UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 8-K/A

CURRENT REPORT
Pursuant to Section 13 OR 15(d) of The Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): June 4, 2004

Arrowhead Research Corporation
(Exact name of registrant as specified in its charter)

Delaware	**0-21898**	**46-0408024**
(State or other jurisdiction of incorporation)	**(Commission File Number)**	**(I.R.S. Employer Identification No.)**

1118 East Green Street, Pasadena, CA	**91106**
(Address of principal executive offices)	**(Zip Code)**

Registrant's telephone number, including area code: (626) 792-5549

Not Applicable
(Former name or former address, if changed since last report)

Arrowhead Research Corporation (the “Arrowhead Research”) hereby amends Item 7 of its Current Report on Form 8-K dated June 18, 2004 to include the financial statement information indicated in Item 7 below, as required by Item 7(a) of Form 8-K and Item 7(b) of Form 8-K. The information was excluded from the original filing in reliance on Items 7(a)(4) and 7(b)(2), respectively, of Form 8-K. The original June 18, 2004 filing of Form 8-K described the acquisition of Insert Therapeutics, Inc. (“Insert Therapeutics”), a Pasadena-based company focused on designing, developing and commercializing delivery-enhanced therapeutics using its patented class of polymeric delivery systems.

ITEM 7. FINANCIAL STATEMENTS, PRO FORMA FINANCIAL INFORMATION AND EXHIBITS.

ITEM 7 (a) FINANCIAL STATEMENTS OF BUSINESS ACQUIRED

The audited financial statements for Insert as of December 31, 2003 and 2002, together with a report of independent auditors are hereby filed as part of this Report on Form 8-K/ A and are included in Exhibit 99.1. Unaudited financial statements for Insert Therapeutics as of March 31, 2004 and 2003 are also included.

ITEM 7 (b). PRO FORMA FINANCIAL STATEMENTS

The following unaudited pro forma condensed combined financial information of the Company, are hereby filed as part of this Report on Form 8-K/ A and are included in Exhibit 99.2:

a) Unaudited pro forma condensed combined balance sheet as of March 31, 2004.

b) Unaudited pro forma condensed combined statements of operations for the six months ended March 31, 2004.

c) Unaudited pro forma condensed combined statements of operations for the year ended September 30, 2003 (combining pro forma information for Insert Therapeutics as of the year ended December 31, 2003).

d) Notes to unaudited pro forma condensed combined financial statements.

ITEM 7 (c). EXHIBITS

Exhibit No.	Description
23.1	Consent of Independent Auditors of Insert Therapeutics, Inc.
99.1	Independent Auditor’s Report and Financial Statements of Insert Therapeutics, Inc.
99.2	Unaudited Pro Forma Condensed Combined Financial Statements of Arrowhead Research Corporation

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.

Date: August 11, 2004

ARROWHEAD RESEARCH CORPORATION

By: /s/ R. Bruce Stewart

R. Bruce Stewart, President

Exhibit 23.1

CONSENT OF INDEPENDENT AUDITORS

We consent to the use of our report dated July 13, 2004, with respect to the financial statements of Insert Therapeutics, Inc. included in the Current Report on Form 8-K/A of Arrowhead Research Corporation.

/s/ ROSE, SNYDER & JACOBS

Rose, Snyder & Jacobs
A Corporation of Certified Public Accountants
Encino, California
August 10, 2004

Exhibit 99.1

INDEPENDENT AUDITORS' REPORT

The Board of Directors
Insert Therapeutics, Inc.
Pasadena, California

We have audited the accompanying balance sheets of Insert Therapeutics, Inc., as of December 31, 2003 and 2002, and the statements of operations and cash flows for the years then ended. These financial statements are the responsibility of Insert Therapeutic, Inc.'s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Insert Therapeutics, Inc. as of December 31, 2003 and 2002, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

/s/ ROSE, SNYDER & JACOBS

Rose, Snyder & Jacobs
A Corporation of Certified Public Accountants
Encino, California
July 13, 2004

Insert Therapeutics, Inc.
Balance Sheets
As of December 31, 2003 and 2002

	December 31, 2003	December 31, 2002
ASSETS		
CURRENT ASSETS		
Cash	$ 520,215	$ 513,642
Grant receivable, net of allowance for doubtful account of $0	7,461	—
Prepaids and other current assets	9,958	—
TOTAL CURRENT ASSETS	537,634	513,642
PROPERTY & EQUIPMENT		
Computers and office equipment	60,621	60,621
Furniture	22,677	22,677
Research Equipment	595,269	595,269
Software	12,955	12,280
Leasehold Improvements	84,239	84,239
	775,761	775,086
Less: Accumulated depreciation & amortization	(456,337)	(312,265)
NET PROPERTY & EQUIPMENT	319,424	462,821
OTHER ASSETS		
Restricted cash	50,773	89,010
TOTAL OTHER ASSETS	50,773	89,010
TOTAL ASSETS	$ 907,831	$ 1,065,473
LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIT)		
CURRENT LIABILITIES		
Accounts payable	$ 45,099	$ 28,445
Accrued expenses	52,466	63,043
Payroll liabilities	32,449	35,488
TOTAL CURRENT LIABILITIES	130,014	126,976
LONG TERM LIABILITIES		
Notes payable	2,105,869	508,003
TOTAL LONG TERM LIABILITIES	2,105,869	508,003
TOTAL LIABILITIES	2,235,883	634,979
SHAREHOLDERS' EQUITY (DEFICIT)		
Common Stock	13,670	13,670
Preferred Stock	3,000,000	3,000,000
Accumulated deficit	(4,341,722)	(2,583,176)
TOTAL SHAREHOLDERS' EQUITY (DEFICIT)	(1,328,052)	430,494
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIT)	$ 907,831	$ 1,065,473

