UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM N-Q

QUARTERLY SCHEDULE OF PORTFOLIO HOLDINGS

OF REGISTERED MANAGEMENT INVESTMENT COMPANY

Investment Company Act file number: 811-21507

Wells Fargo Multi-Sector Income Fund

(Exact name of registrant as specified in charter)

525 Market Street, 12th Floor, San Francisco, CA 94105

(Address of principal executive offices) (Zip code)

C. David Messman

Wells Fargo Funds Management, LLC

525 Market Street, 12th Floor, San Francisco, CA 94105

(Name and address of agent for service)

Registrant s telephone number, including area code: 800-222-8222

Date of fiscal year end: October 31

Registrant is making a filing for Wells Fargo Multi-Sector Income Fund.

Date of reporting period: July 31, 2017

ITEM 1. INVESTMENTS

Wells Fargo Multi-Sector Income Fund **Portfolio of investments July 31, 2017 (unaudited)**

Security name	Interest rate	Maturity date	Principal	Value
Agency Securities: 1.75%				
FHLMC ±	3.77%	9-1-2032	$ 1,042,234	$ 1,081,684
FHLMC	8.50	7-1-2028	41,662	48,408
FHLMC Series 1383 ±	2.90	2-1-2037	243,815	256,711
FHLMC Series 196 Class A ±	2.03	12-15-2021	12,851	12,959
FHLMC Series 2011-K16 Class B 144A±	4.60	11-25-2046	1,000,000	1,077,413
FHLMC Series 2011-K701 Class B 144A±	4.24	7-25-2048	165,000	165,329
FHLMC Series 2012-K17 Class B 144A±	4.34	12-25-2044	675,000	718,940
FHLMC Series 2012-K18 Class B 144A±	4.26	1-25-2045	810,000	859,575
FHLMC Series 2012-K706 Class B 144A±	4.03	11-25-2044	500,000	509,831
FHLMC Series 2012-K706 Class C 144A±	4.03	11-25-2044	805,000	818,539
FHLMC Series 2012-K707 Class B 144A±	3.88	1-25-2047	930,000	949,412
FHLMC Series 2012-K711 Class B 144A±	3.56	8-25-2045	264,000	270,262
FHLMC Series 2013-K30 Class B 144A±	3.56	6-25-2045	700,000	724,380
FHLMC Series 2390 Class FD ±	1.68	12-15-2031	20,188	20,269
FHLMC Series 2567 Class FH ±	1.63	2-15-2033	63,498	63,548
FHLMC Series K007 Class X1 ±(c)	1.22	4-25-2020	783,570	18,465
FHLMC Series K016 Class X1 ±(c)	1.69	10-25-2021	367,524	19,533
FHLMC Series K020 Class X1 ±(c)	1.57	5-25-2022	6,513,569	368,219
FNMA ±	3.00	9-1-2037	478,899	504,419
FNMA	6.00	4-1-2033	62,182	64,461
FNMA	7.50	2-1-2030	26,210	26,412
FNMA	7.50	9-1-2030	33,647	34,055
FNMA Series 1996-46 Class FA ±	1.73	8-25-2021	8,039	8,046
FNMA Series 1997-20 Class IO ±(c)	1.84	3-25-2027	704,806	19,811
FNMA Series 2001-25 Class Z	6.00	6-25-2031	112,680	125,047
FNMA Series 2001-35 Class F ±	1.83	7-25-2031	5,282	5,362
FNMA Series 2001-57 Class F ±	1.73	6-25-2031	5,318	5,347
FNMA Series 2002-77 Class FH ±	1.63	12-18-2032	39,097	39,124
FNMA Series 2002-97 Class FR ±	1.78	1-25-2033	9,132	9,249
FNMA Series G91-16 Class F ±	1.68	6-25-2021	7,625	7,663
FNMA Series G92-17 Class F ±	2.28	3-25-2022	34,896	35,373
GNMA	6.50	6-15-2028	26,573	29,101
GNMA	7.25	9-15-2017	472	472
GNMA	7.25	1-15-2018	1,074	1,076
GNMA	7.25	2-15-2018	1,147	1,149
GNMA	7.25	5-15-2018	1,781	1,784
Total Agency Securities (Cost $8,425,725)				8,901,428
Asset-Backed Securities: 0.24%				
CVS Pass-Through Trust Series T	6.04	12-10-2028	505,690	573,346
Montana Higher Education Student Assistance Corporation Series 2012-1 Class A2 ±	2.21	5-20-2030	647,746	650,872

Total Asset-Backed Securities (Cost $1,215,414)		1,224,218
	Shares	
Common Stocks: 0.31%		
Energy: 0.04%		
Oil, Gas & Consumable Fuels: 0.04%		
SilverBow Resources Incorporated (i)	8,665	216,885
Materials: 0.00%		
Chemicals: 0.00%		
LyondellBasell Industries NV Class A	9	811

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Portfolio of investments July 31, 2017 (unaudited) **Wells Fargo Multi-Sector Income Fund**

Security name			Shares	Value
Utilities: 0.27%				
Independent Power & Renewable Electricity Producers: 0.27%				
Vistra Energy Corporation			84,651	$ 1,390,816
Total Common Stocks (Cost $6,853,438)				1,608,512

	Interest rate	Maturity date	Principal	
Corporate Bonds and Notes: 70.78%				
Consumer Discretionary: 11.57%				
Auto Components: 1.06%				
Allison Transmission Incorporated 144A	5.00%	10-1-2024	$ 2,250,000	2,328,750
Cooper Tire & Rubber Company (i)	7.63	3-15-2027	1,710,000	1,915,200
Cooper Tire & Rubber Company	8.00	12-15-2019	550,000	613,250
Goodyear Tire & Rubber Company	8.75	8-15-2020	468,000	547,560
				5,404,760
Distributors: 0.18%				
LKQ Corporation	4.75	5-15-2023	900,000	911,250
Diversified Consumer Services: 1.13%				
Service Corporation International	7.50	4-1-2027	3,400,000	4,046,000
Service Corporation International	7.63	10-1-2018	680,000	722,500
Service Corporation International	8.00	11-15-2021	850,000	1,007,250
				5,775,750
Hotels, Restaurants & Leisure: 0.50%				
CCM Merger Incorporated 144A	6.00	3-15-2022	2,450,000	2,567,233
Internet & Direct Marketing Retail: 0.16%				
Expedia Incorporated	5.95	8-15-2020	750,000	821,519
Leisure Products: 0.01%				
Vista Outdoor Incorporated	5.88	10-1-2023	25,000	25,625
Media: 6.92%				
Altice US Finance I Corporation 144A	5.38	7-15-2023	1,395,000	1,464,750
Altice US Finance I Corporation 144A	5.50	5-15-2026	1,275,000	1,351,500
AMC Entertainment Holdings Incorporated	5.88	11-15-2026	925,000	943,500
Cablevision Systems Corporation	8.63	9-15-2017	582,000	585,638
CBS Radio Incorporated 144A	7.25	11-1-2024	45,000	47,419
CCO Holdings LLC	5.13	2-15-2023	100,000	103,500
CCO Holdings LLC 144A	5.13	5-1-2027	450,000	465,188

CCO Holdings LLC	5.25	9-30-2022	1,250,000	1,289,063
CCO Holdings LLC 144A	5.38	5-1-2025	4,150,000	4,414,563
CCO Holdings LLC 144A	5.50	5-1-2026	215,000	228,506
CCO Holdings LLC 144A	5.75	2-15-2026	3,375,000	3,628,125
CCO Holdings LLC 144A	5.88	4-1-2024	1,250,000	1,342,585
Cequel Communications Holdings I LLC 144A	7.75	7-15-2025	2,030,000	2,265,988
Cinemark USA Incorporated	4.88	6-1-2023	325,000	330,281
CSC Holdings LLC	7.88	2-15-2018	1,000,000	1,028,750
CSC Holdings LLC	8.63	2-15-2019	383,000	419,385
EMI Music Publishing 144A	7.63	6-15-2024	525,000	582,750
Gray Television Incorporated 144A	5.13	10-15-2024	450,000	460,688
Gray Television Incorporated 144A	5.88	7-15-2026	3,875,000	4,010,625
Interpublic Group of Companies	4.00	3-15-2022	750,000	790,136
Lamar Media Corporation	5.88	2-1-2022	690,000	712,425
Live Nation Entertainment Incorporated 144A	4.88	11-1-2024	1,400,000	1,435,000
National CineMedia LLC	5.75	8-15-2026	575,000	552,000

Wells Fargo Multi-Sector Income Fund **Portfolio of investments July 31, 2017 (unaudited)**

Security name	Interest rate	Maturity date	Principal	Value
Media (continued)				
National CineMedia LLC	6.00%	4-15-2022	$ 1,725,000	$ 1,772,438
Nexstar Broadcasting Group Incorporated 144A	5.63	8-1-2024	850,000	878,688
Nexstar Broadcasting Group Incorporated 144A	6.13	2-15-2022	950,000	992,750
Outfront Media Capital Corporation	5.63	2-15-2024	20,000	20,875
Outfront Media Capital Corporation	5.88	3-15-2025	775,000	812,781
Salem Media Group Incorporated 144A	6.75	6-1-2024	1,500,000	1,556,250
Time Warner Cable Incorporated	4.00	1-15-2022	750,000	794,227
				35,280,374
Multiline Retail: 0.12%				
Macy s Retail Holdings Incorporated	3.88	1-15-2022	600,000	602,537
Specialty Retail: 1.39%				
Advance Auto Parts Incorporated	4.50	1-15-2022	600,000	638,959
Asbury Automotive Group Incorporated	6.00	12-15-2024	1,175,000	1,201,438
Lithia Motors Incorporated 144A	5.25	8-1-2025	265,000	272,950
Penske Auto Group Incorporated	5.38	12-1-2024	2,150,000	2,158,063
Penske Auto Group Incorporated	5.75	10-1-2022	1,155,000	1,195,425
Sonic Automotive Incorporated	5.00	5-15-2023	849,000	823,530
Sonic Automotive Incorporated	6.13	3-15-2027	775,000	778,875
				7,069,240
Textiles, Apparel & Luxury Goods: 0.10%				
Wolverine World Wide Company 144A	5.00	9-1-2026	500,000	496,500
Consumer Staples: 1.57%				
Beverages: 0.27%				
Anheuser-Busch InBev SA	3.75	1-15-2022	600,000	637,450
Cott Beverages Incorporated 144A	5.50	4-1-2025	675,000	709,594
				1,347,044
Food Products: 1.16%				
B&G Foods Incorporated	4.63	6-1-2021	300,000	307,125
B&G Foods Incorporated	5.25	4-1-2025	1,050,000	1,094,625
Darling Ingredients Incorporated	5.38	1-15-2022	180,000	187,200
Kraft Foods Group Incorporated	3.50	6-6-2022	750,000	778,491
Pilgrim s Pride Corporation 144A	5.75	3-15-2025	1,130,000	1,158,250
Pinnacle Foods Incorporated 144A	5.63	5-1-2024	325,000	337,188
Pinnacle Foods Incorporated	5.88	1-15-2024	75,000	80,438
Post Holdings Incorporated 144A	5.00	8-15-2026	700,000	718,375
Post Holdings Incorporated 144A	5.50	3-1-2025	525,000	553,875

Post Holdings Incorporated 144A	5.75	3-1-2027	525,000	556,500
Prestige Brands Incorporated 144A	6.38	3-1-2024	130,000	139,588
				5,911,655
Tobacco: 0.14%				
Reynolds American Incorporated	6.88	5-1-2020	650,000	731,457
Energy: 18.71%				
Energy Equipment & Services: 5.68%				
Bristow Group Incorporated	6.25	10-15-2022	3,330,000	2,156,175
Era Group Incorporated	7.75	12-15-2022	2,350,000	2,138,500
Hilcorp Energy Company 144A	5.00	12-1-2024	1,450,000	1,376,775
Hilcorp Energy Company 144A	5.75	10-1-2025	1,525,000	1,486,875
Hornbeck Offshore Services Incorporated	1.50	9-1-2019	4,750,000	3,776,250
Hornbeck Offshore Services Incorporated	5.00	3-1-2021	150,000	82,500

Portfolio of investments July 31, 2017 (unaudited) **Wells Fargo Multi-Sector Income Fund**

Security name	Interest rate	Maturity date	Principal	Value
Energy Equipment & Services (continued)				
Hornbeck Offshore Services Incorporated	5.88%	4-1-2020	$ 1,860,000	$ 1,120,650
NGPL PipeCo LLC 144A%%<	4.38	8-15-2022	350,000	360,063
NGPL PipeCo LLC 144A%%<	4.88	8-15-2027	550,000	566,500
NGPL PipeCo LLC 144A	7.12	12-15-2017	2,060,000	2,096,050
NGPL PipeCo LLC 144A	7.77	12-15-2037	7,660,000	9,498,400
PHI Incorporated	5.25	3-15-2019	4,425,000	4,270,125
				28,928,863
Oil, Gas & Consumable Fuels: 13.03%				
Carrizo Oil & Gas Incorporated	8.25	7-15-2025	800,000	843,000
Continental Resources Incorporated	3.80	6-1-2024	700,000	647,500
Continental Resources Incorporated	5.00	9-15-2022	875,000	867,344
DCP Midstream Operating Company	2.70	4-1-2019	725,000	720,469
Denbury Resources Incorporated	4.63	7-15-2023	1,650,000	841,500
Denbury Resources Incorporated	6.38	8-15-2021	3,209,000	1,869,243
El Paso LLC	6.50	4-1-2020	750,000	826,067
Enable Midstream Partner LP	2.40	5-15-2019	2,350,000	2,344,130
Enable Midstream Partner LP	3.90	5-15-2024	1,750,000	1,746,430
Enable Midstream Partner LP	4.40	3-15-2027	775,000	785,757
Enable Oklahoma Intrastate Transmission LLC 144A	6.25	3-15-2020	250,000	269,005
Energy Transfer Partners LP	5.20	2-1-2022	750,000	814,160
EnLink Midstream LLC	4.15	6-1-2025	2,350,000	2,356,155
EnLink Midstream LLC	4.40	4-1-2024	3,200,000	3,286,445
Exterran Partners LP	6.00	4-1-2021	3,100,000	3,069,000
Gulfport Energy Corporation 144A	6.38	5-15-2025	800,000	799,000
Gulfport Energy Corporation	6.63	5-1-2023	1,900,000	1,919,000
Kinder Morgan Energy Partners LP	3.95	9-1-2022	750,000	778,258
Kinder Morgan Incorporated	6.50	9-15-2020	285,000	317,345
Kinder Morgan Incorporated (i)	7.42	2-15-2037	800,000	920,721
Matador Resources Company	6.88	4-15-2023	300,000	318,000
Murphy Oil Corporation	4.70	12-1-2022	975,000	957,938
Murphy Oil Corporation	6.88	8-15-2024	850,000	903,125
Nabors Industries Limited	0.75	1-15-2024	400,000	316,500
Nabors Industries Limited	4.63	9-15-2021	750,000	718,125
Overseas Shipholding Group Incorporated	8.13	3-30-2018	2,275,000	2,326,188
Phillips 66	4.30	4-1-2022	625,000	671,546
Pioneer Natural Resources Company	3.95	7-15-2022	750,000	790,012
Rockies Express Pipeline LLC 144A	5.63	4-15-2020	3,500,000	3,702,370
Rockies Express Pipeline LLC 144A	6.88	4-15-2040	3,524,000	3,883,008
Rockies Express Pipeline LLC 144A	7.50	7-15-2038	1,465,000	1,666,438
Rose Rock Midstream LP	5.63	7-15-2022	1,200,000	1,191,000

Rose Rock Midstream LP	5.63	11-15-2023	825,000	810,305
Sabine Oil & Gas Corporation (a)(i)(s)	7.25	6-15-2019	520,000	0
Sabine Oil & Gas Corporation (a)(i)(s)	7.50	9-15-2020	3,500,000	0
Sabine Pass Liquefaction LLC	5.63	2-1-2021	600,000	655,588
Sabine Pass Liquefaction LLC	5.63	4-15-2023	1,710,000	1,904,018
Sabine Pass Liquefaction LLC	5.63	3-1-2025	460,000	511,732
Sabine Pass Liquefaction LLC	5.75	5-15-2024	1,625,000	1,826,949
Sabine Pass Liquefaction LLC	6.25	3-15-2022	3,550,000	4,029,229
SemGroup Corporation 144A	6.38	3-15-2025	3,425,000	3,390,750
Southern Star Central Corporation 144A	5.13	7-15-2022	775,000	792,438
Southwestern Energy Company	4.10	3-15-2022	425,000	396,313
Southwestern Energy Company	6.70	1-23-2025	650,000	640,049
Summit Midstream Holdings LLC	5.75	4-15-2025	225,000	227,813
Tallgrass Energy Partners LP 144A	5.50	9-15-2024	4,600,000	4,709,250
Tesoro Logistics LP	6.13	10-15-2021	225,000	233,156
Tesoro Logistics LP	6.38	5-1-2024	450,000	491,625
Ultra Resources Incorporated 144A	6.88	4-15-2022	600,000	618,000
Ultra Resources Incorporated 144A	7.13	4-15-2025	505,000	514,974
Western Gas Partners LP	4.00	7-1-2022	175,000	180,530
Western Gas Partners LP	5.38	6-1-2021	225,000	242,308

Wells Fargo Multi-Sector Income Fund **Portfolio of investments** **July 31, 2017 (unaudited)**

