

ARROWHEAD RESEARCH CORP

Form 10-Q

May 09, 2013

[Table of Contents](#)

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, 2013

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 1050

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 May 7, 2013 was 31,305,317.

Table of Contents

	Page(s)
<u>PART I FINANCIAL INFORMATION</u>	
<u>ITEM 1. FINANCIAL STATEMENTS (unaudited)</u>	
<u>Consolidated Balance Sheets</u>	1
<u>Consolidated Statements of Operations</u>	2
<u>Consolidated Statement of Stockholders' Equity</u>	3
<u>Consolidated Statements of Cash Flows</u>	4
<u>Notes to Consolidated Financial Statements</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>	25
<u>ITEM 4. CONTROLS AND PROCEDURES</u>	25
<u>PART II OTHER INFORMATION</u>	
<u>ITEM 1. LEGAL PROCEEDINGS</u>	25
<u>ITEM 1A. RISK FACTORS</u>	25
<u>ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS</u>	25
<u>ITEM 3. DEFAULTS UPON SENIOR SECURITIES</u>	25
<u>ITEM 4. MINE SAFETY DISCLOSURES</u>	25
<u>ITEM 5. OTHER INFORMATION</u>	26
<u>ITEM 6. EXHIBITS</u>	26
<u>SIGNATURE</u>	27

Table of Contents**PART I. FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****Arrowhead Research Corporation and Subsidiaries****(A Development Stage Company)****Consolidated Balance Sheets**

	March 31, 2013	September 30, 2012
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 3,313,483	\$ 3,377,288
Trade receivable		9,375
Other receivables		9,930
Prepaid expenses and other current assets	426,398	618,130
Marketable securities		106,500
Note receivable, net		2,446,113
TOTAL CURRENT ASSETS	3,739,881	6,567,336
PROPERTY AND EQUIPMENT		
Computers, office equipment and furniture	323,376	323,376
Research equipment	3,186,601	3,319,027
Software	69,623	69,623
Leasehold improvements	2,749,409	2,749,409
	6,329,009	6,461,435
Less: Accumulated depreciation and amortization	(2,315,915)	(1,565,783)
PROPERTY AND EQUIPMENT, NET	4,013,094	4,895,652
OTHER ASSETS		
Patents and other intangible assets, net	4,636,339	4,784,569
Derivative asset and other non-current assets	30,011	280,261
TOTAL OTHER ASSETS	4,666,350	5,064,830
TOTAL ASSETS	\$ 12,419,325	\$ 16,527,818
LIABILITIES AND STOCKHOLDERS EQUITY		
CURRENT LIABILITIES		
Accounts payable	\$ 871,707	\$ 877,986
Accrued expenses	823,517	730,775
Accrued payroll and benefits	1,222,573	1,127,219
Deferred revenue	65,625	37,500
Derivative liabilities	2,535,910	647,213
Capital lease obligation	218,048	214,801
Notes payable	880,239	100,000

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Other current liabilities	546,407	1,592,394
TOTAL CURRENT LIABILITIES	7,164,026	5,327,888
LONG-TERM LIABILITIES		
Notes payable, net of current portion	50,000	839,421
Capital lease obligation, net of current portion	1,172,616	1,282,458
Other non-current liabilities	272,179	269,142
TOTAL LONG-TERM LIABILITIES	1,494,795	2,391,021
Commitments and contingencies		
STOCKHOLDERS EQUITY		
Arrowhead Research Corporation stockholders equity:		
Preferred stock, \$0.001 par value; 5,000,000 shares authorized; no shares issued or outstanding		
Common stock, \$0.001 par value; 145,000,000 shares authorized; 17,042,764 and 13,579,185 shares issued and outstanding as of March 31, 2013 and September 30, 2012, respectively	109,402	108,354
Additional paid-in capital	151,573,260	145,917,968
Subscription receivable		(1,016,000)
Accumulated deficit during the development stage	(146,369,775)	(134,997,680)
Total Arrowhead Research Corporation stockholders equity	5,312,887	10,012,642
Noncontrolling interest	(1,552,383)	(1,203,733)
TOTAL STOCKHOLDERS EQUITY	3,760,504	8,808,909
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	\$ 12,419,325	\$ 16,527,818

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

Table of Contents**Arrowhead Research Corporation and Subsidiaries****(A Development Stage Company)****Consolidated Statements of Operations****(unaudited)**

	Three Months Ended March 31, 2013	Three Months Ended March 31, 2012	Six Months Ended March 31, 2013	Six Months Ended March 31, 2012	May 7, 2003 (Inception) to March 31, 2013
REVENUE	\$ 43,750	\$ 31,250	\$ 202,766	\$ 55,208	\$ 4,341,600
OPERATING EXPENSES					
Salaries and payroll-related costs	1,725,176	2,017,064	3,354,599	3,337,757	29,746,729
General and administrative expenses	779,970	930,914	1,697,646	2,197,824	33,050,861
Research and development	2,125,019	1,358,691	3,701,685	2,127,765	46,320,433
Stock-based compensation	355,108	169,390	750,782	421,268	14,332,250
Depreciation and amortization	448,765	423,948	898,362	878,391	8,307,648
TOTAL OPERATING EXPENSES	5,434,038	4,900,007	10,403,074	8,963,005	131,757,921
OPERATING LOSS	(5,390,288)	(4,868,757)	(10,200,308)	(8,907,797)	(127,416,321)
OTHER INCOME (EXPENSE)					
Equity in income (loss) of unconsolidated affiliates	(157,612)	(64,261)	(221,169)	(170,788)	(1,184,576)
Impairment of investment in unconsolidated affiliates					(1,642,775)
Gain on purchase of Roche Madison				1,576,107	1,576,107
Gain (loss) on sale of fixed assets, net	(54,932)	(33,484)	(36,440)	(33,484)	(1,242,905)
Realized and unrealized gain (loss) in marketable securities				(58,091)	62,954
Interest income (expense), net	(27,567)	5,015	(20,151)	12,890	2,730,293
Change in value of derivatives	(29,403)	(622,145)	14,873	(689,048)	3,296,277
Gain on sale of stock in subsidiary					2,292,800
Other income (expense)	(1,279,881)		(1,257,196)		(1,007,196)
TOTAL OTHER INCOME (EXPENSE)	(1,549,395)	(714,875)	(1,520,083)	637,586	4,880,979
LOSS FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	(6,939,683)	(5,583,632)	(11,720,391)	(8,270,211)	(122,535,342)
Provision for income taxes					
LOSS FROM CONTINUING OPERATIONS	(6,939,683)	(5,583,632)	(11,720,391)	(8,270,211)	(122,535,342)
Income (loss) from discontinued operations	(336)	(483)	(354)	(702)	(47,546,996)
Gain on disposal of discontinued operations					