

ARROWHEAD RESEARCH CORP
Form 10-Q
May 06, 2014

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2014

TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
Commission file number 000-21898

ARROWHEAD RESEARCH CORPORATION

(Exact name of registrant as specified in its charter)

Delaware 46-0408024
(State of incorporation) (I.R.S. Employer Identification No.)
225 S. Lake Avenue, Suite 1050

Pasadena, California 91101

(626) 304-3400

(Address and telephone number of principal executive offices)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

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

The number of shares of the registrant's common stock outstanding as of May 1, 2014 was 51,872,371.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

Arrowhead Research Corporation and Subsidiaries

(A Development Stage Company)

Consolidated Balance Sheets

	Unaudited March 31, 2014	September 30, 2013
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 142,847,860	\$ 19,114,444
Trade receivable	-	75,000
Prepaid expenses	643,023	532,354
Other current assets	633,807	91,660
Short term investments	17,798,475	9,030,261
TOTAL CURRENT ASSETS	161,923,165	28,843,719
Property and equipment, net	3,290,270	3,513,235
Intangible assets, net	3,213,186	3,240,513
Investments	34,048,359	1,702,153
Other assets	166,414	30,011
TOTAL ASSETS	\$202,641,394	\$37,329,631
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	\$2,511,572	\$1,199,632
Accrued expenses	913,856	638,884
Accrued payroll and benefits	732,131	905,771
Deferred revenue	65,625	103,125
Derivative liabilities	4,936,530	4,096,363
Capital lease obligation	212,234	221,345
Notes payable	1,050,000	971,557
Other current liabilities	60,592	588,343
TOTAL CURRENT LIABILITIES	10,482,540	8,725,020
LONG-TERM LIABILITIES		
Notes payable, net of current portion	-	50,000
Capital lease obligation, net of current portion	865,777	1,061,113
Other liabilities	1,755,520	1,758,709
TOTAL LONG-TERM LIABILITIES	2,621,297	2,869,822
Commitments and contingencies		

STOCKHOLDERS' EQUITY

Arrowhead Research Corporation stockholders' equity:

Preferred stock, \$0.001 par value; 5,000,000 shares authorized; 21,291 and 9,900 shares

issued and outstanding as of March 31, 2014 and September 30, 2013, respectively 21 10

Common stock, \$0.001 par value; 145,000,000 shares authorized; 51,867,071 and 32,489,444

shares issued and outstanding as of March 31, 2014 and September 30, 2013, respectively 144,237 124,859

Additional paid-in capital 381,966,576 193,514,766

Accumulated deficit during the development stage (190,711,800) (166,140,969)

Total Arrowhead Research Corporation stockholders' equity 191,399,034 27,498,666

Noncontrolling interest (1,861,477) (1,763,877)

TOTAL STOCKHOLDERS' EQUITY 189,537,557 25,734,789**TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY \$202,641,394 \$37,329,631**

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

Arrowhead Research Corporation and Subsidiaries

(A Development Stage Company)

Consolidated Statements of Operations

(unaudited)

