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

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of The Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): June 11, 2008

Arrowhead Research Corporation

(Exact name of registrant as specified in its charter)

0-21898

(Commission File Number)

Delaware

(State or other jurisdiction of incorporation)

46-0408024

(IRS Employer Identification No.)

201 South Lake Avenue, Suite 703, Pasadena, California 91101

(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code (626) 304-3400

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
 - Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
 - Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
 - Pre-commencement communications pursuant to Rule 13e-4 (c) under the Exchange Act (17 CFR 240.13e-4(c))
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Item 1.01. Entry into a Material Definitive Agreement.

On June 11, 2008, Arrowhead Research Corporation (the “**Company**”), entered into an Employment Agreement and a Stock Option Agreement (together with the Employment Agreement, the “**Agreements**”) with Dr. Christopher Anzalone, the Company’s Chief Executive Officer and President as well as a Director of the Company. Dr. Anzalone commenced employment with the Company on December 1, 2007, which was announced by press release and in a Form 8-K, dated December 4, 2007 (the “**Prior 8-K**”). The material terms of Dr. Anzalone’s employment and option compensation were set forth in the Prior 8-K, where it was noted that the Company and Dr. Anzalone expected to enter into an employment agreement to further clarify the terms of his employment.

The Agreements set forth the terms of Dr. Anzalone’s employment with no material changes to the terms of the Offer Letter given to Dr. Anzalone and filed as Exhibit 10.1 to the Prior 8-K. Specifically, as previously reported in the Prior 8-K, Dr. Anzalone will be paid an annual base salary of \$400,000 and is eligible to receive bonuses based on the performance of the Company and individual performance objectives. Dr. Anzalone was also granted an option to purchase 2,000,000 shares of Arrowhead common stock with an exercise price of \$3.92 per share, which is equal to the closing price of Arrowhead’s common stock on NASDAQ Global Market on the date of grant, December 3, 2007. The option will vest as follows: 250,000 shares vest on the six month anniversary of Dr. Anzalone’s date of hire and the balance of the shares vest in 42 equal installments on the first of each successive month. These options are governed by the Stock Option Agreement and were granted outside of the Company’s current equity incentive plans.

Dr. Anzalone will also be reimbursed up to \$100,000 in relocation expenses and the Company agreed to provide supplemental life insurance to bring his life insurance benefit up to \$2,000,000. If the Company terminates Dr. Anzalone’s employment without cause, the Company will pay Dr. Anzalone his base salary and benefits for twelve months.

The above is a brief summary of the Agreements. The above summary does not purport to be complete and is qualified in its entirety by reference to the full text of the Employment Agreement and the Stock Option Agreement, which are attached hereto as Exhibits 10.1 and 10.2, respectively, and which Agreements are incorporated herein by reference.

Item 9.01. Financial Statements and Exhibits.

(d) Exhibits.

<u>Exhibit No.</u>	<u>Description</u>
10.1	Employment Agreement, between Arrowhead Research Corporation and Dr. Christopher Anzalone.
10.2	Stock Option Agreement, between Arrowhead Research Corporation and Dr. Christopher Anzalone.

SIGNATURES

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

Date: June 13, 2008

ARROWHEAD RESEARCH CORPORATION

By: /s/ Paul C. McDonnel
Paul C. McDonnel, Chief Financial Officer

ARROWHEAD RESEARCH CORPORATION
Employment Agreement

This Employment Agreement (the "**Agreement**") is made and entered into as of the last date written below by Dr. Christopher Anzalone ("**Executive**") and Arrowhead Research Corporation, a Delaware corporation (the "**Company**") with respect to the terms of Executive's employment by the Company.

WHEREAS, the Company and Executive have previously entered into a letter agreement, dated as of November 19, 2007 (the "**Term Letter**"), outlining the terms of Executive's employment with the Company;

WHEREAS, the Company and Executive desire to enter into this formal employment agreement and to terminate the Term Letter in its entirety.

NOW THEREFORE, in consideration of the mutual covenants contained herein and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

1. **Employment.** The Company shall employ Executive, and Executive hereby accepts employment with the Company, upon the terms and conditions set forth in this Agreement for the period beginning on December 1, 2007 and ending as provided in Section 5 hereof (the "**Employment Period**").

2. **Position and Duties.** During Executive's employment, he shall serve as President and Chief Executive Officer of the Company and shall have the duties, responsibilities, functions and authority of the President and Chief Executive Officer, consistent with the Bylaws of the Company. During Executive's employment, he shall report to the Board of Directors (the "**Board**") and shall devote his best efforts and his full business time and attention (except for permitted vacation periods and reasonable periods of illness or other incapacity) to the business and affairs of the Company and its subsidiaries. Executive shall perform his duties, responsibilities and functions to the Company and its subsidiaries hereunder to the best of his abilities in a diligent, trustworthy, businesslike and efficient manner.

3. **Board Membership.** The Board has appointed Executive to fill a vacancy on the Board and Executive has been appointed as a director on the Board. Upon the termination Executive's employment by the Company, Executive shall resign as a director of the Company and its subsidiaries, as the case may be.

