

---

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 20549**

---

**FORM 8-K**

**CURRENT REPORT  
Pursuant to Section 13 or 15(d) of the  
Securities Exchange Act of 1934**

**Date of report (Date of earliest event reported) May 29, 2007**

---

**Arrowhead Research Corporation**

**(Exact Name of Registrant as Specified in Charter)**

**Delaware**

**(State or Other Jurisdiction of Incorporation)**

**0-21898**

**(Commission File Number)**

**46-0408024**

**(IRS Employer Identification No.)**

**201 South Lake Avenue, Suite 703, Pasadena, CA**

**(Address of Principal Executive Offices)**

**91101**

**(Zip Code)**

**(626) 304-3400**

**(Registrant's Telephone Number, Including Area Code)**

**(Former Name or Former Address, If Changed Since Last Report)**

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
  - Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
  - Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
  - Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
-

### Item 3.02 Unregistered Sales of Equity Securities

On May 29, 2007, Arrowhead Research Corporation (the "Company") completed the closing of its \$16,469,800 million private placement (the "Private Offering") of an aggregate of 2,849,446 shares (the "Shares") of the Company's common stock, \$0.001 par value per share ("Common Stock"), at a per share purchase price of \$5.78, and warrants to purchase up to an additional 712,363 shares of Common Stock (the "Warrants"), exercisable at \$7.06 per share.

The Shares and Warrants were offered and sold only to institutional and accredited investors in reliance on Section 4(2) of the Securities Act of 1933, as amended. The Shares and Warrants sold in the private placement have not been registered under the Securities Act or state securities laws and may not be offered or sold in the United States absent registration with the Securities and Exchange Commission or an applicable exemption from the registration requirements. The Company has agreed to file a registration statement with the Securities and Exchange Commission covering the resale of the Shares of Common Stock issued in the private placement and the shares of Common Stock issuable upon exercise of the Warrants.

A copy of the form of Subscription Agreement is attached hereto as Exhibit 10.1, a copy of the form of Warrant is attached hereto as Exhibit 4.1, and a copy of the Registration Rights Agreement is attached hereto as Exhibit 4.2. Each of the foregoing exhibits is incorporated by reference and the description of the each of the foregoing documents contained in the Current Report of Form 8-K is qualified in its entirety by reference to such documents.

### Item 9.01 Financial Statements and Exhibits.

(d) Exhibits.

<u>Exhibit Number</u>	<u>Description</u>
4.1	Form of Warrant
4.2	Registration Rights Agreement
10.1	Form of Subscription Agreement

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

ARROWHEAD RESEARCH CORPORATION

May 30, 2007

By: /s/ Joseph T. Kingsley

Name: Joseph T. Kingsley

Title: President & Chief Financial Officer

THE EXERCISE OF THIS WARRANT HAS NOT BEEN REGISTERED WITH THE SECURITIES AND EXCHANGE COMMISSION OR THE SECURITIES COMMISSION OF ANY STATE. THIS WARRANT MAY ONLY BE EXERCISED PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT") AND APPLICABLE SECURITIES LAWS. AS A CONDITION PRECEDENT TO THE EXERCISE OF THIS WARRANT, THE COMPANY MAY REQUIRE SUCH CERTIFICATES AND OPINIONS OF COUNSEL AS IT DEEMS NECESSARY FROM THE PERSON EXERCISING THIS WARRANT TO ESTABLISH THE EXISTENCE OF SUCH EXEMPTIONS.

NEITHER THESE SECURITIES NOR THE SECURITIES INTO WHICH THESE SECURITIES ARE EXERCISABLE HAVE BEEN REGISTERED WITH THE SECURITIES AND EXCHANGE COMMISSION OR THE SECURITIES COMMISSION OF ANY STATE IN RELIANCE UPON AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT, AND, ACCORDINGLY, MAY NOT BE OFFERED OR SOLD EXCEPT PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT OR PURSUANT TO AN AVAILABLE EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND IN ACCORDANCE WITH APPLICABLE STATE SECURITIES LAWS AS EVIDENCED BY A LEGAL OPINION OF COUNSEL TO THE TRANSFEROR TO SUCH EFFECT, THE SUBSTANCE OF WHICH SHALL BE REASONABLY ACCEPTABLE TO THE COMPANY.

THIS WARRANT IS SUBJECT TO OTHER RESTRICTIONS ON TRANSFER AS SET FORTH IN A SECURITIES PURCHASE AGREEMENT, THE FORM OF WHICH IS AVAILABLE FROM THE COMPANY.

No.

Void after May 21, 2017

WARRANT TO PURCHASE SHARES  
OF  
THE COMMON STOCK  
OF  
ARROWHEAD RESEARCH CORPORATION,  
A Delaware corporation

This certifies that, for value received, the Holder identified as such on the signature page hereof (together with its successors and assigns) is entitled to subscribe for and purchase, on the terms hereof, shares of the Common Stock, \$0.001 par value (the "Common Stock"), of Arrowhead Research Corporation, a Delaware corporation (the "Company"), subject to adjustment as provided herein.

This Warrant is subject to the following terms and conditions:

1. Exercise of Warrant. The terms and conditions upon which this Warrant may be exercised, and the shares of Common Stock subject hereto may be purchased, are as follows:

1.1 Term. Subject to the terms hereof, this Warrant may be exercised at any time, or from time to time, after six (6) months and one (1) day following the date hereof (the "Vesting Date"), in whole or in part; provided, however, that in no event may this Warrant be exercised later than 5:00 p.m. (Pacific Time) on May 21, 2017, on which date this Warrant will expire (the "Expiration Date").

1.2 Number of Shares. This Warrant may be exercised to purchase up to an aggregate of \_\_\_\_\_ shares of Common Stock.

1.3 Exercise Price. The exercise price per share for all shares of Common Stock to be issued upon exercise of this Warrant shall be \$7.06, subject to adjustment as provided herein.

#### 1.4 Method of Exercise.

(a) The exercise of the purchase rights evidenced by this Warrant shall be effected by (i) the surrender of the Warrant, together with a duly executed copy of the form of Exercise Notice attached hereto as Schedule 1, to the Company at its principal offices and (ii) the delivery of the exercise price by check or bank draft payable to the Company's order or by wire transfer to the Company's account for the number of shares for which the purchase rights hereunder are being exercised or any other form of consideration approved by the Company's Board of Directors (the "Board").

(b) Unless this Warrant has expired or all of the purchase rights represented hereby have been exercised, the Company will prepare a new Warrant, substantially identical hereto, representing the rights formerly represented by this Warrant that have not expired or been exercised, and will deliver such new Warrant to the Purchaser promptly.

(c) Each exercise of this Warrant shall be deemed to have been effected immediately prior to the close of business on the day on which this Warrant shall have been surrendered to the Company as provided herein or at such later date as may be specified in the executed form of subscription, and at such time the person or persons in whose name or names any certificate or certificates for shares of Common Stock shall be issuable upon such exercise as provided herein shall be deemed to have become the holder or holders of record thereof.

2. Adjustments to Exercise Price. The number and kind of shares of Common Stock (or any shares of stock or other securities which may be) issuable upon the exercise of this Warrant and the exercise price hereunder shall be subject to adjustment from time to time upon the happening of certain events, as follows:

2.1 Dividends, Distributions, Stock Splits or Combinations. If the Company shall at any time or from time to time after the date hereof make or issue, or fix a record date for the determination of holders of Common Stock entitled to receive, a dividend or other distribution payable in additional shares of Common Stock, then and in each such event the exercise price hereunder then in effect shall be decreased as of the time of such issuance or, in the event such a record date shall have been fixed, as of the close of business on such record date, by multiplying the exercise price hereunder then in effect by a fraction: (a) the numerator of which shall be the total number of shares of Common Stock (assuming the conversion of all outstanding securities of the Company that are convertible into Common Stock and the exercise of all options to purchase Common Stock or securities that are convertible into Common Stock) issued and outstanding immediately prior to the time of issuance or the close of business on such record date; and (b) the denominator of which shall be the total number of shares of Common Stock (assuming the conversion of all outstanding securities of the Company that are convertible into Common Stock and the exercise of all options to purchase Common Stock or securities that are convertible into Common Stock) issued and outstanding immediately after the time of issuance or the close of business on such record date. If the Company shall at any time subdivide the outstanding shares of Common Stock, or if the Company shall at any time combine the outstanding shares of Common Stock, then the exercise price hereunder immediately shall be decreased proportionally (in the case of a subdivision) or increased proportionally (in the case of a combination). Any such adjustment shall become effective at the close of business on the date the subdivision or combination becomes effective.

2.2 Reclassification or Reorganization. If the Common Stock issuable upon the exercise of this Warrant shall be changed into the same or different number of shares of any class or classes of stock, whether by capital reorganization, reclassification or otherwise (other than a subdivision or combination of shares or stock dividend provided for in Section 2.1 above, or a reorganization, merger, consolidation or sale of assets provided for in Section 2.3 below), then and in each such event the Holder shall be entitled to receive upon the exercise of this Warrant the kind and amount of shares of stock and other securities and property receivable upon such reorganization, reclassification or other change, to which a holder of the number of shares of Common Stock issuable upon the exercise of this Warrant would have received if this Warrant had been exercised immediately prior to such reorganization, reclassification or other change, all subject to further adjustment as provided herein.

2.3 Merger, Consolidation or Sale of Assets. If at any time or from time to time there shall be a capital reorganization of the Common Stock (other than a subdivision, combination, reclassification or exchange of shares provided for elsewhere in this Section 2) or a merger or consolidation of the Company with or into another corporation, or the sale of all or substantially all of the Company's assets and properties to any other person or entity, then as a part of such reorganization, merger, consolidation or sale, provision shall be made so that the Holder shall thereafter be entitled to receive upon the exercise of this Warrant, the number of shares of stock or other securities or property of the Company, or of the successor corporation resulting from such reorganization, merger, consolidation or sale, to which a holder of the number of shares of Common Stock (or any shares of stock or other securities which may be) issuable upon the exercise of this Warrant would have received if this Warrant had been exercised immediately prior to such reorganization, merger, consolidation or sale.

2.4 Notice of Adjustments and Record Dates. The Company shall promptly notify the Holder in writing of each adjustment or readjustment of the exercise price hereunder and the number of shares of Common Stock (or any shares of stock or other securities which may be) issuable upon the exercise of this Warrant. Such notice shall state the adjustment or readjustment and show in reasonable detail the facts on which that adjustment or readjustment is based. In the event of any taking by the Company of a record of the holders of Common Stock for the purpose of determining the holders thereof who are entitled to receive any dividend or other distribution, the Company shall notify the Holder in writing of such record date at least twenty (20) days prior to the date specified therein.

2.5 No Impairment. The Company shall not avoid or seek to avoid the observance or performance of any of the terms to be observed or performed hereunder by the Company, but shall at all times in good faith assist in the carrying out of all the provisions of this Warrant. Without limiting the generality of the foregoing, the Company (a) shall at all times reserve and keep available a number of its authorized shares of Common Stock, free from all preemptive rights therein, which shall be sufficient to permit the exercise of this Warrant and (b) shall take all such action as may be necessary or appropriate in order that all shares of Common Stock as may be issued pursuant to the exercise of this Warrant shall, upon issuance, be duly and validly issued, fully paid and nonassessable and free from all taxes, liens and charges with respect to the issue thereof.

