ARROWHEAD RESEARCH CORP
Form PRE 14A
December 21, 2006

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A

(Rule 14a-101)

INFORMATION REQUIRED IN PROXY STATEMENT

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the

Securities Exchange Act of 1934

Filed by the Registrant x   Filed by a Party other than the Registrant ¨

Check the appropriate box:

x Preliminary Proxy Statement

¨ **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**

¨ Definitive Proxy Statement

¨ Definitive Additional Materials

¨ Soliciting Material Pursuant to Rule 14a-11(c) or Rule 14a-12

ARROWHEAD RESEARCH CORPORATION

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of filing fee (Check the appropriate box):

x No fee required.

¨ Fee computed on table below per Exchange Act Rules 14a-6(i)(4) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

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¨ Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the form or schedule and the date of its filing.

(1) Amount previously paid:

(2) Form, schedule or registration statement No.:

(3) Filing party:

(4) Date filed:

ARROWHEAD RESEARCH CORPORATION

201 SOUTH LAKE AVENUE, SUITE 703

PASADENA, CALIFORNIA 91101

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

TO BE HELD ON THURSDAY, FEBRUARY 22, 2007

TO THE STOCKHOLDERS OF ARROWHEAD RESEARCH CORPORATION:

NOTICE IS HEREBY GIVEN that the Annual Meeting of Stockholders of Arrowhead Research Corporation, a Delaware corporation (the **Company**), will be held on February 22, 2007**,** at 10:00 a.m., PST, at the Sheraton Pasadena, 303 Cordova Street, Pasadena, CA 91101 for the following purposes:

1. Elect four (4) directors to serve as members of the Company s Board of Directors until the next Annual Meeting or until their successors are elected;

2. Approve a proposal to amend the Company s Certificate of Incorporation and to amend the Company s Bylaws to adopt a classified Board of Directors;

3. To ratify the selection of Rose, Snyder & Jacobs, LLP as independent auditors of the Company for the year ending September 30, 2006; and

4. To transact such other business as may properly come before the meeting or any adjournment(s) thereof.

The foregoing items of business are more fully described in the Proxy Statement accompanying this Notice.

Only stockholders of record at the close of business on December 29, 2006 are entitled to notice of and to vote at the Annual Meeting.

All stockholders are cordially invited to attend the Annual Meeting in person. However, to ensure your representation at the meeting, you are urged to mark, sign, and date and return the enclosed proxy card as promptly as possible in the postage-prepaid envelope enclosed for that purpose. Any stockholder attending the Annual Meeting may vote in person even if such stockholder has previously returned a proxy.

/s/ Joseph T. Kingsley
Joseph T. Kingsley
Interim President, Chief Financial Officer and Secretary

Pasadena, California
January __, 2007

Your vote is important, whether or not you expect to attend the Annual Meeting of Stockholders; please mark, date, sign and return promptly the enclosed proxy in the stamped return envelope provided. Your prompt return of the proxy will help avoid the additional expense of further solicitation to assure a quorum at the meeting.

The Annual Meeting will be held on Thursday, February 22, 2007. Please return your proxy promptly so that your vote can be tabulated and certified for the Annual Meeting.

ARROWHEAD RESEARCH CORPORATION

201 South Lake Avenue, Suite 703

Pasadena, California 91101

(626) 304-3400

PROXY STATEMENT FOR ANNUAL MEETING OF STOCKHOLDERS

TO BE HELD ON THURSDAY, FEBRUARY 22, 2007

GENERAL INFORMATION CONCERNING SOLICITATION AND VOTING

The enclosed Proxy is solicited on behalf of Arrowhead Research Corporation (the **Company**) for use at the Annual Meeting of Stockholders (the **Annual Meeting**) to be held on Thursday, February 22, 2007, at 10:00 a.m., PST, and at any adjournment(s) thereof, for the purposes set forth herein and in the accompanying Notice of Annual Meeting of Stockholders. The Annual Meeting will be held at the Sheraton Pasadena, 303 Cordova Street, Pasadena, CA 91101.

The Company anticipates that these proxy solicitation materials will first be mailed on or about January 10, 2007, to all stockholders entitled to vote at the Annual Meeting.

Record Date

Only holders of record of voting stock at the close of business on December 29, 2006 (the **Record Date**) are entitled to notice of the Annual Meeting and to vote at the Annual Meeting. On that date, the Company had outstanding ______ shares of voting common stock.

Revocability of Proxies

Any proxy given pursuant to this solicitation may be revoked by the person giving it at any time before its use by delivering to the Secretary of the Company, at or before the taking of the vote at the Annual Meeting, a written notice of revocation or a duly executed proxy bearing a later date or by attending the Annual Meeting and voting in person.