Security name	Interest rate	Maturity date	Principal	Value
Oil, Gas & Consumable Fuels (continued)				
Williams Partners LP	3.35%	8-15-2022	$ 750,000	$ 761,500
				66,401,306
Financials: 9.23%				
Banks: 0.62%				
Bank of America Corporation	5.70	1-24-2022	250,000	282,978
Citigroup Incorporated	4.50	1-14-2022	250,000	269,694
Citigroup Incorporated	6.00	8-15-2017	650,000	651,271
City National Bank	5.38	7-15-2022	500,000	557,309
HSBC Bank USA	6.00	8-9-2017	650,000	650,502
JPMorgan Chase & Company	3.38	5-1-2023	750,000	765,098
				3,176,852
Capital Markets: 0.39%				
ACE Securities Corporation ±	3.86	6-25-2033	294,902	293,720
Blackstone Holdings Finance Company LLC 144A	5.88	3-15-2021	750,000	839,165
Goldman Sachs Group Incorporated	5.75	1-24-2022	750,000	845,933
				1,978,818
Consumer Finance: 3.26%				
Ally Financial Incorporated	8.00	12-31-2018	780,000	839,475
Ally Financial Incorporated	8.00	3-15-2020	755,000	856,925
Discover Financial Services	5.20	4-27-2022	750,000	821,093
FirstCash Incorporated 144A	5.38	6-1-2024	575,000	605,188
Ford Motor Credit Company LLC	5.00	5-15-2018	650,000	666,176
General Motors Financial Company Incorporated	3.70	5-9-2023	750,000	765,500
Navient Corporation	8.00	3-25-2020	930,000	1,028,580
Navient Corporation	8.45	6-15-2018	1,675,000	1,759,085
OneMain Financial Group LLC 144A	7.25	12-15-2021	3,425,000	3,604,813
Springleaf Finance Corporation	6.00	6-1-2020	825,000	870,375
Springleaf Finance Corporation	6.50	9-15-2017	200,000	200,750
Springleaf Finance Corporation	6.90	12-15-2017	4,550,000	4,623,938
				16,641,898
Diversified Financial Services: 2.98%				
General Electric Capital Corporation	4.65	10-17-2021	187,000	205,877
Infinity Acquisition LLC 144A(i)	7.25	8-1-2022	960,000	912,000
ING US Incorporated	5.50	7-15-2022	750,000	839,687
Jefferies Finance LLC 144A%%<	7.25	8-15-2024	225,000	225,563

LPL Holdings Incorporated 144A	5.75	9-15-2025	10,025,000	10,501,188
NewStar Financial Incorporated	7.25	5-1-2020	2,450,000	2,511,250
				15,195,565

Insurance: 1.98%

American International Group Incorporated	4.88	6-1-2022	750,000	828,839
Endurance Specialty Holdings Limited	7.00	7-15-2034	575,000	721,109
Hartford Financial Services Group Incorporated	5.13	4-15-2022	650,000	724,069
Hub Holdings LLC (PIK at 8.88%) 144A¥	8.13	7-15-2019	1,075,000	1,075,000
HUB International Limited 144A	7.88	10-1-2021	3,950,000	4,132,688
Liberty Mutual Group Incorporated 144A	4.95	5-1-2022	750,000	823,647
ProAssurance Corporation	5.30	11-15-2023	750,000	824,705
USIS Merger Subordinate Incorporated 144A	6.88	5-1-2025	225,000	232,875
W.R. Berkley Corporation	4.63	3-15-2022	650,000	706,365
				10,069,297

Portfolio of investments July 31, 2017 (unaudited) **Wells Fargo Multi-Sector Income Fund**

Security name	Interest rate	Maturity date	Principal	Value
Health Care: 6.08%				
Biotechnology: 0.15%				
Amgen Incorporated	3.63%	5-15-2022	$ 750,000	$ 788,439
Health Care Equipment & Supplies: 1.15%				
Hill-Rom Holdings Incorporated 144A	5.00	2-15-2025	400,000	411,000
Hill-Rom Holdings Incorporated 144A	5.75	9-1-2023	200,000	211,000
Hologic Incorporated 144A	5.25	7-15-2022	670,000	707,688
Kinetics Concepts Incorporated 144A	7.88	2-15-2021	1,425,000	1,506,938
Surgery Center Holdings Incorporated 144A	6.75	7-1-2025	1,050,000	1,078,875
Surgery Center Holdings Incorporated 144A	8.88	4-15-2021	1,800,000	1,953,000
				5,868,501
Health Care Providers & Services: 4.16%				
Acadia Healthcare Company Incorporated	6.50	3-1-2024	190,000	204,250
Community Health Systems Incorporated	6.25	3-31-2023	390,000	399,263
Coventry Health Care Incorporated	5.45	6-15-2021	750,000	828,443
DaVita HealthCare Partners Incorporated	5.00	5-1-2025	495,000	502,326
DaVita HealthCare Partners Incorporated	5.13	7-15-2024	200,000	205,625
DaVita HealthCare Partners Incorporated	5.75	8-15-2022	525,000	542,063
Express Scripts Holding Company	3.90	2-15-2022	665,000	698,441
HCA Incorporated	6.50	2-15-2020	1,400,000	1,529,500
HealthSouth Corporation	5.75	9-15-2025	575,000	592,250
Humana Incorporated	7.20	6-15-2018	750,000	784,865
Mednax Incorporated 144A	5.25	12-1-2023	475,000	489,250
MPH Acquisition Holdings LLC 144A	7.13	6-1-2024	1,750,000	1,894,375
MPT Operating Partnership LP	5.25	8-1-2026	1,250,000	1,306,250
MPT Operating Partnership LP	6.38	2-15-2022	1,075,000	1,109,938
MPT Operating Partnership LP	6.38	3-1-2024	110,000	119,900
Select Medical Corporation	6.38	6-1-2021	3,050,000	3,141,500
Tenet Healthcare Corporation 144A	4.63	7-15-2024	1,169,000	1,163,155
Tenet Healthcare Corporation	6.00	10-1-2020	1,475,000	1,580,094
Vizient Incorporated 144A	10.38	3-1-2024	3,550,000	4,104,688
				21,196,176
Health Care Technology: 0.29%				
Change Healthcare Holdings Incorporated 144A	5.75	3-1-2025	1,200,000	1,240,500
QuintilesIMS Holdings Incorporated 144A	5.00	10-15-2026	225,000	235,688
				1,476,188
Life Sciences Tools & Services: 0.16%				
Life Technologies Corporation	6.00	3-1-2020	750,000	819,491

Pharmaceuticals: 0.17%				
Valeant Pharmaceuticals International Incorporated 144A	7.25	7-15-2022	75,000	70,688
Watson Pharmaceuticals Incorporated	3.25	10-1-2022	750,000	772,364
				843,052
Industrials: 3.29%				
Aerospace & Defense: 0.21%				
BAE Systems Holdings Incorporated 144A	3.80	10-7-2024	1,000,000	1,050,258
Airlines: 0.34%				
Aviation Capital Group Corporation 144A	6.75	4-6-2021	1,100,000	1,249,417
Delta Air Lines Incorporated	4.75	11-7-2021	469,889	493,384
				1,742,801

Wells Fargo Multi-Sector Income Fund **Portfolio of investments** **July 31, 2017 (unaudited)**

Security name	Interest rate	Maturity date	Principal	Value
Commercial Services & Supplies: 2.06%				
Advanced Disposal Services Incorporated 144A(i)	5.63%	11-15-2024	$ 1,750,000	$ 1,815,625
Aramark Services Incorporated	5.13	1-15-2024	420,000	446,078
Covanta Holding Corporation	5.88	3-1-2024	1,485,000	1,447,875
Covanta Holding Corporation	5.88	7-1-2025	900,000	875,250
Covanta Holding Corporation	6.38	10-1-2022	1,500,000	1,537,500
DAE Funding LLC 144A%%<	4.50	8-1-2022	400,000	407,000
DAE Funding LLC 144A%%<	5.00	8-1-2024	400,000	408,500
KAR Auction Services Incorporated 144A	5.13	6-1-2025	2,675,000	2,788,688
Republic Services Incorporated	3.55	6-1-2022	750,000	784,517
				10,511,033
Professional Services: 0.17%				
Ascent Capital Group Incorporated	4.00	7-15-2020	375,000	300,000
Verisk Analytics Incorporated	5.80	5-1-2021	530,000	589,340
				889,340
Road & Rail: 0.13%				
TTX Company 144A	2.60	6-15-2020	650,000	653,360
Trading Companies & Distributors: 0.38%				
Ashtead Capital Incorporated 144A	6.50	7-15-2022	1,775,000	1,841,563
International Lease Finance Corporation 144A	7.13	9-1-2018	75,000	79,183
				1,920,746
Information Technology: 6.57%				
Communications Equipment: 0.42%				
CommScope Technologies Finance LLC 144A	5.00	3-15-2027	200,000	200,500
CommScope Technologies Finance LLC 144A	6.00	6-15-2025	1,100,000	1,182,500
Motorola Solutions Incorporated	3.75	5-15-2022	750,000	777,106
				2,160,106
Electronic Equipment, Instruments & Components: 1.47%				
Jabil Circuit Incorporated	8.25	3-15-2018	4,325,000	4,492,594
Keysight Technologies	4.60	4-6-2027	600,000	636,064
L-3 Communications Corporation	4.95	2-15-2021	750,000	808,496
Zebra Technologies Corporation	7.25	10-15-2022	1,450,000	1,543,344
				7,480,498
Internet Software & Services: 0.51%				
Infor Software Parent LLC	6.50	5-15-2022	550,000	572,688
Infor Software Parent LLC (PIK at 7.88%) 144A	7.13	5-1-2021	550,000	569,250

Zayo Group LLC 144A	5.75	1-15-2027	1,125,000	1,192,500
Zayo Group LLC	6.00	4-1-2023	75,000	79,031
Zayo Group LLC	6.38	5-15-2025	175,000	189,656
				2,603,125
IT Services: 1.12%				
Cardtronics Incorporated	5.13	8-1-2022	460,000	469,200
Cardtronics Incorporated 144A	5.50	5-1-2025	940,000	968,200
First Data Corporation 144A	5.00	1-15-2024	1,150,000	1,196,000
First Data Corporation 144A	5.38	8-15-2023	275,000	287,719
First Data Corporation 144A	5.75	1-15-2024	320,000	338,000

Portfolio of investments July 31, 2017 (unaudited) **Wells Fargo Multi-Sector Income Fund**

Security name	Interest rate	Maturity date	Principal	Value
IT Services (continued)				
Gartner Incorporated 144A	5.13%	4-1-2025	$ 2,325,000	$ 2,458,688
				5,717,807
Semiconductors & Semiconductor Equipment: 0.45%				
Micron Technology Incorporated 144A	5.25	8-1-2023	375,000	391,289
Micron Technology Incorporated 144A	5.25	1-15-2024	700,000	729,532
Micron Technology Incorporated	5.50	2-1-2025	256,000	271,601
Micron Technology Incorporated	5.88	2-15-2022	850,000	884,000
				2,276,422
Software: 0.33%				
CA Incorporated	5.38	12-1-2019	750,000	804,550
SS&C Technologies Incorporated	5.88	7-15-2023	600,000	637,500
Symantec Corporation 144A	5.00	4-15-2025	200,000	209,500
				1,651,550
Technology Hardware, Storage & Peripherals: 2.27%				
Diamond 1 Finance Corporation 144A	5.88	6-15-2021	1,000,000	1,048,750
Diamond 1 Finance Corporation 144A	7.13	6-15-2024	4,525,000	5,035,728
Hewlett-Packard Company	4.05	9-15-2022	750,000	791,345
NCR Corporation	5.88	12-15-2021	5,000	5,213
NCR Corporation	6.38	12-15-2023	4,400,000	4,697,000
				11,578,036
Materials: 1.24%				
Chemicals: 0.23%				
Dow Chemical Company	4.13	11-15-2021	750,000	805,482
Valvoline Incorporated 144A	5.50	7-15-2024	375,000	397,500
				1,202,982
Containers & Packaging: 1.01%				
Ball Corporation	5.25	7-1-2025	190,000	209,000
Berry Plastics Corporation	5.13	7-15-2023	350,000	364,875
Berry Plastics Corporation	6.00	10-15-2022	215,000	228,438
Crown Cork & Seal Company Incorporated	7.38	12-15-2026	35,000	41,038
Crown Cork & Seal Company Incorporated (i)	7.50	12-15-2096	600,000	601,500
Owens-Brockway Glass Container Incorporated 144A	5.88	8-15-2023	325,000	360,141
Owens-Illinois Incorporated 144A	6.38	8-15-2025	2,950,000	3,326,125
				5,131,117
Metals & Mining: 0.00%				

Indalex Holdings Corporation (a)(i)(s)	11.50	2-1-2020	3,170,000	0
Real Estate: 4.52%				
Equity REITs: 4.52%				
Alexandria Real Estate Company	4.60	4-1-2022	650,000	696,158
American Tower Corporation	5.90	11-1-2021	650,000	732,247
DDR Corporation	4.70	6-1-2027	600,000	608,805
DuPont Fabros Technology Incorporated LP	5.63	6-15-2023	1,000,000	1,067,810
DuPont Fabros Technology Incorporated LP	5.88	9-15-2021	4,655,000	4,824,326
Equinix Incorporated	5.38	5-15-2027	425,000	459,531
Equinix Incorporated	5.88	1-15-2026	425,000	465,375
ESH Hospitality Incorporated 144A	5.25	5-1-2025	1,550,000	1,619,750
Essex Portfolio LP	3.63	8-15-2022	750,000	773,784
Health Care REIT Incorporated	5.25	1-15-2022	650,000	717,753

Wells Fargo Multi-Sector Income Fund **Portfolio of investments** **July 31, 2017 (unaudited)**

Security name	Interest rate	Maturity date	Principal	Value
Equity REITs (continued)				
Iron Mountain Incorporated 144A	5.38%	6-1-2026	$ 150,000	$ 159,375
Iron Mountain Incorporated 144A	6.00	10-1-2020	230,000	238,050
Iron Mountain Incorporated	6.00	8-15-2023	2,960,000	3,130,200
Omega HealthCare Investors Incorporated	4.50	4-1-2027	600,000	602,719
Sabra Health Care Incorporated	5.38	6-1-2023	900,000	931,500
Sabra Health Care Incorporated	5.50	2-1-2021	1,100,000	1,142,081
SBA Communications Corporation	4.88	7-15-2022	640,000	664,563
The Geo Group Incorporated	5.13	4-1-2023	800,000	808,000
The Geo Group Incorporated	5.88	1-15-2022	1,565,000	1,625,644
The Geo Group Incorporated	5.88	10-15-2024	840,000	872,550
The Geo Group Incorporated	6.00	4-15-2026	184,000	191,570
Ventas Realty LP	4.25	3-1-2022	650,000	689,428
				23,021,219
Telecommunication Services: 3.84%				
Diversified Telecommunication Services: 1.31%				
AT&T Incorporated	3.80	3-15-2022	750,000	784,797
Frontier Communications Corporation	8.13	10-1-2018	845,000	881,969
GCI Incorporated	6.75	6-1-2021	1,000,000	1,031,250
Level 3 Financing Incorporated	5.13	5-1-2023	975,000	1,014,000
Level 3 Financing Incorporated	5.25	3-15-2026	650,000	690,625
Level 3 Financing Incorporated	5.38	8-15-2022	300,000	308,250
Level 3 Financing Incorporated	5.38	1-15-2024	700,000	736,750
Level 3 Financing Incorporated	5.38	5-1-2025	625,000	664,063
Level 3 Financing Incorporated	5.63	2-1-2023	350,000	364,875
Level 3 Financing Incorporated	6.13	1-15-2021	175,000	179,813
				6,656,392
Wireless Telecommunication Services: 2.53%				
Crown Castle Towers LLC 144A	6.11	1-15-2040	750,000	807,097
SBA Communications Corporation	4.88	9-1-2024	500,000	519,375
Sprint Capital Corporation	6.88	11-15-2028	5,500,000	5,995,000
Sprint Capital Corporation	8.75	3-15-2032	625,000	775,000
Sprint Communications Incorporated	7.00	8-15-2020	225,000	245,813
T-Mobile USA Incorporated	4.00	4-15-2022	650,000	677,625
T-Mobile USA Incorporated	5.13	4-15-2025	425,000	450,500
T-Mobile USA Incorporated	5.38	4-15-2027	225,000	243,000
T-Mobile USA Incorporated	6.00	3-1-2023	300,000	317,529
T-Mobile USA Incorporated	6.13	1-15-2022	85,000	89,038
T-Mobile USA Incorporated	6.38	3-1-2025	825,000	887,906
T-Mobile USA Incorporated	6.50	1-15-2024	80,000	86,174
T-Mobile USA Incorporated	6.63	4-1-2023	655,000	692,663
T-Mobile USA Incorporated	6.84	4-28-2023	1,060,000	1,124,925

				12,911,645
Utilities: 4.16%				
Electric Utilities: 0.16%				
Great Plains Energy Incorporated	4.85	6-1-2021	750,000	800,168
Gas Utilities: 0.20%				
AmeriGas Partners LP	5.75	5-20-2027	1,000,000	1,010,000
Independent Power & Renewable Electricity Producers: 3.53%				
Calpine Corporation 144A	6.00	1-15-2022	165,000	170,156
NSG Holdings LLC 144A	7.75	12-15-2025	4,956,547	5,340,640
Pattern Energy Group Incorporated 144A	5.88	2-1-2024	4,625,000	4,879,375
TerraForm Power Operating LLC 144A	6.38	2-1-2023	5,425,000	5,642,000

