Arno Therapeutics, Inc
Form 10-Q
November 19, 2012

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2012

OR

.. **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

FOR THE TRANSITION PERIOD FROM TO

Commission File Number: 000-52153

ARNO THERAPEUTICS, INC.

(Exact Name Of Registrant As Specified In Its Charter)

Delaware	52-2286452
(State of Incorporation)	(I.R.S. Employer Identification No.)

200 Route 31 North, Suite 104, Flemington, New Jersey 08822

(Address of principal executive offices)(Zip Code)

(862) 703-7170

(Registrant's telephone number, including area code)

Not Applicable

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). x Yes ¨ 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.

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

As of November 16, 2012, there were 36,334,942 shares of common stock, par value $0.0001 per share, of Arno Therapeutics, Inc. issued and outstanding.

EXPLANATORY NOTE

The Company is filing this Quarterly Report on Form 10-Q for the period ended September 30, 2012 (the "Form 10-Q") in reliance on the relief granted by the Securities and Exchange Commission's Order dated November 14, 2012 (Release No. 68224). The Company was unable to file the Form 10-Q within the prescribed time period without unreasonable effort and expense because of the effects of Hurricane Sandy, which prevented key personnel from reporting to work for a period of several days, thereby delaying the preparation of the Form 10-Q.

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References to “the Company,” “we”, “us” or “our” in this Quarterly Report on Form 10-Q refer to Arno Therapeutics, Inc., a Delaware corporation, unless the context indicates otherwise.

Forward-Looking Statements

This Quarterly Report contains “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended, or the Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act. The forward-looking statements are only predictions and provide our current expectations or forecasts of future events and financial performance and may be identified by the use of forward-looking terminology, including the terms “believes,” “estimates,” “anticipates,” “expects,” “plans,” “intends,” “may,” “will” or “should” or, in each c negative, or other variations or comparable terminology, though the absence of these words does not necessarily mean that a statement is not forward-looking. Forward-looking statements include all matters that are not historical facts and include, without limitation, statements concerning our business strategy, outlook, objectives, future milestones, plans, intentions, goals, future financial conditions, our research and development programs and planning for and timing of any clinical trials, the possibility, timing and outcome of submitting regulatory filings for our product candidates under development, research and development of particular drug products, the development of financial, clinical, manufacturing and marketing plans related to the potential approval and commercialization of our drug products, and the period of time for which our existing resources will enable us to fund our operations.

Forward-looking statements are subject to many risks and uncertainties that could cause our actual results to differ materially from any future results expressed or implied by the forward-looking statements. Examples of the risks and uncertainties include, but are not limited to:

- the risk that recurring losses, negative working capital, negative cash flows and the inability to raise additional capital could threaten our ability to continue as a going concern;
- the risk that we may not successfully develop and market our product candidates, and even if we do, we may not become profitable;
- risks relating to the progress of our research and development;
- risks relating to significant, time-consuming and costly research and development efforts, including pre-clinical studies, clinical trials and testing, and the risk that clinical trials of our product candidates may be delayed, halted or fail;

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- risks relating to the rigorous regulatory approval process required for any products that we may develop independently, with our development partners or in connection with any collaboration arrangements;

- the risk that changes in the national or international political and regulatory environment may make it more difficult to gain FDA or other regulatory approval of our drug product candidates;

- risks that the FDA or other regulatory authorities may not accept any applications we file;

- risks that the FDA or other regulatory authorities may withhold or delay consideration of any applications that we file or limit such applications to particular indications or apply other label limitations;

- risks that, after acceptance and review of applications that we file, the FDA or other regulatory authorities will not approve the marketing and sale of our drug product candidates;

- risks relating to our drug manufacturing operations, including those of our third-party suppliers and contract manufacturers;

- risks relating to the ability of our development partners and third-party suppliers of materials, drug substance and related components to provide us with adequate supplies and expertise to support manufacture of drug product for initiation and completion of our clinical studies; and

- risks relating to the transfer of our manufacturing technology to third-party contract manufacturers.

Other risks that may affect forward-looking statements contained in this report are described under Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2011. These risks, including those described above, could cause our actual results to differ materially from those described in the forward-looking statements. We undertake no obligation to publicly release any revisions to the forward-looking statements or reflect events or circumstances after the date of this document. The risks discussed in this report should be considered in evaluating our prospects and future performance.

PART I — FINANCIAL INFORMATION

Item 1. Financial Statements.

ARNO THERAPUTICS, INC.

(A DEVELOPMENT STAGE COMPANY)

CONDENSED BALANCE SHEETS

	September 30, 2012 (unaudited)	December 31, 2011
ASSETS		
Current assets		
Cash and cash equivalents	$ 593,632	$ 6,678,344
Prepaid expenses and other current assets	331,393	296,948
Total current assets	925,025	6,975,292
Property and equipment, net	28,261	38,673
Security deposit	10,455	10,455
Total assets	$ 963,741	$ 7,024,420
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	$ 2,179,437	$ 683,161
Accrued expenses and other current liabilities	1,077,836	1,188,041
Due to related party	24,658	84,756
Deferred rent	13,602	7,351
Total current liabilities	3,295,533	1,963,309
Warrant liability	1,599,493	3,705,472
Total liabilities	4,895,026	5,668,781
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' (DEFICIT) EQUITY		
	-	-

Preferred stock, $0.0001 par value, 35,000,000 shares authorized, none issued and outstanding		
Common stock, $0.0001 par value, 80,000,000 shares authorized, 36,334,942 and 36,304,942 shares issued and outstanding	3,608	3,605
Additional paid-in capital	37,436,685	36,865,034
Deficit accumulated during the development stage	(41,371,578)	(35,513,000)
Total stockholders' (deficit) equity	(3,931,285)	1,355,639
Total liabilities and stockholders' (deficit) equity	$ 963,741	$ 7,024,420

See accompanying notes to the unaudited condensed financial statements.

ARNO THERAPUTICS, INC.

(A DEVELOPMENT STAGE COMPANY)

CONDENSED STATEMENTS OF OPERATIONS

(unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,		Period from August 1, 2005 (inception) through September 30, 2012
	2012	2011	2012	2011	
Operating expenses:					
Research and development	$ 2,067,857	$ 1,422,662	$ 6,286,542	$ 3,999,469	$ 34,594,620
General and administrative	531,431	526,732	1,685,613	1,417,381	8,729,554
Total operating expenses	2,599,288	1,949,394	7,972,155	5,416,850	43,324,174
Loss from operations	(2,599,288)	(1,949,394)	(7,972,155)	(5,416,850)	(43,324,174)
Other income (expense):					
Interest income	658	6,680	5,898	24,104	412,169
Interest expense	-	-	-	-	(1,260,099)
Other income (expense)	(416,010)	184,717	2,107,679	(417,402)	2,800,526
Total other income (expense)	(415,352)	191,397	2,113,577	(393,298)	1,952,596
Net loss	$ (3,014,640)	$ (1,757,997)	$ (5,858,578)	$ (5,810,148)	$ (41,371,578)
Preferred stock dividends	$ -	$ -	$ -	$ 81,651	
Net loss available to common stockholders	$ (3,014,640)	$ (1,757,997)	$ (5,858,578)	$ (5,891,799)	
Net loss per share - basic and diluted	$ (0.08)	$ (0.05)	$ (0.16)	$ (0.17)	
Weighted-average shares outstanding -basic and diluted	36,334,942	36,255,098	36,315,453	33,923,120	

See accompanying notes to the unaudited condensed financial statements.

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ARNO THERAPEUTICS, INC.

(A DEVELOPMENT STAGE COMPANY)

CONDENSED STATEMENT OF STOCKHOLDERS' (DEFICIT) EQUITY

PERIOD FROM AUGUST 1, 2005 (INCEPTION) TO SEPTEMBER 30, 2012

(unaudited)

	PREFERRED STOCK		COMMON STOCK		ADDITIONAL PAID-IN	DEFICIT ACCUMULATED DURING THE DEVELOPMENT	TOTAL STOCKHOLDERS' EQUITY
	SHARES	AMOUNT	SHARES	AMOUNT	CAPITAL	STAGE	(DEFICIT)
Issuance of common shares to founders at $0.0001 per share	-	$ -	9,968,797	$ 997	$ 4,003	$ -	$ 5,000
Stock based compensation for services	-	-	-	-	9,700	-	9,700
Net loss, period from August 1, 2005 (inception) through December 31, 2006	-	-	-	-	-	(370,893)	(370,893)
Balance at December 31, 2006	-	-	9,968,797	997	13,703	(370,893)	(356,193)
Stock based compensation for services	-	-	-	-	88,300	-	88,300
Net loss, year ended December 31, 2007	-	-	-	-	-	(3,359,697)	(3,359,697)
	-	-	9,968,797	997	102,003	(3,730,590)	(3,627,590)

Balance at December 31, 2007							
Common stock sold in private placement, net of issuance costs of $141,646	-	-	7,360,689	736	17,689,301	-	17,690,037
Conversion of notes payable upon closing of private placement	-	-	1,962,338	196	4,278,322	-	4,278,518
Note discount arising from note conversion	-	-	-	-	475,391	-	475,391
Warrants issued in connection with note conversion	-	-	-	-	348,000	-	348,000
Reverse merger transaction - elimination of accumulated deficit	-	-	-	-	(120,648)	-	(120,648)
previously issued Laurier common stock	-	-	1,100,200	110	120,538	-	120,648
Warrants issued for services	-	-	-	-	480,400	-	480,400
Stock based compensation for services	-	-	-	-	1,131,218	-	1,131,218
Net loss, year ended December 31, 2008						(12,913,566)	(12,913,566)
Balance at December 31, 2008	-	-	20,392,024	2,039	24,504,525	(16,644,156)	7,862,408
Stock based compensation for	-	-	-	-	647,448	-	647,448

services							
Stock option exercise	-	-	20,000	2	2,598	-	2,600
Net loss, year ended December 31, 2009						(6,936,705)	(6,936,705)
Balance at December 31, 2009	-	-	20,412,024	2,041	25,154,571	(23,580,861)	1,575,751
Stock based compensation for services	-	-	-	-	249,286	-	249,286
Convertible preferred units issued in private placement, net of issuance costs of $1,299,770	15,274,000	1,527	-	-	13,507,983	-	13,509,510
Warrants issued in connection with convertible preferred units issued in private placement	-	-	-	-	(3,340,421)	-	(3,340,421)
Warrants issues to placement agents in connection with private placement	-	-	-	-	464,720	-	464,720
Net loss, year ended December 31, 2010	-	-	-	-	-	(4,023,026)	(4,023,026)
Balance at December 31, 2010	15,274,000	1,527	20,412,024	2,041	36,036,139	(27,603,887)	8,435,820
Stock based compensation for services	-	-	-	-	707,284	-	707,284
	(15,274,000)	(1,527)	15,274,000	1,527	-	-	-

Preferred stock conversion							
Issuance of stock dividend in connection with conversion of preferred stock	-	-	319,074	32	(32)	-	-
Grant of restricted shares	-	-	250,000	-	115,168	-	115,168
Stock option exercise	-	-	49,844	5	6,475	-	6,480
Net loss, year ended December 31, 2011	-	-	-	-	-	(7,909,113)	(7,909,113)
Balance at December 31, 2011	-	-	36,304,942	3,605	36,865,034	(35,513,000)	1,355,639
Stock based compensation for services	-	-	-	-	543,154	-	543,154
Issuance of common shares pursuant to placement agent agreement	-	-	30,000	3	28,497	-	28,500
Net loss, nine months ended September 30, 2012	-	-	-	-	-	(5,858,578)	(5,858,578)
Balance at September 30, 2012	-	$ -	36,334,942	$ 3,608	$ 37,436,685	$ (41,371,578)	$ (3,931,285)

See accompanying notes to the unaudited condensed financial statements.

