

ARROWHEAD RESEARCH CORP  
Form 10-Q  
August 09, 2007

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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, DC 20549

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**FORM 10-Q**

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(Mark One)

**QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended June 30, 2007.

**TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Commission file number 000-21898

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**ARROWHEAD RESEARCH CORPORATION**

(Exact name of registrant as specified in its charter)

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**Delaware**  
(State of incorporation)

**46-0408024**  
(I.R.S. Employer Identification No.)

201 S. Lake Avenue, Suite 703

Pasadena, California 91101

(626) 304-3400

(Address and telephone number of principal executive offices)

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer  Non-accelerated filer   
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date: 38,598,795 as of August 8, 2007.

Transitional Small Business Disclosure Format (Check one): Yes  No

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## Arrowhead Research Corporation and Subsidiaries

(A Development Stage Company)

## Consolidated Balance Sheets

As of June 30, 2007 and September 30, 2006

|  | (unaudited)<br>June 30, 2007 | September 30, 2006   |
|--|------------------------------|----------------------|
| <b>ASSETS</b>  |                              |                      |
| <b>CURRENT ASSETS</b>  |                              |                      |
| Cash and cash equivalents  | \$ 3,421,278                 | \$ 28,020,304        |
| Marketable securities at fair market value - US Treasury Bills       | 27,372,602                   |                      |
| Trade receivable, net of allowance for doubtful accounts of \$13,514 | 158,652                      |                      |
| Grant receivable, net of allowance for doubtful accounts of \$0      |                              | 3,697                |
| Other receivables  | 229,604                      | 70,517               |
| Prepaid sponsored research, <i>Note 7</i> .                          | 271,945                      | 358,020              |
| Other prepaid research   | 67,646                       | 7,600                |
| Other prepaid expenses   | 583,971                      | 315,653              |
| <b>TOTAL CURRENT ASSETS</b>  | <b>32,105,698</b>            | <b>28,775,791</b>    |
| <b>PROPERTY AND EQUIPMENT</b>  |                              |                      |
| Computers, office equipment and furniture                            | 590,749                      | 544,823              |
| Research equipment   | 1,824,713                    | 1,375,595            |
| Software   | 98,093                       | 68,969               |
| Leasehold improvement  | 409,244                      | 369,699              |
|  | 2,922,799                    | 2,359,086            |
| Less: Accumulated depreciation and amortization                      | (1,493,821)                  | (1,088,105)          |
| <b>NET PROPERTY AND EQUIPMENT</b>                                    | <b>1,428,978</b>             | <b>1,270,981</b>     |
| <b>INTANGIBLE AND OTHER ASSETS</b>                                   |                              |                      |
| Rent deposit   | 139,187                      | 161,469              |
| Patents, <i>Note 1</i> .   | 3,042,515                    | 3,354,487            |
| Goodwill   |                              | 963,150              |
| <b>TOTAL OTHER ASSETS</b>  | <b>3,181,702</b>             | <b>4,479,106</b>     |
| <b>TOTAL ASSETS</b>  | <b>\$ 36,716,378</b>         | <b>\$ 34,525,878</b> |

**LIABILITIES AND STOCKHOLDERS EQUITY**

|   |                  |                  |
|---|------------------|------------------|
| <b>CURRENT LIABILITIES</b>                    |                  |                  |
| Accounts payable, <i>Note 1</i> .             | \$ 1,453,838     | \$ 846,580       |
| Accrued expenses                              | 456,145          | 677,722          |
| Payroll liabilities                           | 651,494          | 233,932          |
| Preferred stock liability                     |                  | 1,162,000        |
| Deferred revenue                              | 378,645          |                  |
| <b>TOTAL CURRENT LIABILITIES</b>              | <b>2,940,122</b> | <b>2,920,234</b> |
| Minority interests                            | 600,038          | 934,438          |
| Commitment and contingencies, <i>Note 7</i> . |                  |                  |

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STOCKHOLDERS EQUITY, Note 5.

|  |                      |                      |
|--|----------------------|----------------------|
| Common stock                                     | 38,605               | 34,156               |
| Preferred stock                                  |                      |                      |
| Additional paid-in capital                       | 83,972,459           | 59,113,369           |
| Accumulated deficit during the development stage | (50,834,846)         | (28,476,319)         |
| <b>TOTAL STOCKHOLDERS EQUITY</b>                 | <b>33,176,218</b>    | <b>30,671,206</b>    |
| <b>TOTAL LIABILITIES AND STOCKHOLDERS EQUITY</b> | <b>\$ 36,716,378</b> | <b>\$ 34,525,878</b> |

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

## Arrowhead Research Corporation and Subsidiaries

(A Development Stage Company)