Insert Therapeutics, Inc.
Statement of Operations
For the Years Ended December 31, 2003 and 2002

	December 31, 2003	December 31, 2002
REVENUE	$ 377,212	$ 1,000,000
OPERATING EXPENSES		
Salaries	849,837	654,299
Consulting	186,984	177,141
General and administrative expenses	310,969	424,818
Research and development	696,581	751,534
TOTAL OPERATING EXPENSES	2,044,371	2,007,792
OPERATING LOSS	(1,667,159)	(964,602)
OTHER INCOME (EXPENSES)		
Interest income	6,480	18,592
Interest expense	(97,867)	(13,562)
TOTAL OTHER INCOME (EXPENSES)	(91,387)	5,030
NET LOSS	$ (1,758,546)	$ (1,002,762)

Insert Therapeutics, Inc.
Statement of Cash Flows
For the Years Ended December 31, 2003 and 2002

	2003	2002
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (1,758,546)	$ (1,002,762)
Adjustment to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	144,072	169,278
Decrease (increase) in grant receivable	(7,461)	—
Decrease (increase) in prepaid and other assets	28,280	—
Decrease (increase) in accounts payable	16,654	4,013
Decrease (increase) in other liabilities	84,249	59,420
NET CASH USED IN OPERATING ACTIVITIES	(1,492,752)	(770,051)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property & equipment	(675)	(59,816)
NET CASH USED IN INVESTING ACTIVITIES	(675)	(59,816)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net proceeds from issuance of note payable	1,500,000	500,000
Payments on notes payable	0	(118,017)
NET CASH PROVIDED BY FINANCING ACTIVITIES	1,500,000	311,983
NET INCREASE (DECREASE) IN CASH	6,573	(517,884)
CASH AT BEGINNING OF PERIOD	513,642	1,031,526
CASH AT END OF PERIOD	$ 520,215	$ 513,642
Supplementary disclosures:		
Interest paid	$ —	$ —
Income tax paid	$ 800	$ 800

NOTE 1. ORGANIZATION

Headquartered in Pasadena, California, Insert Therapeutics, Inc. (“Insert Therapeutics”) was incorporated in the state of Delaware in February 2000. Under the direction of Dr. Mark Davis, a professor of chemical engineering at Caltech, Insert Therapeutics is currently expanding and leveraging its platform technology, Cyclosert™, through an internal small-molecule drug delivery development program, a gene-therapy collaboration with San Diego-based Canji, Inc., a subsidiary of Schering-Plough, and grants in both areas from the National Cancer Institute. Insert has designed a novel class of nanoscale cyclodextrin polymers that incorporate optimal properties for intracellular systemic delivery of a broad range of therapeutics. These polymers can be designed to fit the size of the molecule or drug to be delivered. Cyclosert’s linear cyclodextrin-containing polymers can be designed to be neutral, positively charged or negatively charged. This feature is unique to Cyclosert technology and provides great flexibility for formulation and delivery. Cyclosert polymers have been synthesized at molecular weights ranging up to 150 kD, allowing for systemic drug delivery with the potential to slow renal clearance, enhance circulation time and improve passive accumulation of active drug at the target tissue. When used in these Notes to Financial Statements, the term “Technology” refers to Insert Therapeutics’ Cyclosert™ and the company’s related drug delivery development program.

<u>License Agreement</u>

On May 22, 2000, Insert Therapeutics entered into a license agreement with the California Institute of Technology (“Caltech”) whereby Insert Therapeutics obtained an exclusive worldwide license to certain patents and future improvements to the patented technology. Insert Therapeutics was also given a nonexclusive worldwide license to proprietary information and research tools directly relevant to development of the Technology. However, the technology covered by this nonexclusive license is not subject to patent protection.

<u>Liquidity</u>

Insert Therapeutics has incurred recurring losses and negative cash flows from operations. Insert Therapeutics obtained grants from the National Cancer Institute in 2003, which are expected to help fund a portion of Insert Therapeutics’ research. In June 2004, Insert Therapeutics entered into an agreement with Arrowhead Research Corporation (“Arrowhead Research”), a Pasadena, California based, publicly- held nanotechnology company, under which Arrowhead Research purchased 24,496,553 shares of voting, Series B Preferred Stock, representing approximately 62% of the voting securities of Insert Therapeutics, for $1,000,000 paid on the closing date of June 4, 2004. Management believes that the $1,000,000 proceeds from the stock sale will be sufficient to fund ongoing operations of Insert Therapeutics through at least December 31, 2004.