ARNO THERAPEUTICS, INC.

(A DEVELOPMENT STAGE COMPANY)

CONDENSED STATEMENTS OF CASH FLOWS

(unaudited)

	Nine Months Ended September 30,		Period from August 1, 2005 (inception) through September 30, 2012
	2012	2011	
Cash flows from operating activities			
Net loss	$ (5,858,578)	$ (5,810,148)	$ (41,371,578)
Adjustment to reconcile net loss to net cash used in operating activities			
Depreciation and amortization	10,412	8,335	111,556
Stock-based compensation	543,154	433,830	3,491,558
Warrant liability	(2,105,979)	411,161	(1,740,928)
Write-off of intangible assets	-	-	85,125
Warrants issued for services	-	-	480,400
Warrants issued in connection with note conversion	-	-	348,000
Note discount arising from beneficial conversion feature	-	-	475,391
Deferred rent	6,251	(10,167)	13,602
Loss on disposal of assets	-	-	5,357
Noncash interest expense	-	-	311,518
Changes in operating assets and liabilities			
Prepaid expenses and other current assets	(5,945)	145,705	(302,893)
Security deposit	-	(10,455)	(10,455)
Accounts payable	1,496,276	101,874	2,179,437
Accrued expenses	(110,205)	(336,462)	1,077,836
Due to related party	(60,098)	71,880	24,658
Net cash used in operating activities	(6,084,712)	(4,994,447)	(34,821,416)
Cash flows from investing activities			
Purchase of property and equipment	-	(9,185)	(100,174)
Cash paid for intangible assets	-	-	(85,125)
Proceeds from related party advance	-	-	525,000
Repayment of related party advance	-	-	(525,000)
Net cash used in investing activities	-	(9,185)	(185,299)

Cash flows from financing activities			
Proceeds from issuance of common stock to founders	-	-	5,000
Proceeds from issuance of preferred stock in private placement, net	-	-	13,974,230
Proceeds from issuance of common stock in private placement, net	-	-	17,690,037
Deferred financing fees paid	-	-	(45,000)
Proceeds from issuance of notes payable	-	-	1,000,000
Repayment of notes payable	-	-	(1,000,000)
Proceeds from issuance of convertible notes payable	-	-	3,967,000
Proceeds from exercise of stock options	-	-	9,080
Net cash provided by financing activities	-	-	35,600,347
Net (decrease) increase in cash and cash equivalents	(6,084,712)	(5,003,632)	593,632
Cash and cash equivalents at beginning of period	6,678,344	13,528,444	-
Cash and cash equivalents at end of period	$ 593,632	$ 8,524,812	$ 593,632
Supplemental schedule of cash flows information:			
Cash paid for interest	$ -	$ -	$ 80,000
Supplemental schedule of non-cash investing and financing activities:			
Conversion of notes payable and interest to common stock	$ -	$ -	$ 4,278,518
Common shares of Laurier issued in reverse merger transaction	$ -	$ -	$ 110
Issuance of warrants in connection with private placement of convertible preferred units	$ -		$ 3,340,421
Issuance of common stock pursuant to placement agent agreement	$ 28,500		$ 28,500
Preferred stock dividends settled in common stock		$ 319,074	$ 319,074

See accompanying notes to the unaudited condensed financial statements.

ARNO THERAPEUTICS, INC.

(A DEVELOPMENT STAGE COMPANY)

NOTES TO CONDENSED FINANCIAL STATEMENTS

September 30, 2012

(unaudited)

1. DESCRIPTION OF BUSINESS

Arno Therapeutics, Inc. ("Arno" or the "Company") develops innovative drug candidates for the treatment of patients with cancer. The following is a summary of the Company's product development pipeline:

- ***Onapristone –*** Onapristone is an anti-progestin hormone blocker that has been shown to have considerable anti-tumor activity in patients with breast cancer. In prior clinical studies, onapristone has demonstrated a 56% objective response rate as a first line "hormone" treatment of breast cancer. In connection with the development of onapristone, the Company intends to develop a companion diagnostic product to selectively identify patients who express the activated form of the progesterone receptor and would potentially be more likely to benefit from treatment with onapristone. The Company is conducting pre-clinical toxicology studies and manufacturing activities in 2012 and plans to file an investigational new drug application ("IND") or foreign equivalent in 2013.

- ***AR-42*** – AR-42 is an orally available, broad spectrum inhibitor of both histone and non-histone deacetylation proteins, or Pan-DAC, which play an important role in the regulation of gene expression, cell growth and survival. AR-42 is currently being studied in an investigator-initiated Phase I/II clinical study in adult subjects with relapsed or refractory multiple myeloma, chronic lymphocytic leukemia, or CLL, or lymphoma. The protocol has been amended to include a solid tumor dose escalation cohort which is currently open for patient accrual.

- ***AR-12*** – AR-12 is an orally available, targeted anti-cancer agent that has been shown in early pre-clinical studies to inhibit phosphoinositide dependent protein kinase-1, or PDK-1, a protein in the PI3K/Akt pathway that is involved in the growth and proliferation of cells, including cancer cells. AR-12 has also been reported to cause cell death through the induction of endoplasmic reticulum stress and work is ongoing to further understand the mechanism of action. Preliminary data demonstrates that AR-12 may inhibit multiple different kinase targets. The Company is currently conducting a multi-centered Phase I clinical study of AR-12 in adult subjects with advanced or recurrent solid tumors or lymphoma.

The Company was incorporated in Delaware in March 2000, at which time its name was Laurier International, Inc. ("Laurier"). Pursuant to an Agreement and Plan of Merger dated March 6, 2008 (as amended, the "Merger Agreement"), by and among the Company, Arno Therapeutics, Inc., a Delaware corporation formed on August 1, 2005 ("Old Arno"), and Laurier Acquisition, Inc., a Delaware corporation and wholly-owned subsidiary of the Company ("Laurier Acquisition"), on June 3, 2008, Laurier Acquisition merged with and into Old Arno, with Old Arno remaining as the surviving corporation and a wholly-owned subsidiary of Laurier. Immediately following this merger, Old Arno merged with and into Laurier and Laurier's name was changed to Arno Therapeutics, Inc. These two merger transactions are hereinafter collectively referred to as the "Merger." Immediately following the Merger, the former stockholders of Old Arno collectively held 95% of the outstanding common stock of Laurier, assuming the issuance of all shares issuable upon the exercise of outstanding options and warrants, and all of the officers and directors of Old Arno in office immediately prior to the Merger were appointed as the officers and directors of Laurier immediately following the Merger. Further, Laurier was a non-operating shell company prior to the Merger. The merger of a private operating company into a non-operating public shell corporation with nominal net assets is considered to be a capital transaction in substance, rather than a business combination, for accounting purposes. Accordingly, the Company treated this transaction as a capital transaction without recording goodwill or adjusting any of its other assets or liabilities. All costs incurred in connection with the Merger have been expensed. Upon completion of the Merger, the Company adopted Old Arno's business plan.

2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Company is a development stage enterprise since it has not yet generated any revenue from the sale of products and, through September 30, 2012, its efforts have been principally devoted to developing its licensed technologies, recruiting personnel, establishing office facilities, and raising capital. Accordingly, the accompanying condensed financial statements have been prepared in accordance with the provisions of Accounting Standards Codification ("ASC") 915, "Development Stage Entities." The Company has experienced net losses since its inception and has an accumulated deficit of approximately $41.4 million at September 30, 2012. The Company expects to incur substantial and increasing losses and to have negative net cash flows from operating activities as it expands its technology portfolio and engages in further research and development activities, particularly from conducting manufacturing activities, pre-clinical studies and clinical trials.

ARNO THERAPEUTICS, INC.

(A DEVELOPMENT STAGE COMPANY)

NOTES TO CONDENSED FINANCIAL STATEMENTS

September 30, 2012

(unaudited)

The accompanying unaudited Condensed Financial Statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q adopted under the Securities Exchange Act of 1934, as amended. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of Arno's management, the accompanying Condensed Financial Statements contain all adjustments (consisting of normal recurring accruals and adjustments) necessary to present fairly the financial position, results of operations and cash flows of the Company at the dates and for the periods indicated. The interim results for the periods ended September 30, 2012 are not necessarily indicative of results for the full 2012 fiscal year or any other future interim periods. Because the Merger was accounted for as a reverse acquisition under generally accepted accounting principles, the financial statements for periods prior to June 3, 2008, reflect only the operations of Old Arno.

These unaudited Condensed Financial Statements have been prepared by management and should be read in conjunction with the financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2011, as filed with the Securities and Exchange Commission.

The preparation of financial statements in conformity with generally accepted accounting principles requires that management make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Estimates and assumptions principally relate to services performed by third parties but not yet invoiced, estimates of the fair value and forfeiture rates of stock options issued to employees and consultants, and estimates of the probability and potential magnitude of contingent liabilities. Actual results could differ from those estimates.

Research and Development

Research and development costs are charged to expense as incurred. Research and development includes employee costs, fees associated with operational consultants, contract clinical research organizations, contract manufacturing organizations, clinical site fees, contract laboratory research organizations, contract central testing laboratories, licensing activities, and allocated office, insurance, depreciation, and facilities expenses. The Company accrues for costs incurred as the services are being provided by monitoring the status of the trial and the invoices received from its external service providers. As actual costs become known, the Company adjusts its accruals in the period when actual costs become known. Costs related to the acquisition of technology rights for which development work is still in process are charged to operations as incurred and considered a component of research and development expense.

Warrant Liability

The Company accounts for the warrants issued in connection with the September 2010 Purchase Agreement (see Note 7) in accordance with the guidance on Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity, which provides that the Company classifies the warrant instrument as a liability at its fair value and adjusts the instrument to fair value at each reporting period. This liability is subject to re-measurement at each balance sheet date until exercised, and any change in fair value is recognized as a component of other income or expense. The fair value of warrants issued by the Company, in connection with private placements of securities, has been estimated using a Monte Carlo simulation model and, in doing so, the Company's management utilized a third-party valuation report. The Monte Carlo simulation is a generally accepted statistical method used to generate a defined number of stock price paths in order to develop a reasonable estimate of the range of the Company's future expected stock prices and minimizes standard error.

