Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-QSB

(Mark One)

☒ **QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended June 30, 2004.

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

Commission file number 000-21898

ARROWHEAD RESEARCH CORPORATION
(Name of small business issuer in its charter)

Delaware	**46-0408024**
(State of incorporation)	**(I.R.S. Employer Identification No.)**

1118 East Green Street
Pasadena, California 91106
(626) 792-5549
(Address and telephone number of principal executive offices)

Check whether the issuer (1) filed all reports required to be filed by Section13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date: 13,630,046 as of August 13, 2004.

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

TABLE OF CONTENTS

Arrowhead Research Corporation and Subsidiaries
(A Development Stage Company)
Consolidated Balance Sheets
as of June 30, 2004

	(unaudited) June 30, 2004	September 30, 2003
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 9,839,483	$ 1,355,289
Marketable securities	711,072	—
Grant receivable, net of allowance for doubtful account of $0	37,200	—
Other receivables	520	—
Prepaid research, Note 6.	268,457	158,625
Other prepaid expenses	79,823	.
TOTAL CURRENT ASSETS	10,936,555	1,513,914
PROPERTY & EQUIPMENT		
Computers, office equipment and furniture	138,712	2,115
Research equipment	993,737	—
Software	12,955	—
Leasehold improvements	84,239	—
	1,229,643	2,115
Less: Accumulated depreciation & amortization	(527,799)	(90)
NET PROPERTY & EQUIPMENT	701,844	2,025
OTHER ASSETS		
Restricted cash	50,773	—
Deposits	12,600	—
Goodwill	446,432	—
TOTAL OTHER ASSETS	509,805	—
TOTAL ASSETS	$ 12,148,204	$ 1,515,939
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	$ 43,337	$ 92,688
Accounts payable, capital equipment	253,500	—
Accrued expenses	49,841	800
Payroll liabilities	26,283	2,689
TOTAL CURRENT LIABILITIES	372,961	96,177
Minority interest	927,915	—
Commitments and contingencies, Note 6.		
SHAREHOLDERS' EQUITY		
Capital Stock, $0.001 par value, 50,000,000 shares authorized; 13,625,546 and 4,680,000 shares issued and outstanding, respectively	13,626	4,680
Additional paid-in capital	11,948,944	1,510,320
Accumulated deficit during the development stage	(1,115,242)	(95,238)
TOTAL SHAREHOLDERS' EQUITY	10,847,328	1,419,762
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 12,148,204	$ 1,515,939

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

	Three months ended June 30, 2004	Nine months ended June 30, 2004	From inception through June 30, 2004
REVENUE	$ 37,200	$ 37,200	$ 37,200
OPERATING EXPENSES			
Salaries	150,702	190,702	215,702
Consulting	70,714	129,189	154,189
General and administrative expenses	179,563	553,458	594,521
Research and development	232,235	434,645	438,020
TOTAL OPERATING EXPENSES	633,214	1,307,994	1,402,428
OPERATING LOSS	(596,014)	(1,270,794)	(1,365,232)
OTHER INCOME (EXPENSES)			
Loss on disposition of building and equipment	0	(23,331)	(23,331)
Unrealized gain (loss) in marketable securities	(96,556)	211,072	211,072
Interest income	8,039	16,707	16,707
Minority interest	46,342	46,342	46,342
TOTAL OTHER INCOME (EXPENSES)	(42,175)	250,790	250,790
Provision for income taxes	0	0	800
NET LOSS	$ (638,189)	$ (1,020,004)	$ (1,115,242)
Net loss per share	$ (0.05)	$ (0.10)	
Weighted average shares outstanding	13,585,986	10,275,403	

Arrowhead Research Corporation and Subsidiaries
(A Development Stage Company)
Consolidated Statement of Stockholders Equity
since inception to June 30, 2004
(unaudited)

	Common Stock		Additional Paid –in- Capital	Accumulated Deficit during the Development Stage	Totals
	Shares	Amount			
Common stock issued for cash at $0.001 per share	3,000,000	$ 3,000	$ —	$ —	$ 3,000
Common stock issued for cash at $1.00 per share	1,680,000	1,680	1,678,320	—	1,680,000
Stock issuance costs charged to additional paid-in capital	—	—	(168,000)	—	(168,000)
Net loss for period from inception to September 30, 2003	—	—	—	(95,238)	(95,238)
Common stock issued for cash at $0.20 per share	75,000	75	14,925	—	15,000
Common stock issued for cash at $1.00 per share	475,000	475	474,525	—	475,000
Common stock issued for marketable securities at $1 per share	500,000	500	499,500	—	500,000
Stock issuance costs charged to additional paid-in-capital	—	—	(96,500)	—	(96,500)
Net loss for three months ended December 31, 2003	—	—	—	(205,932)	(205,932)
Common stock issued for cash at $1.50 per share	6,608,788	6,609	9,906,573	—	9,913,182
Common stock issued in reverse acquisition	705,529	706	(127,844)	—	(127,138)
Common stock issued as a gift for $1.00 per share	150,000	150	149,850	—	150,000
Common stock issued for services at $1.50 per share	356,229	356	533,988	—	534,344
Additional paid-in-capital for services	—	—	60,000	—	60,000
Stock issuance costs charged to additional paid-in-capital	—	—	(991,318)	—	(991,318)
Net loss for 3 months ended March 31,2004	—	—	—	(175,883)	(175,883)
Stock issuance issued for cash at $0.20 per share	75,000	75	14,925	—	15,000
Net loss for 3 months ended June 30, 2004	—	—	—	(638,189)	(638,189)
Balances as of June 30, 2004	13,625,546	$ 13,626	$ 11,948,944	$ (1,115,242)	$ 10,847,328

Arrowhead Research Corporation and Subsidiaries
(A Development Stage Company)
Consolidated Statement of Cash Flows
For the nine months ended June 30, 2004 and from inception through June 30, 2004
(unaudited)

	Nine months ended June 30, 2004	From inception through June 30, 2004
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (1,020,004)	$ (1,115,241)
Adjustment to reconcile net loss to net cash used in operating activities:		
Loss on disposal of assets	23,331	23,331
Unrealized gain on securities	(211,072)	(211,072)
Issuance of stock for services	60,000	60,000
Depreciation and amortization	2,244	2,333
Minority interest	(46,342)	(46,342)
Decrease (increase) in receivables	(37,720)	(37,720)
Decrease (increase) in prepaid and other assets	(202,255)	(360,880)
Decrease (increase) in accounts payable	(255,242)	(159,865)
Decrease (increase) in accrued expenses	46,352	47,152
Decrease (increase) in other liabilities	26,283	26,283
NET CASH USED IN OPERATING ACTIVITIES	(1,614,425)	(1,772,021)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property & equipment	(221,597)	(223,712)
Cash paid for interest in Aonex	(2,000,000)	(2,000,000)
Cash paid for interest in Insert	(1,000,000)	(1,000,000)
Cash obtained from interest in Aonex	2,001,250	2,001,250
Cash obtained from interest in Insert	1,304,259	1,304,259
NET CASH PROVIDED BY INVESTING ACTIVITIES	83,912	81,797
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net proceeds from issuance of common stock	10,014,707	11,529,707
NET CASH PROVIDED BY FINANCING ACTIVITIES	10,014,707	11,529,707
NET INCREASE (DECREASE) IN CASH	8,484,194	9,839,483
CASH AT BEGINNING OF PERIOD	1,355,289	—
CASH AT END OF PERIOD	$ 9,839,483	$ 9,839,483
Supplementary disclosures:		
Interest paid	$ —	$ —
Income tax paid	$ 800	$ 800

ARROWHEAD RESEARCH CORPORATION
(A DEVELOPMENT STAGE COMPANY)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004
(unaudited)

NOTE 1: ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

General

On January 12, 2004, Arrowhead Research Corporation ("Arrowhead" or the "Company") (formerly known as InterActive Group, Inc.) issued shares of common stock and warrants in exchange for all of the issued and outstanding securities of Arrowhead Research Corporation, a California corporation (the "California corporation") (the "Stock Exchange"). As a result of this transaction, the California corporation became a wholly-owned subsidiary of the Company, and the former shareholders of the California corporation acquired approximately 89% of the Company's Common Stock outstanding immediately thereafter. In addition, all of the officers and directors of the Company prior to the transaction were replaced by designees of the former shareholders of the California corporation, and the Company's corporate name was changed to "Arrowhead Research Corporation."

Arrowhead has been operating under its new management since January 2004, and, at this time, is a development-stage company. Our primary business objective is to commercialize pioneering, breakthrough products in nanotechnology. Our business model is based on three strategic components:

- Arrowhead provides capital to entities engaged in development and commercialization of nanoscale materials, devices, and systems. In return for early-stage funding, Arrowhead acquires a majority interest in these entities.
- Arrowhead sponsors nanoscience research and development by directly funding research at universities. In return for funding, Arrowhead has historically obtained exclusive rights to license and commercialize technologies generated through the research.
- Arrowhead seeks to leverage valuable intellectual property in nanotechnology through licensing and sub-licensing arrangements.

Arrowhead's business model is designed to provide its subsidiaries and sponsored scientists with financial, administrative, corporate and strategic resources. We believe this will enable each research team to maintain focus on specific technologies and each management team to focus on specific markets, increasing the likelihood of successful technological development and commercialization. We expect that additional advantages will include, among others, the following:

- Arrowhead's management and scientific advisors will be positioned to identify and finance efforts to commercialize products with the most immediate market potential while acquiring intellectual property rights to products with more long term potential.
- Arrowhead, its subsidiaries and sponsored scientists can leverage technology, know-how, and intellectual property being generated by others within the Arrowhead family of companies or developed in sponsored research projects.
- Arrowhead maintains a great deal of flexibility in financing different research and commercial projects. While Arrowhead has the ability to make additional capital contributions, it may choose to forfeit shares in the entity in lieu of making an additional cash investment. Arrowhead can also terminate its sponsored research agreements at any time upon written notice.
- Arrowhead has a stake in a variety of different nanoscale materials, devices, and systems that could impact diverse markets. As such, the Company is positioned to capture value from the general trend toward miniaturization in coming years, regardless of whether particular technologies succeed or fail.

Currently, operations conducted by Arrowhead and its subsidiaries consist of primarily technological research and development. It could take a long time to bring products to market, and success from an investment standpoint is uncertain. We can give no assurances that research and development being conducted by Arrowhead or any of its subsidiaries will generate any revenue or profits.

Summary of Significant Accounting Policies

Basis of Presentation – This report on Form 10-QSB for the quarter ended June 30, 2004, should be read in conjunction with the Company's Annual Report on Form 10-KSB for the year ended September 30, 2003 filed with the SEC on January 13, 2004, and also in conjunction with the Form 8-K/A filed with the SEC on August 11, 2004, in connection with the acquisition of Insert Therapeutics, Inc. The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they 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 normal recurring adjustments considered necessary for a fair presentation have been included. Operating results for the three-month and nine-month periods ended June 30, 2004, are not necessarily indicative of the results that may be expected for the year ending September 30, 2004.

Cash and cash equivalents — For purposes relating to the statement of cash flows, the Company considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents**.**

Restricted Cash — Restricted cash in the amount of $50,773 at June 30, 2004 is to secure a facility lease, which has expired and is continuing on a month-to-month basis.

Investments — The Company's securities investments consist of corporate stocks, and are held principally for the purpose of selling in the near term and are classified as trading securities. Trading securities are recorded at fair value on the balance sheet in current assets, with the change in fair value during the period reflected in earnings.

Property and equipment — Property and equipment are recorded at cost. Depreciation of property and equipment is recorded on the straight-line method over the respective useful lives of the assets ranging from 3 to 7 years. Leasehold improvements are fully amortized.

Revenue Recognition — Insert Therapeutics was 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 and a second grant of $292,940 for the period from April 2004 through March 2005 and $300,000 for the period from April 2005 through March 2006. These grants are recognized as revenue as the funds are expended in accordance with the terms of the grant, and since its acquisition by Arrowhead Research, Insert Therapeutics recognized revenue from the grant in the amount of $37,200.

Earnings per share — Basic earnings (loss) per share is computed using the weighted-average number of common shares outstanding during the period. Diluted earnings (loss) per share is computed using the weighted-average number of common shares and dilutive potential common shares outstanding during the period. Dilutive potential common shares primarily consist of employee Stock Options and Warrants. For the quarter ended June 30, 2004, their effect is anti-dilutive.

Stock-Based Compensation – Arrowhead has a Stock Option Plan (the "Plan") which provides for the granting of non-qualified Stock Options or incentive Stock Options. Under the Plan, 3,000,000 shares of Arrowhead's Common Stock are reserved for issuance upon exercise of Stock Options or Stock Purchase Warrants that may be granted by the Board of Directors to employees, consultants and others expected to provide significant services to Arrowhead.

Arrowhead 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 Arrowhead had accounted for its employee stock options under the fair value method of that statement. Options to purchase 895,000 and 1,545,000 shares of the common stock of Arrowhead were granted during the three months and nine months ended June 30, 2004, respectively. The fair value of options granted in the three months and nine months ended June 30, 2004 were estimated at $147,228 and $235,433, respectively, as of the date of grant in accordance with the Black-Scholes Option pricing model with the following assumptions:

	Three months ended June 30, 2004	Nine Months ended June 30, 2004
Risk free interest rate	3.66%	2.96% -3.66%
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 Arrowhead accounted for the options using FAS 123 would have been as follows:

	Three months ended June 30, 2004	Nine months ended June 30, 2004
Net loss as reported	$ (638,189)	$(1,020,004)
Basic and diluted net loss per share as reported	$ (0.05)	$ (0.10)
Add: stock-based compensation expense included in determination of net loss as reported	$ —	$ —
Deduct: total stock-based employee compensation expense determined under fair market value-based method for all awards	$ (9,360)	$ (36,166)
Pro forma net loss	$ (647,549)	$(1,056,170)
Pro forma net loss per share	$ (0.05)	$ (0.10)

NOTE 2: BASIS OF CONSOLIDATION

On April 20, 2004, Arrowhead acquired 1,000,000 shares of Series A Preferred stock in Aonex Technologies, Inc. (“Aonex”). The 1,000,000 shares of Series A Preferred stock represent 80% of the outstanding, voting shares of Aonex and allows Arrowhead to elect a majority of the Board of Directors of Aonex.

On June 4, 2004, Arrowhead purchased 24,496,553 shares of Series B Preferred Stock of Insert Therapeutics, Inc. (“Insert”), a Pasadena, California based company. This Series B Preferred Stock represents 62% of the voting securities of Insert and allows Arrowhead to elect a majority of the Board of Directors of Insert.

The “Stock Exchange” resulted in a change of control of the Company and has been accounted for as a “reverse acquisition”, as though Arrowhead Research, the California corporation acquired the Company through a purchase of the net assets of the Company with no goodwill being recognized. Therefore, the financial statements of the Company are deemed to be those of the California corporation from its inception on May 7, 2003 and reflect the consolidated assets and operations of the two entities only from and after January 12, 2004. The operations of the California corporation were immaterial from May 7, 2003 through June 30, 2003, and therefore the comparative statements of operations and cash flows are not presented.

NOTE 3. SHAREHOLDERS’ EQUITY

Arrowhead is authorized to issue up to 50,000,000 shares, 0.001 par value, of common stock and 20,000,000 shares of preferred stock. At June 30, 2004, 13,625,546 shares of common stock were outstanding and an additional 13,837,439 shares are reserved for issuance upon exercise of outstanding common stock purchase warrants. An additional 3,000,000 shares are reserved under Arrowhead’s 2000 Stock Option Plan.

