date Exercisable and Expiration Date (Month/Day/Year)	7. Title and Amount of Underlying Security (Instr. 3 and 4)		
				Code	V (A) (D)	Date Exercisable	Expiration Date	Title	Amount
Series A Convertible Preferred Stock	\$ 0.5	06/06/2006		C(1)(2)(3)	4,300,000 (1) (2) (3)	(1)(2)(3)	(1)(2)(3)	Common Stock	4,300,000

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
Xmark Opportunity Partners, LLC 301 TRESSER BOULEVARD SUITE 1320 STAMFORD, CT 06901			X	

Signatures

/s/ Mitchell D. Kaye, Chief Executive Officer of Xmark Opportunity Partners, LLC 07/18/2006

__Signature of Reporting Person

Date

Explanation of Responses:

* If the form is filed by more than one reporting person, see Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. See 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

- (1) On June 5, 2006, Aeolus Pharmaceuticals, Inc., a Delaware corporation, formerly known as Incara Pharmaceuticals Corporation (the "Company"), entered into a private placement of common stock, par value \$0.01 per share ("Common Stock"), of the Company and warrants to purchase Common Stock of the Company. In connection with such private placement, the Company and each of the holders of the Company's Series A Convertible Preferred Stock (the "Series A Preferred") entered into that certain Conversion Agreement, dated as of June 5, 2006, pursuant to which each of the Series A Preferred holders agreed to convert their shares of the Series A Preferred into shares of Common Stock of the Company at an exercise price of \$0.50 per share.
- (2) On June 6, 2006, pursuant to the terms of the Conversion Agreement, Xmark Opportunity Fund, L.P., a Delaware limited partnership ("Opportunity LP"), Xmark Opportunity Fund, Ltd., a Cayman Islands exempted company ("Opportunity Ltd") and Xmark JV Investment Partners, LLC, a Delaware limited liability company ("JV Partners") converted all of their shares of the Series A Preferred. As a result of the conversion, Opportunity LP received 1,320,000 shares of Common Stock of the Company, Opportunity Ltd received 1,980,000 shares

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of Common Stock of the Company and JV Partners received 1,000,000 shares of Common Stock of the Company.

The Series A Preferred was exercisable immediately and had no expiration date. The reporting person, Xmark Opportunity Partners, LLC, a Delaware limited liability company ("Opportunity Partners"), is the sole member of the investment manager of Opportunity LP and

- (3) Opportunity Ltd, and the investment manager of JV Partners and, as such, possesses sole power to vote and direct the disposition of all securities of the Company held by Opportunity LP, Opportunity Ltd and JV Partners. Opportunity Partners' interest in the securities reported herein is limited to the extent of its pecuniary interest in Opportunity LP, Opportunity Ltd and JV Partners, if any.

According to the terms of the Certificate of Designations, Preferences and Rights of the Series A Preferred Stock, on each of January 1, 2006, April 1, 2006 and June 6, 2006 the Company paid certain dividends on the shares of the Series A Preferred, which were paid in

- (4) shares of Common Stock of the Company. As a result of these dividends, Opportunity LP received, in the aggregate, 31,325 shares of Common Stock of the Company, Opportunity Ltd received, in the aggregate, 46,986 shares of Common Stock of the Company and JV Partners received, in the aggregate 23,731 shares of Common Stock of the Company.

Mitchell D. Kaye and David C. Cavalier, the Chief Executive Officer and Chief Operating Officer, respectively, of Opportunity Partners, the reporting person, share voting and investment power with respect to all securities beneficially owned by Opportunity Partners. Mr.

- (5) Kaye is also the Chief Executive Officer of Xmark Asset Management, LLC ("XAM") and, as such, exercises sole voting and investment power with respect to all securities beneficially owned by XAM. XAM beneficially owns certain securities of the Company, all of which are subject to the sole voting and/or investment power of XAM. XAM, in its capacity as the holder of sole voting and/or investment power with respect to more than 10% of the Common Stock of the Company pursuant to Reg. 13d-3 separately files statements pursuant to Section 16 of the Securities Exchange Act of 1934, as amended.

Opportunity Partners does not exercise any voting or investment power with respect to the shares of Common Stock of the Company separately reported by XAM, XAM does not exercise any voting or investment power with respect to the shares of Common Stock of the

- (6) Company held by the reporting person and each of the reporting person and XAM at all times acts independently of the other with respect to their holdings of the securities of the Company. Opportunity Partners does not have any pecuniary interest in the shares of Common Stock separately reported by XAM and XAM does not have any pecuniary interest in the shares of Common Stock of the Company held by the reporting person.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.

Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number.