



May 10, 2016

Aradigm Announces First Quarter 2016 Financial Results

HAYWARD, Calif.--(BUSINESS WIRE)-- **Aradigm Corporation (NASDAQ: ARDM)** (the "Company") today announced financial results for the first quarter and three months ended March 31, 2016.

Liquidity and Capital Resources

On April 22, 2016, the Company announced the pricing of \$23 million of its senior convertible notes due 2021 and related warrants to purchase 263,436 shares of the Company's common stock in a private placement conducted pursuant to Regulation D under the Securities Act of 1933, as amended. The initial conversion rate will be 191.9386 shares of common stock for each \$1,000 principal amount of notes, which represents an initial conversion price of approximately \$5.21 per share of common stock. Interest on the notes will be paid semi-annually in arrears at the rate of 9% per year. The warrants are exercisable at an exercise price of \$5.21 per share beginning on the later of 180 days after the date of issuance or the date the Company issues a press release announcing data related to the ORBIT-3 and ORBIT-4 Phase 3 pivotal clinical trials in non-cystic fibrosis bronchiectasis (non-CF BE) patients with chronic respiratory infections with *Pseudomonas aeruginosa* treated with the Company's investigational product Pulmaquin® (proprietary formulation of inhaled ciprofloxacin). The first closing of the sale of the notes and warrants occurred on April 25, 2016, and the second closing is expected to occur immediately after the Company's resale registration statement to be filed in connection with the offering has been declared effective, each subject to customary closing conditions.

The Company intends to use the net proceeds from the offering, estimated to be \$20.7 million, to fund the current clinical development and regulatory submission for licensure of Pulmaquin and for general corporate purposes.

As of March 31, 2016, the Company reported cash and cash equivalents of \$22.4 million which did not include the proceeds from the first closing of the private placement offering of \$23 million senior convertible notes.

First Quarter 2016 Financial Results

The Company recorded \$6,000 in revenue in the first quarter of 2016 compared with \$8.8 million in revenue in the first quarter of 2015. The reduction in revenue occurred because the Company utilized in prior periods the full amount of the \$65 million of Grifols-funded budget provided under the inhaled ciprofloxacin collaboration arrangement for funding the bronchiectasis program.

Total operating expenses for the first quarter of 2016 were \$8.1 million, compared with total operating expenses of \$9.9 million for the first quarter of 2015. The decrease in research and development expenses was due to lower contract manufacturing and clinical trial costs because the manufacturing, labeling and packaging expenses for clinical supplies and the enrollment activities of the Pulmaquin Phase clinical trials are complete, offset by higher employee-related expenses due to the higher number of employees and higher consulting expenses in support of the Pulmaquin bronchiectasis regulatory process towards US and EU approvals for market authorization. General and administrative costs were higher primarily due to increased non-cash stock compensation expense and slightly higher legal expense.

Net loss for the first quarter of 2016 was \$8.1 million or \$0.55 per share, compared with a net loss of \$1.2 million or \$0.08 per share in the first quarter of 2015. Net loss increased due to lower contract revenue of \$8.7 million, partially offset by lower operating expenses of \$1.8 million.

About Pulmaquin

Pulmaquin is a dual release formulation composed of a mixture of liposome encapsulated and unencapsulated ciprofloxacin. Ciprofloxacin, available in oral and intravenous formulations, is a widely prescribed antibiotic. It is used to treat acute lung infections and is often preferred because of its broad-spectrum antibacterial activity against various bacteria, such as *Pseudomonas aeruginosa*. Pulmaquin is being evaluated in two ongoing Phase 3 studies to determine its safety and effectiveness as a once-a-day inhaled formulation for the chronic treatment of patients with non-CF BE who have chronic lung infections with *Pseudomonas aeruginosa*.

Following Phase 2a development of the liposomal portion of Pulmaquin (Lipoquin®) and Phase 1 development of

Pulmaquin, the Phase 2b study ORBIT-2 with Pulmaquin was a 24-week multicenter, randomized, double-blind, placebo-controlled trial in 42 adult non-CF BE subjects. This study demonstrated a significant reduction in *P.aeruginosa* sputum activity ($p=0.002$) and a decrease in time to first exacerbation in the per protocol population ($p=0.046$) and the mITT ($p=0.057$) populations in the Pulmaquin treated subjects compared to placebo. Overall, the incidence of all treatment emergent adverse events was similar between groups. The most frequently reported treatment related adverse events (reported by ≥ 3 patients in either treatment group) included product taste abnormal and nausea in the Pulmaquin group and wheezing in the placebo group. No serious adverse events were considered treatment related. There were no deaths reported during ORBIT-2.