In connection with the formation of the company, two private placements of common stock, and the acquisition of InterActive Group, Inc., Arrowhead issued 13,837,439 common stock purchase warrants. Each Warrant entitles the holder to purchase one share of common stock at a price of $1.50 at any time following issuance and prior to June 30, 2013, on which date all unexercised warrants will expire. The warrants are redeemable by Arrowhead at any time following issuance, upon 30 days prior written notice, provided that a public market for the underlying shares of common stock then exists and that the closing bid price for a share of Arrowhead’s common stock, for 20 consecutive trading days ending not more than 15 days prior to the date of the redemption notice, equals or exceeds $3.00 per share. Holders will be required to exercise their warrants within 30 days or accept the $.001 per warrant redemption price.

NOTE 4: LEASES

On May 24, 2004, Arrowhead entered into a lease agreement for approximately 3,500 square feet of office space at 1118 East Green Street, Pasadena, CA 91106. The lease commenced on June 1, 2004 and expires on November 30, 2005. The rental rate is $6,125 for June 1, 2004 through May 31, 2005 and $6,300 for June 1, 2005 through November 30, 2005.

On June 15, 2004, Aonex entered into a lease agreement for approximately 4,006 square feet of office space in Pasadena, California. The lease commenced on July 1, 2004 and expires on June 30, 2006. The rental rate is $6,009 per month until July 1, 2005, at which time it increases to $6,810 per month.

On December 27, 2000, Insert Therapeutics entered into a lease agreement for a approximately 7,000 square feet of combined lab and office space in Pasadena, California. The lease expired on April 30, 2003, but Insert continues to occupy the space on a month to month basis at a cost of $10,543 per month.

NOTE 5: SUBSIDIARIES

On April 20, 2004, Arrowhead finalized a purchase of 1,000,000 shares of voting, newly-issued Series A Preferred Stock of newly-formed Aonex Technologies, Inc., representing 80% of the voting securities of Aonex, for $2,000,000 paid on the closing date. In conjunction with the stock sale, Arrowhead Research entered into a related Agreement to Provide Additional Capital (See Note 6), under which, if Arrowhead elects not to provide additional capital, Arrowhead would forfeit a proportionate percentage of stock. Aonex is seeking to commercialize a method for transferring nano-layers of expensive semiconductor materials and oxides onto low-cost substrates with no adhesives and with controlled stress. The wafers developed through the Aonex process could reduce manufacturing costs and improve performance for select device applications including LEDs, high power amplifiers, and high-efficiency solar cells.

On June 4, 2004, Arrowhead finalized a purchase of 24,496,553 shares of voting, newly-issued Series B Preferred Stock of Insert Therapeutics, Inc., representing 62% of the voting securities of Insert, for $1,000,000 paid on the closing date. In conjunction with the stock sale, Arrowhead Research entered into a related Agreement to Provide Additional Capital (See Note 6), under which, if Arrowhead elects not to provide additional capital, Arrowhead would forfeit a proportionate percentage of stock. Insert 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.

The following summarizes pro forma information, assuming the acquisition had occurred on October 1, 2003:

	Three months ended June 30, 2004	Nine months ended June 30, 2004
Revenue	$ 72,882	$ 109,175
Net loss	(778,204)	(1,677,898)
Loss per share	(0.06)	(0.16)

On April 21, 2004, Arrowhead entered into a letter agreement with Caltech and Michael Roukes to form a company, Nanotechnica, Inc. (“Nanotechnica”) to further develop and commercialize a portfolio of intellectual property that was developed by Dr. Roukes and his group over a period of more than ten years. Nanotechnica was incorporated on June 24, 2004, and Arrowhead funded Nanotechnica with $2,000,000 on August 6, 2004 in anticipation of finalizing the purchase of 5,000,000 shares of voting, newly-issued Series A Preferred Stock. The 5,000,000 shares of Series A Preferred stock would represent 74% of the outstanding voting securities of Nanotechnica. Nanotechnica aims to establish capabilities for manufacturing a variety of nanoscale devices and systems. In the near term, Nanotechnica is pursuing the development of several simple, early-stage products such as scanning probe tips, pathogen sensors, and micro gas analyzers. In the more distant future, Nanotechnica plans to develop more sophisticated products such as devices for real time imaging of cellular events and capabilities for magnetic resonance force microscopy.

NOTE 6: COMMITMENTS AND CONTINGENCIES

Subsidiaries

Arrowhead Research is operating two majority-owned subsidiaries and is finalizing the formation and financing of a third majority-owned subsidiary. The following table summarizes the terms of capital contributions that may be provided by Arrowhead:

Subsidiary	Amount Subject to Agreements to Provide Additional Capital	Estimated Time Period for Additional Capital Contributions
Aonex	$ 3,000,000	2 years
Insert	$ 4,000,000	*
Nanotechnica	$ 18,000,000	18 months

* Arrowhead must elect to pay an additional $1,000,000 on or before December 31, 2004. Additional future capital contributions to Insert will depend on certain FDA approvals, the timing of which is unknown and cannot be estimated.

On April 20, 2004, Arrowhead entered into an Agreement to Provide Additional Capital with Aonex. Under the terms of the Agreement, Arrowhead may contribute up to an additional $3,000,000 over a two-year period as certain milestones in the development of its business are met. If the milestones are met, and Arrowhead elects not to provide additional capital, Arrowhead would forfeit a proportionate percentage of stock, the Agreement to Provide Additional Capital would terminate and Arrowhead would forfeit the opportunity to provide any future additional capital under the terms of the agreement. If the milestones are not met, Arrowhead is not subject to any forfeiture of stock for the failure to provide additional capital to Aonex.

On June 4, 2004, Arrowhead entered into an Agreement to Provide Additional Capital with Insert. Under the terms of the Agreement, Arrowhead may contribute up to an additional $4,000,000 at certain time periods and as milestones in the development of its business are met. If the milestones are met, and Arrowhead elects not to provide additional capital, Arrowhead would forfeit a proportionate percentage of stock, the Agreement to Provide Additional Capital would terminate and Arrowhead would forfeit the opportunity to provide any future additional capital under the terms of the agreement. If the milestones are not met, Arrowhead is not subject to any forfeiture of stock for the failure to provide additional capital to Insert.

Pursuant to a letter agreement dated April 21, 2004, Arrowhead is expecting to enter into a similar Agreement to Provide Additional Capital with Nanotechnica. Under the terms of the letter agreement, Arrowhead may contribute up to an additional $18,000,000 over an eighteen month period according to a timetable or by mutual agreement. If the additional capital contributions are not made, Arrowhead would forfeit a proportionate percentage of stock, the Agreement to Provide Additional Capital would terminate, and Arrowhead would forfeit the opportunity to provide any future additional capital under the terms of the agreement.

Sponsored Research Agreements

The terms of three sponsored research agreements between Arrowhead Research and the California Institute of Technology are summarized in the following table:

Research Project	Total estimated project cost	Annual cost	Amount paid to date	Time period
Research Tools (Dr. C. Patrick Collier)	$ 1,288,766	$ 235,894	$ 235,894	Oct. 1, 2003 - Sept. 30, 2008 (5 years)
Nanotubes (Dr. Marc Bockrath)	$ 810,000	$ 162,000	$ 162,000	Jan. 1, 2004 - Dec. 31, 2008 (4 years)
Nanofilms (Dr. Harry Atwater)	$ 870,793	$ 242,640	$ 242,640	Jan. 2, 2004 - Dec. 31, 2008 (4 years)

The terms of each agreement call for Arrowhead to make annual payments, as indicated above, to subsidize all direct and indirect costs incurred in the performance of the research, not to exceed total estimated project cost. If any of these agreements are extended, the dollar value of costs that will be reimbursed may be modified by mutual agreement to cover additional work performed during the extension. Each research agreement is terminable on 60-days written notice with an obligation to satisfy outstanding obligations at the time of cancellation.

As of June 30, 2004, the Company had advanced Caltech a total of $640,534 for research and development costs under these research agreements. These costs are amortized over the time period covered above and consist primarily of technology development and application research. Research expense related to these costs was $166,292 and $372,077 for the quarter and nine months ended June 30, 2004, respectively. Prepaid research amounted to $268,457 at June 30, 2004.

NOTE 7. RELATED PARTY TRANSACTIONS

James M. Phillips, Jr., director and secretary of Arrowhead was paid a monthly retainer of $4,500 per month for legal services. Mr. Phillips retired and resigned from all positions with Arrowhead, including his position as a director. For the nine months ended June 30, 2004, Mr. Phillips was paid a total of $31,500 under this arrangement.

ITEM 2. MANAGEMENTS DISCUSSION AND ANALYSIS AND PLAN OF OPERATION

Statements contained in this Quarterly Report on Form 10-QSB, which are not purely historical, are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, including but not limited to statements regarding the Company's expectations, hopes, beliefs, intentions or strategies regarding the future. Actual results could differ materially from those projected in any forward-looking statements as a result of a number of factors, including those detailed in "Risk Factors" below and elsewhere in this Quarterly Report on Form 10-QSB. The forward-looking statements are made as of the date hereof, and the Company assumes no obligation to update the forward-looking statements, or to update the reasons why actual results could differ materially from those projected in the forward-looking statements.

Unless otherwise noted, (1) the term "Arrowhead Research" refers to Arrowhead Research Corporation, a Delaware corporation and formerly known as InterActive Group, Inc., (2) the terms "Arrowhead," the "Company," "we," "us," and "our," refer to the ongoing business operations of our company and its subsidiaries, whether conducted through Arrowhead Research or a subsidiary of the company, (3) the term "ARC" refers to Arrowhead Research Corporation, a privately-held California corporation with which Arrowhead Research consummated a stock exchange transaction in January, and (4) the terms "Common Stock" and "stockholder(s)" refer to Arrowhead's common stock and the holders of that stock, respectively.

Overview

Arrowhead Research is a diversified nanotechnology company structured to bring together an innovative mix of technologies in the areas of healthcare, semiconductors and manufacturing processes, as well as some of the most respected minds in this dynamic field. Nanotechnology generally refers to the investigation and manipulation of matter at the atomic, molecular, or macromolecular levels.

Arrowhead consummated a stock exchange transaction in January 2004 with the owners of ARC (the "Stock Exchange"). In the Stock Exchange, the Company sold approximately 89% of its Common Stock to the owners of ARC, and the Company acquired 100% of the issued and outstanding stock of ARC, with ARC becoming a wholly-owned subsidiary of the Company.

Upon consummation of the Stock Exchange, all of the officers and directors of the Company prior to that transaction were replaced by designees of the former owners of ARC. To help achieve our business objectives we are actively seeking to expand our management team, and, specifically, have extended an offer of employment to a new Chief Financial Officer. Our President and Chief Executive Officer, R. Bruce Stewart has over 40 years of entrepreneurial, business development, and investment banking experience. He has founded and financed several companies, including companies that are traded in the public markets.

Upon the Stock Exchange, the Company's new management team terminated the Company's prior business activities and adopted its primary business objective: to commercialize pioneering, breakthrough products in nanotechnology.

Plan of Operation

Arrowhead has been operating under its new management since January 2004, and, at this time, is a development-stage company. Our primary business objective is to commercialize pioneering, breakthrough products in nanotechnology. Our business model is based on three strategic components:

- Arrowhead provides capital to entities engaged in development and commercialization of nanoscale materials, devices, and systems. In return for early-stage funding, Arrowhead acquires a majority interest in these entities.

- Arrowhead sponsors nanoscience research and development by directly funding research at universities. In return for funding, Arrowhead has historically obtained exclusive rights to license and commercialize technologies generated through the funded research.
- Arrowhead seeks to leverage valuable intellectual property in nanotechnology through licensing and sub-licensing arrangements.

Arrowhead's business model is designed to provide its subsidiaries and sponsored scientists with financial, administrative, corporate and strategic resources. We believe that this business model will enable each research team to maintain focus on specific technologies and each management team to focus on specific markets, increasing the likelihood of successful technological development and commercialization. We expect that additional advantages will include, among others, the following:

- Arrowhead's management and scientific advisors will be positioned to identify and finance efforts to commercialize products with the most immediate market potential while acquiring intellectual property rights to products with more long term potential.
- Arrowhead, its subsidiaries and sponsored scientists can leverage technology, know-how, and intellectual property being generated by others within the Arrowhead family of companies or developed in sponsored research projects.
- Arrowhead maintains a great deal of flexibility in financing different research and commercial projects. While Arrowhead has the ability to make additional capital contributions, it may choose to forfeit shares in its subsidiaries in lieu of making an additional cash investment. Arrowhead can also terminate its sponsored research agreements at any time upon written notice.
- Arrowhead has a stake in a variety of different nanoscale materials, devices, and systems that could impact diverse markets. As such, the Company is positioned to capture value from the general trend toward miniaturization in coming years, regardless of whether particular technologies succeed or fail.

Currently, operations conducted by Arrowhead and its subsidiaries consist of primarily technological research and development. It could take a long time to bring products to market, and success from an investment standpoint is uncertain. We can give no assurances that research and development being conducted by Arrowhead or any of its subsidiaries will generate any revenue or profits.

Subsidiaries

In the quarter ended June 30, 2004, we acquired a controlling interest in the following two product-driven companies, which we will operate as majority-owned subsidiaries, and Arrowhead is in the process of finalizing the acquisition of a majority interest in a third subsidiary:

Aonex Technologies, Inc.

On April 20, 2004, the Company formed Aonex Technologies, Inc. ("Aonex") in association with Dr. Harry Atwater, and members of his research team at California Institute of Technology ("Caltech"). In

exchange for one million shares of voting, newly-issued Series A Preferred Stock of Aonex, Arrowhead provided $2,000,000 in initial capitalization, and may contribute up to an additional $3,000,000 over a two year period as certain milestones in the development of the business are met. If Aonex meets the milestones and Arrowhead elects not to provide additional capital, Arrowhead would forfeit a proportionate percentage of stock. If the milestones are not met, Arrowhead is not subject to such forfeiture. Arrowhead owns 80 percent of the outstanding voting stock of Aonex and maintains the right to appoint a majority of the Board.

Technology

Aonex was formed to commercialize a method for transferring nano-layers of expensive semiconductor materials and oxides onto low-cost ("virtual") substrates (e.g., silicon, sapphire, and glass), with no adhesives and with controlled stress. The process could produce high-performance laminate wafers (e.g., indium phosphide-on-silicon and germanium-on-silicon) that offer the electrical and optical characteristics of exotic semiconductor materials and mechanical stability levels associated with silicon. These engineered substrates are expected to reduce manufacturing costs and improve performance for select device applications including LEDs, high frequency power amplifiers, and high-efficiency solar cells. Aonex' technology could ultimately support the integration of different semiconductor materials onto a single substrate. If developed, this type of technology could enable the integration of optical, logical, and high frequency power amplification devices into single dies – an industry trend termed 'system on a chip' (SoC). Such technology could lead to improved performance and significant cost savings.

Currently, Aonex is performing on-going testing of implantation conditions on two target materials, using facilities and outsourced implantation providers, and is continuing evaluation of optimal anneal conditions to minimize production costs of virtual substrates. In addition, Aonex is establishing relationships with outsourced providers of specific elements of Aonex' manufacturing process.

