

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 20549

FORM 10-KSB

(Mark One)

ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 [FEE REQUIRED]

For the fiscal year ended September 30, 2003.

TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 [NO FEE REQUIRED]

For the transition period from . . . .to . . . .

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.)

150 S. Los Robles, Suite 480  
Pasadena, California 91101  
(626) 792-5549  
(Address and telephone number of principal executive offices)

InterActive Group, Inc., 204 North Main, Humboldt, SD 57035  
(Former name, former address and former fiscal year, if changed since last report)

Securities registered under Section 12(b) of the Exchange Act:

Title of each class	Name of each exchange on which registered
None	None

Securities registered pursuant to Section 12(g) of the Exchange Act:

Common Stock, \$.001 par value

Check whether the issuer (1) filed all reports required to be filed by Section 13 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

Check if disclosure of delinquent filers in response to item 405 of Regulation S-B is not contained in this form, and no disclosure will be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB .

Indicate by checkmark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes  No

Issuer's revenue for its most recent fiscal year: None \_\_\_\_\_

The aggregate market value of issuer's outstanding Common stock held by non-affiliates was approximately \$141,662, based upon the bid price of issuer's Common Stock on January 9, 2004 (prior to the 1-for-65 "reverse split" that was consummated on January 12, 2004.)

As of January 12, 2004, 6,360,635 shares of the issuer's common stock were outstanding.

PART I

ITEM 1. DESCRIPTION OF BUSINESS.

On January 12, 2004, the Company, a Delaware corporation then known as "InterActive Group, Inc.", acquired all of the issued and outstanding securities of Arrowhead Research Corporation, a California corporation (the "California corporation"). As a result of this transaction, control of the Company was changed, with the former shareholders of the California corporation owning approximately 88.9% of the Company's Common Stock outstanding immediately following the transaction. 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." These transactions were consummated on the terms and conditions set forth in the Stock Purchase and Exchange Agreement (the "Exchange Agreement") described below.

In connection with the change in control pursuant to the Exchange Agreement, all prior business activities of the Company were completely terminated, and the Company adopted the business and plan of operations that had been developed and was in the process of implementation by the California corporation prior to the transaction. See Item 6, "Management's Discussion and Analysis or Plan of Operations," below.

Consequently, the Company currently is engaged in continuing efforts to finance research in various aspects in the "nano-technology" field, with a view toward realizing future revenue and profit from any such technologies that might result from the Company sponsored research. Fortune Magazine has defined nano-technology as "the science of building machines and materials at the molecular level, where key components are measured in nanometers, one-billionth of a meter." Prospective applications include information technology, medicine, manufacturing, advanced materials and environmental control. The National Science Foundation has predicted that the total market for nano-technology products and services will approach one trillion dollars by the year 2015.

To date, the Company has entered into arrangements with the California Institute of Technology ("Caltech"), and two individual professors on the faculty of Caltech, with respect to the financing of research projects in various aspects of nano-technology development. In consideration of the financing to be provided, the Company has obtained the exclusive right and license to commercially exploit any technology developed as a result of the research, along with any patents that are awarded to Caltech and the researchers.

The first research project which the Company is funding is under the direction of C. Patrick Collier, Ph.D. Dr. Collier has described the project as one that "includes the binding of nano scale synthetic chemical reactions circuits as a means for controlling complex biochemical reactions dynamics, in analogy to how digital or analog circuits have provided convenient means for controlling complex electrical or mechanical systems." The Company has agreed to provide \$810,000 over a 5-year period, at the rate of \$162,000 per year, which Dr. Collier and his team will use to finance direct costs, such as salaries and benefits for two post-doctoral researchers,

purchase items such as chemical reagents, optical supplies, and other materials used in connection with the research program, and domestic travel to attend conferences of professional organizations whose members are involved in comparable research projects. All other costs, including the salary and benefits of Dr. Collier, and the use of Caltech facilities, will be borne by Caltech.

The second research project that the Company has agreed to finance is headed by Marc Bockrath, Ph.D. His applied physics group at Caltech is working on the application of nano scale optoelectric components to chemical and biological sensors and electronic circuits. The five year financing agreement between the Company and Dr. Bockrath also specifies annual contributions of approximately \$162,000, for a total of \$810,000, to be spent on a comparable basis except that this group will use \$5,000 of the funds to purchase a computer and specialized software to perform transport measurements in connection with the project.

The Company is also engaged in negotiations with Caltech and members of its faculty pertaining to additional research agreements.

In the case of each project financed by the Company, the respective head of the research team will be required to provide a technical report to the Company at each anniversary date of the project, to include details of scientific progress and results, highlighting those that may be of possible commercial interest to the Company. In addition, the statement of work to be performed under each financing agreement will be updated on an annual basis, to reflect any changes in research goals that the parties may agree upon and/or to identify new opportunities that the parties mutually agree to pursue. The Company will also be provided with reprints of any publications in scientific journals resulting from the work that has been financed by the Company.

The ultimate goal of Arrowhead in providing financing for research projects such as those described above is to obtain the rights to patentable and other intellectual property that can be used for commercial purposes. Should one or more of the projects financed by the Company result in the discovery of a technology having commercial application, it is anticipated that the Company would either start a new company, as a majority-owned subsidiary, to pursue the commercial opportunity, or license one or more third parties to use the technology for commercial purposes, in exchange for the payment of royalties to the Company.

As is the case with any research project, there can be no assurance that a commercially viable technology will be developed as a result of any one or more of the 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 stages of research, well before they have generated sufficient results to attract the interest of traditional venture capital firms that focus in the high tech arena. Consequently, it is anticipated that the Company will enter into comparable arrangements with a number of researchers in the nano-technology field, both at Caltech and at other universities. In addition, the Company may seek to identify and finance the research and development activities of other entrepreneurs who are working in the nano-technology arena outside of a university setting.

In addition to financing the research activities of members of the Caltech faculty, the Company has also entered into another agreement with Caltech pursuant to which the Company has obtained the right to monitor and enforce a large portfolio of patents that have previously been issued to Caltech in various areas, including nano-technology. Pursuant to this agreement, the Company has the right to retain 50% of any and all amounts that may be recovered by the Company from third parties who may be infringing upon one or more of the patents in the portfolio

Given its strategy of financing new, as yet unproved technology research, it should be expected that the Company would not realize significant revenue in the foreseeable future, if at all. For this reason, it is anticipated that the Company will generate the funds needed to finance a growing number of research projects through future sales of securities, rather than out of profits generated internally. There can, however, be no assurance that the Company will be successful in the future in raising the level of additional capital sought, or on terms currently contemplated, if at all. Should the Company prove successful in selling securities to raise the additional capital sought to finance additional research, the current stockholders of the Company will experience dilution in their percentage ownership of the Company's outstanding securities.

Although the risks taken by the Company in financing leading edge technology research may be considered to be great, management of the Company believes that the rewards to the Company and its stockholders also have the potential to be great. That is, it is anticipated that the early-stage investments to be made by the Company should enable the Company to obtain the right, at a relatively low cost per research project, to exploit one or more technologies that could have commercial potential well beyond that of a company that is financed by a traditional venture capitalist. However, as is the case with any research project, there can be no assurance that a commercially viable technology will be developed as a result of any one or more of the projects that the Company has agreed to finance to date or may finance in the future.

In addition to any technology that might result from Company sponsored research, the Company has also acquired certain technology from San Diego Magnetics, Inc. ("SDM"). SDM was formed in 1998 to purchase from Eastman Kodak Company ("Kodak") the assets and properties then employed by Kodak in the ownership and activities of the Kodak San Diego Laboratories, a research and development operation in San Diego, California involved in the areas of thin film, specialty micro and nano devices and detectors. In connection therewith, SDM obtained a non-exclusive right and license to use, for research, development and commercial purposes, a portfolio of patents owned by Kodak (the "Kodak Patents") that had been developed by Kodak, through its Kodak San Diego Laboratories and otherwise. In addition, SDM acquired, or has subsequently developed, intellectual property for which patent protection has yet to be sought. In August 2003, a portion of the intellectual property then owned by SDM, relating to currency handling products, was sold to a third party. The rights of SDM in and under the balance of the intellectual property that was not sold to the third party (the "SDM Technology") was acquired by the Company pursuant to the Exchange Agreement described in more detail below.

## Description of the Exchange Agreement

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The transactions that resulted in the change in control of the Company on January 12, 2004, took place in accordance with a Stock Purchase and Exchange Agreement that originally was entered into on December 10, 2003 (the "Exchange Agreement"). Execution of the Exchange Agreement was publicly announced by joint press release on December 12, 2003, and reported by the Company in the Current Report on Form 8-K referred to in response to Item 13 below.

Pursuant to the Exchange Agreement, an aggregate of 5,655,000 shares of the Company's Common Stock were issued to acquire, in exchange therefor, all of the 5,655,000 shares of the common stock of Arrowhead Research Corporation (the "California corporation") then outstanding. In addition, warrants to purchase 5,645,000 additional shares of the Company's Common Stock, at the price of \$1.50 per share, were issued by the Company in exchange for warrants to purchase, at the same price per share, the same number of shares of the California corporation's common stock.

Prior to the issuance of these shares and warrants under the Exchange Agreement, the Company effected a 1-for-65 "reverse split" of its outstanding Common Stock and a 1-for-6.5 conversion of its Series A Preferred Stock into shares of Common Stock. As a result of the "reverse split" of the Common Stock and conversion of the Series A Preferred Stock, a total of 389,249 shares of Common Stock were then outstanding. An additional 316,386 shares of the Company's Common Stock, and warrants to purchase up to an additional 658,583 shares of Common Stock, at \$1.50 per share, were issued in connection with a program to reduce the total debt of the Company to not more than \$150,000, and to acquire the SDM Technology.

Pursuant to the Exchange Agreement, the Company agreed to register for resale under the Securities Act of 1933, as amended (the "Securities Act"), at the Company's cost and expense, all of the shares of the Company's Common Stock, and all of the warrants to purchase shares of the Company's Common Stock, that were issued in connection with the transactions contemplated by the Exchange Agreement, including the shares and warrants issued to the former shareholders of the California corporation, the shares and warrants issued in connection with the Company's debt reduction program, and the shares and warrants issued to acquire the SDM Technology.

In December 2003, the California corporation commenced a private placement, in which it proposes to issue and sell up to 3,000,000 units, at the price of \$1.50 per unit, with each unit consisting of one share of common stock and a warrant to purchase an additional share of common stock for \$1.50. The Exchange Agreement provides that the number of shares of the Company's Common Stock, and warrants to purchase shares of the Company's Common Stock issuable at the Closing will be increased, on a share for share and warrant for warrant basis, in the event that this private placement is completed following the Closing.

ITEM 2. DESCRIPTION OF PROPERTY.

The Company's principal executive offices are located in an executive suite office that is leased, on a month-to-month basis, for a rental of \$750 per month, at 150 S. Los Robles, Suite 480, Pasadena, California 91101.

ITEM 3. LEGAL PROCEEDINGS.

Prior to the transactions contemplated by the Exchange Agreement, the Company was delinquent on its interest payments on its secured note and a portion of its trade accounts payable, and had several judgments against it as a result of its inability to pay its obligations to its unsecured trade creditors. In connection with the reduction of its debt as required by the terms and conditions of the Exchange Agreement, the Company has obtained releases or otherwise extinguished all claims and liens against it, except for those that total, in the aggregate, not more than \$150,000. These remaining claims and liens will be paid or otherwise satisfied in full using cash that became available to the Company as a result of the consummation of the transactions contemplated by the Exchange Agreement.

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

At a special meeting held on January 12, 2004, the Company's stockholders approved amendments to the Company's Certificate of Incorporation to (i) effect the 1-for-65 "reverse split" of the Company's outstanding Common Stock and the 1-for-6.5 conversion of the Company's outstanding Series A Preferred Stock into shares of the Company's Common Stock, and (ii) change the Company's corporate name from "InterActive Group, Inc." to "Arrowhead Research Corporation." All of the directors and officers of the Company, who together possessed, directly or through one or more affiliates, the power to vote at least a majority of all classes of the issued and outstanding voting securities of the Company as of the record date for the special meeting, had indicated that they would vote, or cause to be voted, all of the securities over which they have voting control in favor of the approval of the proposed amendments. Therefore, approval of the proposed amendments by the stockholders of the Company was assured, no additional votes in favor of approval of the amendments were required, and no proxies were solicited. However, all of the stockholders of record as of the record date for the special meeting were furnished a copy of the Information Statement on Schedule 14C dated December 22, 2003, that the Company filed with the U.S. Securities and Exchange Commission.

## PART II

## ITEM 5. MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS.

## Recent Market Prices

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The Company's Common Stock is traded in the over-the-counter market and quoted on the NASD Electronic Bulletin Board under the symbol "IACG-OB". During the year ended September 30, 2003, the average weekly trading volume was approximately 3,000 shares. The stock markets have experienced extreme price and volume fluctuations during certain periods. These broad market fluctuations and other factors may adversely affect the market price of the Company's Common Stock for reasons unrelated to the Company's operating performance.

The following table sets forth the high and low bid prices for a share of the Company's Common Stock during each period indicated, as quoted on the NASD Electronic Bulletin Board.

	Fiscal Year Ended September 30,			
	2003		2002	
	High	Low	High	Low
1st Quarter	.02	.005	.02	.015
2nd Quarter	.01	.005	.03	.01
3rd Quarter	.015	.005	.08	.015
4th Quarter	.015	.005	.03	.005

On January 12, 2004, the Company effected a 65-for-1 "reverse split" of its Common Stock. The following table sets forth the high and low bid prices for a share of the Company's Common Stock during each period indicated, adjusted to give effect to the 65-for-1 "reverse split" as if it had occurred at the beginning of the first period indicated.

	Fiscal Year Ended September 30,			
	2003		2002	
	High	Low	High	Low
1st Quarter	1.30	.325	1.30	.975
2nd Quarter	.65	.325	1.95	.65
3rd Quarter	.975	.325	5.20	.975
4th Quarter	.975	.325	1.95	.325

On January 9, 2004, the high and low bid prices for a share of the Company's Common Stock, as quoted on the NASD Electronic Bulletin Board were both \$.045, or \$2.925 as adjusted to give effect to the 65-for-1 "reverse split" that occurred on January 12, 2004.

## Shares Outstanding

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At September 30, 2002, an aggregate of 5,276,039 shares of the Company's Common Stock were issued and outstanding, and owned by 441 stockholders of record, based on information provided by the Company's transfer agent. In addition, at September 30, 2003, 2,000,000 shares of Series A Preferred Stock were outstanding.

As a result in the transactions contemplated by the Exchange Agreement, including the 65-for-1 "reverse split" of the then outstanding shares of Common Stock and the 6.5-for-1 conversion of the Series A Preferred Stock into shares of Common Stock, followed by the issuance of a total of 316,386 shares of Common Stock in connection with the Company's debt reduction program and the acquisition of the SDM Technology, and the issuance of 5,655,000 shares of Common Stock to the former shareholders of the California corporation, an aggregate of 6,360,635 shares of the Company's Common Stock were outstanding as of January 12, 2004.

All of the shares of the Company's Common Stock issued in connection with the transactions contemplated by the Exchange Agreement were issued without registration under the Securities Act, in reliance upon the exemptions therefrom provided by Section 4(2) of the Securities Act and Regulation D thereunder. The Company did not receive any cash proceeds on account of any of such issuances.