4. **Compensation and Benefits.**

(a) **Base Salary.** For all services to be rendered by Executive pursuant to this Agreement, the Company shall pay Executive Four Hundred Thousand Dollars (\$400,000) per annum or such higher rate as the Board may determine from time to time (as adjusted from time to time, the "**Base Salary**"), which salary shall be payable by the Company in regular installments in accordance with the Company's general payroll practices. The Base Salary will be evaluated at least annually by the Company's Compensation Committee commencing at the 2008 meeting to evaluate compensation of the Company's management level employees.

(b) **Bonus.** Executive shall also be eligible to receive bonuses (each a “**Bonus**”), based on performance of the Company and Executive’s individual performance, as measured against performance targets set by the Board’s Compensation Committee no later than October 1st of each calendar year.

(c) **Equity Grants.** The Board has approved the Stock Option Agreement, attached to this Agreement as **Exhibit A** for the grant to Executive of an option (the “**Option**”) to purchase Two Million (2,000,000) shares of the Company’s common stock. The Option vests over four (4) years, with options to purchase the first Two Hundred Fifty Thousand (250,000) shares vesting on the sixth month anniversary of the grant, and options to purchase Forty-One Thousand Six Hundred Sixty-Seven (41,667) shares vesting on the first day of each successive forty-two (42) calendar months. The other terms, including pricing, are set forth in the Option.

(d) **Expense Reimbursement.** During the Employment Period, the Company shall reimburse Executive for all reasonable expenses incurred by him in the course of performing his duties and responsibilities under this Agreement, consistent with the Company’s policies in effect from time to time with respect to travel, entertainment and other business expenses, subject to the Company’s requirements with respect to reporting and documentation of such expenses. The Company shall reimburse Executive for up to One Hundred Thousand Dollars (\$100,000) in relocation expenses related to the transition of Executive and his family to the Pasadena area in connection with Executive’s employment with the Company, subject to the Company’s requirements with respect to reporting and documentation of such expenses.

(e) **Regular Benefits.** Executive shall also be entitled to participate in any employee benefit plans and programs, such as vacation and sick leave, health, dental, life and disability insurance, and any retirement plans, such as the Company’s 401(k) plan, (collectively, the “**Plans**,” or individually, the “**Plan**”) generally available to the Company’s employees. Such participation shall be subject to the terms, eligibility and qualification requirements of the applicable Plan documents, generally applicable policies of the Company, applicable law and the discretion of the Board and its Compensation Committee. A summary of the Company’s benefits is attached to this Agreement as **Exhibit B**. Other than as specified in paragraph (f) of this section, nothing contained in this Agreement shall be construed to: (i) create any obligation on the part of the Company to establish any such Plan or to maintain the effectiveness of any such Plan, which may be in effect from time to time, or (ii) prevent the Company from changing the Plans, including the terms thereof, it offers to its senior executives at any time.

(f) **Insurance Benefits.** Executive shall be entitled to participate in the Company’s existing (and replacement) short and long term disability programs. During the first ten years of the Employment Period, the Company shall pay premiums to bring Executive’s total life insurance benefit for Executive to Two Million Dollars (\$2,000,000) under the Company’s then standard life insurance plans or any similar plan with terms no less favorable to Executive.

5. **Term.**

(a) **At-Will Employment.** Executive’s employment with the Company shall be “at-will” employment under the laws of California, which means employment may be terminated by either the Company or Executive at any time and for any reason or for no reason, with or without notice. Without limiting the effect of the foregoing, the Employment Period shall continue until terminated:

- (i) by Executive’s resignation (with or without Good Reason (as defined below));

- (ii) by Executive's death or his mental or physical disability or incapacity (each as determined by the Board in its good faith judgment); or
- (iii) by the Company at any time (with or without Cause (as defined below)).

(b) **Termination of Employment.** If the Employment Period is terminated by the Company without Cause or by Executive with Good Reason, Executive shall be entitled to continue to receive (i) his Base Salary payable in regular installments as special severance payments from the date of termination and (ii) medical and dental benefits on the same terms as such benefits were provided as of immediately before such termination, in each case through the one (1) year anniversary of the date of termination. Notwithstanding anything herein to the contrary, no amounts shall be payable pursuant to this Section 5(b) unless and until Executive has executed and delivered to the Company a general release in favor of the Company in form and substance reasonably satisfactory to the Board and only so long as Executive has not breached the provisions of Sections 7, 8 and 9 hereof. Except as provided in this Section 5(b), Executive shall not be entitled to any other salary, compensation or benefits after termination of the Employment Period. Notwithstanding the foregoing, if Executive is a "specified employee" of the Company (as defined in Treasury Regulation Section 1.409A-1(i)), any severance payments that would otherwise be paid within six months after the last day of the Employment Period that exceed the lesser of (x) two times the compensation limit under Section 401(a)(17) of the Internal Revenue Code of 1986, as amended, for the calendar year of the last day of the Employment Period, and (y) two times Executive's annual compensation for the calendar year prior to the calendar year of the last day of termination shall instead be paid on the six month anniversary of the last day of the Employment Period.

(c) If the Employment Period is terminated by the Company for Cause, by Executive's resignation without Good Reason, or due to Executive's death or his mental or physical disability for a period of ninety (90) consecutive days in which Executive is incapable, after reasonable accommodation, of performing Executive's duties, Executive shall only be entitled to receive his Base Salary through the date of termination or expiration and shall not be entitled to any other salary, compensation or benefits from the Company or its subsidiaries thereafter.