3. LIQUIDITY AND CAPITAL RESOURCES

Cash resources as of September 30, 2012 were approximately $0.6 million, compared to $6.7 million as of December 31, 2011. As of September 30, 2012, the Company had current liabilities of approximately $3.3 million, resulting in negative working capital of approximately $2.4 million. Accordingly, the Company is in immediate need of substantial additional financing or it may be required to cease its operations altogether. The Company's continued operations depend entirely on its ability to raise additional funds through various potential sources, such as equity or debt financing, or to license its product candidates to another pharmaceutical company. The Company cannot assure that it will be able to secure such additional financing, or if available, that it will be sufficient to meet its needs.

ARNO THERAPEUTICS, INC.

(A DEVELOPMENT STAGE COMPANY)

NOTES TO CONDENSED FINANCIAL STATEMENTS

September 30, 2012

(unaudited)

The success of the Company depends on its ability to develop new products to the point of regulatory approval and subsequent commercialization and, accordingly, to raise enough capital to finance these developmental efforts until it can achieve profitability, if ever. In order to finance the continued operating and capital requirements of the Company, management has been actively seeking to raise additional capital through the sale and issuance of its equity or debt securities or by granting a license to one or more of its products in exchange for cash payments. While the Company engaged a financial advisor in May 2012 to assist with its ongoing financing efforts, the Company does not have any committed sources of financing at this time. Amounts raised, if any, will be used to further develop the Company's product candidates, acquire rights to additional product candidates and for other working capital purposes. However, while the Company continues to extend its best efforts to raise additional capital in order to continue funding its operations, management can provide no assurances that the Company will be able to raise sufficient funds.

In addition, to the extent that the Company raises additional funds by issuing shares of its common stock or other securities convertible or exchangeable for shares of common stock, stockholders may experience significant dilution. In the event the Company raises additional capital through debt financings, the Company may incur significant interest expense and become subject to covenants in the related transaction documentation that may affect the manner in which the Company conducts its business. To the extent that the Company raises additional funds through collaboration and licensing arrangements, it may be necessary to relinquish some rights to its technologies or product candidates, or grant licenses on terms that may not be favorable to the Company. Any or all of the foregoing may have a material adverse effect on the Company's business and financial performance.

These factors raise substantial doubt about the Company's ability to continue as a going concern. The Company's financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the settlement of liabilities and commitments in the normal course of business. The financial statements do not include any adjustments that might result from the inability of the Company to continue as a going concern.

4. BASIC AND DILUTED LOSS PER SHARE

Basic loss per share is computed by dividing the loss available to common shareholders by the weighted-average number of common shares outstanding. Diluted loss per share is computed similarly to basic loss per share except that the denominator is increased to include the number of additional common shares that would have been outstanding if the potential common shares had been issued and if the additional common shares were dilutive.

	For the Three Months Ended September 30,						For the Nine Months Ended Septembe		
	2012			2011			2012		
	Loss (Numerator)	Shares (Denominator)	Per Share Amount	Loss (Numerator)	Shares (Denominator)	Per Share Amount	Loss (Numerator)	Shares (Denominator)	Per Share Amount
Net loss	$(3,014,640)			$(1,757,997)			$(5,858,578)		$
Less: Preferred stock dividends	-			-			-		
Basic and Diluted EPS Loss available to common stockholders	$(3,014,640)	36,334,942	$(0.08)	$(1,757,997)	36,255,098	$(0.05)	$(5,858,578)	36,315,453	$(0.16)

For all periods presented, potentially dilutive securities are excluded from the computation of fully diluted loss per share as their effect is anti-dilutive.

Potentially dilutive securities include:

	September 30, 2012	September 30, 2011
Options to purchase common stock	-	129,532

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For the periods ended September 30, 2012 and 2011, 14,968,048 and 15,867,581 warrants and options have been excluded from the computation of potentially dilutive securities, respectively, as their exercise prices are greater than the fair market price per common share as of September 30, 2012 and 2011, respectively.

5. INTANGIBLE ASSETS AND INTELLECTUAL PROPERTY

License Agreements

Onapristone License Agreement

The Company's rights to onapristone are governed by a license agreement with Invivis Pharmaceuticals, Inc. ("Invivis"), dated February 13, 2012. Under this agreement, the Company holds an exclusive, royalty-bearing license for the rights to commercialize onapristone for all therapeutic uses. The license agreement provides the Company with worldwide rights to onapristone with the exception of France; provided, however, that the Company has an option to acquire French commercial rights from Invivis upon notice to Invivis together with additional consideration.

The onapristone license agreement provides the Company with exclusive, worldwide rights to a United States provisional patent application that relates to assays for predictive biomarkers for anti-progestin efficacy. The Company intends to expand its patent portfolio by filing additional patent applications covering the use of onapristone and/or a companion diagnostic product. If the pending patent application issues, the issued patent would be scheduled to expire in 2031.

The Company made a one-time cash payment of $500,000 to Invivis upon execution of the license agreement on February 13, 2012. Additionally, Invivis will receive performance-based cash payments of up to an aggregate of $15.1 million upon successful completion of clinical and regulatory milestones relating to onapristone, which milestones include the marketing approval of onapristone in multiple indications in the United States or the European Union as well as Japan. The Company will make the first milestone payment to Invivis upon the dosing of the first subject in the first Company-sponsored Phase I clinical trial of onapristone, which is anticipated in 2013. In addition, the Company will pay Invivis low single digit sales royalties based on net sales of onapristone by the Company or any of its sublicensees. Pursuant to a separate services agreement, Invivis will provide the Company with certain clinical development support services, which includes the assignment of up to two full-time employees to perform such services, in exchange for a monthly cash payment.

Under the license agreement with Invivis, the Company also agreed to indemnify and hold Invivis and its affiliates harmless from any and all claims arising out of or in connection with the production, manufacture, sale, use, lease, consumption or advertisement of onapristone, provided, however, that the Company shall have no obligation to indemnify Invivis for claims that (a) any patent rights infringe third party intellectual property, (b) arise out of the gross negligence or willful misconduct of Invivis, or (c) result from a breach of any representation, warranty confidentiality obligation of Invivis under the license agreement. The license agreement will terminate upon the later of (i) the last to expire valid claim contained in the patent rights, and (ii) February 13, 2032. In general, Invivis may terminate the license agreement at any time upon a material breach by the Company to the extent the Company fails to cure any such breach within 90 days after receiving notice of such breach or in the event the Company files for bankruptcy. The Company may terminate the agreement for any reason upon 90 days' prior written notice.

AR-12 and AR-42 License Agreements

The Company's rights to both AR-12 and AR-42 are governed by separate license agreements with The Ohio State University Research Foundation ("Ohio State") entered into in January 2008. Pursuant to each of these agreements, Ohio State granted the Company exclusive, worldwide, royalty-bearing licenses to commercialize certain patent applications, know-how and improvements relating to AR-12 and AR-42 for all therapeutic uses.

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In 2008, pursuant to the Company's license agreements for AR-12 and AR-42, the Company made one-time cash payments to Ohio State in the aggregate amount of $450,000 and reimbursed it for past patent expenses. Additionally, the Company is required to make performance-based cash payments upon successful completion of clinical and regulatory milestones relating to AR-12 and AR-42 in the United States, Europe and Japan. The license agreements for AR-12 and AR-42 provide for aggregate potential milestone payments of up to $6.1 million for AR-12, of which $5.0 million is due only after marketing approval in the United States, Europe and Japan, and $5.1 million for AR-42, of which $4.0 million is due only after marketing approval in the United States, Europe and Japan. In September 2009, the Company paid Ohio State a milestone payment upon the commencement of the first Company-sponsored Phase I clinical study of AR-12. The first milestone payment for AR-42 will be due when the first patient is dosed in the first Company-sponsored clinical trial, which is not anticipated until early 2013. Pursuant to the license agreements for AR-12 and AR-42, the Company must pay Ohio State royalties on net sales of licensed products at rates in the low-single digits. To the extent the Company enters into a sublicensing agreement relating to either or both of AR-12 or AR-42, the Company will be required to pay Ohio State a portion of all non-royalty income received from such sublicensee. The Company does not expect to be required to make any milestone payments under these license agreements during 2012.

The license agreements with Ohio State further provide that the Company will indemnify Ohio State from any and all claims arising out of the death of or injury to any person or persons or out of any damage to property, or resulting from the production, manufacture, sale, use, lease, consumption or advertisement of either AR-12 or AR-42, except to the extent that any such claim arises out of the gross negligence or willful misconduct of Ohio State. The license agreements for AR-12 and AR-42 each expire on the later of (i) the expiration of the last valid claim contained in any licensed patent and (ii) 20 years after the effective date of the license. Ohio State will generally be able to terminate either license upon the Company's breach of the terms of the license to the extent the Company fails to cure any such breach within 90 days after receiving notice of such breach or the Company files for bankruptcy. The Company may terminate either license upon 90 days prior written notice.

AR-67 License Agreement

The Company's rights to AR-67 were governed by an October 2006 license agreement with the University of Pittsburgh ("Pitt"). Under this agreement, Pitt granted the Company an exclusive, worldwide, royalty-bearing license for the rights to commercialize technologies embodied by certain issued patents, patent applications and know-how relating to AR-67 for all therapeutic uses.

In 2006, under the terms of the license agreement with Pitt, the Company made a one-time cash payment of $350,000 to Pitt and reimbursed it for past patent expenses. Additionally, Pitt was entitled to receive performance-based cash payments upon successful completion of clinical and regulatory milestones relating to AR-67. The Company would have made the first milestone payment to Pitt upon the acceptance of the first new drug application by the FDA for AR-67. The Company was also required to pay to Pitt an annual maintenance fee of $200,000 upon the third and fourth anniversaries of the license agreement, $250,000 upon the fifth and sixth anniversaries, and $350,000 upon the seventh anniversary and annually thereafter and to pay Pitt a royalty equal to a percentage of net sales of AR-67, pursuant to the license agreement.

Under the license agreement with Pitt, the Company also agreed to indemnify and hold Pitt and its affiliates harmless from any and all claims, actions, demands, judgments, losses, costs, expenses, damages and liabilities (including reasonable attorneys' fees) arising out of or in connection with (i) the production, manufacture, sale, use, lease, consumption or advertisement of AR-67, (ii) the practice by the Company or any affiliate or sublicensee of the licensed patent; or (iii) any obligation of the Company under the license agreement unless any such claim is determined to have arisen out of the gross negligence, recklessness or willful misconduct of Pitt.

On January 12, 2012, the Company received a notice from Pitt, in which Pitt claimed that the Company was in default under the parties' license agreement for failure to pay a $250,000 annual license fee under the terms of that agreement and provided the Company with 60 days' notice to remedy the default. On March 29, 2012, following the Company's determination not to proceed with further development of AR-67, the parties agreed to terminate the license agreement. As of September 30, 2012, the Company has accrued for the outstanding annual license fee of $250,000, while it is working to wind down its AR-67 program.

6. FAIR VALUE OF FINANCIAL INSTRUMENTS

The Company defines fair value as the amount at which an asset (or liability) could be bought (or incurred) or sold (or settled) in a current transaction between willing parties, that is, other than in a forced or liquidation sale. The fair value estimates presented in the table below are based on information available to the Company as of September 30, 2012.