Intellectual Property

Aonex licensed a suite of intellectual property from Caltech in exchange for the issuance of warrants to purchase 700,000 shares of common stock at a price per share of $0.001 to Caltech. The license agreement provides Aonex with exclusive, worldwide rights to certain patents filed by Caltech.

Key Personnel

Research is led by Dr. Harry Atwater, the Howard Hughes Professor of Applied Physics and Materials Science at Caltech and co-inventor of Aonex's core technology. Professor Atwater has consulted extensively for industry and government, and has actively served the materials science community in various capacities. He is a team leader for the NREL National Thin Film Si Photovoltaics team and serves on the Director's Review Committee, Chemistry and Materials Science Division, Lawrence Livermore National Laboratory; and the Board of Directors, Gordon Research Conferences. He has served on the Department of Energy, Office of Science, Division of Materials Sciences Visiting Committee; Stanford University Department of Materials Science and Engineering Visiting Committee; National Science Foundation Division of Materials Research Visiting Committee.

Sean Olson is the President of Aonex and has both technical and business experience in the semiconductor industry. Mr. Olson served in engineering and management positions at Silicon Valley Group Lithography (acquired by ASML), and supported technology and business development efforts at Oraxion Diagnostics, a start-up in the metrology space. He was also a strategy consultant for The Boston Consulting Group.

Insert Therapeutics, Inc.

On June 4, 2004, the Company acquired a majority interest in Insert Therapeutics, Inc. ("Insert"), a Pasadena-based company that has been in existence since 2000. In exchange for 24,496,553 shares of voting, newly-issued Series B Preferred Stock of Insert Therapeutics, Inc., Arrowhead provided $1,000,000 in capitalization on the closing date and has agreed to contribute up to an additional $4,000,000 at certain time periods and as milestones in the development of the business are met. If Insert meets the milestones and Arrowhead elects not to provide additional capital, Arrowhead would forfeit a proportionate percentage of stock. If the milestones are not met, Arrowhead is not subject to such forfeiture. Arrowhead owns approximately 62% of the voting stock of Insert Therapeutics, Inc. and maintains the right to appoint a majority of the board.

Technology

Insert Therapeutics is currently expanding and leveraging its platform technology, Cyclosert™, through an internal small-molecule drug 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 class of nanoscale cyclodextrin polymers that incorporate 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 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.

Insert has completed testing of camptothecin-Cyclosert™-conjugate in tissue culture and small-scale animal studies and is negotiating to manufacture conjugate in large quantities for larger-scale animal studies. Insert hopes to file an Investigational New Drug (IND) application in the near future and has had informal discussions with City of Hope regarding clinical trials.

Intellectual Property

Insert Therapeutics has an exclusive, worldwide license from Caltech to a suite of U.S. and foreign patents that are pending or have been issued. Insert has also filed over 15 U.S. and foreign patent applications, which are still pending.

Key Personnel

Dr. Mark Davis is the founder of Insert and co-inventor of Insert's core technology. Dr. Davis is the Warren and Katharine Schlinger Professor of Chemical Engineering at Caltech. Dr. Davis a Member of the National Academy of Engineering and a recipient of numerous awards including the prestigious Alan T. Waterman Award, given by the National Science Foundation annually to only one scientist in the United States across all disciplines. Dr. Davis was the first engineer to win this award for his work in rationally designed materials. Dr. Davis earned his B.S., M.S. and Ph.D. degrees in Chemical Engineering and holds over 25 patents, has published more than 250 papers and has presented over 400 seminars throughout the world.

Research and development is under the direction of Dr. Thomas Schluep, Insert's Chief Scientific Officer. Dr. Schluep, who recently joined the company, is an expert in the development of formulations for biologics. Prior to joining Insert, he was responsible for the non-viral gene therapy program at Canji, Inc.,

a wholly owned subsidiary of Schering-Plough. He successfully led an interdisciplinary team of scientists in their effort to develop synthetic gene delivery vehicles for the systemic treatment of cancer with the p53 tumor suppressor gene. His other research activities included the development of formulations that enhance adenoviral gene delivery after systemic or local regional administration. As a senior member of the bio-analytical group, he was also responsible for assay development, qualification, and GMP testing of adenoviral gene therapy vectors. Prior to Canji, Dr. Schluep was a post-doctoral associate at the department of Chemical Engineering at the Massachusetts Institute of Technology. He received his Sc.D. in Process Engineering in 1995 and an MS in Biotechnology in 1989, both from the Swiss Federal Institute of Technology in Zurich, Switzerland.

Insert's corporate and business activities are led by Insert's President, John Petrovich. Mr. Petrovich brings general management, strategic planning, legal and fundraising expertise to Insert. His recent management activities include serving as Chief Operating Officer of NeTune Communications, a privately-held satellite communications services firm serving the film production industry. Prior to that, he was a partner at the law firm of Brown Raysman Millstein Felder & Steiner LLP, and a corporate finance partner at the law firm of Morrison & Foerster. He earned his B.S. in Business Administration/Finance from the University of Southern California and his Juris Doctor from the UCLA School of Law.

Nanotechnica, Inc.

On April 21, 2004, Arrowhead, Caltech and Dr. Michael Roukes agreed to form Nanotechnica, Inc. ("Nanotechnica".) Nanotechnica was incorporated on June 24, 2004, and Arrowhead has provided $2,000,000 in capital in anticipation of finalizing the agreements related to the formation of that company. Arrowhead, in conjunction with the current scientific founders, is seeking to bring in additional intellectual property and scientific expertise to Nanotechnica. At the time of closing, it is anticipated that Arrowhead will own approximately 74% of Nanotechnica and maintain a right to appoint a majority to the board.

Technology

Nanotechnica aims to establish capabilities for manufacturing a variety of nanoscale devices and systems. In the near term, Nanotechnica is pursuing the development of several simple, early-stage products such as scanning probe tips, pathogen sensors, and micro gas analyzers. In the more distant future, Nanotechnica plans to develop more sophisticated products such as devices for real time imaging of cellular events and capabilities for magnetic resonance force microscopy.

Thus far, the scientific research team at Nanotechnica has developed prototypes for scanned probe heads, as well as a prototype for an all-electronic, label-free pathogen sensor with sensitivity down to single bacterial cells / spores. An independent testing laboratory has been engaged to validate and certify the performance of this technology for government agencies such as the Department of Defense and the NIAID.

Intellectual Property

It is expected that Caltech will grant to Nanotechnica a fully-paid, worldwide, exclusive license to certain technology developed by Dr. Roukes and his research group at Caltech in return for a Warrant to purchase, for a nominal consideration, shares of the new company's Common Stock. The patent rights included the license agreement have not been finalized.

Key Personnel

Dr. Roukes has agreed to be Nanotechnica's Chief Technical Officer. Dr. Roukes is a Caltech Professor of Physics, Applied Physics and Bioengineering. Dr. Roukes has gained worldwide recognition through his work on the physics and fabrication of nanoscale electronic devices. He is the newly named founding Director of Caltech's Kavli Nanoscience Institute, which received a $7.5 million grant to foster innovative research at the frontiers of nanoscale science and engineering. At Caltech, he is co-founder/co-director both of the *Initiative in Computational Molecular Biology* (CMB) and the *Laboratory for Large Scale Integration of Nanostructures* (LSI Nano). Among his external activities, he chairs the external advisory board of Harvard University's nanoscience center (CIMS), is active on (and has organized) numerous national panels on nanotechnology, *e.g.* for the DoD, DARPA, NSF, IEEE, and ASME. Recently, Dr. Roukes co-founded the multi-institute *Nanosystems Biology Alliance*. Among his honors, Roukes is a fellow of the American Physical Society, and was recently awarded as a Gilbreth Lecturer to the National Academy of Engineering.

Sponsored Research

In addition to forming subsidiary companies, as of June 30, 2004, the Company had entered into three arrangements with the California Institute of Technology, and three corresponding individual professors on the faculty of Caltech, Charles Patrick Collier, Marc Bockrath and Harry Atwater to finance research projects in various aspects of nanotechnology development. In each case, the researchers focus their efforts on achieving certain mutually agreed upon goals. Arrowhead monitors the progress of the research and works with the researchers in identifying patentable inventions. In exchange for funding the research, the Company has obtained the exclusive right to license and commercially exploit any technology developed as a result of the research.

The Company is engaged in negotiations with Caltech and additional members of its faculty pertaining to additional research agreements, and it is anticipated that the Company will enter into comparable arrangements with a number of researchers in the nanotechnology field, both at Caltech and at other universities. The Company also may seek to identify and finance the research and development activities of other entrepreneurs who are working in the nanotechnology arena outside of a university setting.

The three research agreements currently being financed by Arrowhead are:

Nanoelectronics: Professor Marc Bockrath and his team of scientists at Caltech are investigating the behavior of electronic circuits comprised of nanoscale materials. The Bockrath group is researching the transport phenomena of nanometer scale systems to create devices, such as memories and logic gates, that operate on these new principles. In particular they are examining the nature of carbon nanotubes.

Carbon nanotubes have several attractive qualities: they are chemically stable, have the electrical conductivity of copper, the thermal conductivity of diamond, and are mechanically flexible with an extremely high strength-to-weight ratio. Research by the Bockrath group is focused on developing of more powerful electromechanical devices, including faster memory chips, switches, and signal processors, and the creation of arrays of sensors that can be individually tailored to detect particular chemical species, enabling on-chip, artificial-nose chemical identification.

Biomolecular Tools: Professor C. Patrick Collier's group is developing new technologies that will enable the study and control of biomolecular materials and dynamics at the nanometer scale. These new tools are combinations of nanofabrication using an atomic force microscope (AFM), microfluidics-based chips, and fluorescence microscopy. Nanoarrays of biologically active enzymes on glass surfaces are being constructed using an AFM-based writing technique known as Dip-Pen Nanolithography.

Dip-Pen Nanolithography uses chemically modified AFM tips to pattern biological molecules at the nanoscale on a surface of interest. Collier's group has demonstrated, on a preliminary basis, catalytic activity from nanoarrays of functional enzymes patterned with Dip-Pen Nanolithography by monitoring the formation of fluorescent

products of enzymatic reactions in microfluidic channels. This sets the stage for rapid testing of large libraries of enzymes in microfluidic “lab-on-a-chip” based devices as well as the screening of inhibitors against substrate binding as possible new drugs.

The Collier Lab has also developed scanning “nanoelectrode” probes consisting of single-wall carbon nanotubes attached to AFM tips. Carbon nanotube probes offer superior imaging resolution compared to conventional AFM tips. Additionally, the nanotubes are conductive and can be chemically or biologically functionalized in unique ways to serve as biomolecule-specific sensors and triggering devices integrated with AFM. These nanotube AFM probes have the ability to generate higher resolution topographical imaging capability and they are expected to be used to correlate molecular structure to biochemical dynamics.

Nanofilms: Professor Harry Atwater’s group is developing methods of engineering nanofilm materials. These ultra-thin films have properties that mirror those of larger, single-crystal bulk materials at the macroscopic level with the added advantage that they can be placed on inexpensive substrates and/or possibly integrated alongside different materials in a single device. Nanofilms currently under investigation include high performance semiconductor materials (potentially useful in such applications as LEDs, solar cells, and wireless communication devices) and so-called active oxides (potentially useful for active optical devices and electro-optical integration).

The Atwater group is pursuing two approaches to creating these nanofilms. The first, thin-film growth, has the potential to create piezoelectric devices that approach the quality of single crystal devices, but at lower manufacturing costs and greater potential for integration into MEMS-based devices. The second approach, wafer bonding and layer transfer, could enable the development of low-cost, high performance laminate substrates (e.g., InP on Si) reducing manufacturing costs, improving device performance, and enabling the integration of multiple device types into a single chip – an industry trend termed system-on-a-chip (SoC). In addition, this latter process has, for the first time, yielded ferroelectric thin films with properties that are as good as those of bulk materials.

Liquidity and Capital Resources

To date, Arrowhead has completed two private placements in which it issued and sold Units, each consisting of one share of Common Stock and a Warrant to purchase an additional share of Common Stock for the price of $1.50. The aggregate net proceeds from the two private placements totaled $11,302,363. We are not party to any bank loans or other institutional debt.

Funding of Subsidiaries

As of August 13, 2004, Arrowhead had used approximately $5,000,000 of its cash resources to acquire its interest in, and fund, its two majority-owned subsidiaries, Aonex Technologies, Inc. and Insert Therapeutics, Inc., and fund its third subsidiary, Nanotechnica, Inc., in anticipation of finalizing the agreements related to the formation of that company. Arrowhead anticipates providing additional

amounts to its subsidiaries over the next several years and may make future capital contributions, subject to certain conditions, pursuant to separate Agreements to Provide Additional Capital with each subsidiary (the Agreement to Provide Additional Capital with Nanotechnica has not been finalized). The amounts and timing of our future capital commitments are summarized in the following table:

Subsidiary	Contingent Future Capital Contributions	Estimated Time Period
Aonex	$ 3,000,000	2 years
Insert	$ 4,000,000	*
Nanotechnica	$ 18,000,000	18 months

* Arrowhead may elect to pay an additional $1,000,000 on or before December 31, 2004. Additional future capital contributions to Insert are conditioned on certain FDA approvals, the timing of which is unknown and cannot be estimated.

Arrowhead may choose not to fund an additional capital contribution with respect to any entity and, in lieu of making a cash contribution, may forfeit a proportionate number of the entity's shares. Upon forfeiture of the proportionate number of shares, the Agreement to Provide Additional Capital would terminate, and Arrowhead would also forfeit the opportunity to provide any future additional capital under the terms of the original agreement.

Funding of Sponsored Research

As of August 13, 2004, the Company had used $640,500 of its cash resources to fund the three research projects that have already begun, and the Company anticipates paying an additional $2,329,000 over the next four to five year period to continue to support these research projects.

Research Project	Total Estimated Project Cost	Annual Cost	Amount Paid To Date	Time Period
Biomolecular Tools (Dr. C. Patrick Collier)	$1,288,766	$235,894	$235,894	Oct. 1, 2003 -Sept. 30, 2008 (5 years)
Nanotubes (Dr. Marc Bockrath)	$810,000	$162,000	$162,000	Jan. 1, 2004 - Dec. 31, 2008 (4 years)
Nanofilms (Dr. Harry Atwater)	$870,793	$242,640	$242,640	Jan. 2, 2004 - Dec. 31, 2008 (4 years)

Each research agreement is terminable on 60-days written notice.

General, Administrative and Corporate Expenses

Our general and administrative expenses rose in the quarter ended June 30, 2004. These expenses rose, in part, due to the lease of larger office space and costs associated with a move to the new space and equipping our new offices. Also in the quarter ended June 30, 2004, we hired two additional full time employees. Increased expenses also reflect a general increase in corporate expenses, particularly those associated with being a public company.

Need To Raise Additional Capital

As of August 13, 2004, Arrowhead retained in excess of $7,400,000 (which amount includes $2,000,000 advanced to Nanotechnica, Inc. in anticipation of the finalization of the details of its formation) of the $11,302,363 net proceeds from its two private placements, which cash could be used to provide additional funding to subsidiaries and researchers. Since Arrowhead anticipates providing in excess of $26,000,000 for these purposes over the next two years; the Company expects to raise substantial additional capital over this period by selling additional equity securities.