	Three Months ended March 31, 2014	Three Months ended March 31, 2013	Six Months ended March 31, 2014	Six Months ended March 31, 2013	May 7, 2003 (Inception) to March 31, 2014
REVENUE	\$43,750	\$43,750	\$87,500	\$202,766	\$4,516,600
OPERATING EXPENSES					
Salaries and payroll-related costs	3,097,902	1,725,176	5,179,693	3,354,599	38,239,492
General and administrative expenses	1,347,677	779,970	2,261,461	1,697,646	37,103,540
Research and development	5,216,446	2,125,019	8,349,460	3,701,685	59,673,835
Stock-based compensation	1,198,444	355,108	1,719,582	750,782	16,837,321
Depreciation and amortization	395,779	448,765	799,184	898,362	9,959,882
Impairment expense	-	-	-	-	1,308,047
Contingent consideration - fair value adjustments	-	-	-	-	1,421,652
TOTAL OPERATING EXPENSES	11,256,248	5,434,038	18,309,380	10,403,074	164,543,769
OPERATING LOSS	(11,212,498)	(5,390,288)	(18,221,880)	(10,200,308)	(160,027,169)
OTHER INCOME (EXPENSE)					
Equity in income (loss) of unconsolidated affiliates	(9,597)	(157,612)	(148,053)	(221,169)	(1,752,601)
Impairment of investment in unconsolidated affiliates	-	-	-	-	(1,642,775)
Gain on purchase of Roche Madison	-	-	-	-	1,576,107
Gain (loss) on sale of fixed assets, net	(5,316)	(54,932)	(58,878)	(36,440)	(1,341,731)
Realized and unrealized gain (loss) in marketable securities	-	-	-	-	62,954
Interest income (expense), net	119,390	(27,567)	159,968	(20,151)	2,812,502
Change in value of derivatives	(2,951,225)	(29,403)	(6,470,803)	14,873	(8,489,788)
Gain on sale of stock in subsidiary	-	-	-	-	2,292,800
Other income (expense)	76,546	(1,279,881)	71,215	(1,257,196)	(676,760)
TOTAL OTHER INCOME (EXPENSE)	(2,770,202)	(1,549,395)	(6,446,551)	(1,520,083)	(7,159,292)
LOSS FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	(13,982,700)	(6,939,683)	(24,668,431)	(11,720,391)	(167,186,461)
Provision for income taxes	-	-	-	-	-
LOSS FROM CONTINUING OPERATIONS	(13,982,700)	(6,939,683)	(24,668,431)	(11,720,391)	(167,186,461)
	-	(336)	-	(354)	(47,546,996)

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Income (loss) from discontinued operations					
Gain on disposal of discontinued operations	-	-	-	-	4,708,588
NET INCOME (LOSS) FROM DISCONTINUED OPERATIONS	-	(336)	-	(354)	(42,838,408)
NET LOSS	(13,982,700)	(6,940,019)	(24,668,431)	(11,720,745)	(210,024,869)
Net loss attributable to noncontrolling interests	40,179	182,082	97,600	348,650	19,477,029
NET LOSS ATTRIBUTABLE TO ARROWHEAD	\$(13,942,521)	\$(6,757,937)	\$(24,570,831)	\$(11,372,095)	\$(190,547,840)
NET LOSS PER SHARE ATTRIBUTABLE TO ARROWHEAD SHAREHOLDERS - BASIC & DILUTED:					
Weighted average shares outstanding - basic and diluted	44,321,847	16,461,693	40,941,903	15,272,703	

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

Arrowhead Research Corporation and Subsidiaries

(A Development Stage Company)

Consolidated Statement of Stockholders' Equity

from inception through March 31, 2014

(unaudited)

	Common Stock Shares	Common Stock Amount	Preferred Stock Shares	Preferred Stock Amount	Additional Paid- Capital	Subscription Receivable	Development Stage	Accumulated Deficit during the	Noncontrolling interest	Totals
Initial Issuance of Stock:										
Common stock & warrants issued for cash @ \$0.01 per unit	300,000	\$3,000	-	\$ -	\$-	\$ -	\$-		\$-	\$3,000
Common stock & warrants issued for cash @ \$10.00 per unit	168,000	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)
Balance at September 30, 2003	468,000	\$4,680	-	\$ -	\$1,510,320	\$ -	\$(95,238)		\$-	\$1,419,762
Exercise of stock options	7,500	75	-	-	14,925	-	-		-	15,000
Common stock & warrants issued for cash @ \$10.00 per unit	47,500	475	-	-	474,525	-	-		-	475,000
Common stock & warrants issued for marketable	50,000	500	-	-	499,500	-	-		-	500,000