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The accounting standard regarding fair value measurements discusses valuation techniques, such as the market approach (comparable market prices), the income approach (present value of future income or cash flow), and the cost approach (cost to replace the service capacity of an asset or replacement cost). The standard utilizes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three broad levels. The following is a brief description of those three levels:

- Level 1: Observable inputs such as quoted prices (unadjusted) in active markets for identical assets or liabilities.

- Level 2: Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets and quoted prices for identical or similar assets or liabilities in markets that are not active.

- Level 3: Unobservable inputs that reflect the reporting entity's own assumptions.

The Company has determined the fair value of certain liabilities using the market approach: the following table presents the Company's fair value hierarchy for these assets measured at fair value on a recurring basis as of September 30, 2012:

	Fair Value September 30, 2012	Quoted Market Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Liabilities				
Warrant liability	$ 1,599,493	$ -	$ -	$ 1,599,493

The following table provides a summary of changes in fair value of the Company's liabilities, as well as the portion of losses included in income attributable to unrealized appreciation that relate to those liabilities held at September 30, 2012:

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)
	Warrant Liability
Balance at January 1, 2012	$ (3,705,472)
Purchases, sales and settlements	
Warrants issued	-
Total gains or losses	
Unrealized depreciation	2,105,979
Balance at September 30, 2012	$ (1,599,493)

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7. STOCKHOLDERS' EQUITY

Common Stock

On November 15, 2010, the Company's stockholders authorized the amendment of the Company's amended and restated certificate of incorporation in order to effect a combination (reverse split) of its common stock at a ratio not to exceed one-for-eight, provided that the Company's board of directors shall have absolute discretion to determine and fix the exact ratio of such combination and the time at which such combination shall become effective, if ever. The Company's board of directors has taken no further action to implement a combination of its common stock and reserves the right to abandon the proposed reverse stock split in its sole discretion.

On February 9, 2011, all 15,274,000 shares of the Company's outstanding Series A Convertible Preferred Stock automatically converted into 15,274,000 shares of common stock upon the effectiveness of a registration statement that the Company filed with the SEC covering the resale of such conversion shares. In addition, the Company elected to pay the $319,074 in accrued dividends on such preferred stock through the issuance of shares of common stock resulting in the issuance of an additional 319,074 shares.

On April 25, 2011, the Company issued 250,000 shares of restricted common stock to its new Chief Executive Officer pursuant to his employment agreement. These shares vested in 12 equal monthly installments and had a total fair value of $172,750, or $0.69 per share, as estimated by management using a Monte Carlo simulation model using the significant assumptions described below in addition to a discount for the restrictions and, in doing so, utilized a third-party valuation report (see Note 7 – Warrants). The shares were recognized as compensation expense upon vesting. The Company recognized no expense for the three months ended September 30, 2012. The Company recognized $57,584 and $172,752 of compensation expense for the nine months ended September 30, 2012 and for the period from August 1, 2005 (inception) through September 30, 2012, respectively, in connection with the restricted shares. As of April 25, 2012, all 250,000 shares had vested.

On June 27, 2012, the Company issued 30,000 shares of its common stock to a financial advisor as an upfront fee for providing services in connection with the Company's ongoing financing efforts. These shares were valued at $28,500 based on the Company's per share price of $0.95 as of May 30, 2012, the date of the advisor's engagement.

As of September 30, 2012, the Company has 36,334,942 shares of common stock issued and outstanding.

Preferred Stock

On August 11, 2010, the Company amended and restated its certificate of incorporation, increasing the number of shares of preferred stock authorized for issuance thereunder from 10,000,000 to 35,000,000.

On September 3, 2010, the Company entered into a Securities Purchase and Registration Rights Agreement, or the Purchase Agreement, with a number of institutional and accredited investors pursuant to which the Company sold in a private placement an aggregate of 15,274,000 shares of newly-designated Series A Convertible Preferred Stock, par value $0.0001 per share, or Series A Preferred Stock, at a per share purchase price of $1.00. In accordance with the Purchase Agreement, the Company also issued two-and-one-half-year Class A warrants to purchase an aggregate of 1,221,920 shares of Series A Preferred Stock at an initial exercise price of $1.00 per share and five-year Class B warrants to purchase an aggregate of 6,415,080 shares of Series A Preferred Stock at an initial exercise price of $1.15 per share. The terms of the Class A and Class B warrants contain an anti-dilutive price adjustment provision, such that, in the event the Company issues common shares at a price below the current exercise price of the warrants, the exercise price of the Class A and Class B warrants will be adjusted based on the lower issuance price. The sale of the shares and warrants resulted in aggregate gross proceeds of approximately $15.2 million, before expenses.

The terms, conditions, privileges, rights and preferences of the Series A Preferred Stock are described in a Certificate of Designation filed with the Secretary of State of Delaware on September 3, 2010.

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The Certificate of Designation provided that each share of Series A Preferred Stock was initially convertible at the holder's election into one share of common stock. The Certificate of Designation further provided that all shares of Series A Preferred Stock would automatically convert into common stock upon the effective date of a registration statement covering the resale under the Securities Act of the conversion shares of common stock. In addition, the Class A and B warrants provided that, upon the automatic conversion of the Series A Preferred Stock, such warrants would automatically convert into the right to purchase shares of common stock. On February 9, 2011, a registration statement filed under the Securities Act covering the resale of the shares of common stock issuable upon conversion of the Series A Preferred Stock was declared effective, resulting in the automatic conversion of all 15,274,000 shares of Series A Preferred Stock into an equal number of shares of common stock.

The holders of Series A Preferred Stock were entitled to an annual per share cumulative dividend equal to 5% of the original issuance price of $1.00 per share, which dividends were paid upon the conversion of the Series A Preferred Stock into common stock, and which the Company elected to pay in the form of additional shares of common stock in lieu of cash. The accrued dividend through February 9, 2011, the effective date of the registration statement and date of conversion of the Series A Preferred Stock into common stock, was $319,074. The dividend was paid in 319,074 shares of common stock at a $1.00 per share conversion price.

Issuance costs related to the financing were approximately $1.8 million, of which approximately $0.5 million was non-cash for issuance of warrants ("Placement Warrants") to purchase 1,056,930 shares of the Company's common stock at 110% of the Series A Preferred Stock purchase price per share to designees of Riverbank Capital Securities, Inc. ("Riverbank"), a related party controlled by several officers and/or directors of the Company (see Note 9), and I-Bankers Securities, Inc. ("IBS"), which acted as placement agents for the Company in connection with the private placement. As of September 30, 2012, none of these warrants have been exercised.

Warrants

In accordance with the September 2010 Purchase Agreement, the Company issued two-and-one-half-year Class A warrants to purchase an aggregate of 1,221,920 shares of Series A Preferred Stock at an initial exercise price of $1.00 per share and five-year Class B warrants to purchase an aggregate of 6,415,080 shares of Series A Preferred Stock at an initial exercise price of $1.15 per share. The terms of the warrants contain an anti-dilutive price adjustment provision, such that, in the event the Company issues common shares at a price below the current exercise price of the warrants, the exercise price will be adjusted based on the lower issuance price. Because of this anti-dilution provision and the inherent uncertainty as to the probability of future common share issuances, the Black-Scholes option pricing model the Company uses for valuing stock options could not be used. Management used a Monte Carlo simulation model and, in doing so, utilized a third-party valuation report to determine the warrant liability to be approximately $1.6 million and approximately $3.7 million at September 30, 2012 and December 31, 2011, respectively. This significant decrease compared to the December 2011 valuation is primarily attributable to a significant decrease in the trading price of the Company's common stock during 2012. The Monte Carlo simulation is a generally accepted statistical method used to generate a defined number of stock price paths in order to develop a reasonable estimate of the range of the Company's future expected stock prices and minimizes standard error. This valuation is revised on a quarterly basis until the warrants are exercised or they expire with the changes in fair value recorded in other income (expense) on the statement of operations.

In connection with the September 2010 private placement, the Company issued warrants ("Placement Warrants") to purchase 1,056,930 shares of the Company's common stock at 110% of the Series A Preferred Stock purchase price per share to designees of Riverbank and IBS, that acted as placement agents for the Company in connection with the private placement. As of September 30, 2012, none of these warrants have been exercised.

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Below is a table that summarizes all outstanding warrants to purchase shares of the Company's common stock as of September 30, 2012.

Grant Date	Warrants Issued	Exercise Price	Weighted-Average Exercise Price	Expiration Date	Exercised	Warrants Outstanding
01/02/2008	299,063	$ 2.42	$ 2.42	01/02/2013	-	299,063
06/02/2008	196,189	$ 2.42	$ 2.42	06/02/2013	-	196,189
09/03/2010	1,221,920	$ 1.00	$ 1.00	03/03/2013	-	1,221,920
09/03/2010	6,415,080	$ 1.15	$ 1.15	09/03/2015	-	6,415,080
09/03/2010	1,056,930	$ 1.10	$ 1.10	09/03/2015	-	1,056,930
	9,189,182		$ 1.19		-	9,189,182

8. STOCK OPTION PLAN

The Company's 2005 Stock Option Plan (the "Plan") was originally adopted by the Board of Directors of Old Arno in August 2005, and was assumed by the Company on June 3, 2008 in connection with the Merger. After giving effect to the Merger, there were initially 2,990,655 shares of the Company's common stock reserved for issuance under the Plan. On April 25, 2011, the Company's Board of Directors approved an amendment to the Plan to increase the number of shares of common stock issuable under the Plan to 7,000,000 shares. Under the Plan, incentives may be granted to officers, employees, directors, consultants, and advisors. Incentives under the Plan may be granted in any one or a combination of the following forms: (a) incentive stock options and non-statutory stock options, (b) stock appreciation rights, (c) stock awards, (d) restricted stock and (e) performance shares.

The Plan is administered by the Board of Directors, or a committee appointed by the Board, which determines recipients and types of awards to be granted, including the number of shares subject to the awards, the exercise price

and the vesting schedule. The term of stock options granted under the Plan cannot exceed 10 years. Options shall not have an exercise price less than the fair market value of the Company's common stock on the grant date, and generally vest over a period of three to four years.

As of September 30, 2012, an aggregate of 901,290 shares remained available for future grants and awards under the Plan, which covers stock options, warrants and restricted awards. The Company issues unissued shares to satisfy stock options, warrants exercises and restricted stock awards.