Also on June 4, 2004, Insert Therapeutics executed a Stock Purchase Agreement with the California Institute of Technology, whereby Caltech purchased 1,224,828 shares of Series B Preferred Stock for $250,000.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

<u>Cash and Cash Equivalents</u>

Insert Therapeutics has classified all highly liquid investments with an original maturity of three months or less as cash equivalents. Included in cash at December 31, 2003 is $485,584 in excess of the FDIC insured amount.

Restricted Cash

Restricted cash in the amount of $50,773 and $89,010 at December 31, 2003 and 2002 respectively is to secure a facility lease, which is now on a month-month basis.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the accompanying financial statements. Significant estimates made in preparing these financial statements include the estimate of useful lives of property and equipment, the deferred tax valuation allowance, and the fair value of stock options. Actual results could differ from those estimates.

Revenue Recognition

Insert Therapeutics' primary source of revenue is from private contributions as part of its research collaborations with pharmaceutical companies. Insert Therapeutics was also awarded a grant of $236,441 for the period from July 2003 through June 2004 and $244,780 for the period from July 2004 through June 2005. These grants are recognized as revenue as the funds are expended in accordance with the terms of the grant, and, for the year ended December 31, 2003, Insert Therapeutics recognized revenue from the grant in the amounts of $52,213.

Financial Instruments

Insert Therapeutics' financial instruments, including cash and cash equivalents, accounts payable and accrued liabilities are carried at cost, which approximates their fair value, due to the relatively short maturity of these instruments. As of December 31, 2003 and 2002, Insert Therapeutics' notes payable have stated borrowing rates that are consistent with those currently available to Insert Therapeutics and, accordingly, Insert Therapeutics believes the carrying value of these debt instruments approximates their fair value.

Property and Equipment

Fixed assets are stated at cost less accumulated depreciation. Expenditures over $1,000 that would increase the value or extend the useful life of property and equipment are capitalized. Depreciation is provided on a straight-line basis over the estimated useful life of the assets that range from 3 years to 7 years. Leasehold improvements are amortized over the original term of the lease that expired on April 1, 2003. Insert Therapeutics continues to occupy its original office and lab space at 2585 Nina Street, Pasadena, CA 91107, on a month-to-month basis.

Stock-Based Compensation

Insert Therapeutics accounts for employee stock option grants in accordance with Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees and related interpretations (APB 25), and has adopted the "disclosure only" alternative described in Statement of Financial Accounting Standards (SFAS) No. 123, Accounting for Stock-Based Compensation, amended by SFAS No. 148 Accounting for Stock Based Compensation-Transition and Disclosure.

SFAS No. 123, Accounting for Stock-Based Compensation, requires pro forma information regarding net income (loss) using compensation that would have been incurred if Insert Therapeutics had accounted for its employee stock options under the fair value method of that statement. Options to purchase 80,000 and 580,000 shares of Insert Therapeutics were granted during the years ended December 31, 2003 and 2002, respectively. The fair value of options granted in the years ended December 31, 2003 and 2002 were estimated at $2,377 and $18,857, respectively, as of the date of grant in accordance with the Black-Scholes Option pricing model with the following assumptions:

	2003	2002
Risk free interest rate	3.27%	3.03%
Stock volatility factor	0.01	0.01
Weighted average expected option life	5 years	5 years
Expected dividend yield	None	None

The pro forma net loss and loss per share had Insert Therapeutics accounted for the options using FAS 123 would have been as follows:

	2003	2002
Net loss as reported	$(1,758,546)	$(1,002,762)
Deduct: Total stock based employee compensation expense determined under fair value based method for all awards	(13,085)	(10,223)
Pro forma net loss	$(1,771,631)	$(1,012,985)

Net Loss Per Share

Net loss per common share is computed using the weighted average number of common shares outstanding during the periods presented. Options to purchase shares of Insert Therapeutics' stock under its stock option plan and warrants may have a dilutive effect on Insert Therapeutics' earnings per share in the future but are not included in the calculation for fiscal 2002 and 2003 because they have an antidilutive effect in these periods.

Income Taxes

Insert Therapeutics uses the liability method of accounting for income taxes. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to financial statements carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. The measurement of deferred tax assets and liabilities is based on provisions of applicable tax law. The measurement of deferred tax assets is reduced, if necessary, by a valuation allowance based on the amount of tax benefits that, based on available evidence, is not expected to be realized.

Recent Accounting Pronouncements

In December 2002, the FASB issued SFAS No. 148, “Accounting for Stock-Based Compensation - Transition and Disclosure” (“SFAS No. 148”), which amends SFAS No. 123. SFAS No. 148 amends the disclosure requirements in SFAS No. 123 for stock-based compensation for annual periods ending after December 15, 2002 and interim periods beginning after December 15, 2002. The disclosure requirements apply to all companies, including those that continue to recognize stock-based compensation under APB No. 25. Effective for financial statements for fiscal years ending after December 15, 2002, SFAS No. 148 also provides three alternative transition methods for companies that choose to adopt the fair value measurement provisions of SFAS No. 123. Insert Therapeutics continues to recognize stock-based compensation under APB No. 25.

