

ARADIGM CORP
Form S-1
September 30, 2013
Table of Contents

As filed with the Securities and Exchange Commission on September 30, 2013

Registration No. 333-

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

Form S-1
REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

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

California
(State or other jurisdiction of
incorporation or organization)

2834
(Primary Standard Industrial
Classification Code Number)

94-3133088
(I.R.S. Employer
Identification Number)

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3929 Point Eden Way

Hayward, California 94545

(510)265-9000

(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

Igor Gonda

President and Chief Executive Officer

Aradigm Corporation

3929 Point Eden Way

Hayward, California 94545

(510)265-9000

(Name, address, including zip code, and telephone number, including area code, of agent for service)

With a copy to:

John W. Campbell, Esq.

Morrison & Foerster LLP

425 Market Street

San Francisco, CA 94105

Tel: (415) 268-7000

Fax: (415) 268-7522

Approximate date of commencement of proposed sale to the public:

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From time to time after the effective date of this Registration Statement.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933 check the following box: x

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. "

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. "

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. "

Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No "

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer " Accelerated filer "
 Non-accelerated filer " (Do not check if a smaller reporting company) Smaller reporting company x

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	Amount of Shares to be Registered	Proposed	Proposed	Amount of Registration Fee
		Maximum Offering Price per Share	Maximum Offering Price	
Common Stock, no par value per share(1)	50,000,000 (2)	\$0.19745(3)	\$9,872,500	\$1,346.61

(1) Includes associated rights (the Preferred Share Purchase Rights) to purchase shares of Series A Junior Participating Preferred Stock, no par value per share, of Aradigm Corporation (the Registrant). The Preferred

Share Purchase Rights are attached to shares of common stock, no par value per share (the Common Stock), of the Registrant in accordance with the Amended and Restated Rights Agreement, dated as of September 5, 2008 (the Rights Agreement), as amended from time to time, by and between the Registrant and Computershare Trust Company, N.A., as Rights Agent. The Preferred Share Purchase Rights are not exercisable until the occurrence of certain events specified in the Rights Agreement, are evidenced by the stock certificates representing the Common Stock and are transferable solely with the Common Stock. The value attributable to the Preferred Share Purchase Rights, if any, is reflected in the value of the Common Stock.

- (2) Consists of shares to be offered by selling shareholders. Consists of 50,000,000 outstanding shares of common stock issued in a private placement that closed on December 12, 2012 (the December 2012 Private Placement). Pursuant to Rule 416 under the Securities Act of 1933, as amended (the Securities Act), there is also being registered hereby such indeterminate number of additional shares of common stock as may be issued or issuable because of stock splits, stock dividends, stock distributions, and similar transactions.
- (3) Estimated solely for the purpose of calculating the registration fee in accordance with Rule 457(c) under the Securities Act based on the average of the high and low prices of the Registrant s common stock reported on the OTC Bulletin Board on September 25, 2013.

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the Registration Statement shall become effective on such date as the Commission acting pursuant to said Section 8(a), may determine.

Table of Contents

The information in this preliminary prospectus is not complete and may be changed. These securities may not be sold until the registration statement filed with the Securities and Exchange Commission is effective. This preliminary prospectus is not an offer to sell nor does it seek an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.

SUBJECT TO COMPLETION DATED SEPTEMBER 30, 2013

PRELIMINARY PROSPECTUS

Aradigm Corporation

Up to 50,000,000 Shares of Common Stock

This prospectus relates to the resale of up to 50,000,000 shares of our common stock, no par value per share, being offered by the selling shareholders identified in this prospectus, including their respective transferees, donees, pledgees or other successors in interest. These shares consist of 50,000,000 outstanding shares of common stock issued in a private placement that closed on December 12, 2012, which we refer to in this prospectus as the December 2012 private placement. We will not receive any of the proceeds from the sale of common stock by the selling shareholders under this prospectus. We have agreed to bear the expenses (other than any underwriting discounts or commissions or agent's commissions) in connection with the registration of the common stock being offered under this prospectus by the selling shareholders.

The selling shareholders may sell all or a portion of the shares of common stock held by them and offered hereby from time to time directly or through one or more underwriters, broker-dealers or agents. If the shares of common stock are sold through underwriters or broker-dealers, the selling shareholders will be responsible for underwriting discounts or commissions or agent's commissions.

The shares of common stock may be sold in one or more transactions at fixed prices, at prevailing market prices at the time of the sale, at varying prices determined at the time of sale or at negotiated prices. See Plan of Distribution beginning on page 14 of this prospectus.

Our common stock is quoted on the OTC Bulletin Board under the symbol ARDM. The closing price for our common stock on September 27, 2013 was \$0.2052 per share.

Investing in our common stock involves risk. You should carefully consider the risk factors beginning on page 6 of this prospectus before making a decision to invest in our common stock.

You should rely only on the information contained in this prospectus. We have not authorized anyone to provide you with information different from that contained in this prospectus or any prospectus supplement. This prospectus is not an offer of these securities in any jurisdiction where an offer and sale is not permitted.

NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THESE SECURITIES OR PASSED UPON THE ADEQUACY OR ACCURACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

The date of this prospectus is September 30, 2013

Table of Contents

Table of Contents

	Page
<u>Prospectus Summary</u>	1
<u>Cautionary Note Regarding Forward-Looking Statements</u>	5
<u>Risk Factors</u>	6
<u>Use of Proceeds</u>	9
<u>Security Ownership of Certain Beneficial Owners and Management</u>	10
<u>Selling Shareholders</u>	14
<u>Determination of Offering Price</u>	16
<u>Plan of Distribution</u>	16
<u>Description of Securities</u>	19
<u>Market for Common Equity and Related Shareholder Matters</u>	21
<u>Legal Matters</u>	22
<u>Experts</u>	22
<u>Where You Can Find More Information</u>	22
<u>Incorporation By Reference</u>	22

Table of Contents

PROSPECTUS SUMMARY

This summary highlights material information about us that is described more fully elsewhere in this prospectus. It may not contain all of the information that you find important. You should carefully read this entire document, including the Risk Factors section beginning on page 6 of this prospectus. Additionally, before making a decision to invest in our common stock, you should carefully read the risk factors and the financial statements and related notes to those statements that are included in the documents incorporated herein by reference, including in (i) our Annual Report on Form 10-K for the year ended December 31, 2012, (ii) our Quarterly Reports on Form 10-Q for the quarters ended March 31, 2013 and June 30, 2013, and (iii) other documents we file with the United States Securities and Exchange Commission (the SEC) that are deemed incorporated by reference into this prospectus.

Overview

We are an emerging specialty pharmaceutical company focused on the development and commercialization of drugs delivered by inhalation for the treatment of severe respiratory diseases by pulmonologists. Over the last decade, we invested a large amount of capital to develop drug delivery technologies, particularly the development of a significant amount of expertise in pulmonary (respiratory) drug delivery as incorporated in our lead product candidate entering Phase 3 clinical trials, Pulmaquin. We also invested considerable effort into the generation of a large volume of laboratory and clinical data demonstrating the performance of our AERx® pulmonary drug delivery platform and other proprietary technologies, including our inhaled ciprofloxacin formulations. We have not been profitable since inception and expect to incur additional operating losses over at least the foreseeable future as we continue product development efforts, clinical trial activities, animal toxicology and safety testing and possible sales, marketing and contract manufacturing efforts. To date, we have not had any significant product sales and do not anticipate receiving revenues from the sale of any of our products in the near term. As of June 30, 2013, we had an accumulated deficit of \$377.4 million. Historically, we have funded our operations primarily through public offerings and private placements of our capital stock, license fees and milestone payments from collaborators, proceeds from our January 2005 restructuring transaction with Novo Nordisk, borrowings from Novo Nordisk, the milestone and royalty payments associated with the sale of assets to Zogenix, proceeds from our June 2011 royalty financing transaction and interest earned on cash equivalents and short-term investments.

Over the last seven years, our business has focused on opportunities in the development of drugs for the treatment of severe respiratory disease that could be developed by us and commercialized in the United States, or another significant territory such as the European Union (EU). Our longer term strategy is to commercialize our respiratory product candidates with our own focused marketing and sales force addressing pulmonary specialty doctors in the United States or in the EU, where we believe that a proprietary sales force will enhance the return to our shareholders. Where our products can benefit a broader population of patients in the United States or in other countries, we may enter into co-development, co-promotion or other marketing arrangements with collaborators, thereby reducing costs and increasing revenues through license fees, milestone payments and royalties. In selecting our proprietary development programs, we primarily seek drugs approved by the United States Food and Drug Administration (FDA) that

Table of Contents

can be reformulated for both existing and new indications in respiratory disease. Our intent is to use our pulmonary delivery methods and formulations to improve their safety, efficacy and convenience of administration to patients. We believe that this strategy will allow us to reduce cost, development time and risk of failure, when compared to the discovery and development of new chemical entities.

More recently, we have restarted work on development of our inhaled nicotine program for smoking cessation. Changes in the regulatory environment in the U.S. and other countries brought about by the introduction of electronic cigarettes have created the opportunity to develop our AERx nicotine product for direct to consumer markets outside of the traditional pharmaceutical markets, thus potentially significantly decreasing the time-to-market for this product. We are also exploring the traditional regulatory path of approval of our nicotine inhaler as an approval under the FDA drug regulations may enable us to make health benefits claims and such approval would also mitigate the risk that the FDA in the future would prevent the marketing of unregulated nicotine-containing products.

Recent Developments

On May 20, 2013, we entered into a Stock Purchase Agreement (the "Stock Purchase Agreement") with Grifols, S.A., ("Grifols") and certain other investors (the "Investors"), pursuant to which we agreed to issue and sell a total of 209,774,558 shares of our common stock to Grifols and an additional 124,193,546 shares of common stock to the Investors, for a total sale of 333,968,104 shares of common stock, for a purchase price of \$0.124 per share (the "Grifols Private Placement"). The Grifols Private Placement closed on August 27, 2013.