To raise additional capital without further diluting our stockholders, we expect to call our outstanding Warrants for redemption. We believe that, if our Warrants are called for redemption, the Warrant holders will instead exercise them prior to redemption. Should we call the Warrants for redemption, and all of the Warrant holders exercise their Warrants, rather than participating in the redemption, we would realize gross proceeds of approximately $20,756,624.

However, we do not know if Warrant holders would exercise their Warrants in the face of a redemption call, and, if they do, how many would seek to exercise. Additionally, although the trading price of our stock should not be affected by a large Warrant exercise, a large exercise of our Warrants would result in a larger number of outstanding shares of our Common Stock, which could negatively impact our stock price.

In addition, the Company will likely seek to raise additional capital through the sale of Common Stock and/or new Warrants in one or more private placements, or in a registered public offering. The Company may not be able to raise the additional capital it needs at a favorable stock price, if at all. Further, the approval of the Company's pending application for the listing of its Common Stock and Warrants on The NASDAQ Small Cap Market will subject the Company to the NASDAQ market rules, including those rules that require stockholder approval before the sale of stock at a price below the prevailing market price for the Common Stock or a stock issuance involving the issuance of shares in excess of 20% of the number of our outstanding shares.

Risk Factors

An investment in our Common Stock is speculative in nature and involves a high degree of risk. We are a development stage company and we have limited historical operations. We urge you to consider our likelihood of success and prospects in light of the risks, expenses and difficulties frequently encountered by entities at our current stage of development. Along with the other information included in this Quarterly Report on Form 10-QSB, you should carefully consider the following risks and uncertainties, keeping in mind that they are not the only ones that affect us. Additional risks, which we do not presently consider material or of which we are not currently aware, may also adversely affect us.

Among other things, the following risk factors contain forward-looking statements that are based on certain assumptions about future risks and uncertainties. We believe that our assumptions are reasonable. Nonetheless, it is likely that at least some of these assumptions will not come true. Accordingly, our actual results will probably differ from the outcomes contained in any forward-looking statement, and those differences could be material. Factors that could cause or contribute to those differences include the ones discussed below, as well as those discussed elsewhere in this Quarterly Report on Form 10-QSB and in our other filings with the Securities and Exchange Commission.

The first set of risk factors set forth below are the primary risks associated with our Stock. The second set of risk factors set forth below are the primary risks associated with our business.

CERTAIN RISK FACTORS RELATING TO OUR STOCK

Arrowhead's Common Stock price has fluctuated significantly since January 2004 and may continue to do so in the future.

General Economic Conditions. The stock prices for many companies in the technology sector have experienced wide fluctuations that often have been unrelated to their operating performance. Such fluctuations may adversely affect the market price of our Common Stock.

Industry and Company-Specific Events. We believe some additional reasons for past fluctuations in the price of our stock have included:

- announcements of developments related to our business;
- developments in our strategic relationships with scientists within the nanotechnology field;
- market perception of nanotechnology as the next technological wave;
- quarterly variations in our operating results; and
- general market conditions or market conditions specific to particular industries.

Sales upon Registration. The Company has filed a registration statement with the Securities and Exchange Commission, for the purpose of registering for resale under the Securities Act, all of the Common Stock that was issued without registration in connection with the two private placements and the Stock Exchange. If this pending registration becomes effective, the number of shares of the Company's Common Stock in the public "float" will increase dramatically. Sales of a number of the shares of Common Stock pursuant to the registration statement, or even the possibility of such sales, could have a significant depressing effect on the market price for the Company's Common Stock and Warrants.

Warrants. The pending registration statement that the Company has filed with the Securities and Exchange Commission also covers all the Warrants issued in connection with the two private placements and the Stock Exchange, along with all of the shares of Common Stock issuable upon exercise of the Warrants. The issuance of shares of Common Stock upon exercise of the Warrants, or the prospect of such issuance, may negatively impact the price of the Company's Common Stock and Warrants.

Dilution Through Sales of Additional Securities.

Our Certificate of Incorporation authorizes the issuance of an aggregate of 50,000,000 shares of Common Stock, on such terms and at such prices as the Board of Directors of the Company may determine. Of these shares, an aggregate of 13,552,599 shares of Common Stock have been issued, 13,835,748 are reserved for issuance upon exercise of outstanding Common Stock Warrants, and 3,000,000 shares of Common Stock are reserved for issuance upon exercise of stock options that have been granted or may be granted under the Company's 2000 Stock Option Plan to employees, consultants and others expected to provide significant services to Arrowhead. Therefore, approximately 20,000,000 shares of Common Stock remain available for issuance by the Company to raise additional capital, in connection with prospective acquisitions or for other corporate purposes. Issuances of additional shares of Common Stock would result in dilution of the percentage interest in our Common Stock of all stockholders ratably, and might result in dilution in the tangible net book value of a share of our Common Stock, depending upon the price and other terms on which the additional shares are issued. In addition, the issuance of additional shares of Common Stock upon exercise of the Warrants, or even the prospect of such issuance, may be expected to have an effect on the market for the Common Stock, and may have an adverse impact on the price at which shares of Common Stock trade.

Limited Public Market for Common Stock

Although we have applied for listing on The NASDAQ SmallCap Market, our Common Stock currently trades in the over-the-counter market and is quoted on the OTC Bulletin Board under the symbol "ARWR." Currently, our Common Stock is very thinly traded. The OTC Bulletin Board has less daily trading volume on average than the average trading market for companies quoted on the NASDAQ SmallCap Market, NASDAQ National Market or the New York Stock Exchange. In fact, the volume of trading has been extremely light, with many days when no shares are traded at all. Accordingly, it may be difficult to sell shares of our Common Stock quickly without significantly depressing the value of the stock. Unless we are successful in developing continued investor interest in our stock, sales of our stock could continue to result in major fluctuations in the price of the stock.

Sales by Officers or Directors.

Sales of our Common Stock by our officers, directors and employees could adversely and unpredictably affect the price of our shares. Additionally, the price of Arrowhead's stock could be affected even by the potential for sales by these persons. All of our directors and founding shareholders have executed a lock up letter agreement restricting their sales in the 90 day period following the time our Registration Statement is declared effective. However we cannot predict the effect that any future sales of our Common Stock, or the potential for those sales, will have on our share price.

Absence of Dividends.

We will not distribute cash to our stockholders until and unless we can develop sufficient funds from operations to meet our ongoing needs and implement our business plan. The time frame for that is inherently unpredictable, and you should not plan on it occurring in the near future, if at all.

CERTAIN RISK FACTORS RELATING TO OUR BUSINESS

At this time, Arrowhead is a development-stage company and our primary business objective is to commercialize pioneering, breakthrough products in nanotechnology. To accomplish our business objectives, Arrowhead seeks to acquire interests in existing or newly-formed entities engaged in development and commercialization of nanoscale materials, devices, and systems. Additionally, Arrowhead directly funds nanoscience research and development at universities.

Developmental Stage; Unproven Plan of Operations.

As a consequence of the change in the control of the Company on January 12, 2004, all efforts that were previously initiated by prior management in an attempt to develop a viable business plan were abandoned. In place thereof, the Company adopted a new plan of operations based on the strategy that was only recently formulated by the California corporation following its formation in May 2003. To date, implementation of this strategy is still in the development stage, with only a limited number of research projects and subsidiary companies having been selected for funding. Accordingly, the Company's business and operations should be considered to be in the development stage, subject to all of the risks inherent in the establishment of a new business venture. For this reason, the intended business and operations of the Company may not prove to be successful. Any future success that the Company might enjoy will depend upon many factors including factors which may be beyond the control of the Company, or which cannot be predicted at this time. The Company may encounter unforeseen difficulties or delays in the implementation of its plan of operations which could have a material adverse effect upon the financial condition, business prospects and operations of the Company and the value of an investment in the Company.

We Must Overcome the Many Obstacles Associated with Integrating and Operating Varying Business Ventures.

Arrowhead's model to integrate and oversee the strategic direction of various research and development projects presents many risks, including:

- the difficulty of integrating operations and personnel; and
- the diversion of our management's attention as a result of evaluating, negotiating and integrating acquisitions or new business ventures;

Generally, we provide administrative, operational and financial support to our subsidiaries. If we are unable to timely and efficiently design and integrate our administrative and operational functions, we may be unable to manage projects effectively, which could adversely affect our ability to meet our business objectives.

In addition, consummating acquisitions and taking advantage of strategic relationships could adversely impact our cash position, and dilute shareholder interests, for many reasons, including:

- changes to our income to reflect the amortization of acquired intangible assets, including goodwill;
- interest costs and debt service requirements for any debt incurred to fund our growth strategy; and
- any issuance of securities to fund our operations or growth which dilutes or lessens the rights of current common stockholders.

To date, we have implemented only funding for sponsored research, the formation of Aonex, and the acquisition of Insert Therapeutics. We have had no significant experience in executing and implementing formations and acquisitions of subsidiaries and, if we are unable to do so effectively, the value of our stock could be negatively impacted.

We face a difficult and uncertain economic environment in our industry which could adversely affect our business and operations.

The high-tech industry in general has experienced a significant economic downturn during the past several years. The poor economic environment has contributed to the decline in value of leading semiconductor and electronics industry players, thus limiting cash available for funding basic science research and development for new products and technologies. Economic conditions may not improve in the near term or at all. Any further future downturn would likely have a material adverse impact on our business and ability to generate revenues.

Risks Inherent in Research Projects.

As is the case with any research project, it is possible that no commercially viable technology will be developed as a result of any one or more of the research projects that the Company has agreed to finance to date or may finance in the future. This is particularly true in the case of the projects that the Company typically will finance, since most of these projects are in the very early stage of research, well before they have generated sufficient results to attract the interest of traditional strategic partners or financing sources that focus in the high tech or scientific arenas.

Risks Inherent In Attempting To Commercialize New Technologies Through Subsidiaries

The Company's majority-owned subsidiaries are, and are expected to be in the foreseeable future, in development stage or start-up businesses focused on risky technologies. The subsidiaries have limited or no history of operations and have not attained profitability. Start-up companies are more vulnerable than better capitalized companies to adverse business or economic developments. Start-up businesses generally have limited product lines, service niches, markets and/or financial resources. Start-up companies are not well-known to the investing public are subject to potential bankruptcy, general movements in markets, and perceptions of potential growth.

Lack of Revenue; No Assurance of Profitability.

To date, the Company has not generated any revenue as a result of its current plan of operations. Moreover, given its strategy of financing new and unproven technology research, we do not expect to realize significant revenue in the foreseeable future, if at all.

Need for Additional Capital.

The Company has entered into agreements pursuant to which it is likely to provide substantial amounts of research project funding and financial support for majority owned subsidiaries over an extended period of time. Because the Company will likely seek to provide funding that greatly exceeds the Company's available cash resources, the Company will need to raise additional capital in the near term, and may seek to do so by calling the outstanding Warrants for redemption, conducting one or more private placements of equity securities, selling additional securities in a registered public offering, or through a combination of one or more of such financing alternatives. There can be no assurance that any additional capital resources which the Company may need will be available to the Company as and when required, or on terms that will be acceptable to the Company. If the Company is unable to raise the capital required on a timely basis, it may not be able to fund its research projects and the development of the businesses of its

majority owned subsidiaries. In such event, the Company may be required to delay or reduce implementation of certain aspects of its plan of operations. Even if the necessary funding were available, the issuance of additional securities would dilute the equity interests of its existing stockholders, perhaps substantially.

Reliance on Key Personnel.

The Company's future success will depend to a significant extent on the continued services of its key employees, particularly R. Bruce Stewart, who conceived of our business and overall operating strategy and has been most instrumental in assisting Arrowhead raise the capital that it needs. Our ability to execute our strategy will also depend on our ability to attract and retain qualified technical, sales, marketing, finance and managerial personnel. If we are unable to find, hire and retain qualified individuals, we could have difficulty implementing our business plan in a timely manner, or at all.

Possibility of Competition.

Management believes that the Company's success to date in raising capital to finance nanotechnology research and commercialization projects is attributable, in large part, to the belief that the plan of operations adopted by the Company is a novel one. If the Company continues to be successful in attracting funding for research and commercialization projects, it is possible that additional competitors could emerge and compete for financing. Should that occur, the Company could encounter difficulty in raising funds to finance its future operations and further research and commercialization projects.

Additionally, some companies already fund early-stage, scientific research at universities and venture capital funds invest in companies seeking to commercialize technology. It is possible that these established companies and venture funds, as well as possible additional competitors, will emerge to finance similar research projects. Should that occur, the Company could encounter difficulty in obtaining the opportunity to finance research and commercialization projects. Furthermore, should any commercial undertaking by the Company, with respect to a particular product or technology, prove to be successful, there can no assurance that competitors with greater financial resources than the Company will not emerge to offer similar competitive, products and/or technologies.

Intellectual Property Risks.

The Company's subsidiaries have licensed rights to pending patents and have filed and will continue to file patent applications. The researchers sponsored by the Company may also file patent applications that Arrowhead chooses to license. If a particular patent is not granted, the value of the invention described in the patent would be diminished. Further, even if these patents are granted, they may be difficult to enforce. Efforts to enforce our patent rights could be expensive, distracting for management, unsuccessful, cause our patents to be invalidated, and frustrate commercialization of products. Additionally, even if patents do issue and are enforceable, others may independently develop similar, superior, or parallel technologies to any technology developed by us, or our technology may prove to infringe upon patents or rights owned by others. Thus, the patents held by or licensed to us may not afford us any meaningful competitive advantage. Our inability to maintain our licenses and our intellectual property rights could have a material adverse effect on our business, financial condition and results of operations.

Regulatory and Social Risks.

There are several regulatory and social risks associated with nanotechnology that could affect commercialization success. There is increasing public concern about the environmental and ethical implications of nanotechnology that could impede market acceptance of products developed through these means. At least one of Arrowhead's subsidiaries will be required to seek approval from the Food and Drug Administration (FDA). The FDA approval process is demanding and lengthy and could delay or hinder commercialization of certain products. Finally, Arrowhead's subsidiaries are developing products that might be useful for military and antiterrorism activities. United States government export regulations could restrict sales of these products in other countries.

ITEM 3. CONTROLS AND PROCEDURES.

As of the end of the period covered by this Quarterly Report on Form 10-QSB, the chief executive and financial officer of the Company conducted an evaluation of the effectiveness of the design and operation of the Company's disclosure controls and procedures pursuant to Rules 13a-14 and 3a-15 under the Securities Exchange Act of 1934, as amended. Based upon that evaluation, the executive chief executive and financial officer concluded that the Company's disclosure controls and procedures are functioning effectively to provide reasonable assurance that that the information required to be disclosed by the Company in reports filed under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported with the time period prescribed by the Securities and Exchange Commission. A controls system, no matter how well designed and operated, cannot provide absolute assurance that the objectives of the controls system are met, and no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within a company have been detected.

No change in the Company's internal controls financial reporting occurred during the Company's most recent fiscal quarter that have materially affected, or is reasonably likely to materially affect, these controls subsequent to the date this evaluation was carried out.

Table of Contents

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

Not Applicable. See registrant's Quarterly Report on Form 10-QSB for the quarter ended March 31, 2004.

ITEM 2. CHANGES IN SECURITIES.

Not Applicable.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

None.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

Not Applicable.

ITEM 5. OTHER INFORMATION.

None.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K.

(a) Exhibits.