Security name	Interest rate	Maturity date	Principal	Value
Independent Power & Renewable Electricity Producers (continued)				
TerraForm Power Operating LLC 144A	6.63%	6-15-2025	$ 1,850,000	$ 1,970,250
				18,002,421
Multi-Utilities: 0.27%				
Ameren Illinois Company	9.75	11-15-2018	500,000	549,096
CMS Energy Corporation	5.05	3-15-2022	750,000	824,300
				1,373,396
Total Corporate Bonds and Notes (Cost $344,481,968)				360,673,812
Foreign Corporate Bonds and Notes @: 2.16%				
Consumer Discretionary: 0.05%				
Internet & Direct Marketing Retail: 0.05%				
Priceline Group Incorporated (EUR)	2.38	9-23-2024	200,000	254,733
Consumer Staples: 0.19%				
Food Products: 0.19%				
BRF SA 144A (BRL)	7.75	5-22-2018	3,100,000	969,263
Energy: 0.28%				
Oil, Gas & Consumable Fuels: 0.28%				
Petroleos Mexicanos 144A (MXN)	7.19	9-12-2024	28,200,000	1,423,583
Financials: 1.19%				
Banks: 1.13%				
Eurofima (AUD)	6.25	12-28-2018	2,450,000	2,070,724
European Investment Bank (ZAR)	9.00	3-31-2021	17,400,000	1,381,306
KfW (AUD)	5.00	3-19-2024	1,300,000	1,171,689
Landwirtschaftliche Rentenbank (ZAR)	8.25	5-23-2022	15,000,000	1,161,301
				5,785,020
Diversified Financial Services: 0.06%				
AA Bond Company Limited (GBP)	4.25	7-31-2043	200,000	281,545
Information Technology: 0.04%				
Semiconductors & Semiconductor Equipment: 0.04%				
ASML Holding NV (EUR)	1.38	7-7-2026	175,000	209,503
Materials: 0.06%				

Chemicals: 0.06%				
Albemarle Corporation (EUR)	1.88	12-8-2021	246,000	305,402
Telecommunication Services: 0.35%				
Diversified Telecommunication Services: 0.04%				
Verizon Communications Incorporated (EUR)	3.25	2-17-2026	150,000	202,575
Wireless Telecommunication Services: 0.31%				
America Movil SAB de CV (MXN)	7.13	12-9-2024	28,850,000	1,563,839
Total Foreign Corporate Bonds and Notes (Cost $13,589,785)				10,995,463

Wells Fargo Multi-Sector Income Fund **Portfolio of investments** **July 31, 2017 (unaudited)**

Security name	Interest rate	Maturity date	Principal	Value
Foreign Government Bonds @: 25.11%				
Colombia (COP)	7.00%	9-11-2019	18,500,000,000	$ 6,365,069
Colombia (COP)	7.00	5-4-2022	18,650,000,000	6,430,911
Colombia (COP)	7.50	8-26-2026	22,725,000,000	7,956,488
Colombia (COP)	7.75	4-14-2021	5,250,000,000	1,877,778
Hungary (HUF)	6.75	11-24-2017	1,305,000,000	5,186,027
India (INR)	7.80	4-11-2021	435,000,000	7,069,023
Indonesia (IDR)	7.88	4-15-2019	133,640,000,000	10,257,853
Indonesia (IDR)	8.38	9-15-2026	110,000,000,000	8,928,625
Malaysia (MYR)	4.18	7-15-2024	19,850,000	4,686,672
Malaysia (MYR)	4.23	6-30-2031	51,300,000	11,718,255
Mexico (MXN)	5.75	3-5-2026	72,000,000	3,756,012
Mexico (MXN)	8.00	11-7-2047	217,500,000	13,397,096
Mexico (MXN)	10.00	12-5-2024	14,100,000	937,914
Mexico (MXN)	10.00	12-5-2024	62,120,000	4,132,145
New Zealand (NZD)	4.50	4-15-2027	8,250,000	6,970,026
Queensland Treasury (AUD)	5.75	7-22-2024	4,100,000	3,898,729
Republic of South Africa (ZAR)	7.75	2-28-2023	103,000,000	7,743,795
Republic of South Africa (ZAR)	10.50	12-21-2026	153,500,000	13,039,920
State of New South Wales Australia (AUD)	5.00	8-20-2024	3,900,000	3,593,844
Total Foreign Government Bonds (Cost $138,485,863)				127,946,182
Loans: 18.62%				
Consumer Discretionary: 4.51%				
Auto Components: 0.58%				
Allison Transmission Incorporated ±	3.24	9-23-2022	$ 1,890,463	1,902,637
Federal-Mogul Corporation ±	4.98	4-15-2021	1,036,583	1,043,922
				2,946,559
Distributors: 0.48%				
Spin Holdco Incorporated ±	4.98	11-14-2022	2,472,140	2,472,140
Food & Staples Retailing: 0.08%				
TKC Holdings Incorporated ±	5.48	2-1-2023	399,000	401,370
Hotels, Restaurants & Leisure: 1.34%				
CCM Merger Incorporated ±	3.98	8-8-2021	737,969	739,998
Four Seasons Holdings Incorporated ±	3.73	11-30-2023	906,107	913,183
La Quinta Intermediate Holdings LLC ±	4.05	4-14-2021	738,693	744,234
Montreign Operating Company ±	9.48	12-7-2022	4,375,000	4,420,106
				6,817,521

Household Products: 0.38%				
Anchor Glass Container Corporation ±	4.01	12-7-2023	597,000	599,878
Anchor Glass Container Corporation ±	8.97	12-7-2024	1,300,000	1,316,250
				1,916,128
Media: 1.65%				
Altice US Finance I Corporation ±	3.48	7-28-2025	717,786	715,633
CBS Radio Incorporated ±	4.73	10-17-2023	1,881,182	1,885,885
Charter Communications Operating LLC ±	3.48	1-15-2024	908,500	914,560
Entercom Radio LLC ±	4.71	11-1-2023	1,073,438	1,076,454
Learfield Communications Incorporated ±	4.49	12-1-2023	3,482,500	3,517,325
Mission Broadcasting Incorporated ±	3.74	1-17-2024	31,894	32,159
Nexstar Broadcasting Group Incorporated ±	3.74	1-17-2024	260,890	263,063
				8,405,079

Portfolio of investments July 31, 2017 (unaudited) **Wells Fargo Multi-Sector Income Fund**

Consumer Staples: 0.17%				
Food Products: 0.17%				
B&G Foods Incorporated ±	3.48%	11-2-2022	$ 640,110	$ 643,509
Prestige Brands Incorporated ±	3.98	1-26-2024	215,719	216,768
				860,277
Energy: 1.62%				
Energy Equipment & Services: 0.89%				
Hummel Station LLC ±	7.23	10-27-2022	4,929,434	4,535,079
Oil, Gas & Consumable Fuels: 0.73%				
Chesapeake Energy Corporation ±	8.69	8-23-2021	450,000	482,738
Ultra Resources Incorporated ±	4.22	4-12-2024	1,900,000	1,907,125
Veresen Midstream LP ±	4.73	3-31-2022	1,311,582	1,318,966
				3,708,829
Financials: 1.84%				
Capital Markets: 0.22%				
Neptune Finco Corporation ±	3.48	7-17-2025	458,227	457,196
Russell Investments US Institutional Holdco Incorporated ±	6.97	6-1-2023	422,864	427,888
VFH Parent LLC ±	4.98	12-30-2021	250,000	251,979
				1,137,063
Consumer Finance: 0.03%				
KAR Auction Services Incorporated ±	3.81	3-9-2023	155,338	156,243
Diversified Financial Services: 0.93%				
American Beacon Advisors Incorporated ±	5.55	4-30-2022	2,465,984	2,475,231
American Beacon Advisors Incorporated ±(a)	10.06	3-3-2023	440,000	440,000
Ipreo Holdings LLC ±	4.55	8-6-2021	141,034	140,065
LPL Holdings Incorporated ±	3.82	3-11-2024	1,197,000	1,204,481
Nielsen Finance LLC ±	3.22	10-4-2023	471,443	471,981
				4,731,758
Insurance: 0.66%				
Alliant Holdings I LLC ±	4.56	8-12-2022	1,392,906	1,396,736
AmWINS Group Incorporated ±	4.17	1-25-2024	373,125	374,110
Hub International Limited ±	4.42	10-2-2020	691,398	695,933
Solera Holdings Incorporated ±	4.51	3-3-2023	864,063	869,515
				3,336,294
Health Care: 2.07%				

Health Care Equipment & Supplies: 0.37%				
DJO Finance LLC ±	4.48	6-8-2020	558,600	556,159
Kinetic Concepts Incorporated ±	4.55	2-2-2024	1,336,239	1,339,993
				1,896,152
Health Care Providers & Services: 1.23%				
Community Health Systems Incorporated ±	4.21	1-27-2021	669,237	667,938
MPH Acquisition Holdings LLC ±	4.30	6-7-2023	500,072	503,573
Press Ganey Holdings Incorporated ±(a)	4.48	10-21-2023	1,492,500	1,500,903
Press Ganey Holdings Incorporated ±(a)	8.48	10-21-2024	1,150,000	1,174,438
Surgery Center Holdings Incorporated ±	4.98	11-3-2020	1,096,887	1,104,434

Wells Fargo Multi-Sector Income Fund **Portfolio of investments** **July 31, 2017 (unaudited)**

Security name	Interest rate	Maturity date	Principal	Value
Health Care Providers & Services (continued)				
TeamHealth Incorporated ±	3.98%	2-6-2024	$ 748,125	$ 745,088
Vizient Incorporated ±	4.73	2-13-2023	571,904	577,623
				6,273,997
Health Care Technology: 0.15%				
Alere Incorporated ±	4.49	6-18-2022	100,462	100,571
Change Healthcare Holdings Incorporated ±	3.98	3-1-2024	667,364	671,035
				771,606
Life Sciences Tools & Services: 0.19%				
INC Research LLC ±%%<	0.00	6-27-2024	475,000	478,363
Inventiv Health Incorporated ±	4.95	11-9-2023	472,625	472,880
				951,243
Pharmaceuticals: 0.13%				
Endo Finance LLC ±	5.50	4-29-2024	296,688	301,138
Valeant Pharmaceuticals International Incorporated ±	5.98	4-1-2022	353,117	359,657
				660,795
Industrials: 2.93%				
Aerospace & Defense: 0.49%				
TransDigm Incorporated ±	4.29	2-28-2020	2,473,574	2,481,935
Commercial Services & Supplies: 2.31%				
Advanced Disposal Services Incorporated ±(i)	3.94	11-10-2023	1,223,217	1,232,587
Advantage Sales & Marketing LLC ±	7.80	7-25-2022	1,250,000	1,181,250
Avantor Performance Materials Incorporated ±	5.24	3-10-2024	1,703,725	1,703,725
Casella Waste Systems Incorporated ±	3.98	10-17-2023	1,965,125	1,979,863
Columbus McKinnon Corporation ±	4.30	1-31-2024	946,938	955,224
Gates Global Limited ±	4.55	4-1-2024	610,770	615,064
GFL Environmental Incorporated ±	4.05	9-29-2023	173,688	174,846
McJunkin Red Man Corporation ±	5.23	11-8-2019	674,136	679,192
Sedgwick Claims Management Services Incorporated ±	3.98	3-1-2021	521,524	522,364
USI Incorporated ±	4.18	5-16-2024	225,000	224,298
WASH Multifamily Laundry Systems LLC ±	4.48	5-14-2022	188,403	188,403
WASH Multifamily Laundry Systems LLC ±	4.48	5-14-2022	1,075,794	1,075,794
WASH Multifamily Laundry Systems LLC ±	8.23	5-12-2023	17,885	17,706
WASH Multifamily Laundry Systems LLC ±(i)	8.23	5-14-2023	102,115	101,094
Waste Industries USA Incorporated ±	3.98	2-27-2020	1,127,033	1,131,608
				11,783,018

Machinery: 0.12%				
Onex Wizard Acquisition Company ±	4.23	3-13-2022	608,031	612,020
Transportation Infrastructure: 0.01%				
OSG Bulk Ships Incorporated ±	5.43	8-5-2019	71,190	67,541
Information Technology: 2.19%				
Electronic Equipment, Instruments & Components: 0.49%				
Dell Incorporated ±	3.74	9-7-2023	2,481,281	2,495,325
Internet Software & Services: 1.53%				
Ancestry.com Incorporated ±	4.48	10-19-2023	2,974,950	2,998,184
Ancestry.com Incorporated ±	9.48	10-19-2024	2,992,500	3,052,350

Security name	Interest rate	Maturity date	Principal	Value
Internet Software & Services (continued)				
Applied Systems Incorporated ±	4.55%	1-25-2021	$ 472,541	$ 476,439
Black Knight InfoServ LLC ±(a)	3.50	5-27-2022	490,616	494,295
Infor US Incorporated ±	4.05	2-1-2022	515,366	515,459
Sophia Holding Finance LP ±	4.55	9-30-2022	146,971	147,216
Zayo Group LLC ±	3.48	1-19-2024	107,244	107,635
				7,791,578
Semiconductors & Semiconductor Equipment: 0.07%				
Micron Technology Incorporated ±	3.80	4-26-2022	346,500	349,480
Software: 0.10%				
SS&C Technologies Incorporated ±	3.48	7-8-2022	509,576	512,364
SS&C Technologies Incorporated ±	3.48	7-8-2022	28,859	29,017
				541,381
Materials: 0.57%				
Containers & Packaging: 0.57%				
Berry Plastics Corporation ±	3.73	10-1-2022	412,327	414,079
Reynolds Group Holdings Incorporated ±	4.23	2-5-2023	2,481,281	2,491,554
				2,905,633
Real Estate: 1.06%				
Equity REITs: 0.62%				
ESH Hospitality Incorporated ±	3.73	8-30-2023	1,290,266	1,296,511
MGM Growth Properties LLC ±	3.48	4-25-2023	320,811	321,975
The Geo Group Incorporated ±	3.48	3-22-2024	1,552,715	1,553,694
				3,172,180
Real Estate Management & Development: 0.44%				
Capital Automotive LP ±	4.24	3-24-2024	1,408,665	1,421,695
Capital Automotive LP ±	7.24	3-24-2025	815,000	827,738
				2,249,433
Telecommunication Services: 1.55%				
Diversified Telecommunication Services: 1.19%				
Frontier Communications Corporation ±	4.98	6-15-2024	2,600,000	2,494,908
Level 3 Financing Incorporated ±	3.48	2-22-2024	555,420	557,592
Sprint Communications Incorporated ±	3.75	2-2-2024	448,875	450,334
Telesat Canada ±	4.30	11-17-2023	2,519,067	2,543,200

				6,046,034
Wireless Telecommunication Services: 0.36%				
LTS Buyer LLC ±	4.55	4-13-2020	1,829,314	1,835,716
Utilities: 0.11%				
Independent Power & Renewable Electricity Producers: 0.11%				
Vistra Energy Corporation ±	4.48	12-14-2023	572,125	576,284
Total Loans (Cost $94,532,614)				94,885,691

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Wells Fargo Multi-Sector Income Fund **Portfolio of investments** **July 31, 2017 (unaudited)**

Security name	Interest rate	Maturity date	Principal	Value
Municipal Obligations: 0.01%				
New York: 0.01%				
Build New York City Resource Corporation Bronx Charter School for Excellence Project Series B (Education Revenue)	5.00%	4-1-2018	$ 45,000	$ 44,869
Total Municipal Obligations (Cost $45,000)				44,869
Non-Agency Mortgage-Backed Securities: 4.44%				
Argent Securities Incorporated Series 2004-W5 Class AV3B ±	2.13	4-25-2034	55,168	53,943
Asset-Backed Funding Certificates Series 2003-AHL1 Class A1	4.18	3-25-2033	210,194	209,669
Banc of America Commercial Mortgage Securities Incorporated Series 2006-03 Class AM ±	5.72	7-10-2044	1,053,875	754,238
Banc of America Commercial Mortgage Securities Incorporated Series 2007-1 Class AMFX ±	5.48	1-15-2049	185,178	184,934
Banc of America Commercial Mortgage Securities Incorporated Series 2008-1 Class AM ±	6.51	2-10-2051	550,000	557,949
Banc of America Funding Corporation Series 2005 Class 5-1A1	5.50	9-25-2035	243,605	254,869
Banc of America Mortgage Securities Series 2003 Class 1A1 ±	3.62	4-25-2033	266,534	251,352
Bear Stearns Asset Backed Securities Series 2002-2 Class A1 ±	1.89	10-25-2032	222,265	218,042
Bear Stearns Commercial Mortgage Series 2007-PW17 Class AM ±	5.92	6-11-2050	300,841	301,029
Bear Stearns Commercial Mortgage Series 2007-PW17 Class AMFL 144A±	1.82	6-11-2050	493,005	493,017
Bear Stearns Commercial Mortgage Series 2007-PW18 Class AM ±	6.08	6-11-2050	100,000	100,882
Bear Stearns Commercial Mortgage Series 2007-PW18 Class AMA ±	6.09	6-11-2050	715,000	721,355
Centex Home Equity Series 2002-A Class AF6	5.54	1-25-2032	40,020	39,959
Centex Home Equity Series 2002-D Class AF6 ±	4.66	12-25-2032	11,962	12,056
Centex Home Equity Series 2004-B Class AF6	4.69	3-25-2034	150,057	153,844
CFCRE Commercial Mortgage Trust Series 2015-RUM Class A 144A±	2.86	7-15-2030	480,000	480,902
Citigroup Commercial Mortgage Trust Series 2012-GC8 Class C 144A±	4.85	9-10-2045	1,000,000	1,054,950
Citigroup Commercial Mortgage Trust Series 2015 Class A 144A±	2.31	9-15-2027	595,000	595,367
	1.00	7-15-2022	1,000,000	1,000,000