(d) Except as otherwise expressly provided herein, all of Executive's rights to salary, bonuses, fringe benefits and other compensation hereunder which accrue or become payable after the termination or expiration of the Employment Period shall cease upon such termination or expiration, other than those expressly required under applicable law (such as COBRA). The Company may offset any amounts Executive owes it or its subsidiaries against any amounts it or its subsidiaries owes Executive hereunder.

(e) For purposes of this Agreement, “**Cause**” shall mean (i) the conviction (by trial or upon a plea of nolo contendere) of a felony or other crime involving moral turpitude or the commission of any other material act or omission involving dishonesty, disloyalty or fraud with respect to the Company or any of its subsidiaries or any of their customers or suppliers, (ii) reporting to work under the influence of alcohol or illegal drugs, the use of illegal drugs (whether or not at the workplace) or other repeated conduct causing the Company or any of its subsidiaries substantial public disgrace or disrepute or economic harm, (iii) the engaging of gross misconduct and the failure to cease such conduct and rectify any harm to the Company resulting therefrom within 30 days after written demand therefor by the Company identifying with reasonable particularity such conduct and harm, or (iv) any other material breach of this Agreement by Executive and the failure to cease such breach and rectify any harm to the Company resulting therefrom within 30 days after written demand therefor by the Company identifying with reasonable particularity such breach and harm.

(f) For purposes of this Agreement, “**Good Reason**” shall mean (i) Executive’s duties, responsibilities, titles or offices are diminished from those set forth in Section 2 hereof without Executive’s written consent, and the Company fails to reinstate such duties, responsibilities, titles or offices within 30 days after written demand therefor by Executive identifying with reasonable particularity such diminishment, (ii) the relocation of Executive’s base office to an office that is more than thirty (30) highway miles from Executive’s base office as of December 1, 2007, (iii) the failure of the Company to obtain a satisfactory agreement from any successor to assume and agree to perform the obligations under this Agreement and (iv) any other material breach of this Agreement by the Company and the failure to cease such breach and rectify any harm to Executive resulting therefrom within 30 days after written demand therefor by Executive identifying with reasonable particularity such breach and harm.

6. **Indemnification.** The Company agrees that if Executive is made a party to or involved in, or is threatened to be made a party to or otherwise to be involved in, any action, suit or proceeding, whether civil, criminal, administrative or investigative (a “**Proceeding**”), by reason of the fact that he is or was an officer or employee of the Company or is or was serving at the request of the Company as an officer, member, employee or agent of another corporation, limited liability corporation, partnership, joint venture, trust or other enterprise, including service with respect to employee benefit plans, whether or not the basis of such Proceeding is Executive’s alleged action in an official capacity while serving as an officer, member, employee or agent, Executive shall be indemnified and held harmless by the Company against any and all liabilities, losses, expenses, judgments, penalties, fines and amounts reasonably paid in settlement in connection therewith, to the fullest extent legally permitted or authorized by the Company’s Bylaws or, if greater, by the laws of the State of Delaware, as may be in effect from time to time, except that this Section 6 shall not apply to the following Proceedings: (a) any Proceeding initiated or brought voluntarily by Executive against the Company or its directors, officers employees or other indemnitees, unless the Board has authorized or consented to the initiation of the Proceeding (or any part of the Proceeding), and (b) for an accounting of profits made from the purchase and sale (or sale and purchase) by Executive of securities of the Company within the meaning of Section 16(b) of the Securities Exchange Act of 1934, as amended or any similar successor statute. The rights conferred on Executive by this Section 6 shall not be exclusive of any other rights which Executive may have or hereafter acquire under any statute, the Bylaws, agreement, vote of stockholders or disinterested directors, or otherwise.

The indemnification provided for by this Section 6 shall continue until and terminate upon the latest of: (a) the statute of limitations applicable to any claim that could be asserted against Executive with respect to which he may be entitled to indemnification under this Section 6, (b) ten years after the date that Executive has ceased to serve as a director or officer of the Company or as a director, officer, employee, member, or agent of any other corporation, limited liability corporation, partnership, joint venture, trust or other enterprise at the request of the Company, or (c) if, at the later of the dates referred to in (a) and (b) above, there is a pending Proceeding in respect of which Executive is granted rights of indemnification under this Section 6, one year after the final termination of such Proceeding, including any and all appeals. The indemnification provided for by this Section 6 shall inure to the benefit of his heirs, executors and administrators.

7. **Confidential Information.** Executive acknowledges that the information, observations and data (including trade secrets) obtained by him while employed by the Company and its subsidiaries concerning the business or affairs of the Company or any of its subsidiaries ("**Confidential Information**") are the property of the Company or such subsidiary. Therefore, Executive agrees that he shall not disclose to any unauthorized person or use for his own purposes any Confidential Information without the prior written consent of the Board, unless and to the extent that the Confidential Information becomes generally known to and available for use by the public other than as a result of Executive's acts or omissions. Executive shall deliver to the Company at the termination or expiration of the Employment Period, or at any other time the Company may request, all memoranda, notes, plans, records, reports, computer tapes, printouts and software and other documents and data (and copies thereof) embodying or relating to the Confidential Information, Work Product (as defined below) or the business of the Company or any other subsidiaries which he may then possess or have under his control.