3. Redemption of Warrants. This Warrant is subject to redemption by the Company, in whole but not in part, at a redemption price of \$0.001, at any time one year after the date of this agreement and prior to the Expiration Date, on not less than 30 days' prior written notice to the Holder, provided that (a) a public trading market for the Company's Common Stock then exists, and (b) the daily closing price per share of Common Stock has been at least \$8.47 for a period of at least 20 consecutive trading days ending on the date prior to the date upon which the notice of redemption is given. The Company's redemption right is conditioned on the Registration Statement being effective for all of the shares underlying the warrant. The Holder shall have the right to exercise the Warrant, in whole or in part, before the date specified in the redemption notice. Upon expiration of such period, all rights of the Holder shall terminate, other than the rights to receive the redemption price, without interest, and the right to receive the redemption price shall itself expire on the Expiration Date.

3.1 Cashless Exercise. If at any time after one year from the date of issuance of this Warrant there is no effective Registration Statement registering, or no current prospectus available for, the resale of the Warrant Shares by the Holder, then this Warrant may also be exercised at such time by means of a "cashless exercise" in which the Holder shall be entitled to receive a certificate for the number of Warrant Shares equal to the quotient obtained by dividing [(A-B) (X)] by (A), where:

(A) = the VWAP on the Trading Day immediately preceding the date of such election;

(B) = the Exercise Price of this Warrant, as adjusted; and (X) = the number of Warrant Shares issuable upon exercise of this Warrant in accordance with the terms of this Warrant by means of a cash exercise rather than a cashless exercise.

4. Replacement of Warrants. On receipt by the Company of evidence reasonably satisfactory to the Company of the loss, theft, destruction or mutilation of this Warrant and, in the case of any such loss, theft or destruction of this Warrant, on delivery of an indemnity agreement reasonably satisfactory in form and amount to the Company or, in the case of any such mutilation, on surrender and cancellation of such Warrant, the Company at its expense shall execute and deliver to the Holder, in lieu thereof, a new Warrant of like tenor.

5. Investment Intent. Unless a current registration statement under the Securities Act of 1933, as amended, shall be in effect with respect to the securities to be issued upon exercise of this Warrant, the Holder, by accepting this Warrant, covenants and agrees that, at the time of exercise hereof, and at the time of any proposed transfer of any securities acquired upon exercise hereof, the Holder shall deliver to the Company a written statement that the securities acquired by the Holder upon exercise hereof are for the own account of the Holder for investment and are not acquired with a view to, or for sale in connection with, any distribution thereof (or any portion thereof) and with no present intention (at any such time) of offering or distributing such securities (or any portion thereof).

6. No Rights or Liability as a Stockholder. This Warrant does not entitle the Holder hereof to any voting rights or other rights as a stockholder of the Company. No provisions hereof, in the absence of affirmative action by the Holder to purchase Common Stock, and no enumeration herein of the rights or privileges of the Holder, shall give rise to any liability of the Holder as a stockholder of the Company.

7. Miscellaneous.

7.1 Titles and Subtitles. The titles and subtitles used in this Warrant are for convenience only and are not to be considered in construing or interpreting this Warrant.

7.2 Notices. Any notice required or permitted under this Warrant shall be given in writing to the respective addresses of the Holder and the Company set forth on the signature page hereof, or to such other address as either party shall designate in a written notice given to the other as provided herein.

7.3 Attorneys' Fees. If any action at law or in equity is necessary to enforce or interpret the terms of this Warrant, the prevailing party shall be entitled to reasonable attorneys' fees, costs and disbursements in addition to any other relief to which such party may be entitled.

7.4 Amendments and Waivers. Any term of this Warrant may be amended and the observance of any term of this Warrant may be waived (either generally or in a particular instance and either retroactively or prospectively), as provided in the Subscription and Purchase Agreement pursuant to which this Warrant has been issued.

7.5 Severability. If one or more provisions of this Warrant are held to be unenforceable under applicable law, such provision shall be excluded from this Warrant and the balance of the Warrant shall be interpreted as if such provision were so excluded and shall be enforceable in accordance with its terms.

7.6 Governing Law. This Warrant shall be governed by and construed and enforced in accordance with the laws of the State of Delaware, without giving effect to its conflicts of laws principles.

7.7 Counterparts. This Warrant may be executed in one or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

Date: May 21, 2007

“The Company”

ARROWHEAD RESEARCH, CORPORATION  
201 South Lake Avenue, Suite 703  
Pasadena, California 91101

By: \_\_\_\_\_  
R. Bruce Stewart  
Chief Executive Officer

“Holder”

ACKNOWLEDGED AND AGREED:

\_\_\_\_\_  
(Signature)

By: \_\_\_\_\_



SCHEDULE 1

**EXERCISE NOTICE**

(To be signed only on exercise of Warrant for cash)

To: Arrowhead Research Corporation.

The undersigned, the holder of the Warrant attached hereto, hereby irrevocably elects to exercise the purchase rights represented by such Warrant for, and to purchase thereunder, \_\_\_\_\_ shares of the Common Stock of Arrowhead Research Corporation, a Delaware corporation, and herewith makes payment of \$\_\_\_\_\_ therefor, and requests that the certificates for such shares be issued in the name of, and delivered to \_\_\_\_\_, whose address is \_\_\_\_\_.

\_\_\_\_\_  
(Signature must conform in all respects to name of  
the Holder as specified on the face of the Warrant)

\_\_\_\_\_  
(Print Name)

\_\_\_\_\_  
(Address)

Dated: \_\_\_\_\_

Schedule 1

## REGISTRATION RIGHTS AGREEMENT

THIS REGISTRATION RIGHTS AGREEMENT (this "*Agreement*") is made and entered into as of this 16<sup>th</sup> day of May, 2007 by and among Arrowhead Research Corporation, a Delaware corporation (the "*Company*") and the purchasers of the Company's Common Stock listed on Exhibit A hereto (the "*Investors*").

## RECITALS

WHEREAS, the Investors are purchasing shares of the Company's common stock, par value \$0.001 per share (the "*Common Stock*") and warrants exercisable for shares of the Company's Common Stock, pursuant to a Subscription Agreement by and between the Company and each Investor dated as of the date hereof (collectively, the "*Purchase Agreements*");

WHEREAS, in connection with the consummation of the transactions under the Purchase Agreements, the Company and the Investors have agreed to the provisions as set forth below.

NOW, THEREFORE, in consideration of these premises and intending to be legally bound, the parties hereto agree as follows:

**1. Certain Definitions.** As used in this Agreement, the following terms shall have the following respective meanings:

"*Affiliate*" means, with respect to any specified Person, a Person that directly, or indirectly through one or more intermediaries, controls, or is controlled by, or is under common control with, the specified Person, where "control" (including the terms "controlling," "controlled by" and "under common control with") means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of such Person, whether through the ownership of voting securities, by contract, or otherwise; provided, however, that when used with respect to the Company, "*Affiliate*" shall not include any Investor or Affiliate thereof.

"*Closing Date*" means the date of the closing of the purchase and sale of Common Stock under the Purchase Agreements.

"*Commission*" means the Securities and Exchange Commission or any other federal agency at the time administering the Securities Act.

"*Exchange Act*" means the Securities Exchange Act of 1934, as amended, or any similar federal rule or statute and the rules and regulations of the Commission thereunder, all as the same shall be in effect at the time.

"*Registrable Securities*" means any (i) Common Stock purchased by the Investors pursuant to the Purchase Agreements, (ii) Common Stock issued or issuable upon exercise of those certain Warrants to Purchase Shares of Common Stock of the Company issued pursuant to the Purchase Agreements, and (iii) Common Stock issued or issuable in respect of the foregoing upon any stock split, stock dividend, recapitalization or similar event; *provided*, however, that securities shall only be treated as Registrable Securities if and so long as they have not been sold pursuant to a registration or in accordance with Rule 144.

The terms “register,” “registered” and “registration” refer to a registration effected by preparing and filing a registration statement in compliance with the Securities Act, and the declaration or ordering of the effectiveness of such registration statement.

“Registration Expenses” shall mean all expenses, except as otherwise stated below, incurred by the Company in complying with Section 2(a) and 2(c) hereof, including without limitation, all registration, qualification and filing fees, printing expenses, escrow fees, fees and disbursements of counsel for the Company, blue sky fees and expenses, the expense of any special audits incident to or required by any such registration (but excluding the compensation of regular employees of the Company which shall be paid in any event by the Company and excluding any underwriters discounts or commissions which may be applicable). Registration Expenses shall also include the reasonable fees and disbursements for one special counsel to the selling stockholders reasonably acceptable to the Company.

“Restricted Securities” shall mean the Common Stock purchased by the Investors pursuant to the Purchase Agreements, including any securities issued in respect of such stock upon any stock split, stock dividend, recapitalization, merger or similar event until such Common Stock are sold pursuant to a registration or until such Common Stock are sold or are eligible to be sold pursuant to Rule 144, including pursuant to subsection (k) of Rule 144.

“Rule 144” and “Rule 145” shall mean Rules 144 and 145, respectively, promulgated under the Securities Act, or any similar federal rules thereunder, all as the same shall be in effect at the time.

“Securities Act” shall mean the Securities Act of 1933, as amended, or any similar federal rule or statute and the rules and regulations of the Commission thereunder, all as the same shall be in effect at the time.

## **2. Registration Rights.**

**(a) Company Registration.** Subject to the receipt of necessary information from the Investors after prompt request from the Company to the Investor to provide such information, the Company shall (i) use its best efforts to cause a shelf registration statement on Form S-3 (or other appropriate form) covering the resale of all of the Registrable Securities to be filed with the Commission within forty-five (45) days after the Closing Date, (ii) use its reasonable efforts to cause such registration statement to be declared effective by the Commission no later than ninety (90) days after filing or one hundred twenty (120) days in the event of a review by the staff of the Commission, and (iii) use its best efforts to keep such registration statement continuously effective until the earlier of (A) two (2) years from the date such registration statement was declared effective by the Commission and (B) the date on which any Registrable Securities held by the Investors may be sold either pursuant to (x) Rule 144(k) or (y) in their entirety in a single transaction pursuant to Rule 144. If the Company does not meet the deadlines in (i) or (ii) above (a “Registration Default”), the Company will pay liquidated damages to each Investor, for each 30 calendar day period of a Registration Default, an amount equal to 1% of the aggregate purchase price paid by each Investor pursuant to its respective Purchase Agreement up to a maximum of 10% of the aggregate purchase price paid by such Investor for the common stock and warrants. The Company shall pay such liquidated damages

as follows: (A) in connection with a filing default pursuant to Section 2(a)(i), on the 46<sup>th</sup> day after the Closing Date, and each 30<sup>th</sup> calendar day thereafter until the registration statement is filed with the Commission, and (B) in connection with an effectiveness default pursuant to Section 2(a)(ii), on the 91<sup>st</sup> calendar day following the filing date (or the 121<sup>st</sup> calendar day following the filing date if there is review by the staff of the Commission) and each 30<sup>th</sup> calendar day thereafter until the registration statement is declared effective by the Commission. Notwithstanding the foregoing, all periods shall be tolled during delays caused by the action or inaction of any Investor, and the Company shall have no liability to any Investor in respect of any such delay.