Citigroup Commercial Mortgage Trust Series 2017-MDRB Class A 144A±				
Citigroup Mortgage Loan Trust Incorporated Series 2003-HE3 Class A3 ±	1.60	12-25-2033	32,664	32,460
Commercial Mortgage Trust Series 2012-CR2 Class C ±	4.84	8-15-2045	1,000,000	1,044,307
Commercial Mortgage Trust Series 2012-LC4 Class A4	3.29	12-10-2044	205,000	212,642
Commercial Mortgage Trust Series 2012-LC4 Class C ±	5.59	12-10-2044	500,000	536,695
Countrywide Asset Backed Certificates Series 2003-5 Class AF5	5.27	2-25-2034	93,305	95,198
Countrywide Home Loans Series 2003-48 Class 2A2 ±	3.26	10-25-2033	72,557	71,110
Credit Suisse First Boston Mortgage Securities Series 2002-AR25 Class 1A1 ±	2.65	9-25-2032	550,482	516,858
Credit Suisse First Boston Mortgage Securities Series 2003-AR15 Class 3A1 ±	3.70	6-25-2033	127,646	127,485
Credit Suisse First Boston Mortgage Securities Series 2003-AR9 Class 2A2 ±	3.36	3-25-2033	27,708	27,332
Credit-Based Asset Servicing & Securitization LLC Series 2005-CB2 Class M1 ±	1.89	4-25-2036	51,891	52,038
Equity One Asset Backed Securities Series 2004-2 Class AF4 ±	4.62	7-25-2034	358,275	358,532
Global Mortgage Securitization Limited Series 2004-A Class A2 144A±	1.55	11-25-2032	113,997	106,589
Great Wolf Trust Series 2015 Class A 144A±	2.61	5-15-2034	1,015,000	1,015,626
GS Mortgage Securities Trust Series 2010-C1 Class X 144A±	1.53	8-10-2043	5,187,888	175,151
GS Mortgage Securities Trust Series 2012-GCJ7 Class XA ±	2.23	5-10-2045	3,494,951	242,899
GS Mortgage Securities Trust Series 2014 Class C 144A	3.79	1-10-2031	1,000,000	1,005,052
GS Mortgage Securities Trust Series 2014-GSFLC Class C 144A±	3.48	7-15-2031	1,000,000	993,957
GSAA Home Equity Trust Series 2004-5 Class AF5	4.51	6-25-2034	3,213	3,226
GSCCRE Commercial Mortgage Trust Series 2015-HULA Class C 144A±	3.91	8-15-2032	1,000,000	1,003,750
GSMPS Mortgage Loan Trust Series 2005-AHL Class M1 ±	1.88	4-25-2035	5,528	5,532
GSMPS Mortgage Loan Trust Series 2006-1 Class A1 144A±	1.53	3-25-2035	90,095	89,219

Portfolio of investments July 31, 2017 (unaudited) **Wells Fargo Multi-Sector Income Fund**

Security name	Interest rate	Maturity date	Principal	Value
Non-Agency Mortgage-Backed Securities (continued)				
JPMorgan Chase Commercial Mortgage Securities Corporation Series 2013-C17 Class B ±	4.89%	1-15-2047	$ 50,000	$ 53,774
JPMorgan Chase Commercial Mortgage Securities Trust Series 2007-CB18 Class AM ±	5.47	6-12-2047	289,116	288,854
JPMorgan Chase Commercial Mortgage Securities Trust Series 2007-CB18 Class AMFL ±	1.28	6-12-2047	247,813	245,174
JPMorgan Chase Commercial Mortgage Securities Trust Series 2007-LDPX Class AM ±	5.46	1-15-2049	174,279	174,127
JPMorgan Chase Commercial Mortgage Securities Trust Series 2015-FL7 Class A 144A±	2.48	5-15-2028	145,756	145,675
JPMorgan Mortgage Trust Series 2004-A3 Class 2A1 ±	3.66	7-25-2034	68,602	69,160
JPMorgan Mortgage Trust Series 2004-A3 Series 3A3 ±	3.49	7-25-2034	61,439	60,338
JPMorgan Mortgage Trust Series 2005-A3 Class 11A2 ±	3.32	6-25-2035	210,709	214,446
JPMorgan Mortgage Trust Series 2009-7 Class 2A1 144A±	6.00	2-27-2037	14,000	14,110
JPMorgan Mortgage Trust Series 2009-7 Class 5A1 144A±	6.00	2-27-2037	37,418	37,369
MASTR Adjustable Rate Mortgage Trust Series 2003-6 Class 3A1 ±	3.33	12-25-2033	403,529	402,081
MASTR Adjustable Rate Mortgage Trust Series 2003-6 Class 4A2 ±	3.50	1-25-2034	12,059	11,722
MASTR Adjustable Rate Mortgage Trust Series 2004-13 Class 3A7 ±	3.19	11-21-2034	18,693	19,138
MASTR Alternative Loans Trust Series 2005-1 Class 5A1	5.50	1-25-2020	23,916	24,405
Merrill Lynch Countrywide Commercial Mortgage Trust Series 2007-9 Class A4	5.70	9-12-2049	161,653	161,549
Merrill Lynch Mortgage Trust Series 2005-A8 Class A1B3	5.25	8-25-2036	33,487	34,019
Merrill Lynch Mortgage Trust Series 2007-C1 Class A1A ±	6.02	6-12-2050	118,583	118,423
Mesa Trust Asset Backed Certificates Series 2001-5 Class A 144A±	2.02	12-25-2031	13,780	13,572
Mid State Trust Series 11 Class A1	4.86	7-15-2038	207,078	214,759
MLCC Mortgage Investors Incorporated Series 2003-G Class A2 ±	2.09	1-25-2029	79,367	74,977
Morgan Stanley Bank of America Merrill Lynch Trust Series 2012-C5 Class XA 144A±	1.51	8-15-2045	4,249,327	249,291
Morgan Stanley Bank of America Merrill Lynch Trust Series 2013-C11 Class A4 ±	4.17	8-15-2046	569,000	610,600
Morgan Stanley Capital I Trust Series 2004-NC1 Class M1 ±	2.28	12-27-2033	438,507	427,617
Morgan Stanley Capital I Trust Series 2012-C4 Class C 144A±	5.42	3-15-2045	900,000	958,537

Navient SLM Student Loan Series 2005-B Class A3 ±	1.52	12-15-2023	89,800	89,782
New Century Home Equity Loan Trust Series 2004-3 Class M1 ±	2.16	11-25-2034	1,165,049	1,107,908
New Century Home Equity Loan Trust Series 2005-1 Class A1MZ ±	1.81	3-25-2035	58,472	58,500
Northstar Education Finance Incorporated Series 2004-2 Class A3 ±	1.21	7-30-2018	17,535	17,535
Provident Funding Mortgage Loan Series 2005-1 Class 2A1 ±	3.43	5-25-2035	24,523	23,852
RBSSP Resecuritization Trust Series 2010-3 Class 4A1 144A±	3.88	12-26-2035	10,341	10,372
Renaissance Home Equity Loan Trust Series 2004-4 Class AF4	4.88	2-25-2035	177,633	177,486
Residential Funding Mortgage Securities Trust Series 03-S12 Class 2A1	4.00	12-25-2032	50,723	50,814
Saxon Asset Securities Trust Series 2002-1 Class AF5	6.10	12-25-2030	130,835	133,466
Saxon Asset Securities Trust Series 2003-1 Class AF7	4.03	6-25-2033	442,352	446,925
Sequoia Mortgage Trust Series 2003-1 Class 1A ±	1.99	4-20-2033	14,774	14,026
Structured Adjustable Rate Mortgage Loan Trust Series 2004-2 Class 2A ±	3.42	3-25-2034	48,270	47,788
Structured Asset Securities Corporation Series 1998-2 Class A ±	1.75	2-25-2028	189,860	187,665
Structured Asset Securities Corporation Series 2002-9 Class A2 ±	1.83	10-25-2027	54,671	53,693
Terwin Mortgage Trust Series 2003-6HE Class A3 ±	2.37	11-25-2033	173,407	165,528
Vendee Mortgage Trust Series 2003-2 Class IO ±(c)	0.71	5-15-2033	4,473,678	116,085
Washington Mutual Mortgage Trust Series 2004-RA4 Class 3A	7.50	7-25-2034	140,488	150,652
Total Non-Agency Mortgage-Backed Securities (Cost $22,650,392)				22,629,809

		Expiration date	**Shares**	
Rights: 0.06%				
Utilities: 0.06%				
Independent Power & Renewable Electricity Producers: 0.06%				
Vistra Energy Corporation (i)		12-31-2046	327,375	327,375
Total Rights (Cost $360,113)				327,375

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Wells Fargo Multi-Sector Income Fund **Portfolio of investments** **July 31, 2017 (unaudited)**

Security name	Interest rate	Maturity date	Principal	Value
Yankee Corporate Bonds and Notes: 9.26%				
Consumer Discretionary: 0.30%				
Media: 0.30%				
Grupo Televisa SAB	6.00%	5-15-2018	$ 750,000	$ 773,454
WPP Finance 2010	3.63	9-7-2022	750,000	781,363
				1,554,817
Consumer Staples: 0.31%				
Beverages: 0.16%				
Pernod Ricard SA 144A	4.45	1-15-2022	760,000	820,389
Tobacco: 0.15%				
BAT International Finance plc 144A	3.25	6-7-2022	750,000	769,266
Energy: 2.01%				
Energy Equipment & Services: 0.29%				
Ensco plc	5.75	10-1-2044	2,070,000	1,381,725
Trinidad Drilling Limited 144A	6.63	2-15-2025	75,000	70,688
				1,452,413
Oil, Gas & Consumable Fuels: 1.72%				
Baytex Energy Corporation 144A	5.13	6-1-2021	2,114,000	1,929,025
Baytex Energy Corporation 144A	5.63	6-1-2024	850,000	743,750
Griffin Coal Mining Company Limited 144A(a)(i)(s)	9.50	12-1-2016	1,685,411	6,742
Griffin Coal Mining Company Limited (a)(i)(s)	9.50	12-1-2016	137,792	551
Teekay Corporation	8.50	1-15-2020	5,625,000	5,653,125
Woodside Finance Limited 144A	8.75	3-1-2019	405,000	444,961
				8,778,154
Financials: 0.99%				
Banks: 0.76%				
ABN AMRO Bank NV 144A	4.80	4-18-2026	750,000	804,974
Banco del Estado de Chile 144A	3.88	2-8-2022	650,000	680,829
Corporación Andina de Fomento	4.38	6-15-2022	958,000	1,039,583
Nielsen Holding and Finance BV 144A	5.00	2-1-2025	875,000	903,438
Nielsen Holding and Finance BV 144A	5.50	10-1-2021	415,000	428,488
Preferred Term Securities XII Limited (a)(i)(s)	1.00	12-24-2033	635,000	0
				3,857,312
Diversified Financial Services: 0.23%				
GE Capital International Funding Company	2.34	11-15-2020	527,000	532,615

Tyco Electronics Group SA	3.50	2-3-2022	625,000	653,360
				1,185,975
Health Care: 1.93%				
Pharmaceuticals: 1.93%				
Valeant Pharmaceuticals International Incorporated 144A	5.50	3-1-2023	2,200,000	1,875,500
Valeant Pharmaceuticals International Incorporated 144A	5.63	12-1-2021	700,000	633,500
Valeant Pharmaceuticals International Incorporated 144A	5.88	5-15-2023	770,000	662,200
Valeant Pharmaceuticals International Incorporated 144A	6.13	4-15-2025	4,575,000	3,894,469
Valeant Pharmaceuticals International Incorporated 144A	6.38	10-15-2020	1,425,000	1,385,813
Valeant Pharmaceuticals International Incorporated 144A	6.50	3-15-2022	325,000	342,875

Portfolio of investments July 31, 2017 (unaudited) **Wells Fargo Multi-Sector Income Fund**

Security name	Interest rate	Maturity date	Principal	Value
Pharmaceuticals (continued)				
Valeant Pharmaceuticals International Incorporated 144A	6.75%	8-15-2021	$ 425,000	$ 401,625
Valeant Pharmaceuticals International Incorporated 144A	7.00	3-15-2024	575,000	612,375
Valeant Pharmaceuticals International Incorporated 144A	7.50	7-15-2021	10,000	9,713
				9,818,070
Industrials: 0.89%				
Building Products: 0.05%				
Allegion plc	5.88	9-15-2023	210,000	226,361
Commercial Services & Supplies: 0.51%				
GFL Environmental Incorporated 144A	9.88	2-1-2021	500,000	541,250
Ritchie Brothers Auctioneers Incorporated 144A	5.38	1-15-2025	1,975,000	2,072,052
				2,613,302
Machinery: 0.05%				
Sensata Technologies BV 144A	5.00	10-1-2025	235,000	247,338
Professional Services: 0.12%				
IHS Markit Limited 144A	4.75	2-15-2025	600,000	631,500
Road & Rail: 0.16%				
Canadian Pacific Railway Company	4.50	1-15-2022	750,000	804,250
Materials: 0.96%				
Containers & Packaging: 0.59%				
Ardagh Packaging Finance plc 144A	4.25	9-15-2022	375,000	385,313
Ardagh Packaging Finance plc 144A	6.00	2-15-2025	1,700,000	1,815,804
Ardagh Packaging Finance plc 144A	7.25	5-15-2024	725,000	800,219
				3,001,336
Metals & Mining: 0.37%				
ArcelorMittal SA	6.13	6-1-2025	275,000	313,844
Glencore Finance Canada Limited 144A	4.25	10-25-2022	750,000	790,778
Vale Overseas Limited	4.38	1-11-2022	750,000	774,000
				1,878,622
Telecommunication Services: 1.74%				
Diversified Telecommunication Services: 1.62%				
Intelsat Jackson Holdings SA	5.50%	8-1-2023	$ 5,775,000	$ 4,980,938

Intelsat Luxembourg SA	7.75	6-1-2021	2,220,000	1,420,800
Intelsat Luxembourg SA	8.13	6-1-2023	2,340,000	1,448,460
Virgin Media Finance plc 144A	6.38	4-15-2023	365,000	383,250
				8,233,448
Wireless Telecommunication Services: 0.12%				
Globo Communicacoes Participacoes SA 144A	4.88	4-11-2022	595,000	615,825
Utilities: 0.13%				
Electric Utilities: 0.13%				
Comision Federal de Electricidad 144A	4.88	5-26-2021	650,000	693,063
Total Yankee Corporate Bonds and Notes (Cost $49,155,776)				47,181,441

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Wells Fargo Multi-Sector Income Fund **Portfolio of investments July 31, 2017 (unaudited)**

Security name	Yield	Shares	Value
Short-Term Investments: 3.14%			
Investment Companies: 3.14%			
Wells Fargo Government Money Market Fund Select Class (l)(u)##	0.89%	16,029,283	$ 16,029,283
Total Short-Term Investments (Cost $16,029,283)			16,029,283
Total investments in securities (Cost $695,825,371)*	135.88%		692,448,083
Other assets and liabilities, net	(35.88)		(182,850,735)
Total net assets	100.00%		$ 509,597,348

± *Variable rate investment. The rate shown is the rate in effect at period end.*

144A *The security may be resold in transactions exempt from registration, normally to qualified institutional buyers, pursuant to Rule 144A under the Securities Act of 1933.*

(c) *Investment in an interest-only security entitles holders to receive only the interest payments on the underlying mortgages. The principal amount shown is the notional amount of the underlying mortgages. The rate represents the coupon rate.*

Non-income-earning security

(i) *Illiquid security*

%% *The security is issued on a when-issued basis.*

(a) *The security is fair valued in accordance with procedures approved by the Board of Trustees.*

(s) *The security is currently in default with regards to scheduled interest and/or principal payments.The Fund has stopped accruing interest on the security.*

¥ *A payment-in-kind (PIK) security is a security in which the issuer may make interest or dividend payments in cash or additional securities. These additional securities generally have the same terms as the original holdings.*

@ *Foreign bond principal is denominated in the local currency of the issuer.*

< *All or a portion of the position represents an unfunded loan commitment.*

(l) *The issuer of the security is an affiliated person of the Fund as defined in the Investment Company Act of 1940.*

(u) *The rate represents the 7-day annualized yield at period end.*

All or a portion of this security is segregated for when-issued securities and unfunded loans.

* *Cost for federal income tax purposes is $700,353,994 and unrealized gains (losses) consists of:*

Grossunrealized gains	*$ 25,982,170*
Grossunrealized losses	*(33,888,081)*
Net unrealized losses	*$ (7,905,911)*

Abbreviations:

AUD *Australian dollar*

BRL	*Brazilian real*
COP	*Colombian peso*
EUR	*Euro*
FHLMC	*Federal Home Loan Mortgage Corporation*
FNMA	*Federal National Mortgage Association*
GBP	*Great British pound*
GNMA	*Government National Mortgage Association*
HUF	*Hungarian forint*
IDR	*Indonesian rupiah*
LLC	*Limited liability company*
LP	*Limited partnership*
MXN	*Mexican peso*
MYR	*Malaysian ringgit*
NZD	*New Zealand dollar*
plc	*Public limited company*
REIT	*Real estate investment trust*
ZAR	*South African rand*

Wells Fargo Multi-Sector Income Fund (the Fund)

Notes to Portfolio of investments July 31, 2017 (unaudited)

Securities valuation

All investments are valued each business day as of the close of regular trading on the New York Stock Exchange (generally 4 p.m. Eastern Time), although the Fund may deviate from this calculation under unusual or unexpected circumstances.

Debt securities are valued at the evaluated bid price provided by an independent pricing service or, if a reliable price is not available, the quoted bid price from an independent broker-dealer.

Equity securities that are listed on a foreign or domestic exchange or market are valued at the official closing price or, if none, the last sales price. If no sale occurs on the principal exchange or market that day, the prior day s price will be deemed stale and a fair value price will be determined in accordance with the Fund s Valuation Procedures.

The values of securities denominated in foreign currencies are translated into U.S. dollars at rates provided by an independent foreign currency pricing source at a time each business day specified by the Management Valuation Team of Wells Fargo Funds Management, LLC.

Investments in registered open-end investment companies are valued at net asset value.

Investments which are not valued using any of the methods discussed above are valued at their fair value, as determined in good faith by the Board of Trustees of the Fund. The Board of Trustees has established a Valuation Committee comprised of the Trustees and has delegated to it the authority to take any actions regarding the valuation of portfolio securities that the Valuation Committee deems necessary or appropriate, including determining the fair value of portfolio securities, unless the determination has been delegated to the Management Valuation Team. The Board of Trustees retains the authority to make or ratify any valuation decisions or approve any changes to the Valuation Procedures as it deems appropriate. On a quarterly basis, the Board of Trustees receives reports on any valuation actions taken by the Valuation Committee or the Management Valuation Team which may include items for ratification.