In conjunction with closing the Grifols Private Placement, we entered into a License and Collaboration Agreement (the "License Agreement") with Grifols under which we exclusively licensed to Grifols on an exclusive, world-wide basis, our inhaled liposomal ciprofloxacin compound for the indication of non-cystic fibrosis bronchiectasis and other indications (the "License Program"), the lead product candidate under which is Pulmaquin. Under the License Agreement Grifols will fund development expenses and commercialize products from the License Program ("Licensed Products"), and pay development milestones and royalties on future commercial sales of Licensed Products. We will develop the Licensed Product for non-cystic fibrosis bronchiectasis or pulmonary infections associated with non-cystic fibrosis bronchiectasis, in accordance with an agreed upon development plan and pursuant to a Grifols-funded budget of \$65 million (which includes allocations for our internal, fully-burdened expenses). Grifols will make development milestone payments of up to \$25 million (with an initial payment of \$5 million for initiation of the first Phase III clinical trial). On a country-by-country basis, Grifols will make royalty payments on net sales at a rate of either 12.5% or 20% (depending on the amount of net sales) for so long as there is patent coverage or orphan drug designation (or, if longer, 10 years), except that payments will be reduced by half in the event that a competitive product is being sold.

In addition, we granted Grifols a limited term option to license our AERx® pulmonary drug delivery platform for use with another molecule. The option agreement affords Grifols a limited period of time to conduct a diligence assessment. If Grifols elects to proceed with a license, Grifols will pay us a low single digit royalty on net sales but bear all costs associated with development and commercialization.

Table of Contents

In connection with the closing the Grifols Private Placement, we also entered into a Governance Agreement (the Governance Agreement), which sets forth certain rights and obligations of us and Grifols concerning, among other things, certain corporate governance matters, certain limitations on future acquisitions of shares of common stock by Grifols, and certain rights by Grifols to maintain a target level of ownership in us. On the closing date, our board of directors was reconstituted to consist of our chief executive officer, three of our our existing independent directors and two persons designated by Grifols. The number of persons Grifols will be entitled to designate for consideration for election to our board of directors to our nominating committee will thereafter depend on the percentage of beneficial ownership of us held by Grifols. The Governance Agreement also provides for certain standstill provisions which will end 12 months after the first commercial sale of a Licensed Product. Additionally, it provides Grifols with certain preemptive rights and approval rights for certain actions which would adversely affect Grifols' rights under the Governance Agreement, including approval rights over the termination of our Chief Executive Officer or the appointment of any successor Chief Executive Officer.

Corporate Information

We were incorporated in California in 1991. Our principal executive offices and mailing address is 3929 Point Eden Way, Hayward, California 94545, and the main telephone number of our principal executive offices is (510) 265-9000. Our website address is www.aradigm.com. The reference to our website is intended to be an inactive textual reference and the information on, or accessible through, our website is not intended to be part of this prospectus.

Our trademarks indicated in this prospectus include Aradigm, Pulmaquin, Lipoquin, AERx and AERx Essence. All other trademarks or service marks appearing in this prospectus are the property of their respective holders.

Table of Contents

THE OFFERING

This prospectus relates to the resale of up to 50,000,000 shares of our common stock, no par value per share, being offered by the selling shareholders identified in this prospectus, including their respective transferees, donees, pledgees or other successors in interest. These shares consist of 50,000,000 outstanding shares of common stock issued in the December 2012 private placement.

Common stock being offered by selling shareholders	50,000,000 shares
Common stock outstanding prior to and after the offering	586,375,325(1)
Use of proceeds	We will not receive any of the proceeds from the sale of common stock by the selling shareholders under this prospectus.
OTC Bulletin Board Symbol	ARDM
Risk Factors	The shares offered by this prospectus are speculative and involve a high degree of risk and investors purchasing these shares should not purchase these shares unless they can afford the loss of their entire investment. See Risk Factors beginning on page 6.

(1) As of September 30, 2013. Includes the shares of common stock being offered under this prospectus.

Table of Contents

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus contains forward-looking statements that are based on the current beliefs of management, as well as current assumptions made by, and information currently available to, management. All statements contained in this prospectus, other than statements that are purely historical, are forward-looking statements. Words such as anticipate, expect, intend, plan, believe, may, will, could, continue, seek, estimate, probably, potentially and similar expressions also identify forward-looking statements. These forward-looking statements are subject to risks and uncertainties that could cause our future actual results, performance or achievements to differ materially from those expressed in, or implied by, any such forward-looking statements as a result of certain factors, including but not limited to, those risks and uncertainties discussed in this section as well as in the section entitled Risk Factors in this prospectus and other reports filed with the SEC. Forward-looking statements include, but are not limited to, (i) our business strategies, including our intent to pursue selected opportunities for delivery via inhalation by seeking collaborations and government grants that will fund development and commercialization; (ii) our strategy to commercialize our respiratory product candidates with our own focused sales and marketing force addressing pulmonary specialty doctors in the United States or in the European Union and our intent to use our pulmonary delivery methods and formulations of drugs and biologics to improve their safety, efficacy and convenience of administration to patients, (iii) our expectations regarding future clinical trials; (iv) our expectation that we will incur additional operating losses; (v) our expectation that we will continue to receive royalty revenue from Zogenix and (vi) our focus on maintaining funded partnering agreements as the means to generate the capital resources needed to fund the further development of the bronchiectasis and cystic fibrosis indications for our inhaled ciprofloxacin program.