In December 2002, the FASB issued Interpretation No. 45 (FIN 45), Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others. FIN 45 requires a guarantor to make additional disclosures in its interim and annual financial statements regarding the guarantor's obligations. In addition, FIN 45 requires, under certain circumstances, that a guarantor recognize, at the inception of the guarantee, a liability for the fair value of the obligation undertaken when issuing the guarantee. Insert Therapeutics did not have any outstanding guarantees that needed to be recorded upon adoption of FIN 45.

In May 2003, the FASB issued SFAS 150, Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity. SFAS 150 improves the accounting for certain financial instruments that, under previous guidance, issuers could account for as equity. SFAS 150 requires that those instruments be classified as liabilities in statements of financial position. SFAS 150 is effective for interim periods beginning after June 15, 2003. Insert Therapeutics does not expect this statement to have a material impact on its financial statements.

NOTE 3. INCOME TAXES

At December 31, 2003, Insert Therapeutics had available for federal and state income tax purposes, net operating loss carryforwards that are subject to significant limitations because of statutory "ownership changes."

The difference between Insert Therapeutics' effective income tax rate and the statutory federal rate for the years ended December 31, 2003 and 2002 relates primarily to losses incurred for which no tax benefit was recognized, due to the uncertainty of its realization. The valuation allowance was recorded for 100% of the deferred tax assets, representing an increase of approximately $700,000 and $400,000 for the years ended December 31, 2003 and 2002, respectively.

A reconciliation of income tax expense that would result from applying the domestic Federal statutory rate to pre-tax income, with federal income tax expense presented in the financial statements is as follows:

	2003	2002
Income tax benefit computed at U.S. federal statutory rate (34%)	$ 600,000	$ 340,000
State income taxes, net of benefit federal taxes	100,000	60,000
Less valuation allowance	(700,000)	(400,000)
Income tax expense	$ —	$ —

NOTE 4. CAPITAL STOCK

Insert Therapeutics is authorized to issue 15,000,000 common shares at par value of $0.0001 per share, of which 6,161,522 shares were outstanding as of December 31, 2003. Insert Therapeutics is also authorized to issue 6,000,000 shares of Preferred Stock.

In August 2000 and January 2001, Insert Therapeutics issued an aggregate of 3,375,000 shares of voting, Convertible Preferred Series A preferred stock (the "Series A"), par value $0.0001 per share, to accredited investors for an aggregate purchase price of $3,000,000. All of the Series A was converted, on a 1-for-1 basis, into 3,375,000 shares of common stock of Insert Therapeutics in June 2004. Before conversion, holders of the Series A had full participation rights with the common shares and also were entitled to noncumulative dividends in the amount of 10% of the original issue price, when and if declared by the Board of Directors. As of December 31, 2003 and 2002, no dividends or distributions had been made to the Series A holders.

In June 2004, Insert Therapeutics filed a Certificate of Amendment to its Articles of Incorporation with the Secretary of State of California authorizing 25,721,381 shares of Series B Preferred Stock, par value 0.0001 per share. The Series B Preferred Stock is voting stock and votes together with the Common Stock on an as converted basis. However, extraordinary corporate events, such as a sale of assets or stock, or a significant debt commitment, must be approved by the vote of the Series B Preferred Stock, voting on its own as a single class. The terms of the Series B Preferred Stock also entitle the holder of the Series B Preferred Stock to elect a majority of Insert Therapeutics' Board of Directors, and, therefore, the holders of Series B Preferred Stock exercise significant control over Insert Therapeutics and have the ability to direct the company's strategic and business development.

Upon a liquidation event, holders of the Series B Preferred Stock are entitled either to participate with the Common Stock on an as converted basis, or to a liquidation preference equal to the initial purchase price along with any declared but unpaid dividends or distributions. In June 2004, Insert Therapeutics issued an aggregate of 25,721,381 shares of Series B Preferred Stock to Arrowhead Research and the California Institute of Technology for an aggregate purchase price at closing of $1,250,000.

NOTE 5. RELATED PARTY TRANSACTIONS

On September 1, 2002 Insert Therapeutics entered into a Consulting Agreement with Dr. Mark Davis, who is also a Director of Insert Therapeutics, whereby Dr. Davis provides consulting services regarding scientific research and development of Insert Therapeutics' proposed products in exchange for a monthly retainer of $5,000. Beginning June 1, 2004, the monthly retainer was increased to $7,000 and the term of the Agreement was extended until December 31, 2005.

Insert Therapeutics made two successive annual gifts to Dr. Davis' laboratories at Caltech of $100,000 each in 2002 and 2003, respectively.