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securities @ \$10.00 per unit									
Stock issuance cost charged to additional paid-in capital	-	-	-	-	(96,500)	-	-	-	(96,500)
Common stock and warrants issued for cash @ \$15.00 per unit	660,879	6,609	-	-	9,906,573	-	-	-	9,913,182
Common stock issued in reverse acquisition	70,553	706	-	-	(151,175)	-	-	-	(150,469)
Common stock issued as a gift for \$10.90 per share	15,000	163	-	-	162,587	-	-	-	162,750
Common stock and warrants issued as stock issuance cost @ \$15.00 per unit	35,623	356	-	-	533,988	-	-	-	534,344
Stock issuance cost charged to additional paid-in capital	-	-	-	-	(991,318)	-	-	-	(991,318)
Exercise of stock option @ \$2.00 per share	7,500	75	-	-	14,925	-	-	-	15,000
Exercise of stock options @ \$10.00 per share	600	6	-	-	5,994	-	-	-	6,000
Stock-based compensation	-	-	-	-	175,653	-	-	-	175,653
Net loss for the year ended September 30, 2004	-	-	-	-	-	-	(2,528,954)	1,777,699	(751,255)
Balance at September 30, 2004	1,363,155	\$13,645	-	\$ -	\$12,059,997	\$ -	\$(2,624,192)	\$1,777,699	\$11,227,149
Exercise of warrants @ \$15.00 per share	1,381,289	13,813	-	-	20,705,522	-	-	-	20,719,335
Exercise of stock options @ \$10.00 per share	2,500	25	-	-	24,975	-	-	-	25,000
Common stock issued to purchase Insert Therapeutics share	50,226	502	-	-	1,999,498	-	-	-	2,000,000

@ \$39.80 per
share

Common stock

issued for services	1,250	12	-	-	49,988	-	-	-	50,000
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	Common Shares	Stock Amount	Preferred Stock Shares	Additional Paid- in Capital	Subscribed	Development Stage	Noncontrolling interest	Accumulated Deficit during the	Totals
Stock-based compensation	-	-	-	508,513	-	-	-		508,513
Change in percentage of ownership in subsidiary	-	-	-	230,087	-	-	-		230,087
Net loss for the year ended September 30, 2005	-	-	-	-	-	(6,854,918)	121,491		(6,733,427)
Balance at September 30, 2005	2,798,419	\$27,997	-	\$ - \$35,578,580	\$ -	\$(9,479,110)	\$1,899,190		\$28,026,657
Exercise of stock options	11,579	116	-	341,421	-	-	-		341,537
Common stock issued @ \$48.80 per share	20,485	205	-	999,795	-	-	-		1,000,000
Common stock issued @ \$38.40 per share	1,500	15	-	57,585	-	-	-		57,600
Common stock and warrants issued @ \$35.00 per unit	559,000	5,590	-	19,539,410	-	-	-		19,545,000
Common stock issued @ \$59.10 per share	2,536	25	-	149,975	-	-	-		150,000
Common stock issued to purchase Calando Pharmaceuticals, Inc. @ \$51.70 per share	20,838	208	-	1,077,125	-	-	-		1,077,333
Stock-based compensation	-	-	-	1,369,478	-	-	-		1,369,478
Net loss for the year ended September 30, 2006	-	-	-	-	-	(18,997,209)	(964,752)		(19,961,961)
Balance at September 30, 2006	3,414,359	\$34,156	-	\$ - \$59,113,369	\$ -	\$(28,476,319)	\$934,438		\$31,605,644
Exercise of stock options	18,616	186	-	434,541	-	-	-		434,727