These forward-looking statements and our business are subject to significant risks such as the risks and uncertainties discussed in the section entitled Risk Factors and the risks described in the documents incorporated herein by reference, including, but not limited to: (i) our ability to maintain partnering agreements and (ii) our need and ability to raise additional capital, whether non-dilutive or otherwise. Even if product candidates appear promising at various stages of development, they may not reach the market or may not be commercially successful for a number of reasons. Such reasons include, but are not limited to, the possibilities that the potential products may be found to be unsafe in animal or human trials, ineffective during clinical trials, may fail to receive necessary regulatory approvals, may be difficult to manufacture on a large scale, are uneconomical to market, may be precluded from commercialization by proprietary rights of third parties or may not gain acceptance from health care professionals and patients.

Investors are cautioned not to place undue reliance on the forward-looking statements contained herein, which speak only as of the date of the filing of this prospectus. We undertake no obligation to update these forward-looking statements in light of events or circumstances occurring after the date of the filing of this prospectus or to reflect the occurrence of unanticipated events.

Table of Contents

RISK FACTORS

In addition to the other information contained in this prospectus, and the risk factors set forth in our Annual Report on Form 10-K for the year ended December 31, 2012, our Quarterly Report on Form 10-Q for the quarters ended March 31, 2013 and June 30, 2013, and other documents we file with the SEC, the following risk factors should be considered carefully before you decide whether to buy, hold or sell our common stock. Our business, financial condition, results of operations and stock price could be materially adversely affected by any of these risks. Additional risks not presently known to us or that we currently deem immaterial may also impair our business, financial conditions, results of operations and stock price.

Risks Related to Our Common Stock

Our stock price is likely to remain volatile.

The market prices for securities of many companies in the drug delivery and pharmaceutical industries, including ours, have historically been highly volatile, and the market from time to time has experienced significant price and volume fluctuations unrelated to the operating performance of particular companies. The market prices for our common stock may continue to be highly volatile in the future. The market prices for our common stock may be influenced by many factors, including:

investor perception of us;

our available cash;

market conditions relating to our segment of the industry or the securities markets in general;

investor perception of the future royalty stream from Zogenix;

sales of our stock by certain large institutional shareholders;

research analyst recommendations and our ability to meet or exceed quarterly performance expectations of analysts or investors;

failure to maintain or establish collaborative relationships;

fluctuations in our operating results;

announcements of technological innovations or new commercial products by us or our competitors;

publicity regarding actual or potential developments relating to products under development by us or our competitors;

developments or disputes concerning patents or proprietary rights;

delays in the development or approval of our product candidates;

Table of Contents

regulatory developments in both the United States and foreign countries;

concern of the public or the medical community as to the safety or efficacy of our products, or products deemed to have similar safety risk factors or other similar characteristics to our products;

future sales or expected sales of substantial amounts of common stock by shareholders;

our ability to raise capital; and

economic and other external factors.

In the past, class action securities litigation has often been instituted against companies promptly following volatility in the market price of their securities. Any such litigation instigated against us would, regardless of its merit, result in substantial costs and a diversion of management's attention and resources.

Our common stock is quoted on the OTC Bulletin Board, which may provide less liquidity for our shareholders than the national exchanges.

Our common stock is currently quoted on the OTC Bulletin Board. As compared to being listed on a national exchange, being quoted on the OTC Bulletin Board may result in reduced liquidity for our shareholders, may cause investors not to trade in our stock and may result in a lower stock price. In addition, investors may find it more difficult to obtain accurate quotations of the share price of our common stock. Trading of our common stock through the OTC Bulletin Board is frequently thin and highly volatile, and there is no assurance that a sufficient market will develop in our common stock, in which case it could be difficult for our shareholders to sell their stock.

Our common stock may be considered penny stock and may be difficult to sell.

The SEC has adopted regulations which generally define penny stock to include an equity security that has a market price of less than \$5.00 per share, subject to specific exemptions. The market price of our common stock is currently less than \$5.00 per share and therefore may be designated as a penny stock according to SEC rules. This designation requires any broker or dealer selling these securities to disclose some information concerning the transaction, obtain a written agreement from the purchaser and determine that the purchaser is reasonably suitable to purchase the securities. These rules may restrict the ability of brokers or dealers to sell the common stock and may affect the ability of investors to sell their shares. These regulations may likely have the effect of limiting the trading activity of our common stock and reducing the liquidity of an investment in our common stock.

We have implemented certain anti-takeover provisions, which may make an acquisition less likely or might result in costly litigation or proxy battles.