Prior to the closing under the Exchange Agreement, the predecessor California corporation completed a private placement in which it raised net proceeds of \$2,393,500. See Item 6, "Management's Discussion and Analysis or Plan of Operations," below. These shares were issued without registration under the Securities Act, in reliance upon the exemptions therefrom provided by Section 4(2) of the Securities Act and Regulation D thereunder, as were the shares of Common Stock and stock purchase warrants issued to the founders of the California corporation in connection with its initial incorporation and organization.

#### Dividends

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The Company has never paid dividends on its Common Stock and does not anticipate that it will do so in the foreseeable future. The future payment of dividends, if any, on the Common Stock is within the discretion of the Board of Directors and will depend on the Company's earnings, its capital requirements and financial condition and other relevant factors.

#### Description of Securities

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The authorized capital stock of the Company consists of 50,000,000 shares of Common Stock, \$.001 par value, and 10,000,000 shares of Preferred Stock, \$.001 par value. As of January 12, 2004, 6,360,635 shares of the Company's Common Stock were outstanding, and no shares of the Company's Preferred Stock, were outstanding. In addition, warrants to purchase an aggregate of 6,303,583 shares of the Company's Common Stock, at the price of \$1.50 per share, were outstanding as of January 12, 2004.

Common Stock. Holders of the Company's Common Stock are entitled to receive ratably dividends out of funds legally available for that purpose if, as and when declared by the Board of Directors. The Company has never paid cash dividends on its Common Stock and the Board of Directors does not anticipate that the Company will pay cash dividends of its Common Stock in the foreseeable future. The future payment of dividends, if any, on the Company's Common Stock is within the discretion of the Board of Directors and will depend upon earnings, capital requirements, financial condition and other relevant factors. The dividend rights of the Company's Common Stock also are subject to the rights of any Preferred Stock which may be issued. Each holder of the Company's Common Stock is entitled to one vote for each share held



on each matter presented for stockholder action, and there is no cumulative voting in the election of directors. Holders of the Company's Common Stock have no preemptive, subscription, redemption or conversion rights. In the case of any liquidation, dissolution or winding up of the affairs of the Company, holders of the Company's Common Stock would be entitled to receive, pro rata, any assets distributable to common stockholders in respect of the number of shares held by them. The liquidation rights of the Company's Common Stock would be subject to the rights of holders of any Preferred Stock outstanding at the time of such liquidation. All outstanding shares of the Company's Common Stock are fully paid and nonassessable under the laws of the State of Delaware.

Preferred Stock. The Company is authorized to issue, subject to any limitations prescribed by the laws of the State of Delaware but without further action by the Company's stockholders, up to 10,000,000 shares of Preferred Stock from time to time in one or more series with such designations, powers, preferences and relative voting, distribution, dividend, liquidation, transfer, redemption, conversion and other rights, preferences, qualifications, limitations or restrictions as may be provided for the issue of such series by resolution adopted by the Company's Board of Directors. Such Preferred Stock could have priority over the Company's Common Stock as to dividends and as to the distribution of the Company's assets upon any liquidation, dissolution or winding up of the Company. In addition, the Company's Board of Directors may authorize and issue Preferred Stock with voting or conversion rights that could adversely affect the voting power or other rights of the holders of the Company's Common Stock. The issuance of such Preferred Stock may have the effect of delaying, deferring or preventing a change in control of the Company.

Stock Purchase Warrants. All of the Common Stock purchase warrants (the "Warrants") that currently are outstanding are exercisable, on the same terms and conditions, to purchase one share of the Company's Common Stock at the price of \$1.50 per share. The Warrants are detachable from the Units and exercisable at any time, and from time to time, prior to June 30, 2013, on which date all unexercised Warrants will expire. The Warrants are redeemable at the Company's option, in whole but not in part, on 30 days' prior written notice, at the price of \$0.001 per Warrant, provided that the closing bid price for a share of the Company's Common Stock has equaled or exceeded \$3.00 per share for 20 consecutive trading days ending not more than 15 days prior to the date of the redemption notice. Holders will be required to exercise their Warrants within 30 days or accept the \$0.001 per Warrant redemption price.

Limitation of Liability; Indemnification.

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The Company's Certificate of Incorporation provides for the elimination of personal monetary liability of directors to the fullest extent permissible under Delaware law. Delaware law does not permit the elimination or limitation of director monetary liability for: (i) breaches of the director's duty of loyalty to the corporation or its stockholders; (ii) acts or omissions not in good faith or involving intentional misconduct or knowing violations of law; (iii) the payment of unlawful dividends or unlawful stock repurchases or redemptions or (iv) transactions in which the director received an improper personal benefit.

Section 145 of the Delaware General Corporation Law permits a Delaware corporation to indemnify, on certain terms and conditions, any person who was or is a party or is threatened to be made a party to any threatened pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative, by reason of the fact that he is or was a director, officer, employee or agent of the corporation or is or was serving at the request of the corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by him in connection with such action. The Certificate of Incorporation and Bylaws of the Company require the Company to indemnify the Company's directors and officers to the fullest extent permitted under Delaware law.

ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATIONS.

General

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Statements contained in this Annual Report on Form 10-KSB, 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 Annual Report on Form 10-KSB. 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.

Plan of Operations

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The Company was incorporated in 1989 to develop multimedia hardware and software products, and introduced its first software product in July 1991. In November 1992, the Company introduced its first SoundXchange business audio hardware product, which was designed to be marketed to large and small businesses that have existing local and wide area networks of personal computers, and businesses that plan to connect existing personal computers into such a network. On July 16, 1993, the Company completed its initial public offering, selling 1,000,000 Units, each consisting of one share of Common Stock and one redeemable Common Stock purchase warrant, at the price of \$4.50 per Unit, raising gross proceeds of \$4,500,000.

Over the next two years, anticipated sales of SoundXchange products did not materialize and the Company sustained operating losses. In 1995, without additional sources of funding, the Company substantially reduced its operations and, except for sporadic sales of SoundXchange products out of existing inventories, subsequently did not conduct any significant business activities for several years.

In 2002, the Company created a Carlsbad Security Products Division in an effort to develop, market and sell networked monitoring and security systems that would incorporate third party security components, such as digital video recorders and video cameras, with the

Company's SoundXchange products and proprietary software. In connection therewith, the Company obtained a \$100,000 loan to finance these efforts, and defray general and administrative purposes. However, through September 30, 2003, the Company had not sold any networked security products, and had spent substantially all of the proceeds of the loan.

The Company had no significant source of revenue for the past several years, leading to sustained operating losses and significant working capital deficiencies. During the year ended September 30, 2003, the Company generated a loss of approximately \$286,000, on revenue of less than \$3,000. As of September 30, 2003, the Company's current liabilities exceeded its current assets by approximately \$1,840,000, the Company was not involved in the production of any products or providing services on a significant level, and it had no direct employees. At that time, the Company's management concluded that efforts to develop a securities products or other viable business were not likely to prove successful, in the absence of the availability of significant sources of financing, if at all. Consequently, after devoting more than ten years in various attempts to develop a profitable, ongoing business, and without realistic sources of additional financing in sight, management of the Company was receptive when approached by representatives of the California corporation concerning a possible business combination on some basis. Subsequent discussions led to the execution of the Exchange Agreement in December 2003, followed by the closing of the transactions contemplated thereby on January 12, 2004. See Item 1, "Description of Business," for additional information regarding the Exchange Agreement and the transactions consummated thereunder.

As a consequence of the change in control of the Company resulting from the transactions contemplated by the Exchange Agreement, the Company has adopted a new plan of operations. For a more detailed description of the Company's currently planned business activities, see Item 1, "Description of Business."

#### Financial Resources

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In October 2003, prior to the Closing under the Exchange Agreement, the California corporation completed a private placement in which it issued and sold, for an aggregate purchase price of \$2,645,000, 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. As of January 12, 2004, the Company used approximately \$324,000 of the net proceeds from this private placement to fund research projects and retained approximately \$1,900,000 in cash and marketable securities that can be used to finance additional research. Of these retained funds, a total of \$1,296,000 has been committed to meet the Company's future obligations over 4-year periods under the two research projects that it has already agreed to finance. See Item 1, "Description of Business" above.

In December 2003, the California corporation commenced a private placement, in which it proposes to issue and sell up to 3,000,000 units, at the price of \$1.50 per unit, with each unit consisting of one share of common stock and a warrant to purchase an additional share of common stock for \$1.50. If all of the units offered in this private placement were sold, the Company would generate net proceeds, after payment of offering costs and selling commissions, of approximately \$4,000,000, for use in further implementation of its plan of operations.

As a result of the transactions contemplated by the Exchange Agreement, and as a condition thereto, the Company was required to enter into agreements with the holders of its outstanding debt and other obligations, pursuant to which the total debt of the Company as of the date of the closing under the Exchange Agreement would be reduced to not more than \$150,000. The funds raised by the California corporation that became available to the combined companies as a consequence of the Exchange Agreement will be used by the Company to satisfy these remaining debt obligations.

#### Risk Factors

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An investment in the Company should be considered speculative, and to involve a high degree of risk. In addition to the other information contained in this Annual Report on Form 10-KSB, prospective investors should carefully consider the following risk and speculative factors:

**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 in an attempt to develop a viable business plan have been abandoned. In place thereof, the Company has adopted as a new plan of operations the strategy that was only recently formulated by the California corporation following its formation in May 2003. To date, implementation of this strategy has been limited, with only two research projects 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 new business ventures. There can be no assurance that the intended business and operations of the Company will 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. There can be no assurance that such difficulties or delays will not 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. The value of an investment in the Company can also be adversely affected by a number of external factors, such as conditions prevailing in the securities markets and/or the economy generally. Consequently, an investment in the Company is highly speculative and no assurance can be given that purchasers of the Company's securities will realize any return on their investment or that purchasers will not lose their entire investment.

**Risks Inherent in Research Projects.** As is the case with any research project, there can be no assurance that a commercially viable technology will be developed as a result of any one or more of the 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 venture capital firms that focus in the high tech arena.

**No Assurance of Profitability.** Given its strategy of financing new, as yet unproved technology research, it should be expected that the Company would not realize significant revenue in the foreseeable future, if at all. For this reason, it is anticipated that the Company

will generate the funds needed to finance a growing number of research projects through future sales of securities, rather than out of profits generated internally. There can, however, be no assurance that the Company will be successful in the future in raising the level of additional capital sought, or on terms currently contemplated, if at all.

**Sales of Additional Securities.** The Company is authorized to issue an aggregate of 50,000,000 shares of Common Stock without approval of the Company's stockholders, on such terms and at such prices as the Board of Directors of the Company may determine. Of these shares, an aggregate of 6,360,635 shares of Common Stock have been issued, 6,303,583 are reserved for issuance upon exercise of stock purchase warrants, and 300,000 are reserved for issuance upon exercise of stock options that may be granted by the Board of Directors to employees, consultants and others expected to provide significant services to the Company. More than 37,000,000 shares of Common Stock remain available for issuance by the Company to raise additional capital, in connection with a prospective acquisition, upon exercise of future stock option grants, or for another corporate purpose. Issuances of additional shares of Common Stock would result in dilution of the percentage interest in the Company's Common Stock of all stockholders ratably, and might result in dilution in the tangible net book value of a share of the Company's Common Stock, depending upon the price and other terms on which the additional shares are issued.

**Possible Issuance of Preferred Stock.** Although the Company has no present plan to issue any shares of Preferred Stock, the issuance of Preferred Stock in the future could provide voting or conversion rights that would adversely affect the voting power or other rights of the holders of Common Stock and thereby reduce the value of the Common Stock. In addition, the issuance of Preferred Stock may have the effect of delaying, deferring or preventing a change in control of the Company. In particular, specific rights granted to future holders of Preferred Stock could be used to restrict the Company's ability to merge with or sell its assets to a third party, or otherwise delay, discourage or prevent a change in control of the Company.

**Market Overhang; Warrants.** The Company has agreed to register for resale under the Securities Act, all of the shares of Common Stock and warrants issued in connection with the transactions contemplated by the Exchange Agreement. Sales of shares pursuant to such registration, or even the potential for such sales, could have a depressing effect upon the price at which the Common Stock may be traded in the over-the-counter market. In addition, the issuance of shares of Common Stock upon exercise of the warrants, or 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.

**No Dividends.** The Company does not anticipate that it will pay dividends in the foreseeable future. Instead, the Company intends to apply any earnings to the development and expansion of its business.

ITEM 7. FINANCIAL STATEMENTS.

On January 12, 2004, the Company issued shares of its Common Stock, along with warrants to purchase additional shares of Common Stock, in exchange for all of the issued and outstanding securities of Arrowhead Research Corporation, a California corporation. 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 88.9% of the Company's Common Stock outstanding immediately thereafter. Since the transaction resulted in such a significant change in control of the Company, it has been accounted for as though the California corporation acquired the Company, through a purchase of the net assets of the Company by the California corporation. Therefore, the financial statements of the Company, a Delaware corporation whose name has been changed to "Arrowhead Research Corporation," are deemed to be those of the California corporation from its inception, and will reflect consolidated operations of the two companies only from and after January 12, 2004. These financial statements, along with the notes thereto and the report of the Company's independent certified public accountant thereon, required to be filed in response to this Item 7 are attached hereto as Exhibits under Item 13 below.

ITEM 8. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

As reported in a Current Report on Form 8-k previously filed by the Company, on January 7, 2004, the Company's Board of Director selected a new independent certified public accountant, Kevin G. Breard, CPA, An Accountancy Corporation, to replace the Company's previous accountants, McGladrey & Pullen LLP, in connection with the change in control of the Company resulting from the transactions provided for in the Exchange Agreement. The reports of McGladrey & Pullen LLP on the Company's financial statements as of September 30, 2002 and 2003, and for each of the fiscal years in the 2-year period ended September 30, 2003, contained an explanatory paragraph concerning substantial doubt about the Company's ability to remain a going concern. However, during this 2-year period, there were no disagreements with the former accountants on any matter of accounting principles and practices, financial statement disclosure, or auditing scope or procedure.

ITEM 8A. CONTROLS AND PROCEDURES.

As of a date within 90 days of the date of this Annual Report on Form 10-KSB, the executive officers of the Company conducted an evaluation of the effectiveness of the design and operation of the Company's disclosure controls and procedures pursuant to Rule 13a-14 under the Securities Exchange Act of 1934, as amended. Based upon that evaluation, the executive officers concluded that the Company's disclosure controls and procedures are effective in timely alerting them to material information relating to the Company that is required to be included in its filings with the Securities and Exchange Commission. There have been no significant changes in the Company's internal controls or in other factors that could significantly affect these controls subsequent to the date this evaluation was carried out.

PART III

ITEM 9. DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS  
COMPLIANCE WITH SECTION 16(a) OF THE EXCHANGE ACT.

EXECUTIVE OFFICERS AND DIRECTORS

The executive officers and directors of the Company are as follows:

Name	Age	Title
R. Bruce Stewart	66	President and Director
Edward W. Frykman	66	Director
James M. Phillips, Jr.	55	Secretary and Director
LeRoy T. Rahn	66	Director
Charles Patrick Collier	29	Director
Marc W. Bockrath	29	Director

R. Bruce Stewart devoted much of his time from March 2003 to the present to the formation of the California corporation and the development of its plan of operations. From March 1991 to January 1997, as the founder of Acacia Research Corporation, he served as its Chairman and President. From August 1977 to March 1991, Mr. Stewart was the President of Annandale Corporation. He also was a licensed principal of Annandale Securities, Inc., a licensed broker-dealer.