Exhibit Number	Document Description
3.1	Certificate of Incorporation of InterActive Group, Inc., a Delaware company (1)
3.2	Certificate of Amendment of Certificate of Incorporation of InterActive Group, Inc. (effecting, among other things a change in the corporation's name to "Arrowhead Research Corporation" (2)
3.3	Bylaws (1)
4.1	Registration Rights Agreement dated January 12, 2004 (3)
4.2	Standstill and Registration Rights Agreement dated January 12, 2004 (3)
10.1	2000 Stock Option Plan (1)
10.2	Research Agreement with California Institute of Technology regarding the research of C. Patrick Collier (4)

10.3	Research Agreement with California Institute of Technology regarding the research of Marc Bockrath (4)
10.4	Research Agreement between California Institute of Technology pertaining to research in Harry Atwater's laboratory (5)
10.5	Letter Agreement among the Company, California Institute of Technology and Harry Atwater pertaining to the formation of Aonex Technologies, Inc. (fka Aonex Corporation) (5)
10.6	Letter Agreement among the Company, California Institute of Technology and Michael Roukes pertaining to the formation of Nanotechnica (fka Nanokinetics) (5)
10.7	Series B Stock Purchase Agreement pertaining to acquisition of majority interest in Insert Therapeutics, Inc. (5)
10.8	Consulting Agreement between Insert Therapeutics and Dr. Mark Davis*
10.9	Consulting Agreement between Insert Therapeutics and Neologix, Inc.*
10.10	Amendment No. 1 to Agreement to Provide Additional Capital between Arrowhead and Insert Therapeutics, Inc.*
10.11	Consulting Agreement between Aonex Technologies, Inc. (fka Aonex Corporation) and Dr. Harry Atwater*
10.12	Agreement to Provide Additional Capital between Arrowhead Research and Aonex Technologies, Inc.*
31.1	Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer*
32.1	Section 1350 Certification by Principal Executive Officer*

---

* Filed herewith

(1) Incorporated by reference from the exhibits to the Schedule 14C filed by registrant on December 22, 2000.

(2) Incorporated by reference from the exhibit to the Schedule 14C filed by registrant on December 22, 2003.

(3) Incorporated by reference from the Annual Report on Form 10-KSB for the year ended September 30, 2004, filed by registrant on January 13, 2004.

(4) Incorporated by reference from the Annual Report on Form 10-KSB for the year ended September 30, 2004, filed by registrant on July 7, 2004.

(5) Incorporated by reference from the Quarterly Report on Form 10-QSB for the quarter ended March 31, 2004, filed by registrant on July 7, 2004.

(b) Reports on Form 8-K.

The Company furnished to the SEC the following Current Reports on Form 8-K:

- Current Report on Form 8-K on April 6, 2004, to disclose a change in the composition of the Company's board of directors, establishment of an audit committee, adoption of a Code of Conduct and the establishment of a Scientific Advisory Board.
- Current Report on Form 8-K on April 23, 2004, to announce the agreements entered into by the Company with respect to the formation and stock purchase of Aonex Corporation, Insert Therapeutics, Inc. and Nanotechnica, Inc.
- Current Report on Form 8-K on June 18, 2004, to announce the consummation of the acquisition of a majority interest in Insert Therapeutics, Inc.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Issuer has caused this Quarterly Report on Form 10-QSB to be signed on its behalf by the undersigned, thereunto duly authorized.

Dated: August 13, 2004

ARROWHEAD RESEARCH CORPORATION.

BY: /s/ R. BRUCE STEWART

R. Bruce Stewart, President
Chief executive, financial and accounting officer

Exhibit 10.8

CONSULTING AGREEMENT

THIS AGREEMENT is made and entered into as of the 1st day of September, 2002 (the "Effective Date"), by and between Insert Therapeutics, Inc., a Delaware corporation having its principal place of business at 2585 Nina Street, Pasadena, CA 91107 (the "Company"), and Mark Davis ("Consultant").

RECITAL

As part of its ongoing program of research and development, the Company desires to engage individuals with scientific expertise to advise the Company regarding the research and development of its proposed products. Consultant has the requisite expertise and is willing to serve as a consultant to the Company.

Therefore, the Company and Consultant desire to enter into this Agreement.

AGREEMENT

In consideration of the foregoing and the mutual promises and covenants contained in this Agreement, the Company and Consultant agree to the following:

1. ENGAGEMENT OF SERVICES; COMPENSATION.

Consultant agrees to provide consulting services to the Company, as described below (collectively, the "Services"). The Services will include the use of Consultant's creative talents to provide strategic business advice and to develop ideas, inventions, business contacts, discoveries, improvements, processes, techniques, trade secrets and formulae relating to the development and commercialization of synthetic polymers for use primarily in drug delivery (the "Field"). The Services may also include, by way of example, the following: (a) coordination of the progress and direction of the research and development activities of the Company, internally and with scientific collaborators; (b) attendance at meetings and assistance in making presentations and preparation of materials in connection with scientific collaborations, industry meetings, fundraising efforts, due diligence investigations, etc.; and (c) other services within the general scope of the foregoing that might be typical of the responsibilities of a Chief Scientific Officer, as requested by the CEO and other members of senior management of the Company. Generally, Consultant will make his services available the equivalent of one day per week, rendered when and as reasonably requested by the Company, subject to prior commitments Consultant may have arising out of his academic duties at Caltech. The Company recognizes that Consultant may from time to time be unavailable to attend meetings or provide other consulting duties due to Consultant's other obligations, including but not limited to the performance of duties for other clients and employers, and attendance of scientific conferences.

2. COMPENSATION.

Provided that Consultant is not in breach or default hereunder, as full compensation for all Services rendered hereunder, and any and all rights granted or assigned to Company by Consultant under this Agreement, Consultant shall receive a monthly retainer of $5,000.00, payable on the last day of each month in arrears.

3. CONFIDENTIAL INFORMATION; OWNERSHIP OF INVENTIONS.

Consultant acknowledges that he has signed separate Proprietary Information and Inventions Agreements dated July 26, 2000, and November 2, 2000, in favor of the Company, and reaffirms that such agreements remains in full force and effect and are applicable to the Services and Consultant's work for the Company under this Agreement. The form and substance of said agreements is hereby incorporated by reference into this Agreement. The term "Inventions", as used herein, will have the meaning given to such term in said Proprietary Information and Inventions Agreements. Any conflicts between said agreements will be resolved in favor of the earlier-dated agreement.

4. INDEMNIFICATION.

4.1 Except as otherwise provided below, Company will (i) indemnify Consultant and hold Consultant harmless from and against any losses, claims, damages, or liabilities, including without limitation judgments, fines and amounts paid in settlement (collectively "losses") resulting from any claim, action or proceeding against Consultant which arises out of or in connection with this Agreement and Consultant's services rendered pursuant hereto (each, a "claim"), and (ii) pay, or reimburse Consultant for, all costs and expenses (including without limitation counsel fees, court costs, witness fees and the costs and expenses of investigation) actually and reasonably incurred by Consultant in connection with preparing for or defending any pending or threatened claim (collectively, "costs").

4.2 The obligations of Company pursuant to the immediately preceding paragraph will not apply to any claim which results from the bad faith, gross negligence or willful misconduct of Consultant, and as to any such claim, Consultant will be solely responsible for, and will indemnify Company and hold it harmless from and against, any associated losses or costs.

4.3 Consultant will exercise reasonable diligence in promptly notifying Company of any claim for which indemnification may be sought by Consultant and Company may, at its written election, assume the defense of any such claim, including the selection and appointment of counsel and the defense or settlement thereof. If Company elects to assume defense of a claim, counsel chosen by Company will be subject to Consultant's approval, which will not be unreasonably withheld. Further, Company will not settle any action or claim in any manner which would include or constitute an admission by Consultant of liability, guilt in connection with the commission of any crime or the violation of any statute, law, regulation or ordinance, or otherwise impose any penalty or limitation on Consultant without Consultant's written consent, which may be given or withheld in Consultant's sole discretion.

4.4 The agreements and obligations of Company contained in this Section 4 will continue during the term of this Agreement and thereafter so long as Consultant remains subject to any possible claim or threatened, pending or completed action, suit or proceeding arising out of or in connection with this Agreement and Consultant's services rendered pursuant to this Agreement.

5. RETURN OF COMPANY PROPERTY.

Upon any termination of this Agreement pursuant to Section 10, Consultant shall promptly deliver to the Company all property, documents and other materials of any nature in Consultant's possession pertaining to the Services, together with all documents and other items containing or pertaining to any Proprietary Information. Consultant shall not retain copies of any such documents or other materials after termination of this Agreement. Notwithstanding the foregoing, if, following the termination of this Agreement pursuant to Section 10 below, Consultant continues to render

services or otherwise remains involved in the business of the Company in some other capacity (e.g., a director, advisory board member or shareholder) in which capacity it is necessary or convenient for Consultant to retain any or all of such property, documents and other material, the provisions of this Section 5 will not apply to such property, documents or other materials as the Consultant and Company agree may be so retained.

6. OBLIGATION TO KEEP COMPANY INFORMED.

During the term of this Agreement, Consultant shall promptly disclose to the Company, or any persons designated by it, fully and in writing and will hold in trust for the sole right and benefit of the Company any and all Inventions, whether or not patentable, of which Consultant becomes aware that are in the Field; however, Consultant shall not be obligated to disclose information received by Consultant from others under a contractual obligation of confidentiality.

7. NO CONFLICTING OBLIGATION; PUBLICATION.

7.1 Consultant hereby certifies that his performance of all of the terms of this Agreement and the Services will not breach or conflict with any agreement to keep the proprietary information of another entity in confidence.

7.2 Consultant certifies that Consultant has not and will not enter into any agreement either written or oral, in conflict with this Agreement. Absent a conflict of interest, Consultant is free to provide Services to any other entity during the performance of this Agreement.

7.3 The provisions of this Agreement are subject to the understanding that Consultant is affiliated with the California Institute of Technology (the “Institution”), and must fulfill certain obligations pursuant to the guidelines or policies adopted by the Institution. Consultant agrees to provide to the Company copies of such guidelines or policies, if any, promptly upon request by the Company. If Consultant is required to disclose any Inventions to the Institution pursuant to applicable guidelines or policies, Consultant will promptly notify the Company of such obligation, specifying the nature of such disclosure and identifying the applicable guideline or policy under which disclosure is required, prior to making such disclosure.

7.4 Consultant agrees to submit to the Company any proposed publication that contains any discussion relating to the Company or Services performed by Consultant for the Company hereunder. The Company shall review and comment upon such publication within thirty (30) days of its receipt thereof. Prior to the end of such thirty (30) day period, Consultant shall not submit such proposed publication to a third party unless the Company grants permission to Consultant therefor. If such publication discloses a Consultant Invention, the Company may file a patent application on such Consultant Invention within such thirty (30) day period of time but shall not require any further delay in publication for such purpose, unless otherwise mutually agreed by the Company and Consultant. Upon reasonable request by the Company, Consultant shall delete from such proposed publication any Proprietary Information other than information relating to a Consultant Invention that is included in such proposed publication, to third parties for review and publication. After the expiration of such thirty (30) day period, Consultant may submit such proposed publication to third parties for review and publication, omitting any Proprietary Information other than a Consultant Invention that the Company has reasonably requested Consultant to remove. This Section 7.4 shall not be construed to waive Consultant’s confidentiality obligations set forth in Section 4 with respect to Proprietary Information.

8. NO IMPROPER USE OF MATERIALS.

Consultant agrees not to bring to the Company or to use in the performance of Services any materials or documents of a present or former employer of Consultant, or of Consultant's employees, or any materials or documents obtained by Consultant under a binder of confidentiality imposed by reason of another of Consultant's contracting relationships, unless such materials or documents are generally available to the public or Consultant has authorization from such present or former employer or client for the possession and unrestricted use of such materials. Consultant understands that Consultant is not to breach any obligation of confidentiality that Consultant has to present or former employers and agrees to fulfill all such obligations during the term of this Agreement.

9. INDEPENDENT CONTRACTOR.

The Company and Consultant agree that Consultant is an independent contractor and not an agent or employee of the Company. Consultant has no authority to act on behalf of the Company or obligate the Company by contract or otherwise. Consultant understands that Consultant will not be eligible for any employee benefits. The Company will not make deductions from Consultant's fees for taxes; therefore, the payment of any taxes related to Consultant's provision of Services under this Agreement shall be the sole responsibility of Consultant.

10. TERM AND TERMINATION.

Unless previously terminated as set forth below, the term of this Agreement shall commence on the Effective Date and shall terminate one (1) year thereafter, subject to renewal for additional one (1) year periods upon the mutual written consent of both parties. Notwithstanding the foregoing, this Agreement may be terminated, at the sole option of the Company, upon the Consultant's death, disability, or inability or unavailability to render the Services for any reason. If the Company elects so to terminate this Agreement, Company shall deliver written notice to the Consultant of such termination, which termination will become effective immediately, and shall pay to Consultant, within 30 days of such termination the compensation due hereunder for services rendered through the date of termination. The "disability" of Consultant shall be deemed to occur if Consultant becomes physically or mentally disabled, whether totally or partially, so that Consultant is substantially unable to perform the Services for such period as the Company may reasonably determine in light of any deadlines or delivery dates for which Consultant is responsible

11. EFFECT OF TERMINATION.

Upon the expiration of this Agreement, each party shall be released from all obligations and liabilities to the other occurring or arising after the date of such termination, except that any termination of this Agreement shall not relieve Consultant of Consultant's obligations under Sections 5, 6, 7 and 8 hereof, or under the Proprietary Information and Inventions Agreement incorporated by reference herein pursuant to Section 4, nor shall any such termination relieve Consultant or the Company from any liability arising from any breach of this Agreement or such Proprietary Information and Inventions Agreement.

12. ASSIGNMENT.

The rights and liabilities of the parties hereto shall bind and inure to the benefit of their respective successors, assigns, heirs, executors and administrators, as the case may be; provided that Consultant may not assign or delegate Consultant's obligations under this Agreement either in whole or in part without the prior written consent of the Company.

13. LEGAL AND EQUITABLE REMEDIES.

Because Consultant's services are personal and unique and because Consultant may have access to and become acquainted with the proprietary information of the Company, the Company shall have the right to enforce this Agreement and any of its provisions by injunction, specific performance or other equitable relief without prejudice to any other rights and remedies that the Company may have for a breach of this Agreement.

14. GOVERNING LAW; SEVERABILITY.

This Agreement shall be governed by the laws of the State of California as those laws are applied to contracts entered into and performed in California by California residents. If one or more of the provisions in this Agreement are deemed unenforceable by law, then such provision will be deemed stricken from this Agreement and the remaining provisions will continue in full force and effect.

15. COMPLETE UNDERSTANDING; MODIFICATION.

This Agreement constitutes the final, exclusive and complete understanding and agreement of the parties hereto and supersedes all prior understandings and agreements. This Agreement is entered into without reliance upon any representation, whether oral or written, not stated herein. Any waiver, modification or amendment of any provision of this Agreement shall be effective only if in writing and signed by a Company officer.

16. NOTICES.

Any notices required or permitted hereunder shall be given to the appropriate party at the address specified below or at such other address as the party shall specify in writing. Such notice shall be deemed given upon personal delivery to the appropriate address or sent by certified or registered mail, three days after the date of mailing.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the Effective Date.