8. **Inventions and Patents.** Executive acknowledges that all inventions, innovations, improvements, developments, methods, designs, analyses, drawings, reports and all similar or related information (whether or not patentable) which relate to the Company's or any of its subsidiaries' actual or anticipated business, research and development or existing or future products or services and which are conceived, developed or made by Executive while employed by the Company and its subsidiaries ("**Work Product**") belong to the Company or such subsidiary. Executive shall promptly disclose such Work Product to the Board and, at the Company's expense, perform all actions reasonably requested by the Board (whether during or after the Employment Period) to establish and confirm such ownership (including, without limitation, assignments, consents, powers of attorney and other instruments).

9. **Non-Solicitation.** During the Employment Period and for one (1) year thereafter, Executive shall not directly or indirectly through another, person or entity (i) induce or attempt to induce any employee of the Company or any subsidiary to leave the employ of the Company or such subsidiary, or in any way interfere with the relationship between the Company or any subsidiary and any employee thereof, (ii) hire any person who was an employee of the Company or any subsidiary at any time during the Employment Period or (iii) induce or attempt to induce any customer, supplier, licensee, licensor, franchisee or other business relation of the Company or any subsidiary to cease doing business with the Company or such subsidiary, or in anyway interfere with the relationship between any such customer, supplier, licensee or business relation and the Company or any subsidiary (including, without limitation, making any negative or disparaging statements or communications regarding the Company or its subsidiaries).

10. **Enforcement.** If, at the time of enforcement of Sections 7, 8 and 9 of this Agreement, a court holds that the restrictions stated herein are unreasonable under circumstances then existing, the parties hereto agree that the maximum period or scope under such circumstances shall be substituted for the stated period or scope. Because Executive's services are unique and because Executive has access to Confidential Information and Work Product, the parties hereto agree that money damages would not be an adequate remedy for any breach of this Agreement. Therefore, in the event a breach or threatened breach of this Agreement, the Company or its successors or assigns, in addition to other rights and remedies existing in their favor, shall be entitled to specific performance and/or injunctive or other equitable relief from a court of competent jurisdiction in order to enforce, or prevent any violations of, the provisions hereof (without posting a bond or other security). In addition, in the event of a breach or violation by Executive of Section 9, the nonsolicitation period shall be tolled until such breach or violation has been duly cured. Executive acknowledges that the restrictions contained in Section 9 are reasonable and that he has reviewed the provisions of this Agreement with his legal counsel.

11. **Executive's Representations.** Executive hereby represents and warrants to the Company that (i) the execution, delivery and performance of this Agreement by Executive do not and shall not conflict with, breach, violate or cause a default under any contract, agreement, instrument, order, judgment or decree to which Executive is a party or by which he is bound, (ii) Executive is not a party to or bound by any employment agreement or noncompete agreement with any other person or entity, and (iii) upon the execution and delivery of this Agreement by the Company, this Agreement shall be the valid and binding obligation of Executive, enforceable in accordance with its terms. Executive hereby acknowledges and represents that he has consulted with independent legal counsel regarding his rights and obligations under this Agreement and that he fully understands the terms and conditions contained herein.

12. **Survival.** Sections 6 through 21 shall survive and continue in full force in accordance with their terms notwithstanding the expiration or termination of the Employment Period.

13. **Notices.** Any notice provided for in this Agreement shall be in writing and shall be either personally delivered, sent by reputable overnight courier service or mailed by first class mail, return receipt requested, to the recipient at the address below indicated:

Notices to Executive:

Dr. Christopher Anzalone
Arrowhead Research Corporation
201 South Lake Avenue
Suite 703
Pasadena CA 91101

Notices to the Company:

Arrowhead Research Corporation
201 South Lake Avenue
Suite 703
Pasadena CA 91101

or such other address or to the attention of such other person as the recipient party shall have specified by prior written notice to the sending party. Any notice under this Agreement shall be deemed to have been given when so delivered, sent or mailed.

14. **Severability.** Whenever possible, each provision of this Agreement shall be interpreted in such manner as to be effective and valid under applicable law, but if any provision of this Agreement is held to be invalid, illegal or unenforceable in any respect under any applicable law or rule in any jurisdiction, such invalidity, illegality or unenforceability shall not affect any other provision or any action in any other jurisdiction, but this Agreement shall be reformed, construed and enforced in such jurisdiction as if such invalid, illegal or unenforceable provision had never been contained herein.

15. **Complete Agreement.** This Agreement, those documents expressly referred to herein and other documents of even date herewith embody the complete agreement and understanding among the parties and supersede and preempt any prior understandings, agreements or representations by or among the parties, written or oral, which may have related to the subject matter hereof in any way (including, without limitation, the Term Letter), but excluding any breaches thereof by either party prior to the date hereof.

16. **No Strict Construction.** The language used in this Agreement shall be deemed to be the language chosen by the parties hereto to express their mutual intent, and no rule of strict construction shall be applied against any party.