Edward W. Frykman has been an Account Executive with Crowell, Weedon & Co. since 1992. Previously, Mr. Frykman served as Senior Vice President of L.H. Friend & Co. Both Crowell, Weedon & Co. and L.H. Friend & Co. are investment brokerage firms located in Southern California. In addition, Mr. Frykman was a Senior Account Executive with Shearson Lehman Hutton where he served as the Manager of the Los Angeles Regional Retail Office of E. F. Hutton & Co. He currently serves on the Board of Directors of Acacia Research Corporation.

James M. Phillips, Jr. practiced corporate and securities law in Los Angeles and Orange Counties for 25 years, as an associate attorney with Gibson, Dunn & Crutcher and Paul, Hastings, Janofsky & Walker, a partner of Brobeck, Phleger & Harrison, and in his own corporate securities law firm. Currently, Mr. Phillips serves, on part-time basis, as general counsel for a Southern California high technology company. He is also a principal owner and chief financial officer of a small Southern California manufacturer of industrial firefighting equipment and military aircraft components, primarily responsible for implementing an ongoing program of growth through acquisitions.

LeRoy (Lee) T. Rahn was a partner with the intellectual property law firm of Christie, Parker & Hale for more than 30 years, whose practice focused on assisting clients in protecting their intellectual property through obtaining, maintaining and enforcing patents and other legal rights. He is a former president of the Los Angeles Intellectual Property Association and frequently makes presentations on intellectual property law to legal and trade groups. Prior to becoming an attorney, Mr. Rahn obtained a degree in electrical engineering.

Charles Patrick Collier has been a Professor in the Division of Chemistry and Chemical Engineering at Caltech since 2001, following completion of postdoctoral work at UCLA. He graduated from Oberlin College in 1991, and received his Ph.D from the University of California at Berkeley in 1998. Dr. Collier is a member of the American Chemical Society and the American Physical Society, and has served as a reviewer for articles published in numerous scientific publications. He received a U.S patent in 2001 for his work involved in "Electrically Addressable Volative Non-Volative Molecular-Based Switching Devices".

Marc W. Bockrath became a Professor in 2002 in the Department of Applied Physics at CalTech. He received a B.S degree in 1993 from the Massachusetts Institute of Technology, his Ph. D in 1999 from the University of California at Berkeley, and completed post-doctoral research at Harvard University prior to joining the Caltech faculty. Dr. Bockrath is the author or co-author of numerous publications on subjects in the nano-technology field, and has made a number of presentations to both domestic and international scientific associations.

Directors of the Company are elected the directors by the shareholders for a one-year term, and until their successors are elected at the next annual meeting of shareholders. Officers are appointed by and serve at the discretion of the Board of Directors.

Compensation of executive officers is determined, from time to time, by the Board of Directors. Each director of the Company who is not otherwise employed full time by the Company will be paid \$100.00 for each Board meeting attended, and will be reimbursed for their travel expenses in attending Board meetings.

ITEM 10. EXECUTIVE COMPENSATION.

Summary Compensation Table

- - - - -

The following Summary Compensation Table sets forth all compensation paid or accrued by the Company for services rendered in all capacities during the fiscal year ended September 30, 2003, to each executive officer of the Company.

Name and Principal Position	Year	Annual Compensation			Long-Term Compensation			All Other Compensation
		Salary	Bonus	Other	Awards	Payouts		
					Stock Awards	LTIP Payouts		
					Options			
R. Bruce Stewart, President (1)	2003	\$25,000	--	--	--	--	--	--
James M. Phillips, Jr. Secretary (2)	2003	--	--	--	--	--	--	\$ 9,450

(1) Mr. Stewart is paid an annual salary of \$60,000. Includes all amounts paid to Mr. Stewart by Arrowhead Research Corporation, the California corporation that was a predecessor of the Company.

(2) During the year ended September 30, 2003, Mr. Phillips was paid a total of \$9,450 for services rendered in connection with the incorporation and organization of Arrowhead Research Corporation, the California corporation that was a predecessor of the Company, and its initial private placement. Commencing October 1, 2003, Mr. Phillips has agreed to provide administrative and legal services to the Company (and its predecessor) in exchange for a monthly retainer of \$2,250, increasing to \$4,500 on January 1, 2004.



Stock Options  
 -----

Under the 2000 Stock Option Plan (the "2000 Plan") that was previously adopted by the Company's Board of Directors and approved by its stockholders, options to purchase up to 3,000,000 of the Company's Common Stock may be granted over a period of up to ten years. If an option granted under the 2000 Plan expires or terminates, the shares subject to any unexercised portion of that option will again become available for the issuance of further options under the 2000 Plan. Options may be granted under the 2000 Plan which are intended to qualify as incentive stock options ("ISO's") under Section 422A of the Internal Revenue Code of 1986, as amended (the "Code"), or, alternatively, as stock options which will not so qualify ("Nonstatutory Stock Options"). The 2000 Plan terminates on September 30, 2010, and no options would be granted under the 2000 Plan thereafter.

In connection with the transactions contemplated by the Exchange Agreement, all options previously granted under the 2000 Stock Option Plan were terminated by agreements with the holders thereof, and options to purchase 300,000 shares were granted under the 2000 Stock Option Plan to replace previously options to purchase shares of the California corporation's common stock. Accordingly, as of January 12, 2004, options to purchase a total of 300,000 shares of Common Stock had been granted under the 2000 Stock Option Plan, including an aggregate of 150,000 that have been granted to three of the Company's directors. No options have been granted to any of the Company's current executive officers.

ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS.

The following table sets forth certain information as of January 12, 2004, with respect to the beneficial ownership of the Company's Common Stock by (i) each person or group known by the Company to be the beneficial owner of more than 5% of the then outstanding shares of the Company's Common Stock, (ii) each director of the Company, (iii) each executive officer of the Company named in the Summary Compensation Table in Item 10 below, and (iv) all directors and executive officers of the Company as a group. Unless otherwise indicated in the footnotes, each person listed below has sole voting and investment power with respect to the shares beneficially owned by such person, subject to applicable community property laws, and the address of each such person is care of the Company, 150 S. Los Robles, Suite 480, Pasadena, California 91101.

Name and Address of Beneficial Owner	Shares Beneficially Owned(1)	Percent of Class(1)
Robert M. and Phyllis J. Ching Living Trust (2) 150 Limelight Way Oroville, CA 95966	1,500,000	23.6
Kreuzfeld Ltd (3) Frohalmstr. 20 Zurich 8038, Switzerland	1,300,000	18.8
TPR Group, Inc. (4) 6359 Paseo del Lago Carlsbad, California 92009	1,186,134	17.1

Nicolas Rogivue (5) Bahnhofstr. 94 Zurich 8001, Switzerland	1,050,000	14.6
Robert B. Stewart (6) 2007 Altura Drive Corona del Mar, CA 92625	800,000	11.7
Thomas C. Stewart (6) 1112 40th Street Sacramento, CA 95819	800,000	11.7
Drake Revocable Trust (7) P.O. Box 1448 Chino, CA 95927	583,500	8.8
R. Bruce Stewart (8)	721,000	10.9
James M. Phillips, Jr (9)	400,000	6.1
Edward K. Frykman (10)	50,000	*
LeRoy (Lee) T. Rahn (11)	50,000	*
Charles Patrick Collier (11)	50,000	*
Marc W. Bockrath (11)	50,000	*
All directors and officers (six individuals)(8)(9)(10)(11)	1,321,000	18.7

\* Less than one percent.

(1) Beneficial ownership is determined in accordance with the rules and regulations of the Securities and Exchange Commission, based on information furnished by each person listed. Beneficial ownership includes shares that each named stockholder has the right to acquire within sixty days. In calculating percentage ownership, all shares which a named stockholder has the right to so acquire are deemed outstanding for the purpose of computing the percentage ownership of that person, but are not deemed outstanding for the purpose of computing the percentage ownership of any other person. Listed persons may disclaim beneficial ownership of certain shares.

(2) Includes 1,500,000 shares of Common Stock owned of record, but does not include warrants to purchase, at \$1.50 per share, an additional 1,500,000 shares of Common Stock that are not exercisable within 60 days of the date of this report.

(3) Includes 750,000 shares of Common Stock owned of record, plus warrants to purchase, at \$1.50 per share, an additional 550,000 shares of Common Stock.

(4) Includes 350,805 shares of Common Stock owned of record by TPR Group, Inc., plus warrants to purchase, at \$1.50 per share, an additional 90,806 shares of Common Stock. Also includes 59,038 shares of Common Stock owned of record by Old TPR, Inc., an affiliate of TPR Group, Inc., plus warrants held by Old TPR, Inc. to purchase, at \$1.50 per share, an additional 112,196 shares of Common Stock. Also includes 116,118 shares of Common Stock, and warrants to purchase, at \$1.50 per share, an additional 242,329 shares of Common Stock, owned of record by William J. Hanson, 677 shares of Common Stock owned of record by J. Randolph Sanders, and 68,947 shares of Common Stock and warrants to purchase, at \$1.50 per share, an additional 145,218 shares of Common Stock owned of record by Richard Love, each of whom is a director of TPR Group, Inc.

(5) Includes 550,000 shares of Common Stock owned of record, plus warrants to purchase, at \$1.50 per share, an additional 500,000 shares of Common Stock

(6) Includes, in each case, 300,000 shares of the Company's Common Stock owned of record, plus warrants to purchase, at \$1.50 per share, an additional 500,000 shares of Common Stock.

(7) Includes 333,500 shares of Common Stock owned or record, plus warrants to purchase, at \$1.50 per share, an additional 250,000 shares of Common Stock.

(8) Includes 471,000 shares of the Company's Common Stock owned of record by Mr. Stewart, plus warrants to purchase, at \$1.50 per share, an additional 240,000 shares of Common Stock. Does not include an aggregate of 600,000 shares of Common Stock, and warrants to purchase, at \$1.50 per share, an additional 1,000,000 shares of Common Stock that are owned of record by Robert B and Thomas C. Stewart, adult sons of Mr. Stewart, the beneficial ownership of all of which is disclaimed by Mr. Stewart.

(9) Includes 150,000 shares of Common Stock owned of record by Mr. Phillips, plus warrants to purchase, at \$1.50 per share, an additional 250,000 shares of Common Stock.

(10) Includes 50,000 shares of Common Stock owned of record by Mr. Frykman, plus warrants to purchase, at \$1.50 per share, an additional 50,000 shares of Common Stock.

(11) In each case, all of these shares are issuable upon exercise of a stock option to purchase, at \$1.00 per share, 50,000 shares of the Company's Common Stock.

#### ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

In connection with the incorporation and initial organization of the California corporation that was acquired by the Company pursuant to the terms and conditions of the Exchange Agreement, Messrs. Stewart, Phillips and Frykman purchased units consisting of shares of common stock and stock purchase warrants for the price of \$.001 per unit. The shares and warrants comprising these units were subsequently acquired by the Company in exchange for the shares of the Company's Common Stock and warrants to purchase shares of the Company's Common Stock currently held by each such individual. See Items 1 and 11 above.

Messrs. Rahn, Collier and Bockrath were each granted an option to purchase 50,000 shares of the California corporation's common stock upon becoming a director of the California corporation. In exchange for these options, each individual received an option to purchase 50,000 shares of the Company's Common Stock pursuant to the transactions contemplated by the Exchange Agreement. See Items 1 and 11 above.

Prior to consummation of the transactions contemplated by the Exchange Agreement, TPR Group, Inc. (including its directors and affiliates) owned approximately 83% of the Company's outstanding Common Stock and 100% of the Company's Series A Preferred Stock then outstanding. In connection with the debt conversion program which was required by the Exchange Agreement, TPR Group, Inc. (including its directors and affiliates) received 272,936 shares of the Company's Common Stock (on a post "reverse split" basis) and warrants to purchase, at \$1.50 per share, an additional 574,865 shares of the Company's Common Stock. For a further description of the transactions contemplated by the Exchange Agreement, please see Item 1 above.

Each of the other stockholders identified in the beneficial ownership table set forth under Item 11 above acquired all of their respective shares of Common Stock and warrants to purchase shares of Common Stock as a consequence of the exchange of securities that occurred in connection with the closing of the transactions contemplated by the Exchange Agreement. See Item 1 above.

ITEM 13. EXHIBITS AND REPORTS ON FORM 8-K.

(a) Financial Statements, Financial Statement Schedules and Exhibits.

The following documents are filed herewith or incorporated herein by reference, as set forth in the Index to Financial Statements appearing on page F-1 and the Index to Exhibits appearing on page 23. As a result of the "reverse acquisition" of registrant by Arrowhead Research Corporation, a California corporation, the financial statements of the registrant, a Delaware corporation currently named Arrowhead Research Corporation, are deemed to be the historical financial statements of Arrowhead Research Corporation, the California corporation.

(1) Financial Statements

Report of Independent Public Accountants dated December 23, 2003.

Balance Sheet of Arrowhead Research Corporation, September 30, 2003.

Statement of Operations of Arrowhead Research Corporation for the period from May 7, 2003 (inception) through September 30, 2003.

Statement of Shareholders' Equity of Arrowhead Research Corporation for the period from May 7, 2003 (inception) through September 30, 2003.

Statement of Cash Flows of Arrowhead Research Corporation for the period from May 7, 2003 (inception) through September 30, 2003.

Notes to Financial Statements of Arrowhead Research Corporation.

(2) Financial Statement Schedules

None

(3) Exhibits:

Exhibit No. -----	Description -----
2.1	Stock Purchase and Exchange Agreement dated December 10, 2003, by and among InterActive Group, Inc. and the several stock and warrant holders of Arrowhead Research Corporation, a California corporation. *
3.1	Certificate of Incorporation of InterActive Group, Inc., a Delaware corporation. (1)
3.2	Certificate of Amendment of Certificate of Incorporation of InterActive Group, Inc., providing for the "reverse split" of the corporation's outstanding common stock, the conversion of the outstanding preferred stock into shares of common stock, and the change of the corporation's name to "Arrowhead Research Corporation." (2)
3.3	Bylaws (1)
4.1	Registration Rights Agreement dated January 12, 2004 *
4.2	Standstill and Registration Rights Agreement dated January 12, 2004 *
10.1	2000 Stock Option Plan (1)
21	Subsidiary *
31.1	Section 302 Certification *
32.2	Section 906 Certification *

\* Filed herewith.

(1) Incorporated by reference from the exhibits to the Schedule 14C filed by registrant on January 19, 2001.

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

(b) Reports on Form 8-K.

No reports on Form 8-K were filed by registrant during the last quarter of the fiscal year ended September 30, 2003. However, a Current Report on Form 8-K was filed by registrant on December 15, 2003, to report the execution and delivery of the Stock Purchase and Exchange Agreement by and among registrant

and the several share and warrant holders of Arrowhead Research Corporation, a California corporation, and a second Current Report on Form 8-K was filed by registrant on January 9, 2004 to report the change in certifying accountants referred to in Item 8 above.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES.

During the fiscal year ended September 30, 2003, no audit, audit-related, tax or other fees were paid for professional services rendered by the independent certified public accountant who audited the financial statements of the California corporation that are filed herewith as those of the Company. See Item 7, "Financial Statements", above.

During the fiscal year ended September 30, 2003, the California corporation did not have an audit committee.