For the three and nine months ended September 30, 2012, the Company did not issue any stock options. In previous periods, the Company estimated the fair value of each option award granted using the Black-Scholes option-pricing model. The following assumptions were used for the three and nine months ended September 30, 2011:

	Three Months Ended September 30, 2011		Nine Months Ended September 30, 2011	
Expected volatility	87	%	86 - 87%	
Expected term	10 years		6 - 10 years	
Dividend yield	0	%	0	%
Risk-free interest rate	1.5	%	1.5 - 2.0%	
Stock price	$0.71		$0.69 - $0.72	
Forfeiture rate	0.0	%	0.0	%

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A summary of the status of the options issued under the Plan at September 30, 2012, and information with respect to the changes in options outstanding is as follows:

	Shares Available for Grant	Outstanding Stock Options	Weighted-Average Exercise Price	Aggregate Intrinsic Value
Balance at January 1, 2012	51,601	6,628,555	$ 1.09	
Options granted under the Plan	-	-		
Options exercised	-	-		
Options forfeited	849,689	(849,689)	$ 1.00	
Balance at September 30, 2012	901,290	5,778,866	$ 1.11	$ -
Exercisable at September 30, 2012		2,652,636	$ 1.23	$ -

The following table summarizes information about stock options outstanding at September 30, 2012:

	Outstanding			Exercisable	
Exercise Price	Shares	Weighted-Average Remaining Contractual Life (Years)	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price
$ 1.00	5,388,133	8.0	$ 1.00	2,261,903	$ 1.00
$ 2.42	299,066	3.7	$ 2.42	299,066	$ 2.42
$ 3.00	91,667	1.5	$ 3.00	91,667	$ 3.00
Total	5,778,866	7.8	$ 1.11	2,652,636	$ 1.23

Stock-based compensation costs under the Plan for the three and nine months ended September 30, 2012 and 2011 and for the cumulative period from August 1, 2005 (inception) through September 30, 2012 are as follows:

	Three months ended September 30,		Nine months ended September 30,		Period from August 1, 2005 (inception) through September 30, 2012
	2012	2011	2012	2011	
Research and development	$ 84,957	$ 56,500	$ 197,771	$ 125,100	$ 1,601,548
General and administrative	96,600	141,688	345,383	308,730	1,890,010
Total	$ 181,557	$ 198,188	$ 543,154	$ 433,830	$ 3,491,558

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The fair value of options vested under the Plan was approximately $117,228 and $104,186 for the three months ended September 30, 2012 and 2011, respectively, approximately $446,897 and $230,929 for the nine months ended September 30, 2012 and 2011, respectively and approximately $2,801,762 for the period from August 1, 2005 (inception) through September 30, 2012.

At September 30, 2012, total unrecognized estimated compensation cost related to stock options granted prior to that date was approximately $1,470,862, which is expected to be recognized over a weighted-average vesting period of 0.7 years. This unrecognized estimated employee compensation cost does not include any estimate for forfeitures of performance-based stock options.

Common stock, stock options or other equity instruments issued to non-employees (including consultants and all members of the Company's Scientific Advisory Board) as consideration for goods or services received by the Company are accounted for based on the fair value of the equity instruments issued (unless the fair value of the consideration received can be more reliably measured). The fair value of stock options is determined using the Black-Scholes option-pricing model and is expensed as the underlying options vest. The fair value of any options issued to non-employees is recorded as expense over the applicable service periods.

9. RELATED PARTIES

On June 1, 2009, the Company entered into a services agreement with Two River Consulting, LLC ("TRC") to provide various clinical development, operational, managerial, accounting and financial, and administrative services to the Company for a period of one year. David M. Tanen, a director of the Company and at the time also its President, Arie S. Belldegrun, the Chairman of the Board of Directors, and Joshua A. Kazam, a director until September 2010, are each partners of TRC. The terms of the Services Agreement were reviewed and approved by a special committee of the Company's Board of Directors consisting of independent directors. None of the members of the special committee has any interest in TRC or the services agreement. As compensation for the services contemplated by the services

agreement, the Company paid TRC a monthly cash fee of $55,000. The services agreement with TRC expired on April 1, 2011 and until a new agreement is in place, TRC is billing the Company for actual hours worked on a monthly basis. For the nine months ended September 30, 2012, TRC billed Arno $199,631 for services rendered, an average of approximately $22,181 per month.

On occasion, some of the Company's expenses are paid by TRC. No interest is charged by TRC on any outstanding balance owed by the Company. For the three and nine months ended September 30, 2012 and 2011 and for the period from August 1, 2005 (inception) through September 30, 2012 services and reimbursed expenses totaled $76,240, $247,369, $158,366, $565,575 and $2,051,134 respectively. As of September 30, 2012, the Company had a payable to TRC of $24,658, which was paid in full during October 2012.

In connection with the September 2010 private placement, the Company engaged Riverbank to serve as placement agent. In consideration for its services, the Company paid Riverbank a placement fee of $789,880. In addition, the Company issued to designees of Riverbank five-year warrants to purchase an aggregate of 664,880 shares of Series A Preferred Stock at an initial exercise price of $1.10 per share. The warrants issued to Riverbank are in substantially the same form as the Class A and Class B Warrants issued to the investors in the private placement, except that they do not include certain anti-dilution provisions contained in the Class A and Class B Warrants. Each of Messrs. Kazam, Tanen and Peter M. Kash, a director of Arno until April 2011, are principals of Riverbank.

The financial condition and results of operations of the Company, as reported, are not necessarily indicative of results that would have been reported had the Company operated completely independently.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Overview

We are a development stage company focused on developing innovative products for the treatment of cancer. The following is a summary of our product development pipeline:

- ***Onapristone*** – On February 13, 2012, we entered into a license agreement granting us rights to commercially develop onapristone, an anti-progestin hormone blocker that has been shown to have considerable anti-tumor activity in breast cancer. Onapristone appears to have a unique ability to block the activated progesterone receptor and inhibit tumor growth. Onapristone was originally developed by Schering AG for potential use as a contraceptive and an anti-endocrine treatment of breast cancer. In clinical studies, onapristone has demonstrated a 56% objective response rate as a first line "hormone" treatment of patients with breast cancer. In connection with the development of onapristone, we intend to develop a companion diagnostic product to identify patients who express the activated form of the progesterone receptor and therefore may be more likely to benefit from treatment with onapristone. We intend to conduct pre-clinical toxicology studies and manufacturing activities and to file an IND or foreign equivalent in 2013.

- ***AR-42 –*** AR-42 is being developed as an orally available, broad spectrum inhibitor of both histone and non-histone deacetylation proteins, or Pan-DAC, which play an important role in the regulation of gene expression, cell growth and survival. In preclinical studies, AR-42 has demonstrated greater potency and activity in solid tumors and hematological malignancies when compared to vorinostat (also known as SAHA and marketed as Zolinza® by Merck). These data demonstrate the potent and potential differentiating activity of AR-42. Additionally, pre-clinical findings presented at the 2009 American Society of Hematology Annual Meeting showed that AR-42 potently and selectively inhibits leukemic stem cells in acute myeloid leukemia, or AML. AR-42 is currently being studied in an investigator-initiated Phase I/II clinical study in adult subjects with relapsed or refractory hematological malignancies: multiple myeloma, chronic lymphocytic leukemia (CLL), or lymphoma. The recommended Phase II dose, or RP2D, in patients with hematological malignancies has been determined and the expansion phase of the program has been initiated. We expect that the expansion phase of the hematological malignancy cohort will take at least 12 months to complete. The protocol has been amended to include a separate solid tumor dose escalation cohort and patients are being actively screened to enter into this cohort. In preclinical studies, AR-42 has demonstrated anti-tumor activity in both meningioma and schwannoma. Meningioma and schwannoma are rare, benign tumors that can present in different locations within the brain and the spinal cord and may cause substantial morbidity for those affected individuals. The primary treatment option for patients with these tumors is surgical excision. In February 2012, the FDA granted two orphan drug designations for AR-42 for the treatment of meningioma and the treatment of schwannoma of the central nervous system. Additionally, AR-42 has been granted three orphan-drug designations by the European Medicines Agency's (EMA) for the treatment of neurofibromatosis type 2 (NF2), the treatment of meningioma and the treatment of schwannoma. NF2 is a rare genetic disorder characterized by the growth of noncancerous tumors in the brain and spinal cord, juvenile cataracts, and neurofibromas of the skin. We have also applied to the FDA for orphan drug designation of AR-42 for the treatment of NF2 associated central nervous system tumors.

AR-12 – We are also developing AR-12 as an orally available, targeted anti-cancer agent that has been shown in early pre-clinical studies to inhibit phosphoinositide dependent protein kinase-1, or PDK-1, a protein in the PI3K/Akt pathway that is involved in the growth and proliferation of cells, including cancer cells. We believe AR-12 may also cause cell death through the induction of stress in the endoplasmic reticulum and work is ongoing to further understand the mechanism of action. Preliminary data demonstrates that AR-12 may inhibit multiple different kinase targets. In May 2009, the FDA accepted our investigational new drug application, or IND, for AR-12. We are currently conducting a multi-centered Phase I clinical study of AR-12 in adult patients with advanced or recurrent solid tumors or lymphoma. The Phase I study of AR-12 was originally designed to be conducted in two parts. The

- first part is a dose-escalating study, which we refer to as the Escalation Phase, primarily designed to evaluate the safety of AR-12 in order to identify the MTD and RP2D for future studies of the compound. We anticipate that the Escalation Phase will be completed in the fourth quarter of 2012. We also anticipate the determination of an RP2D and MTD with the conclusion of the Escalation Phase in the fourth quarter of 2012. Following the Escalation Phase, we planned to initiate the second part of the study, which we refer to as the Expansion Phase, which would have involved enrolling an expanded cohort of additional patients at the RP2D in multiple tumor types. We will not be moving forward with the Expansion Phase of this study as we plan to conduct further clinical development of AR-12 with a novel and improved formulation that has been shown to substantially increase the bioavailability in preclinical models.

We have no product sales to date and we will not generate any product revenue until we receive approval from the U.S. Food and Drug Administration, or the FDA, or equivalent foreign regulatory bodies to begin selling our pharmaceutical product candidates. Developing pharmaceutical products is a lengthy and very expensive process. Assuming we do not encounter any unforeseen safety or other issues during the course of developing our product candidates, we do not expect to complete the development of a product candidate for several years, if ever. To date, a significant amount of our development expenses have related to two of our product candidates: AR-12 and AR-67. As we proceed with the clinical development of our product candidates, primarily focusing our resources on onapristone and AR-42, our research and development expenses will further increase. To the extent we are successful in acquiring additional product candidates for our development pipeline, our need to finance further research and development will continue increasing. Accordingly, our success depends not only on the safety and efficacy of our product candidates, but also on our ability to finance the development of the products. To date, our major sources of working capital have been proceeds from private and public sales of our common and preferred stock and debt financings.

Research and development, or R&D, expenses consist primarily of salaries and related personnel costs, fees paid to consultants and outside service providers for pre-clinical, clinical, and manufacturing development, legal expenses resulting from intellectual property prosecution, costs related to obtaining and maintaining our product license agreements, contractual review, and other expenses relating to the design, development, testing, and enhancement of our product candidates. We expense our R&D costs as they are incurred.

General and administrative, or G&A, expenses consist primarily of salaries and related expenses for executive, finance and other administrative personnel, accounting, legal and other professional fees, business development expenses, rent, business insurance and other corporate expenses.

Our results include non-cash compensation expense as a result of the issuance of stock options and warrants. We expense the fair value of stock options and warrants over the vesting period. When more precise pricing data is unavailable, we determine the fair value of stock options using the Black-Scholes option-pricing model. The terms and vesting schedules for share-based awards vary by type of grant and the employment status of the grantee. Generally, the awards vest based upon time-based or performance-based conditions. Performance-based conditions generally include the attainment of goals related to our financial performance and product development. Stock-based compensation expense is included in the respective categories of expense in the statements of operations. We expect to record additional non-cash compensation expense in the future, which may be significant.