Voting and Solicitation

Each share of the Company s common stock (**Common Stock**) is entitled to one vote on all matters presented at the Annual Meeting. Stockholders do not have the right to cumulate their votes in the election of directors.

Shares of Common Stock represented by properly executed proxies will, unless such proxies have been previously revoked, be voted in accordance with the instructions indicated thereon. In the absence of specific instructions to the contrary, properly executed proxies will be voted: (i) FOR the election of each of the Company s nominees for director, (ii) FOR the approval of the amendment of the Company s Certificate of Incorporation and the amendment of the Company s Bylaws to adopt a classified Board, and (iii) FOR the ratification of the selection of Rose, Snyder & Jacobs, LLP as independent auditors of the Company for the year ending September 30, 2007. No business other than that set forth in the accompanying Notice of Annual Meeting of Stockholders is expected to come before the Annual Meeting. Should any other matter requiring a vote of stockholders properly arise, the persons named in the enclosed form of proxy will vote such proxy in accordance with the recommendation of the Board of Directors (the **Board**).

If you will not be able to attend the Annual Meeting to vote in person, you may vote your shares by completing and returning the accompanying proxy card. Please mark, sign and date the accompanying proxy card and return it promptly in the enclosed postage paid envelope.

Proxies may be solicited by certain of the directors, officers and employees of the Company, without additional compensation, personally or by telephone, telegram, letter, facsimile or email. In addition, the Company may reimburse brokerage firms and other persons representing beneficial owners of shares for their expenses in forwarding solicitation materials to such beneficial owners.

Quorum; Abstentions; Broker Non-Votes

The required quorum for the transaction of business at the Annual Meeting is a majority of the votes eligible to be cast by holders of shares of Common Stock issued and outstanding on the Record Date. Shares that are voted FOR or AGAINST a matter are treated as being present at the meeting for purposes of establishing a quorum and are also treated as shares entitled to vote at the Annual Meeting (the **Votes Cast**) with respect to such matter.

With respect to Proposals One and Three, abstentions will be counted for the purpose of determining the presence or absence of a quorum for the transaction of business at the Annual Meeting. However, abstentions will not be counted in the total number of Votes Cast with respect to Proposal One or Three. Accordingly, abstentions will not affect the outcome of Proposal One or Three unless such shares are necessary to satisfy the quorum requirement, in which case abstentions will have the same effect as a vote against such proposal.

With respect to Proposal Two, the proposal to amend the Company s Certificate of Incorporation and to amend the the Company s Bylaws, a majority of the Company s total outstanding shares entitled to vote must be cast in favor of that proposal for its approval. Accordingly, abstentions will be counted for purposes of determining either the presence or absence of a quorum for the transaction of business as well as the total number of Votes Cast with respect to Proposal Two. Therefore, abstentions or broker non-votes will have the same effect as votes against such proposal even if such shares are not necessary to satisfy the quorum requirements.

In a 1988 Delaware case, Berlin v. Emerald Partners, the Delaware Supreme Court held that, while broker non-votes should be counted for the purposes of determining the presence or absence of a quorum for the transaction of business, broker non-votes should not be counted for purposes of determining the number of Votes Cast with respect to the particular proposal on which the broker has expressly not voted. Accordingly, the Company intends to treat broker non-votes in this manner. Thus, a broker non-vote will not affect the outcome of the voting on a proposal.

Deadline for Receipt of Stockholder Proposals

Any stockholder who intends to present a proposal at the Company s 2008 Annual Meeting of Stockholders must ensure that the proposal is received by the Corporate Secretary at Arrowhead Research Corporation, 201 South Lake Avenue, Suite 703, Pasadena, CA 91101, not later than August 1, 2007 in order to be considered for inclusion in our proxy materials for that meeting.

PROPOSAL ONE

ELECTION OF DIRECTORS

The Board has nominated the following four persons as directors to serve until their successors have been duly elected and qualified. Each of the nominees is now a director of Arrowhead. None of the nominees is related by blood, marriage or adoption to any other nominee or any executive officer of the Company. The four nominees receiving the greatest numbers of votes at the meeting will be elected to the four director positions. Unless otherwise instructed, the proxy holders will vote the proxies received by them for the Board s four nominees named below. If any nominee is unable or declines to serve as director at the time of the Annual Meeting, the proxies will be voted for any nominee who is designated by our present Board to fill the vacancy. The table below sets forth with respect to each nominee for election (1) his age, and (2) position with Arrowhead and, if Proposal Two is approved by the Company s stockholders, (3) the Class which each nominee shall serve under if elected and the expiration of the term of such director.