NOTE 6. NOTES PAYABLE

Insert Therapeutics had Convertible Preferred Notes issued to J.J. Jacobs Enterprises, LLC and California Technology Partners, LP totaling $2,000,000 and $500,000 at December 31, 2003 and 2002, respectively. These notes bore interest at 8.50% per annum and initially matured on September 18, 2004, or on the date of a consummation of a liquidation event as defined in the notes, whichever is sooner. Interest totaling $105,869 and $8,003 had been capitalized to these notes at December 31, 2003 and 2002, respectively. These notes were secured by all tangible and intangible assets of Insert Therapeutics. As a condition to the sale of Insert Therapeutics' shares to Arrowhead Research, all amounts owing under these notes were converted into four million shares of Insert Therapeutics' common stock in June 2004.

NOTE 7. STOCK OPTIONS AND WARRANTS

Insert Therapeutics has a Stock Option/Stock Issuance Plan that provides for the granting of stock options to its employees and others providing services to Insert Therapeutics. The maximum number of shares of Common Stock that can be issued over the term of the Plan shall not exceed 635,000 shares. The plan was amended on September 23, 2002 to increase the number of shares under the plan to 1,200,000. As a condition to the sale of Insert Therapeutics' shares to Arrowhead Research, the plan was amended on June 4, 2004 to increase the number of shares under the plan to 9,000,000.

A summary of Insert Therapeutics' stock option activity and related information follows:

	Year ended December 31, 2003		Year ended December 31, 2002	
	Options	Weighted average exercise price	Options	Weighted average exercise price
Outstanding -beginning of year	935,000	$ 0.32	355,000	$ 0.45
Granted	80,000	0.20	580,000	0.23
Exercised	—	—	—	—
Forfeited	30,625	0.45	—	—
Outstanding - end of year	984,375	$ 0.30	935,000	$ 0.32
Exercisable at the end of year	514,464	$ 0.37	272,760	$ 0.42

The weighted average remaining contractual life of options as of December 31, 2003 was as follows:

Exercise price	Number of options outstanding	Weighted average remaining contractual life (years)	Options exercisable
$0.20 - 0.45	984,375	8.2	514,464

Stock Warrants

The following warrants were outstanding and exercisable at December 31, 2003:

Number of shares	Exercise Price	Expiration date
20,000	$0.89 per share	July 25, 2007
30,000	$0.45 per share	September 1, 2007

NOTE 8. CONSULTING AGREEMENTS

On July 1, 2002 Insert Therapeutics entered into a Consulting Agreement with NEOLOGIX, a California corporation, to provide general corporate and business consulting services as requested from time to time by Insert Therapeutics. Compensation paid to NEOLOGIX, based on a hourly schedule, amounted to $71,000 and $64,825 for the years ended December 31, 2003 and 2002, respectively. This Consulting Agreement was modified, effective June 1, 2004, such that Insert Therapeutics pays NEOLOGIX a fixed monthly retainer of $14,583 in lieu of hourly billing. The Consulting Agreement continues on a month-to-month basis until cancelled by either party with ten (10) days written notice.

Also see “NOTE 5. RELATED PARTY TRANSACTIONS” for discussion of Consulting Agreement with Dr. Mark Davis.

NOTE 9. SUBSEQUENT EVENTS

On June 4, 2004, Insert Therapeutics executed a Stock Purchase Agreement with Arrowhead Research, a Pasadena-based, publicly-held nanotechnology company, whereby Arrowhead Research obtained a majority interest in Insert Therapeutics.

Pursuant to the Agreement, Arrowhead Research purchased 24,496,553 shares of voting, Series B Preferred Stock, representing approximately 62% of the voting securities of Insert Therapeutics, for $1,000,000, paid on the closing date of June 4, 2004. In conjunction with the stock sale, Arrowhead Research entered into a related Agreement to Provide Additional Capital, pursuant to which Arrowhead Research may choose to make additional capital contributions as follows $1,000,000 on December 1, 2004; and $3,000,000 upon the attainment of certain milestones in the further development of Insert Therapeutics’ business. If Arrowhead Research chooses not to make an additional capital contribution, Arrowhead Research will forfeit a proportionate number of shares.

Also on June 4, 2004, Insert Therapeutics executed a Stock Purchase Agreement with the California Institute of Technology, whereby Caltech purchased 1,224,828 shares of Series B Preferred Stock for $250,000.

Insert Therapeutics, Inc.
Condensed Balance Sheets
As of March 31, 2004 and 2003
(Unaudited)