Certain provisions of our articles of incorporation and the California Corporations Code could discourage a party from acquiring, or make it more difficult for a party to acquire, control

Table of Contents

of our company without approval of our Board of Directors. These provisions could also limit the price that certain investors might be willing to pay in the future for shares of our common stock. Certain provisions allow our Board of Directors to authorize the issuance, without shareholder approval, of preferred stock with rights superior to those of the common stock. We are also subject to the provisions of Section 1203 of the California Corporations Code, which requires us to provide a fairness opinion to our shareholders in connection with their consideration of any proposed interested party reorganization transaction.

We have adopted a shareholder rights plan, commonly known as a poison pill. We have also adopted an executive officer severance plan and entered into change of control agreements with our executive officers, both of which may provide for the payment of benefits to our officers and other key employees in connection with an acquisition. The provisions of our articles of incorporation, our poison pill, our severance plan and our change of control agreements, and provisions of the California Corporations Code may discourage, delay or prevent another party from acquiring us or reduce the price that a buyer is willing to pay for our common stock.

One of our shareholders may choose to pursue a lawsuit or engage in a proxy battle with management to limit our use of one or more of these anti-takeover protections. Any such lawsuit or proxy battle would, regardless of its merit or outcome, result in substantial costs and a diversion of management's attention and resources.

We have never paid dividends on our capital stock, and we do not anticipate paying cash dividends for at least the foreseeable future.

We have never declared or paid cash dividends on our capital stock. We do not anticipate paying any cash dividends on our common stock for at least the foreseeable future. We currently intend to retain all available funds and future earnings, if any, to fund the development and growth of our business. Therefore, our shareholders will not receive any funds absent a sale of their shares. We cannot assure shareholders of a positive return on their investment if they sell their shares, nor can we assure that shareholders will not lose the entire amount of their investment.

A small number of shareholders own a large percentage of our common stock and can influence the outcome of matters submitted to our shareholders for approval.

A small number of our shareholders own a large percentage of our common stock and can, therefore, influence the outcome of matters submitted to our shareholders for approval. Based on information known to us as of September 18, 2013, our two largest investors, collectively, control in excess of a majority of our outstanding common stock. As a result, these shareholders have the ability to influence the outcome of matters submitted to our shareholders for approval, including certain proposed amendments to our amended and restated articles of incorporation (for example, amendments to increase the number of our authorized shares) and any proposed merger, consolidation or sale of all or substantially all of our assets. These shareholders may support proposals and actions with which you may disagree. The concentration of ownership could delay or prevent a change in control of our company or otherwise discourage a potential acquirer from attempting to obtain control of our company, which in turn could reduce the price of our common stock.

Table of Contents

USE OF PROCEEDS

We will not receive any of the proceeds from the sale of common stock by the selling shareholders under this prospectus. All proceeds from the sale of common stock under this prospectus will be paid directly to the selling shareholders. We have agreed to bear the expenses (other than any underwriting discounts or commissions or agents' commissions) in connection with the registration of the common stock being offered hereby by the selling shareholders.

Table of Contents**SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT**

The following table sets forth certain information regarding the ownership of our common stock as of September 18, 2013 by: (i) each director; (ii) each of our named executive officers; (iii) all of our executive officers and directors as a group; and (iv) all those known by us to be beneficial owners of more than five percent of our common stock.

	Beneficial Ownership Common(1)	
	Number of Shares	Percent of Total (%)
Grifols, S.A.(2)		
Avinguda de la Generalitat, 152-158		
Parc de Negocis Can Sant Joan		
Sant Cugat del Valles 08174, Barcelona, Spain	209,774,558	35.8
First Eagle Investment Management, LLC(3)		
1345 Avenue of the Americas		
New York, NY 10105	154,326,899	26.32
Entities affiliated with Boxer Capital LLC(4)		
445 Marine View Avenue Suite 100		
Del Mar, CA 92014	57,517,914	9.81
Great Point Partners(5)		
165 Mason Street, 3rd Floor		
Greenwich, CT 06830	40,322,580	6.88
Laurence W. Lytton(6)		
467 Central Park West		
New York, NY 10025	30,029,533	5.12
Igor Gonda, Ph.D.(7)	5,005,679	*
Nancy Pecota(8)	1,772,062	*
Virgil D. Thompson(9)	1,700,062	*
John M. Siebert, Ph.D.(10)	1,146,697	*
Helen E. Short(11)	115,000	*
Lafmin Morgan(12)		
David Bell(13)		
	9,739,500	1.66

All executive officers and directors as a group (7 persons)(14)

- * Less than one percent
- (1) This table is based upon information supplied by officers, directors and principal shareholders and Forms 3, Forms 4 and Schedules 13D and 13G filed with the SEC. Unless otherwise indicated in the footnotes to this table and subject to community property laws where applicable, we believe that each of the shareholders named in this table has sole voting and investment power with respect to the shares indicated as beneficially owned. Applicable percentages are based on 586,375,325 shares of common stock outstanding on September 18, 2013. Unless otherwise indicated, the address of each person on this table is c/o Aradigm Corporation, 3929 Point Eden Way, Hayward, California, 94545.
- (2) Based upon information contained in a Schedule 13D filed with the SEC on September 4, 2013.
- (3) Based upon information contained in a Schedule 13D/A filed with the SEC on August 30, 2013, First Eagle Investment Management, LLC (FEIM) (formerly Arnhold and S.