SIGNATURES

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

Dated: January 12, 2003      ARROWHEAD RESEARCH CORPORATION.

BY: R. BRUCE STEWART

-----  
R. Bruce Stewart, President  
and chief financial and accounting officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons on behalf of the Company, in the capacities, and on the dates, indicated:

Name	Capacity	Date
-----	-----	-----
R. BRUCE STEWART	Director	January 12, 2004
----- R. Bruce Stewart		
EDWARD W. FRYKMAN	Director	January 12, 2004
----- Edward W. Frykman		
JAMES M. PHILLIPS, JR.	Director	January 12, 2004
----- James M. Phillips, Jr.		

## INDEX TO FINANCIAL STATEMENTS

As a result of the "reverse acquisition" of registrant by Arrowhead Research Corporation, a California corporation, the financial statements of the registrant, a Delaware corporation currently named Arrowhead Research Corporation, are deemed to be the historical financial statements of Arrowhead Research Corporation, the California corporation.

Arrowhead Research Corporation,

Report of Independent Public Accountants dated December 23, 2003.	F-1
Balance Sheet of Arrowhead Research Corporation, September 30, 2003	F-2
Statement of Operations of Arrowhead Research Corporation for the period from May 7, 2003 (inception) through September 30, 2003.	F-3
Statement of Shareholders' Equity of Arrowhead Research Corporation for the period from May 7, 2003 (inception) through September 30, 2003.	F-4
Statement of Cash Flows of Arrowhead Research Corporation for the period from May 7, 2003 (inception) through September 30, 2003.	F-5
Notes to Financial Statements of Arrowhead Research Corporation.	F-6

Independent Auditor's Report  
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To the Board of Directors  
Arrowhead Research Corporation  
Pasadena, California

I have audited the accompanying balance sheet of Arrowhead Research Corporation (A Development Stage Company) as of September 30, 2003 and the related statements of operations and stockholders' equity, and cash flows for the period from May 7, 2003 (inception), to September 30, 2003. These financial statements are the responsibility of the Company's management. My responsibility is to express an opinion on these financial statements based on my audit.

I have conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Arrowhead Research Corporation (A Development Stage Company) as of September 30, 2003, and the results of its operations and its cash flows from May 7, 2003 (inception), to September 30, 2003, in conformity with accounting principles generally accepted in the United State of America

Kevin G. Breard  
Certified Public Accountant

Northridge, California  
December 23, 2003



ARROWHEAD RESEARCH CORPORATION  
(A DEVELOPMENT STAGE COMPANY)  
BALANCE SHEET

ASSETS

SEPTEMBER, 30

-----  
2003  
-----

Cash	\$	1,355,289
Prepaid expenses		158,625
Office equipment, net of accumulated depreciation of \$90		2,025
		-----
<b>TOTAL ASSETS</b>	<b>\$</b>	<b>1,515,939</b>
		=====

LIABILITIES & STOCKHOLDERS' EQUITY

LIABILITIES

Accounts payable	\$	92,688
Payroll tax payable		2,689
Income tax payable		800
		-----
<b>TOTAL LIABILITIES</b>		<b>96,177</b>
<b>COMMITMENTS AND CONTINGENCIES</b>		<b>-</b>

STOCKHOLDERS' EQUITY

Common stock, \$0.001 par value, 20,000,000 shares authorized, 4,680,000 shares issued and outstanding		4,680
Additional paid-in capital		1,510,320
Accumulated deficit during the development stage		(95,238)
		-----
<b>TOTAL STOCKHOLDERS' EQUITY</b>		<b>1,419,762</b>
		-----
<b>TOTAL LIABILITIES &amp; STOCKHOLDERS' EQUITY</b>	<b>\$</b>	<b>1,515,939</b>
		=====

ARROWHEAD RESEARCH CORPORATION  
(A DEVELOPMENT STAGE COMPANY)  
STATEMENT OF OPERATIONS

FOR THE PERIOD FROM MAY 7, 2003 (INCEPTION) THROUGH SEPTEMBER 30, 2003

COSTS AND EXPENSES	
Salaries	\$ 25,000
Consulting	25,000
General and administrative expenses	41,063
Research and development	3,375
	-----
TOTAL COSTS AND EXPENSES	94,438
	-----
NET ORDINARY INCOME (LOSS) BEFORE INCOME TAX PROVISION	(94,438)
PROVISION FOR INCOME TAXES	800
	-----
INCOME TAX PROVISION	800
	-----
NET INCOME (LOSS)	\$ (95,238)
	=====
EARNINGS (LOSSES) PER SHARE	\$ (0.06)
	=====

ARROWHEAD RESEARCH CORPORATION  
(A DEVELOPMENT STAGE COMPANY)  
STATEMENT OF STOCKHOLDERS' EQUITY  
FOR THE PERIOD FROM MAY 7, 2003 (INCEPTION) THROUGH SEPTEMBER 30, 2003

	Common ----- Shares -----	Stock ----- Amount -----	Additional Paid-in Capital -----	Accumulated Deficit During the Development Stage -----	Totals -----
Common stock issued for cash at \$0.001 per share	3,000,000	\$ 3,000	\$ -	\$ -	\$ 3,000
Common stock issued for cash at \$1 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 income (loss)	-	-	-	(95,238)	(95,238)
	-----	-----	-----	-----	-----
BALANCES AS OF SEPTEMBER 30, 2003	4,680,000	\$ 4,680	\$ 1,510,320	\$ (95,238)	\$1,419,762
	=====	=====	=====	=====	=====

ARROWHEAD RESEARCH CORPORATION  
(A DEVELOPMENT STAGE COMPANY)  
STATEMENT OF CASH FLOWS

FOR THE PERIOD FROM MAY 7, 2003 (INCEPTION) THROUGH SEPTEMBER 30, 2003

CASH FLOWS FROM OPERATING ACTIVITIES

Net income (loss)	\$ (95,238)
Adjustments to reconcile net income (loss) to net cash used in operating activities:	
Depreciation	90
(Decrease) increase in:	
Prepaid expenses	(158,625)
Income taxes payable	800
Accounts payable and accrued expenses	95,377
	-----
Total adjustments	(62,358)
	-----
NET CASH USED BY OPERATING ACTIVITIES	(157,596)
CASH FLOW FROM INVESTING ACTIVITIES	
Purchase of property and equipment	(2,115)
	-----
NET CASH USED IN INVESTING ACTIVITIES	(2,115)
NET CASH FLOWS FROM FINANCING ACTIVITIES	
Proceeds from issuance of common stock	4,680
Proceeds from additional paid-in capital, net	1,510,320
	-----
NET CASH PROVIDED BY FINANCING ACTIVITIES	1,515,000
	-----
NET INCREASE (DECREASE) IN CASH	1,355,289
CASH AT THE BEGINNING OF PERIOD	-
	-----
CASH AT THE END OF THE PERIOD	\$1,355,289
	=====

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

Cash paid during the period for	
Interest	\$ -
Income taxes	\$ -

ARROWHEAD RESEARCH CORPORATION  
(A DEVELOPMENT STAGE COMPANY)  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2003

NOTE 1: ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES  
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General

Arrowhead Research Corporation (the Company) is a development stage company that was incorporated under the laws of the State of California on May 7, 2003 for the primary purpose of seeking favorable opportunities to make investments in, or acquisition of, publicly or privately owned businesses. It is anticipated that most candidates will appear to have the potential, if adequately financed, for rapid growth in sales and profitability, or possess other attributes that management believes offer prospects for substantial returns to the Company and an increase in the value of the Company's investment. The company's principle executive offices are located in Pasadena, California.

As part of its effort to identify emerging technologies and markets, the Company has had extensive discussions with various representatives of the California Institute of Technology and members of its faculty. Management has selected nano-technology as the Company's initial area of focus. Nano-technology is the science of building machines and materials at the molecular level. Prospective applications will impact fields that include information technology, medicine, manufacturing, advanced materials and environmental control. Should one or more of the projects financed by the Company result in the discovery of technology having commercial applications, it is anticipated that the Company will either establish a majority-owned subsidiary to pursue the commercial opportunity or license the technology to one or more third parties on a royalty-bearing basis.

Arrowhead Research Corporation is in the development stage as its operations principally involve research and development, and other business planning activities. The company has no revenue from product sales.

Summary of Significant Accounting Policies

The presentation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

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.

Basic earnings (losses) per share is computed using the weighted-average number of common shares outstanding during the period. Diluted earnings (losses) 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 year ended September 30, 2003, their effect is anti-dilutive.

ARROWHEAD RESEARCH CORPORATION  
(A DEVELOPMENT STAGE COMPANY)  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2003

NOTE 1: ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES  
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(CONTINUED)

On July 10, 2003, the Company had a Private Placement offering for 3,000,000 units at \$1.00 per unit, with each unit consisting of one share of the Company's common stock and one warrant exercisable to purchase an additional share of the common stock. The securities were offered pursuant to an exemption provided by Regulation 504 of the Securities Exchange Act of 1933. As of September 30, 2003, the Company incurred certain issuance costs of \$168,000, with the sale of the stock, such as legal fees and finder fees. The Company did not use an underwriter, so there were no discounts or commissions paid. These issuance costs, associated with the sale of common stock to the public, were charged to additional paid-in capital.

The Company has a stock option plan (the "Plan") which provides for the granting of non-qualified stock options or incentive stock options. Under the Plan, 1,200,000 shares of the Company'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 the Company.

In connection with its initial private placement of common stock, the Company issued 3,000,000 common stock purchase warrants. Each warrant entitled the holder to purchase one share of common stock at a price of \$1.50 any time following issuance and prior to June 30, 2013, on which date all unexercised warrants will expire. The warrants are redeemable by the Company 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 the Company's common stock, for 20 consecutive trading days ending not more than 15 days prior to the date of the redemption notice, equal or exceeds \$3.00 per share. Holders will be required to exercise their warrants within 30 days or accept the \$0.001 per warrant redemption price.

The Company maintains one bank account at a financial institution. This account is insured by the Federal Deposit Insurance Corporation (FDIC), up to \$100,000. At September 30, 2003 the Company had deposits with this financial institution with uninsured cash balances totaling \$1,255,289. The Company has not experienced any losses in such accounts and management believes it places its cash on deposit with financial institutions which are financially stable.

Research and development costs are expensed as incurred and consist primarily of product development and application research. Financial accounting standards require the capitalization of certain software costs after technological feasibility is established. These costs are not applicable to the Company.

Rent expense was \$2,732 for the year ended September 30, 2003.

Prepaid expenses consist of \$158,625 incurred under contract agreement with Caltech. See Note 5.

ARROWHEAD RESEARCH CORPORATION  
(A DEVELOPMENT STAGE COMPANY)  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2003

NOTE 2: OFFICE EQUIPMENT, NET  
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The office equipment is recorded at cost.

		Depreciable Life Years -----
Office equipment	\$2,115	7
	-----	
	2,115	
Less accumulated depreciation	(90)	
	-----	
Net furniture and equipment	\$2,025	
	=====	

Depreciation expense for the year ended September 30, 2003 was \$90.

NOTE 3: INCOME TAXES  
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The income tax provision consists of the California Franchise Tax Board minimum of \$800, no provision for federal income taxes have been provided as the Company incurred a loss for the year ended September 30, 2003. The Company has elected to carry forward the loss to offset future taxable income. The loss for the year ended September 30, 2003 can be carried forward until it expires at September 30, 2023. Thus, the Company has certain deferred tax assets related to the net operating loss carryforward. There is no assurance that future taxable income will be sufficient to realize the net asset or utilize the tax carryforward. The Company has determined that it is more likely than not that the deferred tax asset may not be realizable. Therefore, a 100% valuation allowance has been recorded.

NOTE 4: COMMITMENTS AND CONTINGENCIES  
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On September 24, 2003, the Company entered into a contract agreement to use California Institute of Technology, of Pasadena (Caltech) as an independent third party to research, develop, and manufacture its nano-scale products. The research shall be conducted during the period of October 1, 2003 to September 30, 2008. The Company will reimburse Caltech for all direct and indirect costs incurred in the performance of the research which shall not exceed \$162,000 per year of the total estimated project cost of \$810,000. If the Agreement is extended, the dollar value of costs that will be reimbursed may be increased by mutual agreement to cover additional work performed during the extension.

As of September 30, 2003, the Company had advanced Caltech \$158,625 for research costs. Since no work has been performed as of that date, the balance is being carried as a prepaid expense on the balance sheet.

ARROWHEAD RESEARCH CORPORATION  
(A DEVELOPMENT STAGE COMPANY)  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2003

NOTE 5: SUBSEQUENT EVENTS  
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On December 1, 2003, the Company initiated a private placement of 3,000,000 units at \$1.50 per unit, with each unit consisting of one share of the Company's common stock and one warrant exercisable to purchase an additional share of the common stock at any time prior to June 30, 2013.

On December 11, 2003, the Company announced the execution of the Exchange Agreement with InterActive Group, Inc., a Delaware corporation whose common stock is traded in the over-the-counter market. At the closing of the transactions contemplated by the Exchange Agreement, which is expected to occur on or before January 12, 2004, the Company's current shareholders would acquire approximately 88.9% of the then outstanding common stock of InterActive, whose name would be changed to "Arrowhead Research Corporation". In that event, prospective investors in the offering made by the Company's confidential private placement dated December 1, 2003 would acquire shares and warrants in a publicly-owned entity. The Company is subject to the reporting requirements of the Securities Exchange Act and, as of the date hereof, has filed all reports and other information required to be filed with the Securities and Exchange Commission (SEC) pursuant to the rules and regulations of the SEC under the Securities Exchange Act.

In connection with its initial private placement of common stock, in October, 2003 the Company accepted 80,255 shares of Acacia Research, valued at \$500,000, and \$475,000 in cash from its shareholders in exchange for 975,000 shares of the Company's common stock. There were also \$96,000 of finder's fees for these securities.

In connection with the nano-technology research and development, on November 12, 2003, the company has entered into a second contract agreement with Caltech. The research shall be conducted during the period of January 1, 2004 to December 31, 2008. The Company will reimburse Caltech for all direct and indirect costs incurred in the performance of the research, which shall not exceed \$162,000 per year of the total estimated project cost of \$810,351.

NOTE 6: RECENTLY ISSUED ACCOUNTING STANDARDS  
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In January 2003, the FASB issued Interpretation 46, Consolidation of Variable Interest Entities. In general, a variable interest entity is a corporation, partnership, trust, or any legal structure used for business purposes that either (a) does not have interest entity investors with voting rights or (b) has equity investors that do not provide sufficient financial resources for the entity to support its activities. Interpretation 46 requires a variable interest entity to be consolidated by a company if that company is subject to a majority of the risk of loss from the variable interest entity's activities or entitled to receive a majority of the entity's residual returns or both. The consolidation requirements of Interpretation 46 apply immediately to variable interest entities created after January 31, 2003. The consolidation requirements apply to transactions entered into prior to February 1, 2003 in the first fiscal year or interim period beginning after June 15, 2003. Certain of the disclosure requirements apply in all financial statements issued after January 31, 2003, regardless of



ARROWHEAD RESEARCH CORPORATION  
(A DEVELOPMENT STAGE COMPANY)  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2003

NOTE 6: RECENTLY ISSUED ACCOUNTING STANDARDS  
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(CONTINUED)

when the variable interest entity was established. The adoption of the Interpretation on July 1, 2003 did not have a material impact on the Company's financial statements.