Results of Operations

***General and Administrative Expenses*.** G&A expenses for each of the three months ended September 30, 2012 and 2011 were approximately $0.5 million, as there were no significant changes from period to period.

G&A expenses for the nine months ended September 30, 2012 and 2011 were approximately $1.7 million and $1.4 million, respectively. The increase of approximately $0.3 million compared to the same period in 2011 is primarily attributable to an increase of approximately $0.2 million in personnel costs, including stock compensation expense due to having a full-time CEO and executive assistant during the nine months ended September 30, 2012 and no employees in those positions until the second quarter of 2011. There was also an approximately $0.1 million increase in travel expenses related to general business activities during the nine months ended September 30, 2012 compared to the same period in 2011.

Research and Development Expenses. R&D expenses for the three months ended September 30, 2012 and 2011 were approximately $2.1 million and $1.4 million, respectively. The increase of approximately $0.7 million compared to the same period of 2011 is primarily due to our new product candidate, onapristone, which was in-licensed during the first quarter of 2012. Onapristone-related costs for the three months ended September 30, 2012 were approximately $1.1 million, including approximately $0.6 million on initial manufacturing activities, approximately $0.2 million on pre-clinical development activities and approximately $0.3 million on clinical development support services. This increase of $1.1 million related to onapristone was partially offset by an approximately $0.2 million decrease in compensation and consulting costs due to having fewer staff and outside consultants during the third quarter of 2012 compared to the same period in 2011. Additionally, there were decreases of approximately $0.1 million in each of the AR-12 and AR-67 programs primarily due to reduced nonclinical and regulatory activities.

R&D expenses for the nine months ended September 30, 2012 and 2011 were approximately $6.3 million and $4.0 million, respectively. The increase of approximately $2.3 million compared to the same period in 2011 is primarily due to our new product, onapristone, which was in-licensed during the first quarter of 2012. Onapristone-related costs for the nine months ended September 30, 2012 were approximately $2.9 million, including a $0.5 million one-time cash payment to the licensor, approximately $1.1 million on initial manufacturing activities, approximately $0.6 million on pre-clinical development activities and approximately $0.7 million on clinical development support services. Additionally, there was an increase of approximately $0.3 million relating to AR-42 regulatory efforts that were not being pursued during the same period of 2011. These increases were partially offset by an approximately $0.8 million decrease in manufacturing and nonclinical activities for AR-12 compared to 2011 resulting from reformulation activities performed during the first nine months of 2011 that were not actively ongoing during the same period in 2012.

The following table summarizes our R&D expenses incurred for preclinical support, contract manufacturing of clinical supplies, clinical trial services provided by third parties and milestone payments for in-licensed technology for each of our product candidates for the three and nine months ended September 30, 2012 and 2011, as well as the cumulative amounts since we began development of each product candidate through September 30, 2012. The table also summarizes unallocated costs, which consist of personnel, facilities and other costs not directly allocable to development programs:

	Three Months Ended September 30,		Nine Months Ended September 30,		Cumulative amounts during development
	2012	2011	2012	2011	stage
Onapristone	$ 1,078,145	$ -	$ 2,945,930	$ -	$ 2,972,348
AR-42	220,241	258,840	813,282	583,396	4,844,759
AR-12	273,993	368,860	779,603	1,538,677	9,622,491
AR-67	81,908	167,701	369,735	373,934	8,034,952
Unallocated R&D	413,570	627,261	1,377,992	1,503,462	9,120,070
Total	$ 2,067,857	$ 1,422,662	$ 6,286,542	$ 3,999,469	$ 34,594,620

Onapristone. We are currently developing onapristone, an anti-progestin hormone blocker that has been shown to have considerable anti-tumor activity in breast cancer. We intend to conduct pre-clinical toxicology studies and manufacturing activities and to file an IND or equivalent in 2013. Based on our current development plans for onapristone, we anticipate spending a total of approximately $4.7 million on external development costs during the fiscal year 2012, which includes the one-time cash payment of $0.5 million that we made to Invivis upon execution of the license agreement in February 2012.

AR-42. AR-42 is currently being studied in an investigator-initiated Phase I/II clinical study in adult subjects with relapsed or refractory hematological malignancies; multiple myeloma, chronic lymphocytic leukemia (CLL), or lymphoma. The recommended Phase II dose, or RP2D, in patients with hematological malignancies has been determined and the expansion phase of the program has been initiated. We expect that the expansion phase of the hematological malignancy cohort will take at least 12 months to complete. The protocol has been amended to include a separate solid tumor dose escalation cohort, and subjects are being actively screened to enter into this cohort. During 2012, we intend to collaborate with Ohio State to design a Phase 0 investigator-initiated study of AR-42 in patients with surgically resectable schwannoma and meningioma. The primary purpose of this study will be to assess intra-tumoral concentrations of AR-42, identify apoptosis markers and assess gene regulation. Based on our current development plans for AR-42, we anticipate spending a total of approximately $1.1 million on external development costs during the fiscal year 2012.

AR-12. We are also developing AR-12 as a potentially first-in-class, orally available, targeted anti-cancer agent that has been shown in pre-clinical studies to inhibit phosphoinositide dependent protein kinase-1, or PDK-1, a protein in the PI3K/Akt pathway that is involved in the growth and proliferation of cells, including cancer cells. We are currently conducting a multi-centered Phase I clinical study of AR-12 in adult patients with advanced or recurrent

solid tumors or lymphoma. The Phase I study of AR-12 is designed to evaluate the safety of AR-12 in order to identify the MTD and RP2D for future studies of the compound. We anticipate the determination of an RP2D and MTD in the fourth quarter of 2012. Based on our current development plans for AR-12, we anticipate spending a total of approximately $0.9 million on external development costs during the fiscal year 2012.

Our planned expenditures on our clinical development programs are expected to be substantial, particularly in relation to our available capital resources, and to increase. However, these planned expenditures are subject to many uncertainties, including the results of clinical trials and whether we develop any of our drug candidates with a partner or independently. As a result of such uncertainties, it is very difficult to accurately predict the duration and completion costs of our research and development projects or whether, when and to what extent we will generate revenues from the commercialization and sale of any of our product candidates. The duration and cost of clinical trials may vary significantly over the life of a project as a result of unanticipated events arising during clinical development and a variety of factors, including:

- our ability to obtain additional capital to fund our development programs;
- the number of trials and studies in a clinical program;
- the number of patients who participate in the trials;
- the number of sites included in the trials;
- the rates of patient recruitment and enrollment;
- the duration of patient treatment and follow-up;
- the costs of manufacturing our drug candidates; and
- the costs, requirements, timing of, and ability to secure regulatory approvals.

Interest Income. Interest income for the three and nine months ended September 30, 2012 and 2011 were $658, $5,898, $6,680, and $24,104 respectively. The decrease in interest income compared to the same periods in 2011 is primarily due to lower average cash balances.

Other (Expense) Income. Other expense for the three months ended September 30, 2012 was approximately $0.4 million compared to other income of approximately $0.2 million for the same period in 2011. This increase in other expense of approximately $0.6 million is primarily due to an approximately $0.4 million noncash adjustment (increase) to the warrant liability during the three months ended September 30, 2012 driven by an increased volatility assumption in the warrant valuation model compared to a decrease of approximately $0.2 million during the three months ended September 30, 2011.

Other income for the nine months September 30, 2012 was approximately $2.1 million compared to other expense of approximately $0.4 million for the same period in 2011. This increase in other income of approximately $2.5 million is primarily due to approximately $2.1 million noncash adjustments (decreases) to the warrant liability during the nine months ended September 30, 2012 compared to adjustments (increases to the warrant liability) of approximately $0.4 million during the nine months ended September 30, 2011. This decrease in the noncash warrant liability is primarily due to the significant decrease in the trading price of the Company’s common stock, from $0.60 to $0.45, which occurred during the nine months ended September 30, 2012.

Liquidity and Capital Resources

The following table summarizes our liquidity and capital resources as of September 30, 2012 and December 31, 2011 and our net changes in cash and cash equivalents for the nine months ended September 30, 2012 and 2011 (the amounts stated are expressed in thousands):

Liquidity and capital resources	September 30, 2012	December 31, 2011
Cash and cash equivalents	$ 594	$ 6,678
Working Capital	$ (2,371)	$ 5,012
Stockholders' (deficit) equity	$ (3,931)	$ 1,356

	Nine Months Ended September 30,	
Cash flow data	2012	2011
Cash used in:		
Operating activities	$ (6,085)	$ (4,994)
Investing activities	-	(9)
Net decrease in cash and cash equivalents	$ (6,085)	$ (5,003)

Our total cash resources as of September 30, 2012 were approximately $0.6 million compared to approximately $6.7 million as of December 31, 2011. As of September 30, 2012, we had approximately $4.9 million in liabilities (of which approximately $1.6 million represented a non-cash warrant liability), and negative working capital of approximately $2.4 million. We incurred a net loss of approximately $5.9 million and had negative cash flow from operating activities of $6.1 million for the nine months ended September 30, 2012. Since August 1, 2005 (inception) through September 30, 2012, we have incurred an aggregate net loss of approximately $41.4 million, while negative cash flow from operating activities has amounted to $34.8 million. As we continue to develop our product candidates, we expect to continue to incur substantial and increasing losses, which will continue to generate negative net cash flows from operating activities as we expand our technology portfolio and engage in further research and development activities, particularly the conducting of pre-clinical studies and clinical trials.

Based on our limited cash resources and negative working capital at September 30, 2012, we are in immediate need of substantial additional financing or we may be required to curtail or suspend our development programs or cease operations altogether. As we have not generated any revenue from operations to date, and we do not expect to generate revenue for several years, if ever, we will continue to need to raise substantial additional capital in order to fund our research and development, including our long-term plans for clinical trials and new product development, as well as to fund operations generally. From inception through September 30, 2012, we have financed our operations through private sales of our equity and debt securities. We are actively seeking to raise additional funds through various potential sources, such as equity and debt financings, or through strategic collaborations and license agreements. In May 2012, we engaged a financial advisor to assist us in our ongoing financing efforts. However, we do not have any committed sources of financing at this time, and it is uncertain whether additional funding will be available on terms that will be acceptable to us, or at all. We can give no assurances that we will be able to secure such additional sources of funds to continue our operations, or if such funds are available to us, that such additional financing will be sufficient to meet our needs.

Potential sources of financing include strategic relationships, public or private sales of equity or debt and other sources. We may seek to access the public or private equity markets when conditions are favorable due to our long-term capital requirements. To the extent that we raise additional funds by issuing equity or convertible or non-convertible debt securities, our stockholders may experience additional significant dilution and such financing may involve restrictive covenants. To the extent that we raise additional funds through collaboration and licensing arrangements, it may be necessary to relinquish some rights to our technologies or our product candidates, or grant licenses on terms that may not be favorable to us. Any or all of these factors may have a material adverse effect on our business. Even if we raise sufficient funds to satisfy our immediate capital requirements, the long-term continuation of our business is dependent upon obtaining further financing, the successful development of our drug product candidates and related technologies, the successful and sufficient market acceptance of any product offerings that we may introduce, and, finally, the achievement of a profitable level of operations. Obtaining commercial loans, assuming those loans would be available, on acceptable terms or even at all, will increase our liabilities and future cash commitments. If we are not able to obtain financing when needed, we may be unable to carry out our business plan. As a result, we may have to significantly limit or cease our operations, which would significantly harm our business, financial condition and results of operations. In such an event, we will be required to undertake a thorough review of our programs and the opportunities presented by such programs and allocate our resources in the manner most prudent.