The Phase 3 clinical program for Pulmaquin in non-CF BE consists of two worldwide, double-blind, placebo-controlled pivotal trials (ORBIT-3 and ORBIT-4) that are identical in design except for a pharmacokinetics sub-study to be conducted in one of the trials. Each trial has enrolled patients (278 in ORBIT-3 and 304 in ORBIT-4) into a 48-week double-blind period consisting of 6 cycles of 28 days on treatment with Pulmaquin or placebo plus 28 days off treatment, followed by a 28 day open label extension in which all participants will receive Pulmaquin (total treatment duration approximately one year). The superiority of Pulmaquin vs. placebo during the double-blind period is being evaluated in terms of the time to first pulmonary exacerbation (primary endpoint), while key secondary endpoints include the reduction in the number of pulmonary exacerbations and improvements in the quality of life measures. Lung function is being monitored as a safety indicator.

Aradigm has been granted orphan drug designations for liposomal ciprofloxacin as well as for ciprofloxacin for inhalation for non-CF BE in the U.S. In addition, the U.S. Food and Drug Administration (FDA) has designated Pulmaquin as a Qualified Infectious Disease Product (QIDP). The QIDP designation is granted for treatment of non-CF BE patients with chronic lung infections with *Pseudomonas aeruginosa*. The QIDP designation made Pulmaquin eligible for Fast Track designation which was granted by the FDA in September 2014.

In 2013, Aradigm granted an exclusive, world-wide license for the Company's inhaled liposomal ciprofloxacin product candidates for the indication of non-CF BE and other indications to Grifols S.A. More information on the terms of this license may be found in the Company's Annual Report on Form 10-K for the year ended December 31, 2013 filed with the SEC on March 13, 2014.

About Non-Cystic Fibrosis Bronchiectasis

Non-CF BE is a severe, chronic and rare disease characterized by abnormal dilatation of the bronchi and bronchioles, frequently associated with chronic lung infections. It is often a consequence of a vicious cycle of inflammation, recurrent lung infections, and bronchial wall damage. Non-CF BE represents an unmet medical need with high morbidity and mortality that affects more than 110,000 people in the U.S. and over 200,000 people in Europe. There is currently no drug approved for the treatment of this condition.

About Aradigm

Aradigm is an emerging specialty pharmaceutical company focused on the development and commercialization of drugs for the prevention and treatment of severe respiratory diseases. Aradigm is currently in Phase 3 development of Pulmaquin (an investigational proprietary formulation of ciprofloxacin for inhalation) for the treatment of non-cystic fibrosis bronchiectasis. Aradigm's inhaled ciprofloxacin formulations are also product candidates for treatment of patients with cystic fibrosis and non-tuberculous mycobacteria, and for the prevention and treatment of high threat and bioterrorism infections, such as inhaled tularemia, pneumonic plague, melioidosis, Q fever and inhaled anthrax. In addition, Aradigm has a pipeline composed of programs to prevent diseases in tobacco smokers through smoking cessation and a diagnostic program to detect aspirations of gastrointestinal fluid into the respiratory tract.

More information about Aradigm can be found at www.aradigm.com.

Forward-Looking Statements

Except for the historical information contained herein, this news release contains forward-looking statements that involve risk and uncertainties, including those related to the ORBIT-3 and ORBIT-4 clinical trials and the ability to continue successful product development of our potential product candidates, including Pulmaquin, as well as the other risks detailed from time to time in the Company's filings with the Securities and Exchange Commission (SEC), including the Company's Annual Report on Form 10-K for the year ended December 31, 2015 filed with the SEC on March 30, 2016, and the Company's Quarterly Reports on Form 10-Q.

Aradigm, Pulmaquin, Lipoquin and the Aradigm Logo are registered trademarks of Aradigm Corporation.

**(In thousands, except per share data)
(Unaudited)**

	Three months ended March 31,	
	2016	2015
Revenues	\$ 6	\$ 8,768
Operating expenses:		
Research and development	6,451	8,361
General and administrative	1,644	1,542
Restructuring and asset impairment	1	4
Total operating expenses	<u>8,096</u>	<u>9,907</u>
Loss from operations	(8,090)	(1,139)
Interest income	10	8
Other expense	(6)	(32)
Net loss and comprehensive loss	<u>\$ (8,086)</u>	<u>\$ (1,163)</u>
Basic and diluted net loss per common share	<u>\$ (0.55)</u>	<u>\$ (0.08)</u>
Shares used in computing basic and diluted net loss per common share	14,761	14,727

**ARADIGM CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands)**

	March 31, 2016 (Unaudited)	December 31, 2015 *
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 22,421	\$ 31,462
Receivables	367	150
Prepaid and other current assets	3,669	3,634
Total current assets	<u>26,457</u>	<u>35,246</u>
Property and equipment, net	310	299
Other assets	81	81
Total assets	<u>\$ 26,848</u>	<u>\$ 35,626</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	2,533	1,789
Accrued clinical and cost of other studies	2,954	4,315
Accrued compensation	690	1,159
Deferred rent	18	37
Facility lease exit obligation	55	104
Other accrued liabilities	307	112
Total current liabilities	6,557	7,516
Deferred revenue - related party, non-current	5,000	5,000
Shareholders' equity	15,291	23,110
Total liabilities and shareholders' equity	<u>\$ 26,848</u>	<u>\$ 35,626</u>

* The balance sheet at December 31, 2015 has been derived from the audited financial statements at that date.

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Source: Aradigm Corporation

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