	March 31, 2004	March 31, 2003
ASSETS		
CURRENT ASSETS		
Cash	$ 144,020	$ 542,224
Grant receivable, net of allowance for doubtful account of $0	9,000	—
TOTAL CURRENT ASSETS	153,020	542,224
PROPERTY & EQUIPMENT		
Computers and office equipment	60,621	60,621
Furniture	22,677	22,677
Research Equipment	595,269	595,269
Software	12,955	12,955
Leasehold Improvements	84,239	84,239
	775,761	775,761
Less: Accumulated depreciation & amortization	(490,902)	(352,641)
NET PROPERTY & EQUIPMENT	284,859	423,120
OTHER ASSETS		
Restricted cash	50,773	89,010
Prepaid & other assets	6,000	—
TOTAL OTHER ASSETS	56,773	89,010
TOTAL ASSETS	$ 494,652	$ 1,054,354
LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIT)		
CURRENT LIABILITIES		
Accounts payable	$ 16,562	$ 7,487
Accrued expenses	20,020	63,953
Payroll liabilities	30,332	37,151
TOTAL CURRENT LIABILITIES	66,914	108,591
LONG TERM LIABILITIES		
Note payable	2,148,750	1,019,409
TOTAL LONG TERM LIABILITIES	2,148,750	1,019,409
TOTAL LIABILITIES	2,215,664	1,128,000
SHAREHOLDERS' EQUITY (DEFICIT)		
Capital Stock	13,670	13,670
Preferred Stock	3,000,000	3,000,000
Accumulated deficit	(4,734,682)	(3,087,316)
TOTAL SHAREHOLDERS' EQUITY (DEFICIT)	(1,721,012)	(73,646)
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIT)	$ 494,652	$ 1,054,354

Insert Therapeutics, Inc.
Condensed Statements of Operations
For the Three Months Ended March 31, 2004 and 2003
(Unaudited)

	March 31, 2004	March 31, 2003
REVENUE	$ 13,722	$ —
OPERATING EXPENSES		
Salaries	218,044	241,460
Consulting	39,238	45,919
General and administrative expenses	43,227	90,521
Research and development	63,776	115,845
TOTAL OPERATING EXPENSES	364,285	493,745
OPERATING LOSS	(350,563)	(493,745)
OTHER INCOME (EXPENSES)		
Interest income	483	1,607
Interest expense	(42,880)	(12,002)
TOTAL OTHER INCOME (EXPENSES)	(42,397)	(10,395)
NET LOSS	$ (392,960)	$ (504,140)

Insert Therapeutics, Inc.
Condensed Statements of Cash Flows
For the Three Months Ended December 31, 2004 and 2003
(Unaudited)

	March 31, 2004	March 31, 2003
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (392,960)	$ (504,140)
Adjustment to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	34,565	40,376
Decrease (increase) in grant receivable	(1,539)	—
Decrease (increase) in prepaid and other assets	3,958	—
Decrease (increase) in accounts payable	(28,537)	(20,958)
Decrease (increase) in accrued expenses	10,435	12,316
Decrease (increase) in other liabilities	(2,117)	1,663
NET CASH USED IN OPERATING ACTIVITIES	(376,195)	(470,743)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property & equipment	—	(675)
NET CASH USED IN INVESTING ACTIVITIES	—	(675)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net proceeds from issuance of common stock	—	
Net proceeds from issuance of note payable	—	500,000
NET CASH PROVIDED BY FINANCING ACTIVITIES	—	500,000
NET INCREASE (DECREASE) IN CASH	(376,195)	28,582
CASH AT BEGINNING OF PERIOD	520,215	513,642
CASH AT END OF PERIOD	$ 144,020	$ 542,224
Supplementary disclosures:		
Interest paid	$ —	$ —
Income tax paid	$ 800	$ 800

Insert Therapeutics, Inc.
Notes to Condensed Unaudited Financial Statements
March 31, 2004

NOTE 1. BASIS OF PRESENTATION

The accompanying financial statements of Insert Therapeutics, Inc. ("Insert Therapeutics") presented in this report should be read in conjunction with Insert Therapeutics' financial statements for the years ended December 31, 2003 and 2002, and notes thereto, included in this Current Report 8-K/A as filed by Arrowhead Research Corporation ("Arrowhead Research"). The accompanying unaudited condensed financial statements do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments, including normal recurring adjustments, considered necessary for a fair presentation have been included. Operating results for the three months ended March 31, 2004 and 2003 are not necessarily indicative of the results that may be expected for the year ended December 31, 2004.

NOTE 2. SUBSEQUENT EVENTS

On June 4, 2004, the Company executed a Stock Purchase Agreement (the "Agreement") with Arrowhead Research, a Pasadena, California-based, publicly-held nanotechnology company, whereby Arrowhead Research obtained a majority interest in Insert Therapeutics.

Pursuant to the Agreement, Arrowhead Research purchased 24,496,553 shares of voting, newly-issued Series B Preferred Stock, representing approximately 62% of the voting securities of Insert Therapeutics, for $1,000,000, paid on the closing date of June 4, 2004. In conjunction with the stock sale, Arrowhead Research entered into a related Agreement to Provide Additional Capital, pursuant to which Arrowhead may choose to make additional capital contributions as follows: $1,000,000 on December 1, 2004; and $3,000,000 upon the attainment of certain milestones in the further development of Insert Therapeutics' business. If Arrowhead Research chooses not to make an additional capital contribution, Arrowhead Research will forfeit a proportionate number of shares.

Also on June 4, 2004, the Company executed a Stock Purchase Agreement with the California Institute of Technology, whereby Caltech purchased 1,224,828 shares of Series B Preferred Stock for $250,000.

