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Proposed Attorney for  
ARADIGM CORPORATION  
Debtor and Debtor-in-Possession

UNITED STATES BANKRUPTCY COURT

NORTHERN DISTRICT OF CALIFORNIA, OAKLAND DIVISION

In re

ARADIGM CORPORATION

CASE NO. 19-40363 WJL

Chapter 11

**MOTION TO MODIFY REQUIREMENTS  
OF LOCAL BANKRUPTCY RULE 2015-2  
AS TO THE DEBTOR'S INITIAL  
MONTHLY OPERATING REPORT**

NO HEARING REQUIRED

Aradigm Corporation, as debtor and debtor in possession (the "Debtor") in the above-captioned chapter 11 case (the "Chapter 11 Case"), hereby submits this Motion (the "Motion"), pursuant to Local Bankruptcy Rule 2015-2(e) to modify the provision of Local Bankruptcy Rule 2015-2 as to the Debtor's initial monthly operating report. A proposed form of order granting the relief requested herein is annexed hereto as Exhibit A (the "Proposed Order"). In support of the Motion, the Debtor states as follows:

1. This case was commenced on February 15, 2019 by the filing of an voluntary Petition for Relief under Chapter 11. (Dkt. No. 1.) No trustee has been appointed and the Debtor continues in possession of its assets and properties.

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1           2.       The Court has jurisdiction to consider this matter pursuant to 28 U.S.C. §§ 157 and  
2       1334, the *Order Referring Bankruptcy Cases and Proceedings to Bankruptcy Judges*, General Order  
3       24 (N.D. Cal.). This is a core proceeding pursuant to 28 U.S.C. § 157(b). Venue is proper before the  
4       Court pursuant to 28 U.S.C. §§ 1408 and 1409.

5           3.       The Debtor's schedules and statements of affairs are due to be filed on March 22,  
6       2019. (Dkt. No. 22.) The section 341(a) meeting of creditors is set for April 8, 2019.

7           4.       The Debtor's Initial Debtor Interview was held on March 6, 2019. The Debtor timely  
8       submitted its IDI Checklist on March 1.

9           5.       The Debtor is a publicly traded emerging specialty pharmaceutical company focused  
10      on the development and commercialization of products for the treatment and prevention of severe  
11      respiratory diseases. The Debtor has concentrated on the development of drug delivery  
12      technologies, particularly the development of respiratory drug delivery. The Debtor's lead product  
13      candidates are proprietary formulations of the potent antibiotic ciprofloxacin that are delivered by  
14      inhalation for the management of infections associated with the severe respiratory diseases of cystic  
15      fibrosis, non-cystic fibrosis bronchiectasis ("NCFBE") or infections with non-tuberculous  
16      mycobacteria.

17          6.       The Debtor's inhaled ciprofloxacin formulation ("Ciprofloxacin DI") for the  
18      treatment of NCFBE patients with chronic lung infection with *P. aeruginosa* recently completed  
19      two Phase 3 trials. In July 2017, the Debtor submitted a New Drug Application ("NDA") to the  
20      Federal Drug Administration ("FDA") for Ciprofloxacin DI. In January 2018, the FDA sent a  
21      Complete Response Letter ("CRL") stating that it cannot approve the NDA in its present form. In  
22      2018 the Debtor addressed all issues stated in the CRL and the FDA is now requesting the conduct  
23      of an additional Phase 3 trial. The Debtor remain confident in the efficacy, safety and quality of  
24      Ciprofloxacin DI and is committed to continue working on the approval of Ciprofloxacin DI in the  
25      US for NCFBE patients who have very severe disease with high morbidity and mortality and no  
26      available treatment options.

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1           7.       In March 2018, the Debtor submitted a marketing authorization application ("MAA")  
2 to the European Medicines Agency ("EMA"), seeking approval for Ciprofloxacin DI for the  
3 treatment of NCFBE patients with chronic lung infection with *P. aeruginosa*. The EMA is  
4 currently reviewing the MAA for Ciprofloxacin DI according to standard timelines.

5           8.       The Debtor continues to seek regulatory approval of Ciprofloxacin DI formulation to  
6 treat NCFBE patients. However, the Debtor has limited operating income and relies on investor  
7 capital to fund its operations and its research and development efforts. Addressing the delays the  
8 Debtor has experienced obtaining regulatory approval and the FDA's request for an additional Phase  
9 3 trial will require significant expenditures by the Debtor on additional research and development,  
10 but the Debtor lacks the capital to fund these expenditures. The Debtor therefore filed this Chapter  
11 11 case in order to conserve its cash resources and to pursue a sale of its assets.