Notwithstanding the foregoing estimates, based on the various options for future clinical studies of onapristone, AR-42 and AR-12, our projected cash needs are difficult to predict. In addition, there are other factors which may also cause our actual cash requirements to vary materially, including changes in the focus and direction of our research and development programs; the acquisition and pursuit of development of new product candidates; competitive and technical advances; costs of commercializing any of the product candidates; and costs of filing, prosecuting, defending and enforcing any patent claims and any other intellectual property rights. If we are unable to raise additional funds when needed, we may not be able to continue development and regulatory approval of our products, and we could be required to delay, scale back or eliminate some or all our research and development programs and we may need to wind down our operations altogether. Each of these alternatives would likely have a material adverse effect on our business and may result in a loss of your entire investment in our common stock.

The actual amount of funds we will need to operate is subject to many factors, some of which are beyond our control. These factors include the following:

- the progress of our research activities;
- the costs of hiring additional full-time personnel;
- the number and scope of our research programs;
- the progress of our pre-clinical and clinical development activities;
- the costs and timing of manufacturing our drug candidates;

- the progress of the development efforts of parties with whom we have entered into research and development agreements;

- our ability to maintain current research and development programs and to establish new research and development and licensing arrangements;

- the cost involved in prosecuting and enforcing patent claims and other intellectual property rights; and the cost and timing of regulatory approvals.

We have based our estimates on assumptions that may prove to be wrong. We may need to obtain additional funds sooner than planned or in greater amounts than we currently anticipate.

License Agreement Commitments

Onapristone License Agreement

Our rights to onapristone are governed by a license agreement with Invivis Pharmaceuticals, Inc. (“Invivis”), dated February 13, 2012. Under this agreement, we hold an exclusive, royalty-bearing license for the rights to commercialize onapristone for all therapeutic uses. The license agreement provides us with worldwide rights to onapristone with the exception of France; provided, however, that we have an option to acquire French commercial rights from Invivis upon notice to Invivis together with a cash payment.

The onapristone license agreement provides us with exclusive, worldwide rights to a U.S. provisional patent application that relates to assays for predictive biomarkers for anti-progestin efficacy. We intend to expand our patent portfolio by filing additional patent applications covering the use and manufacture of onapristone and/or a companion diagnostic product. If the pending patent application issues, the issued patent would be scheduled to expire in 2031.

We made a one-time cash payment of $500,000 to Invivis upon execution of the license agreement on February 13, 2012. Additionally, Invivis will receive performance-based cash payments of up to an aggregate of $15.1 million upon successful completion of clinical and regulatory milestones relating to onapristone, which milestones include the marketing approval of onapristone in multiple indications in the United States or the European Union as well as Japan. We will make the first milestone payment to Invivis upon the dosing of the first subject in the first Company-sponsored Phase I clinical trial of onapristone, which is not anticipated until 2013. In addition, we will pay Invivis low single digit sales royalties based on net sales of onapristone by us or any of our sublicensees. Pursuant to a separate services agreement, Invivis will provide us with certain clinical development support services, which includes the assignment of up to two full-time employees to perform such services, in exchange for a monthly cash payment.

Under the license agreement with Invivis, we also agreed to indemnify and hold Invivis and its affiliates harmless from any and all claims arising out of or in connection with the production, manufacture, sale, use, lease, consumption or advertisement of onapristone, provided, however, that we shall have no obligation to indemnify Invivis for claims that (a) any patent rights infringe third party intellectual property, (b) arise out of the gross negligence or willful misconduct of Invivis, or (c) result from a breach of any representation, warranty confidentiality obligation of Invivis under the license agreement. The license agreement will terminate upon the later of (i) the last to expire valid claim contained in the patent rights, and (ii) February 13, 2032. In general, Invivis may terminate the license agreement at any time upon a material breach by us to the extent we fail to cure any such breach within 90 days after receiving notice of such breach or in the event we file for bankruptcy. We may terminate the agreement for any reason upon 90 days' prior written notice.

AR-12 and AR-42 License Agreements

Our rights to AR-12 and AR-42 are governed by separate license agreements with The Ohio State University Research Foundation, or Ohio State, entered into in January 2008. Pursuant to each of these agreements, we have exclusive, worldwide, royalty-bearing licenses for the rights to commercialize technologies embodied by certain issued patents, patent applications, know-how and improvements relating to AR-12 and AR-42 for all therapeutic uses.

Under our license agreement for AR-12, we have exclusive, worldwide rights to one issued U.S. patent and four pending U.S. patent applications that relate to AR-12 and particular uses of AR-12 according to our business plan. The issued patent includes composition of matter claims. The issued patent is currently scheduled to expire in 2024. If the pending patent applications issue, the latest of the issued patent or patents would be scheduled to expire in 2028.

Under our license agreement for AR-42, we have exclusive, worldwide rights to two pending U.S. patent applications that relate to AR-42 and particular uses of AR-42 according to our business plan. If either or both of the pending patent applications issue, the issued patent or patents would both be scheduled to expire in 2024. In addition, in 2010, we filed one U.S. provisional patent application directed primarily to particular methods of using AR-42. If any U.S.

patent claiming priority to the provisional patent applications issues, such a patent would be scheduled to expire in 2031.

In 2008, pursuant to our license agreements for AR-12 and AR-42, we made one-time cash payments to Ohio State in the aggregate amount of $450,000 and reimbursed it for past patent expenses. Additionally, we are required to make performance-based cash payments upon successful completion of clinical and regulatory milestones relating to AR-12 and AR-42 in the U.S., Europe and Japan. The license agreements for AR-12 and AR-42 provide for aggregate potential milestone payments of up to $6.1 million for AR-12, of which $5.0 million is due only after marketing approval in the United States, Europe and Japan, and $5.1 million for AR-42, of which $4.0 million is due only after marketing approval in the United States, Europe and Japan. In September 2009, we paid Ohio State a milestone payment upon the commencement of the Phase I clinical study of AR-12. The first milestone payment for AR-42 will be due when the first patient is dosed in the first Company-sponsored Phase I clinical trial. Pursuant to the license agreements for AR-12 and AR-42, we must pay Ohio State royalties on net sales of licensed products at rates in the low-single digits. To the extent we enter into a sublicensing agreement relating to either or both of AR-12 or AR-42, we will be required to pay Ohio State a portion of all non-royalty income received from such sublicensee.

The license agreements with Ohio State further provide that we will indemnify Ohio State from any and all claims arising out of the death of or injury to any person or persons or out of any damage to property, or resulting from the production, manufacture, sale, use, lease, consumption or advertisement of either AR-12 or AR-42, except to the extent that any such claim arises out of the gross negligence or willful misconduct of Ohio State. The license agreements for AR-12 and AR-42, respectively, expire on the later of (i) the expiration of the last valid claim contained in any licensed patent and (ii) 20 years after the effective date of the license. Ohio State will generally be able to terminate either license upon our breach of the terms of the license the extent we fail to cure any such breach within 90 days after receiving notice of such breach or our bankruptcy. We may terminate either license upon 90 days' prior written notice.

AR-67 License Agreement

Our rights to AR-67 were governed by an October 2006 license agreement with the University of Pittsburgh ("Pitt"). Under this agreement, Pitt granted us an exclusive, worldwide, royalty-bearing license for the rights to commercialize technologies embodied by certain issued patents, patent applications and know-how relating to AR-67 for all therapeutic uses.

In 2006, under the terms of the license agreement with Pitt, we made a one-time cash payment of $350,000 to Pitt and reimbursed it for past patent expenses. Additionally, Pitt was entitled to receive performance-based cash payments upon successful completion of clinical and regulatory milestones relating to AR-67. We would have made the first milestone payment to Pitt upon the acceptance of the first new drug application by the FDA for AR-67. We were also required to pay to Pitt an annual maintenance fee of $200,000 upon the third and fourth anniversaries, $250,000 upon the fifth and sixth anniversaries, and $350,000 upon the seventh anniversary and annually thereafter and to pay Pitt a royalty equal to a percentage of net sales of AR-67, pursuant to the license agreement.

Under the license agreement with Pitt, we also agreed to indemnify and hold Pitt and its affiliates harmless from any and all claims, actions, demands, judgments, losses, costs, expenses, damages and liabilities (including reasonable attorneys' fees) arising out of or in connection with (i) the production, manufacture, sale, use, lease, consumption or advertisement of AR-67, (ii) the practice by us or any affiliate or sublicensee of the licensed patent; or (iii) any obligation of us under the license agreement unless any such claim is determined to have arisen out of the gross negligence, recklessness or willful misconduct of Pitt.

On January 12, 2012, we received a notice from Pitt, indicating that we were in default under the license agreement for failure to pay a $250,000 annual license fee under the terms of that agreement and providing us with 60 days' notice to remedy the default. On March 29, 2012, following our determination not to proceed with further development of AR-67, we agreed with Pitt to terminate the license agreement. As of September 30, 2012, we have accrued for the outstanding annual license fee of $250,000, while we are working to wind down our AR-67 program.

Off -Balance Sheet Arrangements

There were no off-balance sheet arrangements as of September 30, 2012.

Critical Accounting Policies and Estimates

Our financial statements are prepared in accordance with generally accepted accounting principles. The preparation of these financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, expenses and related disclosures. We evaluate our estimates and assumptions on an ongoing basis, including research and development and clinical trial accruals, and stock-based compensation estimates. Our estimates are based on historical experience and various other assumptions that we believe to be reasonable under the circumstances. Our actual results could differ from these estimates. We believe the following critical accounting policies reflect the more significant judgments and estimates used in the preparation of our financial statements and accompanying notes.

Research and Development Expenses and Accruals

R&D expenses consist primarily of salaries and related personnel costs, fees paid to consultants and outside service providers for pre-clinical, clinical, and manufacturing development, legal expenses resulting from intellectual property prosecution, costs related to obtaining and maintaining our product licenses, contractual review, and other expenses relating to the design, development, testing, and enhancement of our product candidates. Amounts due under such arrangements may be either fixed fee or fee for service, and may include upfront payments, monthly payments, and payments upon the completion of milestones or receipt of deliverables.

Our cost accruals for clinical trials and other R&D activities are based on estimates of the services received and efforts expended pursuant to contracts with numerous clinical trial centers and clinical research organizations, or CROs, clinical study sites, laboratories, consultants, or other clinical trial vendors that perform the activities. Related contracts vary significantly in length, and may be for a fixed amount, a variable amount based on actual costs incurred, capped at a certain limit, or for a combination of these elements. Activity levels are monitored through close communication with the CROs and other clinical trial vendors, including detailed invoice and task completion review, analysis of expenses against budgeted amounts, analysis of work performed against approved contract budgets and payment schedules, and recognition of any changes in scope of the services to be performed. Certain CROs and significant clinical trial vendors provide an estimate of costs incurred but not invoiced at the end of each quarter for each individual trial. The estimates are reviewed and discussed with the CRO or vendor as necessary, and are included in R&D expenses for the related period. For clinical study sites, which are paid periodically on a per-subject basis to the institutions performing the clinical study, we accrue an estimated amount based on subject screening and enrollment in each quarter. All estimates may differ significantly from the actual amount subsequently invoiced, which may occur several months after the related services were performed.