The Company will include in such registration (and any related qualifications including compliance with blue sky laws), and in any underwriting involved therein, all Registrable Securities specified by any Investor in a written request or requests to the Company, made within ten days after the date of written notice of such registration from the Company to the Investors.

If the Company proposes to register any of its shares of Common Stock (other than any registration for the account of the Company of securities issued pursuant to any employee benefit plan or in any acquisition by the Company), the Company will include in such registration all Registrable Securities held by the holders of Registrable Securities requested to be so included; *provided, however*, that if, in the case of an underwritten offering, the managing underwriter informs the Company that the number of shares held by the holders of Registrable Securities requested to be included exceeds the amount which can be sold in such offering without adversely affecting the distribution of the shares being offered, the Company shall include, first, all of the shares the Company has proposed to register; second, as many of the Registrable Securities as can be included without adversely affecting such distribution; and, third, any other shares of Common Stock proposed to be included in such offering. With respect to terms and conditions not provided for in this paragraph or in this Section 2, the “piggyback” rights provided for in this paragraph are intended to be on customary terms.

**(b) Expenses of Registration.** All Registration Expenses incurred in connection with the registration described in Section 2(a) shall be borne by the Company. All other registration expenses, if any, shall be borne by the Investors pro rata on the basis of the number of shares so registered or proposed to be so registered.

**(c) Registration Procedures.** The Company will keep each Investor advised in writing as to the initiation of the registration described in Section 2(a) and as to the completion thereof. The Company will:

**(i) Registration Statement.** Prepare and file with the Commission a registration statement with respect to such Registrable Securities and cause such registration statement to become effective and remain effective, in each case in accordance with the timeframes provided in Section 2(a).

**(ii) Amendments and Supplements.** Prepare and file with the Commission such amendments and supplements to such registration statement and the prospectus used in connection with such registration statement as may be necessary to comply with the provisions of the Securities Act with respect to the disposition of all securities covered by such registration statement for the period set forth in Section 2(a) above.

(iii) Prospectus. Furnish to the Investors such number of copies of the registration statement, any amendments thereto, any documents incorporated by reference therein, a prospectus, including a preliminary prospectus, in conformity with the requirements of the Securities Act, and such other documents as they may reasonably request in order to facilitate the disposition of Registrable Securities owned by them.

(iv) Qualification. Use its reasonable best efforts to register and qualify the securities covered by such registration statement under such other securities or blue sky laws of such jurisdictions as shall be reasonably requested by the Investors; provided that the Company shall not be required in connection therewith or as a condition thereto to qualify to do business or to file a general consent to service of process in any such states or jurisdictions, unless the Company is already subject to service in such jurisdiction and except as may be required by the Securities Act.

(v) Underwriting Obligations. In the event of any underwritten public offering of Registrable Securities, enter into and perform its obligations under an underwriting agreement, in usual and customary form, with the managing underwriter(s) of such offering. Each Investor participating in such underwriting shall also enter into and perform its obligations under such an underwriting agreement. The Company shall, if requested by the managing underwriter or underwriters, if any, counsel to Investors, or any holder of Registrable Securities included in such offering, promptly incorporate in a prospectus supplement or post-effective amendment such information as such managing underwriter or underwriters, counsel to Investors or any holder of Registrable Securities reasonably requests to be included therein, and which is reasonably related to the offering of such Registrable Securities, including, without limitation, with respect to the Registrable Securities being sold by such holder to such underwriter or underwriters, the purchase price being paid therefor by such underwriter or underwriters and any other terms of an underwritten offering of the Registrable Securities to be sold in such offering, and the Company shall promptly make all required filings of such prospectus supplement or post-effective amendment.

(vi) Notice. Immediately notify each Investor holding Registrable Securities covered by such registration statement at any time when a prospectus relating thereto is required to be delivered under the Securities Act of the happening of any event as a result of which the prospectus included in such registration statement, as then in effect, includes an untrue statement of a material fact or omits to state a material fact required to be stated therein or necessary to make the statements therein not misleading in light of the circumstances then existing (a "**Suspension Notice**"); provided, however, that (i) the Company shall not give more than two Suspension Notices during any period of twelve consecutive months, (ii) any such Suspension Notice shall not be given within 120 days of the end of the Suspension Notice period under the prior Suspension Notice and (iii) in no event shall the period from the date on which any holder of Registrable Securities receives a Suspension Notice until the date on which such holder receives copies of the supplemented or amended prospectus or is advised in writing by the Company that the use of the prospectus may be resumed exceed for all Suspension Notices in the aggregate, 60 days in any 365 day period. The Company will use reasonable best efforts to

promptly amend or supplement such prospectus in order to cause such prospectus not to include any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading in the light of the circumstances then existing.

(vii) Listing. Cause all such Registrable Securities registered pursuant hereto to be listed on each securities exchange or automated quotation system on which similar securities issued by the Company are then listed or, if no securities are then listed, on the NASDAQ Stock Market Inc.'s National Market.

(viii) Stop Orders. Use its reasonable best efforts to prevent the issuance of any order suspending the effectiveness of a registration statement relating to Registrable Securities, and if one is issued, use its best efforts to obtain the withdrawal of any order suspending the effectiveness of such registration statement at the earliest possible moment.

(ix) Company Records. Upon reasonable notice, make available to each Investor, any underwriter participating in any disposition pursuant to a registration statement relating to Registrable Securities, and any attorney, accountant or other agent or representative retained by any such Investor or underwriter (collectively, the "*Inspectors*"), all financial and other records, pertinent corporate documents and properties of the Company (collectively, the "*Records*") reasonably necessary to enable them to exercise their due diligence responsibility, and cause the Company's officers, directors and employees to supply all information requested by any such Inspector in connection with such registration statement, provided that each such Investor and Inspector has entered into a customary confidentiality agreement with respect to such Records.

(x) NASD Matters. Cooperate with each Investor and each underwriter participating in the disposition of Registrable Securities and their respective counsel in connection with any filings required to be made with the National Association of Securities Dealers, Inc. ("*NASD*"), including, if appropriate, the pre-filing of a prospectus as part of a registration statement in advance of an underwritten offering.

**(d) Indemnification.**

(i) Company Indemnification. The Company will indemnify each holder of Registrable Securities (if Registrable Securities held by such holder are included in the securities as to which such registration is being effected), each of its officers and directors and partners, and each person controlling such holder within the meaning of Section 15 of the Securities Act, with respect to which registration has been effected pursuant to this Agreement, against all expenses, claims, losses, damages or liabilities (or actions in respect thereof), including any of the foregoing incurred in settlement of any litigation, commenced or threatened, arising out of or based on any untrue statement (or alleged untrue statement) of a material fact contained in any registration statement, prospectus, offering circular or other document, or any amendment or supplement thereto, incident to any such registration, or based on any omission (or alleged omission) to state therein a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances in which they were made, not misleading, or any violation by the Company of the Securities Act, the Exchange Act, state

securities laws or any rule or regulation promulgated under such laws applicable to the Company in connection with any such registration, and the Company will reimburse each such holder, each of its officers and directors, and each person controlling such holder, for any legal and any other expenses reasonably incurred, as such expenses are incurred, in connection with investigating, preparing or defending any such claim, loss, damage, liability or action, *provided* that the Company will not be liable in any such case to the extent that any such claim, loss, damage, liability or expense arises out of or is based on any untrue statement or omission or alleged untrue statement or omission made in reliance upon and in conformity with written information furnished to the Company by an instrument duly executed by such holder or controlling person, and stated to be specifically for use therein; *provided, further*, that the indemnity agreement contained in this subsection 2(d)(i) shall not apply to amounts paid in settlement of any such loss, claim, damage, liability or action if such settlement is effected without the consent of the Company (which consent shall not be unreasonably withheld).

(ii) **Investor Indemnification.** Each holder of Registrable Securities will, if Registrable Securities held by such holder are included in the securities as to which such registration is being effected, indemnify the Company, each of its directors and officers, other holders of the Company's securities covered by such registration statement, each person who controls the Company within the meaning of Section 15 of the Securities Act, and each such holder, each of its officers and directors and each person controlling such holder within the meaning of Section 15 of the Securities Act, against all claims, losses, damages and liabilities (or actions in respect thereof) arising out of or based on any untrue statement (or alleged untrue statement) of a material fact contained in any such registration statement, prospectus, offering circular or other document, or any omission (or alleged omission) to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, or any violation by such holder of the Securities Act, the Exchange Act, state securities laws or any rule or regulation promulgated under such laws applicable to such holder, and will reimburse the Company, each other holder, and directors, officers, persons, underwriters or control persons of the Company and the other holders for any legal or any other expenses reasonably incurred, as such expenses are incurred, in connection with investigating or defending any such claim, loss, damage, liability or action, but in the case of the Company or such other holders or their officers, directors or controlling persons, only to the extent that such untrue statement (or alleged untrue statement) or omission (or alleged omission) is made in such registration statement, prospectus, offering circular or other document in reliance upon and in conformity with written information furnished to the Company by an instrument duly executed by such holder and stated to be specifically for use therein; provided, further, that the indemnity agreement contained in this Subsection 2(d)(ii) shall not apply to amounts paid in settlement of any such loss, claim, damage, liability or action if such settlement is effected without the consent of such indemnifying holder (which consent shall not be unreasonably withheld or delayed). The liability of any holder for indemnification under this Section 2(d) in its capacity as a seller of Registrable Securities shall not exceed the amount of net proceeds to such holder of the securities sold in any such registration.

(iii) **Notice.** Each party entitled to indemnification under this Section 2(d) (the "**Indemnified Party**") shall give notice to the party required to provide indemnification (the "**Indemnifying Party**") promptly after such Indemnified Party has actual knowledge of any claim as to which indemnity may be sought, and shall permit the Indemnifying Party to assume

the defense of any such claim or any litigation resulting therefrom, provided that counsel for the Indemnifying Party, who shall conduct the defense of such claim or litigation, shall be approved by the Indemnified Party (whose approval shall not unreasonably be withheld), and the Indemnified Party may participate in such defense at such party's expense, and provided further that the failure of any Indemnified Party to give notice as provided herein shall not relieve the Indemnifying Party of its obligations under this Agreement unless the failure to give such notice is materially prejudicial to an Indemnifying Party's ability to defend such action and provided further, that the Indemnifying Party shall not assume the defense for matters as to which there is a conflict of interest or there are separate and different defenses. No Indemnifying Party, in the defense of any such claim or litigation, shall, except with the consent of each Indemnified Party (whose consent shall not be unreasonably withheld), consent to entry of any judgment or enter into any settlement which does not include as an unconditional term thereof the giving by the claimant or plaintiff to such Indemnified Party of a release from all liability in respect to such claim or litigation.