In April 2003, the FASB issued SFAS 149, Amendment of Statement 133 on Derivative Instruments and Hedging Activities, which amends and clarifies accounting for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities under SFAS 133. The Statement is effective for contracts entered into or modified after June 30, 2003. The adoption of this Statement did not have a material impact on the Company's financial statements.

In May 2003, The FASB issued SFAS 150, Accounting for Certain Financial Instruments with Characteristic of both Liabilities and Equity. The Statement establishes standards for how an issuer classifies and measure certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer clarify a financial instrument that is within its scope as a liability (or an asset in some circumstances). It is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. The adoption of this Statement did not have a material impact on the Company's financial statements.

NOTE 7: SEGMENT INFORMATION  
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Industry Segment Data

The Company is still in the development stage, and no revenues have been earned.

Geographic Area Data

No revenues have been earned.



THIS STOCK PURCHASE AND EXCHANGE AGREEMENT (this "Agreement") is made and entered into as of the 10th day of December, 2003, by and between INTERACTIVE GROUP, INC., a Delaware corporation (the "Company"), and the individuals whose names appear on the signature page hereof (the "Purchasers").

A. The Company is a Delaware corporation whose common stock, \$0.001 par value (the "Common Stock"), is registered under the Securities Act of 1934, as amended (the "Exchange Act"), traded in the over-the-counter market and quoted on the NASD Electronic Bulletin Board under the symbol "IACG". The Company is subject to the reporting requirements of the Exchange Act and, as of the date hereof, has filed all reports and other information required to be filed with the Securities and Exchange Commission (the "SEC") pursuant to the rules and regulations of the SEC under the Exchange Act. As of the date hereof, 5,276,039 shares of Common Stock, and 2,000,000 shares of the Company's Series B Preferred Stock that are convertible into 20,000,000 shares of Common Stock, are issued and outstanding and held, of record, by approximately 433 stockholders. In addition, options, warrants and other securities exercisable, exchangeable or convertible into an aggregate of 3,437,500 shares of Common Stock are outstanding as of the date hereof.

B. Arrowhead Research Corporation ("Arrowhead") is a California corporation that was incorporated under the laws of the State of California on May 7, 2003, issuing to the founders thereof 3,000,000 shares of its common stock, \$0.001 par value per share ("Arrowhead Stock"), and warrants to purchase an additional 3,000,000 shares of Arrowhead Stock at the price of \$1.50 per share ("Arrowhead Warrants"). In October 2003, Arrowhead Research completed a private placement in which it issued and sold Units, for an aggregate purchase price of \$2,645,000, with each Unit each consisting of one share of Arrowhead Stock and a warrant to purchase an additional share of Arrowhead Stock for the price of \$1.50. As of the date hereof, a total of 5,655,000 shares of Arrowhead Stock, and Arrowhead Warrants to purchase a total of 5,645,000 shares of Arrowhead Stock, at \$1.50 per share, are currently outstanding. The Arrowhead Stock and the Arrowhead Warrants are owned, beneficially and of record, by the individuals whose names appear on the signature page hereof, with the shares of Arrowhead Stock and Warrants owned by each set forth opposite their respective names on the signature page hereof.

C. The Company desires to issue and sell to the Purchasers, and each of them desires to purchase and acquire from the Company, (i) shares of the Company's authorized and unissued Common Stock, and (ii) warrants to purchase additional shares of the Company's Common Stock, in consideration of the exchange therefor of all of the Arrowhead Stock and Arrowhead Warrants issued and outstanding as of the Closing contemplated hereby, on the terms and subject to the conditions set forth herein. The parties hereto intend that such exchange of securities shall qualify as a "tax-deferred" reorganization as contemplated by the provisions of Section 368(a)(1)(B) of the Internal Revenue Code of 1954, as amended.

D. On December 4, 2003, the parties hereto entered into a letter of intent pertaining to the transactions contemplated hereby (the "Letter of Intent". This Agreement is being executed and delivered by the parties as contemplated in paragraph 17 of the Letter of Intent.

NOW, THEREFORE, in consideration of the foregoing premises and the mutual covenants, agreements, representations and warranties contained herein, the parties hereto agree as follows:

1. Purchase and Exchange. At the Closing to be held in accordance with

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the provisions of Section 2 below, the Company agrees to sell, and each of the Purchasers agrees, severally and not jointly, to purchase from the Company (a) that number of authorized and newly issued shares of the Company's Common Stock set forth opposite the name of each such Purchaser on the signature page hereof, and (b) a warrant to purchase, at the price of \$1.50 per share, that number of additional authorized and but unissued shares of the Company's Common Stock set forth opposite the name of each such Purchaser on the signature page hereof. In consideration for the issuance and sale of the Company's Common Stock and the warrants to purchase, at the price of \$1.50 per share, additional shares of the Company's Common Stock (individually a "Warrant", and collectively, the "Warrants") to the Purchasers, and as payment in full of the purchase price for the Company's Common Stock and Warrants to be issued and sold to, and purchased by, each of them pursuant to the provisions of this Agreement, at the Closing each Purchaser shall deliver to the Company the certificates evidencing the respective number of shares of Arrowhead Stock and the Arrowhead Warrants owned by each which is set forth opposite the name of such Purchaser on the signature page hereof. As a consequence, an aggregate of 5,655,000 shares of the Company's Common Stock, and warrants to purchase an aggregate of 5,645,000 shares of Common Stock, will be issued to the Purchasers as a group.

2. Closing. The consummation of the sale to and purchase by the

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Purchasers of the Company's Common Stock and Warrants contemplated hereby (the "Closing") shall occur at the offices of Arrowhead, 150 S. Los Robles, Suite 480, Pasadena, California 91101, at 10:00 a.m., California time, on January 12, 2004, or at such other place and/or on such other date as the parties may agree

upon in writing (the "Closing Date"). If the Closing fails to occur by January 12, 2004, or by such later date to which the Closing may be extended as provided hereinabove, this Agreement shall automatically terminate, all parties shall pay their own expenses incurred in connection herewith, and no party hereto shall have any further obligations hereunder; provided, however, that no such termination shall constitute a waiver by any party or parties which is not in default of any of its or their respective representations, warranties or covenants herein, of any rights or remedies it or they might have at law if any other party or parties is in default of any of its or their respective representations, warranties or covenants under this Agreement.

At the Closing, and as conditions thereto,

(a) The Company shall deliver, or cause to be delivered, to the Purchasers:

(i) Certificates for the shares of the Company's Common Stock and Warrants being purchased for their respective accounts;

(ii) The certificate of the Company specified in Section 6.3(a) below and the certified resolutions of the Company's Board of Directors specified in Section 6.3(b);

(iii) The certificate of the Company's officers and directors of the Company' specified in Section 6.3(c) below;

(iv) The Registration Rights Agreement between the Company and each of the Purchasers specified in Section 6.3(f) below;

(v) The Standstill and Registration Rights Agreement specified in Section 6.3(g) below;

(vi) The releases and other agreements specified in Section 6.3(h) below, if any; and

(vii) Resignations of the Company's officers and directors specified in Section 6.3(i) below.

(b) The Purchasers shall deliver to the Company:

(i) A stock certificate or certificates evidencing the ownership of each Purchaser of all shares of Arrowhead Stock owned by such Purchaser, duly endorsed for transfer to the Company;

(ii) A certificate or certificates evidencing the ownership of each Purchaser of all Arrowhead Warrants owned by such Purchaser, duly endorsed for transfer to the Company;

(iii) The certificate of Arrowhead specified in Section 6.4(b) below;

(iv) The Registration Rights Agreement between the Company and each of the Purchasers specified in Section 6.3(f) below.

3. Representations and Warranties of the Company. The Company hereby

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represents and warrants to the Purchasers, and each of them, as follows (it being acknowledged that the Purchasers are entering into this Agreement in material reliance upon each of the following representations and warranties, and that the truth and accuracy of each of which constitutes a condition precedent to the obligations of the Purchasers hereunder):

(a) The Company is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware, and is duly qualified and in good standing to do business as a foreign corporation in each jurisdiction in which such qualification is required and where the failure to be so qualified would have a materially adverse effect upon the Company. The Company has all requisite corporate power and authority to conduct its business as now being conducted and to own and lease the properties which it now owns and leases. The Certificate of Incorporation as amended to date, certified by the Secretary of State of Delaware, and the Bylaws of the Company as amended to date, certified by the President and the Secretary of the Company, which have been delivered to the Purchasers prior to the execution hereof are true and complete copies thereof as in effect as of the date hereof.

(b) The Company has full power, legal capacity and authority to enter into this Agreement, to execute all attendant documents and instruments necessary to consummate the transactions herein contemplated, and, as of the date of the Closing, will have full power, legal capacity and authorization to issue and sell the Common Stock and Warrants to the Purchasers and to perform all of its obligations hereunder. This Agreement and all other agreements, documents and instruments to be executed in connection herewith have been effectively authorized by all necessary action, corporate or otherwise, on the part of the Company, which authorizations remain in full force and effect, have been duly executed and delivered by the Company, and no other corporate proceedings on the part of the Company are required to authorize this Agreement and the transactions contemplated hereby, except as provided in Section 7.3 below. This Agreement constitutes the legal, valid and binding obligation of the Company and is enforceable with respect to the Company in accordance with its terms, except as enforcement hereof may be limited by bankruptcy, insolvency, reorganization, priority or other laws or court decisions relating to or affecting generally the enforcements of creditors' rights or affecting generally the availability of equitable remedies. Neither the execution and delivery of this Agreement, nor the consummation by the Company of any of the transactions contemplated hereby, or compliance with any of the provisions hereof, will (i) conflict with or result in a breach of, violation of, or default under, any of the terms, conditions or provisions of any note, bond, mortgage, indenture, license, lease, credit agreement or other agreement, document, instrument or obligation (including, without limitation, any of its charter documents) to which the Company is a party or by which the Company or any of its assets or properties may be bound, or (ii) violate any judgment, order, injunction, decree, statute, rule or regulation applicable to the Company or any of the assets or properties of the Company. No authorization, consent or approval of any public body or authority is necessary for the consummation by the Company of the transactions contemplated by this Agreement.

(c) The authorized capital stock of the Company consists of 10,000,000 shares of Common Stock, \$.001 par value (defined above as the "Company's Common Stock"), and 5,000,000 shares of Preferred Stock, \$.001 par value. As of the date hereof, 5,276,039 shares of Common Stock, and 2,000,000 shares of the Company's Series A Preferred Stock that is convertible into 20,000,000 shares of Common Stock, are issued and outstanding and held, of record, by approximately 433 stockholders. In addition, options, warrants and other securities exercisable, exchangeable or convertible into an aggregate of 3,437,500 shares of Common Stock are outstanding as of the date hereof. All of the outstanding shares of the Company's Common Stock have been, and all of the Company's Common Stock to be issued and sold to the Purchasers pursuant to this Agreement, including without limitation all of the shares of Common Stock issuable upon exercise of the Warrants to be issued and sold to the Purchasers pursuant to this Agreement, when issued and delivered and paid for, will be, duly authorized, validly issued, fully paid and nonassessable. Except as set forth above in this Section 3(c), there are no warrants, options, calls, commitments or other rights to subscribe for or to purchase from the Company any capital stock of the Company or any securities convertible into or exchangeable for any shares of capital stock of the Company, or any other securities or agreement pursuant to which the Company is or may become obligated to issue any shares of its capital stock, nor is there outstanding any commitment, obligation or agreement on the part of the Company to repurchase, redeem or otherwise acquire any outstanding shares of the

Company's Common Stock. There currently are no rights, agreements or commitments of any character obligating the Company, contingently or otherwise, to register any shares of its capital stock under any applicable federal or state securities laws.

(d) The Company's Common Stock is registered under the Securities Act of 1934, as amended (the "Exchange Act"), traded in the over-the-counter market and quoted on the NASD Electronic Bulletin Board under the symbol "IACG". The Company is subject to the reporting requirements of the Exchange Act and, as of the date hereof, has filed all reports and other information required to be filed with the Securities and Exchange Commission (the "SEC") pursuant to the rules and regulations of the SEC under the Exchange Act (the "SEC Filings"). Copies of all of the SEC Filings have been provided by the Company to representatives of the Purchasers.

(e) Attached hereto as Exhibit 1 is a true and complete copy of the unaudited balance sheet of the Company as of September 30, 2003 (the "Company's Balance Sheet"). The Company Balance Sheet (i) has been derived from the books and records of the Company, which books and records have been consistently maintained in a manner which reflects, and such books and records do fairly and accurately reflect, the assets and liabilities of the Company, (ii) fairly and accurately presents the financial condition of the Company as of September 30, 2003 (except as may be disclosed in the notes thereto), and (iii) has been prepared in all material respects in accordance with generally accepted accounting principles (except as may be disclosed in the notes thereto).

(f) Except as and to the extent disclosed in the Company's Balance Sheet, the Company has no liability(s) or obligation(s) (whether accrued, to become due, contingent or otherwise) which individually or in the aggregate could have a materially adverse effect on the business, assets, properties, condition (financial or otherwise) or prospects of the Company. The Company has no subsidiaries and no investments, directly or indirectly, or other financial interest in any other corporation or business organization, joint venture or partnership of any kind whatsoever except as disclosed in the SEC Filings. Since the date of the Company's Balance Sheet, there has been no materially adverse change in the condition (financial or otherwise) of the Company or in its assets, liabilities, properties, business, operations or prospects.

(g) There are no actions, suits or proceedings pending or, to the best of the Company's knowledge, threatened against or affecting the Company (including actions, suits or proceedings where liabilities may be adequately covered by insurance) at law or in equity or before or by any federal, state, municipal or other governmental department, commission, court, board, bureau, agency or instrumentality, domestic or foreign, or affecting any of the officers or directors of the Company in connection with the business, operations or affairs of the Company, which might result in any adverse change in the business, properties or assets, or in the condition (financial or otherwise) of the Company, or which might prevent the consummation of the transactions contemplated by this Agreement. The Company is not subject to any voluntary or involuntary proceeding under the United States Bankruptcy Code and has not made an assignment for the benefit of creditors.

(h) The Company has no obligation to any person or entity for brokerage commissions, finder's fees or similar compensation in connection with the transactions contemplated by this Agreement.

(i) The Company, through its current officers and directors, has the knowledge and experience in business and financial matters to meaningfully evaluate the merits and risks of the consummation of the transactions contemplated hereby, and has been afforded an opportunity to meet with the officers and directors of Arrowhead and to ask and receive answers to questions about the business and affairs of Arrowhead, and has therefore obtained, in the judgment of the officer and directors of the Company, sufficient information to evaluate the merits and risks of the consummation of the transactions contemplated hereby.

(j) The Company understands and acknowledges that the Arrowhead Stock and Arrowhead Warrants were originally issued to the Purchasers, and will be sold and transferred to the Company, without registration or qualification under the Securities Act of 1933, as amended, or any applicable state securities or "Blue Sky" law, in reliance upon specific exemptions therefrom, and in furtherance thereof the Company represents that the Arrowhead Stock and Arrowhead Warrants will be taken and received by the Company for its own account for investment, with no present intention of a distribution or disposition thereof to others. The Company further acknowledges and agrees that the certificate(s) representing the Arrowhead Stock and the Arrowhead Warrants transferred to the Company shall bear a restrictive legend, in substantially the following form:

"THE SECURITIES REPRESENTED BY THIS CERTIFICATE WERE ISSUED WITHOUT REGISTRATION UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "ACT"), ARE "RESTRICTED SECURITIES," AND MAY NOT BE SOLD, TRANSFERRED OR ASSIGNED EXCEPT PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE ACT OR IN A TRANSACTION WHICH, IN THE OPINION OF COUNSEL SATISFACTORY TO THE COMPANY, IS NOT REQUIRED TO BE REGISTERED UNDER THE ACT."