Table of Contents

Bleichroeder Advisors, LLC), an investment adviser registered under Section 203 of the Investment Advisers Act of 1940, is deemed to beneficially own 154,326,899 shares of our Common Stock, as a result of acting as investment advisor to various clients. Clients of FEIM have the right to receive and the ultimate power to direct the receipt of dividends from, or the proceeds of the sale of, such securities. First Eagle Value in Biotechnology Master Fund, Ltd., a Cayman Islands company for which FEIM acts as investment adviser, may be deemed to beneficially own 77,583,588 of these 154,326,899 shares. In addition, 21 April Fund Ltd., a Cayman Islands company for which FEIM acts as an investment adviser, may be deemed to beneficially own 44,687,782 of these 154,326,899 shares.

- (4) Based upon information contained in a Schedule 13D filed with the SEC on May 30, 2013. Boxer Capital LLC (Boxer Capital), Boxer Asset Management Inc. (Boxer Management) and Joseph Lewis may be deemed to beneficially own 51,512,735 of these 57,517,914 shares. Boxer Management is the managing member and majority owner of Boxer Capital. Joseph Lewis is the sole indirect owner and controls Boxer Management. Boxer Capital, Boxer Management and Joseph Lewis have shared voting and dispositive power with regard to the 51,512,735 common shares they beneficially own. MVA Investors, LLC (MVA) is an independent, personal investment vehicle of certain employees of Boxer Capital and Tavistock Life Sciences Company, which is a Delaware corporation and an affiliate of Boxer Capital. As such, MVA is not controlled by Boxer Capital, Boxer Management or Joseph Lewis. Aaron Davis and Ivan Lieberburg are employed by Tavistock Life Sciences Company. MVA may be deemed to beneficially own 2,890,625 of these 57,517,914 shares, and has sole voting and dispositive power over the Common Stock owned by it. Aaron Davis may be deemed to beneficially own 450,000 of these 57,517,914 shares, and has sole voting and dispositive power over the Common Stock he owns. Ivan Lieberburg may be deemed to beneficially own 2,664,254 of these 57,517,914 shares, and has sole voting and dispositive power over the Common Stock he owns. Neither Boxer Capital, Boxer Management nor Joseph Lewis have any voting or dispositive power with regard to the Common Stock held by MVA, Aaron Davis, or Ivan Lieberburg.
- (5) Based upon information contained in the Stock Purchase Agreement entered into in connection with the Grifols Private Placement, as amended. Biomedical Value Fund, L.P. (BVF) is the record owner of 16,198,846 shares of Common Stock (the BVF Shares). Great Point Partners, LLC (Great Point) is the investment manager of BVF, and by virtue of such status may be deemed to be the beneficial owner of the BVF Shares. Biomedical Offshore Value Fund, Ltd. (BOVF) is the record owner of 10,342,068 shares of Common Stock (the BOVF Shares). Great Point is the investment manager of BOVF, and by virtue of such status may be deemed to be the beneficial owner of the BOVF Shares. Biomedical Institutional Value Fund, L.P. (BIVF) is the record owner 4,060,652 shares of Common Stock (the BIVF Shares). Great Point is the investment manager of BIVF, and by virtue of such status may be deemed to be the beneficial owner of the BIVF Shares. Class D Series of GEF-PS, LP (GEF-PS) is the record owner of 8,571,694 shares of Common Stock (the GEF-PS Shares). Great Point is the investment manager of GEF-PS, and by virtue of such status may be deemed to be

Table of Contents

the beneficial owner of the GEF-PS Shares. WS Investments III, LLC (WS) is the record owner of 806,452 shares of Common Stock (the WS Shares). Great Point is the investment manager with respect to the WS Shares, and by virtue of such status may be deemed to be the beneficial owner of the WS Shares. David J. Morrison (Morrison) is the record owner of 342,868 shares of Common Stock (the Morrison Shares). Great Point is the investment manager with respect to the Morrison Shares, and by virtue of such status may be deemed to be the beneficial owner of the Morrison Shares.

- (6) Based upon information contained in a Schedule 13G (Amendment No. 1), filed with the SEC on February 13, 2013 and in the Stock Purchase Agreement.
- (7) Includes 1,864,000 stock options shares which are exercisable within 60 days of September 18, 2013. The number of shares also includes 525,000 shares pursuant to restricted stock awards that have not vested.
- (8) Includes 725,000 stock options which are exercisable within 60 days of September 18, 2013. The number of shares also includes 325,000 shares pursuant to restricted stock awards that have not vested.
- (9) Includes 700,000 stock options which are exercisable within 60 days of September 18, 2013. The number of shares also includes 208,333 shares pursuant to restricted stock units and 250,000 shares pursuant to restricted stock awards that have not vested.
- (10) Includes 645,000 stock options which are exercisable within 60 days of September 18, 2013. The number of shares also includes 203,947 shares pursuant to restricted stock units and 75,000 shares pursuant to restricted stock awards that have not vested.
- (11) Includes 35,000 stock options which are exercisable within 60 days of September 18, 2013. The number of shares includes 60,000 shares pursuant to restricted stock awards that have not vested.
- (12) Mr. Morgan serves as President of Global Marketing of Grifols, Inc. and Corporate Vice President of Grifols, S.A. Mr. Morgan disclaims any beneficial ownership in shares of our Common Stock owned by Grifols, S.A.
- (13) Mr. Bell serves as General Counsel and Vice President of Corporate Operations and Development of Grifols, Inc. and Corporate Vice President of Grifols, S.A. Mr. Bell disclaims any beneficial ownership in shares of our Common Stock owned by Grifols, S.A.
- (14) See footnotes (7) through (13) above.