(iv) **Contribution.** If the indemnification provided for in this Section 2(d) is held by a court of competent jurisdiction to be unavailable to an Indemnified Party with respect to any losses, claims, damages or liabilities referred to herein, the Indemnifying Party, in lieu of indemnifying such Indemnified Party thereunder, shall to the extent permitted by applicable law contribute to the amount paid or payable by such Indemnified Party as a result of such loss, claim, damage or liability in such proportion as is appropriate to reflect the relative fault of the Indemnifying Party on the one hand and of the Indemnified Party on the other in connection with the untrue statement or omission that resulted in such loss, claim, damage or liability, as well as any other relevant equitable considerations. The relative fault of the Indemnifying Party and of the Indemnified Party shall be determined by a court of law by reference to, among other things, whether the untrue or alleged untrue statement of a material fact or the omission to state a material fact relates to information supplied by the Indemnifying Party or by the Indemnified Party and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such statement or omission; *provided*, that in no event shall any contribution by an Investor hereunder exceed the proceeds from the offering received by such Investor.

(v) **Survival.** The obligations of the Company and the Investors under this Section 2(d) shall survive completion of any offering of Registrable Securities in a registration statement and the termination of this agreement. The provisions of this Section 2(d) shall survive any termination of this Agreement.

(e) **Information by Investor.** The Investor or Investors holding Registrable Securities included in any registration shall furnish to the Company such information regarding such Investor or Investors, the Registrable Securities held by them and the distribution proposed by such Investor or Investors as the Company may request in writing and as shall be required in connection with any registration referred to in this Agreement.

(f) **Rule 144 Reporting.** With a view to making available the benefits of certain rules and regulations of the Commission which may at any time permit the sale of the Restricted Securities to the public without registration, the Company agrees to use reasonable best efforts to:

(i) **Public Information.** Make and keep public information available, as those terms are understood and defined in Rule 144 under the Securities Act;



(ii) **Filing.** File with the Commission in a timely manner all reports and other documents required of the Company under the Securities Act and the Exchange Act; and

(iii) **Rule 144 Statement.** So long as an Investor owns any Restricted Securities, to furnish to such Investor forthwith upon request a written statement by the Company as to its compliance with the reporting requirements of said Rule 144 (at any time after 90 days after the effective date of the first registration statement filed by the Company for an offering of its securities to the general public), a copy of the most recent annual or quarterly report of the Company, and such other reports and documents of the Company and other information in the possession of or reasonably obtainable by the Company as such Investor may reasonably request in availing itself of any rule or regulation of the Commission allowing such Investor to sell any such securities without registration.

**3. Amendment.** Except as otherwise provided herein, additional parties may be added to this Agreement and any provision of this Agreement may be amended or the observance thereof may be waived (either generally or in a particular instance and either retroactively or prospectively), only with the written consent of the Company and each Investor. Any amendment or waiver effected in accordance with this Section 3 shall be binding upon each Investor, any transferee thereof and the Company.

**4. Governing Law.** This Agreement shall be governed in all respects by the internal laws of the State of Delaware without regard to conflict of laws provisions.

**5. Entire Agreement.** This Agreement constitutes the full and entire understanding and Agreement among the parties regarding the matters set forth herein. Except as otherwise expressly provided herein, the provisions hereof shall inure to the benefit of, and be binding upon the successors, assigns, heirs, executors and administrators of the parties hereto.

**6. Severability.** The provisions of this Agreement are severable and the invalidity or unenforceability of any provision will not affect the validity or enforceability of the other provisions of this Agreement. If any provision of this Agreement, or the application of that provision to any Person or any circumstance, is invalid or unenforceable, (a) a suitable and equitable provision will be substituted for that provision in order to carry out, so far as may be valid and enforceable, the intent and purpose of the invalid or unenforceable provision and (b) the remainder of this Agreement and the application of that provision to other persons or circumstances will not be affected by such invalidity or unenforceability, nor will such invalidity or unenforceability affect the validity or enforceability of that provision, or the application of that provision, in any other jurisdiction.

**7. Successors and Assigns.** Except as otherwise expressly provided herein, the provisions hereof shall inure to the benefit of, and be binding upon, the Company's and each Investor's successors, assigns and transferees, including, without limitation and without the need for an express assignment, subsequent holders of Registrable Securities. If any assignee or

transferee of any Investor shall acquire Registrable Securities in any manner, whether by operation of law or otherwise, such Registrable Securities shall be held subject to all of the terms of this Agreement, and by taking and holding such Registrable Securities such person shall be deemed to have agreed to be bound by and to perform all of the terms and provisions of this Agreement and such person shall be entitled to receive the benefits hereof.

**8. Notices, etc.** All notices and other communications required or permitted hereunder shall be in writing and shall be mailed by registered or certified mail, postage prepaid, or otherwise delivered by facsimile transmission, by hand or by messenger, addressed:

**(a) Investor.** If to an Investor, at such Investor's address as set forth in either Exhibit A, or at such other address as such Investor shall have furnished to the Company.

**(b) Company.** If to the Company, to:

Arrowhead Research Corporation  
201 South Lake Avenue, Suite 703  
Pasadena, California 91101  
Attention: President;  
Facsimile number 626-792-5554

or at such other address as the Company shall have furnished to the Investors.

Each such notice or other communication shall for all purposes of this Agreement be treated as effective or having been given when delivered if delivered personally, if sent by facsimile, the first business day after the date of confirmation that the facsimile has been successfully transmitted to the facsimile number for the party notified, or, if sent by mail, at the earlier of its receipt or 72 hours after the same has been deposited in a regularly maintained receptacle for the deposit of the United States mail, addressed and mailed as aforesaid.

**9. Counterparts.** This Agreement may be executed in any number of counterparts, each of which shall be an original and all of which together shall constitute one instrument.

**10. Specific Performance.** The parties hereto specifically acknowledge that monetary damages are not an adequate remedy for violations of this Agreement, and that any party hereto may, in its sole discretion, apply to a court of competent jurisdiction for specific performance or injunctive or such other relief as such court may deem just and proper in order to enforce this Agreement or prevent any violation hereof and, to the extent permitted by applicable law and to the extent the party seeking such relief would be entitled to the merits to obtain such relief, each party waives any objection to the imposition of such relief.

**11. Designation of Forum and Consent to Jurisdiction.** The parties hereto (i) designate the courts of the State of Delaware as the forum where all matters pertaining to this Agreement may be adjudicated, and (ii) by the foregoing designation, consent to the exclusive jurisdiction and venue of such courts for the purpose of adjudicating all matters pertaining to this Agreement.

**12. Stock Split.** All references to numbers of shares in this Agreement shall be appropriately adjusted to reflect any stock dividend, split, combination or other recapitalization of shares by the Company occurring after the date of this Agreement.

**13. Independent Nature of Investors' Obligations and Rights.** The obligations of each Investor hereunder are several and not joint with the obligations of any other Investor hereunder, and no Investor shall be responsible in any way for the performance of the obligations of any other Investor hereunder. The decision of each Investor to purchase Units pursuant to the Purchase Agreements and Warrants has been made independently of any other Investor. Nothing contained herein or in any other agreement or document delivered at any closing, and no action taken by any Investor pursuant hereto or thereto, shall be deemed to constitute the Investors as a partnership, an association, a joint venture or any other kind of entity, or create a presumption that the Investors are in any way acting in concert with respect to such obligations or the transactions contemplated by this Agreement. Each Investor shall be entitled to protect and enforce its rights, including without limitation the rights arising out of this Agreement, and it shall not be necessary for any other Investor to be joined as an additional party in any proceeding for such purpose. The Company acknowledges that each of the Investors has been provided with the same Registration Rights Agreement for the purpose of closing a transaction with multiple Investors and not because it was required to do so by any Investor.

**14.** With a view to making available to the holders of Registrable Securities the benefits of certain rules and regulations of the Commission which may permit the sale of the Registrable Securities to the public without registration, so long as such holders still own Registrable Securities, the Company shall use its reasonable best efforts to: (i) make and keep public information available, as those terms are understood and defined in Rule 144 under the Securities Act, at all times; (ii) file with the Commission in a timely manner all reports and other documents required of the Company under the Exchange Act; and (iii) so long as a holder owns any Registrable Securities, furnish to such holder, upon any reasonable request, a written statement by the Company as to its compliance with Rule 144 under the Securities Act a copy of the most recent annual or quarterly report of the Company, and such other reports and documents of the Company as such holder may reasonably request in availing itself of any rule or regulation of the Commission allowing a holder to sell any such securities without registration.

**15. Publicity.** The Company agrees that it will not use in advertising or publicity the names of the Fidelity Investors, Fidelity Management & Research Corporation, any of its partners or employees, any of the funds or accounts managed by it or any of its affiliates, or any trade name, trademark, trade device, service mark, symbol or any abbreviation, contraction or simulation thereof, in any case without the prior written consent of Fidelity Management & Research Company.

**16. Limitation of Liability.** A copy of the Agreement and Declaration of Trust of each of the Fidelity Investors is on file with the Secretary of State of the Commonwealth of Massachusetts, and notice is hereby given that this Agreement is executed on behalf of the Trustees of each Fidelity Investor as Trustees and not individually and that the obligations of this Agreement are not binding upon any of the Trustees, officers or stockholders of the Fidelity Investors individually but are binding only upon the assets and property of such Fidelity Investors. The Company is expressly put on notice that the rights and obligations of each series of shares of each Fidelity Investor under its Declaration of Trust are separate and distinct from those of any and all other entities.

*[Signature Page to follow]*

IN WITNESS WHEREOF, the parties hereto have executed this Registration Rights Agreement as of the date first set forth above.

**ARROWHEAD RESEARCH CORPORATION**

By: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

[Signature Page to Registration Rights Agreement]

IN WITNESS WHEREOF, the parties hereto have executed this Registration Rights Agreement as of the date first set forth above.

**INVESTOR**

\_\_\_\_\_  
Name of Investor:

By: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

[Signature Page to Registration Rights Agreement]

---

**Exhibit A**

**Investors**

THIS SUBSCRIPTION AGREEMENT DOES NOT CONSTITUTE AN OFFER TO SELL OR THE SOLICITATION OF AN OFFER TO BUY ANY OF THE SECURITIES REFERRED TO HEREIN. A COMPLETED, SIGNED COPY HEREOF, TOGETHER WITH A COMPLETED PROSPECTIVE INVESTOR QUESTIONNAIRE, MUST BE RETURNED TO THE COMPANY BY NO LATER THAN 5:00 P.M., P.S.T., ON MAY 16, 2007 (UNLESS THIS OFFERING IS EXTENDED BY THE COMPANY), BY EACH PERSON WHO DESIRES TO SUBSCRIBE TO PURCHASE ANY OF THE UNITS REFERRED TO HEREIN.