(k) Neither this Agreement, nor any certificate, exhibit, or other written document or statement, furnished to the Purchasers by the Company in connection with the transactions contemplated by this Agreement, including without limitation the SEC Filings, contains or will contain any untrue statement of a material fact or omits or will omit to state a material fact necessary to be stated in order to make the statements contained herein or therein not misleading.

4. Representations and Warranties of the Purchasers. Each of the  
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Purchasers, severally and not jointly, hereby represents and warrants to the Company as follows (it being acknowledged that the Company is entering into this Agreement in material reliance upon each of the following representations and warranties, that the truth and accuracy of each of which constitutes a condition precedent to the obligations of the Company hereunder):



(a) Each of the Purchasers has full power, legal capacity and authority to enter into this Agreement, to execute all attendant documents and instruments necessary to consummate the transactions herein contemplated, and to perform all of obligations to be performed by him hereunder. This Agreement and all other agreements, documents and instruments to be executed by the Purchasers in connection herewith have been duly executed and delivered and constitutes the legal, valid and binding obligation of the Purchasers executing and delivering the same, and is enforceable with respect to such Purchasers in accordance with its terms, except as enforcement hereof may be limited by bankruptcy, insolvency, reorganization, priority or other laws or court decisions relating to or affecting generally the enforcements of creditors' rights or affecting generally the availability of equitable remedies. No authorization, consent or approval of any public body or authority is necessary for the consummation by the Purchasers of the transactions contemplated hereby.

(b) The Purchasers together collectively own an aggregate of 5,655,000 shares of Arrowhead Stock, and 5,645,000 Arrowhead Warrants each of which is exercisable to purchase, at the price of \$1.50 per share, one additional share of Arrowhead Stock. The Arrowhead Stock and Arrowhead Warrants together constitute all of the issued and outstanding shares of capital stock of Arrowhead, free and clear of (i) any lien, charge, mortgage, pledge, conditional sale agreement, or other encumbrance of any kind or nature whatsoever, and (ii) any claim as to ownership thereof or any rights, powers or interest therein by any third party, whether legal or beneficial, and whether based on contract, proxy or other document or otherwise. All of the outstanding Arrowhead Stock and Arrowhead Warrants have been duly authorized and validly issued and are fully paid and nonassessable. Arrowhead is not currently authorized to issue any shares of preferred stock. Except as set forth above in this Section 4(b), there are no warrants, options, calls, commitments or other rights to subscribe for or to purchase from Arrowhead any capital stock of Arrowhead or any securities convertible into or exchangeable for any shares of capital stock of Arrowhead, or any other securities or agreement pursuant to which Arrowhead is or may become obligated to issue any shares of its capital stock, nor is there outstanding any commitment, obligation or agreement on the part of Arrowhead to repurchase, redeem or otherwise acquire any outstanding Arrowhead Stock or Arrowhead Warrants.

(c) Arrowhead is a corporation duly organized, validly existing and in good standing under the laws of the State of California, and is duly qualified and in good standing to do business as a foreign corporation in each jurisdiction in which such qualification is required and where the failure to be so qualified would have a materially adverse effect upon Arrowhead. Arrowhead has all requisite corporate power and authority to conduct its business as now being conducted and to own and lease the properties which it now owns and leases. The Articles of Incorporation of Arrowhead as amended to date, certified by the Secretary of State of California, and the Bylaws of Arrowhead as amended to date, certified by the President and the Secretary of Arrowhead, which have been delivered to the Company prior to the execution hereof are true and complete copies thereof as in effect as of the date hereof.

(d) Attached hereto as Exhibit 2 is a true and complete copy of the unaudited balance sheet of Arrowhead as of September 30, 2003 (the "Arrowhead Balance Sheet"). The Arrowhead Balance Sheet (i) has been derived from the books and records of Arrowhead, which

books and records have been consistently maintained in a manner which reflects, and such books and records do fairly and accurately reflect, the assets and liabilities of Arrowhead, (ii) fairly and accurately presents the financial condition of Arrowhead as of September 30, 2003 (except as may be disclosed in the notes thereto), and (iii) has been prepared in all material respects in accordance with generally accepted accounting principles (except as may be disclosed in the notes thereto).

(e) Except as and to the extent reflected or reserved against in the Arrowhead Balance Sheet, Arrowhead has no liability(s) or obligation(s) (whether accrued, to become due, contingent or otherwise) which individually or in the aggregate could have a materially adverse effect on the business, assets, properties, condition (financial or otherwise) or prospects of Arrowhead. Arrowhead has no subsidiaries and no investments, directly or indirectly, or other financial interest in any other corporation or business organization, joint venture or partnership of any kind whatsoever except as reflected in the Arrowhead Balance Sheet. Since the date of the Arrowhead Balance Sheet, there has been no materially adverse change in the condition (financial or otherwise) of Arrowhead or in its assets, liabilities, properties, business, operations or prospects.

(f) There are no actions, suits or proceedings pending or, to the best of the Purchasers' knowledge, threatened against or affecting any of the Purchasers or Arrowhead (including actions, suits or proceedings where liabilities may be adequately covered by insurance) at law or in equity or before any federal, state, municipal or other governmental department, commission, court, board, bureau, agency or instrumentality, domestic or foreign, or affecting any of the officers or directors of Arrowhead in connection with the business, operations or affairs of Arrowhead which might result in any material adverse change in the business, properties or assets, or in the condition (financial or otherwise) of Arrowhead, or which might prevent the consummation of the transactions contemplated by this Agreement or the performance by the Purchasers of any of the obligations to be performed by the Purchasers under this Agreement. Neither Arrowhead nor any of the Purchasers is subject to any voluntary or involuntary proceeding under the United States Bankruptcy Code, nor have any of them made an assignment for the benefit of creditors.

(g) Each Purchaser has the knowledge and experience in business and financial matters to meaningfully evaluate the merits and risks of the consummation of the transactions contemplated hereby. Each Purchaser acknowledges that the shares of the Company's Common Stock to be issued to him in the transactions contemplated hereby will be issued by the Company without registration or qualification or other filings being made under the Federal Securities Act of 1933, as amended, or the securities or "Blue Sky" laws of any state, in reliance upon specific exemptions therefrom, and in furtherance thereof each Purchaser represents that the shares of the Company's Common Stock to be received by him will be taken for his own account for investment, with no present intention of a distribution or disposition thereof to others. Each Purchaser agrees that the certificate(s) representing the shares of the Company's Common Stock issued to him shall be subject to a stop-transfer order and shall bear a restrictive legend, in substantially the following form:

"THE SECURITIES REPRESENTED BY THIS CERTIFICATE WERE ISSUED WITHOUT REGISTRATION UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "ACT"), ARE "RESTRICTED SECURITIES," AND MAY NOT BE SOLD, TRANSFERRED OR ASSIGNED EXCEPT PURSUANT TO AN

EFFECTIVE REGISTRATION STATEMENT UNDER THE ACT OR IN A TRANSACTION WHICH, IN THE OPINION OF COUNSEL SATISFACTORY TO THE COMPANY, IS NOT REQUIRED TO BE REGISTERED UNDER THE ACT."

(i) The Purchasers have no obligation to any person or entity for brokerage commissions, finder's fees or similar compensation in connection with the transactions contemplated by this Agreement.

(j) Neither this Agreement, nor any certificate, exhibit, or other written document or statement, furnished to the Company by the Purchasers or Arrowhead in connection with the transactions contemplated by this Agreement contains or will contain any untrue statement of a material fact or omits or will omit to state a material fact necessary to be stated in order to make the statements contained herein or therein not misleading.

5. Covenants of the Parties Prior to Closing. The Company and the

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Purchasers hereby covenant to and agree with the other that between the date hereof and the Closing:

(a) Full access shall be given to the other and its or their authorized representatives, during reasonable business hours, in such a manner as not unduly to disrupt normal business activities, to any and all of the premises, properties, contracts, books, records and affairs of the Company or Arrowhead, as the case may be, and any and all data and information pertaining to its business that the other may from time to time reasonably require shall be promptly be provided to the requesting party. Unless and until the transactions contemplated by this Agreement have been consummated, each party and its or their representatives shall hold in confidence all information so obtained and if the transactions contemplated hereby are not consummated will return all documents hereinabove referred to and obtained therefrom. Such obligation of confidentiality shall not extend to any information which as shown to have been previously (i) known to the party receiving it (ii) generally known to others engaged in the trade or business of the Company or Arrowhead, as the case may be, (iii) part of public knowledge or literature, or (iv) lawfully received from a third party.

(b) All necessary actions shall be taken to cause the Company and Arrowhead, respectively, to maintain in full force and effect its corporate existence, rights, franchises and good standing, and, except as contemplated in Sections 5(c) and 5(h) below, shall not cause or permit to be made any change in the charter documents of the Company or Arrowhead, as the case may be.

(c) All necessary or desirable and appropriate actions shall be taken by the Company to effectuate a 1-for-65 "reverse" split of both the Common Stock and the Company's Series B Preferred Stock, such that the number of shares of Common Stock outstanding immediately following this reverse split would be reduced to a total of 388,862 shares of Common Stock, including 81,170 shares of Common Stock that would be owned by the holders of the currently outstanding Common Stock and 307,692 shares of Common Stock that would be owned by the holders of the currently outstanding Company's Series A Preferred Stock;

(d) All necessary or desirable and appropriate actions shall be taken by the Company to cause all but \$150,000 of the indebtedness of the Company to be compromised, cancelled, or converted into shares of the Company's Common Stock, whether such indebtedness is characterized as accounts payable, borrowings, or otherwise, such that the total amount that would be reflected as either a current or long-term liability on the balance sheet of the Company prepared immediately prior to the Closing (in accordance with generally accepted accounting principles applied on a basis that is consistent with that on which the Company's prior financial statements as filed with the SEC have been prepared) shall not exceed \$150,000. It is understood and agreed that this indebtedness shall be paid by the Company following the Closing, in accordance with the terms and conditions agreed upon in connection with obtaining the compromises and settlements specified above, using funds on hand in Arrowhead Research that become available to the Company as a consequence of the transactions contemplated hereby. It is further understood and agreed that, in connection with the compromise, cancellation and/or conversion of such indebtedness, warrants to purchase an aggregate of 658,583 shares of Common Stock, at the price of \$1.50 per share and on the same terms and conditions upon which the warrants will be exercisable that are to be granted to the Purchasers as provided in Section 1 above, will be granted to the former holders of such indebtedness.

(e) The Company shall acquire from San Diego Magnetics, Inc., a California corporation ("SDM"), the following intellectual property:

(i) All intellectual property owned by SDM, including without limitation that pertaining to the areas of thin film, specialty micro and nano devices and detectors, that SDM currently retains following the sale to Cummins-Allison Corp. in September 2003 of certain intellectual property relating to currency-handling products, it being understood and agreed that patent protection has not yet been sought for such intellectual property (the "SDM Intellectual Property"); and

(ii) All of SDM's rights to use, for research, development and commercial purposes, a portfolio of patents owned by Kodak (the "Kodak Patents") that had been developed by Kodak, through its Kodak San Diego Laboratories, a predecessor of SDM, and otherwise, subject to the consent of Kodak. With respect to the Kodak Patents, it is understood and agreed that a portion thereof may be transferred to a third party prior or subsequent to the Closing, with any profits that might subsequently accrue to the Company in connection therewith to be distributed to SDM. It is also understood and agreed that, if it becomes necessary in order for the Company to acquire SDM's rights in and under the Kodak Patents without the consent of Kodak, the Company shall obtain the right and option, but not the obligation, to acquire all of the capital stock of SDM, without further compensation, except that all of the right to the proceeds from the disposition of the Kodak Patents and the other assets, rights and properties of SDM would be distributed to the shareholders of SDM prior to any acquisition.

(f) Any and all Series A Preferred Stock, Series B Preferred Stock, options, warrants, rights and other securities that are exercisable, exchangeable or convertible into shares of Common Stock shall be exercised, compromised, cancelled, or otherwise settled.

(g) In connection with the transactions contemplated in Sections 5(c) through (f) above, not more than an aggregate of 316,773 shares of the Company's Common Stock shall be issued by the Company, such that, immediately prior to the Closing, a maximum of 705,635 shares of the Company's Common Stock, plus the warrants to purchase an additional 658,583 shares of Common Stock specified in Section 5(c) above, shall be outstanding, with no shares of the Series A Preferred Stock, Series B Preferred Stock, or any other class or series of capital stock outstanding, and there shall be outstanding no options, warrants, rights or other securities outstanding which are convertible into, or may be exercised or exchanged for, any shares of capital stock of the Company.

(h) All necessary or desirable and appropriate actions shall be taken by the Company to amend the Certificate of Incorporation of the Company to change the Company's corporate name to "Arrowhead Research Corporation", effective as of the Closing.

6. Conditions to the Obligations of the Parties. The respective

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obligations of the parties hereto to consummate the transactions contemplated hereby shall be subject to the fulfillment, at or prior to the Closing, of the following conditions:

(a) There shall have been obtained any and all permits, approvals and qualifications of, and there shall have been made or completed all filings, proceedings and waiting periods, required by any governmental body, agency or regulatory authority which, in the reasonable opinion of counsel to the Purchasers and to the Company, are required for the consummation of the transactions contemplated hereby.

(b) No claim, action, suit, investigation or other proceeding shall be pending or threatened before any court or governmental agency which presents a substantial risk of the restraint or prohibition of the transactions contemplated by this Agreement or the obtaining of material damages or other relief in connection therewith.

(c) The obligation of the Purchasers hereunder to consummate the transactions contemplated by this Agreement are expressly subject to the satisfaction of each of the further conditions set forth below, any or all of which may be waived by the Purchasers in whole or in part without prior notice; provided, however, that no such waiver of a condition shall constitute a waiver

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by the Purchasers of any other condition or of any of their rights or remedies, at law or in equity, if the Company shall be in default or breach of any of its representations, warranties or covenants under this Agreement:

(i) The Purchasers shall have received copies of resolutions (certified as of the date of the Closing as being in full force and effect by an appropriate officer of the Company) duly adopted by the Board of Directors of the Company adopting and approving this Agreement and the other documents, agreements and instruments to be entered into by the Company as provided herein, which shall be in form and substance reasonably satisfactory to the Purchasers.

(ii) The Company shall have performed the agreements and covenants required to be performed by it under this Agreement prior to the Closing, and shall have provided the Purchasers with evidence reasonably satisfactory to Purchasers to such effect; there shall have been no material adverse change in the condition (financial or otherwise), assets, liabilities, earnings or business of the Company since the date hereof, and the representations and warranties of the Company contained herein shall, except as contemplated or permitted by this Agreement or as qualified in a writing dated as of the date of the Closing delivered by the Company to the Purchasers with the approval of all of the Purchasers indicated thereon (which writing is to be attached hereto as Exhibit 3), be true in all material respects on and as of the date of Closing as if made on and as of such date; the Company shall have no obligation to any person or entity for brokerage commissions, finders' fees or similar compensation in connection with the transactions contemplated by this Agreement; and the Purchasers shall have received certificates, dated as of the date of Closing, signed by the chief executive officer and the chief financial officer of the Company, reasonably satisfactory to the Purchasers, to such effect.