17. **Counterparts.** This Agreement may be executed in separate counterparts, each of which is deemed to be an original and all of which taken together constitute one and the same agreement.

18. **Successors and Assigns.** This Agreement is intended to bind and inure to the benefit of and be enforceable by Executive, the Company and their respective heirs, successors and assigns, except that Executive may not assign his rights or delegate his duties or obligations hereunder without the prior written consent of the Company.

19. **Choice of Law.** All issues and questions concerning the construction, validity, enforcement and interpretation of this Agreement and the exhibits and schedules hereto shall be governed by, and construed in accordance with, the laws of the State of California, without giving effect to any choice of law or conflict of law rules or provisions (whether of the State of California or any other jurisdiction) that would cause the application of the laws of any jurisdiction other than the State of California.

20. **Amendment and Waiver.** The provisions of this Agreement maybe amended or waived only with the prior written consent of the Company (as approved by the Board) and Executive, and no course of conduct or course of dealing or failure or delay by any party hereto in enforcing or exercising any of the provisions of this Agreement (including, without limitation, the Company's right to terminate the Employment Period for Cause) shall affect the validity, binding effect or enforceability of this Agreement or be deemed to be an implied waiver of any provision of this Agreement.

21. **Taxes.** All payments made pursuant to this Agreement shall be subject to withholding of applicable income and employment taxes.

IN WITNESS WHEREOF, each of the parties has duly executed this Agreement effective as of the last day written below.

Dated: June 11, 2008

ARROWHEAD RESEARCH CORPORATION

/s/ Paul C. McDonnell

Paul C. McDonnell

Chief Financial Officer

Dated: June 11, 2008

EXECUTIVE

/s/ Christopher Anzalone

Dr. Christopher Anzalone

ARROWHEAD RESEARCH CORPORATION
Stock Option Agreement

This Stock Option Agreement (the “**Agreement**”) is made and entered into as of the Effective Date by Dr. Christopher Anzalone (“**Executive**”) and Arrowhead Research Corporation, a Delaware corporation (or successor thereto, the “**Company**”) with respect to the terms of Executive’s stock option grant by the Company. Certain capitalized terms are defined in Section 13 hereof.

WHEREAS, the Company and Executive have previously entered into a letter agreement, dated as of November 19, 2007, outlining the terms of Executive’s employment with the Company, including the grant of stock options to Executive; and

WHEREAS, the Company and Executive desire to enter into this Agreement.

NOW THEREFORE, in consideration of the mutual covenants contained herein and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

AGREEMENT

1. Grant of Option. This Agreement evidences the grant by the Company, on December 3, 2007 (the “**Initial Grant Date**”), to Executive, of an option (the “**Option**”) to purchase, in whole or in part, on the terms provided herein, a total of Two Million (2,000,000) shares of the Company’s common stock (the “**Shares**”) at \$3.92 per Share (the “**Exercise Price**”). The Exercise Price is equal to the closing price of the Company’s common stock on the NASDAQ National Market on the Initial Grant Date. Unless earlier terminated, this Option shall expire at 5:00 p.m., Eastern Time, on December 3, 2017 (the “**Final Exercise Date**”). To the maximum extent possible, this Option shall be treated as an “incentive stock option” as such term is defined in Code Section 422.

2. Vesting Schedule.

(a) Subject to Sections 7 and 11 hereof, and except as described in Section 2(b) hereof, this Option shall vest, so long as Executive is an employee of the Company, over four (4) years as follows: (i) the first Two Hundred Fifty Thousand Shares (250,000) shall vest on the six (6) month anniversary of the Initial Grant Date and (ii) forty one thousand six hundred sixty-seven (41,667) Shares shall vest on each monthly anniversary thereafter in forty-two (42) equal installments, after which time this Option shall be vested as to one hundred percent (100%) of the Shares.

(b) The right of exercise shall be cumulative so that to the extent this Option is not exercised in any period to the maximum extent permissible it shall continue to be exercisable, in whole or in part, with respect to all Shares for which it is vested until the earlier of the Final Exercise Date and the termination of this Option under Section 5 hereof.

3. Exercise of Option.

(a) Method of Exercise. This Option is exercisable before its expiration or termination by delivery of an exercise notice, in the form attached as Exhibit A (the “**Exercise Notice**”), which shall state the election to exercise this Option, the number of Shares in respect of which this Option is being exercised (the “**Exercised Shares**”), and such other representations and agreements as may be required by the Company. The Exercise Notice shall be completed by the Optionee and delivered to the Secretary of the Company. The Exercise Notice shall be accompanied by payment of the aggregate Exercise Price as to all Exercised Shares. This Option shall be deemed to be exercised upon receipt by the Company of such fully executed Exercise Notice accompanied by such aggregate Exercise Price.

(b) Compliance with Applicable Laws. No Shares shall be issued pursuant to the exercise of this Option unless such issuance and exercise complies with Applicable Laws. Assuming such compliance, for income tax purposes the Exercised Shares shall be considered transferred to the Optionee on the date the Option is exercised with respect to such Exercised Shares.