Valuations of fair valued securities are compared to the next actual sales price when available, or other appropriate market values, to assess the continued appropriateness of the fair valuation methodologies used. These securities are fair valued on a day-to-day basis, taking into consideration changes to appropriate market information and any significant changes to the inputs considered in the valuation process until there is a readily available price provided on an exchange or by an independent pricing service. Valuations received from an independent pricing service or independent broker-dealer quotes are periodically validated by comparisons to most recent trades and valuations provided by other independent pricing services in addition to the review of prices by the manager and/or subadviser. Unobservable inputs used in determining fair valuations are identified based on the type of security, taking into consideration factors utilized by market participants in valuing the investment, knowledge about the issuer and the current market environment.

Foreign currency translation

The accounting records of the Fund are maintained in U.S. dollars. The values of other assets and liabilities denominated in foreign currencies are translated into U.S. dollars at rates provided by an independent foreign currency pricing source at a time each business day specified by the Management Valuation Team. Purchases and sales of securities, and income and expenses are converted at the rate of exchange on the respective dates of such transactions. Net realized foreign exchange gains or losses arise from sales of foreign currencies, currency gains or losses realized between the trade and settlement dates on securities transactions, and the difference between the amounts of dividends, interest and foreign withholding taxes recorded and the U.S. dollar equivalent of the amounts actually paid or received. Net unrealized foreign exchange gains and losses arise from changes in the fair value of assets and liabilities other than investments in securities resulting from changes in exchange rates. The changes in net assets arising from changes in exchange rates of securities and the changes in net assets resulting from changes in market prices of securities are not separately presented. Such changes are included in net realized and unrealized gains or losses from investments.

When-issued transactions

The Fund may purchase securities on a forward commitment or when-issued basis. The Fund records a when-issued transaction on the trade date and will segregate assets in an amount at least equal in value to the Fund s commitment to purchase when-issued securities. Securities purchased on a when-issued basis are marked-to-market daily and the Fund begins earning interest on the settlement date. Losses may arise due to changes in the market value of the underlying securities or if the counterparty does not perform under the contract.

Loans

The Fund may invest in direct debt instruments which are interests in amounts owed to lenders by corporate or other borrowers. The loans pay interest at rates which are periodically reset by reference to a base lending rate plus a spread. Investments in loans may be in the form of participations in loans or assignments of all or a portion of loans from third parties. When the Fund purchases participations, it generally has no rights to enforce compliance with terms of the loan agreement with the borrower. As a result, the Fund assumes the credit risk of both the borrower and the lender that is selling the participation. When the Fund purchases assignments from lenders, it acquires direct rights against the borrower on the loan and may enforce compliance by the borrower with the terms of the loan agreement. Loans may include fully funded term loans or unfunded loan commitments, which are contractual obligations for future funding.

As of July 31, 2017, the Fund had unfunded loan commitments of $3,699,406.

Fair valuation measurements

Fair value measurements of investments are determined within a framework that has established a fair value hierarchy based upon the various data inputs utilized in determining the value of the Fund s investments. The three-level hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The Fund s investments are classified within the fair value hierarchy based on the lowest level of input that is significant to the fair value measurement. The inputs are summarized into three broad levels as follows:

Level 1	quoted prices in active markets for identical securities
Level 2	other significant observable inputs (including quoted prices for similar securities, interest rates, prepayment speeds, credit risk, etc.)
Level 3	significant unobservable inputs (including the Fund s own assumptions in determining the fair value of investments)

The inputs or methodologies used for valuing investments in securities are not necessarily an indication of the risk associated with investing in those securities.

The following is a summary of the inputs used in valuing the Fund s assets and liabilities as of July 31, 2017:

	Quoted prices (Level 1)	Other significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Assets				
Investments in:				
Agency securities	$ 0	$ 8,901,428	$ 0	$ 8,901,428
Asset-backed securities	0	1,224,218	0	1,224,218
Common stocks				
Energy	0	216,885	0	216,885
Materials	811	0	0	811
Utilities	1,390,816	0	0	1,390,816
Corporate bonds and notes	0	360,673,812	0	360,673,812
Foreign corporate bonds and notes	0	10,995,463	0	10,995,463
Foreign government bonds	0	127,946,182	0	127,946,182
Loans	0	74,381,213	20,504,478	94,885,691
Municipal obligations	0	44,869	0	44,869
Non-agency mortgage-backed securities	0	22,629,809	0	22,629,809
Rights				
Utilities	0	327,375	0	327,375
Yankee corporate bonds and notes	0	47,174,148	7,293	47,181,441
Short-term investments				
Investment companies	16,029,283	0	0	16,029,283
Total assets	**$ 17,420,910**	**$ 654,515,402**	**$ 20,511,771**	**$ 692,448,083**

The Fund recognizes transfers between levels within the fair value hierarchy at the end of the reporting period. At July 31, 2017, the Fund did not have any transfers between Level 1 and Level 2.

The following is a reconciliation of assets in which significant unobservable inputs (Level 3) were used in determining fair value:

	Loans	Yankee corporate bonds and notes	Total
Balance as of October 31, 2016	$ 5,626,538	$ 7,293	$ 5,633,831
Accrued discounts (premiums)	14,079	17,712	31,791
Realized gains (losses)	156,944	0	156,944
Change in unrealized gains (losses)	90,217	(17,712)	72,505

	Loans	Yankee corporate bonds and notes	Total
Purchases	20,037,816	0	20,037,816
Sales	(11,821,288)	0	(11,821,288)
Transfers into Level 3	7,504,606	0	7,504,606
Transfers out of Level 3	(1,104,434)	0	(1,104,434)
Balance as of July 31, 2017	$ 20,504,478	$ 7,293	$ 20,511,771
Change in unrealized gains (losses) relating to securities still held at July 31, 2017	$ 81,345	$ (17,712)	$ 63,633

The loan obligations in the Level 3 table were valued using indicative broker quotes. These indicative broker quotes are considered Level 3 inputs. Quantitative unobservable inputs used by the brokers are often proprietary and not provided to the Fund and therefore the disclosure that would address these inputs is not included above.

The yankee corporate bonds and notes obligations in the Level 3 table represents two positions which were valued based on an analysis of the expected final distribution available to bondholders from asset sales.

ITEM 2. CONTROLS AND PROCEDURES

(a) The President and Treasurer have concluded that the Wells Fargo Multi-Sector Income Fund (the Fund) disclosure controls and procedures (as defined in Rule 30a-3(c) under the Investment Company Act of 1940) provide reasonable assurances that material information relating to the Fund is made known to them by the appropriate persons based on their evaluation of these controls and procedures as of a date within 90 days of the filing of this report.

(b) There were no significant changes in the Fund s internal controls over financial reporting (as defined in Rule 30a-3(d) under the Investment Company Act of 1940) that occurred during the last fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant s internal control over financial reporting.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Wells Fargo Multi-Sector Income Fund

By: /s/ Andrew Owen

Andrew Owen
President

Date: September 25, 2017

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Wells Fargo Multi-Sector Income Fund

By: /s/ Andrew Owen

Andrew Owen
President

Date: September 25, 2017

By: /s/ Jeremy DePalma

Jeremy DePalma
Treasurer

Date: September 25, 2017

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1,315

3

%

1,022

78

%

Other research expenses

305

1

%

192

1

%

113

59

%

Total

$

31,690

100

%

$

41,454

100

%

$

(9,764

)

-24

%

Laboratory supplies and services expense increased $2,597,000 from $2,706,000 during the year ended September 30, 2016 to $5,303,000 during the current period. The increase in laboratory supplies and services is a result of additional supply purchases necessary to support the expansion of the Company's preclinical pipeline as well as the development of the subcutaneous versions of its new drug candidates.

In vivo studies expense increased $799,000 from $1,611,000 during the year ended September 30, 2016 to 2,410,000 during the current period. In vivo expense can vary depending on the stage of preclinical candidates, the nature and amount of testing required and the cost variation of different in vivo testing models. The increase in in vivo studies in the current period is a result of additional discovery studies being conducted for the Company's subcutaneous candidates.

Outside labs and contract services expense increased $340,000 from $155,000 during the year ended September 30, 2016 to $495,000 during the current period. The increase in outside labs and contract services in the current period is a result of additional discovery work being conducted for the Company's subcutaneous candidates.

Toxicity/efficacy studies expense decreased $5,998,000 from $7,766,000 during the year ended September 30, 2016 to $1,768,000 during the current period. This category includes IND-enabling toxicology studies as well as post-IND toxicology studies, such as long-term toxicology studies, and other efficacy studies. The decrease primarily relates to toxicology studies related to one of our discontinued drug candidates, ARC-521. We anticipate this expense to increase as we prepare to enter clinical trials with our new subcutaneous drug candidates.

Drug manufacturing expense was relatively consistent at $9,855,000 during the year ended September 30, 2016 to $9,812,000 during the current period. The current period expense relates to campaigns for our ARO-HBV and ARO-AAT programs, and the previous period related to campaigns for our previous generation candidates. We anticipate this expense to increase as we prepare to enter clinical trials with our new subcutaneous drug candidates.

Clinical trials expense decreased $5,542,000 from $14,800,000 during the year ended September 30, 2016 to $9,258,000 during the current period. The decrease is primarily due to the discontinuation of our previous clinical candidates, and the close out of those studies. We anticipate this expense to increase as we prepare to enter clinical trials with our new subcutaneous drug candidates.

License, royalty and milestones expense decreased $3,052,000 from $3,054,000 during the year ended September 30, 2016 to $2,000 during the current period. This category can include milestone payments which can vary from period to period depending on the nature of our various license agreements and the timing of reaching various development milestones requiring payment. We reached milestones related to our clinical candidates that required a $3 million accrual in fiscal 2016.

Facilities expense increased $1,022,000 from $1,315,000 during the year ended September 30, 2016 to $2,337,000 during the current period. The increase relates to increased rental costs for our lease for a larger facility in Madison, Wisconsin, which we began occupying in October 2016.

Other research expense increased $113,000 from $192,000 during the year ended September 30, 2016 to $305,000 during the current period. The increase primarily relates to additional miscellaneous supplies purchased to support efforts at our larger facility in Madison, Wisconsin.

Salary and Payroll-Related Expenses

The Company employs scientific, technical and administrative staff at its corporate offices and its research facilities. Salaries and payroll-related expense consists of salaries, bonuses, payroll taxes and related benefits. Salary and payroll-related expenses include two major categories, based on the primary activities of each employee: general and administrative (G&A) compensation expense and research and development (R&D) compensation expense. The following table provides detail of salary and payroll-related expenses for the periods indicated:

(in thousands)

	Twelve months Ended September 30, 2017	% of Expense Category	Twelve months Ended September 30, 2016	% of Expense Category	Increase (Decrease) $	%
R&D - compensation-related	$ 11,722	68 %	$ 13,883	71 %	$ (2,161)	-16 %
G&A - compensation-related	5,571	32 %	5,579	29 %	(8)	0 %
Total	$ 17,293	100 %	$ 19,462	100 %	$ (2,169)	-11 %

R&D compensation expense decreased $2,161,000 from $13,883,000 during the year ended September 30, 2016 to $11,722,000 during the current period. The decrease is primarily due to the reduction in force in November 2016 associated with the discontinuation of our previous clinical candidates.

G&A compensation expense was consistent at $5,579,000 during the year ended September 30, 2016 to $5,571,000 during the current period.

General & Administrative Expenses

The following table provides details of our general and administrative expenses for the periods indicated:

(in thousands)

	Twelve Months	% of Expense	Twelve Months	% of Expense	Increase (Decrease)

	Ended September 30, 2017	Category	Ended September 30, 2016	Category	$	%
Professional/outside services	$ 2,915	43 %	$ 4,201	42 %	$(1,286)	-31%
Patent expense	1,154	17 %	1,529	15 %	(375)	-25%
Facilities and related	327	5 %	320	3 %	7	2 %
Travel	713	10 %	864	9 %	(151)	-17%
Business insurance	591	9 %	632	6 %	(41)	-6 %
Communication and Technology	426	6 %	686	7 %	(260)	-38%
Office expenses	563	8 %	303	3 %	260	86 %
Other	149	2 %	1,406	14 %	(1,257)	-89%
Total	$ 6,838	100 %	$ 9,941	100 %	$(3,103)	-31%

Professional/outside services include legal, accounting, consulting and other outside services retained by the Company. All periods include normally recurring legal and audit expenses related to SEC compliance and other corporate matters. Professional/outside services expense decreased $1,286,000 from $4,201,000 during the year ended September 30, 2016 to $2,915,000 during the current period. The decrease primarily related to higher legal fees in the previous periods related to litigation cases.

Patent expense decreased $375,000 from $1,529,000 during the year ended September 30, 2016 to $1,154,000 during the current period. The Company continues to invest in patent protection for its product candidates and other RNAi technology through patent filings in numerous countries. The Company expects to extend and maintain protection for its current portfolios, as appropriate, and file new patent applications as technologies are developed and improved. Expenses can vary from period to period as patents proceed through their prosecution life cycle.

Facilities-related expense was consistent at $320,000 during the year ended September 30, 2016 and $327,000 in the current period. Facilities expense represents the expense associated with our corporate headquarters in Pasadena.

Travel expense decreased $151,000 from $864,000 during the year ended September 30, 2016 to $713,000 during the current period. Travel expense decreased due to the discontinuation of our clinical trials in November 2016 and a reduction in R&D headcount. We anticipate this expense to increase in the near term as our next generation candidates approach the clinic.

Business insurance expense decreased $41,000 from $632,000 during the year ended September 30, 2016 to $591,000 during the current period. Business insurance costs consist of directors and officers insurance, property insurance, corporate liability insurance, as well as insurance related to our previous clinical programs.

Communication and technology expense decreased $260,000 from $686,000 during the year ended September 30, 2016 to $426,000 during the current period. This category includes costs associated with the Company’s IT infrastructure. The decrease was primarily due to several IT consulting projects completed during fiscal 2016.

Office expense increased $260,000 from $303,000 during the year ended September 30, 2016 to $563,000 during the current period. These expenses relate to conferences/training, office supplies, miscellaneous administrative expenses, and expenses related to office expansions at our R&D facility in Madison, Wisconsin and our corporate headquarters in Pasadena, California. The increase is primarily related to moving expenses for the Company’s move to its new facility in Madison, Wisconsin.

Other expense decreased $1,257,000 from $1,406,000 during the year ended September 30, 2016 to $149,000 during the current period. This category consists primarily of conference attendance fees, franchise and property tax expenses and marketing expenses. The decrease in other expense relates to litigation in the fiscal 2016 periods that was settled.

Stock-based compensation expense

Stock-based compensation expense, a noncash expense, decreased $3,704,221 from $11,595,816 during the year ended September 30, 2016 to $7,891,595 during the current period. Stock-based compensation expense is based upon the valuation of stock options and restricted stock units granted to employees, directors, and certain consultants. Many variables affect the amount expensed, including the Company’s stock price on the date of the grant, as well as other assumptions. The decrease in the expense in each period is primarily related to the decrease in the Company’s stock price, which is a key input in deriving the valuations of the awards.

Depreciation and amortization expense

Depreciation and amortization expense, a noncash expense, increased $1,430,095 from $3,260,045 during the year ended September 30, 2016 to $4,690,440 during the current period. The majority of depreciation and amortization expense relates to depreciation on lab equipment. In addition, the Company records depreciation on leasehold improvements at its Madison, Wisconsin research facility and its Pasadena, California corporate headquarters. The increase in depreciation and amortization expense is primarily due to the depreciation on leasehold improvements at the Company’s new Madison, Wisconsin research facility in the current period.

Impairment expense

Impairment expense, a noncash expense, was $2,050,817 during the year ended September 30, 2016 and $0 during the current period. During the previous period, the Company recognized an impairment expense of $1.1 million related to leasehold improvements at its previous research facility in Madison, Wisconsin. This amount represented the entire net book value remaining for the leasehold improvements associated with the previous facility, and was recognized during the year ended September 30, 2016 as the Company moved into a larger research facility. During the previous period, the Company also recognized a $0.9 million impairment expense related to acquired in-process research and development assets that were acquired in the acquisition of the Roche RNAi business. In November 2016, the Company announced the discontinuation of its clinical trial efforts for ARC-520, ARC-AAT and ARC-521. Given this development, the Company assessed the fair value of this indefinite-lived intangible asset to be $0 at September 30, 2016.

Contingent Consideration – Fair Value Adjustments

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Contingent Consideration – Fair Value Adjustments was ($5,862,464) during the year ended September 30, 2016 and $0 during the current period. Contingent consideration resulting from the acquisition of Roche's RNAi business is calculated by modeling research and development activities for clinical candidates, forecasting timelines to market, and using "peak sales" estimate modeling, cash flows and potential milestone and royalty payments. The modeling assumes certain success rates and discount factors related to riskiness of projects and the time value of money to calculate a net present value of future consideration payments to Roche. Each reporting period, the Company re-evaluates its contingent consideration, and if material, makes adjustments to the recorded liability. In November 2016, the Company announced the discontinuation of its clinical trial efforts for ARC-520, ARC-AAT and ARC-521. Given this development, the Company assessed the fair value of its contingent consideration obligation to be $0 at September 30, 2016 and September 30, 2017.

Other Income / Expense

Other income / expense was income of $22,124 during the year ended September 30, 2016 as compared to income of $2,618,014 during the current period. The largest component of other income / expense in the current period was $1.3 million in other income due to an insurance settlement related to one of the Company's recent litigation cases. The settlement amount was received in fiscal 2017. The other significant component of other income / expense is related to the change in the value of derivative liabilities related to certain warrants with a price adjustment feature, which requires derivative accounting. The change in value of derivative liabilities was an expense of approximately $0.3 million in 2016 and an income of approximately $0.9 million in the current period. The fluctuations in each period were primarily driven by changes in the Company's stock price, which had a corresponding impact on the valuation of the underlying warrant liability.