Consultant	**Insert Therapeutics, Inc.**
/s/ Mark Davis	By: /s/ Leonard Borrmann
Mark Davis	Leonard Borrmann, President and CEO
Address:	Address:
2585 Nina Street Pasadena, CA 91107	2585 Nina Street Pasadena, CA 91107

Exhibit 10.9

CONSULTING SERVICES AGREEMENT

This Consulting Services Agreement is made July 1, 2002, between **INSERT THERAPEUTICS, INC.**, a Delaware corporation, located at 2585 Nina Street, Pasadena, CA 91107 ("Company"), and **NEOLOGIX**, a California corporation located at the address set forth in Attachment 1 hereto ("Consultant"). The "Standard Terms and Conditions" attached hereto are incorporated herein by this reference as if fully set forth.

INITIAL PROJECT SCHEDULE

1. Services to be Provided

The "Services," as that term is used in the Agreement, will include strategic business advice across a wide range of areas, and may include, by way of example, the following:

- Manage the relationship with outside legal counsel.
- Identify and manage relationship with investment bankers, venture capital sources and financial Consultants.
- Manage relations and communications with shareholders.
- Structure and assist in documenting various corporate development transactions, strategic relationships, joint ventures, partnerships and financing transactions, together with the Company's outside legal counsel.
- Prepare a business plan, executive summary, financial projections, and offer other assistance in identifying fundraising opportunities.
- Prepare, negotiate and review documents with the assistance of the Company's outside legal counsel.
- Participate, as requested, in strategic management discussions and decision-making.
- Participate in staff meetings.
- Manage Board of Directors meetings, agenda and materials.
- Other services as requested by the CEO and other members of senior management.

The Services will be rendered when and as requested by the Company.

ALTHOUGH CERTAIN ASPECTS OF THE SERVICES WILL INVOLVE THE PREPARATION AND REVIEW OF LEGAL DOCUMENTATION AND LEGAL ISSUES, THE SERVICES ARE NOT AND DO NOT CONSTITUTE LEGAL SERVICES OR LEGAL REPRESENTATION; SEE SECTION 1 OF "STANDARD TERMS AND CONDITIONS".

2. Compensation.

Provided that Consultant is not in breach or default hereunder, as full compensation for all services rendered hereunder, the Work and any and all rights granted or assigned to Company by Consultant under this Agreement, Consultant shall receive the following:

Consulting Services: Services will be billed by the hour, in 15 minute increments, in accordance with the following schedule:

First 10 hours in any calendar month:	$150/hour
Next 15 hours in any calendar month:	$125/hour
Hours in excess of 25 hours per month:	$100/hour

3. Deliverables.

As directed by the Company in connection with any request for Services.

4. Expenses.

Company will reimburse Consultant for all reasonable, actual and necessary expenses incurred in the establishment and performance of this Agreement, including without limitation accounting, legal, telephone, fax, postage, business meals and entertainment, courier (including deliverables to Company required under this Agreement), photocopying, and the use of a personal automobile which will be billed at the approved IRS rate per mile. Company will also reimburse Consultant for travel in the performance of this Agreement when authorized in advance. Reimbursement will be for airfare, lodging, baggage handling, reasonable and actual expenses for meals, transportation (car rental, taxi, etc.) and the like while traveling in connection with the services rendered hereunder. All reimbursements will be made within thirty (30) days after receipt by Company of an itemized invoice supported by receipts.

5. Other Agreements.

None

6. Designated Persons.

The person(s) whose signatures appear below under the heading "Designated Person(s)" are employees of Consultant, and shall be deemed to be "Designated Persons" for the purpose of the Agreement and the Initial Project Schedule or any subsequent Project Schedules.

INSERT THERAPEUTICS, INC.,
a Delaware corporation

By: /s/ Gary Lazar

President

NEOLOGIX,
a California corporation

By: John G. Petrovich

President

DESIGNATED PERSON(S):

I hereby acknowledge and agree with the foregoing, insofar as my personal services are to be provided under the Consulting Agreement. I further specifically agree to be bound by Sections 5, 6, 7 and 8 of the Consulting Agreement.

/s/ John G. Petrovich

John G. Petrovich

ATTACHMENT 1
INDEPENDENT CONSULTANT INFORMATION FORM

In order to comply with the rules & regulations of the State and Federal Government, persons rendering services as Independent Consultants must meet the following criteria:

1) Engaged in a distinct occupation or business;
2) Perform services without direct supervision;
3) Provide tools & equipment for said services; and
4) Provide business license, and/or Federal I.D. number, or valid Social Security Number.

An Independent Consultant is required to report his/her annual income received (if over SIX HUNDRED AND 00/100 DOLLARS ($600.00)) via a Form 1099. In order to comply with this regulation, please provide the following information:

NAME:	Neologix
ADDRESS:	173 Highland Place Monrovia, CA 91016
PHONE NO:	818.419.7598
FAX NO:	253.669.2568
FEDERAL TAX I.D. NO:	95-4862505

I certify that I meet the above criteria, that the information provided above is true and that I will promptly notify the Company, in writing, of any changes to the above, as set forth in that certain Consulting Services Agreement, dated as of June 1, 2002, to which this is an attachment.

NEOLOGIX, a California corporation

By: /s/ John G. Petrovich

John G Petrovich, President

DATE: June 1, 2002

STANDARD TERMS AND CONDITIONS

In consideration of the mutual covenants herein contained, the parties hereby agree to the following Standard Terms and Conditions, which are incorporated into the Agreement to which they are attached:

1. Services. Consultant agrees to provide the services specified in any Project Schedule that shall, from time to time, be defined and executed by the parties and attached to this Agreement. The initial Project Schedule is the first page of the Agreement to which these Standard Terms and Conditions are attached. Subsequent Project Schedules, substantially in the same form as the first page of the Agreement to which these Standard Terms and Conditions are attached, shall be prepared and signed by the parties as necessary and attached to this Agreement and these Standard Terms and Conditions, which will be deemed to be incorporated by reference into said Project Schedule. Such services are hereinafter referred to as "Services." Consultant agrees to provide the Services only and exclusively by and through the person or persons Consultant has designated on any Project Schedule (each, a "Designated Person" and collectively, "Designated Persons"). **COMPANY UNDERSTANDS THAT ALTHOUGH THE DESIGNATED PERSON IS ADMITTED TO PRACTICE LAW IN THE STATE OF CALIFORNIA, CONSULTANT IS NOT A LEGAL SERVICES CORPORATION AND THE SERVICES OFFERED BY CONSULTANT WILL CONSIST OF BUSINESS AND STRATEGIC CONSULTING SERVICES, AND NEITHER THE CONSULTANT NOR THE DESIGNATED PERSON WILL ACT AS LEGAL COUNSEL FOR THE COMPANY AS PART OF THE SERVICES. WHILE COMPANY MAY ASK CONSULTANT OR THE DESIGNATED PERSON FROM TIME TO TIME TO ASSIST IN STRUCTURING TRANSACTIONS, REVIEWING AND/OR ADVISING ON AGREEMENTS AND OTHER DOCUMENTS AND ASSISTING IN THEIR NEGOTIATION (WHICH MAY INVOLVE ISSUES OF A MIXED BUSINESS/LEGAL NATURE INVOLVING THE COMPANY'S RIGHTS AND OBLIGATIONS IN CERTAIN SITUATIONS AND CIRCUMSTANCES), COMPANY UNDERSTANDS THAT IT SHOULD OBTAIN LEGAL ADVICE FROM LEGAL COUNSEL SEPARATE FROM CONSULTANT OR THE DESIGNATED PERSON, AND WILL LOOK TO SUCH COUNSEL FOR LEGAL ADVICE AS TO SUCH MATTERS. THE COMPANY ALSO UNDERSTANDS THAT SINCE NEITHER CONSULTANT NOR THE DESIGNATED PERSON WILL BE REPRESENTING COMPANY AS A LAWYER, COMMUNICATIONS BETWEEN US WILL NOT BE COVERED BY THE ATTORNEY-CLIENT PRIVILEGE.**

2. Term and Termination. Except as set forth in any Project Schedule attached to this Agreement, this shall continue until terminated by either party upon ten (10) days' written notice, provided that termination by Consultant shall not be effective until completion of any specifically defined term set forth on any Project Schedule applicable at the time of such notice, unless otherwise agreed. Notwithstanding the foregoing, this Agreement may be terminated, at the sole option of the Company, upon the death, disability, termination of employment by Consultant or inability or unavailability to render the Services for any reason of one or more of the Designated Persons. If the Company elects so to terminate this Agreement, Company shall deliver written notice to the Consultant of such termination, which termination will become effective immediately, and shall pay to Consultant, within 30 days of such termination the compensation due hereunder for services rendered through the date of termination. The "disability" of a Designated Person shall be deemed to occur if such Designated Person becomes physically or mentally disable, whether totally or partially, so that such Designated Person is substantially unable to perform the Services for such period as the Company may reasonably determine in light of any deadlines or delivery dates set forth in the applicable Project Schedule.

3. Payment for Services; Expenses; Equipment.

3.1 Charges. As full compensation for the Services to be provided by Consultant pursuant to any Project Schedule for activities that are substantiated, pre-approved and actually worked, Company agrees to pay Consultant in such amounts, at such times and in such manner as is set forth in such Project Schedule. Consultant has the right to perform services for others and the sole right to control and direct the means, manner and method by which the services required by this Agreement will be performed, consistent with the terms of this agreement.

3.2 Equipment. Consultant shall furnish, at Consultant's sole expense, all equipment and materials used to perform the Services, including but not limited to, telephone lines, office space and support services, and personal computers and modems.

4. Independent Consultant. It is understood and agreed that Consultant shall perform the Services as an independent Consultant and consultant. No Designated Person shall be deemed to be an employee of Company. No Designated Person shall be entitled to any benefits provided by Company to its employees, and Company will make no deductions from any of the payments due to Consultant hereunder to pay any governmental agency or authority, except as may otherwise be required by law. Consultant agrees that Consultant shall be responsible for any and all taxes and other payments due on payments received by Consultant from Company hereunder and for all compensation, withholding, and all other employment-related benefits due to any Designated Person.

5. Representations and Warranties of Consultant.

5.1 Original Development. Each of Consultant and all Designated Persons who signs a Project Schedule represents and warrants that (i) during Company's retention of Consultant, neither Consultant nor any such Designated Person will disclose to Company, or use, or induce Company to use, any confidential, proprietary or trade secret information of others; (ii) he, she or it has returned all property and confidential, proprietary and trade secret information belonging to all prior employers or Companys, if any, and that no such information has been or will be used in connection with rendering any of the Services hereunder; and (iii) performance of the terms of this Agreement will not breach any agreement to keep such information in confidence or in trust. Neither Consultant nor any Designated Person has entered into, and each of them further agrees not to enter into, any oral or written agreement in conflict herewith.

5.2 Other Agreements. Consultant and each Designated Person represents and warrants that Consultant's signing of this Agreement and the performance of Consultant's and any Designated Person's Services hereunder is not and will not be in violation of any other contract, agreement or understanding to which Consultant or any Designated Person is a party or by which any of them is bound.

5.3 Current Information. Consultant has truthfully completed the information required upon Attachment 1, attached hereto and incorporated herein by reference, and that Independent Consultant will apprise Company, in writing, of any changes thereto through the end of the fiscal tax year in which this Agreement expires or is terminated, regardless of whether this Agreement is then still in full force and effect.

5.4 Legal Status. Consultant represents and warrants that the Consultant is legally allowed to work in the United States and its territories and is in compliance with all federal, state, county, and local regulations, and will maintain this status until the completion or termination of this Agreement. Consultant further represents and warrants that any person or organization with whom the Consultant participates in the performance of any aspect of this Agreement is or will be legally allowed to work in the United States and its territories during the entire term of that participation.

5.5 Compliance with Worker's Compensation and Unemployment Compensation Insurance Requirements. Consultant shall provide and keep in force worker's compensation and unemployment compensation insurance in the amounts required by law, and shall be solely responsible for the acts of any individual to whom it supplies to Company, and their subConsultants, agents, and employees.

6. Confidential Information.

6.1 Confidentiality. In connection with this Agreement, the Company may disclose to Consultant or any Designated Person certain information (i) that is marked or otherwise identified, orally or in writing, as confidential or proprietary information of the Company ("Confidential Information") prior to, upon or promptly after receipt by Consultant or any Designated Person; or (ii) which Consultant or any Designated Person should recognize from the circumstances surrounding the disclosure to be Confidential Information. Consultant and each Designated Person (x) shall hold all Confidential Information in confidence and will use such information only for the purposes of fulfilling Consultant's obligations hereunder and for no other purpose, and (y) shall not disclose, provide, disseminate or otherwise make available any Confidential Information of the Company to any third party, in either case without the express written permission of the Company.

6.2 Scope. The foregoing obligations in Section 6.1 shall not apply to (a) use or disclosure of any information pursuant to the exercise of Consultant's rights under this Agreement; (b) information that is or becomes generally known or available by publication, commercial use or otherwise through no fault of Consultant or any Designated Person; (c) information that is known by Consultant or any Designated Person prior to the time of disclosure and is not subject to restriction; (d) information that is independently developed or learned by Consultant or any Designated Person other than pursuant to this Agreement; (e) information that is lawfully obtained from a third party who has the right to make such disclosure without restriction; (f) any disclosure required by applicable law, provided that Consultant or any Designated Person, as the case may be, shall use reasonable efforts to give advance notice to and cooperate with the Company in connection with any efforts to prevent such disclosure; or (g) information that is released for publication by the Company in writing.

6.3 Third Party Information. Consultant and each Designated Person recognizes that the Company has received and in the future will receive from third parties their confidential or proprietary information subject to a duty on the Company's part to maintain the confidentiality of such information and to use it only for certain limited purposes. Consultant and each Designated Person agrees that each owes the Company and such third

parties, during the term of this Agreement and thereafter, a duty to hold all such confidential and proprietary information in the strictest confidence and not to disclose it to any person, firm, or corporation (except as necessary in carrying out their respective work for the Company in a manner consistent with the Company's agreement with such third party) or to use it for the benefit of anyone other than for the Company or such third party (consistent with the Company's agreement with such third party) without the express written authorization of the Company.

7. Other Covenants and Agreements.

7.1 Freedom to Render Services to Others. Company understands that Consultant is and will continue to be engaged in other professional, technical, investment and financial activities during the term of this Agreement. Consultant is now and will remain free to engage in any activity of Consultant's choice; to lawfully invest in public or private entities, to involve himself personally in business and strategic planning, venture capital activities; to serve as a member on technical and scientific advisory boards; to act as a consultant or provide consulting services to individuals, business entities or governmental or academic institutions, without limitation.

7.2 Company Clients and Associates. Consultant agrees not to solicit or do business with those Clients or associates of Company of which Consultant gained knowledge through Consultant's relationship with Company, if such business could present any possible conflict of interest with the Work between Consultant and Company.

8. Ownership. Unless otherwise specified in a Project Schedule, all work performed under any Project Schedule, and all materials developed or prepared for the Company by Consultant or any Designated Person under such Project Schedule (whether or not such Project Schedule is completed) (such materials, "Creations"), are Confidential Information and the property of the Company, and all right, title and interest therein shall vest in the Company and shall be deemed to be a work made for hire and made in the course of the Services rendered hereunder. To the extent that title to any such works may not, by operation of law, vest in the Company or such Creations may not be considered works made for hire, all right, title and interest therein are hereby irrevocably assigned to the Company by Consultant and each Designated Person. All such Creations shall belong exclusively to the Company, with the Company having the right to obtain and to hold in its own name all copyrights, registrations or such other protection as may be appropriate to the subject matter, and any extensions and renewals thereof. Consultant and each Designated Person agrees to give the Company and any person designated by the Company any reasonable assistance, at the cost and expense of the Company, to perfect the rights defined in this Section 7. Consultant and each Designated Person further waives any "moral" rights, or other rights with respect to attribution of authorship or integrity of such Creations as Consultant or any Designated Person may have under any applicable law.