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Common stock and warrants issued @ \$57.80 per unit	284,945	2,849	-	-	15,149,366	-	-	-	15,152,215
Arrowhead's increase in proportionate share of Insert Therapeutics' equity	-	-	-	-	2,401,394	-	-	-	2,401,394
Common stock issued for purchase of Carbon Nanotechnologies, Inc. @ \$37.70 per share	143,122	1,431	-	-	5,398,569	-	-	-	5,400,000
Stock-based compensation	-	-	-	-	2,175,544	-	-	-	2,175,544
Net loss for the year ended September 30, 2007	-	-	-	-	-	-	(29,931,118)	(781,829)	(30,712,947)
Balance at September 30, 2007	3,861,042	\$38,622	-	\$ -	\$84,672,783	\$ -	\$(58,407,437)	\$152,609	\$26,456,577
Exercise of stock options	10,536	106	-	-	289,921	-	-	-	290,027
Common stock and warrants issued at approximately \$18.00 per unit	386,399	3,867	-	-	6,956,718	-	-	-	6,960,585
Arrowhead's increase in proportionate share of Unidym's equity	-	-	-	-	1,720,962	-	-	-	1,720,962
Common stock issued @ \$27.20 per share to Rice University	5,000	50	-	-	135,950	-	-	-	136,000
Common stock issued @ \$28.30 per share to purchase shares of Unidym, Inc.	7,055	71	-	-	199,929	-	-	-	200,000
Common stock issued @ \$29.50 per share to purchase MASA Energy, LLC	10,505	105	-	-	309,895	-	-	-	310,000
Common stock issued @ \$21.90 per share to Unidym for the	11,416	114	-	-	249,886	-	-	-	250,000

acquisition of Nanoconduction Common stock issued @ \$21.80 per share	1,500	15	-	-	32,685	-	-	-	32,700
Stock-based compensation	-	-	-	-	3,187,397	-	-	-	3,187,397
Net loss for the year ended September 30, 2008	-	-	-	-	-	-	(27,089,030)	(152,609)	(27,241,639)
Balance at September 30, 2008	4,293,452	\$42,950	-	\$ -	\$97,756,126	\$ -	\$(85,496,467)	\$ -	\$12,302,609

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	Common Stock Shares	Common Stock Amount	Preferred Stock Shares	Preferred Amount	Additional Paid- Capital	Subscription Receivable	Accumulated Deficit during the Development Stage	Noncontrolling interest	Totals
Common Stock issued @ \$5.50 per share to Unidym stockholder in exchange for Unidym's shares	205,839	2,059	-	-	1,131,617	-	-	-	1,133,676
Common Stock issued @ \$5.20 per share to TEL Ventures in exchange for Unidym's shares	222,222	2,222	-	-	1,156,111	-	-	-	1,158,333
Reclassification of former Unidym mezzanine debt to equity	-	-	-	-	2,000,000	-	-	-	2,000,000
Arrowhead's increase in proportionate share of Calando's equity	-	-	-	-	2,120,250	-	-	-	2,120,250
Common stock and warrants issued @ \$3.00 per unit	919,664	9,197	-	-	2,749,796	-	-	-	2,758,993
Change in percentage ownership in subsidiary	-	-	-	-	16,297	-	-	-	16,297
Stock-based compensation	-	-	-	-	2,676,170	-	-	-	2,676,170
Issuance of Preferred Stock for Subscription in Unidym	-	-	-	-	300,000	(300,000)	-	-	-
Amortization of discount on	-	-	-	-	163,960	-	(163,960)	-	-

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Unidym Series D Preferred Stock									
Net loss for the year ended September 30, 2009	-	-	-	-	-	-	(19,308,392)	-	(19,308,392)
Balance at September 30, 2009	5,641,177	\$56,428	-	\$-	\$110,070,327	\$(300,000.00)	\$(104,968,819)	\$-	\$4,857,936
Exercise of stock options	688	7	-	-	7,624	-	-	-	7,631
Issuance of Preferred Stock for Subscription in Unidym	-	-	-	-	-	300,000	-	-	300,000
Issuance of Unidym's common stock to minority shareholders	-	-	-	-	245,345	-	-	54,655	300,000
Common stock and warrants issued @ \$6.34 per unit	508,343	5,083	-	-	3,217,813	-	-	-	3,222,896
Common stock and warrants issued @ \$13.12 per unit	659,299	6,593	-	-	7,861,985	-	-	-	7,868,578
Establish derivative liability					(4,169,907)				(4,169,907)
Common Stock issued to Calando stockholders in exchange for Calando's shares	122,000	1,220	-	-	(160,667)	-	-	159,447	-
Common Stock issued to Unidym stockholders in exchange for Unidym's shares	15,318	153	-	-	(1,435)	-	-	1,282	-
Stock-based compensation	-	-	-	-	1,582,149	-	-	-	1,582,149
	225,189	2,250	-	-	1,063,600	-	-	200	1,066,050