Nominees for Election as Directors. The Board unanimously adopted a resolution proposing an amendment to the Company s Certificate of Incorporation, as currently amended (the **Certificate of Incorporation**) and an amendment to the Company s Bylaws (the Bylaws) that classifies the Board into three separate classes, as nearly equal in number as possible, with one class being elected each year to serve a staggered three year term. The amendment to the Certificate of Incorporation and the amendment to the Bylaws are conditioned on obtaining stockholder approval as discussed herein under Proposal Two Approval of a Classified Board of Directors.

Subject to the approval of the amendment to the Certificate of Incorporation and the amendment to the Bylaws, the terms of office of the Class I, Class II and Class III directors will expire in 2008, 2009 and 2010, respectively.

OUR BOARD UNANIMOUSLY RECOMMENDS A VOTE FOR EACH OF THE NOMINEES LISTED BELOW.

Name	Age	Position with Arrowhead	Term to Expire
Class III Director			
R. Bruce Stewart	69	CEO and Chairman of the Board	2010
Class II Director			
Edward W. Frykman*	70	Director	2009
Class I Directors			
LeRoy T. Rahn*	71	Director	2008
Charles P. McKenney*	67	Director	2008

* Member of the Audit Committee, Compensation Committee and Nomination Committee.

If the amendment to the Certificate of Incorporation and the amendment to the Bylaws are not approved, each nominee, if elected at the Annual Meeting, will serve as a director until the earlier of the 2008 Annual Meeting of the Company s stockholders or until their successors are duly elected and qualified.

R. Bruce Stewart has been Arrowhead s Chief Executive Officer and Chairman of the Board of the Company since January 2004. Mr. Stewart was the Chairman of the Board of the predecessor California corporation since its inception in May 2003 and devoted much of his time from early in 2003 to development of its plan of operations. Mr. Stewart founded Acacia Research Corporation in March 1991, and was employed by Acacia Research Corporation in various capacities until January 2003, serving as its President from inception through January 1997, Chairman until April 2000, and as a senior advisor until January 2003. 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 a director of the Company since January 2004. Mr. 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. Mr. Frykman was a director in the predecessor California corporation since its inception in May 2003 until January 2004, when he became a director of the Company. Mr. Frykman is also a director of Acacia Research Corporation (NASDAQ: ACTG & CBMX), a publicly-held corporation based in Newport Beach, California.

LeRoy (Lee) T. Rahn has been a director of the Company since January 2004 Mr. Rahn was a partner with the intellectual property law firm of Christie, Parker & Hale from 1968 to 2003, more than 30 years, with a practice focused on assisting clients in protecting their intellectual property through obtaining, maintaining and enforcing patents and other legal rights. He retired from the law firm s partnership in 2003, but remains affiliated with the firm on an of counsel basis. 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. Mr. Rahn was a director in the predecessor California corporation from December 2003 to January 2004 when he became a director of the Company.

Charles P. McKenney has been a director of the Company since April 2004. Mr. McKenney has maintained a government affairs law practice in Pasadena, California since 1989, representing businesses and organizations in their relations with state and local government regarding their obligations under state and local land use and trade practices laws. From 1973 through 1989, he served as Attorney for Corporate Government Affairs for Sears, Roebuck and Co., helping organize and carry out Sears western state and local government relations programs. Mr. McKenney has served two terms on the Pasadena, California City Council as well as on several city boards and committees, including three city Charter Reform Task Forces

Corporate Governance Policies and Practices

The following is a summary of our corporate governance policies and practices:

A majority of the members of the Board are independent directors, as defined by NASDAQ. The Board has determined that all of the Company s directors are independent, other than Mr. Stewart. Independent directors do not receive consulting, legal or other fees from Arrowhead, other than Board and Committee compensation.

All of the Company s employees, officers and directors are subject to the Company s Code of Business Conduct and Ethics Policy, which is available on the Company s website at www.arrowheadresearch.com. The ethics policy meets the requirements of NASDAQ, as well as the code of ethics requirements of the SEC.

The Audit, Compensation and Nomination Committees consist entirely of independent directors.

The Board reviews at least annually the Company s business initiatives, capital projects and budget matters.

The Audit Committee reviews and approves all related-party transactions.

As part of the Code of Business Conduct and Ethics Policy, the Company has made a whistleblower hotline available to all employees for anonymous reporting of financial or other concerns. The Audit Committee receives directly, without management participation, all hotline activity reports, including complaints on accounting, internal controls or auditing matters.

Stockholder Communications with Directors

Stockholders who want to communicate with the Board or any individual director can write to: Joseph T. Kingsley, Corporate Secretary, Arrowhead Research Corporation, 201 South Lake Avenue, Suite 703, Pasadena, CA 91101. Your letter should indicate that you are an Arrowhead stockholder. Depending on the subject matter, management will:

Forward the communication to the director or directors to whom it is addressed; or

Attempt to handle the inquiry directly, for example, requests for information or stock-related matters.