9. Indemnification.

9.1. Except as otherwise provided below, Company will (i) indemnify Consultant and hold Consultant harmless from and against any losses, claims, damages, or liabilities, including without limitation judgments, fines and amounts paid in settlement (collectively "losses") resulting from any claim, action or proceeding against Consultant which arises out of or in connection with this Agreement and Consultant's services rendered pursuant hereto (each, a "claim"), and (ii) pay, or reimburse Consultant for, all costs and expenses (including without limitation counsel fees, court costs, witness fees and the costs and expenses of investigation) actually and reasonably incurred by Consultant in connection with preparing for or defending any pending or threatened claim (collectively, "costs").

9.2. The obligations of Company pursuant to the immediately preceding paragraph will not apply to any claim which results from the bad faith, gross negligence or willful misconduct of Consultant, and as to any such claim, Consultant will be solely responsible for, and will indemnify Company and hold it harmless from and against, any associated losses or costs; provided, however, that Consultant's liability to Company under this paragraph will be limited as set forth in paragraph 12(e) below.

9.3. Consultant will exercise reasonable diligence in promptly notifying Company of any claim for which indemnification may be sought by Consultant and Company may, at its written election, assume the defense of any such claim, including the selection and appointment of counsel and the defense or settlement thereof. If Company elects to assume defense of a claim, counsel chosen by Company will be subject to Consultant's approval, which will not be unreasonably withheld. Further, Company will not settle any action or claim in any manner which would include or constitute an admission by Consultant of liability, guilt in connection with the commission of any crime or the violation of any statute, law, regulation or ordinance, or otherwise impose any penalty or limitation on Consultant without Consultant's written consent, which may be given or withheld in Consultant's sole discretion.

9.4. The agreements and obligations of Company contained in this Section 3 will continue during the term of this Agreement and thereafter so long as Consultant remains subject to any possible claim or threatened, pending or completed action, suit or proceeding arising out of or in connection with this Agreement and Consultant's services rendered pursuant to this Agreement

10. Equitable Relief. Consultant and each Designated Person recognizes that nothing in this Agreement is intended to limit any remedy of Company under the California Uniform Trade Secrets Act. In addition, Consultant and each Designated Person recognizes that the covenants contained in Sections 6 and 8 hereof are reasonable and necessary to protect the legitimate interests of the Company, that the Company would not have entered into this Agreement in the absence of such covenants, and that the violation or threatened violation of such covenants will cause Company irreparable harm and significant injury, the amount of which may be extremely difficult to estimate, thus, making any remedy at law or in damages inadequate. Therefore, Consultant and each Designated Person agrees that Company shall have the right to apply to any court of competent jurisdiction for an order restraining any breach or threatened breach of this Agreement and for any other relief Company deems appropriate, without the necessity of posting of any bond or security. This right shall be in addition to any other remedy available to Company in law or equity.

11. Return of Company Property. On termination of this Agreement, or at any time the Company so requests, Consultant will deliver immediately to the Company all property belonging to the Company and all material containing or constituting Confidential Information, including any copies in my possession or control, whether prepared by Consultant or by others, including without limitation any Designated Persons.

12. Miscellaneous. This contract will be governed by and construed in accordance with the laws of the State of California, without giving effect to its conflicts of laws rules. Whenever the content of this Agreement requires, the masculine gender shall be deemed to include the feminine. If any provision of this Agreement is determined to be invalid, illegal or unenforceable, the validity or enforceability of the other provisions shall not be affected. Consultant shall not assign, sell, transfer, delegate or otherwise dispose of, whether voluntarily or involuntarily, or by operation of law, any rights or obligations under this Agreement. Any purported assignment, transfer, or delegation by Consultant shall be null and void. No term or provision of this Agreement may be amended, waived, released, discharged or modified in any respect except in writing, signed by the parties hereto. In circumstances where the Services change and/or new Service arrangements are made, the terms and conditions as described by all other provisions of this Agreement will remain in full force and effect whether or not a new Agreement, addendum, or change order is executed by both parties. This Agreement sets forth the entire understanding between the parties with respect to the subject matter hereof, and there are no terms, conditions, representations, warranties or covenants other than those contained herein. This Agreement supersedes any previous agreements or understandings between the parties with respect to the subject matter hereof, whether written or oral. Failure to enforce any provision of this Agreement shall not constitute a waiver of any term hereof. The Headings and Captions in this Agreement are included for purposes of clarity and do not represent material terms or conditions of thus agreement.

13. Arbitration. Any and all disputes under this Agreement or otherwise relating to Consultant's engagement by Company, except disputes relating to Sections 6 and 8 of this Agreement, shall be submitted to binding, expedited arbitration to take place in Los Angeles, California before a single arbitrator (who shall be an attorney experienced in matters relating to corporate and labor matters) in accordance with the Commercial Rules of the American Arbitration Association. The parties shall be entitled to conduct a reasonable amount of discovery in connection with such arbitration. The arbitrator shall have the right to award damages or other forms of legal and/or equitable relief, to the extent permitted and not waived hereunder. The award or decision rendered by the arbitrator shall be final, binding and conclusive and judgment on such award or decision may be entered by any court of competent jurisdiction. The arbitrator shall award costs and attorneys' fees to the prevailing party.

Exhibit 10.10

AMENDMENT NO. 1 TO
AGREEMENT TO PROVIDE ADDITIONAL CAPITAL
Dated as of August 11, 2004

This AMENDMENT NO. 1 TO AGREEMENT TO PROVIDE ADDITIONAL CAPITAL (this "**Amendment**"), amends the Agreement To Provide Additional Capital is made dated as of June 4, 2004, (the "**Agreement**") by and between Arrowhead Research Corporation, a Delaware corporation ("**Arrowhead**"), and Insert Therapeutics, Inc., a California corporation (the "**Company**"). Capitalized terms not otherwise defined in this Amendment have the meanings ascribed to such terms in the Agreement. In consideration of the mutual covenants and agreements contained herein, the parties hereby agree amend and modify the Agreement as set forth below:

1. Failure of Arrowhead to Make a Required Contribution. To clarify the original intent of the parties with respect to Arrowhead Research's payment obligations, Paragraph 2 of the Agreement shall be amended and restated in its entirety to read as follows: Twenty Percent (20%) of its 24,496,553

"In the event that Arrowhead fails to provide, on a timely basis, any amount of additional funding that Arrowhead is obligated to provide pursuant to the provisions of paragraph 1 above, then in addition to any consequences of such failure provided in the Restated Certificate of Incorporation or By-Laws of the Company, as of such Milestone Date, Arrowhead shall forfeit to the Company that number of shares of Series B Preferred Stock (or any shares of Common Stock into which such shares of Series B Preferred Stock may have been converted (collectively, with the Series B Preferred Stock, the "**Securities**") equal to (X) 24,496,553 multiplied by (Y) the quotient obtained by dividing (i) the sum of (A) the amount of additional capital which Arrowhead failed to provide with respect to the Milestone Date in question, plus (B) the total amount of capital which would be due on satisfaction of Milestones on any future Milestone Dates, by (ii) by Five Million (5,000,000). Forfeited shares shall be rounded up to the nearest whole number."

For example, if Arrowhead fails to provide $1,500,000 of additional capital upon the Company achieving Milestone 2, Arrowhead would forfeit 14,697,931 Securities (24,496,553 X ($3,000,000/$5,000,000). To the extent there is any upward or downward adjustment in the number of Securities based upon their terms or corporate action, including, but not limited to, a distribution, dividend, stock split or reverse stock split, but specifically excluding any adjustment that may result from forfeiture under this Paragraph 2, then the calculation of the number of Securities to be forfeited shall be based on the adjusted number of Securities held by Arrowhead."

2. No Other Amendments. Except as specifically amended by this Amendment, all provisions of the Agreement shall remain in full force and effect.

3. Counterparts and Facsimile. This Amendment may be executed in two or more counterparts and by facsimile, each of which will be deemed an original, but all of which together will constitute one and the same instrument.

IN WITNESS WHEREOF, the parties have caused this Amendment to be duly executed as of the date first above written.

"Arrowhead"
Arrowhead Research Corporation

By: /s/ R. BRUCE STEWART
Name: R. Bruce Stewart
Title: President

"Insert Therapeutics"
Insert Therapeutics, Inc.

By: /s/ JOHN PETROVICH
Name: John Petrovich
Title: President

Exhibit 10.11

AONEXX CORPORATION

CONSULTING AGREEMENT

This Consulting Agreement ("Agreement") is made and entered into as of the 30th day of June by and between **Aonexx Corporation**, a California corporation (the "Company"), and **Dr. Harry A. Atwater, Jr.** ("Consultant"). The Company desires to retain Consultant as an independent contractor to perform certain services for the Company and Consultant is willing to perform such services, on terms set forth more fully below. In consideration of the mutual promises contained herein, the parties agree as follows:

1. **SERVICES AND COMPENSATION**

(a) Consultant agrees to perform for the Company consulting services in the field of thin-film layer transfer of semiconductor materials the scope of which is defined by the License Agreement (the "Caltech License Agreement") between California Institute of Technology ("Caltech") dated as of April 20, 2004 (the "Field of Interest") including, but not limited to (i) serving on the Company's Board of Directors and, if requested by the Company, its technical and/or scientific advisory boards, attending meetings of any such advisory boards, (ii) subject to the limitations set forth below, providing scientific advice regarding the Company's technologies, processes, future products, the general direction of its research program, recruitment of personnel, and research techniques, and (iii) generally advising the Company in its efforts to produce, develop, and market future products (collectively "Services"). Upon request by the Company during the Term of this Agreement and at times mutually agreed upon by the Company and the Consultant, the Consultant shall devote no less 48 days per calendar year during the Term of this Agreement to providing the Services.

(b) The Company agrees to provide Consultant the compensation set forth in Exhibit A for the performance of the Services.

2. **CONFIDENTIALITY**

(a) "Confidential Information" means any Company proprietary information, technical data, trade secrets or know-how, including, but not limited to, research, product plans, products, services, suppliers, supplier lists, customers, customer lists, markets, software, developments, inventions, processes, formulas, technology, designs, drawings, engineering, hardware configuration information, marketing, finances or other business information disclosed by the Company either directly or indirectly in writing, orally or by drawings or inspection of parts or equipment.

(b) Consultant will not, during or subsequent to the term of this Agreement, use the Company's Confidential Information for any purpose whatsoever other than the performance of the Services on behalf of the Company or disclose the Company's Confidential Information to any

third party, and it is understood that said Confidential Information shall remain the sole property of the Company. Consultant further agrees to take all reasonable precautions to prevent any unauthorized disclosure of such Confidential Information including, but not limited to, having each employee or agent of Consultant, if any, with access to any Confidential Information, execute a nondisclosure agreement containing provisions in the Company's favor substantially similar to Sections 2, 3 and 5 of this Agreement. Confidential Information does not include information, other than information covered by, or contemplated to be disclosed pursuant to, the definition of "Caltech Technology" in the Caltech License Agreement which is either (i) known to Consultant at the time of disclosure to Consultant by the Company as evidenced by written records of Consultant, (ii) has become publicly known and made generally available through no wrongful act of Consultant, or (iii) has been rightfully received by Consultant from a third party who is authorized to make such disclosure.

(c) Consultant agrees that Consultant will not, during the term of this Agreement, improperly use or disclose any proprietary information or trade secrets of any person or entity with which Consultant has an agreement or duty to keep in confidence information acquired by Consultant in confidence, if any, and that Consultant will not bring onto the premises of the Company any unpublished document or proprietary information belonging to such person or entity unless consented to in writing by such person or entity; provided, that, anything in the foregoing to the contrary notwithstanding, Consultant may disclose to the Company (i) any information that Consultant would normally freely disclose to other members of the scientific community at large, whether by publication, by presentation at seminars, or in informal scientific discussions, and (ii) information contemplated to be disclosed pursuant to the Caltech License Agreement.

(d) Consultant recognizes that the Company has received and in the future will receive from third parties their confidential or proprietary information subject to a duty on the Company's part to maintain the confidentiality of such information and to use it only for certain limited purposes. Consultant agrees that Consultant owes the Company and such third parties, during the term of this Agreement and thereafter, a duty to hold all such confidential or proprietary information in the strictest confidence and not to disclose it to any person, firm or corporation or to use it except as necessary in carrying out the Services for the Company consistent with the Company's agreement with such third party.

(e) Upon the termination of his status as a consultant for the Company, or upon Company's earlier request, Consultant will deliver to the Company all of the Company's property or Confidential Information in tangible form, including without limitation any and all devices, records, data, notes, reports, proposals, lists, correspondence, specifications, drawings, blueprints, sketches, materials, equipment, other documents or property, or reproductions of any aforementioned items developed by him pursuant to his provision of Services to the Company or otherwise belonging to the Company, that Consultant may have in Consultant's possession or control.

3. **OWNERSHIP**

(a) Consultant agrees that all copyrightable material, notes, records, drawings, designs, inventions, improvements, developments, discoveries and trade secrets (collectively, "Inventions") conceived, made or discovered by Consultant in collaboration with the Company,

during the term of this Agreement and in connection with Consultant's performance of the Services for the Company under the terms of this Agreement which relate in any manner to the business of the Company that Consultant may be directed to undertake, investigate or experiment with, or which Consultant may become associated with in work, investigation or experimentation in the line of business of the Company in performing the Services hereunder, are the sole property of the Company. Consultant further agrees to assign (or cause to be assigned) and does hereby assign fully to the Company all such Inventions and any copyrights, patents, mask work rights or other intellectual property rights relating thereto. Except pursuant to the Caltech License, no part of this Agreement may be construed to take precedence over the responsibilities of Consultant to Caltech pursuant to Caltech's policies regarding consulting, conflicts of interest and intellectual property

(b) Consultant agrees to assist Company, or its designee, at the Company's expense, in every proper way to secure the Company's rights in the Inventions and any copyrights, patents, mask work rights or other intellectual property rights relating thereto in any and all countries, including the disclosure to the Company of all pertinent information and data with respect thereto, the execution of all applications, specifications, oaths, assignments and all other instruments which the Company shall deem necessary in order to apply for and obtain such rights and in order to assign and convey to the Company, its successors, assigns and nominees the sole and exclusive rights, title and interest in and to such Inventions, and any copyrights, patents, mask work rights or other intellectual property rights relating thereto. Consultant further agrees that Consultant's obligation to execute or cause to be executed, when it is in Consultant's power to do so, any such instrument or papers shall continue after the termination of this Agreement.

(c) Consultant agrees that if in the course of performing the Services, Consultant incorporates into any Invention developed hereunder any invention, improvement, development, concept, discovery or other proprietary information owned by Consultant or in which Consultant has an interest, the Company is hereby granted and shall have a nonexclusive, royalty-free, perpetual, irrevocable, worldwide license to make, have made, modify, use and sell such item as part of or in connection with such Invention.

