

ARROWHEAD RESEARCH CORP
Form 10-Q
February 09, 2007

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 December 31, 2006.

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

Commission file number 000-21898

ARROWHEAD RESEARCH CORPORATION

(Name of small business issuer in its charter)

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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Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 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: 34,233,127 as of February 8, 2007.

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

	Page(s)
PART I - FINANCIAL INFORMATION	
ITEM 1. FINANCIAL STATEMENTS	
<u>Condensed Consolidated Balance Sheets as of December 31, 2006 (unaudited) and September 30, 2006</u>	3
<u>Condensed Consolidated Statements of Operations for the three months ended December 31, 2006 and 2005 and from inception through December 31, 2006 (unaudited)</u>	4
<u>Condensed Consolidated Statements of Stockholders' Equity for the period from inception to December 31, 2006 (unaudited)</u>	5
<u>Condensed Consolidated Statements of Cash Flows for the three months ended December 31, 2006 and 2005 and from inception through December 31, 2006 (unaudited)</u>	6
<u>Notes to Condensed Consolidated Financial Statements (unaudited)</u>	7
<u>ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u>	18
<u>ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u>	23
<u>ITEM 4. CONTROLS AND PROCEDURES</u>	23
PART II - OTHER INFORMATION	
<u>ITEM 1. LEGAL PROCEEDINGS</u>	24
<u>ITEM 2. RECENT SALES OF UNREGISTERED SECURITIES; USE OF PROCEEDS</u>	24
<u>ITEM 3. DEFAULTS UPON SENIOR SECURITIES</u>	24
<u>ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS</u>	24
<u>ITEM 5. OTHER INFORMATION</u>	24
<u>ITEM 6. EXHIBITS</u>	25
<u>SIGNATURES</u>	27

Arrowhead Research Corporation and Subsidiaries

(A Development Stage Company)

Consolidated Balance Sheets

	(unaudited) December 31, 2006	September 30, 2006
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 28,266,834	\$ 28,020,304
Marketable securities at fair market value - US Treasury Bills		
Grant receivable, net of allowance for doubtful account of \$0	3,697	3,697
Other receivables	33,520	70,517
Prepaid sponsored research, <i>Note 6.</i>	302,128	358,020
Other prepaid research	1,417	7,600
Other prepaid expenses	199,298	315,653
TOTAL CURRENT ASSETS	28,806,894	28,775,791
PROPERTY AND EQUIPMENT		
Computers, office equipment and furniture	548,919	544,823
Research equipment	1,447,532	1,375,595
Software	68,969	68,969
Leasehold improvement	409,245	369,699
	2,474,665	2,359,086
Less: Accumulated depreciation and amortization	(1,214,692)	(1,088,105)
NET PROPERTY AND EQUIPMENT	1,259,973	1,270,981
INTANGIBLE AND OTHER ASSETS		
Rent deposit	113,311	161,469
Patents, <i>Note 1.</i>	3,250,497	3,354,487
Goodwill	963,150	963,150
TOTAL OTHER ASSETS	4,326,958	4,479,106
TOTAL ASSETS	\$ 34,393,825	\$ 34,525,878
LIABILITIES AND STOCKHOLDERS EQUITY		
CURRENT LIABILITIES		
Accounts payable, <i>Note 1.</i>	\$ 391,611	\$ 846,580
Accrued expenses	254,163	677,722
Payroll liabilities	369,470	233,932
Preferred stock liability		1,162,000
Deferred revenue		
TOTAL CURRENT LIABILITIES	1,015,244	2,920,234
Minority interests	3,216,137	934,438
Commitment and contingencies, <i>Note 6.</i>		
STOCKHOLDERS EQUITY, <i>Note 4.</i>		
Common stock	34,241	34,156
Preferred stock		
Additional paid-in capital	62,311,692	59,113,369

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Accumulated deficit during the development stage	(32,183,489)	(28,476,319)
TOTAL STOCKHOLDERS EQUITY	30,162,444	30,671,206
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	\$ 34,393,825	\$ 34,525,878

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

Arrowhead Research Corporation and Subsidiaries

(A Development Stage Company)

Consolidated Statements of Operations

(unaudited)

	Period from		
	Quarter ended December 31, 2006	Quarter ended December 31, 2005	May 7, 2003 (Date of inception) to December 31, 2006
REVENUE	\$ 11,092	\$ 252,500	\$ 1,393,539
OPERATING EXPENSES			
Salaries	1,726,548	1,366,266	11,626,568
Consulting	231,406	118,478	2,328,408
General & administrative expenses	1,176,929	1,158,535	10,251,732
Research & development	1,349,849	1,722,393	14,521,974
Goodwill impairment & other charges			999,000
TOTAL OPERATING EXPENSES	4,484,732	4,365,672	39,727,680
OPERATING LOSS	(4,473,640)	(4,113,172)	(38,334,141)
OTHER INCOME (EXPENSES)			
Gain on sale of stock in subsidiary			2,292,800
Realized & unrealized gain (loss) in marketable securities		3,266	382,264
Interest income	313,217	176,516	1,348,577
Other income			3,308
Minority interests	453,253	796,437	3,541,605
TOTAL OTHER INCOME (EXPENSES)	766,470	976,219	7,568,554
Loss from continuing operations	(3,707,170)	(3,136,953)	(30,765,587)
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)
NET INCOME (LOSS)	(3,707,170)	(3,136,953)	(32,183,489)
Loss from continuing operations per share, basic and diluted	(0.11)	(0.11)	
Loss from discontinued operations			
Net income (loss) per share, basic and diluted	(0.11)	(0.11)	
Weighted average shares outstanding, basic and diluted	34,181,399	27,987,281	

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

Arrowhead Research Corporation and Subsidiaries

(A Development Stage Company)

Consolidated Statement of Stockholders Equity

from inception to December 31, 2006

(unaudited)

	Common Stock		Additional Paid-in-Capital	Accumulated Deficit during the Development Stage	Totals
	Shares	Amount			
Initial Issuance of Stock:					
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)
Balance at September 30, 2003	4,680,000	4,680	1,510,320	(95,238)	1,419,762
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		500,000
Stock issuance cost charged to additional paid-in capital			(96,500)		(96,500)
Common stock and warrants issued for cash @ \$1.50 per unit	6,608,788	6,609	9,906,573		9,913,182
Common stock issued in reverse acquisition	705,529	706	(151,175)		(150,469)
Common stock issued as a gift for \$1.09 per share	150,000	163	162,587		162,750
Common stock and warrants issued as stock issuance cost @ \$1.50 per unit	356,229	356	533,988		534,344
Stock issuance cost charged to additional paid-in capital			(991,318)		(991,318)
Exercise of stock option @ \$0.20 per share	75,000	75	14,925		15,000
Exercise of stock options @ \$1.00 per share	6,000	6	5,994		6,000
Amortization of deferred compensation expense			175,653		175,653
Net loss for the year ended September 30, 2004				(2,528,954)	(2,528,954)
Balance at September 30, 2004	13,631,546	13,645	12,059,997	(2,624,192)	9,449,450
Exercise of warrants @ \$1.50 per share	13,812,888	13,813	20,705,522		20,719,335
Exercise of stock options @ \$1.00 per share	25,000	25	24,975		25,000
Purchase of Insert Therapeutics shares @ \$0.28/share	502,260	502	1,999,498		2,000,000
Common stock issued for services	12,500	12	49,988		50,000
Amortization of deferred compensation expense			508,513		508,513
Change in percentage of ownership in subsidiary					