4. Method of Payment. Payment of the aggregate Exercise Price shall be by any of the following, or a combination thereof, at the election of the Optionee:

(a) cash;

(b) check;

(c) other shares of common stock which (i) in the case of shares acquired upon exercise of an Option, have been owned by the Optionee for more than six (6) months on the date of surrender, and (ii) have a Fair Market Value on the date of surrender equal to the aggregate exercise price of the shares as to which said Option shall be exercised;

(d) consideration received by the Company from a licensed broker under a cashless exercise program implemented by the Company to facilitate “same day” exercises and sales of Options; or

(e) any combination of the foregoing methods of payment.

5. Termination of Option. This Option shall terminate upon the first to occur of the following events:

(a) The expiration of three months from the date of the Executive’s Termination of Employment for a reason, other than for “**Cause**,” as such term is defined in the Employment Agreement, or the Executive’s death, Disability or Retirement, or

(b) The Final Exercise Date, in the case of Executive’s Retirement, or

(c) The expiration of twelve months from the date of the Executive’s Termination of Employment by reason of Disability, or

(d) The expiration of twelve months from the date of the Executive’s death, if such death occurs while the Executive is in the employ or service of the Company or an Affiliate, or

(e) Immediately upon Executive’s Termination of Employment for “**Cause**,” as such term is defined in the Employment Agreement.

6. Non-Transferability of Option and Shares. This Option may not be sold, transferred, pledged, assigned, or otherwise alienated or hypothecated, other than by will, the laws of descent and distribution. All Options granted pursuant to this Agreement shall be exercisable during Executive's lifetime only by Executive.

7. Board of Directors Discretion. The Board of Directors, in its sole and absolute discretion, may extend the maximum term of this Option or accelerate the vesting of this Option, subject to restrictions of Applicable Law. The Board of Directors may impose such restrictions on any Shares acquired pursuant to the exercise of this Option, as it may deem advisable, including, but not limited to, restrictions related to Federal securities laws, the requirements of any national securities exchange or system upon which such Shares are then listed and/or traded, and/or any blue sky or state securities laws.

8. Beneficiary Designation. Executive may name a beneficiary or beneficiaries to whom any unpaid vested Option shall be paid in event of Executive's death. Each such designation shall revoke all prior designations by Executive and shall be effective only if given in a form and manner acceptable to the Board of Directors. In the absence of any such designation, benefits remaining unpaid at Executive's death shall be paid to Executive's estate and, subject to the limitations set forth in this Agreement; any unexercised vested Option may be exercised by Executive's estate.

9. No Employment Rights. Nothing in this Agreement shall interfere with or limit in any way the right of the Company to terminate Executive's employment or service at any time, with or without cause.

10. Tax Withholding Requirements. Prior to the delivery of any Shares or cash pursuant to this Option, the Company shall deduct or withhold, or require Optionee to remit to the Company, an amount sufficient to satisfy Federal, state, and local taxes required to be withheld with respect to this Option. The Board of Directors, in its sole and absolute discretion and pursuant to such procedures as it may specify from time to time, may permit Optionee to satisfy the minimum statutory tax withholding obligation, in whole or in part, by delivering to the Company shares of Company common stock already owned for more than six (6) months having a value equal to the amount required to be withheld. The value of the shares of Company common stock to be delivered will be based on their Fair Market Value on the date of delivery.

11. Dissolution, Merger or Asset Sale.

(a) Dissolution or Liquidation. In the event of the proposed dissolution or liquidation of the Company, the Board of Directors shall notify Optionee as soon as practicable prior to the effective date of such proposed transaction. The Board of Directors in its discretion may provide for Optionee to have the right to exercise this Option until ten (10) days prior to such transaction as to all of the Shares covered thereby. In addition, the Board of Directors may provide that any Company repurchase option applicable to any Shares purchased upon exercise of an Option shall lapse as to all such Shares, provided the proposed dissolution or liquidation takes place at the time and in the manner contemplated. To the extent it has not been previously exercised, an Option will terminate immediately prior to the consummation of such proposed action.

(b) Merger or Asset Sale. In the event of a merger of the Company with or into another corporation, or the sale of substantially all of the assets of the Company, each outstanding Option shall be assumed or an equivalent option or right substituted by the successor corporation or a parent or Subsidiary of the successor corporation. In the event that the successor corporation refuses to assume or substitute for this Option, the Optionee shall fully vest in and have the right to exercise this Option as to all of the Shares as to which it would not otherwise be vested or exercisable. If an Option becomes fully vested and exercisable in lieu of assumption or substitution in the event of a merger or sale of assets, the Board of Directors shall notify the Optionee in writing or electronically that the Option shall be fully vested and exercisable for a period of fifteen (15) days from the date of such notice, and this Option shall terminate upon the expiration of such period. For the purposes of this paragraph, this Option shall be considered assumed if, following the merger or sale of assets, the option or right confers the right to purchase or receive, for each Share subject to this Option immediately prior to the merger or sale of assets, the consideration (whether stock, cash, or other securities or property) received in the merger or sale of assets by holders of Shares for each Share held on the effective date of the transaction (and if holders were offered a choice of consideration, the type of consideration chosen by the holders of a majority of the outstanding Shares); provided, however, that if such consideration received in the merger or sale of assets is not solely common stock of the successor corporation or its parent, the Board of Directors may, with the consent of the successor corporation, provide for the consideration to be received upon the exercise of the Option, for each Share subject to this Option, to be solely common stock of the successor corporation or its parent equal in fair market value to the per share consideration received by holders of Shares in the merger or sale of assets.