## Consolidated Statements of Operations

(unaudited)

|   | Three Months<br>Ended<br>June 30, 2007 | Three Months<br>Ended<br>June 30, 2006 | Nine Months<br>Ended<br>June 30, 2007 | Nine Months<br>Ended<br>June 30, 2006 | Period from<br>May 7, 2003<br>(Date of inception)<br>to June 30, 2007 |
|---|--|--|---------------------------------------|---------------------------------------|---|
| <b>REVENUE</b>  | \$ 622,599                             | \$ 246,229                             | \$ 629,994                            | \$ 556,229                            | \$ 2,012,441  |
| COST OF GOOD SOLD   | 347,601                                |  | 347,601                               |                                       | 347,601   |
| <b>GROSS PROFIT ON SALES</b>  | <b>274,998</b>                         | <b>246,229</b>                         | <b>282,393</b>                        | <b>\$ 556,229</b>                     | <b>1,664,840</b>  |
| <b>OPERATING EXPENSES</b>   |  |  |                                       |                                       |   |
| Salaries  | 2,800,420                              | 2,036,639                              | 6,540,467                             | 4,866,444                             | 16,440,487  |
| Consulting  | 637,052                                | 171,375                                | 1,255,095                             | 439,727                               | 3,352,097   |
| General and administrative expenses                                   | 1,567,426                              | 1,439,881                              | 3,965,717                             | 3,791,032                             | 12,631,437  |
| Research and development  | 8,563,401                              | 1,060,892                              | 14,516,612                            | 5,907,907                             | 27,688,737  |
| Patents amortization  | 103,991                                | 60,440                                 | 311,973                               | 181,320                               | 721,054   |
| Goodwill impairment & other charges                                   |  |  |                                       |                                       | 999,000   |
| <b>TOTAL OPERATING EXPENSES</b>                                       | <b>13,672,290</b>                      | <b>4,769,227</b>                       | <b>26,589,864</b>                     | <b>15,186,430</b>                     | <b>61,832,812</b>   |
| OPERATING LOSS  | (13,397,292)                           | (4,522,998)                            | (26,307,471)                          | (14,630,201)                          | (60,167,972)  |
| <b>OTHER INCOME (EXPENSES)</b>  |  |  |                                       |                                       |   |
| Gain on sale of stock in subsidiary                                   |  |  |                                       |                                       | 2,292,800   |
| Realized and unrealized gain (loss) in marketable securities          |  | 124,549                                |                                       | 261,010                               | 382,264   |
| Interest income   | 238,277                                | 223,443                                | 879,592                               | 581,270                               | 1,914,952   |
| Other income  |  |  |                                       |                                       | 3,308   |
| <b>TOTAL OTHER INCOME (EXPENSES)</b>                                  | <b>238,277</b>                         | <b>347,992</b>                         | <b>879,592</b>                        | <b>842,280</b>                        | <b>4,593,324</b>  |
| <b>LOSS BEFORE MINORITY INTERESTS</b>                                 | <b>(13,159,015)</b>                    | <b>(4,175,006)</b>                     | <b>(25,427,879)</b>                   | <b>(13,787,921)</b>                   | <b>(55,574,648)</b>   |
| Minority interests  | 681,467                                | 63,573                                 | 3,069,351                             | 1,197,145                             | 6,157,703   |
| <b>LOSS FROM CONTINUING OPERATIONS</b>                                | <b>(12,477,548)</b>                    | <b>(4,111,433)</b>                     | <b>(22,358,528)</b>                   | <b>(12,590,776)</b>                   | <b>(49,416,944)</b>   |
| Loss from operation of discontinued Nanotechnica, Inc.                |  |  |                                       |                                       | (1,342,505)   |
| Loss on disposal of Nanotechnica, Inc. (July 2005 - September 2005)   |  |  |                                       |                                       | (73,797)  |
| Provision for income taxes  |  |  |                                       |                                       | (1,600)   |
| <b>NET INCOME (LOSS)</b>  | <b>(12,477,548)</b>                    | <b>(4,111,433)</b>                     | <b>(22,358,528)</b>                   | <b>(12,590,776)</b>                   | <b>(50,834,846)</b>   |
| Income (loss) from continuing operations per share, basic and diluted | (0.34)                                 | (0.12)                                 | (0.64)                                | (0.40)                                |   |
| Net income (loss) per share, basic and diluted                        | (0.34)                                 | (0.12)                                 | (0.64)                                | (0.40)                                |   |
| Weighted average shares outstanding, basic and diluted                | 36,422,464                             | 33,810,131                             | 34,945,152                            | 31,265,796                            |   |

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

## Arrowhead Research Corporation and Subsidiaries

(A Development Stage Company)

## Consolidated Statement of Stockholders Equity

from inception to June 30, 2007

|  | Common Stock     |              |                               | Accumulated Deficit<br>during the<br>Development<br>Stage | Totals           |
|--|------------------|--------------|-------------------------------|---|------------------|
|  | Shares           | Amount       | Additional<br>Paid-in-Capital |   |                  |
| <b>Initial Issuance of Stock:</b>  |                  |              |                               |   |                  |
| Common stock & warrants issued for cash @ \$0.001 per unit                 | 3,000,000        | \$ 3,000     | \$                            | \$  | \$ 3,000         |
| Common stock & warrants issued for cash @ \$1.00 per unit                  | 1,680,000        | 1,680        | 1,678,320                     |   | 1,680,000        |
| Stock issuance cost charged to additional paid-in capital                  |                  |              | (168,000)                     |   | (168,000)        |
| Net loss for period from inception to September 30, 2003                   |                  |              |                               | (95,238)  | (95,238)         |
| <b>Balance at September 30, 2003</b>                                       | <b>4,680,000</b> | <b>4,680</b> | <b>1,510,320</b>              | <b>(95,238)</b>   | <b>1,419,762</b> |
| Exercise of stock options @ \$0.20 per share                               | 75,000           | 75           | 14,925                        |   | 15,000           |
| Common stock & warrants issued for cash @ \$1.00 per unit                  | 475,000          | 475          | 474,525                       |   | 475,000          |
| Common stock & warrants issued for marketable securities @ \$1.00 per unit | 500,000          | 500          | 499,500                       |   |                  |