ARROWHEAD RESEARCH CORPORATION
UNAUDITED PRO FORMA CONDENSED COMBINED STATEMENTS

On June 4, 2004, Arrowhead Research executed a Stock Purchase Agreement (the “Agreement”) with Insert Therapeutics, Inc., (“Insert Therapeutics”) a Pasadena-based company focused on designing, developing and commercializing delivery-enhanced therapeutics, using its patented class of polymeric delivery systems, whereby Arrowhead Research obtained a majority interest in Insert Therapeutics.

Pursuant to the Agreement, Arrowhead Research purchased 24,496,553 shares of voting, newly-issued Series B Preferred Stock, representing approximately 62% of the voting securities of Insert Therapeutics, for $1,000,000, paid on the closing date of June 4, 2004. In conjunction with the stock sale, Arrowhead Research entered into a related Agreement to Provide Additional Capital, pursuant to which Arrowhead Research may choose to make additional capital contributions as follows: $1,000,000 on December 1, 2004; and $3,000,000 upon the attainment of certain milestones in the further development of Insert Therapeutics’ business. If Arrowhead Research chooses not to make an additional capital contribution, Arrowhead Research will forfeit a proportionate number of shares.

The unaudited pro forma condensed combined balance sheet is presented as if the acquisition had taken place on March 31, 2004. The unaudited pro forma condensed combined statement of operations for the year ended September 30, 2003, combines Arrowhead Research’s statement of operations for the period from May 7, 2003 (inception date) and ended September 30, 2003 with the statement of operations of Insert Therapeutics for the year ended December 31, 2003 and is presented to reflect the acquisition as if it had occurred as of January 1, 2003.

The unaudited pro forma condensed combined statement of operations for the six months ended March 31, 2004, combines Arrowhead Research’s statement of operations for the six months ended March 31, 2004 with the statement of operations of Insert Therapeutics for the same period. The unaudited pro forma condensed combined statements of operation for the six months ended March 31, 2004 is presented to reflect the acquisition of Insert Therapeutic as if it had occurred on October 1, 2003. Due to the discrepancy in fiscal year ends of the companies, the operations of Insert Therapeutics for the three months ended December 31, 2003 are included in the presentation of both the pro forma condensed combined statement of operations for the six months ended March 31, 2004, as well as the year ended September 30, 2003.

The unaudited pro forma condensed combined financial information is based on the historical financial statements of Arrowhead Research and Insert Therapeutics, giving effect to the aquisition under the purchase method of accounting and the assumptions and adjustments in the accompanying notes to the unaudited pro forma condensed combined financial statements. The pro forma adjustments are based on management’s estimates of the value of the tangible and intangible assets acquired.

The accompanying financial statements of Insert Therapeutics presented in this report should be read in conjunction with Insert Therapeutics’ financial statements and footnotes for the years ended December 31, 2003 and 2002 thereto included in the Current Report 8-K/A, as filed by Arrowhead Research. The unaudited pro forma condensed combined financial statements should also be read in conjunction with the historical financial statements of Arrowhead Research, included in Arrowhead Research’s Form 10-KSB and any amendments thereof for the year ended September 30, 2003, and in Arrowhead Research’s Form 10-QSB, and any amendments thereof, for the six months ended March 31, 2004 filed with the Securities and Exchange Commission.

The acquisition was accounted for using the purchase method of accounting, and accordingly, the assets acquired have been recorded at their estimated fair values as of the date of the acquisition. These amounts have been recorded based upon preliminary estimates as of March 31, 2004. The unaudited pro forma financial data are based on the assumptions and adjustments available at the time of the filing of this Form 8-K/A, as described in the accompanying notes, which Arrowhead Research believes are reasonable. The fair value of the consideration will be allocated to the net assets acquired based upon the fair values of such net assets at the effective date of the acquisition. The allocation presented here is preliminary, subject to change as additional information is received.

The unaudited condensed combined pro forma statement of operations does not purport to represent what Arrowhead Research's results of operations actually would have been if the events described above had occurred as of the dates indicated or what Arrowhead Research's results will be for any future periods. The unaudited condensed combined pro forma financial statements are based upon assumptions, estimates and adjustments that Arrowhead Research believes are reasonable and are intended for informational purposes only. The future consolidated financial position and results of operations will differ, potentially significantly, from the pro forma amounts reflected herein because of a variety of factors, including access to additional information and changes in values not currently identified. Further adjustments to the acquired assets will be reflected as a change in goodwill.

The unaudited pro forma adjustments do not reflect any operating efficiencies and related cost savings that could result with respect to the combined companies. The pro forma adjustments do not include any adjustments to historical revenue for any future price or product offering changes nor any adjustments to selling, marketing or any other expenses for any future operating changes.