## SUBSCRIPTION AGREEMENT

Arrowhead Research Corporation  
201 South Lake Street, Suite 703  
Pasadena, CA 91101

Re: Prospective Sale and Purchase of Units

Gentlemen:

The undersigned (the "Investor"), by signing the Signature Page attached hereto, hereby irrevocably tenders this subscription and applies to purchase that number of Units, at a purchase price per Unit equal to \$5.78, and Warrant coverage of 25%, each Warrant exercisable to purchase additional shares, at an exercise price per share equal to \$7.06. The Warrant will be exercisable six months and one day after the closing date of the Offering and will expire on the tenth anniversary of the date of issue. The Warrants can be redeemed on or after the first anniversary of the closing of the offering, at Arrowhead Research Corporation's (the "Company") option, in whole, but not in part, upon 30 days' prior written notice, at a price of \$0.001 per Warrant, provided that the closing bid price on the Nasdaq Capital Market for a share of common stock, \$0.001 par value per share (the "Common Stock"), of the Company for 20 consecutive trading days ending not more than 15 days prior to the date of the redemption notice, equals or exceeds the exercise price plus 20%. Holders will be required to exercise their Warrants within 30 days or accept the \$0.001 per Warrant redemption price. Payment for the purchase price for the Units subscribed to be purchased, in the aggregate amount set forth on the Signature Page, will be made promptly after receipt by the undersigned's custodian of the certificates representing the Common Stock and the Warrants purchased hereby.

The undersigned hereby acknowledges receipt of a copy of the Summary of the Offering dated May 7, 2007 (the "Term Sheet") which relates to and describes the terms and conditions of the offer and sale of the Units.

At the Closing, the Company will sell to the Investor, and the Investor will purchase from the Company, upon the terms and conditions hereinafter set forth, the number of Units set forth on the Signature Page attached hereto.

The completion of the purchase and sale of the shares of Common Stock and the Warrants (the "Closing") shall occur (the "Closing Date") on May 21, 2007, or on such other date and time as may be mutually agreed to between the Company and the Investors, at the offices of the Company.

The Company's obligation to issue the Units to the Investor shall be subject to the following conditions, any one or more of which may be waived by the Company: (a) completion of the purchases and sales under the Subscription Agreements with the Investors; and (b) the accuracy of the representations and warranties made by the Investors and the fulfillment of those undertakings of the Investors to be fulfilled prior to the Closing.

Representations and Warranties of the Company. The Company hereby makes the following representations and warranties to each Investor:

(a) Organization and Qualification. The Company and each subsidiary of the Company (collectively, the "Subsidiaries") is an entity duly incorporated or otherwise organized, validly existing and in good standing under the laws of the jurisdiction of its incorporation or organization (as applicable), with the requisite power and authority

to own and use its properties and assets and to carry on its business as currently conducted. Neither the Company nor any Subsidiary is in violation or default of any of the provisions of its respective certificate or articles of incorporation, bylaws or other organizational or charter documents. Each of the Company and the Subsidiaries is duly qualified to conduct business and is in good standing as a foreign corporation or other entity in each jurisdiction in which the nature of the business conducted or property owned by it makes such qualification necessary, except where the failure to be so qualified or in good standing, as the case may be, would not have or reasonably be expected to result in (i) a material adverse effect on the legality, validity or enforceability of any Transaction Document, (ii) a material adverse effect on the results of operations, assets, business, prospects or condition (financial or otherwise) of the Company and the Subsidiaries, taken as a whole, or (iii) a material adverse effect on the Company's ability to perform in any material respect on a timely basis its obligations under any Transaction Document (any of (i), (ii) or (iii), a "Material Adverse Effect").

(b) Authorization; Enforcement. The Company has the requisite corporate power and authority to enter into and to consummate the transactions contemplated by the Subscription Agreement, the Warrants and the Registration Rights Agreement (collectively, the "Transaction Documents") and otherwise to carry out its obligations hereunder and thereunder. The execution and delivery of each of the Transaction Documents by the Company and the consummation by it of the transactions contemplated hereby and thereby have been duly authorized by all necessary action on the part of the Company other than in connection with the Required Approvals. Each Transaction Document has been (or upon delivery will have been) duly executed by the Company and, when delivered in accordance with the terms hereof and thereof, will constitute the valid and binding obligation of the Company enforceable against the Company in accordance with its terms except (i) as limited by general equitable principles and applicable bankruptcy, insolvency, reorganization, moratorium and other laws of general application affecting enforcement of creditors' rights generally, (ii) as limited by laws relating to the availability of specific performance, injunctive relief or other equitable remedies and (iii) insofar as indemnification and contribution provisions may be limited by applicable law.

(c) No Conflicts. The execution, delivery and performance of the Transaction Documents by the Company, the issuance and sale of the Units and the consummation by the Company of the other transactions contemplated hereby and thereby do not and will not (i) conflict with or violate any provision of the Company's or any Subsidiary's certificate or articles of incorporation, bylaws or other organizational or charter documents, or (ii) conflict with, or constitute a default (or an event that with notice or lapse of time or both would become a default) under, result in the creation of any lien, encumbrance, claim or security interest upon any of the properties or assets of the Company or any Subsidiary, or give to others any rights of termination, amendment, acceleration or cancellation (with or without notice, lapse of time or both) of, any agreement, credit facility, debt or other instrument (evidencing a Company or Subsidiary debt or otherwise) or other understanding to which the Company or any Subsidiary is a party or by which any property or asset of the Company or any Subsidiary is bound or affected, or (iii) subject to the Required Approvals, conflict with or result in a violation of any law, rule, regulation, order, judgment, injunction, decree or other restriction of any court or governmental authority to which the Company or a Subsidiary is subject (including federal and state securities laws and regulations), or by which any property or asset of the Company or a Subsidiary is bound or affected; except in the case of each of clauses (ii) and (iii), such as would not have or reasonably be expected to result in a Material Adverse Effect.

(d) Filings, Consents and Approvals. The Company is not required to obtain any consent, waiver, authorization or order of, give any notice to, or make any filing or registration with, any court or other federal, state, local or other governmental authority or other Person in connection with the execution, delivery and performance by the Company of the Transaction Documents, other than (i) filings required pursuant to Section 21 of this Subscription Agreement, (ii) the filing with, and the declaration of effectiveness by, the Commission of the Registration Statement, (iii) application(s) and notification(s) to the Nasdaq Stock Market for the issuance and sale of the Units and the listing of the shares of Common Stock for trading or quotation, as the case may be, thereon in the time and manner required thereby, and (iv) the filing of Form D with the Commission and such filings as are required to be made under applicable state securities laws (collectively, the "Required Approvals").

(e) Issuance of the Shares. The Units are duly authorized and, when issued and paid for in accordance with the applicable Transaction Documents, will be duly and validly issued, fully paid and nonassessable, free and clear of all liens, encumbrances, claims or security interests imposed by the Company other than restrictions on transfer provided for in the Transaction Documents.



(f) Capitalization. The capitalization of the Company (whether or not presently convertible into or exercisable or exchangeable for shares of capital stock of the Company) has been set forth in the documents filed by the Company under the Securities Exchange Act of 1934, as amended and the rules and regulations promulgated thereunder (collectively, the “SEC Reports”) and has changed since the date of such SEC Reports only to reflect stock option and warrant exercises that do not, individually or in the aggregate, have a material affect on the issued and outstanding capital stock, options and other securities. No Person has any right of first refusal, preemptive right, right of participation, or any similar right to participate in the transactions contemplated by the Transaction Documents. Except as set forth in the SEC Reports or as a result of the purchase and sale of the Units, there are no outstanding options, warrants, scrip rights to subscribe to, calls or commitments of any character whatsoever relating to, or securities, rights or obligations convertible into or exercisable or exchangeable for, or giving any Person any right to subscribe for or acquire, any shares of Common Stock, or contracts, commitments, understandings or arrangements by which the Company or any Subsidiary is or may become bound to issue additional shares of Common Stock or options or warrants to purchase shares of Common Stock. The issuance and sale of the Units will not obligate the Company to issue shares of Common Stock or other securities to any person (other than the Investors) and will not result in a right of any holder of Company securities to adjust the exercise, conversion, exchange or reset price under any of such securities. All of the outstanding shares of capital stock of the Company are validly issued, fully paid and nonassessable, have been issued in compliance with all federal and state securities laws, and none of such outstanding shares was issued in violation of any preemptive rights or similar rights to subscribe for or purchase securities. Except for the Required Approvals, no further approval or authorization of any stockholder, the Board of Directors of the Company or others is required for the issuance and sale of the Units. Except as set forth in the SEC Reports, there are no stockholders agreements, voting agreements or other similar agreements with respect to the Company’s capital stock to which the Company is a party or, to the knowledge of the Company, between or among any of the Company’s stockholders.

(g) SEC Reports; Financial Statements. The Company has filed all reports, schedules, forms, statements and other documents required to be filed by the Company under the Securities Act and the Exchange Act, including pursuant to Section 13(a) or 15(d) thereof, for the two years preceding the date hereof (the foregoing materials, including the exhibits thereto and documents incorporated by reference therein, being collectively referred to herein as the “SEC Reports”) on a timely basis or has received a valid extension of such time of filing and has filed any such SEC Reports prior to the expiration of any such extension. As of their respective dates, the SEC Reports complied in all material respects with the requirements of the Securities Act and the Exchange Act, as applicable, and none of the SEC Reports, when filed, contained any untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading. Except for the filing of certain financial information in connection with the Company’s Form 8-K filed on April 25, 2007, as of the date hereof, the Company is not aware of any event occurring on or prior to the Closing Date (other than the transactions contemplated by the Transaction Documents) that requires the filing of a Form 8-K after the Closing. The financial statements of the Company included in the SEC Reports comply in all material respects with applicable accounting requirements and the rules and regulations of the Commission with respect thereto as in effect at the time of filing. Such financial statements have been prepared in accordance with United States generally accepted accounting principles applied on a consistent basis during the periods involved (“GAAP”), except as may be otherwise specified in such financial statements or the notes thereto and except that unaudited financial statements may not contain all footnotes required by GAAP, and fairly present in all material respects the financial position of the Company and its consolidated subsidiaries as of and for the dates thereof and the results of operations and cash flows for the periods then ended, subject, in the case of unaudited statements, to normal, immaterial, year-end audit adjustments.

(h) Material Changes; Undisclosed Events, Liabilities or Developments. Since the date of the latest audited financial statements included within the SEC Reports, except as specifically disclosed in a subsequent SEC Report filed prior to the date hereof, (i) there has been no event, occurrence or development that has had or that could reasonably be expected to result in a Material Adverse Effect, (ii) the Company has not incurred any liabilities (contingent or otherwise) other than (A) trade payables and accrued expenses incurred in the ordinary course of business consistent with past practice and (B) liabilities not required to be reflected in the Company’s financial statements pursuant to GAAP or disclosed in filings made with the Commission, (iii) the Company has not altered its method of accounting, (iv) the Company has not declared or made any dividend or distribution of cash or other property to its stockholders or purchased, redeemed or made any agreements to purchase or redeem any shares of its capital stock and (v) the Company has not issued any equity securities to any executive officer, director or Affiliate,

except pursuant to an equity incentive plan of the Company. The Company does not have pending before the Commission any request for confidential treatment of information. Except for the issuance of the Units contemplated by this Agreement, no event, liability or development has occurred or exists with respect to the Company or its Subsidiaries or their respective business, properties, operations or financial condition, that would be required to be disclosed by the Company under applicable securities laws at the time this representation is made that has not been publicly disclosed at least 1 business day prior to the date that this representation is made.

