

ARROWHEAD RESEARCH CORP
Form 10-Q
February 09, 2012

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, 2011

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)

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Delaware
(State of incorporation)

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

225 S. Lake Avenue, Suite 300

Pasadena, California 91101

(626) 304-3400

(Address and telephone number of principal executive offices)

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 filer

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 February 1, 2012 was 10,530,524.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

Arrowhead Research Corporation and Subsidiaries

(A Development Stage Company)

Consolidated Balance Sheets

ASSETS	December 31, 2011	September 30, 2011
CURRENT ASSETS		
Cash and cash equivalents	\$ 6,773,126	\$ 7,507,389
Other receivables	2,027,620	1,608,382
Prepaid expenses and other current assets	301,334	110,818
Marketable securities	71,828	634,585
TOTAL CURRENT ASSETS	9,173,908	9,861,174
PROPERTY AND EQUIPMENT		
Computers, office equipment and furniture	502,508	285,266
Research equipment	4,450,087	3,515
Software	105,916	77,020
Leasehold improvements	2,591,919	
	7,650,430	365,801
Less: Accumulated depreciation and amortization	(723,190)	(340,364)
PROPERTY AND EQUIPMENT, NET	6,927,240	25,437
OTHER ASSETS		
Rent deposit	6,264	
Patents and other intangible assets	2,749,593	1,731,211
Note Receivable, net	2,314,994	2,272,868
Derivative asset	160,125	161,125
Investment in Nanotope Inc., equity basis	1,543,220	1,649,748
Investment in Leonardo Biosystems Inc., at cost	187,000	187,000
TOTAL OTHER ASSETS	6,961,196	6,001,952
TOTAL ASSETS	\$ 23,062,344	\$ 15,888,563

LIABILITIES AND STOCKHOLDERS EQUITY

CURRENT LIABILITIES		
Accounts payable	\$ 714,057	\$ 576,809
Accrued expenses	2,386,796	864,511
Accrued payroll and benefits	637,691	195,649
Deferred revenue	101,042	
Derivative liabilities	1,010,883	944,980
Capital lease obligation	209,555	

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TOTAL CURRENT LIABILITIES	5,060,024	2,581,949
LONG-TERM LIABILITIES		
Note payable, net of current portion	702,695	606,786
Capital lease obligation, net of current portion	1,444,370	
Other non-current liabilities	106,345	135,660
TOTAL LONG-TERM LIABILITIES	2,253,410	742,446
Commitments and contingencies		
STOCKHOLDERS EQUITY		
Arrowhead Research Corporation stockholders equity:		
Preferred stock, \$0.001 par value; 5,000,000 shares authorized; 1,015 shares issued and outstanding	1	
Common stock, \$0.01 par value; 145,000,000 shares authorized; 10,530,524 and 8,642,286 shares issued and outstanding as of December 31, 2011 and September 30, 2011, respectively	105,306	86,423
Additional paid-in capital	136,318,592	127,476,435
Subscription receivable	(3,897,500)	(900,000)
Accumulated deficit during the development stage	(116,357,257)	(113,871,752)
Total Arrowhead Research Corporation stockholders equity	16,169,142	12,791,106
Noncontrolling interest	(420,232)	(226,938)
TOTAL STOCKHOLDERS EQUITY	15,748,910	12,564,168
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	\$ 23,062,344	\$ 15,888,563

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 December 31, 2011	Three Months Ended December 31, 2010	May 7, 2003 (Inception to December 31, 2011)
REVENUE	\$ 23,958	\$ 296,139	\$ 4,015,917
OPERATING EXPENSES			
Salaries	1,320,693	307,890	21,297,902
General and administrative expenses	1,277,904	631,561	26,868,719
Research and development	1,140,904	2,261,855	41,569,633
Stock-based compensation	251,878	370,148	12,591,942
Amortization of intangible assets	71,618	60,452	1,853,562
TOTAL OPERATING EXPENSES	4,062,997	3,631,906	104,181,758
OPERATING LOSS	(4,039,039)	(3,335,767)	(100,165,841)
OTHER INCOME (EXPENSE)			
Equity in income (loss) of unconsolidated affiliates	(106,527)	48,826	(829,780)
Gain on sale of stock in subsidiary			2,292,800
Gain on purchase of Roche Madison	1,576,107		1,576,107
Gain (loss) on sale of fixed assets, net			(127,088)
Realized and unrealized gain (loss) in marketable securities	(58,091)		62,954
Interest income (expense), net	7,875	15,247	2,722,353
Change in value of derivatives	(66,904)	465,270	2,827,609
Other income			250,000
TOTAL OTHER INCOME	1,352,461	529,343	8,774,955
LOSS FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	(2,686,579)	(2,806,424)	(91,390,887)
Provision for income taxes			
LOSS FROM CONTINUING OPERATIONS	(2,686,579)	(2,806,424)	(91,390,887)
Income (loss) from discontinued operations	(220)	1,574,994	(47,546,782)
Gain on disposal of discontinued operations			4,708,588
NET INCOME (LOSS) FROM DISCONTINUED OPERATIONS	(220)	1,574,994	(42,838,194)
NET LOSS	(2,686,799)	(1,231,430)	(134,229,081)
Net (income) loss attributable to noncontrolling interests	201,294	(206,252)	18,035,784
NET LOSS ATTRIBUTABLE TO ARROWHEAD	\$ (2,485,505)	\$ (1,437,682)	\$ (116,193,297)

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Earnings per share basic and diluted:

Loss from continuing operations attributable to Arrowhead common shareholders	\$	(0.25)	\$	(0.42)
Income from discontinued operations attributable to Arrowhead common shareholders				0.22
Net loss attributable to Arrowhead shareholders	\$	(0.25)	\$	(0.20)
Weighted average shares outstanding basic and diluted		10,121,069		7,177,941

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 December 31, 2011

(unaudited)

	Common Stock		Preferred Stock	Additional Paid-in Capital	Subscription Receivable	Accumulated Deficit	Noncontrolling interest	Totals
	Shares	Amount	Shares Amount			during the Development Stage		
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 securities @ \$10.00 per unit	50,000	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 @ \$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

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Exercise of stock options @ \$10.00 per share	2,500	25	24,975			25,000
Common stock issued to purchase Insert Therapeutics share @ \$39.80 per share	50,226	502	1,999,498			2,000,000
Common stock issued for services	1,250	12	49,988			50,000
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 issued @ \$35.00 per share	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				