Results of Operations Comparison for 2016 and 2015

Revenues

Total revenue was $158,333 for the year ended September 30, 2016 and $382,000 for the year ended September 30, 2015. Revenue during these periods is primarily related to licensed technology. In addition, the Company had collaboration revenue of $160,000 during the year ended September 30, 2015.

Operating Expenses

The analysis below details the operating expenses and discusses the expenditures of the Company within the major expense categories. Certain reclassifications have been made to prior-period operating expense categories to conform to the current period presentation. For purposes of comparison, the amounts for the years ended September 30, 2016 and 2015 are shown in the tables below.

Research and Development Expenses

R&D expenses are related to the Company's on-going research and development efforts, primarily related to program costs, composed primarily of outsourced costs related to the manufacturing of clinical supplies, toxicity/efficacy studies and clinical trial expenses. Internal costs primarily relate to operations at our research and development facility in Madison, Wisconsin, including facility costs and laboratory-related expenses. The following table provides details of research and development expense for the periods indicated:

(in thousands)

	Twelve Months Ended September 30, 2016	% of Expense Category	Twelve Months Ended September 30, 2015	% of Expense Category	Increase (Decrease) $	%
Laboratory supplies & services	$ 2,706	7 %	$ 2,531	5 %	$ 175	7 %
In vivo studies	1,611	4 %	556	1 %	1,055	190 %
Outside labs & contract services	155	0 %	489	1 %	(334)	-68 %
Toxicity/efficacy studies	7,766	19 %	6,572	14 %	1,194	18 %
Drug manufacturing	9,855	25 %	21,431	46 %	(11,576)	-54 %
Clinical trials	14,800	36 %	13,329	28 %	1,471	11 %
License, royalty & milestones	3,054	6 %	1,065	2 %	1,989	187 %
Facilities and related	1,315	3 %	977	2 %	338	35 %
Other research expenses	192	1 %	317	1 %	(125)	-39 %
Total	$ 41,454	100 %	$ 47,267	100 %	$ (5,813)	-12 %

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Laboratory supplies and services expense increased $175,000 from $2,531,000 during the year ended September 30, 2015 to $2,706,000 during the year ended September 30, 2016. The increase in laboratory supplies and services is a result of additional supply purchases necessary to support the expansion of the Company's preclinical pipeline as well as the development of the subcutaneous versions of its drug candidates.

In vivo studies expense increased $1,055,000 from $556,000 during the year ended September 30, 2015 to $1,611,000 during the year ended September 30, 2016. In vivo expense can vary depending on the stage of preclinical candidates, the nature and amount of testing required and the varying costs of different in vivo testing models. The expense in both periods relates to studies in connection with the development of new clinical candidates, and the increase in fiscal year 2016 was primarily driven by studies for ARO-LPA (AMG 890) before it was licensed to Amgen.

Outside labs and contract services expense decreased $334,000 from $489,000 during the year ended September 30, 2015 to $155,000 during the year ended September 30, 2016. The decrease primarily relates to reduced contracted labor services and more functions being performed in house.

Toxicity/efficacy studies expense increased $1,194,000 from $6,572,000 during the year ended September 30, 2015 to $7,766,000 during the year ended September 30, 2016. This category includes IND-enabling toxicology studies, post-IND toxicology studies, such as long-term toxicology studies, and other efficacy studies. The increase primarily relates to toxicology studies related to ARC-521.

Drug manufacturing expense decreased $11,576,000 from $21,431,000 during the year ended September 30, 2015 to $9,855,000 during the year ended September 30, 2016. The decrease primarily relates to the substantial completion of our ARC-520 Phase 2b manufacturing campaign during fiscal 2015. Drug manufacturing expense for the year ended September 30, 2016 primarily relates to manufacturing for ARC-521 clinical trials.

Clinical trials expense increased $1,471,000 from $13,329,000 during the year ended September 30, 2015 to $14,800,000 during the year ended September 30, 2016. In both periods, the primary driver of the expenses was related to ARC-520 Phase 2b trials. We also incurred costs in fiscal 2016 related to our clinical trials for ARC-AAT and ARC-521.

License, royalty and milestones expense increased $1,989,000 from $1,065,000 during the year ended September 30, 2015 to $3,054,000 during the year ended September 30, 2016. This category can include milestone payments which can vary from period to period depending on the nature of our various license agreements and the timing of reaching various development milestones requiring payment. We reached milestones related to our clinical candidates that required a $3 million payment in fiscal 2016 and a $1 million payment in fiscal 2015.

Facilities expense increased $338,000 from $977,000 during the year ended September 30, 2015 to $1,315,000 during the year ended September 30, 2016. The increase relates to rent for our additional research and development facility in Middleton, Wisconsin and increased repairs and maintenance costs for our lab equipment.

Other research expense decreased $125,000 from $317,000 during the year ended September 30, 2015 to $192,000 during the year ended September 30, 2016. The decrease primarily relates to costs associated with a collaboration agreement to identify muscle targeting peptide molecules, for which the Company has been reimbursed from its collaboration partner.

Salary and Payroll-Related Expenses

The Company employs scientific, technical and administrative staff at its corporate offices and its research facilities. Salaries and payroll-related expense consists of salaries, bonuses, payroll taxes and related benefits. Salary and payroll-related expenses include two major categories, based on the primary activities of each employee: general and administrative (G&A) compensation expense and research and development (R&D) compensation expense. The following table provides detail of salary and payroll-related expenses for the periods indicated:

(in thousands)

	Twelve Months Ended September 30, 2016	% of Expense Category	Twelve Months Ended September 30, 2015	% of Expense Category	Increase (Decrease) $	%
R&D - compensation-related	$ 13,883	71 %	$ 11,605	70 %	$ 2,278	20 %
G&A - compensation-related	5,579	29 %	4,949	30 %	630	13 %
Total	$ 19,462	100 %	$ 16,554	100 %	$ 2,908	18 %

R&D compensation expense increased $2,278,000 from $11,605,000 during the year ended September 30, 2015 to $13,883,000 during the year ended September 30, 2016. An increase in headcount accounted for the majority of the change in compensation-related expense.

G&A compensation expense increased $630,000 from $4,949,000 during the year ended September 30, 2015 to $5,579,000 during the year ended September 30, 2016. Annual merit increases accounted for the majority of the change in compensation-related expense.

General & Administrative Expenses

The following table provides details of our general and administrative expenses for the periods indicated:

(in thousands)

	Twelve Months Ended September 30, 2016	% of Expense Category	Twelve Months Ended September 30, 2015	% of Expense Category	Increase (Decrease) $	
Professional/outside services	$ 4,201	43 %	$ 3,989	50 %	$ 212	5 %
Patent expense	1,529	15 %	950	12 %	579	61 %
Facilities and related	320	3 %	308	4 %	12	4 %
Travel	864	9 %	841	11 %	23	3 %

Business insurance	632	6	%	523	7	%	109	21	%
Communication and Technology	686	7	%	691	9	%	(5)	-1	%
Office expenses	303	3	%	270	3	%	33	12	%
Other	1,406	14	%	359	4	%	1,047	292	%
Total	$ 9,941	100	%	$ 7,931	100	%	$ 2,010	25	%

Professional/outside services include legal, accounting, consulting and other outside services retained by the Company. All periods include normally recurring legal and audit expenses related to SEC compliance and other corporate matters. Professional/outside services expense increased $212,000 from $3,989,000 during the year ended September 30, 2015 to $4,201,000 during the year ended September 30, 2016. The increase in professional fees primarily related to higher legal fees related to previous litigation events.

Patent expense increased $579,000 from $950,000 during the year ended September 30, 2015 to $1,529,000 during the year ended September 30, 2016. Patent expense costs increased due to additional prosecution requirements associated with new patents acquired through the Novartis asset acquisition. The Company continues to invest in patent protection for its product candidates and other RNAi technology through patent filings in numerous countries. The Company expects to extend and maintain protection for its current portfolios, as appropriate, and file new patent applications as technologies are developed and improved. Expenses can vary from period to period as patents proceed through their prosecution life cycle.

Facilities-related expense was consistent at $308,000 during the year ended September 30, 2015 and $320,000 in the year ended September 30, 2016. Facilities expense represents the expense associated with our corporate headquarters in Pasadena, California.

Travel expense was consistent at $841,000 during the year ended September 30, 2015 and $864,000 during the year ended September 30, 2016. Travel expense is incurred to support our R&D function, primarily our GMP manufacturing campaign and our clinical trials, as well as other corporate and business development related travel.

Business insurance expense increased $109,000 from $523,000 during the year ended September 30, 2015 to $632,000 during the year ended September 30, 2016. Business insurance costs increased primarily due to added coverage related to the Company's clinical trials, as well as increases in other corporate liability insurance.

Communication and technology expense was consistent at $691,000 during the year ended September 30, 2015 and $686,000 during the year ended September 30, 2016. This category covers IT equipment and services for our personnel.

Office expense increased $33,000 from $270,000 during the year ended September 30, 2015 to $303,000 during the year ended September 30, 2016. These expenses relate to conferences/training, office supplies, miscellaneous administrative expenses, and expenses related to office expansions at our R&D facility in Madison, Wisconsin and our corporate headquarters in Pasadena, California. Conference trainings and seminar expenses were increased in the current period.

Other expense increased $1,047,000 from $359,000 during the year ended September 30, 2015 to $1,406,000 during the year ended September 30, 2016. The increase in the current period pertains to litigation as discussed in Note 7 – Commitments and Contingencies of Notes to Consolidated Financial Statements of Part IV, Item 15. Exhibits and Financial Statement Schedules. This category also consists primarily of franchise and property tax expenses and marketing.

Acquired in-process research and development – Novartis pre-clinical candidates

Acquired in-process research and development expense related to the Novartis pre-clinical candidates was $10,142,786 for fiscal year 2015 and $0 for the year ended September 30, 2016. This expense pertains to the acquisition of the Novartis RNAi assets. The value of the purchase price allocated to certain preclinical candidates was expensed during the period, while certain patents and a third-party license were capitalized as intangible assets.

Stock-based compensation expense

Stock-based compensation expense, a noncash expense, increased $1,362,919 from $10,232,897 during the year ended September 30, 2015 to $11,595,816 during the year ended September 30, 2016. Stock-based compensation expense is based upon the valuation of stock options and restricted stock units granted to employees, directors, and certain consultants. Many variables affect the amount expensed, including the Company's stock price on the date of the grant, as well as other assumptions. The increase in the current period was primarily due to certain performance based awards that were deemed probable of achievement during the period.

Depreciation and amortization expense

Depreciation and amortization expense, a noncash expense, increased $923,838 from $2,336,207 during the year ended September 30, 2015 to $3,260,045 during the year ended September 30, 2016. The majority of depreciation and amortization expense relates to depreciation on lab equipment. In addition, the Company records depreciation on leasehold improvements at its Madison, Wisconsin research facility and its Pasadena, California corporate headquarters. The increase in depreciation and amortization expense is primarily due to the amortization of the intangible assets acquired in the Novartis RNAi asset acquisition.

Impairment expense

Impairment expense, a noncash expense, was $2,050,817 in the year ended September 30, 2016 and $0 during the year ended September 30, 2015. During the year ended September 30, 2016, the Company recognized an impairment expense of $1.1 million related to leasehold improvements at its previous research facility in Madison, Wisconsin. This amount represented the entire net book value remaining for the leasehold improvements associated with the previous facility, and was recognized during the year ended September 30, 2016 as the Company moved into a larger research facility. During the year ended September 30, 2016, the Company also recognized a $0.9 million impairment expense related to acquired in-process research and development assets that were acquired in the acquisition of the Roche RNAi business. In November 2016, the Company announced the discontinuation of its clinical trial efforts for ARC-520, ARC-AAT and ARC-521. Given this development, the Company assessed the fair value of this indefinite-lived intangible asset to be $0 at September 30, 2016.

Contingent Consideration – Fair Value Adjustments

Contingent Consideration – Fair Value Adjustments decreased $7,753,997 from $1,891,533 during the year ended September 30, 2015 to ($5,862,464) during the year ended September 30, 2016. Contingent consideration resulting from the acquisition of Roche's RNAi business is calculated by modeling research and development activities for clinical candidates, forecasting timelines to market, and using "peak sales" estimate modeling, cash flows and potential milestone and royalty payments. The modeling assumes certain success rates, and discount factors related to riskiness of projects and the time value of money to calculate a net present value of future consideration payments to Roche. Each reporting period, the Company re-evaluates its contingent consideration, and if material, makes adjustments to the recorded liability. In November 2016, the Company announced the discontinuation of its clinical trial efforts for ARC-520, ARC-AAT and ARC-521. Given this development, the Company assessed the fair value of its contingent consideration obligation to be $0 at September 30, 2016.

Other Income / Expense

Other income / expense was income of $4,035,494 during the year ended September 30, 2015 as compared to income of $22,124 during the year ended September 30, 2016. The largest component of other income / expense is related to the change in the value of derivative liabilities related to certain warrants with a price adjustment feature, which requires derivative accounting. The change in value of derivative liabilities was a reduction of approximately $2.9 million in 2015 and an increase of approximately $0.3 million in the year ended September 30, 2016. The fluctuations in each period were primarily driven by changes in the Company's stock price, which had a corresponding impact to the valuation of the underlying warrant liability.

Liquidity and Cash Resources

Arrowhead has historically financed its operations through the sale of its equity securities. Research and development activities have required significant capital investment since the Company's inception, and are expected to continue to require significant cash expenditure in fiscal year 2017 and beyond.

At September 30, 2017, the Company had cash on hand of approximately $24.8 million as compared to $85.4 million at September 30, 2016. Excess cash invested in fixed income securities was $40.8 million at September 30, 2017, compared to $0 million at September 30, 2016. The Company believes its current financial resources are sufficient to fund its operations through at least the next twelve months.

A summary of cash flows for the years ended September 30, 2017, 2016, and 2015 is as follows:

	Year ended September 30,		
	2017	2016	2015
Cash Flow from:			
Operating Activities	$(23,938,972)	$(64,427,486)	$(65,707,615)
Investing Activities	(48,644,218)	13,447,763	14,120,838
Financing Activities	12,055,309	55,131,817	290,521
Net increase (decrease) in cash	(60,527,881)	4,152,094	(51,296,256)
Cash at beginning of period	85,366,448	81,214,354	132,510,610
Cash at end of period	$24,838,567	$85,366,448	$81,214,354

During the year ended September 30, 2017, the Company used $23.9 million in cash from operating activities, primarily driven by $53.9 million of cash used for the on-going expenses of its research and development programs and general and administrative expenses, partially offset by the $30 million upfront payment received from Amgen. Cash used in investing activities was $48.6 million, which was primarily related to investments in short-term fixed-income securities of $45.0 million and $7.9 million of capital expenditures primarily for leasehold improvements on the Company's Madison, Wisconsin research facility and lab equipment purchases. Cash generated by financing activities of $12.1 million was driven by the $12.5 million equity investment received from Amgen, and was partially offset by cash paid for employee taxes on net share settlements of restricted stock units that vested during the period.

During the year ended September 30, 2016, the Company used $64.4 million in cash from operating activities, which represents the on-going expenses of its research and development programs and corporate overhead. Cash outlays were primarily composed of the following: research and development costs were $42.6 million, salary and payroll-related expenses were $16.4 million and general and administrative costs were $9.9 million. These expenditures were partially offset by $5 million received under the First Collaboration and License Agreement with Amgen. Cash provided by investing activities was $13.4 million, primarily related to the maturity of certain marketable securities of $17.3 million partially offset by capital expenditures of $3.9 million. Cash provided by financing activities of $55.1 million primarily includes an equity financing in August 2016, which yielded net proceeds of $43.2 million to the Company, and $9 million of equity investments from the Company's Common Stock Purchase Agreement with Amgen.

During the year ended September 30, 2015, the Company used $65.7 million in cash from operating activities, which represents the on-going expenses of its research and development programs and corporate overhead. Cash outlays were primarily composed of the following: research and development costs were $41.2 million, salary and payroll-related expenses were $16.6 million, and general and administrative costs were $7.9 million. Cash provided by investing activities was $14.1 million, primarily related to the maturity of certain marketable securities partially offset by $10.0 million of cash used to acquire the Novartis assets discussed above. Capital expenditures were $2.0 million. Cash provided by financing activities of $0.3 million primarily includes the exercise of warrants and stock options during the year ended September 30, 2015.

Contractual Obligations

In the table below, we set forth our enforceable and legally binding obligations and future commitments at September 30, 2017 for the categories shown, as well as obligations related to contracts in such categories that we are likely to continue. Some of the figures that we include in this table are based on management's estimates and assumptions about these obligations, including their duration, the possibility of renewal, anticipated actions by third parties and other factors. Because these estimates and assumptions are necessarily subjective, the obligations we will actually pay in future periods may vary from those reflected in the table. The following table does not include any future obligations that may be owed under existing license agreements, as the certainty of achieving the relevant milestones that would trigger these payments is currently unknown.

	Payments due by Period				
	Total	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
Long-Term Debt	2,325,018	-	464,078	534,748	1,326,192
Capital Leases	-	-	-	-	-
Operating Leases	10,848,066	1,531,234	2,479,840	2,167,664	4,669,328
Purchase Obligations	11,400,000	11,400,000	-	-	-
Other Long-Term Liabilities	2,129,052	-	519,495	424,320	1,185,237
Total	$26,702,136	$12,931,234	$3,463,413	$3,126,732	$7,180,757

Off-Balance Sheet Arrangements

As of September 30, 2017, we did not have any off-balance sheet arrangements, as defined in Item 303(a)(4)(ii) of SEC Regulation S-K.