Board Meetings and Committees

The Board held a total of six meetings during the year ended September 30, 2006. The Board has three standing committees: an Audit Committee, a Compensation Committee, and a Nomination Committee. Current committee members are listed below. If needed, a Board meeting will be called immediately following the Annual Meeting and new committee members will be appointed.

The functions of the Audit Committee are to recommend selection of independent public accountants to the Board, to review the scope and results of the year-end audit with management and the independent auditors, to review the Company s accounting principles and its system of internal accounting controls and to review the Company s annual and quarterly reports before filing with the Securities and Exchange Commission. The Audit Committee met in executive session five times during fiscal 2006. The current members of the Audit Committee are Edward W. Frykman, Chairman, LeRoy T. Rahn and Charles P. McKenney. The Board has determined that all members of the Audit Committee are independent directors under the Rules of the SEC and the listing standards of The NASDAQ Stock Market. The Board has determined that Mr. Frykman is a financial expert who is independent of management in accordance with the applicable regulations. The Audit Committee Charter is included herein and is available on the Company s website at www.arrowheadresearch.com.

The functions of the Compensation Committee are to review and approve the goals of the Chief Executive Officer (CEO), to review and approve salaries, bonuses and other benefits payable to the Company s executive officers and to administer the Company s 2004 Equity Incentive Plan (the **2004 Incentive Plan**) and the 2000 Stock Option Plan (the **2000 Option Plan**). The Compensation Committee is specifically responsible for determining the compensation of its Chief Executive Officer. The Compensation Committee met twice during fiscal 2006. The current members of the Compensation Committee are Edward W. Frykman, Chairman, LeRoy T. Rahn and Charles P. McKenney. The Board has determined that all members of the Compensation Committee are independent directors under the Rules of the SEC and the listing standards of The NASDAQ Stock Market. The Compensation Committee was established on April 5, 2004 and its charter is available on the Company s website at www.arrowheadresearch.com.

The Nomination Committee is responsible for proposing a slate of directors for election by the stockholders at each Annual Stockholders Meeting and for proposing candidates to fill any vacancies. The current members of the Nomination Committee are Edward W. Frykman, Chairman, LeRoy T. Rahn and Charles P. McKenney. The Nomination Committee met one time in fiscal 2006. The Nomination Committee was established on April 5, 2004 and its charter is available on the Company s website at www.arrowheadresearch.com.

The Nomination Committee manages the process for evaluating current Board members at the time they are considered for re-nomination. After considering the appropriate skills and characteristics required on the Board, the current makeup of the Board, the results of the evaluations, and the wishes of the Board members to be re-nominated, the Nomination Committee recommends to the Board whether those individuals should be re-nominated.

On at least an annual basis, the Nomination Committee reviews with the Board whether it believes the Board would benefit from adding a new member(s), and if so, the appropriate skills and characteristics required for the new member(s). If the Board determines that a new member would be beneficial, the Nomination Committee solicits and receives recommendations for candidates and manages the process for evaluating candidates. All potential candidates, regardless of their source, are reviewed under the same process. The Nomination Committee (or its chairman) screens the available information about the potential candidate(s). Based on the results of the initial screening, interviews with viable candidates are scheduled with Nomination Committee members, other members of the Board and senior members of management. Upon completion of these interviews and other due diligence, the Nomination Committee may recommend to the Board the election or nomination of a candidate.

Candidates for independent Board members have typically been found through recommendations from directors or others associated with the Company. Arrowhead stockholders may also recommend candidates by sending the candidate s name and resume to the Nomination Committee under the provisions, set forth below, for communication with the Board. The deadline for such nominees for election to the Board at the Company s 2008 Annual Meeting of Stockholders is August 1, 2007.

The Nomination Committee has no predefined minimum criteria for selecting Board nominees, although it believes that all independent directors should share qualities such as independence; business experience at the corporate level; relevant, non-competitive experience; and strong communication and analytical skills. In any given search, the Committee may also define particular characteristics for candidates to balance the overall skills and characteristics of the Board and the needs of the Company. However, during any search the Nomination Committee reserves the right to modify its stated search criteria for exceptional candidates.

No incumbent director attended fewer than seventy-five percent (75%) of the aggregate of (i) the total number of meetings of the Board held during fiscal 2006, and (ii) the total number of meetings held by all committees of the Board during fiscal on which such person served.