(c) Change in Control. In the event of a Change of Control (as defined below), except as otherwise determined by the Board, Optionee shall fully vest in and have the right to exercise this Option as to all of the Shares, including Shares as to which he would not otherwise be vested or exercisable. If this Option becomes fully vested and exercisable as the result of a Change of Control, the Board of Directors shall notify Optionee in writing or electronically prior to the Change of Control that this Option shall be fully vested and exercisable for a period of fifteen (15) days from the date of such notice, and this Option shall terminate upon the expiration of such period. A “Change of Control” means the happening of any of the following events:

(i) When any “**person**,” as such term is used in Sections 13(d) and 14(d) of the Exchange Act (other than the Company, a Subsidiary or a Company employee benefit plan, including any trustee of such plan acting as trustee) is or becomes the “beneficial owner” (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of the Company representing fifty percent (50%) or more of the combined voting power of the Company’s then outstanding securities entitled to vote generally in the election of directors; or

(ii) The stockholders of the Company approve a merger or consolidation of the Company with any other corporation, other than a merger or consolidation which would result in the voting securities of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity) more than fifty percent (50%) of the total voting power represented by the voting securities of the Company or such surviving entity outstanding immediately after such merger or consolidation, or the stockholders of the Company approve an agreement for the sale or disposition by the Company of all or substantially all the Company’s assets; or

(iii) A change in the composition of the Board of Directors of the Company, as a result of which less than a majority of the directors are Incumbent Directors. “**Incumbent Directors**” shall mean directors who either (A) are directors of the Company as of the date of this Agreement, or (B) are elected, or nominated for election, to the Board of Directors of the Company with the affirmative votes of at least a majority of the Incumbent Directors at the time of such election or nomination (but shall not include an individual whose election or nomination is in connection with an actual or threatened proxy contest relating to the election of directors to the Company).

12. Representations and Conditions Upon Issuance of Shares.

(a) Accredited Investor Status. Executive is an “accredited investor” within the meaning of Rule 501(a) of Regulation D promulgated by the SEC under the Securities Act, has such knowledge and experience in financial and business matters as to be capable of evaluating the merits and risks of Executive’s prospective investment in the Company through exercise of all or a part of this Option hereunder; and has the ability to bear the economic risks of Executive’s prospective investment, including a complete loss of the investment.

(b) Legal Compliance. Shares shall not be issued pursuant to the exercise of this Option unless the exercise of such Option and the issuance and delivery of Shares shall comply with Applicable Laws and shall be further subject to the approval of counsel for the Company with respect to such compliance.

(c) Securities Law Compliance. Executive is a Section 16 Person, and transactions under this Agreement are intended to comply with all applicable conditions of Rule 16b-3. To the extent any provision of this Agreement or action by the Board of Directors fails to so comply, it shall be deemed null and void, to the extent permitted by law and deemed advisable by the Board of Directors.

(d) Investment Representations. As a condition to the exercise of this Option, the Company may require Optionee to represent and warrant at the time of any such exercise that the Shares are being purchased only for investment and without any present intention to sell or distribute such Shares if, in the opinion of counsel for the Company, such a representation is required.

(e) Inability to Obtain Authority. The inability of the Company to obtain authority from any regulatory body having jurisdiction, which authority is deemed by the Company’s counsel to be necessary to the lawful issuance and sale of any Shares hereunder, shall relieve the Company of any liability in respect of the failure to issue or sell such Shares as to which such requisite authority shall not have been obtained.

13. Certain Definitions. The following words and phrases shall have the following meanings unless a different meaning is plainly required by the context:

“**Affiliate**” means any corporation or any other entity (including, but not limited to, partnerships and joint ventures) controlling, controlled by, or under common control with the Company.

“**Applicable Laws**” means the requirements relating to the administration of equity plans under U. S. state corporate laws, U.S. Federal and state securities laws, the Code, any stock exchange or quotation system on which the Shares are listed or quoted and the applicable laws of any foreign country or jurisdiction where this Options is granted.

“**Board**” or “**Board of Directors**” means the Board of Directors of the Company.

“**Change in Control**” is defined in Section 11(c) hereof.

“**Code**” means the Internal Revenue Code of 1986, as amended. Reference to a specific section of the Code or regulation thereunder shall include such section or regulation, any valid regulation promulgated under such section, and any comparable provision of any future legislation or regulation amending, supplementing or superseding such section or regulation.

“**Director**” means any individual who is a member of the Board of Directors of the Company.

“**Disability**” means a permanent and total disability within the meaning of Code Section 22(e)(3).

“**Effective Date**” means December 3, 2007.

“**Employment Agreement**” means the Employment Agreement by Executive and the Company dated as of June 11, 2008, as amended or restated from time to time.

“**Exchange Act**” means the Securities Exchange Act of 1934, as amended. Reference to a specific section of the Exchange Act or regulation thereunder shall include such section or regulation, any valid regulation promulgated under such section, and any comparable provision of any future legislation or regulation amending, supplementing or superseding such section or regulation.