Recent Accounting Pronouncements

See Note 1 to our Consolidated Financial Statements of this annual report on Form 10-K for a description of recent accounting pronouncements applicable to our business.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to market risk related to changes in interest rates, which could adversely affect the value of our interest rate-sensitive assets and liabilities. We do not hold any instruments for trading purposes and investment criteria are governed by the Company's Investment Policy. As of September 30, 2017 and 2016, we had cash and cash equivalents of $24.8 million and $85.4 million, respectively, and investments of $40.8 million and $0, respectively. At times, we have invested our cash reserves in corporate bonds typically with maturities of less than 2 years, and we have historically classified these investments as held-to-maturity. Due to the relatively short-term nature of the investments that we hold, we do not believe that the results of operations or cash flows would be affected to any significant degree by a sudden change in market interest rates relative to our investment portfolio. Our liability instrument sensitive to changes in interest rates is our derivative liability with its fair value determined using an option pricing model, which uses interest rate as an input. However, any change associated with this valuation would result in a noncash expense and would not significantly impact our operations.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The information required by this item is included in Item 15 of this Annual Report on Form 10-K.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

None.

ITEM 9A. CONTROLS AND PROCEDURES.

Our Chief Executive Officer and our Chief Financial Officer, after evaluating our "disclosure controls and procedures" (as defined in Securities Exchange Act of 1934 (the "Exchange Act") Rules 13a-15(e) and 15d-15(e)) as of the end of the period covered by this Annual Report on Form 10-K (the "Evaluation Date") have concluded that as of the Evaluation Date, our disclosure controls and procedures are effective to ensure that information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms, and to ensure that information required to be disclosed by us in such reports is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, where appropriate, to allow timely decisions regarding required disclosure.

No change in the Company's internal controls over financial reporting (as defined in Rule 13a-15(f) and 15d-15(f) of the Exchange Act) occurred during the Company's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Management's Annual Report on Internal Control over Financial Reporting

Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. Our internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles in the United States. This process includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures are being made only in accordance with authorizations of our management and directors; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on our financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of the internal control over financial reporting to future periods are subject to risk that the internal control may become inadequate because of changes in conditions, or that the degree of compliance with policies or procedures may deteriorate.

Management’s Assessment of the Effectiveness of our Internal Control over Financial Reporting

The Company’s management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act). Management conducted an assessment of the effectiveness of the Company’s internal control over financial reporting based on the criteria set forth in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on the Company's assessment, management has concluded that its internal control over financial reporting was effective as of September 30, 2017 to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with GAAP. The Company's independent registered public accounting firm, Rose, Snyder and Jacobs LLP, has issued an audit report on the Company's internal control over financial reporting, which appears in Item 15 of this Form 10-K.

Changes in Internal Control Over Financial Reporting

There was no change in our internal control over financial reporting that occurred during the fourth quarter of the year ended September 30, 2017 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE.

The information called for by this Item will be incorporated by reference from our Definitive Proxy Statement to be filed for our 2018 Annual Meeting of Stockholders, which proxy statement will be filed no later than January 28, 2018.

ITEM 11. EXECUTIVE COMPENSATION

The information called for by this Item will be incorporated by reference from our Definitive Proxy Statement to be filed for our 2018 Annual Meeting of Stockholders, which proxy statement will be filed no later than January 28, 2018.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS.

The information called for by this Item will be incorporated by reference from our Definitive Proxy Statement to be filed for our 2018 Annual Meeting of Stockholders, which proxy statement will be filed no later than January 28, 2018.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE.

The information called for by this Item will be incorporated by reference from our Definitive Proxy Statement to be filed for our 2018 Annual Meeting of Stockholders, which proxy statement will be filed no later than January 28, 2018.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information called for by this Item will be incorporated by reference from our Definitive Proxy Statement to be filed for our 2018 Annual Meeting of Stockholders, which proxy statement will be filed no later than January 28, 2018.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

The following documents are filed as part of this Annual Report on Form 10-K:

(1) Financial Statements.

See Index to Financial Statements and Schedule on page F-1.

(2) Financial Statement Schedules.

See Index to Financial Statements and Schedule on page F-1. All other schedules are omitted as the required information is not present or is not present in amounts sufficient to require submission of the schedule, or because the information required is included in the consolidated financial statements or notes thereto.

(3) Exhibits.

The following exhibits are filed (or incorporated by reference herein) as part of this Annual Report on Form 10-K:

Exhibit Number	Description	Incorporated by Reference Herein Form	Date
2.1	Stock and Asset Purchase Agreement between Arrowhead Research Corporation and Roche entities, dated October 21, 2011†	Annual Report on Form 10-K for the fiscal year ended September 30, 2011, as Exhibit 2.1	December 20, 2011
2.2	Asset Purchase and Exclusive License Agreement between Arrowhead Research Corporation and Novartis Institutes for BioMedical Research, Inc., dated March 3, 2015†	Quarterly Report on Form 10-Q, as Exhibit 2.1	May 11, 2015
3.1	Amended and Restated Certificate of Incorporation of Arrowhead Research Corporation, a Delaware corporation, filed with the Secretary of State of the State of Delaware on April 5, 2016	Current Report on Form 8-K as Exhibit 3.3	April 6, 2016
3.2	Amended and Restated Bylaws of Arrowhead Pharmaceuticals, Inc.	Current Report on form 8-K as Exhibit 3.4	April 6, 2016
3.3	Certificate of Designation, Preferences, and Rights of Series D Junior Participating Preferred Stock of Arrowhead Pharmaceuticals, Inc.	Current Report on form 8-K as Exhibit 3.1	March 23, 2017
4.1	Form of Warrant to Purchase Common Stock expiring May 2017	Current Report on Form 8-K, as Exhibit 4.1	May 30, 2007
4.2	Form of Warrant to Purchase Shares of Common Stock expiring December 12, 2017	Current Report on Form 8-K, as exhibit 4.2	December 12, 2012
4.3	Form of Warrant to Purchase Shares of Common Stock expiring January 30, 2018	Current Report on Form 8-K, as exhibit 4.2	January 30, 2013
4.4	Form of Series C Preferred Stock Certificate	Annual Report on Form 10-K for the fiscal year ended September 30, 2013, as Exhibit 4.19	December 18, 2013
4.5	Form of Common Stock Certificate of Arrowhead Pharmaceuticals, Inc.	Current Report on Form 8-K, as Exhibit 4.1	April 6, 2016
4.6	Form of Indenture	Registration Statement on Form S-3 (File No. 333-214315)	October 28, 2016
4.7			

	Rights Agreement dated as of March 21, 2017, between the Company and Computershare Trust Company, N.A., as rights agent, which includes as Exhibit B the Form of Rights Certificate	Current Report on Form 8-K, as Exhibit 4.1	March 23, 2017
10.1**	Arrowhead Research Corporation (fka InterActive, Inc.) 2000 Stock Option Plan	Schedule 14C, as Exhibit D	December 22, 2000
10.2**	Arrowhead Research Corporation 2004 Equity Incentive Plan, as amended	Schedule 14C, as Annex B	January 12, 2012
10.3**	Arrowhead Research Corporation 2013 Incentive Plan	Schedule 14C, as Annex A	December 20, 2013
10.4**	Form of Stock Option Agreement for use with the 2013 Incentive Plan	Current Report on Form 8-K, as Exhibit 10.1	February 12, 2014

Exhibit Number	Description	Incorporated by Reference Herein Form	Date
10.5**	Form of Restricted Stock Unit Agreement for use with the 2013 Incentive Plan	Current Report on Form 8-K, as Exhibit 10.2	February 12, 2014
10.6**	Executive Incentive Plan, adopted December 12, 2006	Annual Report on Form 10-K for the fiscal year ended September 30, 2006, as Exhibit 10.11	December 14, 2006
10.7**	Employment Agreement between Arrowhead and Dr. Christopher Anzalone, dated June 11, 2008	Current Report on Form 8-K, as Exhibit 10.1	June 13, 2008
10.8**	Amendment to Employment Agreement between Arrowhead and Dr. Christopher Anzalone, effective May 12, 2009	Annual Report on Form 10-K for the fiscal year ended September 30, 2009, as Exhibit 10.8	December 22, 2009
10.9	Non-Exclusive License Agreement between Arrowhead Research Corporation and Roche entities, dated October 21, 2011†	Annual Report on Form 10-K for the fiscal year ended September 30, 2011, as Exhibit 10.33	December 20, 2011
10.10	License and Collaboration Agreement between F. Hoffmann-La Roche Ltd and Hoffman-La Roche Inc. and Alnylam Pharmaceuticals, Inc., dated July 8, 2007 †	Annual Report on Form 10-K for the fiscal year ended September 30, 2011, as Exhibit 10.35	December 20, 2011
10.11	Collaboration Agreement by and among Alnylam Pharmaceuticals, Inc. and F. Hoffmann-La Roche Ltd and Hoffman-La Roche Inc., dated October 29, 2009 †	Annual Report on Form 10-K for the fiscal year ended September 30, 2011, as Exhibit 10.36	December 20, 2011
10.12	Office Lease Agreement between South Lake Avenue Investors LLC and the Company, dated April 12, 2012	Quarterly Report on Form 10-Q, as Exhibit 10.1	May 8, 2012
10.13	License Agreement by and between Alnylam Pharmaceuticals, Inc., Arrowhead Research Corporation and Arrowhead Madison, Inc.†	Quarterly Report on Form 10-Q, as Exhibit 10.1	August 12, 2014
10.14	Lease Agreement between University Research Park, Incorporated and Arrowhead Madison, Inc., dated January 8, 2016	Quarterly Report on Form 10-Q, as Exhibit 10.1	February 9, 2016
10.15	Securities Purchase Agreement between the Company and the purchasers listed thereon, dated August 8, 2016	Current Report on Form 8-K, as Exhibit 10.1	August 10, 2016
10.16	First Collaboration and Licensing Agreement between Arrowhead Pharmaceuticals, Inc. and Amgen, Inc., dated September 28, 2016†	Annual Report on Form 10-K for the fiscal year ended September 30, 2016, as Exhibit 10.18	December 14, 2016
10.17	Second Collaboration and Licensing Agreement between Arrowhead Pharmaceuticals, Inc. and Amgen, Inc., dated	Annual Report on Form 10-K for the fiscal year ended September 30,	December 14, 2016

	September 28, 2016†	2016, as Exhibit 10.19	
10.18	Common Stock Purchase Agreement between the Company and Amgen Inc., dated September 28, 2016	Amendment No. 1 to the Registration Statement on Form S-3 (File No. 333-214311)	November 25, 2016
21.1	List of Subsidiaries*		
23.1	Consent of Independent Public Registered Accounting Firm*		
24.1	Power of Attorney (contained on signature page)		

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Exhibit Number	Description	Incorporated by Reference Herein Form	Date
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002*		
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002*		
32.1	Certification by Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002***		
32.2	Certification by Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002***		
101.INS	XBRL Instance Document*		
101.SCH	XBRL Schema Document*		
101.CAL	XBRL Calculation Linkbase Document*		
101.LAB	XBRL Label Linkbase Document*		
101.PRE	XBRL Presentation Linkbase Document*		
101.DEF	XBRL Definition Linkbase Document*		

* Filed herewith
** Indicates compensation plan, contract or arrangement.

*** Furnished herewith
Confidential treatment has been requested with respect to certain portions of this exhibit. Omitted portions have been filed separately with the Securities and Exchange Commission.

SIGNATURE

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Report on Form 10-K to be signed on its behalf by the undersigned, thereunto duly authorized, on this 12th day of December 2017.

Dated: December 12, 2017

ARROWHEAD PHARMACEUTICALS,

INC.

By: /s/ Christopher Anzalone
Christopher Anzalone
Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report on Form 10-K has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated:

Signature	Title	Date
/s/ Christopher Anzalone Christopher Anzalone	Chief Executive Officer, President and Director (Principal Executive Officer)	December 12, 2017
/s/ Kenneth A. Myszkowski Kenneth A. Myszkowski	Chief Financial Officer (Principal Financial and Accounting Officer)	December 12, 2017
/s/ Douglass Given Douglass Given	Director, Chairman of the Board of Directors	December 12, 2017
/s/ Mauro Ferrari Mauro Ferrari	Director	December 12, 2017

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Signature	Title	Date
/s/ Edward W. Frykman Edward W. Frykman	Director	December 12, 2017
/s/ Michael S. Perry Michael S. Perry	Director	December 12, 2017

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INDEX TO FINANCIAL STATEMENTS AND SCHEDULE

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of Arrowhead Pharmaceuticals, Inc.

We have audited the accompanying consolidated balance sheets of Arrowhead Pharmaceuticals, Inc. and Subsidiaries (the "Company") as of September 30, 2017 and 2016, and the related consolidated statements of operations and comprehensive loss, stockholders' equity, and cash flows for each of the years in the three year period ended September 30, 2017. The Company's management is responsible for these consolidated financial statements. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Arrowhead Pharmaceuticals, Inc. and Subsidiaries as of September 30, 2017 and 2016, and the results of their operations and their cash flows for each of the years in the three year period ended September 30, 2017, in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Arrowhead Pharmaceuticals, Inc.'s internal control over financial reporting as of September 30, 2017, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 Framework) and our report dated December 12, 2017, expressed an unqualified opinion thereon.

/s/ Rose, Snyder & Jacobs LLP

Encino, California

December 12, 2017

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of Arrowhead Pharmaceuticals, Inc.

We have audited Arrowhead Pharmaceuticals, Inc. and Subsidiaries' (the "Company") internal control over financial reporting as of September 30, 2017, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 Framework). Arrowhead Pharmaceuticals, Inc.'s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Arrowhead Pharmaceuticals, Inc. and Subsidiaries maintained, in all material respects, effective internal control over financial reporting as of September 30, 2017, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013

Framework).

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets and the related consolidated statements of operations and comprehensive loss, stockholders' equity, and cash flows of Arrowhead Pharmaceuticals, Inc. and Subsidiaries, and our report dated December 12, 2017, expressed an unqualified opinion.

/s/ Rose, Snyder & Jacobs LLP

Encino, California

December 12, 2017

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

Arrowhead Pharmaceuticals, Inc.

Consolidated Balance Sheets

	September 30, 2017	September 30, 2016
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$24,838,567	$85,366,448
Accounts receivable	67,797	75,000
Prepaid expenses	867,363	1,289,923
Other current assets	1,359,638	3,771,172
Short term investments	40,769,539	-
TOTAL CURRENT ASSETS	67,902,904	90,502,543
Property and equipment, net	15,513,019	15,386,761
Intangible assets, net	20,464,439	22,164,868
Other assets	141,918	122,333
TOTAL ASSETS	$104,022,280	$128,176,505
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	$4,076,514	$12,232,906
Accrued expenses	4,564,507	4,587,467
Accrued payroll and benefits	3,399,679	3,969,706
Deferred rent	440,580	440,580
Deferred revenue	5,269,741	2,569,792
Derivative liabilities	695,114	1,602,626
Note Payable	208,506	194,310
Other current liabilities	46,407	46,407
TOTAL CURRENT LIABILITIES	18,701,048	25,643,794
LONG-TERM LIABILITIES		
Deferred rent, net of current portion	1,929,052	2,274,997
Deferred revenue, net of current portion	-	2,500,000
Note Payable, net of current portion	2,325,018	2,533,455
Other non-current liabilities	200,000	200,000
TOTAL LONG-TERM LIABILITIES	4,454,070	7,508,452
Commitments and contingencies (Note 7)		
STOCKHOLDERS' EQUITY		
Arrowhead Pharmaceuticals, Inc. stockholders' equity:		
Preferred stock, $0.001 par value; 5,000,000 shares authorized; 0 and 15,652 shares issued and outstanding as of September 30, 2017 and September 30, 2016	-	16
Common stock, $0.001 par value; 145,000,000 shares authorized; 74,785,426 and 69,746,685 shares	167,155	162,116

issued and outstanding as of September 30, 2017 and September 30, 2016, respectively		
Additional paid-in capital	514,037,301	493,844,909
Accumulated other comprehensive income (loss)	33,232	7,449
Accumulated deficit	(432,815,338)	(398,435,043)
Total Arrowhead Pharmaceuticals, Inc. stockholders' equity	81,422,350	95,579,447
Noncontrolling interest	(555,188)	(555,188)
TOTAL STOCKHOLDERS' EQUITY	80,867,162	95,024,259
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$104,022,280	$128,176,505

The accompanying notes are an integral part of these consolidated financial statements.

Arrowhead Pharmaceuticals, Inc.

Consolidated Statements of Operations and Comprehensive Loss

	Year Ended September 30,		
	2017	2016	2015
REVENUE	$31,407,709	$158,333	$382,000
OPERATING EXPENSES			
Research and development	31,690,298	41,454,452	47,267,361
Acquired in-process research and development	-	-	10,142,786
Salaries and payroll-related costs	17,292,883	19,461,656	16,554,008
General and administrative expenses	6,838,402	9,940,737	7,931,184
Stock-based compensation	7,891,595	11,595,816	10,232,897
Depreciation and amortization	4,690,440	3,260,045	2,336,207
Impairment expense	-	2,050,817	-
Contingent consideration - fair value adjustments	-	(5,862,464)	1,891,533
TOTAL OPERATING EXPENSES	68,403,618	81,901,059	96,355,976
OPERATING LOSS	(36,995,909)	(81,742,726)	(95,973,976)
OTHER INCOME (EXPENSE)			
Gain (loss) on sale of fixed asset, net	-	-	19,195
Interest income (expense), net	415,128	265,794	729,158
Change in value of derivatives	890,362	(301,022)	2,869,267
Other income (expense)	1,312,524	57,352	417,874
TOTAL OTHER INCOME (EXPENSE)	2,618,014	22,124	4,035,494
LOSS BEFORE INCOME TAXES	(34,377,895)	(81,720,602)	(91,938,482)
Provision for income taxes	(2,400)	(2,400)	(2,400)
NET LOSS	(34,380,295)	(81,723,002)	(91,940,882)
NET LOSS PER SHARE - BASIC & DILUTED	$(0.47)	$(1.34)	$(1.60)
Weighted average shares outstanding - basic and diluted	73,898,598	61,050,880	57,358,442
OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX:			
Foreign Currency Translation Adjustments	25,783	143,874	(136,425)
COMPREHENSIVE LOSS	$(34,354,512)	$(81,579,128)	$(92,077,307)

The accompanying notes are an integral part of these consolidated financial statements.