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Exercise of warrants									
Net loss for the year ended September 30, 2010	-	-	-	-	-	-	(5,774,048)	(1,182,990)	(6,957,038)
Balance at September 30, 2010	7,172,014	\$71,734	-	\$-	\$119,716,834	\$-	\$(110,742,867)	\$(967,406)	\$8,078,295
Exercise of warrants	8,656	87	-	-	43,192	-	-	-	43,279
Exercise of stock options	2,700	27	-	-	13,857	-	-	-	13,884
Divestiture of Unidym	-	-	-	-	-	-	-	254,275	254,275
Issuance of preferred stock in subsidiary	-	-	-	-	1,618,509	-	-	-	1,618,509
Change in percentage of ownership in subsidiary	-	-	-	-	(849,707)	-	-	849,707	-
Stock-based compensation	-	-	-	-	1,404,640	-	-	-	1,404,640
Common stock issued @ \$3.80 per share	1,458,917	14,574	-	-	4,629,110	-	-	-	4,643,684
Issuance of Common Stock for Subscription			-	-	900,000	(900,000)			-
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	Common Stock		Preferred Stock		Additional Paid-Capital	Subscription Receivable	Accumulated Deficit during the Development Stage	Noncontrolling interest	Totals
	Shares	Amount	Shares	Amount					
Net loss for the year ended September 30, 2011	-	-	-	-	-	-	(3,128,885)	(363,514)	(3,492,399)
Balance at September 30, 2011	8,642,286	\$86,422	-	\$-	\$127,476,436	\$(900,000.00)	\$(113,871,752)	\$(226,938)	\$12,564,167
Exercise of stock options	4,583	45	-	-	23,788	-	-	-	23,833
Stock-based compensation	-	-	-	-	1,241,404	-	-	-	1,241,404
Common stock issued @ \$3.80 per share	138,158	1,382	-	-	523,618	(100,000)	-	-	425,000
Common stock issued @ \$3.70 per share	675,000	6,750	-	-	2,241,000	-	-	-	2,247,750
Common stock issued @ \$4.00 per share	100,000	1,000	-	-	399,000	-	-	-	400,000
Common stock issued @ \$6.23 per share	83,211	83	-	-	499,918	-	-	-	500,001
Common stock issued @ \$5.11 per share	97,831	98	-	-	499,903	-	-	-	500,001
Common stock and warrants issued @ \$2.76 per unit	2,260,869	2,261	-	-	5,809,979	(16,000)	-	-	5,796,240
Common stock issued under Committed Capital Agreement	68,926	689	-	-	(689)	-	-	-	-