In the normal course of business we contract with third parties to perform various R&D activities in the on-going development of our product candidates. The financial terms of these agreements are subject to negotiation and vary from contract to contract and may result in uneven payment flows. Payments under the contracts depend on factors such as the achievement of certain events, the successful enrollment of patients, and the completion of portions of the clinical trial or similar conditions. The objective of our accrual policy is to match the recording of expenses in our financial statements to the actual services received and efforts expended. As such, expense accruals related to clinical trials and other R&D activities are recognized based on our estimate of the degree of completion of the event or events specified in the specific contract.

No adjustments for material changes in estimates have been recognized in any period presented.

Stock-Based Compensation

Our results include non-cash compensation expense as a result of the issuance of stock, stock options and warrants. We have issued stock options to employees, directors, consultants and Scientific Advisory Board members under our 2005 Stock Option Plan, as amended.

We expense the fair value of employee stock-based compensation over the vesting period. When more precise pricing data is unavailable, we determine the fair value of stock options using the Black-Scholes option-pricing model. This valuation model requires us to make assumptions and judgments about the variables used in the calculation. These variables and assumptions include the weighted-average period of time that the options granted are expected to be outstanding, the volatility of our common stock, the risk-free interest rate and the estimated rate of forfeitures of unvested stock options.

Stock options or other equity instruments to non-employees (including consultants and all members of our Scientific Advisory Board) issued as consideration for goods or services received by us are accounted for based on the fair value of the equity instruments issued (unless the fair value of the consideration received can be more reliably measured). The fair value of stock options is determined using the Black-Scholes option-pricing model. The fair value of any options issued to non-employees is recorded as expense over the applicable service periods.

During the period in which our common stock was registered under the Securities Exchange Act and publicly traded (October 3, 2008 through May 5, 2009), our management used the following assumptions: On the option grant date, the current available quoted market price for determining the fair value of our common stock, an expected volatility based on the average expected volatilities of a sampling of five companies with similar attributes to us, including industry, stage of life cycle, size and financial leverage, an expected dividend rate of 0% based on management plan of operations, a risk free interest rate based on the current U.S. Treasury 5-year Treasury Bill and an expected

forfeiture rate of 0%.

Subsequent to the deregistration of our common stock in May 2009, for all options granted in 2009, management estimated the fair value of our common stock to be $1.00 based on the following factors. The stock was publicly trading at $1.00 per share prior to being deregistered. Subsequent to the deregistration, we did not experience any significant events including clinical trial results, new product acquisitions or discoveries which management believes would influence a material change in share price following the deregistration. In addition, our management used the following assumptions for options granted during this period: An expected volatility based on the average expected volatilities of a sampling of five companies with similar attributes to us, including industry, stage of life cycle, size and financial leverage, an expected dividend rate of 0% based on management plan of operations, a risk free interest rate based on the current U.S. Treasury 5-year Treasury Bill and an expected forfeiture rate of 0%.

On February 9, 2011, the effective date of the registration statement filed in connection with our September 2010 private placement of Series A Preferred Stock, we again became subject to the reporting requirements of the Exchange Act. Due to the lack of an active public market for our common stock, management estimated the fair value of our common stock using a Monte Carlo simulation model and, in doing so, utilized a third-party valuation report. The Monte Carlo simulation is a generally accepted statistical method used to generate a defined number of stock price paths in order to develop a reasonable estimate of the range of our future expected stock prices and minimizes standard error. Management used this valuation for options granted in 2011 (no stock options were granted during the nine months ended September 30, 2012). In addition, our management used the following assumptions for options granted during this period: An expected volatility based on the average expected volatilities of a sampling of five companies with similar attributes to us, including industry, stage of life cycle, size and financial leverage, an expected dividend rate of 0% based on management plan of operations, a risk free interest rate based on the current U.S. Treasury 5-year Treasury Bill and an expected forfeiture rate of 0%.

The terms and vesting schedules for share-based awards vary by type of grant and the employment status of the grantee. Generally, the awards vest based upon time-based or performance-based conditions. Performance-based conditions generally include the attainment of goals related to our financial and development performance. Stock-based compensation expense is included in the respective categories of expense in the Statements of Operations. We expect to record additional non-cash compensation expense in the future, which may be significant.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Not applicable.

Item 4. Controls and Procedures.

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our reports under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms and that such information is accumulated and communicated to our management, including our Principal Executive Officer and Principal Financial Officer, as appropriate, to allow for timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

As required by Commission Rule 13a-15(b), we carried out an evaluation, under the supervision and with the participation of our management, including our Principal Executive Officer and Principal Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the quarter covered by this report. Based on the foregoing, our Principal Executive Officer and Principal Financial Officer concluded that, as of such date, our disclosure controls and procedures were effective at the reasonable assurance level.

There has been no change in our internal control over financial reporting during the most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II — OTHER INFORMATION

Item 1. Legal Proceedings.

The Company is not a party to any material pending legal proceedings.

Item 1A. Risk Factors.

An investment in our common stock involves significant risk. You should carefully consider the information described in the following risk factor, together with the other information appearing elsewhere in this report, before making an investment decision regarding our common stock. You should also consider the risk factors set forth in our Annual Report on Form 10-K for the year ended December 31, 2011 ("2011 Annual Report") under the caption "Item 1A. Risk Factors." If any of the risks described below or in our 2011 Annual Report actually occur, our business, financial conditions, results of operation and future growth prospects would likely be materially and adversely affected. In these circumstances, the market price of our common stock could decline, and you may lose all or a part of your investment in our common stock. Moreover, the risks described below and in our 2011 Annual Report are not the only ones that we face. Additional risks not presently known to us or that we currently deem immaterial may also affect our business, operating results, prospects or financial condition.

We need immediate and substantial additional funding in order to continue our business operations and the further development of our product candidates. If we are unable to obtain such additional capital, we will be forced to delay, reduce or eliminate our product development programs and may be forced to cease our operations altogether.

As of September 30, 2012, we only had approximately $0.6 million in cash and cash resources, and net working capital deficit of approximately $2.4 million. During the nine months ended September 30, 2012, we had negative cash flow from operating activities of $6.1 million, and we expect our negative cash flows from operations to continue for the foreseeable future. Based on our limited cash resources and negative working capital at September 30, 2012, we are in immediate need of substantial additional financing or we may be required to cease operations altogether. As a result, our financial statements reflect substantial uncertainty about our ability to continue as a going concern. Accordingly, we are in immediate need of additional capital to fund our basic corporate activities. Further, beyond funding our basic corporate activities, we require substantial additional funds to support our continued research and development activities, and the anticipated costs of preclinical studies and clinical trials, regulatory approvals and eventual commercialization.

Since we do not currently generate any revenue from operations, nor do we expect to for the foreseeable future, the most likely sources of such additional capital include private placements of our equity securities, including our common stock or securities convertible into or exchangeable for our common stock, debt financing or funds from a potential strategic licensing or collaboration transaction in which we would license or otherwise relinquish the rights to one or more of our product candidates. To the extent that we raise additional capital by issuing equity securities, our stockholders will likely experience dilution, which may be significant depending on the number of shares we may issue and the price per share. If we raise additional funds through collaborations and licensing arrangements, it may be necessary to relinquish some rights to our technologies, product candidates or products, or grant licenses on terms that are not favorable to us. If we raise additional funds by incurring debt, we could incur significant interest expense and become subject to restrictive covenants that could affect the manner in which we conduct our business.

We currently have no committed sources of additional capital and our access to capital funding is always uncertain. This uncertainty is exacerbated due to the global economic turmoil of the last few years, which continues to severely restricted access to the U.S. and international capital markets, particularly for small biopharmaceutical and biotechnology companies like us. Accordingly, despite our ability to secure adequate capital in the past, there is no assurance that additional equity or debt financing will be available to us when needed, on acceptable terms or even at all. If we fail to obtain the necessary additional capital when needed, we may be required to delay, reduce the scope of, or eliminate one or more of our research or development programs. In addition, we could be forced to discontinue product development, reduce or forego attractive business opportunities and even cease our operations altogether

Our forecasts regarding the sufficiency of our financial resources to support our current and planned operations are forward-looking statements and involve significant risks and uncertainties, and actual results could vary as a result of a number of factors, including the factors discussed in this “Risk Factors” section and in our 2011 Annual Report. We have based these forecasts on assumptions that may prove to be wrong, and we could utilize our available capital resources sooner than we currently expect.

Item 2. Unregistered Sales of Securities and Use of Proceeds.

Not applicable.

Item 3. Defaults Upon Senior Securities.

Not applicable.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

On November 9, 2012, the Company issued a press release announcing the results of preclinical studies relating to its onapristone development program. A copy of the press release is attached to this report as Exhibit 99.1 and incorporated herein by reference.

Item 6. Exhibits.

Exhibit No.	Exhibit Description
31.1	Certification of Principal Executive Officer pursuant to Securities Exchange Act Rule 13a-15(e)/15d-15(e) as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Principal Financial Officer pursuant to Securities Exchange Act Rule 13a-15(e)/15d-15(e) as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Principal Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
99.1	Press release of Arno Therapeutics, Inc. issued on November 9, 2012.
101	The following financial information from Arno Therapeutics, Inc.'s Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2012, formatted in eXtensible Business Reporting Language (XBRL): (i) Condensed Balance Sheets as of September 30, 2012 and December 31, 2011, (ii) Condensed Statements of Operations for the three and nine months ended September 30, 2012 and September 30, 2011, and for the period from August 1, 2005 (inception) through September 30, 2012, (iii) Condensed Statement of Stockholders' (Deficit) Equity for the period from August 1, 2005

(inception) through September 30, 2012, (iv) Condensed Statements of Cash Flows for the nine months ended September 30, 2012 and September 30, 2011, and for the period from August 1, 2005 (inception) through September 30, 2012, and (v) Notes to Condensed Financial Statements.*

* Pursuant to Rule 406T of Regulation S-T, the Interactive Data Files in Exhibit 101 to this Quarterly Report on Form 10-Q shall not be deemed to be "filed" for purposes of Section 18 of the Exchange Act, or otherwise subject to the liability of that section, and shall not be deemed part of a registration statement, prospectus or other document filed under the Securities Act or the Exchange Act, except as shall be expressly set forth by specific reference in such filings.

SIGNATURES

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

ARNO THERAPEUTICS, INC.

Date: November 19, 2012

By: /s/ Glenn R. Mattes

Glenn R. Mattes
President and Chief Executive Officer
(Principal Executive Officer)

Date: November 19, 2012

By: /s/ Scott L. Navins

Scott L. Navins
Treasurer
(Principal Financial and Accounting Officer)

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