(i) Litigation. There is no action, suit, inquiry, notice of violation, proceeding (including any partial proceeding such as a deposition) or investigation pending or, to the knowledge of the Company, threatened against or affecting the Company, any Subsidiary or any of their respective properties before or by any court, arbitrator, governmental or administrative agency or regulatory authority (federal, state, county, local or foreign) (collectively, an “Action”) which (i) adversely affects or challenges the legality, validity or enforceability of any of the Transaction Documents or the Units or (ii) could, if there were an unfavorable decision, have or reasonably be expected to result in a Material Adverse Effect. Neither the Company nor any Subsidiary, nor to the knowledge of the Company, any director or executive officer thereof, is or has been the subject of any action involving a claim of violation of or liability under federal or state securities laws or a claim of breach of fiduciary duty. There has not been, and to the knowledge of the Company, there is not pending or contemplated, any investigation by the Commission involving the Company or any current or former director or executive officer of the Company. The Commission has not issued any stop order or other order suspending the effectiveness of any registration statement filed by the Company or any Subsidiary under the Exchange Act or the Securities Act.

(j) Compliance. Neither the Company nor any Subsidiary (i) is in default under or in violation of (and no event has occurred that has not been waived that, with notice or lapse of time or both, would result in a default by the Company or any Subsidiary under), nor has the Company or any Subsidiary received notice of a claim that it is in default under or that it is in violation of, any indenture, loan or credit agreement or any other agreement or instrument to which it is a party or by which it or any of its properties is bound (whether or not such default or violation has been waived), (ii) is in violation of any order of any court, arbitrator or governmental body, or (iii) is or has been in violation of any statute, rule or regulation of any governmental authority, including without limitation all foreign, federal, state and local laws applicable to its business and all such laws that affect the environment, except in each case as would not have or reasonably be expected to result in a Material Adverse Effect.

(k) Regulatory Permits. The Company and the Subsidiaries possess all certificates, authorizations and permits issued by the appropriate federal, state, local or foreign regulatory authorities necessary to conduct their respective businesses as described in the SEC Reports, except where the failure to possess such permits could not have or reasonably be expected to result in a Material Adverse Effect (“Material Permits”), and neither the Company nor any Subsidiary has received any notice of proceedings relating to the revocation or modification of any Material Permit.

(l) Patents and Trademarks. Except as set forth in the SEC Reports, to the best knowledge of the Company, the Company and the Subsidiaries have, or have rights to use, all patents, patent applications, trademarks, trademark applications, service marks, trade names, trade secrets, inventions, copyrights, licenses and other intellectual property rights and similar rights necessary or material for use in connection with their respective businesses as described in the SEC Reports (collectively, the “Intellectual Property Rights”), except where failure to currently own or possess would not have a Material Adverse Effect. To the Company’s knowledge, the conduct of the Company’s and any Subsidiary’s businesses will not conflict in any material respects with any intellectual property rights of others, except . Neither the Company nor any Subsidiary has received a notice (written or otherwise) that the Intellectual Property Rights used by the Company or any Subsidiary violates or infringes upon the rights of any Person in a manner that would have a Material Adverse Effect on the Company. To the knowledge of the Company, all Intellectual Property Rights are enforceable and valid and there is no existing infringement by another Person of any of the Intellectual Property Rights. Except as described in the SEC Reports, there are no outstanding options, licenses or agreements of any kind relating to the foregoing Intellectual Property Rights, nor is the Company bound by or a party to any options, licenses or agreements of any kind with respect to the Intellectual Property Rights. The Company and its Subsidiaries have taken reasonable security measures to protect the secrecy, confidentiality and value of all of their intellectual properties.

(m) Insurance. The Company and the Subsidiaries are insured by insurers of recognized financial responsibility against such losses and risks and in such amounts as are customary in the businesses in which the Company and the Subsidiaries are engaged. Neither the Company nor any Subsidiary has any reason to believe that it will not be able to renew its existing insurance coverage as and when such coverage expires or to obtain similar coverage from similar insurers as may be necessary to continue its business without a significant increase in cost.

(n) Transactions With Affiliates and Employees. Except as set forth in the SEC Reports, none of the executive officers or directors of the Company and, to the knowledge of the Company, none of the employees of the Company is presently a party to any transaction with the Company or any Subsidiary (other than for services as employees, executive officers and directors), including any contract, agreement or other arrangement providing for the furnishing of services to or by, providing for rental of real or personal property to or from, or otherwise requiring payments to or from any executive officer, director or such employee or, to the knowledge of the Company, any entity in which any officer, director, or any such employee has a substantial interest or is an officer, director, trustee or partner, in each case in excess of \$120,000 other than for (i) payment of salary or consulting fees for services rendered, (ii) reimbursement for expenses incurred on behalf of the Company and (iii) other employee benefits, including stock option agreements and restricted stock unit agreements under any equity incentive plan.

(o) Sarbanes-Oxley; Internal Accounting Controls. The Company is in material compliance with all provisions of the Sarbanes-Oxley Act of 2002 which are applicable to it as of the Closing Date. The Company and the Subsidiaries maintain a system of internal accounting controls sufficient to provide reasonable assurance that (i) transactions are executed in accordance with management's general or specific authorizations, (ii) transactions are recorded as necessary to permit preparation of financial statements in conformity with GAAP and to maintain asset accountability, (iii) access to assets is permitted only in accordance with management's general or specific authorization, and (iv) the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences. The Company has established disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the Company and designed such disclosure controls and procedures to ensure that information required to be disclosed by the Company in the reports it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Commission's rules and forms. The Company's certifying officers have evaluated the effectiveness of the Company's disclosure controls and procedures as of the end of the period covered by the Company's most recently filed periodic report under the Exchange Act (such date, the "Evaluation Date"). The Company presented in its most recently filed periodic report under the Exchange Act the conclusions of the certifying officers about the effectiveness of the disclosure controls and procedures based on their evaluations as of the Evaluation Date. Since the Evaluation Date, there have been no changes in the Company's internal control over financial reporting (as such term is defined in the Exchange Act) that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

(p) Certain Fees. No brokerage or finder's fees or commissions are or will be payable by the Company to any broker, financial advisor or consultant, finder, placement agent, investment banker, bank or other Person with respect to the transactions contemplated by the Transaction Documents, other than to the placement agent with respect to the offer and sale of the Units (which placement agent fees are being paid by the Company). The Investors shall have no obligation with respect to any fees or with respect to any claims made by or on behalf of other Persons for fees of a type contemplated in this Section that may be due in connection with the transactions contemplated by the Transaction Documents.

(q) Private Placement. Assuming the accuracy of the Investors' representations and warranties set forth in this Agreement and the Investor Questionnaire, no registration under the Securities Act is required for the offer and sale of the Units by the Company to the Investors as contemplated hereby. The issuance and sale of the Units hereunder does not contravene the rules and regulations of the Nasdaq Stock Market.

(r) Investment Company. The Company is not, and is not an affiliate of, and immediately after receipt of payment for the Units, will not be or be an Affiliate of, an "investment company" within the meaning of the Investment Company Act of 1940, as amended.

(s) Registration Rights. Except as set forth in the SEC Reports, no Person has any right to cause the Company to effect the registration under the Securities Act of any securities of the Company.

(t) Listing and Maintenance Requirements. The Common Stock is registered pursuant to Section 12(b) or 12(g) of the Exchange Act, and the Company has taken no action designed to, or which to its knowledge is likely to have the effect of, terminating the registration of the Common Stock under the Exchange Act nor has the Company received any notification that the Commission is contemplating terminating such registration. The Company has not, in the 12 months preceding the date hereof, received notice from Nasdaq to the effect that the Company is not in compliance with the listing or maintenance requirements of such market.

(u) Disclosure. Except with respect to the material terms and conditions of the transactions contemplated by the Transaction Documents, the Company confirms that neither it nor any other Person acting on its behalf has provided any of the Investors or their agents or counsel with any information that it believes constitutes or might constitute material, non-public information. The Company understands and confirms that the Investors will rely on the foregoing representation in effecting transactions in securities of the Company. All disclosure furnished by or on behalf of the Company to the Investors regarding the Company, its business and the transactions contemplated hereby, is true and correct and does not contain any untrue statement of a material fact or omit to state any material fact necessary in order to make the statements made therein, in light of the circumstances under which they were made, not misleading.

(v) Sufficiency of Cash. Based on the financial condition of the Company as of the Closing Date, after giving effect to the receipt by the Company of the proceeds from the sale of the Shares hereunder, the Company reasonably expects to have sufficient cash on hand to pay all of its currently foreseeable expenses for at least the next 12 months.

(w) Tax Status. Except for matters that would not, individually or in the aggregate, have or reasonably be expected to result in a Material Adverse Effect, the Company and each Subsidiary has accurately and timely filed all federal, state and foreign income and franchise tax returns, reports and declarations required by any jurisdiction to which it is subject, and has paid or accrued all taxes shown as due thereon, and there is no tax deficiency in any material amount which has been asserted or threatened against the Company or any Subsidiary.

(x) No General Solicitation. Neither the Company nor any person acting on behalf of the Company has offered or sold any of the Shares by any form of general solicitation or general advertising. The Company has offered the Units for sale only to the Investors and certain other “accredited investors” within the meaning of Rule 501 under the Securities Act.

(y) Foreign Corrupt Practices. Neither the Company, nor to the knowledge of the Company, any agent or other person acting on behalf of the Company, has (i) directly or indirectly, used any funds for unlawful contributions, gifts, entertainment or other unlawful expenses related to foreign or domestic political activity, (ii) made any unlawful payment to foreign or domestic government officials or employees or to any foreign or domestic political parties or campaigns from corporate funds, (iii) failed to disclose fully any contribution made by the Company (or made by any person acting on its behalf of which the Company is aware) which is in violation of law, or (iv) violated in any material respect any provision of the Foreign Corrupt Practices Act of 1977, as amended.

(z) No Disagreements with Accountants. There are no disagreements of any kind presently existing, or reasonably anticipated by the Company to arise, between the Company and the independent registered public accounting firm formerly or presently employed by the Company and the Company is current with respect to any fees owed to such accounting firm.

(aa) Acknowledgment Regarding Investors’ Purchase of Units. The Company acknowledges and agrees that each of the Investors is acting solely in the capacity of an arm’s length Investor with respect to the Transaction Documents and the transactions contemplated thereby. The Company further acknowledges that no Investor is acting as a financial advisor or fiduciary of the Company (or in any similar capacity) with respect to the Transaction Documents and the transactions contemplated thereby and any advice given by any Investor or any of their respective representatives or agents in connection with the Transaction Documents and the transactions contemplated thereby is merely incidental to the Investors’ purchase of the Units. The Company further represents to each Investor that the Company’s decision to enter into this Agreement and the other Transaction Documents has been based solely on the independent evaluation of the transactions contemplated hereby by the Company and its representatives.

(bb) Regulation M Compliance. The Company has not, and to its knowledge no one acting on its behalf has, (i) taken, directly or indirectly, any action designed to cause or to result in the stabilization or manipulation of the price of any security of the Company to facilitate the sale or resale of any of the Units, (ii) sold, bid for, purchased, or, paid any compensation for soliciting purchases of, any of the Units, or (iii) paid or agreed to pay to any Person any compensation for soliciting another to purchase any other securities of the Company, other than, in the case of clauses (ii) and (iii), compensation paid to the placement agent in connection with the placement of the Units.