12           9.       The Debtor currently has a limited staff of thirteen persons. To conserve cash, these  
13 persons work on a part time basis. The majority of the personnel focus on the Debtor's research and  
14 development efforts and the regulatory approval process.

15           10.      Pursuant to Local Bankruptcy Rule 2015-2(b), the Debtor's monthly operating report  
16 for the stub February period is due March 21, 2019. Furthermore, also as provided in Local  
17 Bankruptcy Rule 2015-2(b), a separate monthly operating report must be filed for each calendar  
18 month or partial month. Local Bankruptcy Rule 2015-2(e) provides that the Court for cause may  
19 modify the provisions of Rule 2015-2.

20           11.      The Debtor requests authorization to combine the stub February report with the  
21 March report and to file a single monthly operating report covering the period February 15 to March  
22 31, 2019. The combined monthly operating report would be due April 22 (because April 21 is a  
23 Sunday). The Debtor does not otherwise seek to modify the provision of Rule 2015-2.

24           12.      The Debtor submits that cause exists to modify the provisions of Local Bankruptcy  
25 Rule 2015-2 as requested herein. In order to prepare a monthly operating report for the stub  
26 February period, the Debtor would need to close the month of February for accounting purposes on  
27 February 15 and then close the month again on February 28. However, the Debtor's accounting  
28 system will not accommodate multiple closings in a single month. The Debtor utilizes an older

1 version of an accounting system that is no longer supported by the vendor. The accounting system  
2 allows the Debtor to close a month only once. The system does not permit the Debtor to close a  
3 month in the middle of the month and then again at the end of the month. Because of this limitation,  
4 the monthly operating report for the stub period would have to be prepared manually, which would  
5 require a significant amount of effort. The work around the Debtor proposes is to close February on  
6 February 15, thereby capturing the pre-petition activity, and to treat the post-petition period as part  
7 of March and to report the February 15 to 28 period as part of March.

8 13. Furthermore, there were no disbursements from the Debtor's bank accounts between  
9 the Filing Date and February 28. On February 25, 2019, the Debtor filed its Motion of Debtor and  
10 Debtor in Possession for Interim and Final Authority to Continue Existing Cash Management  
11 System, and Maintain Existing Bank Accounts and Business Forms. (Dkt. No. 15.) The Court  
12 granted this motion on an interim basis by order entered on March 8. (Dkt. No. 30.) While this  
13 motion was pending, the Debtor had no access to its pre-petition bank accounts and there were no  
14 disbursements from those accounts.

15 14. Finally, the Debtor has limited staff working on a part time basis. The Debtor's  
16 accounting personnel consists of Lisa Thomas, the Acting Controller, and one assistant. These  
17 individuals are responsible for the internal accounting function as well as the preparation of the  
18 Debtor's schedules and statements and the Debtor's reporting to the United States Trustee.  
19 Currently, Ms. Thomas and her assistant are focused on meeting the March 22 filing deadline for  
20 the Debtor schedules and statements.

21 15. The Debtor has discussed modifying the provisions of Local Bankruptcy Rule 2015-  
22 2 as requested herein with the Office of the United States Trustee both at the IDI and by email. The  
23 United States Trustee has authorized the Debtor to represent that the United States Trustee does not  
24 oppose the modification sought herein..

25 16. The Debtor has given notice of this motion to the United States Trustee, the SEC, the  
26 parties that have filed a request for notice, and the parties listed on the Debtor's list of the twenty  
27 largest unsecured creditors.

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1                   Wherefore the Debtor prays that the Court authorize the Debtor combine the stub  
2 February monthly operating report with the March monthly operating report and to file a single  
3 monthly operating report covering the period February 15 to March 31, 2019.

4 DATED: March 14, 2019

JEFFER MANGELS BUTLER & MITCHELL LLP  
BENNETT G. YOUNG, ESQ.

7 By: /s/ Bennett G. Young  
BENNETT G. YOUNG  
8 Proposed Attorney for ARADIGM CORPORATION  
Debtor and Debtor-in-Possession  
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