Non-Employee Director Compensation

In December 2004, the Board adopted a Compensation Policy for non-employee directors, which provided that beginning January 2005, each non-employee director will receive an annual retainer of $4,000 per year (so long as such director attends at least seventy-five percent (75%) of the regular meetings of the Board.) A non-employee Chairman would receive a $6,000 annual retainer. The policy provided for the grant of a non-statutory stock option to purchase 10,000 shares of common stock of the Company to each of the Company s non-employee directors on the date on which such person first becomes a director. Non-employee directors that have served on the Board for at least six months also received automatic grants of non-statutory stock options to purchase 10,000 shares of common stock upon re-election each year with a non-employee Chairman of the Board receiving an automatic grant of non-statutory stock options to purchase 15,000 shares of common stock. All options granted to non-employee directors vest on the anniversary of the grant. We also pay out of pocket expenses.

Beginning February 22, 2007, the policy will be amended to increase the grant of non-statutory stock options from 10,000 to 20,000 shares for non-employee directors and from 15,000 to 30,000 shares for a non-employee Chairman of the Board. The revised policy is filed as Exhibit 10.12 to the Company s 10K for the year ended September 30, 2006.

Non-employee directors do not receive compensation from Arrowhead other than as a director or as committee member. There are no family relationships between directors and executive officers of the Company.

PROPOSAL TWO

APPROVAL OF A CLASSIFIED BOARD OF DIRECTORS

The Board has unanimously adopted a resolution proposing an amendment to the Company s Certificate of Incorporation adding a new Article TENTH that classifies the Board into three classes with staggered terms of office. The Board has also unanimously adopted a resolution proposing an amendment to the Company s Bylaws by amending and restating Section 2.1 and Section 2.2 of the Bylaws to create a classified Board as provided for in the proposed amendment to the Certificate of Incorporation. As of December 21, 2006, the Board consists of a single class of four directors. All of the Company s directors are elected at each Annual Meeting of Stockholders unless a vacancy occurs during the year and the Nomination Committee finds a candidate to fill the vacancy. In such a case, the Nomination Committee would present the candidate to the Board of Directors for approval and appointment. The candidate would serve until he or she is elected by the Stockholders at the next Annual Meeting. The classified board amendment would classify the Board into three separate classes, as nearly equal in number as possible, with one class being elected each year to serve a staggered three-year term.

As indicated earlier, members in each class would be elected at the Annual Meeting. The directors initially elected in Class I (Charles P. McKenney and LeRoy T. Rahn) would serve until the next Annual Meeting of Stockholders in 2008 or until their respective successors have been elected and have qualified, or until their earlier death, resignation, retirement or removal. The director initially elected in Class II (Edward W. Frykman) would serve until the Annual Meeting of Stockholders in 2009 or until his successor has been elected and has qualified, or until his earlier death, resignation, retirement or removal. The director initially elected in Class III (R. Bruce Stewart) would serve until the Annual Meeting of Stockholders in 2010 or until his successor has been elected and has qualified, or until his earlier death, resignation, retirement or removal. Beginning with the election of directors to be held at the year 2007 Annual Meeting of Stockholders, the class of directors to be elected in such year would be elected for a three-year term, and at each successive annual meeting, the class of directors to be elected in such year would be elected for a three-year term so that the term of office of one class of directors shall expire in each year.

Approval of a Classified Board of Directors

To preserve the classified board structure, the classified board amendment also provides that a director elected by the Board of Directors to fill a vacancy holds office until the next election of the class for which such director has been chosen, and until that director s successor has been elected and qualified or until his or her earlier death, resignation, retirement or removal.

Delaware law provides that, if a corporation has a classified board, unless the corporation s Certificate of Incorporation specifically provides otherwise, the directors may only be removed by the stockholders for cause. The Certificate of Incorporation, as amended by the proposed classified board amendment, would not provide for removal of directors other than for cause. Therefore, if Proposal Two is adopted, stockholders can remove directors of the Company for cause, but not in other circumstances. Presently, all of the directors of the Company are elected annually and all of the directors may be removed, with or without cause, by a majority of the voting power of the Company.

Unless a director is removed or resigns, three annual elections are needed to replace all of the directors on the classified Board. The classified board amendment may, therefore, discourage an individual or entity from acquiring a significant position in the Company s stock with the intention of obtaining immediate control of the Board. If this Proposal Two is adopted, these provisions will be applicable to each annual election of directors, including the elections following any change of control of the Company.

The Company is not aware of any present third-party plans to gain control of the Company, and the classified board amendment is not being recommended in response to any such plan. Rather, the Board is recommending the classified board amendment as part of its periodic review of the Company s corporate governance mechanism and to assist in assuring fair and equitable treatment for all of the Company s stockholders in hostile takeover situations. The Board has no present intention of soliciting a stockholder vote on any other proposals relating to a possible takeover of the Company.