Equity Compensation Plan Information

The following table summarizes our equity compensation plan information as of June 30, 2013. Information is included for the equity compensation plans approved by our shareholders. There are no equity compensation plans not approved by our shareholders.

Table of Contents

Plan Category	Common Stock to be Issued Upon Exercise of Outstanding Options and Rights (a)	Weighted-Average Exercise Price of Outstanding Options and Rights (b)	Common Stock Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a)) (c)
Equity compensation plans approved by Aradigm shareholders	7,350,100(1)	\$ 0.81	44,852,013(2)

(1) Issuable pursuant to our 1996 Equity Incentive Plan, the 1996 Non-Employee Directors Plan and the 2005 Equity Incentive Plan.

(2) Shares available for future issuance includes 3,206,222 shares reserved under our Employee Stock Purchase Plan.

Change in Control

There were no arrangements, known to us, including any pledge by any person of our securities the operation of which may at a subsequent date result in a change in control of our company.

Table of Contents

SELLING SHAREHOLDERS

This prospectus generally covers the resale of up to 50,000,000 shares of our common stock being offered by the selling shareholders identified in the table below. These shares consist of 50,000,000 outstanding shares of common stock issued in the December 2012 private placement.

We have entered into registration rights agreements with the selling shareholders pursuant to which we have agreed to file a registration statement, of which this prospectus is a part, under the Securities Act of 1933, as amended (the Securities Act), registering the resale by the selling shareholders of the shares of common stock covered by this prospectus. We have also agreed to cause such registration statement to become effective, and to keep such registration statement effective. Our failure to satisfy the deadlines set forth in the registration rights agreements may subject us to payment of certain monetary penalties pursuant to the terms of the registration rights agreements.

We are registering the shares of common stock covered by this prospectus in order to permit the selling shareholders to offer the shares for resale from time to time.

The table below lists the selling shareholders and other information regarding the beneficial ownership (as determined under Section 13(d) of the Securities Exchange Act of 1934, as amended (the Exchange Act), and the rules and regulations thereunder) of the shares of common stock held by each of the selling shareholders. The table below has been prepared based on information supplied to us by the selling shareholders. Except as indicated in the footnotes to the table below, the selling shareholders have not had any material relationship with us within the past three years, except for their ownership of our common stock.

The second column lists the number of shares of common stock beneficially owned by the selling shareholders, based on their respective ownership of shares of common stock, as of September 18, 2013. This column includes the shares of common stock being offered under this prospectus.

The third column lists the maximum number of shares of common stock being offered by the selling shareholders under this prospectus.

The fourth and fifth columns assume the sale of all of the shares offered by the selling shareholders pursuant to this prospectus.

The selling shareholders may sell all, some or none of their shares in this offering. See Plan of Distribution.

Table of Contents

Name of Selling Shareholder	Maximum Number of Shares of Common Stock Owned Prior to Offering(a)	Number of Shares of Common Stock to be Sold Pursuant to this Prospectus	Number of Shares of Common Stock Owned After Offering(b)	Percentage of Common Stock Outstanding After Offering(c)
21 April Fund, L.P. (1)	11,896,668	3,333,333	8,563,335	1.46%
21 April Fund, Ltd. (2)	44,687,782	13,333,334	31,354,448	5.35%
DEF Associates LP (3)	8,580,790	1,041,667	7,539,123	1.28%
DEF Associates Ltd. (4)	10,598,328	3,125,000	7,473,328	1.27%
First Eagle Value in Biotechnology Master Fund, Ltd. (5)	77,583,588	20,833,333	56,750,255	9.68%
Laurence W. Lytton	30,029,533	8,333,333	21,696,200	3.70%

The selling shareholder is an affiliate of a broker-dealer. Based on information provided to us by such selling shareholder, such selling shareholder purchased the shares being offered for resale in the ordinary course of business and, at the time of purchase, such selling shareholder had no agreements or understandings, directly or indirectly, with any person to distribute the shares.