(iii) Without limiting the generality of Section 6(c)(ii) immediately above, it is understood and agreed that the Purchasers shall have the right, but not the obligation, to cause the books and records of the Company to be reviewed by an independent certified public accountant to be selected by representatives of the Purchasers, in order to verify that all financial conditions to obligations of Purchasers specified herein have been satisfied, and the Purchasers shall have received the report of such accountant, if so selected, which report shall be reasonably satisfactory to the Purchasers. In the event that an accountant is so selected by the Purchasers, the Company shall provide full access to the Company's books and records to such accountant as provided in Section 5(a) above, and the Purchasers alone shall be solely responsible for the payment of all costs and expenses incurred by such accountant in reviewing the books and records of the Company and preparing a report thereon.

(iv) The Company shall have executed and delivered to the Purchasers the Registration Rights Agreement in the form set forth as Exhibit 4 attached hereto, dated as of the Closing (it being understood and agreed that each recipient of shares of the Company's Common Stock and/or Warrants in connection with the transactions specified in Sections 5(c) through (f) above shall also be entitled to become a party to the Registration Rights Agreement);

(v) Each of the persons specified therein shall have entered into the Standstill and Registration Rights Agreement with the Company in the form attached hereto as Exhibit 5;

(vi) The Company shall have obtained written releases, in form and substance reasonably satisfactory to the Purchasers from each person who may be entitled, if any, to receive a finder's fee or other commission from the Company as a consequence of the transactions contemplated hereby.

(vii) All of the directors of the Company shall have resigned all from the Board of Directors of the Company, effective as of the Closing, after electing new directors to fill the vacancies so created with designees of Arrowhead Research, and all of the officers of the Company shall have resigned all of their respective offices of the Company, effective as of the Closing, it being understood and agreed that the Board of Directors newly elected as provided in this paragraph shall elect new officers of the Company immediately following the Closing.

(d) The obligation of the Company to consummate the transactions contemplated by this Agreement is expressly subject to the further conditions set forth below, any or all of which may be waived by the Company in whole or in part without prior notice; provided, however, that no such waiver of a condition

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shall constitute a waiver by the Company of any other condition or of any of their rights or remedies, at law or in equity, if the Purchasers shall be in default or breach of any of their representations, warranties or covenants under this Agreement:

(i) The Purchasers shall have performed the agreements and covenants required to be performed by them under this Agreement prior to the Closing, there shall have been no material adverse change in the condition (financial or otherwise), assets, liabilities, earnings or business of Arrowhead since the date hereof, and the representations and warranties of the Purchasers contained herein shall, except as contemplated or permitted by this Agreement or as qualified in a writing dated as of the date of the Closing delivered by the Purchasers to the Company with the approval of the Company indicated thereon (which writing is to be attached hereto as Exhibit 6), be true in all material respects on and as of the date of Closing as if made on and as of such date, and the Company shall have received certificates, dated as of the date of Closing, signed by R. Bruce Stewart, as representative of the Purchasers, reasonably satisfactory to the Company, to such effect;

(ii) The Purchasers shall have obtained written releases, in form and substance reasonably satisfactory to the Company, from each person who may be entitled to receive a finder's fee or other commission from the Purchasers as a consequence of the transactions contemplated hereby.

(iii) Each of the Registration Rights Agreement specified in Section 6(c)(iv) above, and the Standstill and Registration Rights Agreement specified in Section 6(c)(v) above, shall have been executed and delivered by all of the respective parties thereto, effective as of the Closing.

7. Post-Closing Covenants and Agreements of the Parties.  
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(a) Except as otherwise expressly provided in Sections 7(b) below, the Company, on the one hand, and the Purchasers, on the other hand, shall each pay all of their own respective taxes, attorneys' fees and other costs and expenses payable in connection with or as a result of the transactions contemplated hereby and the performance and compliance with all agreements and conditions contained in this Agreement respectively to be performed or observed by each of them.

(b) The Company shall pay any and all taxes, if any, which become due on account of the consummation of the transactions contemplated hereby. Any and all costs and expenses to be incurred by the Company following the Closing in connection with any of the transactions contemplated hereby (e.g., filings with the Securities and Exchange Commission, and any financial statement audits required in connection therewith) shall be paid for by the Company using funds in Arrowhead that become available to the Company as a consequence of the transactions contemplated hereby.

(c) It is understood and agreed that Arrowhead Research has commenced a private placement in which it will seek to sell additional common stock and warrants as a unit, at the price of \$1.50 per unit, and that, if such private placement is successfully completed prior to Closing, the numbers of shares of the Company's Common Stock and Warrants to be issued to the Purchasers at the Closing, as provided in Section 1 above, will be increased on a one-for-one basis. In the event that such private placement is completed subsequent to the Closing, it is understood and agreed that the subscribers thereto shall be entitled to receive shares of the Company's Common Stock and Warrants, also on a one-for-one basis, and to have their Common Stock and Warrants included in the registration statement to be filed by the Company pursuant to the Registration Rights Agreement.

(d) The respective representations and warranties contained herein and in any other document or instrument delivered by or on behalf of any party hereto shall survive the Closing for a period of one full year and thereupon expire and be of no further force and effect. Nothing contained in this Section 7(d) shall in any way affect any obligations of any party under this Agreement that are to be performed, in whole or in part, at any time after the Closing, nor shall it prevent or preclude any party from pursuing any and all available remedies at law or in equity for actual fraud in the event that, prior to the Closing, any other party had actual knowledge of any material breach of any of its representations and warranties herein but failed to disclose to or actively concealed such knowledge prior to the Closing from the other party(s) to whom the representations and warranties were made.

8. Miscellaneous.

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(a) Each of the parties hereto shall execute and deliver such further documents and instruments, and take such other and further actions, as may be reasonably requested of them for the implementation and consummation of this Agreement and the transactions herein contemplated.

(b) This Agreement shall be binding upon and inure to the benefit of the parties hereto, and the heirs, personal representatives, successors and assigns of all of them, but shall not confer, expressly or by implication, any rights or remedies upon any 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. If any provision of this Agreement or the application of any such provision to any person or circumstance shall be held invalid, illegal or unenforceable in any respect by a court of competent jurisdiction, such invalidity, illegality



or unenforceability shall not affect any other provision hereof or the portion, if any, of such provision that may be unenforceable.

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 as follows:

If to the Company, to:                   InterActive Group, Inc.  
6359 Paseo del Lago  
Carlsbad, California 92009  
Attn: William J. Hanson

If to any of the Purchasers, R. Bruce Stewart  
in care of:                           150 S. Los Robles, Suite 480  
Pasadena, California 91101

Any party hereto may change its address by written notice to the other party given in accordance with this Section 8(d).

(e) This Agreement and the exhibits attached hereto contain the entire agreement between the parties and supersede all prior agreements, understandings and writings between the parties with respect to the subject matter hereof and thereof, including without limitation the Letter of Intent. 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 by an agreement in writing signed by all 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 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 any number of counterparts, each of which shall be deemed an original for all purposes, including the judicial proof of any of the terms hereof, but all of which taken together shall constitute but one and the same agreement.

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

"The Company"

INTERACTIVE GROUP, INC.

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

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

"The Purchasers"

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Warrants  
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Edward J. Frykman  
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James M. Phillips, Jr.  
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THIS REGISTRATION RIGHTS AGREEMENT (this "Agreement") is made and entered into as of January \_\_, 2004, by and between INTERACTIVE GROUP, INC., a Delaware corporation (the "Company"), and the individuals listed on the signature page of this Agreement who, concurrently with the execution hereof, are becoming stockholders of the Company (individually, a "Stockholder," and collectively, the "Stockholders").

A. The Company has entered into that certain Stock Purchase and Exchange Agreement dated December 10, 2003 (the "Exchange Agreement"), by and between the Company and Arrowhead Research Corporation, a California corporation ("Arrowhead Research"), which provides, among other things, for the acquisition by the Company of all of the outstanding securities of Arrowhead Research in exchange for the issuance by the Company of a control block of the Company's Common Stock.

B. Arrowhead Research was incorporated under the laws of the State of California on May 7, 2003, issuing to the founders thereof 3,000,000 shares of common stock and warrants to purchase an additional 3,000,000 shares of common stock at the price of \$1.50 per share. In October 2003, Arrowhead Research completed a private placement in which it issued and sold, for an aggregate purchase price of \$2,645,000, 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. Since its incorporation in May 2003, the business and activities of Arrowhead Research have been limited to organizational matters, preparation and completion of the private placement, and the development of an initial plan of proposed operations. Pursuant to its initial plan of proposed operations, Arrowhead Research has entered into arrangements with the California Institute of Technology, Pasadena, California ("CalTech"), and three individual professors on the faculty of CalTech, with respect to the financing of research projects in various aspects of nano technology development

C. If the transactions contemplated by the Exchange Agreement are consummated, the former shareholders of Arrowhead Research would own approximately 88.9% of the shares of the Company's Common Stock then outstanding, and the current stockholders of the Company would retain approximately 11.1% of its then outstanding shares of Common Stock. The former shareholders of Arrowhead Research would also receive warrants to purchase additional shares of the Company's Common Stock, in exchange for warrants previously held to purchase shares of the common stock of Arrowhead Research.

D. Among other conditions to the Closing under the Exchange Agreement, the Company is required to have executed and delivered this Agreement, pursuant to which (i) all of the shares of the Company's Common Stock and (ii) all of the warrants to purchase shares of the Company's Common Stock issued to the former shareholders of Arrowhead Research pursuant thereto, together with (iii) all of the shares of the Company Common Stock issuable upon exercise of such warrants, shall be registered for resale under the Securities Act of 1933, as amended (the "Securities Act").

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E. The Exchange Agreement provides that this Agreement shall also cover any and all shares of the Company's Common Stock and warrants to purchase shares of the Company's Common Stock issued in connection with the acquisition of certain intellectual property from San Diego Magnetics, Inc., a California corporation ("SDM"), and in connection with the compromise, cancellation and/or conversion of substantially all of the Company's existing debt and other balance sheet liabilities, together with all shares of the Company's Stock issuable upon exercise of such warrants.

F. The shares of Common Stock and warrants to purchase shares of Common Stock issuable as provided in Recitals A, C and E above, together with the shares of Common Stock issuable upon exercise of such warrants, are hereinafter collectively referred to as the "Securities".

G. The Company deems it necessary and advisable and in the best interests of the Company and its stockholders to enter into this Agreement with the Stockholders and, as a material inducement and consideration to the Stockholders to enter into the Exchange Agreement, and to cause certain of the Stockholders to sell intellectual property to the Company, and/or compromise, cancel and/or convert amounts owed to them by the Company as contemplated by the Exchange Agreement, the Company has agreed to enter into and execute this Agreement on the terms and subject to the conditions set forth below.

NOW, THEREFORE, in consideration of the foregoing premises and the mutual covenants and agreements of the parties contained herein, the Company hereby grants to each of the Stockholders certain rights with respect to the registration under the Securities Act of the Securities to be acquired by them pursuant to transactions contemplated by the Exchange Agreement, on the following terms and subject to the following conditions:

1. Registration.

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(a) Within sixty (60) days after the Closing under the Exchange Agreement, the Company shall prepare and file or cause to be prepared and filed

with the Commission a registration statement for the purpose of registering the resale, from time to time by the Stockholders participating in the registration (as provided in subparagraph 1(b) below) on a delayed or continuous basis pursuant to Rule 415 of the Securities Act, all of the Securities (the "Registration Statement"). The Registration Statement shall be on Form S-3, or another appropriate form permitting registration of such Securities for resale by the Selling Stockholders.

(b) The Company shall include among the shares covered by the Registration Statement such portion of the Securities as shall be specified in a written request given to the Company by one or more of the Stockholders within thirty 30 days after the date of the Closing under the Exchange Agreement. (individually, a "Selling Stockholder", and collectively, the "Selling Stockholders"). Such written request shall include the information specified in Paragraph 3(b) (ii) below regarding each Selling Stockholder, and such other information as the Company may reasonably request. Each Selling Stockholder shall be named as a selling security holder in the Registration Statement and the related Prospectus in

such a manner as to permit such Selling Stockholder to deliver such Prospectus to purchasers of Securities in accordance with the Securities Act and applicable state securities laws generally applicable to all such Selling Stockholders.

(c) The Company shall use reasonable best efforts to cause the Registration Statement to be declared effective under the Securities Act no later than the date that is one-hundred and twenty (120) days after the date of the Closing under the Exchange Agreement, and to keep the Registration Statement continuously effective under the Securities Act for a period of not less than one (1) full year from the date on which the Registration Statement first became effective under the Securities Act.

(d) The Company shall supplement and amend the Registration Statement if required by the rules, regulations or instructions applicable to the registration form used by the Company for such Registration Statement, if required by the Securities Act or, to the extent to which the Company does not reasonably object, as reasonably requested by the Selling Shareholders.

(e) The Company shall use reasonable best efforts to effect the registration, qualification or compliance under any applicable securities or "blue sky" laws of jurisdictions within the United States of the Securities included in the Registration Statement; provided, however, that the Company

alone shall be entitled to determine the jurisdictions in which such registration, qualification or compliance shall be sought, and in no event shall the Company be obligated to qualify to do business in any jurisdiction where it is not so qualified or to take any action that would subject it to tax or the service of process (other than process in connection with such registration) in any jurisdiction where it is not subject thereto.

(f) The Company shall furnish to each Selling Stockholder such number of copies of the prospectus contained in the registration statement filed under the Securities Act (including each preliminary prospectus) in conformity with the requirements of the Securities Act, and such other documents as such Selling Stockholders may reasonably request in order to facilitate the disposition of the Securities held by them which is covered by the registration statement; and

(g) The Company shall notify each Selling Stockholder, at any time when a prospectus is required to be delivered under the Securities Act, of the happening of any event as a result of which the prospectus in the registration statement, as then in effect, includes an untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein not misleading, and prepare and furnish to them any reasonable number of copies of any supplement to or amendment of such prospectus as may be necessary so that, as thereafter delivered, such prospectus shall not include an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading.

2. Expenses. The Company shall bear all costs and expenses relating to

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or incurred by it in connection with the registration specified in Paragraph 1 above ("Registration Expenses"), including without limitation all registration and filing fees, printing expense, fees and disbursements of counsel and independent accountants for the Company and fees and expenses incident to compliance with state securities or "blue sky" laws, but specifically excluding any fees and disbursements of counsel, accountants or other professionals engaged by any Selling Stockholder. Each Selling Stockholder participating in such registration shall be responsible for and bear any underwriters' discounts and commissions properly allocable to the Securities included in a registration statement at the request of a Selling Stockholder hereunder.

3. Indemnification.

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(a) The Company shall indemnify and hold harmless, to the extent permitted by law, each Selling Stockholder any actions, losses, claims, damages, liabilities and expenses (including legal fees and other expenses reasonably incurred in the investigation and defense thereof) resulting from any untrue or alleged untrue statement of a material fact or any omission or alleged omission of a material fact in any registration statement, prospectus, offering circular or other document filed in connection with any such registration, and against any violation by the Company of the Securities Act or any state securities or "blue sky" law, or any rule or regulation under any of them, applicable to the Company in connection with such registration, unless and to the extent that any such actions, claims, losses, damages, liabilities or expenses arise out of or are based upon any of the written information specifically provided by the Selling Stockholder for use in such registration statement, prospectus, offering circular or other document pursuant to subparagraph 3(b) below.