Advantages of the Classified Board Amendment

The classified board amendment is designed to assure continuity and stability in the Board s leadership and policies by ensuring that at any given time a majority of the directors will have prior experience with the Company and, therefore, will be familiar with its business and operations. The Company has not experienced continuity problems in the past and the Board wishes to ensure that this experience will continue. The Board believes that the stability in the Board of Directors leadership and policies in the past has helped to promote the creation of long-term stockholder value. The Board also believes that the classified board amendment will assist the Board in protecting the interests of the Company s stockholders in the event of an unsolicited offer for the Company by encouraging any potential acquirer to negotiate directly with the Board.

Disadvantages of the Classified Board Amendment

The classified board amendment may increase the amount of time required for a takeover bidder to obtain control of the Company without the cooperation of the Board, even if the takeover bidder were to acquire a majority of the voting power of the Company s outstanding Common Stock. Without the ability to obtain immediate control of the Board, a takeover bidder will not be able to take action to remove other impediments to its acquisition of the Company. Thus, the classified board amendment could discourage certain takeover attempts, perhaps including some takeovers that stockholders may feel would be in their best interests. By potentially discouraging accumulations of large blocks of the Company s stock and fluctuations in the market price of the Company s stock caused by accumulations, the classified board amendment could cause stockholders to lose opportunities to sell their shares at temporarily higher prices. Further, the classified board amendment will make it more difficult for stockholders to change the majority composition of the Board, even if the stockholders believe such a change would be desirable. Because of the additional time required to change the control of the Board, the classified board amendment could be viewed as tending to perpetuate present management.

The complete text of the proposed amendment to the Company s Certificate of Incorporation and the proposed amendment to the Company s Bylaws providing for a classified Board are attached as Exhibit A and Exhibit B, respectively. Please read Exhibits A and B in their entirety.

Potential Anti Takeover Effects, and The NASDAQ Marketplace Rules

Certificate of Incorporation

Authorized Shares Available For Future Issuances. The Certificate of Incorporation contains provisions, which could be viewed as having an anti-takeover effect. The Certificate of Incorporation currently authorizes the issuance of 70,000,000 shares of Common Stock, and 5,000,000 shares of Preferred Stock. The Company could (within the limits imposed by applicable law and The NASDAQ Marketplace Rules) issue the authorized and available Common Stock and Preferred Stock, at fair market value, generally without further stockholder approval. The Board has discretion to establish, without stockholder approval, the terms, rights and preferences of any future issuances of Preferred Stock. Such Preferred Stock may have rights, including economic rights, senior to our Common Stock. As a result, the issuance of the Preferred Stock could have a material adverse effect on the price of our Common Stock and could make it more difficult for a third party to acquire a majority of our outstanding Common Stock. Any issuance of additional shares of Common Stock or Preferred Stock could be used to discourage a change in control of the Company. For example, the Company could privately place shares with purchasers who might side with the Board in opposing a hostile takeover bid.

Bylaws

Effective December 7, 2006, the Board unanimously approved an amendment to the Bylaws for the Company that makes the provisions of the Bylaws regarding the composition and election of the Board consistent with the proposed classified board amendment to the Certificate of Incorporation. This amendment to the Bylaws is subject to stockholder approval and will only be effective if the Company s stockholders approve Proposal Two to effect a classified board amendment at the Annual Meeting. The Bylaws may be considered to contain anti-takeover provisions, as they (i) impose advance notice requirements for stockholder nominations to the Board and stockholder proposals, (ii) allow the Board to designate the annual meeting date without restriction and (iii) allow the Board to dictate the conduct of stockholder meetings. These Bylaw provisions could enable the Company to delay undesirable stockholder actions to give the Company necessary time and information to adequately respond.

The NASDAQ Marketplace Rules

The NASDAQ Marketplace Rules do not contain any limitation on the adoption of proposals with respect to classified boards.

THE BOARD UNANIMOUSLY RECOMMENDS A VOTE FOR THIS PROPOSAL.

PROPOSAL THREE

RATIFICATION OF APPOINTMENT OF INDEPENDENT AUDITORS

Our Audit Committee, with the ratification of our Board, selected the accounting firm of Rose, Snyder & Jacobs (**RS&J**) as the Company s independent auditors for the fiscal year ended September 30, 2007, and that selection is now being submitted to the stockholders.

Attendance of Annual Meeting. A representative of RS&J will be available at the Annual Meeting to respond to appropriate questions or make any other statements such representative deems appropriate.

Vote Required; Recommendation of the Board

Proposal Three must be approved by the stockholders holding a majority of shares present, or represented, and voting at the Annual Meeting at which a quorum is present. For this purpose, abstentions and broker non-votes will have no affect on the outcome of the vote, unless such shares are necessary to satisfy the quorum requirement, in which case abstentions and broker non-votes will have the affect of a vote against the proposal.

Notwithstanding the approval by the stockholders of the appointment of RS&J, the Audit Committee may, if the circumstances warrant, appoint other independent auditors.