- (a) Includes the shares of common stock being offered under this prospectus. Unless otherwise indicated in the footnotes to this table and subject to community property laws where applicable, we believe that each of the selling shareholders named in this table has sole voting and investment power with respect to the shares indicated as beneficially owned.
- (b) Assumes all of the shares of common stock being offered under this prospectus are sold in the offering.
- (c) Applicable percentage ownership is based on 586,375,325 shares of common stock outstanding as of September 18, 2013.
- (1) First Eagle Investment Management, LLC, a Delaware limited liability company and a U.S. registered investment adviser serves as investment adviser to the selling shareholder. First Eagle Investment Management, LLC is a subsidiary of Arnhold and S. Bleichroeder Holdings, Inc., a Delaware corporation. Michael M. Kellen may be deemed to have voting and investment control over the shares held by the selling shareholder.
- (2) First Eagle Investment Management, LLC, a Delaware limited liability company and a U.S. registered investment adviser serves as investment adviser to the selling shareholder. First Eagle Investment Management, LLC is a subsidiary of Arnhold and S. Bleichroeder Holdings, Inc., a Delaware corporation. Michael M. Kellen may be deemed to have voting and investment control over the shares held by the selling shareholder.
- (3) First Eagle Investment Management, LLC, a Delaware limited liability company and a U.S. registered investment adviser serves as investment adviser to the selling shareholder. First Eagle Investment Management, LLC is a subsidiary of Arnhold and S. Bleichroeder Holdings, Inc., a Delaware corporation. Michael M. Kellen may be deemed to have voting and investment control over the shares held by the selling shareholder.
- (4) First Eagle Investment Management, LLC, a Delaware limited liability company and a U.S. registered investment adviser serves as investment adviser to the selling shareholder. First Eagle Investment Management, LLC is a subsidiary of Arnhold and S. Bleichroeder Holdings, Inc., a Delaware corporation. Michael M. Kellen may be deemed to have voting and investment control over the shares held by the selling shareholder.
- (5) First Eagle Investment Management, LLC, a Delaware limited liability company and a U.S. registered investment adviser serves as investment adviser to the selling shareholder. First Eagle Investment Management, LLC is a subsidiary of Arnhold and S. Bleichroeder Holdings, Inc., a Delaware corporation. Dan DeClue may be deemed to have voting and investment control over the shares held by the selling shareholder.

Table of Contents

DETERMINATION OF OFFERING PRICE

The selling shareholders will determine at what price they may sell the shares of common stock offered by this prospectus, and such sales may be made at prevailing market prices, or at privately negotiated prices.

PLAN OF DISTRIBUTION

We are registering 50,000,000 shares of common stock previously issued to permit the resale of these shares of common stock by the holders of the common stock from time to time after the date of this prospectus. We will not receive any of the proceeds from the sale by the selling shareholders of the shares of common stock. We will bear all fees and expenses incident to our obligation to register the shares of common stock.

The selling shareholders may sell all or a portion of the shares of common stock held by them and offered hereby from time to time directly or through one or more underwriters, broker-dealers or agents. If the shares of common stock are sold through underwriters or broker-dealers, the selling shareholders will be responsible for underwriting discounts or commissions or agent's commissions. The shares of common stock may be sold in one or more transactions at fixed prices, at prevailing market prices at the time of the sale, at varying prices determined at the time of sale or at negotiated prices. These sales may be effected in transactions, which may involve crosses or block transactions, pursuant to one or more of the following methods:

on any national securities exchange or quotation service on which the securities may be listed or quoted at the time of sale;

in the over-the-counter market;

in transactions otherwise than on these exchanges or systems or in the over-the-counter market;

through the writing or settlement of options, whether such options are listed on an options exchange or otherwise;

ordinary brokerage transactions and transactions in which the broker-dealer solicits purchasers;

block trades in which the broker-dealer will attempt to sell the shares as agent but may position and resell a portion of the block as principal to facilitate the transaction;

purchases by a broker-dealer as principal and resale by the broker-dealer for its account;

an exchange distribution in accordance with the rules of the applicable exchange;

privately negotiated transactions;

Table of Contents

short sales made after the date the Registration Statement is declared effective by the SEC;

agreements between broker-dealers and the selling shareholders to sell a specified number of such shares at a stipulated price per share;

a combination of any such methods of sale; and

any other method permitted pursuant to applicable law.

The selling shareholders may also sell shares of common stock under Rule 144 promulgated under the Securities Act of 1933, as amended, if available, rather than under this prospectus. In addition, the selling shareholders may transfer the shares of common stock by other means not described in this prospectus. If the selling shareholders effect such transactions by selling shares of common stock to or through underwriters, broker-dealers or agents, such underwriters, broker-dealers or agents may receive commissions in the form of discounts, concessions or commissions from the selling shareholders or commissions from purchasers of the shares of common stock for whom they may act as agent or to whom they may sell as principal (which discounts, concessions or commissions as to particular underwriters, broker-dealers or agents may be in excess of those customary in the types of transactions involved). In connection with sales of the shares of common stock or otherwise, the selling shareholders may enter into hedging transactions with broker-dealers, which may in turn engage in short sales of the shares of common stock in the course of hedging in positions they assume. The selling shareholders may also sell shares of common stock short and deliver shares of common stock covered by this prospectus to close out short positions and to return borrowed shares in connection with such short sales. The selling shareholders may also