(cc) Stock Options. With respect to stock options issued pursuant to the Company's Equity Incentive Plan(s) (i) each stock option designated by the Company at the time of grant as an "incentive stock option" under Section 422 of the Code so qualifies, (ii) except as disclosed in the SEC Reports, including the financial statements included therein, each grant of a stock option was duly authorized no later than the date on which the grant of such stock option was by its terms to be effective (the "Grant Date") by all necessary corporate action, including, as applicable, approval by the board of directors of the Company (or a duly constituted and authorized committee thereof) and any required stockholder approval by the necessary number of votes or written consents, (iii) each such grant was made in accordance with the material terms of an Equity Incentive Plan, the Securities Act and all other applicable laws and regulatory rules or requirements, and (iv) each such grant was or has now been properly accounted for in accordance with GAAP in the financial statements (including the related notes) of the Company and disclosed in the Company's filings with the Commission in accordance with the Exchange Act and all other applicable laws, except, in the cases of clauses (i), (ii), (iii) and (iv), for any such failure, violation or default that would not be material to the Company and its subsidiaries taken as a whole.

(dd) The Company is not an "ineligible issuer" (as defined in Rule 405 promulgated under the Securities Act) and is eligible to register the shares of Common Stock for resale by the Investors on a registration statement on Form S-3 under the Securities Act. The Company is subject to the reporting requirements of the Exchange Act, and has filed all reports required thereby. Provided none of the Investors is deemed to be an underwriter with respect to any Units, to the Company's knowledge, there exist no facts or circumstances (including without limitation any required approvals or waivers or any circumstances that may delay or prevent the obtaining of accountant's consents) that reasonably could be expected to prohibit or delay the preparation and filing of a registration statement on Form S-3 under the Securities Act registering the shares of Common Stock for public resale as contemplated in the Registration Rights Agreement.

#### Representations, Warranties and Covenants of the Investor.

The undersigned hereby represents and warrants to, and covenants with, the Company as follows, recognizing that the Company will rely to a material degree upon such representations, warranties and covenants, each of which shall survive any acceptance of this subscription in whole or in part by the Company and the issuance and sale of any Units to the undersigned:

1. The undersigned is an "accredited investor", as term is defined in Regulation D under the 1933 Act.
2. The undersigned has been informed and is aware that an investment in the Units and the Company involves a degree of risk and speculation, and has carefully read and considered the Term Sheet in its entirety.
3. The undersigned has been advised that the undersigned should rely on, and has consulted and relied upon, accounting, legal and financial advisors with respect to this investment in the Units and the Company. The undersigned and his professional advisor(s) (as defined in Section 260.102.12(g) of the Rules of the California Corporations Commissioner), if any, have been afforded an opportunity to meet with the executive officers and directors of the Company and to ask and receive answers to any questions about this offering and the proposed business and affairs of the Company included in this offering, and to obtain any additional information which the Company possesses or can acquire without unreasonable effort or expense that is necessary to verify the accuracy of information provided, and have therefore obtained, in the judgment of the undersigned and/or his or her professional advisor(s), sufficient information to evaluate the merits and risks of investment in the Units and the Company. The undersigned or his or her professional advisor(s), if any, have not been furnished any offering material or literature other than the Term Sheet with

Exhibits and this Subscription Agreement. The undersigned or his or her professional advisor(s), if any, are not relying on any representations, statements or other information provided by the Company orally or in writing, other than as expressly set forth in the Term Sheet.

4. The undersigned understands and acknowledges that (i) no Federal or state agency has made any finding or determination as to the fairness or suitability for investment in, nor any recommendation or endorsement of, the Company or the Common Stock, (ii) the Company's legal counsel has not independently verified any information concerning the Company, all of which has been provided by the Company, nor has such counsel passed upon the accuracy or adequacy of the Term Sheet, (iii) no independent third party, such as an investment banking firm or other expert in the valuation of businesses or securities, made an evaluation of the economic potential of the Company, and (iv) the offering price of the Units and the exercise price of the Warrants have each been determined based on the market price of the Company on the date of the close of the Offering and do not necessarily bear any relationship to the Company's results of operations, net worth, prospects, or other commonly recognized criteria of value, and should not be considered as an indication of any price at which the Units, Common Stock, Warrants and/or shares of Common Stock underlying the Warrants may be sold in the future.
5. On the basis of the review of the materials and information described above, and relying solely thereon and upon the knowledge and experience of the undersigned and/or his or her professional advisor(s), if any, in business and financial matters, the undersigned has evaluated the merits and risks of investment in the Units and the Company and has determined that he or she is both willing and able to undertake the economic risk of this investment.
6. The Units and all shares of Common Stock that may be issued upon exercise of the Warrants will be acquired by the undersigned for the account of the undersigned and not with a view to, or for resale in connection with, any distribution thereof or of any interest therein, and no one else has any beneficial ownership or interest in the Units or components thereof acquired by the undersigned, nor are they to be subject to any lien or pledge. The undersigned has no present obligation, indebtedness or commitment pending, nor is any circumstance in existence which will compel the undersigned to secure funds by the sale, transfer or other distribution of any of the Units, the Common Stock or Warrants, or any interest in any of them, or any capital stock that may be distributed in respect thereof.
7. The undersigned understands and agrees that the neither Units, the Common Stock and Warrants comprising the Units, nor the Common Stock issuable upon exercise of the Warrants, can be transferred or assigned that there is and will be no public market for any thereof, and, accordingly, that it may not be possible for the undersigned readily, if at all, to liquidate this investment in the Company in case of an emergency or otherwise. The undersigned has the net worth, past income and estimated future income set forth in the Investor Questionnaire, can afford to bear the risks of an investment in the Company, including the risk of losing the entire investment, for an indefinite period of time, and has adequate means of providing for his or her current needs and personal contingencies and has no need for liquidity in this investment.
8. The undersigned understands and acknowledges that the Units are being offered and sold pursuant to one or more exemptions from the registration requirements of the Securities Act of 1933, as amended (the "Securities Act"), and from the registration or qualification requirements of applicable state securities or "blue sky" laws, if any, the availability of which depend upon the truth and completeness of the information provided to the Company by the undersigned in writing and the bona fide nature of the foregoing representations and warranties. With such realization, the undersigned hereby authorizes the Company to act as it may see fit in reliance on such information, representations and warranties, including the placement of the following legend on all certificate(s) and instrument(s) evidencing the Units, Common Stock, Warrants and shares of Common Stock underlying the Warrants that are issued to the undersigned:
9. "THE SECURITIES REPRESENTED HEREBY HAVE NOT BEEN REGISTERED WITH THE SECURITIES AND EXCHANGE COMMISSION UNDER THE SECURITIES ACT OF 1933, AS AMENDED. THE SECURITIES MAY NOT BE PLEDGED, SOLD OR TRANSFERRED IN

THE ABSENCE OF AN EFFECTIVE REGISTRATION STATEMENT UNDER THAT ACT COVERING THE SECURITIES OR AN OPINION OF QUALIFIED COUNSEL OR OTHER EVIDENCE SATISFACTORY TO THE COMPANY THAT SUCH REGISTRATION IS NOT REQUIRED.”

10. The undersigned hereby indemnifies and holds harmless the Company, and its respective officers, directors, shareholders, employees and agents, as the case may be, from and against any and all damages suffered and liabilities incurred by any of them (including costs of investigation and defense and attorneys’ fees) arising out of any inaccuracy in the agreements, representations, covenants and warranties made by the undersigned herein.
11. The Investor further represents and warrants to, and covenants with, the Company that (i) the Investor has full right, power, authority and capacity to enter into this Agreement and to consummate the transactions contemplated hereby and has taken all necessary action to authorize the execution, delivery and performance of this Subscription Agreement, and (ii) this Subscription Agreement constitutes a valid and binding obligation of the Investor enforceable against the Investor in accordance with its terms, except as enforceability may be limited by applicable bankruptcy, insolvency, reorganization, moratorium or similar laws affecting creditors’ and contracting parties’ rights generally and except as enforceability may be subject to general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law) and except as the indemnification agreements of the Investors herein may be legally unenforceable.
12. Neither the Investor nor any person acting on its behalf or at its direction has engaged in any purchase or sale of Common Stock (including without limitation any short sale), pledge, transfer, establish an open “put equivalent position” within the meaning of Rule 16a-1(h) under the Exchange Act) during the 5 trading days immediately preceding the date of this Subscription Agreement. Investor will not use any of the restricted shares of Common Stock acquired pursuant to this Agreement, or the Warrant Shares acquired pursuant to the Warrant, to cover any short position in the Common Stock of the Company if doing so would be in violation of applicable securities laws and otherwise will comply with federal securities laws in the holding and sale of the shares of Common Stock, Warrant and Warrant Shares.
13. If the undersigned is purchasing the Units subscribed for hereby in a fiduciary capacity, the above representations and warranties shall be deemed to have been made on behalf of the person or persons for whom the undersigned is so purchasing.
14. The undersigned hereby acknowledges and agrees that the undersigned is not entitled to cancel, terminate or revoke this subscription or any agreements of the undersigned hereunder and that such subscription and agreements shall survive the death or disability of the undersigned.
15. The undersigned understands and acknowledges that this subscription may be accepted or rejected by the Company in its sole discretion within twenty (20) days of receipt hereof by the Company, together with a completed and executed Investor Questionnaire and all information required by the provisions hereof and payment of the full amount of the subscription price for the Units subscribed for. Any amounts tendered in excess of the total payable as the purchase price for Units as to which this subscription has been accepted will thereafter be delivered to the undersigned as soon as is practicable. The Company shall signify its rejection by returning to the undersigned this Subscription Agreement and all funds (without interest or deduction) submitted by the undersigned.
16. NEITHER THE COMPANY, NOR ANY OFFICER, DIRECTOR, SHAREHOLDER, EMPLOYEE OR AGENT OF ANY OF THEM SHALL BE LIABLE TO ANY PERSON FOR THE REJECTION, IN WHOLE OR IN PART, OF ANY OFFER TO SUBSCRIBE TO PURCHASE UNITS, NOTWITHSTANDING THAT THE UNDERSIGNED MAY OTHERWISE BE QUALIFIED AS A PROSPECTIVE INVESTOR.
17. If, prior to the sale of any Units to the undersigned, there is a material change in the undersigned’s

investment intention as expressed herein, or if there occurs any change which would make either the representations or warranties made by the undersigned herein or the information provided by the undersigned in the Investor Questionnaire materially untrue or misleading, the undersigned agrees to immediately so notify the Company, and any prior acceptance of the subscription of the undersigned shall be voidable at the option of the Company.