THE BOARD UNANIMOUSLY RECOMMENDS A VOTE FOR THIS PROPOSAL.

VOTING SECURITIES OF PRINCIPAL

STOCKHOLDERS AND MANAGEMENT

The following table sets forth the beneficial ownership of the Company s Common Stock as of December 21, 2006, by (i) each person known by the Company to be the beneficial owner of more than five percent (5%) of the Company s Common Stock, (ii) by each director, (iii) by each of the executive officers named in the table under Executive Compensation Summary Compensation Table, and (iv) all directors and executive officers as a group. Except as otherwise indicated in the footnotes to the table, the persons and entities named in the table have sole voting and investment power with respect to all shares beneficially owned, subject to community property laws, where applicable. The address of each stockholder is 201 South Lake Avenue, Suite 703, Pasadena, CA 91101.

Name	Number of Shares	Percentage Ownership
JGD Management	5,201,786(1)	14.8
David M. Knott	4,508,974(2)	13.1
R. Bruce Stewart	1,126,583(3)	3.3
Edward W. Frykman	180,000(4)	*
LeRoy T. Rahn	110,000(5)	*
Charles P. McKenney	82,000(6)	*
Joseph T. Kingsley	283,333(7)	*
All executive officers and directors as a group (5 persons)	1,781,916(8)	5.1

(1) Includes 1,040,357 shares issuable upon the exercise of stock purchase warrants that are exercisable within 60 days of December 21, 2006.
(2) Includes 357,143 shares issuable upon the exercise of stock purchase warrants that are exercisable within 60 days of December 21, 2006.
(3) Includes 415,083 shares issuable upon the exercise of stock options that are exercisable within 60 days of December 21, 2006.
(4) Includes 110,000 shares issuable upon the exercise of stock options that are exercisable within 60 days of December 21, 2006.
(5) Includes 110,000 shares issuable upon the exercise of stock options that are exercisable within 60 days of December 21, 2006.
(6) Includes 60,000 shares issuable upon the exercise of stock options that are exercisable within 60 days of December 21, 2006.
(7) Includes 273,333 shares issuable upon the exercise of stock options that are exercisable within 60 days of December 21, 2006.
(8) See footnotes (3) - (7). Includes 993,416 shares issuable upon exercise of stock options held by executive officers and directors that are exercisable within 60 days of December 21, 2006.

EXECUTIVE OFFICER COMPENSATION

Executive Officers of the Registrant

Name	Age	Position with Arrowhead
R. Bruce Stewart	69	Chief Executive Officer and Chairman of the Board
Joseph T. Kingsley	61	Interim President, Chief Financial Officer and Secretary

R. Bruce Stewart. See Proposal One Election of Directors.

Joseph T. (Ted) Kingsley has been Arrowhead s Interim President of the Company since June 2, 2006. He has also been Arrowhead s Chief Financial Officer and Secretary since September 2004. Mr. Kingsley brings to Arrowhead more than 20 years of executive-level, financial management experience in biotech, commercial, international, and defense-related industries. Prior to joining the Company, from January 2002 to September 2004, he was Chief Financial Officer for Eidogen, Inc. a Pasadena-based company developing computational drug discovery platforms. From March 1997 to January 2002, Mr. Kingsley was Vice President Operations and Chief Financial Officer for Paracel, an integrated turnkey computer systems provider for the life sciences community that was acquired by Celera Genomics (AMEX:CRA) in June 2000. Mr. Kingsley held similar positions with Pico Products, a publicly-held cable TV product supplier, Kaiser Marquardt, Inc., and Science Applications International

Corp. (SAIC), a Fortune 500 government and commercial contractor. Mr. Kingsley is a CPA. He received his B.A. in Economics from Ohio Wesleyan University, and his MBA from Northwestern University.

Summary Compensation Table

The Company does not have employment agreements with any of its executive officers. The following table sets forth all compensation received for services rendered to the Company in all capacities during the years ended September 30, 2006, 2005 and 2004 for the Company s Chief Executive Officer and the other executive officers of the Company. There were no other executive officers whose total compensation for the fiscal year 2006 exceeded $100,000.