ARROWHEAD RESEARCH CORPORATION
PRO FORMA CONDENSED COMBINED FINANCIAL STATEMENTS

Arrowhead Research Corporation
Unaudited Pro Forma Condensed, Combined Balance Sheet
As of March 31, 2004

	Arrowhead	Insert	Adjustments	Pro Forma
ASSETS				
CURRENT ASSETS				
Cash and Cash Equivalents	$ 10,330,701	$ 144,020		$ 10,474,721
Marketable Securities	807,628	—		807,628
Grant receiveable	—	9,000		9,000
Other receivables	145	—		145
Prepaid expenses	360,855	—		360,855
TOTAL CURRENT ASSETS	11,499,329	153,020		11,652,349
Property and equipment, net	9,602	284,859		294,461
Restricted Cash	—	50,773		50,773
Other assets	—	6,000		6,000
Goodwill	—	—	47,432(a)	47,432
TOTAL ASSETS	$ 11,508,931	$ 494,652		$ 12,051,015
LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIT)				
CURRENT LIABILITIES				
Accounts payable	$ 31,552	$ 16,562		$ 48,114
Accrued expenses	6,862	20,020		26,882
Payroll liabilities	—	30,332		30,332
TOTAL CURRENT LIABILITIES	38,414	66,914		105,328
Notes payable	—	2,148,750	(2,148,750)(b)	—
Minority Interest	—	—	475,170(a)	475,170
TOTAL LIABILITIES	38,414	2,215,664		580,498
SHAREHOLDERS' EQUITY				
Common Stock	13,551	13,670	(13,670)(a,b)	13,551
Preferred Stock		3,000,000	(3,000,000)(a,b)	—
Additional paid-in capital	11,934,019	—		11,934,019
Accumulated deficit during the development stage	(477,053)	(4,734,682)	4,734,682(a)	(477,053)
TOTAL SHAREHOLDERS' EQUITY (DEFICIT)	11,470,517	(1,721,012)		11,470,517
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIT)	$ 11,508,931	$ 494,652		$ 12,051,015

(a) To eliminate stockholders' equity.
(b) Represents conversion of notes payable into equity at date of transaction.

Arrowhead Research Corporation
Pro Forma Condensed, Combined Statement of Operations
For the Year Ended September 30, 2003

	For the period from inception (May 7, 2003) through September 30, 2003	For the year ended December 31, 2003		
	Arrowhead	Insert	Adjustments	Pro Forma
REVENUE	$ —	$ 377,212		$ 377,212
OPERATING EXPENSES				
Salaries	25,000	849,837		874,837
Consulting	25,000	186,984		211,894
General and administrative expenses	41,063	310,969		352,032
Research and development	3,375	696,581		699,956
TOTAL OPERATING EXPENSES	94,438	2,044,371		2,138,809
OPERATING LOSS	(94,438)	(1,667,159)		(1,761,597)
OTHER INCOME (EXPENSES)				
Interest income	—	6,480		6,480
Interest expense	—	(97,867)	97,867(a)	—
TOTAL OTHER INCOME (EXPENSES)	—	(91,387)		6,480
Minority interest			624,415(b)	624,415
Provision for income taxes	800	—		800
NET LOSS	$ (95,238)	$ (1,758,546)		$ (1,131,502)

(a) Reflects elimination of interest expense totaling $97,867 for the year ended December 31, 2003 upon the conversion of all amounts owing under these notes into 4,000,000 shares of Insert Therapeutics' common stock in June 2004. Conversion of these notes was a condition of the stock sale.

(b) Represents the minority interest in the loss of Insert.

Arrowhead Research Corporation
Pro Forma Condensed, Combined Statement of Operations
For the Six Months Ended March 31, 2004
(Unaudited)

	For the six months ended March 31, 2004	For the three months ended December 31, 2003	For the three months ended March 31, 2004		
	Arrowhead	Insert	Insert	Adjustments	Pro Forma
REVENUE	$ —	$ 22,571	$ 13,722		$ 36,293
OPERATING EXPENSES					
Salaries	40,000	224,333	218,044		482,377
Consulting	58,475	31,488	39,238		129,201
General and administrative expenses	373,095	34,091	43,227		450,413
Research and development	202,410	136,108	63,776		402,294
TOTAL OPERATING EXPENSES	673,980	426,020	364,285		1,464,285
OPERATING LOSS	(673,980)	(403,449)	(350,563)		(1,427,992)
OTHER INCOME (EXPENSES)					
Loss on disposition of building and equipment	(23,331)	0	0		(23,331)
Interest income	8,668	703	483		9,854
Interest expense	—	(34,228)	(42,880)	77,108(a)	—
Unrealized gains (losses) on marketable securities	307,628	—	—		307,628
TOTAL OTHER INCOME (EXPENSES)	292,965	(33,525)	(42,397)		294,151
Minority interest				283,063(b)	283,063
Provision for income taxes	800	—			800
NET LOSS	$ (381,815)	$ (436,974)	$ (392,960)		$ (851,578)

(a) Reflects elimination of interest expense totaling $77,108 for the six months ended March 31, 2003 upon the conversion of all amounts owing under these notes into 4,000,000 shares of Insert Therapeutics' common stock per share in June 2004. Conversion of these notes was a condition of the stock sale.

(b) Represents the minority interest in the loss of Insert.