(d) Consultant agrees that if the Company is unable because of Consultant's unavailability, dissolution, mental or physical incapacity, or for any other reason, to secure Consultant's signature to apply for or to pursue any application for any United States or foreign patents or mask work or copyright registrations covering the Inventions assigned to the Company above, then Consultant hereby irrevocably designates and appoints the Company and its duly authorized officers and agents as Consultant's agent and attorney-in-fact, to act for and in Consultant's behalf and stead to execute and file any such applications and to do all other lawfully permitted acts to further the prosecution and issuance of patents, copyright and mask work registrations thereon with the same legal force and effect as if executed by Consultant.

4. **REPORTS**

Consultant agrees that it will from time to time during the term of this Agreement or any extension thereof keep the Company advised as to Consultant's progress in performing the Services hereunder and that Consultant will, as requested by the Company, prepare written reports with respect thereto. It is understood that the time required in the preparation of such written reports shall be considered time devoted to the performance of Consultant's Services.

Consultant acknowledges that the performance of the Services hereunder shall be coordinated with the Chief Executive Officer of the Company.

5. **CONFLICTING OBLIGATIONS**

Consultant certifies that Consultant has no outstanding agreement or obligation that is in conflict with any of the provisions of this Agreement, or that would preclude Consultant from complying with the provisions hereof, and further certifies that Consultant will not enter into any such conflicting agreement during the term of this Agreement.

6. **EXCLUSIVE SERVICES**

(a) Subject to written waivers that may be provided by the Company upon request, which shall not be unreasonably withheld, the Consultant agrees that during the Term of this Agreement and for twelve (12) months thereafter he will not directly or indirectly (i) provide any services in the Field of Interest to any other business or commercial entity, or (ii) participate in the formation of any business or commercial entity in the Field of Interest

(b) Subject to written waivers that may be provided by the Company upon request, which shall not be unreasonably withheld, the Consultant agrees that during the Term of this Agreement and for a period of twelve months thereafter, he will not directly or indirectly solicit or hire away any employee or consultant of the Company.

(c) Consultant shall notify the Company in writing of each agreement, including without limitation each consulting services agreement, which the Consultant intends to enter into with a third party. Such notice shall include the name of such third party and the purpose or matter of such agreement. Consultant will provide such notice not less than four weeks prior to entering into such an agreement.

7. **TERM AND TERMINATION**

(a) This Agreement will commence on the date first written above and will continue until the end of the four (4) years from the date hereof, or until earlier terminated as provided below.

(b) The Company or the Consultant may terminate this Agreement, for any reason or no reason whatsoever, upon giving four weeks prior written notice thereof to the other party. The Company may terminate this Agreement immediately and without prior notice if Consultant refuses to or is unable to perform the Services or is in breach of any material provision of this Agreement.

(c) Upon termination of this Agreement, all rights and duties of the parties toward each other shall cease except:

(i) that the Company shall be obliged to pay, within thirty (30) days of the effective date of termination, all amounts owing to Consultant for unpaid Services and related expenses, if any, in accordance with the provisions of Section 1 (Services and Compensation) hereof; and

(ii) Sections 2 (Confidentiality), 3 (Ownership), 6 (Exclusive Services), and 9 (Independent Contractors) shall survive termination of this Agreement.

8. **ASSIGNMENT**

Neither this Agreement nor any right hereunder or interest herein may be assigned or transferred by Consultant without the express written consent of the Company.

9. **INDEPENDENT CONTRACTOR**

Nothing in this Agreement shall in any way be construed to constitute Consultant as an agent, employee or representative of the Company, but Consultant shall perform the Services hereunder as an independent contractor. Consultant acknowledges and agrees that Consultant is obligated to report as income all compensation received by Consultant pursuant to this Agreement, and Consultant agrees to indemnify the Company and hold it harmless to the extent of any obligation imposed on the Company (i) to pay withholding taxes or similar items or (ii) resulting from Consultant's being determined not to be an independent contractor.

10. **ARBITRATION AND EQUITABLE RELIEF**

(a) Except as provided in Section 10(b) below, the Company and Consultant agree that any dispute or controversy arising out of or relating to any interpretation, construction, performance or breach of this Agreement, shall be settled by arbitration to be held in Los Angeles County, California, in accordance with the rules then in effect of the American Arbitration Association. The arbitrator may grant injunctions or other relief in such dispute or controversy. The decision of the arbitrator shall be final, conclusive and binding on the parties to the arbitration. Judgement may be entered on the arbitrator's decision in any court of competent jurisdiction. The Company and Consultant shall each pay one-half of the costs and expenses of such arbitration, and each shall separately pay its respective counsel fees and expenses.

(b) Consultant agrees that it would be impossible or inadequate to measure and calculate the Company's damages from any breach of the covenants set forth in Sections 2 or 3 herein. Accordingly, Consultant agrees that if Consultant breaches Sections 2 or 3, the Company has, in addition to any other right or remedy available, the right to obtain from any court of competent jurisdiction an injunction restraining such breach or threatened breach and specific performance of any such provision. Consultant further agrees that no bond or other security shall be required in obtaining such equitable relief and Consultant hereby consents to the issuances of such injunction and to the ordering of such specific performance.

11. **GOVERNING LAW**

This Agreement shall be governed by and construed in accordance with the laws of the State of California, without regard to conflict of laws principles. The federal and state courts within the State of California shall have exclusive jurisdiction to adjudicate any dispute arising out of this Agreement. The parties consent to personal jurisdiction of the federal and state courts within California and service of process being effected by registered mail sent to the address set forth at the end of this Agreement.

12. **ENTIRE AGREEMENT**

This Agreement and the Exhibits hereto form the entire agreement of the parties and supersede any prior agreements between them with respect to the subject matter hereof.

13. **WAIVER**

Waiver of any term or provision of this Agreement or forbearance to enforce any term or provision by either party shall not constitute a waiver as to any subsequent breach or failure of the same term or provision or a waiver of any other term or provision of this Agreement.

14. **COUNTERPARTS**

This Agreement may be signed in one or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same agreement.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the day and year first above written.

DR. HARRY A. ATWATER, JR. (“Consultant”)	AONEXX CORPORATION (“Company”)
By: /s/ Harry A. Atwater, Jr.	By: /s/ Sean Olson
Consultant	President

Exhibit A

Company agrees to pay Consultant $1000.00 per full day of consulting services provided, payable from time to time upon Consultant furnishing Company with an invoice reflecting his time spent providing such services.

Consultant shall also have the opportunity to purchase shares of Common Stock pursuant to a Restricted Stock Agreement between Consultant and the Company dated as of April 20, 2004 and to be granted options pursuant to the Stock Option Agreement (Non-Statutory Option) pursuant to the Company's 2004 Stock Option Plan.

Exhibit 10.12

AGREEMENT TO PROVIDE ADDITIONAL CAPITAL

THIS AGREEMENT TO PROVIDE ADDITIONAL CAPITAL (this "Agreement") is made and entered into as of April 20, 2004, by and between Arrowhead Research Corporation, a Delaware corporation ("Arrowhead"), and Aonexx Technologies, Inc., a California corporation (the "Company").

A. Arrowhead has previously entered into an agreement dated March 5, 2004 pertaining to the incorporation and initial organization of the Company (the "Founder's Agreement"), pursuant to which, among other things, Arrowhead has agreed to provide up to $3,000,000 of additional capital to the Company, provided that the Company meets certain milestones relating to the development of the Company's business.

B. The Founder's Agreement also provides that a portion of the preferred stock of the Company to be purchased by Arrowhead would be forfeited by Arrowhead to the Company in the event that Arrowhead failed to provide the agreed upon additional capital despite the attainment by the Company of the specified milestones,

C. This Agreement is being executed and delivered by the parties hereto as contemplated by the Founder's Agreement.

NOW, THEREFORE, in consideration of the foregoing premises and the mutual covenants and agreements set forth below, the parties hereto agree as follows:

1. Commitment to Provide Additional Capital. Arrowhead agrees to provide up to $3,000,000 of additional capital to the Company, on the following terms and subject to the following conditions:

(a) Attached hereto as Appendix I is a schedule setting forth certain dates by which it is anticipated that the Company will achieve specified milestones in the development of its business (the "Milestones"). Each of the three dates set forth in Appendix I opposite a specified Milestone is hereinafter referred to as a "Milestone Date."

(b) Within ten (10) business days following each successive Milestone Date specified in Appendix I, the Company shall deliver to Arrowhead a certificate of the President and the Chief Technical Officer of the Company setting forth, in reasonable detail, sufficient information for Arrowhead to evaluate whether the Company has achieved the specific Milestone to be achieved by the Milestone Date in question.

(c) Arrowhead will have a period of twenty (20) business days following receipt of the certificate specified in subparagraph 1(b) to evaluate the information provided to Arrowhead by the Company in the certificate. In the event that Arrowhead determines, to its reasonable satisfaction, that the Milestone in question was achieved by the Company by the applicable Milestone Date, Arrowhead shall, within such 20-day period, provide to the Company, in cash, by corporate check(s) or wire transfer, the amount of additional capital set forth on Appendix I opposite the Milestone and Milestone Date in question.

(d) Any and all amounts provided by Arrowhead to the Company pursuant to this Agreement shall be deemed contributions to the capital of the Company by Arrowhead, as an existing holder of capital stock of the Company. It is understood and agreed that no capital stock or other security of the Company shall be issued to Arrowhead in consideration or on account of any additional capital provided by Arrowhead to the Company pursuant to the provisions of this Agreement, and that none of such funds shall be considered a loan by Arrowhead to the Company, or otherwise be repayable by the Company to Arrowhead. However, the liquidation preference to which Arrowhead is entitled as holder of the Company's Series A Preferred Stock will be increased, as provided in the Certificate of Determination of Rights, Preferences, Privileges and Restrictions of Series A Preferred Stock of Aonexx Technologies, Inc., by the full amount of any and all amounts so contributed by Arrowhead to the capital of the Company, but the number of shares of Common Stock into which each share of Series A Preferred Stock may be converted shall not be affected by any such contribution.

2. Failure of Arrowhead to Make a Required Contribution. In the event that Arrowhead fails to provide, on a timely basis, any amount of additional funding that Arrowhead is obligated to provide pursuant to the provisions of paragraph 1 above, then in addition to any consequences of such failure provided in the Articles of Incorporation or By-Laws of the Company, or the Certificate of Determination of the Series A Preferred Stock,

(a) Arrowhead shall forfeit to the Company that number of shares of the Series A Preferred Stock of the Company then owned by Arrowhead (or any shares of Common Stock into which such shares of Series A Preferred Stock may have been converted) which is calculated by dividing by five (5) the sum of (i) the amount of additional capital which Arrowhead failed to provide with respect to the Milestone Date in question and (ii) the total amount of capital which would be due on satisfaction of Milestones on any future Milestone Dates. For example, if Arrowhead failed to provide $1,000,000 of additional capital which it was obligated to provide pursuant to the provisions of paragraph 1 above, Arrowhead would forfeit 200,000 of the 1,000,000 shares of Series A Preferred Stock

(b) Any and all options to purchase Common Stock of the Company then outstanding under the Company's Stock Option Plan that otherwise would not be exercisable pursuant to the provisions of applicable stock option agreements would become immediately exercisable to purchase, notwithstanding any provision to the contrary contained in the stock option agreements but on all of the other terms and conditions contained in the applicable stock option agreements, all or any portion of the shares of Common Stock issuable upon exercise thereof; provided, however, that any and all shares to be so purchased will be issued and sold pursuant to, and purchased under, a restricted stock purchase agreement substantially in the form of that used in connection with the initial purchase and sale of Common Stock to the founders of the Company. For purposes of each such restricted stock purchase agreement, the "vesting" provisions of the option being exercised shall carry over to the applicable stock purchase agreement, such that shares as to which the option in question had vested and those as to which it had yet to vest will continue to be deemed "vested" and "unvested" for purposes of the applicable restricted stock purchase agreement.

3. Miscellaneous.

(a) Subject to the terms and conditions of this Agreement, each of the parties hereto shall use its best efforts to take, or cause to be taken, all action, and to do, or cause to be done, all things necessary, proper or advisable under applicable laws, rules and regulations to consummate and make effective the transactions contemplated by this Agreement.

(b) This Agreement shall be binding upon and inure to the benefit of the parties hereto, the heirs, personal representatives, successors and permitted assigns of each of the parties hereto, but shall not confer, expressly or by implication, any rights or remedies upon any other party. Neither this Agreement nor any of the rights, interests or obligations of either party hereunder may be assigned without the prior written consent of the other party.

(c) This Agreement is made and shall be governed in all respects, including validity, interpretation and effect, by the laws of the State of California.

(d) All notices, requests or demands and other communications hereunder must be in writing and shall be deemed to have been duly made if personally delivered or mailed, postage prepaid, to the parties at their respective addresses set forth on the signature page hereof. Any party hereto may change its address by written notice to the other party given in accordance with this subsection 3(d).

(e) This Agreement, together with the exhibits attached hereto, contains the entire agreement between the parties and supersedes all prior agreements, understandings and writings between the parties with respect to the subject matter hereof and thereof. Each party hereto acknowledges that no representations, inducements, promises or agreements, oral or otherwise, have been made by any party, or anyone acting with authority on behalf of any party, which are not embodied herein or in an exhibit hereto, and that no other agreement, statement or promise may be relied upon or shall be valid or binding. Neither this Agreement nor any term hereof may be changed, waived, discharged or terminated orally. This Agreement may be amended or any term hereof may be changed, waived, discharged or terminated only by an agreement in writing signed by each of the parties hereto.

(f) The captions and headings used herein are for convenience only and shall not be construed as a part of this Agreement.

(g) In the event of any litigation between the parties hereto, the non-prevailing party shall pay the reasonable expenses, including the attorneys' fees, of the prevailing party in connection therewith.

(h) This Agreement may be executed in counterparts, each of which shall be deemed an original but all of which taken together shall constitute but one and the same document.

IN WITNESS WHEREOF, the parties hereto have duly executed and delivered this Agreement as of the day and year first above written.

"The Company"

AONEXX TECHNOLOGIES, INC.

By: /s/ Sean Olson

Sean M. Olson
President

"Arrowhead"

ARROWHEAD RESEARCH CORPORATION

By: /s/ R. Bruce Stewart

R. Bruce Stewart
President

Exhibit 31.1

SECTION 302 CERTIFICATION

I, R. Bruce Stewart, certify that:

1. I have reviewed this Quarterly Report on Form 10-QSB of Arrowhead Research Corporation;

2. Based on my knowledge, this Quarterly Report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this Quarterly Report;

3. Based on my knowledge, the financial statements, and other financial information included in this Quarterly Report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this Quarterly Report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)), for the registrant and we have:

(a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this Quarterly Report is being prepared;

(b) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this Quarterly Report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report based on such evaluation; and

(c) disclosed in this Quarterly Report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

(a) all significant deficiencies in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 13, 2004

/s/ R. BRUCE STEWART

R. Bruce Stewart, President
Chief executive, financial and accounting officer

EXHIBIT 32.1

SECTION 906 CERTIFICATION

In connection with the Quarterly Report on Form 10-QSB of Arrowhead Research Corporation (the "Company") for the quarter ended June 30, 2004, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, R. Bruce Stewart, the chief executive officer and chief financial officer of the Company, hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 13, 2004

/s/ R. BRUCE STEWART

R. Bruce Stewart, President
Chief executive, financial and accounting officer

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.