“**Fair Market Value**” means as of any date, the value of a Share determined as follows:

(a) If the Shares are listed on any established stock exchange or a national market system, including without limitation the Nasdaq National Market or The Nasdaq SmallCap Market of The Nasdaq Stock Market, its Fair Market Value shall be the closing sales price for such Share (or the closing bid, if no sales were reported) as quoted on such exchange or system on the day of, or the last market trading day prior to, the day of determination, as reported in The Wall Street Journal or such other source as the Board of Directors deems reliable;

(b) If the Company’s common stock is regularly quoted by a recognized securities dealer but selling prices are not reported, the Fair Market Value of the Share shall be the mean between the high bid and low asked prices for the Company’s common stock on the day of, or the last market trading day prior to, the day of determination, as reported in The Wall Street Journal or such other source as the Board of Directors deems reliable; or

(c) In the absence of an established market for the Company’s common stock, the Fair Market Value shall be determined in good faith by the Board of Directors.

“**Optionee**” means Executive or any other person authorized to exercise the Option pursuant to this Agreement.

“**Retirement**” means, in the case of Executive, a Termination of Employment by reason of the Executive’s retirement at or after age 62.

“**Rule 16b-3**” means Rule 16b-3 promulgated under the Exchange Act, and any future regulation amending, supplementing or superseding such regulation.

“**Section 16 Person**” means a person who, with respect to the Shares, is subject to Section 16 of the Exchange Act.

“**Subsidiary**” means any “subsidiary corporation” (other than the Company) as defined in Code Section 424(f).

“**Termination of Employment**” means a cessation of the employee-employer or director or other service arrangement relationship between Executive and the Company or an Affiliate for any reason, including, but not by way of limitation, a termination by resignation, discharge, death, Disability, Retirement, or the disaffiliation of an Affiliate, but excluding any such termination where there is a simultaneous reemployment or re-engagement by the Company or an Affiliate.

14. Legal Construction

(a) Severability. In the event any provision of this Agreement shall be held illegal or invalid for any reason, such illegality or invalidity shall not affect the remaining parts of this Agreement, and this Agreement shall be construed and enforced as if the illegal or invalid provision had not been included.

(b) Entire Agreement. This Agreement constitutes the entire agreement of the parties with respect to the subject matter hereof and supersedes in their entirety all prior undertakings and agreements of the Company and Executive with respect to the subject matter hereof, and may not be modified adversely to Executive’s interest except by means of a writing signed by the Company and Executive.

(c) Governing Law. This Agreement shall be construed in accordance with and governed by the laws of the State of California, without regard to principles of conflicts of law.

(d) Captions. Captions are provided herein for convenience only, and shall not serve as a basis for interpretation or construction of this Agreement.

EXECUTIVE

/s/ Christopher Anzalone
Dr. Christopher Anzalone

ARROWHEAD RESEARCH
CORPORATION

/s/ Paul C. McDonnel
By: Paul C. McDonnel
Title: Chief Financial Officer

Address:

201 S. Lake Avenue, Suite 703
Pasadena, California 91101

EXHIBIT A

ARROWHEAD RESEARCH CORPORATION

EXERCISE NOTICE

Arrowhead Research Corporation
201 S. Lake Avenue, Suite 703
Pasadena, California 91101
Attention: Secretary

1. Exercise of Option. Effective as of today, _____, _____ the undersigned ("**Purchaser**") hereby elects to purchase _____ shares (the "**Shares**") of the Common Stock of Arrowhead Research Corporation (the "**Company**") under and pursuant to the Stock Option Agreement dated _____, _____ (the "**Option Agreement**"). The purchase price for the Shares shall be \$_____, as required by the Option Agreement.

2. Delivery of Payment. Purchaser herewith delivers to the Company the full purchase price for the Shares.

3. Representations of Purchaser. Purchaser acknowledges that Purchaser has received, read and understood the Option Agreement and agrees to abide by and be bound by their terms and conditions.

4. Rights as Shareholder. Until the issuance (as evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company) of the Shares, no right to vote or receive dividends or any other rights as a shareholder shall exist with respect to the Optioned Stock, notwithstanding the exercise of the Option. The Shares so acquired shall be issued to the Purchaser as soon as practicable after exercise of the Option.

5. Tax Consultation. Purchaser understands that Purchaser may suffer adverse tax consequences as a result of Purchaser's purchase or disposition of the Shares. Purchaser represents that Purchaser has consulted with any tax consultants Purchaser deems advisable in connection with the purchase or disposition of the Shares and that Purchaser is not relying, on the Company for any tax advice.

6. Entire Agreement: Governing Law. This Option Agreement constitutes the entire agreement of the parties with respect to the subject matter hereof and supersede in their entirety all prior undertakings and agreements of the Company and Purchaser with respect to the subject matter hereof, and may not be modified adversely to the Purchaser's interest except by means of a writing signed by the Company and Purchaser. This letter is governed by the internal substantive laws, but not the choice of law rules, of California.

Exhibit A

Submitted by:

PURCHASER

Signature

Date Received

Address:

Accepted by:

ARROWHEAD RESEARCH
CORPORATION

By: _____

Title: _____

Date Received

Address:

201 S. Lake Avenue, Suite 703
Pasadena, California 91101

Exhibit A