		Annual Compensation			Long-Term Compensation	
Name and Principal Position	**Year**	**Salary ($)**	**Bonus ($)**	**Other Annual Compensation ($) (1)**	**Securities Underlying Options (#)**	**All Other Compensation ($)**
R. Bruce Stewart	2006	202,859			75,000(2)	
Chief Executive Officer	2005	105,570			250,000(3)	
	2004	60,000			250,000(4)	
Leon Ekchian (5)	2006	147,745			133,333	250,000
President	2005					
	2004					
Joseph T. Kingsley	2006	208,184			75,000(6)	
Interim President & Chief Financial Officer	2005	190,096			400,000(7)	
	2004	11,305				

(1) Excludes certain perquisites and other amounts that, for any executive officer, in the aggregate did not exceed the lesser of $50,000 or 10% of the total annual salary and bonus for such executive officer.
(2) Options vest in 24 equal monthly installments from June 2005 to May 2007.
(3) Options vest in 24 equal monthly installments from June 2006 to May 2008.
(4) Options vest in 40 equal monthly installments from October 2004 to September 2008.
(5) Mr. Ekchian joined the Company as President on November 14, 2005 and departed on June 2, 2006. The Company filed a Form 8-K on June 8, 2006 announcing his departure. The options shown are fully vested and the compensation reflected in the Other Compensation was paid to Mr. Ekchian as part of his Severance Agreement and General Release.
(6) Options vest in 24 equal monthly installments from June 2006 to May 2008.
(7) Options to purchase 300,000 shares of Common Stock vesting in 40 equal monthly installments from May 2005 to April 2009. Options to purchase 100,000 shares vest in 24 equal installments from June 2005 to May 2007

Stock Option Plans

The Company s stock option program is a broad-based, long-term retention program that is intended to attract and retain talented employees, directors and consultants and align their interests with stockholder interests. Options granted under the option plans expire either 5 or 10 years from the grant date and generally vest from two to four years.

All stock option grants to our executive officers are made after a review by, and with the approval of, either the Compensation Committee or the entire Board. All members of the Compensation Committee are independent directors, as defined in the applicable rules for issuers traded on the NASDAQ Stock Market. Our executive officers include Mr. Stewart, Chief Executive Officer and Mr. Kingsley, President, Chief Financial Officer and Secretary. See the Compensation Committee Report appearing later in this Proxy Statement for further information concerning the policies and procedures of the Company and the Compensation Committee regarding the use of stock options.

During the year ended September 30, 2006, options to purchase a total of 2,235,000 shares of Common Stock were granted. After deducting 1,164,417 shares for options forfeited, net option grants were 1,070,583. Net option grants during the year represented 3.1% of 34,140,402 total outstanding Common Shares as of September 30, 2006.

The following table summarizes the net stock option grants to our employees, directors and executive officers during the last three fiscal years ended September 30, 2004, 2005 and 2006. We define net option grants as options granted less options canceled or expired and returned to the pool of options available for grant. We also monitor net option grants by subtracting from options granted both canceled or expired options that were returned to the pool of options available for grant and options canceled from expired plans.

	2006	**2005**	**2004**
Net grants during the period as a % of total outstanding common stock	3.1%	6.9%	11.3%
Grants to directors and executive officers during the period as a % of total options granted during the period	66.2%	33.4%	23.9%
Grants to directors and executive officers during the period as a % of total outstanding common stock	4.3%	2.5%	2.8%
Cumulative options held by directors and executive officers as a % of total options outstanding	68.5%	31.6%	23.9%
Options available for grant as a % of total outstanding common stock	6.6%	4.8%	9.6%

At September 30, 2006, a total of 2,248,667 options were available for grant under our 2004 Equity Incentive Plan.

The following table summarizes outstanding stock options that are in-the-money and out-of the-money as of September 30, 2006. For purposes of this table, in-the-money stock options are those options with an exercise price less than $4.99 per share, the closing price of the Company s Common Stock on September 30, 2006 and out-of-the-money stock options are stock options with an exercise price greater than or equal to the $4.99 per share closing price.

	Exercisable		Unexercisable	
	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
In the money	2,045,654	$ 1.92	1,636,385	$ 2.61
Out of the money	57,728	$ 5.23	657,272	$ 5.39
Total options	2,103,382	$ 2.01	2,293,657	$ 3.40

Option Grants in 2006

The following table sets forth certain information regarding stock options granted during the year ended September 30, 2006 to each of the executive officers named in the table under Executive Officer Compensation Summary Compensation Table.

	Individual Grants				Potential realizable value at assumed annual rates of stock price appreciation for option term	
Name	Number of securities underlying options granted	% of Total options granted to employees in fiscal Year	Exercise price ($/Sh)	Expiration date	5% ($)	10% ($)
R. Bruce Stewart	75,000(1)	3.4%	$ 5.24	5/26/16	247,156	626,341
Joseph T. Kingsley	75,000(1)	3.4%	$ 5.24	5/26/16	247,156	626,341

(1) Options vest in 24 equal monthly installments from June 2006 to May 2008.

Aggregated Option Exercises In 2006 and 2006 Year-End Option Values

The following table sets forth certain information concerning the exercise of stock options during fiscal 2006 and the value of unexercised options as of September 30, 2006 for each of the executive officers named in the table under Executive Compensation Summary Compensation Table.

Number of Securities Underlying	Value of