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Common stock issued in acquisitions	1,217,159	9,332	-	-	6,138,498	-	-	-	6,147,830
Fractional shares redeemed in reverse stock split	(131)	-	-	-	-	-	-	-	-
Preferred stock issued @ \$1,000 per share	-	-	1,015	1	1,014,999	-	-	-	1,015,000
Preferred stock converted to common stock	275,782	276	(1,015)	(1)	(275)	-	-	-	-
Exercise of Calando stock options	-	-	-	-	-	-	-	8,000	8,000
Exercise of warrants	15,511	16	-	-	50,390	-	-	-	50,406
Net loss for the year ended September 30, 2012	-	-	-	-	-	-	(21,125,928)	(984,795)	(22,110,723)
Balance at September 30, 2012	13,579,185	\$108,354	-	\$-	145,917,968	\$(1,016,000.00)	\$(134,997,680)	\$(1,203,733)	\$8,808,909
Exercise of warrants	1,182,451	1,183	-	-	2,053,416	-	-	-	2,054,599
Exercise of stock options	675	1	-	-	2,578	-	-	-	2,579
Stock-based compensation	-	-	-	-	1,536,271	-	-	-	1,536,271
Subscription payment	-	-	-	-	-	16,000	-	-	16,000
Subscription reversal	(267,444)	(2,674)	-	-	(997,326)	1,000,000	-	-	-
Common stock issued @ \$4.49 per share to Roche	239,894	240	-	-	985,809	-	-	-	986,049
Common stock and warrants issued @ \$2.26 per unit	1,825,079	1,825	-	-	3,814,643	-	-	-	3,816,468
Common stock and	1,667,051	1,667	-	-	3,255,192	-	-	-	3,256,859

warrants issued @ \$2.12 per unit										
Common stock and warrants issued @ \$1.83 per unit	14,262,553	14,263	-	-	25,445,236	-	-	-	-	25,459,499
Settlements related to derivative liability	-	-	-	-	1,600,989	-	-	-	-	1,600,989
Preferred stock issued @ 1,000 per share	-	-	9,900	10	9,899,990	-	-	-	-	9,900,000
Net loss for the year ended September 30, 2013	-	-	-	-	-	-	(31,143,289)	(560,144)	(31,703,433)	
Balance at September 30, 2013	32,489,444	\$124,859	9,900	\$10	193,514,766	\$-	\$(166,140,969)	\$(1,763,877)	\$25,734,789	
Exercise of warrants	1,869,005	1,869	-	-	5,738,785	-	-	-	5,740,654	
Exercise of stock options	342,338	342	-	-	2,238,314	-	-	-	2,238,656	
Stock-based compensation	-	-	-	-	1,719,582	-	-	-	1,719,582	
Common stock issued @ \$5.86	3,071,672	3,072	-	-	14,057,040	-	-	-	14,060,112	
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	Common Stock Shares	Common Stock Amount	Preferred Stock Shares	Preferred Stock Amount	Additional Paid- in Capital	Subsidiary Receivable	Development Stage	Accumulated Deficit during the	Noncontrolling interest	Totals
Common stock issued @ \$18.95	6,325,000	6,325	-	-	112,575,234	-	-	-	-	112,581,559
Preferred stock issued @ \$1,000 per share	-	-	46,000	46	45,999,954	-	-	-	-	46,000,000
Common stock issued to Galloway	131,579	132	-	-	499,868	-	-	-	-	500,000
Settlements related to derivative liability	-	-	-	-	5,630,636	-	-	-	-	5,630,636
Preferred stock converted to common stock	7,638,033	7,638	(34,609)	(35)	(7,603)	-	-	-	-	-
Net loss for the six months ended March 31, 2014	-	-	-	-	-	-	(24,570,831)	(97,600)	(24,668,431)	
Balance at March 31, 2014	51,867,071	\$144,237	21,291	\$21	\$381,966,576	\$-	\$(190,711,800)	\$(1,861,477)	\$189,537,557	

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

Arrowhead Research Corporation and Subsidiaries

(A Development Stage Company)

Consolidated Statements of Cash Flows

(unaudited)