18. In case any provision contained in this Subscription Agreement should be invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions contained herein shall not in any way be affected or impaired thereby.
19. This Subscription Agreement shall be governed by, and construed in accordance with, the internal laws of the State of Delaware, without giving effect to the principles of conflicts of law.
20. This Subscription Agreement may be executed in two or more counterparts, each of which shall constitute an original, but all of which, when taken together, shall constitute but one instrument, and shall become effective when one or more counterparts have been signed by each party hereto and delivered to the other parties.
21. Securities Laws Disclosure; Publicity. The Company shall, by 8:30 a.m. (New York City time) on the first business day immediately following the Closing Date, issue a Current Report on Form 8-K, disclosing the material terms of the transactions contemplated hereby and filing the transaction documents as exhibits thereto. The Company and each Investor shall consult with each other in issuing any other press releases with respect to the transactions contemplated hereby, and neither the Company nor any Investor shall issue any such press release or otherwise make any such public statement without the prior consent of the Company, with respect to any press release of any Investor, or without the prior consent of each Investor, with respect to any press release of the Company, which consent shall not unreasonably be withheld or delayed, except if such disclosure is required by law, in which case the disclosing party shall promptly provide the other party with prior notice of such public statement or communication. Notwithstanding the foregoing, the Company shall not publicly disclose the name of any Investor, or include the name of any Investor in any filing with the Commission or any regulatory agency or Nasdaq, without the prior written consent of such Investor, except (i) as required by federal securities law in connection with (A) any registration statement contemplated by the Registration Rights Agreement, (B) the Current Report on Form 8-K required by this Section 21, (C) any filing required by the Commission and (D) the filing of final Transaction Documents (including signature pages thereto) with the Commission and (ii) to the extent such disclosure is required by law or Nasdaq regulations, in which case the Company shall provide the Investors with prior notice of such disclosure permitted under this clause (ii).
22. Non-Public Information. Except with respect to the material terms and conditions of the transactions contemplated by the Transaction Documents, the Company confirms that neither it nor any person acting on its behalf has provided Investor with any information that the Company believes constitutes material non-public information, unless prior thereto such Investor shall have executed a written agreement regarding the confidentiality and use of such information. The Company understands and confirms that each Investor shall be relying on the foregoing representations in effecting transactions in securities of the Company.
23. Reimbursement. If any Investor becomes involved in any capacity in any proceeding by or against any person who is a stockholder of the Company (except as a result of sales, pledges, margin sales and similar transactions by such Investor to or with any other stockholder), solely as a result of such Investor's acquisition of the Units under this Agreement, the Company will reimburse such Investor for its reasonable legal and other expenses (including the reasonable cost of any investigation preparation and travel in connection therewith) incurred in connection therewith, as such expenses are incurred. The reimbursement obligations of the Company under this paragraph shall be in addition to any liability which the Company may otherwise have, shall extend upon the same terms and conditions to any affiliates of the Investors who are actually named in such action, proceeding or investigation, and partners, directors, agents, employees and controlling persons (if any), as the case may be, of the Investors and any such affiliate, and shall be binding upon and inure to the benefit of any successors, assigns, heirs and personal representatives of the Company, the Investors and any such affiliate and any such person. The Company also agrees that neither the Investors nor any such affiliates, partners, directors, agents, employees or controlling persons shall have any liability



to the Company or any person asserting claims on behalf of or in right of the Company solely as a result of acquiring the Units under this Agreement, except if such claim arises primarily from a breach of such Investor's representations, warranties or covenants under the Transaction Documents or any agreements or understandings such Investor may have with any such stockholder or any violations by the Investor of state or federal securities laws or any conduct by such Investor which constitutes fraud, gross negligence, willful misconduct or malfeasance.

24. Indemnification of Investors. Subject to the provisions of this Section 24, the Company will indemnify and hold each Investor and its directors, officers, shareholders, members, partners, employees and agents (and any other Persons with a functionally equivalent role of a Person holding such titles notwithstanding a lack of such title or any other title), each Person who controls such Investor (within the meaning of Section 15 of the Securities Act and Section 20 of the Exchange Act), and the directors, officers, shareholders, agents, members, partners or employees (and any other Persons with a functionally equivalent role of a Person holding such titles notwithstanding a lack of such title or any other title) of such controlling persons (each, a "Investor Party") harmless from any and all losses, liabilities, obligations, claims, contingencies, damages, costs and expenses, including all judgments, amounts paid in settlements, court costs and reasonable attorneys' fees and costs of investigation that any such Investor Party may suffer or incur as a result of or relating to (a) any breach of any of the representations, warranties, covenants or agreements made by the Company in this Agreement or in the other Transaction Documents or (b) any action instituted against a Investor, or any of them or their respective Affiliates, by any stockholder of the Company who is not an Affiliate of such Investor, with respect to any of the transactions contemplated by the Transaction Documents (unless such action is based upon a breach of such Investor's representations, warranties or covenants under the Transaction Documents or any agreements or understandings such Investor may have with any such stockholder or any violations by the Investor of state or federal securities laws or any conduct by such Investor which constitutes fraud, gross negligence, willful misconduct or malfeasance). If any action shall be brought against any Investor Party in respect of which indemnity may be sought pursuant to this Agreement, such Investor Party shall promptly notify the Company in writing, and the Company shall have the right to assume the defense thereof with counsel of its own choosing reasonably acceptable to the Investor Party. Any Investor Party shall have the right to employ separate counsel in any such action and participate in the defense thereof, but the fees and expenses of such counsel shall be at the expense of such Investor Party except to the extent that (i) the employment thereof has been specifically authorized by the Company in writing, (ii) the Company has failed after a reasonable period of time to assume such defense and to employ counsel or (iii) in such action there is, in the reasonable opinion of such separate counsel, a material conflict on any material issue between the position of the Company and the position of such Investor Party, in which case the Company shall be responsible for the reasonable fees and expenses of no more than one such separate counsel. The Company will not be liable to any Investor Party under this Agreement (i) for any settlement by a Investor Party effected without the Company's prior written consent, which shall not be unreasonably withheld or delayed; or (ii) to the extent, but only to the extent that a loss, claim, damage or liability is attributable to (A) any Investor Party's breach of any of the representations, warranties, covenants or agreements made by such Investor Party in this Agreement or in the other Transaction Documents, (B) any violations by the Investor of state or federal securities laws or (C) any conduct by such Investor which constitutes fraud, gross negligence, willful misconduct or malfeasance.
25. Reservation of Common Stock. As of the date hereof, the Company has reserved and the Company shall continue to reserve and keep available at all times, free of preemptive rights, a sufficient number of shares of Common Stock for the purpose of enabling the Company to issue shares of Common Stock pursuant to this Agreement.
26. Listing of Common Stock. The Company hereby agrees, as soon as reasonably practicable following the Closing, to take all action reasonably necessary to list all of the shares of Common Stock purchased hereunder on the Nasdaq Stock Market.
27. Equal Treatment of Investors. No consideration shall be offered or paid to any person to amend or consent to a waiver or modification of any provision of any of the Transaction Documents unless the same

consideration is also offered to all of the parties to the Transaction Documents. For clarification purposes, this provision constitutes a separate right granted to each Investor by the Company and negotiated separately by each Investor, and is intended for the Company to treat the Investors as a class and shall not in any way be construed as the Investors acting in concert or as a group with respect to the purchase, disposition or voting of shares of Common Stock or otherwise.

28. Form D; Blue Sky Filings. The Company agrees to timely file a Form D with respect to the Units as required under Regulation D and to provide a copy thereof, promptly upon request of any Investor. The Company shall take such action as the Company shall reasonably determine is necessary in order to obtain an exemption for, or to qualify the Units for, sale to the Investors at the Closing under applicable securities or "Blue Sky" laws of the states of the United States, and shall provide evidence of such actions promptly upon request of any Investor. Each Investor shall take all commercially reasonable actions that are reasonably requested by the Company related to, or to effectuate, the filing of a Form D or any filing required pursuant to the "Blue Sky" laws of the states of the United States which, for purposes of clarity, shall not include the payment of any fees by such Investor.
29. Independent Nature of Investors' Obligations and Rights. The obligations of each Investor under any Transaction Document are several and not joint with the obligations of any other Investor, and no Investor shall be responsible in any way for the performance or non-performance of the obligations of any other Investor under any Transaction Document. Nothing contained herein or in any other Transaction Document, and no action taken by any Investor pursuant thereto, shall be deemed to constitute the Investors as a partnership, an association, a joint venture or any other kind of entity, or create a presumption that the Investors are in any way acting in concert or as a group with respect to such obligations or the transactions contemplated by the Transaction Documents. Each Investor shall be entitled to independently protect and enforce its rights, including without limitation, the rights arising out of this Agreement or out of the other Transaction Documents, and it shall not be necessary for any other Investor to be joined as an additional party in any proceeding for such purpose. Each Investor has been represented by its own separate legal counsel in their review and negotiation of the Transaction Documents.
30. Liquidated Damages. The Company's obligations to pay any partial liquidated damages or other amounts owing under the Transaction Documents is a continuing obligation of the Company and shall not terminate until all unpaid partial liquidated damages and other amounts have been paid notwithstanding the fact that the instrument or security pursuant to which such partial liquidated damages or other amounts are due and payable shall have been canceled.
31. Publicity. The Company agrees that it will not use in advertising or publicity the names of the Fidelity Investors, Fidelity Management & Research Corporation, any of its partners or employees, any of the funds or accounts managed by it or any of its affiliates, or any trade name, trademark, trade device, service mark, symbol or any abbreviation, contraction or simulation thereof, in any case without the prior written consent of Fidelity Management & Research Company.
32. Limitation of Liability. A copy of the Agreement and Declaration of Trust of each of the Fidelity Investors is on file with the Secretary of State of the Commonwealth of Massachusetts, and notice is hereby given that this Agreement is executed on behalf of the Trustees of each Fidelity Investor as Trustees and not individually and that the obligations of this Agreement are not binding upon any of the Trustees, officers or stockholders of the Fidelity Investors individually but are binding only upon the assets and property of such Fidelity Investors. The Company is expressly put on notice that the rights and obligations of each series of shares of each Fidelity Investor under its Declaration of Trust are separate and distinct from those of any and all other entities.

IN WITNESS WHEREOF, the undersigned executes and agrees to be bound by this Subscription Agreement by executing the Signature Page attached hereto on the date therein indicated.

**ARROWHEAD RESEARCH CORPORATION  
SUBSCRIPTION AGREEMENT**

**SIGNATURE PAGE**

(All information must be completed)

**I HEREBY REPRESENT THAT I HAVE READ AND UNDERSTOOD THE SUBSCRIPTION AGREEMENT FOR ARROWHEAD RESEARCH CORPORATION.**

**Subscription:** I hereby subscribe for the following number of Units at the Purchase Price indicated:

Number of Units	Price per Unit	Total Purchase Price
-----------------	----------------	----------------------

Subscriber (Print exact name to appear on the stock and warrant certificates) \_\_\_\_\_

\_\_\_\_\_  
Contact Name

\_\_\_\_\_  
Telephone

\_\_\_\_\_  
Address of Record

\_\_\_\_\_  
Alternative Telephone

\_\_\_\_\_  
City, State, Zip Code

\_\_\_\_\_  
Fax

\_\_\_\_\_  
Country

\_\_\_\_\_  
e-mail address

Date: \_\_\_\_\_, 2007

\_\_\_\_\_  
Signature of Subscriber

\_\_\_\_\_  
Social Security Number or Taxpayer I.D. No.

**ACCEPTED AND AGREED:**

ARROWHEAD RESEARCH CORPORATION

By: \_\_\_\_\_

Title: \_\_\_\_\_

Date: \_\_\_\_\_, 2007