(b) In connection with any registration in which any of the Selling Stockholders is participating, each such Selling Stockholder shall furnish to the Company such information in writing regarding the Selling Stockholder as the Company reasonably requests for inclusion in the registration statement, prospectus, offering circular and other documents filed in connection therewith, and shall state that such information is provided specifically for use in the registration statement, prospectus, offering circular or other documents. Each such Selling Stockholder shall also indemnify and hold harmless, to the extent permitted by law, the Company, and its directors and officers, and each underwriter of the offering, if any (in a manner reasonably satisfactory in form and substance to such underwriter), and each person who controls the Company or each such underwriter (within the meaning of the Securities Act), against any actions, losses, claims, damages, liabilities, and expenses (including legal and other expenses reasonably incurred in the investigation and defense thereof) resulting from any untrue or alleged untrue statement of a material fact or any omission or alleged omission of a material fact required to be stated in any such documents or any supplement or amendment thereto, and against any violation by the Company of the Securities Act or any state securities or "blue sky" law, or any rule or regulation under any of them, applicable to the Company in connection with such registration, or necessary to make the statements therein not misleading, but only to the



extent that such untrue statement or omission is made in reliance on and in conformity with the written information furnished to the Company by such Selling Stockholder specifically for use in any such documents; provided that the indemnity contained in this Section 3(b) shall not apply to amounts paid in settlement of any such actions, losses, claims, damages, liabilities and expenses if such settlement is effected without the consent of the Selling Stockholder, unless the consent of such Selling Stockholder is unreasonably withheld, and provided, further, that in no event shall any indemnity under this Section 3(b) exceed the proceeds from the registration received by the Selling Stockholder.

(c) Promptly after receipt by an indemnified party under this Section 3 of notice of the commencement of any action (including any governmental action), such indemnified party shall, if a claim in respect thereof is to be made against any indemnifying party under this Section 3, deliver to the indemnifying party a written notice of the commencement thereof and the indemnifying party shall have the right to participate in, and, to the extent that the indemnifying party so desires, jointly with any other indemnifying party similarly noticed, to assume the defense thereof with counsel mutually satisfactory to the indemnified party and the indemnifying party(s); provided,

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however, that an indemnified party shall retain the right to retain its own  
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counsel, with the fees and expenses to be paid by the indemnifying party(s), if representation of such indemnified party by the counsel retained by the indemnifying party(s) would be inappropriate due to actual or potential differing interests between such indemnified party and any other party(s) represented by such counsel in such proceeding. The failure to deliver written notice to the indemnifying party within a reasonable time of the commencement of any such action, if materially prejudicial to its ability to defend such action, shall relieve such indemnifying party of any liability to the indemnified party under this Section 3, but the omission to deliver written notice to the indemnifying party will not relieve it of any liability that it may have to any indemnified party otherwise than under this Section 3.

4. Miscellaneous.  
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(a) Each of the parties hereto shall execute and deliver such other and further documents and instruments, and take such other and further actions, as may be reasonably requested of them for the implementation and consummation of this Agreement and the transactions herein contemplated.

(b) This Agreement shall be binding upon and inure to the benefit of the parties hereto, and the heirs, personal representatives, successors and assigns of all of them, but shall not confer, expressly or by implication, any rights or remedies upon any 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 Delaware. Should any provision of this Agreement be rendered void, invalid or unenforceable by any court for any reason, such invalidity or unenforceability shall not void or render invalid or unenforceable any other provisions of this Agreement.

(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 as follows:

If to the Company, to: InterActive Group, Inc.

\_\_\_\_\_  
\_\_\_\_\_  
Attn: President

If to any Stockholder, in care of: \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

Any party hereto may change its address by written notice to the other party given in accordance with this subparagraph 4(d).

(e) This Agreement, together with the Exchange Agreement and the other exhibits attached thereto, contain the entire agreement between the parties and supersede 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 by an agreement in writing signed by all 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(s) shall pay the reasonable expenses, including the attorneys' fees, of the prevailing party(s) 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.



THIS STANDSTILL AND REGISTRATION AGREEMENT (this "Agreement") is made and entered into as of January 9, 2004, by and between INTERACTIVE GROUP, INC., a Delaware corporation (the "Company"), and TPR GROUP, INC., a Delaware corporation and principal stockholder of the Company ("Stockholder").

A. The Company has entered into that certain Stock Purchase and Exchange Agreement dated December 10, 2003 (the "Exchange Agreement"), by and between the Company and Arrowhead Research Corporation, a California corporation ("Arrowhead Research"), which provides, among other things, for the acquisition by the Company of all of the outstanding securities of Arrowhead Research in exchange for the issuance by the Company of a control block of the Company's Common Stock. If the transactions contemplated by the Exchange Agreement are consummated, the former shareholders of Arrowhead Research would own approximately 88.9% of the shares of the Company's Common Stock then outstanding, and the current stockholders of the Company, including Stockholder, would retain approximately 11.1% of its then outstanding shares of Common Stock.

B. Arrowhead Research was incorporated under the laws of the State of California on May 7, 2003, issuing to the founders thereof 3,000,000 shares of common stock and warrants to purchase an additional 3,000,000 shares of common stock at the price of \$1.50 per share. In October 2003, Arrowhead Research completed a private placement in which it issued and sold, for an aggregate purchase price of \$2,645,000, 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. Accordingly, a total of 5,645,000 shares of common stock and warrants to purchase a total of 5,645,000 shares of common stock, at \$1.50 per share, are currently outstanding. Since its incorporation in May 2003, the business and activities of Arrowhead Research have been limited to organizational matters, preparation and completion of the private placement, and the development of an initial plan of proposed operations. Pursuant to its initial plan of proposed operations, Arrowhead Research has entered into arrangements with the California Institute of Technology, Pasadena, California ("CalTech"), and three individual professors on the faculty of CalTech, with respect to the financing of research projects in various aspects of nano technology development.

C. As the holder of a large number of shares of the Company's Common Stock currently outstanding and to be issued in connection with certain transactions contemplated by the Exchange Agreement (collectively, the "Shares"), Stockholder will own a significant portion of the shares of the Company's Common Stock to be retained by the current stockholders of the Company immediately following the Closing under the Exchange Agreement. Among other conditions to the Closing thereunder, the Exchange Agreement specifies that Shareholder must have executed and delivered this Agreement, effective as of the Closing, pursuant to which Shareholder will agree to limit the number of shares of Common Stock which Stockholder will publicly sell or otherwise publicly dispose of following the Closing Date (as defined in the Exchange Agreement), in consideration of the grant to each by the Company of certain rights with respect to the registration by the Company of Shares held by Shareholder for resale under the Securities Act of 1933, as amended (the "Securities Act").

D. In consideration of the execution and delivery of this Agreement by Stockholder, certain current shareholders of Arrowhead, or other one or more other designees of Arrowhead, have agreed to purchase from Stockholder, effective as of the date of the Closing under the Exchange Agreement, an aggregate of 100,000 of the shares of the Company's Common Stock owned by Stockholder immediately following such Closing, at the price of \$1.00 per share.

E. The Company and Stockholder deem it necessary and advisable and in the best interests of each and of the other current stockholders of the Company to enter into this Agreement, as a material inducement and consideration to Arrowhead to enter into and perform its obligations under the Exchange Agreement.

NOW, THEREFORE, in consideration of the foregoing premises and the mutual covenants and agreements of the parties contained herein, the parties hereto agree as follows:

1. During the period commencing on the date of the Closing under the Exchange Agreement and ending one full year thereafter (the "One-Year Period"), Stockholder hereby agrees that, except as provided in Recital D above or with the prior written consent of the Company:

(i) For the first 90 days of the One-Year Period, Stockholder will not publicly sell or otherwise publicly dispose of, directly or indirectly, any of the Shares owned by Stockholder, beneficially or of record; and

(ii) During the remainder of the One-Year Period, Stockholder will not publicly sell or otherwise publicly dispose of, directly or indirectly, any of the Shares owned by Stockholder, beneficially or of record, in excess of 25,000 Shares in any given ninety day (90-day) period, whether pursuant to Rule 144 promulgated by the Securities and Exchange Commission (the "Commission") under the Securities Act, the Registration Statement specified in Paragraph 3 below, or otherwise (the "Registration Statement").

(iii) Notwithstanding anything to the contrary in subparagraph (ii)

immediately above, in the event that the Registration Statement has not been filed by the Company with the Commission by the date specified in paragraph 1(a) of the Registration Rights Agreement referred to in Paragraph 3(a) hereof, or if the Registration Statement has not become effective under the Securities Act by the date specified in paragraph 1(c) of the Registration Rights Agreement, then, in either such event, the limitation of the number of Shares that can be publicly sold by Stockholder during any 90-day period for the remainder of the One-Year Period shall increase from 25,000 to 50,000 shares.

2. In addition, Stockholder agrees that Stockholder will not sell or otherwise dispose of any Shares owned by him, beneficially or of record, in any private transaction unless the proposed transferee has provided to the Company an agreement, in form and substance reasonably satisfactory to the Company, pursuant to which such transferee agrees to be bound by the same terms and conditions on subsequent sale or other disposition of the Shares to be acquired as are applicable to the Stockholder under Paragraph 2 above.

3. The Company hereby grants to Stockholder certain rights with respect to the registration of the Shares for resale under the Securities Act on the following terms and subject to the following conditions:

(a) As a further condition to the Closing thereunder, the Exchange Agreement provides that the Company shall execute and deliver a Registration Rights Agreement (in the form attached as Exhibit \_\_ to the Exchange Agreement) pursuant to which the Company shall agree to prepare and file with the Commission, within 60 days following the date of the Closing under the Exchange Agreement, a registration statement for the purpose of registering for resale under the Securities Act shares of the Company's Common Stock and warrants issued in connection with the transactions contemplated by the Exchange Agreement. Each Shareholder shall be a party to the Registration Rights Agreement, and shall therefore be entitled to include among the shares covered by the registration statement filed by the Company pursuant to the Registration Rights Agreement such portion of the Shares as shall be specified in a written request given to the Company by one or more of the Shareholders within 30 days after the date of the Closing under the Exchange Agreement.

(b) The Company shall bear all costs and expenses relating to or incurred by it in connection with any registration ("Registration Expenses") in which Stockholder participates pursuant hereto, including without limitation all registration and filing fees, printing expense, fees and disbursements of counsel and independent accountants for the Company and fees and expenses incident to compliance with state securities or "blue sky" laws, but specifically excluding any fees and disbursements of counsel, accountants or other professionals engaged by Stockholder. Stockholder shall be responsible for and bear any underwriters' discounts and commissions properly allocable to the Shares included in a registration statement at the request of Stockholder hereunder. Notwithstanding the foregoing, if the registration statement to be used in connection with any such registration is to include financial statements as of a date or period ending other than as of the end of a fiscal year of the Company, and such financial statements are audited either at the request of Stockholder, Stockholder shall bear and pay such portion of the fees of the Company's accountants that would not have been incurred if such audit request had not been made.

(c) (i) The Company shall indemnify and hold Stockholder harmless, to the extent permitted by law, against any actions, losses, claims, damages, liabilities and expenses (including legal fees and other expenses reasonably incurred in the investigation and defense thereof) resulting from any untrue or alleged untrue statement of a material fact or any omission or alleged omission of a material fact in any registration statement, prospectus, offering circular or other document filed in connection with any such registration, and against any violation by the Company of the Securities Act or any state securities or "blue sky" law, or any rule or regulation under any of them, applicable to the Company in connection with such registration, unless and to the extent that any such actions, claims, losses, damages, liabilities or expenses arise out of or are based upon any of the written information specifically provided by the Shareholder for use in such registration statement, prospectus, offering circular or other document pursuant to subparagraph (ii) immediately below.

(ii) Stockholder shall furnish to the Company such information in writing regarding Stockholder as the Company reasonably requests for inclusion in the registration statement, prospectus, offering circular and other documents filed in connection therewith, and shall state that such information is provided specifically for use in the registration statement, prospectus, offering circular or other documents. Stockholder shall also furnish to the Company an undertaking satisfactory to the Company and each underwriter of the offering, if any, agreeing to indemnify and hold harmless, to the extent permitted by law, the Company, and its directors and officers, and each such underwriter, and each person who controls the Company or each such underwriter (within the meaning of the Securities Act), against any actions, losses, claims, damages, liabilities, and expenses (including legal and other expenses reasonably incurred in the investigation and defense thereof) resulting from any untrue or alleged untrue statement of a material fact or any omission or alleged omission of a material fact required to be stated in any such documents or any supplement or amendment thereto, and against any violation by the Company of the Securities Act or any state securities or "blue sky" law, or any rule or regulation under any of them, applicable to the Company in connection with such registration, or necessary to make the statements therein not misleading, but only to the extent that such untrue statement or omission is made in reliance on and in conformity with the written information furnished to the Company by Stockholder specifically for use in any such documents.

4. (a) Each of the parties hereto shall execute and deliver such other and further documents and instruments, and take such other and further actions, as may be reasonably requested of them for the implementation and consummation of this Agreement and the transactions herein contemplated.

(b) This Agreement shall be binding upon and inure to the benefit of the parties hereto, and the heirs, personal representatives, successors and assigns of all of them, but shall not confer, expressly or by implication, any rights or remedies upon any 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. Should any provision of this Agreement be rendered void, invalid or unenforceable by any court for any reason, such invalidity or unenforceability shall not void or render invalid or unenforceable any other provisions of this Agreement.

(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 as follows:

If to the Company, to:

InterActive Group, Inc.  
6359 Paseo del Lago  
Carlsbad, California 92009  
Attn: William J. Hanson

If to Stockholder, to:

TPR Group, Inc.  
6359 Paseo del Lago  
Carlsbad, California 92009  
Attn: William J. Hanson

Any party hereto may change its address by written notice to the other party given in accordance with this subparagraph 4(d).

(e) This Agreement, together with the Exchange Agreement, the Registration Rights Agreement, and the other exhibits attached thereto, contain the entire agreement between the parties and supersede 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 by an agreement in writing signed by all 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(s) shall pay the reasonable expenses, including the attorneys' fees, of the prevailing party(s) 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.

INTERACTIVE GROUP, INC.

TPR GROUP, INC.

By: \_\_\_\_\_  
\_\_\_\_\_, President  
\_\_\_\_\_

By: \_\_\_\_\_  
\_\_\_\_\_, President  
\_\_\_\_\_

The "Company"

"Stockholder"





SUBSIDIARIES

Arrowhead Research Corporation, a California corporation

## SECTION 302 CERTIFICATION

I, R. Bruce Stewart, certify that:

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

2. Based on my knowledge, this Annual 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 Annual Report;

3. Based on my knowledge, the financial statements, and other financial information included in this 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 Annual 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 Annual Report is being prepared;

(b) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this Annual 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 Annual 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: January 12, 2004

R. BRUCE STEWART

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R. Bruce Stewart

## SECTION 906 CERTIFICATION

In connection with the Annual Report on Form 10-KSB of Arrowhead Research Corporation (the "Company") for the fiscal year ended September 30, 2003, 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: January 12, 2004

R. BRUCE STEWART

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R. Bruce Stewart

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.