May 7, 2003

	Six months ended March 31, 2014	Six months ended March 31, 2013	(Date of inception) to March 31, 2014
CASH FLOWS FROM OPERATING ACTIVITIES OF CONTINUING OPERATIONS:			
Net loss	\$(24,668,431)	\$(11,720,745)	\$(210,024,869)
Net (income) loss attributable to noncontrolling interests	97,600	348,650	19,477,029
Net income (loss) attributable to Arrowhead	(24,570,831)	(11,372,095)	(190,547,840)
(Income) loss from discontinued operations	-	354	42,838,408
Realized and unrealized (gain) loss on investments	-	-	(762,954)
Charge for bad debt allowance	-	-	2,497,300
(Gain) loss from sale of subsidiary	-	-	(306,344)
(Gain) loss on purchase of Roche Madison	-	-	(1,576,107)
(Gain) loss on disposal of fixed assets	58,878	36,440	1,341,731
Stock issued for professional services	-	-	741,632
Change in value of derivatives	6,470,803	(14,873)	8,489,788
Contingent consideration - fair value adjustments	-	-	1,421,652
Purchased in-process research and development	-	-	15,851,555
Stock-based compensation	1,719,582	750,782	16,837,321
Depreciation and amortization	799,184	898,362	9,959,882
Amortization (accretion) of note discounts, net	269,313	36,931	399,171
Gain on sale of stock in subsidiary	-	-	(2,292,800)
Noncash impairment expense	-	1,279,882	3,958,496
Equity in income (loss) of unconsolidated affiliates	-	221,169	963,407
Noncontrolling interest	(97,600)	(348,650)	(19,477,029)
Changes in operating assets and liabilities:			
Receivables	75,000	9,375	109,415
Other receivables	(611,360)	1,080	(3,153,422)
Prepaid expenses	(69,608)	191,732	(505,994)
Other current assets	(136,403)	(214,318)	(301,969)
Accounts payable	1,311,947	(6,279)	2,131,904
Accrued expenses	275,370	199,242	1,024,199
Other liabilities	(214,329)	26,516	727,922
NET CASH USED IN OPERATING ACTIVITIES OF CONTINUING OPERATIONS			
	(14,720,054)	(8,304,350)	(109,630,676)

CASH FLOWS FROM INVESTING ACTIVITIES OF
CONTINUING OPERATIONS:

Purchases of property and equipment	(607,772)	(31,468)	(4,949,961)
Proceeds from sale of investments	-	1,160,181	4,732,688
Proceeds from sale of fixed assets	-	129,454	522,192
Purchase of marketable securities	(46,365,528)	-	(75,674,014)
Proceeds from sale of marketable securities	5,010,238	-	23,898,503
Cash transferred in acquisitions/divestitures	-	-	(1,579,365)
Purchase of MASA Energy, LLC	-	-	(250,000)
Minority equity investment	-	-	(2,000,000)
Cash paid for interest in Insert	-	-	(10,150,000)
Cash obtained from interest in Insert	-	-	10,529,594
Proceeds from sale of subsidiaries	-	-	359,375
Payment for patents	-	-	(303,440)
Restricted cash	-	-	50,773
	-	-	
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES OF CONTINUING OPERATIONS	(41,963,062)	1,258,167	(54,813,655)

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May 7, 2003

	Six months ended March 31, 2014	Six months ended March 31, 2013	(Date of inception) to March 31, 2014
CASH FLOWS FROM FINANCING ACTIVITIES OF CONTINUING OPERATIONS:			
Principal payments on capital leases	(204,448)	(106,595)	(615,855)
Proceeds from issuance of common stock, preferred stock and warrants, net	180,620,980	7,089,327	331,379,995
Proceeds from issuance of Calando debt	-	-	2,516,467
Proceeds from sale of stock in subsidiary	-	-	20,902,100
NET CASH PROVIDED BY FINANCING ACTIVITIES OF CONTINUING OPERATIONS	180,416,532	6,982,732	354,182,707
Cash flows from discontinued operations:			
Operating cash flows	-	(354)	(46,004,141)
Investing cash flows	-	-	790,625
Financing cash flows	-	-	(1,677,000)
Net cash provided by (used in) discontinued operations:	-	(354)	(46,890,516)
NET INCREASE (DECREASE) IN CASH	123,733,416	(63,805)	142,847,860
CASH AT BEGINNING OF PERIOD	19,114,444	3,377,288	-
CASH AT END OF PERIOD	\$ 142,847,860	\$ 3,313,483	\$ 142,847,860