Arrowhead Pharmaceuticals, Inc.

Consolidated Statement of Stockholders' Equity

	Preferred Stock	Amount ($)	Common Stock	Amount ($)	Additional Paid-In Capital	Accumulated Other Comprehensive Income (loss)	Accumulated Deficit	Non-controlling Interest	Totals
Balance at September 30, 2014	18,300	$18	54,656,936	$147,026	$391,164,558	$-	$(224,771,159)	$(555,188)	$165,985,255
Exercise of warrants	-	-	79,828	81	401,795	-	-	-	401,876
Exercise of stock options	-	-	28,758	29	101,841	-	-	-	101,870
Stock-based compensation	-	-	-	-	10,232,897	-	-	-	10,232,897
Exercise of exchange rights	-	-	5,250	5	3,067	-	-	-	3,072
Preferred stock converted to common stock	(2,648)	(2)	1,316,215	1,316	(1,314)	-	-	-	-
Common stock-Restricted Stock Units vesting	-	-	136,307	136	(26,165)	-	-	-	(26,029)
Common stock issued to Novartis at $7.53	-	-	3,321,383	3,321	24,996,679	-	-	-	25,000,000
Foreign currency translation adjustments	-	-	-	-	-	(136,425)	-	-	(136,425)
Net loss for the year ended September 30, 2015	-	-	-	-	-	-	(91,940,882)	-	(91,940,882)
Balance at September 30, 2015	15,652	$16	59,544,677	$151,914	$426,873,358	$(136,425)	$(316,712,041)	$(555,188)	$109,621,634
Exercise of warrants	-	-	852,532	853	3,690,545	-	-	-	3,691,398

Exercise of stock options	-	-	37,187	37	133,832	-	-	-	133,869
Stock-based compensation	-	-	-	-	11,595,816	-	-	-	11,595,816
Common stock-Restricted Stock Units vesting	-	-	428,187	428	(671,193)	-	-	-	(670,765)
Common stock issued for cash at $5.90 per share, net of offering costs	-	-	7,627,119	7,627	43,223,808				43,231,435
Common stock issued to Amgen at $7.16 per share	-	-	1,256,983	1,257	8,998,743				9,000,000
Foreign currency translation adjustments	-	-	-	-	-	143,874	-	-	143,874
Net loss for the year ended September 30, 2016	-	-	-	-	-	-	(81,723,002)	-	(81,723,002)
Balance at September 30, 2016	15,652	$16	69,746,685	$162,116	$493,844,909	$7,449	$(398,435,043)	$(555,188)	$95,024,259
Stock-based compensation	-	-	-	-	7,891,595	-	-	-	7,891,595
Exercise of stock options	-	-	135,730	136	271,795	-	-	-	271,931
Common stock-Restricted Stock Units vesting	-	-	481,212	481	(403,742)	-	-	-	(403,261)
Common stock issued to Amgen at $7.16 per share	-	-	1,745,810	1,746	12,418,254	-	-	-	12,420,000
Preferred stock converted to common stock	(15,652)	(16)	2,670,989	2,671	(2,655)	-	-	-	-
Exchange rights	-	-	5,000	5	17,145	-	-	-	17,150

exercised									
Foreign currency translation adjustments	-	-	-	-	-	25,783	-	-	25,783
Net loss for the year ended September 30, 2017	-	-	-	-	-	-	(34,380,295)	-	(34,380,295)
Balance at September 30, 2017	-	$-	74,785,426	$167,155	$514,037,301	$33,232	$(432,815,338)	$(555,188)	$80,867,162

The accompanying notes are an integral part of these consolidated financial statements.

Arrowhead Pharmaceuticals, Inc.

Consolidated Statements of Cash Flows

	Year ended September 30,		
	2017	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net loss	$(34,380,295)	$(81,723,002)	$(91,940,882)
(Gain) loss on disposal of fixed assets	-	-	(19,195)
Change in value of derivatives	(890,362)	301,022	(2,869,267)
Contingent consideration - fair value adjustments	-	(5,862,464)	1,891,533
Noncash impairment expense	-	2,050,817	-
Acquired-in-process research and development	-	-	10,142,786
Stock-based compensation	7,891,595	11,595,816	10,232,897
Depreciation and amortization	4,690,440	3,260,045	2,336,207
Amortization/(accretion) of note premiums	(43,519)	231,902	1,110,524
Changes in operating assets and liabilities:			
Accounts receivable	7,203	(75,000)	-
Prepaid expenses and Other Current Assets	2,814,509	(1,020,734)	(3,485,421)
Deferred revenue	157,981	5,000,000	-
Accounts payable	(3,509,995)	2,554,802	2,497,804
Accrued expenses	(401,777)	(871,833)	4,435,784
Other	(274,752)	131,143	(40,385)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	(23,938,972)	(64,427,486)	(65,707,615)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchases of property and equipment	(7,918,198)	(3,860,237)	(1,970,612)
Proceeds from sale of fixed assets	-	-	500
Purchases of marketable securities	(44,974,736)	-	-
Proceeds from sale of marketable securities	4,248,716	17,308,000	26,090,950
Cash paid for acquisitions	-	-	(10,000,000)
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	(48,644,218)	13,447,763	14,120,838
CASH FLOWS FROM FINANCING ACTIVITIES:			
Principal payments on notes payable	(197,790)	(217,549)	(213,991)
Payments of taxes for net share settled restricted stock unit issuances	(438,838)	(634,187)	-
Proceeds from the exercises of warrants and stock options	272,818	3,752,120	504,512
Proceeds from the issuance of common stock	12,419,119	52,231,433	-
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	12,055,309	55,131,817	290,521
NET INCREASE (DECREASE) IN CASH	(60,527,881)	4,152,094	(51,296,256)
CASH AT BEGINNING OF PERIOD	85,366,448	81,214,354	132,510,610
CASH AT END OF PERIOD	$24,838,567	$85,366,448	$81,214,354
Supplementary disclosures:			
Interest Paid	$(187,647)	$(11,287)	$(14,429)
Property and equipment purchased through tenant improvement allowance financing	$-	$(4,849,360)	$-
Property and Equipment expenditures included in accounts payable and accrued expenses	$-	$(4,801,930)	$-
Income Tax Credits Refunded	$3,635,016	$1,365,288	$-
Income Tax Paid	$(2,400)	$(2,400)	$(2,400)
Common Stock issued to Novartis for asset acquisition	$-	$-	$(25,000,000)

The accompanying notes are an integral part of these consolidated financial statements.

Arrowhead Pharmaceuticals, Inc.

Notes to Consolidated Financial Statements

Unless otherwise noted, (1) the term "Arrowhead" refers to Arrowhead Pharmaceuticals, Inc., a Delaware corporation and its Subsidiaries, (2) the terms "Company," "we," "us," and "our," refer to the ongoing business operations of Arrowhead and its Subsidiaries, whether conducted through Arrowhead or a subsidiary of Arrowhead, (3) the term "Subsidiaries" refers collectively to Arrowhead Madison Inc. ("Arrowhead Madison"), Arrowhead Australia Pty Ltd ("Arrowhead Australia") and Ablaris Therapeutics, Inc. ("Ablaris"), (4) the term "Common Stock" refers to Arrowhead's Common Stock, (5) the term "Preferred Stock" refers to Arrowhead's Preferred Stock and (6) the term "Stockholder(s)" refers to the holders of Arrowhead Common Stock.

NOTE 1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Nature of Business and Recent Developments

Arrowhead Pharmaceuticals, Inc. develops medicines that treat intractable diseases by silencing the genes that cause them. Using a broad portfolio of RNA chemistries and efficient modes of delivery, Arrowhead therapies trigger the RNA interference mechanism to induce rapid, deep and durable knockdown of target genes. RNA interference, or RNAi, is a mechanism present in living cells that inhibits the expression of a specific gene, thereby affecting the production of a specific protein. Deemed to be one of the most important recent discoveries in life science with the potential to transform medicine, the discoverers of RNAi were awarded a Nobel Prize in 2006 for their work. Arrowhead's RNAi-based therapeutics leverage this natural pathway of gene silencing. The company's pipeline includes ARO-HBV for chronic hepatitis B virus, ARO-AAT for liver disease associated with alpha-1 antitrypsin deficiency (AATD), ARO-APOC3 and ARO-ANG3 for hypertriglyceridemia, ARO-Lung1 for an undisclosed pulmonary target, ARO-HIF2 for renal cell carcinoma, ARO-F12 for hereditary angioedema and thromboembolic disorders, and ARO-AMG1 for an undisclosed genetically validated cardiovascular target under a license and collaboration agreement with Amgen, Inc., a Delaware corporation ("Amgen"). ARO-LPA (AMG 890) for cardiovascular disease was out-licensed to Amgen in 2016.

Arrowhead operates a lab facility in Madison, Wisconsin, where the Company's research and development activities, including the development of RNAi therapeutics, are based. The Company's principal executive offices are located in Pasadena, California.

In fiscal 2017, Arrowhead refocused its resources on therapeutics that exclusively utilize the company's Targeted RNAi Molecule (TRiM™) platform technology. Therapeutics built on the TRiM™ platform have demonstrated high levels of pharmacologic activity in multiple animal models spanning several therapeutic areas. TRiM™ enabled therapeutics offer several potential advantages over prior generation and competing technologies, including: simplified manufacturing and reduced costs; multiple routes of administration including subcutaneous injection and inhaled administration; the ability to target multiple tissue types including liver, lung, and tumors; and the potential for improved safety and reduced risk of intracellular buildup, because there are less metabolites from smaller, simpler molecules.

As part of the refocusing of resources, Arrowhead announced in November 2016 that it would be discontinuing all clinical programs that utilized the intravenously administered DPC, or EX1, delivery vehicle. The decision to discontinue development of EX1-containing programs was based primarily on two factors. First, during discussions with regulatory agencies and outside experts, it became apparent that there would be substantial delays in all clinical programs that utilize EX1, while the Company further explored the cause of deaths in a non-clinical toxicology study in non-human primates exploring doses of EX1 higher than those planned to be used in humans. Second, the Company had made substantial advances in RNA chemistry and targeting resulting in large potency gains for development programs utilizing the TRiM™ technology, making EX1 no longer necessary.

Liquidity

The Consolidated Financial Statements have been prepared in conformity with the accounting principles generally accepted in the United States of America, which contemplate the continuation of the Company as a going concern. Historically, the Company’s primary source of financing has been through the sale of its securities. Research and development activities have required significant capital investment since the Company’s inception. The Company expects its operations to continue to require cash investment to pursue its research and development goals, including clinical trials and related drug manufacturing.

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At September 30, 2017, the Company had $24.8 million in cash to fund operations. In addition to its cash resources, the Company has invested excess cash in investment grade commercial bonds maturing in less than 12 months. At September 30, 2017, the Company had invested $40.8 million in bonds. During the year ended September 30, 2017, the Company's cash and investments balances combined decreased by $19.8 million, which was the result of $53.9 million in cash outflows related to operating activities (excluding the upfront payment from Amgen discussed below), and $7.9 million of capital expenditures, offset by $42.5 million in upfront payments and equity investments from Amgen.

On November 18, 2016, the Company and Amgen received Hart-Scott-Rodino clearance with regard to the ARO-LPA (AMG 890) Agreement discussed in Note 2 below. Based on the terms of this agreement, and the Common Stock Purchase Agreement, the Company issued 1,745,810 shares of Common Stock to Amgen, and received proceeds of approximately $12.5 million. Additionally, the Company received a $30 million upfront payment due under the ARO-LPA (AMG 890) Agreement discussed below.

Summary of Significant Accounting Policies

Principles of Consolidation—The consolidated financial statements include the accounts of Arrowhead and its Subsidiaries. Arrowhead's primary operating subsidiary is Arrowhead Madison, which is located in Madison, Wisconsin, where the Company's research and development facility is located. All significant intercompany accounts and transactions are eliminated in consolidation.

Basis of Presentation and Use of Estimates—The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to 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 period. Actual results could materially differ from those estimates. Additionally, certain reclassifications have been made to prior period financial statements to conform to the current period presentation.

Cash and Cash Equivalents—The Company considers all liquid debt instruments purchased with a maturity of three months or less to be cash equivalents. The Company had no restricted cash at September 30, 2017 and September 30, 2016.

Concentration of Credit Risk—The Company maintains several bank accounts at two financial institutions for its operations. These accounts are insured by the Federal Deposit Insurance Corporation (FDIC) for up to $250,000 per institution. Management believes the Company is not exposed to significant credit risk due to the financial position of the depository institutions in which these deposits are held.

Investments—The Company may invest excess cash balances in short-term and long-term marketable debt securities. Investments may include certificates of deposits, money market accounts, government-sponsored enterprise securities, corporate bonds and/or commercial paper. The Company accounts for its investment in marketable securities in accordance with FASB ASC 320, Investments – Debt and Equity Securities. This statement requires certain securities to be classified into three categories:

Held-to-maturity—Debt securities that the entity has the positive intent and ability to hold to maturity are reported at amortized cost.

Trading Securities—Debt and equity securities that are bought and held primarily for the purpose of selling in the near term are reported at fair value, with unrealized gains and losses included in earnings.

Available-for-Sale—Debt and equity securities not classified as either securities held-to-maturity or trading securities are reported at fair value with unrealized gains or losses excluded from earnings and reported as a separate component of shareholders' equity.

The Company classifies its investments in marketable debt securities based on the facts and circumstances present at the time of purchase of the securities. During the year ended September 30, 2017, all of the Company's investments were classified as held-to-maturity.

Held-to-maturity investments are measured and recorded at amortized cost on the Company's Consolidated Balance Sheet. Discounts and premiums to par value of the debt securities are amortized to interest income/expense over the term of the security. No gains or losses on investment securities are realized until they are sold or a decline in fair value is determined to be other-than-temporary.

Property and Equipment—Property and equipment are recorded at cost, which may equal fair market value in the case of property and equipment acquired in conjunction with a business acquisition. Depreciation of property and equipment is recorded using the straight-line method over the respective useful lives of the assets ranging from three to seven years. Leasehold improvements are amortized over the lesser of the expected useful life or the remaining lease term. Long-lived assets, including property and equipment are reviewed for impairment whenever events or circumstances indicate that the carrying amount of these assets may not be recoverable.

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Intangible Assets Subject to Amortization—Intangible assets subject to amortization include certain patents and a license agreement. Intangible assets subject to amortization are reviewed for impairment whenever events or circumstances indicate that the carrying amount of these assets may not be recoverable.

Contingent Consideration - The consideration for the Company's acquisitions may include potential future payments that are contingent upon the occurrence of a particular event. For example, milestone payments might be based on the achievement of various regulatory approvals or future sales milestones, and royalty payments might be based on drug product sales levels. The Company records a contingent consideration obligation for such contingent payments at fair value on the acquisition date. The Company estimates the fair value of contingent consideration obligations through valuation models designed to estimate the probability of such contingent payments based on various assumptions and incorporating estimated success rates. Estimated payments are discounted using present value techniques to arrive at an estimated fair value at the balance sheet date. Changes in the fair value of the contingent consideration obligations are recognized within the Company's Consolidated Statements of Operations and Comprehensive Loss. Changes in the fair value of the contingent consideration obligations can result from changes to one or multiple inputs, including adjustments to the discount rates, changes in the amount or timing of expected expenditures associated with product development, changes in the amount or timing of cash flows from products upon commercialization, changes in the assumed achievement or timing of any development milestones, changes in the probability of certain clinical events and changes in the assumed probability associated with regulatory approval. These fair value measurements are based on significant inputs not observable in the market. Substantial judgment is employed in determining the appropriateness of these assumptions as of the acquisition date and for each subsequent period. Accordingly, changes in assumptions could have a material impact on the amount of contingent consideration expense the Company records in any given period. The Company determined the fair value of its contingent consideration obligation to be $0 at September 30, 2017 and September 30, 2016, given the discontinuation of its clinical trials.

Revenue Recognition— Revenue from product sales is recorded when persuasive evidence of an arrangement exists, title has passed and delivery has occurred, a price is fixed and determinable, and collection is reasonably assured.

The Company may generate revenue from technology licenses, collaborative research and development arrangements, and product sales. Revenue under technology licenses and collaborative agreements typically consists of nonrefundable and/or guaranteed technology license fees, collaborative research funding, manufacturing and development services and various milestone and future product royalty or profit-sharing payments. These agreements are considered to be multiple element arrangements.

The Company applies the accounting standard on revenue recognition for multiple element arrangements. The fair value of deliverables under the arrangement may be derived using a best estimate of selling price if vendor specific objective evidence and third-party evidence is not available. Deliverables under the arrangement will be separate units of accounting if a delivered item has value to the customer on a standalone basis, if the arrangement includes a general right of return for the delivered item, and if delivery or performance of the undelivered item is considered probable and substantially in the Company's control.

The Company recognizes upfront license payments as revenue upon delivery of the license only if the license has standalone value from any undelivered performance obligations and that value can be determined. The undelivered performance obligations typically include manufacturing or development services or research and/or steering committee services. If the fair value of the undelivered performance obligations can be determined, then these obligations would be accounted for separately. If the license is not considered to have standalone value, then the license and other undelivered performance obligations would be accounted for as a single unit of accounting. In this case, the license payments and payments for performance obligations are recognized as revenue over the estimated period of when the performance obligations are performed or deferred indefinitely until the undelivered performance obligation is determined.

Whenever the Company determines that an arrangement should be accounted for as a single unit of accounting, the Company determines the period over which the performance obligations will be performed and revenue will be recognized. Revenue is recognized using a proportional performance or straight-line method. The proportional performance method is used when the level of effort required to complete performance obligations under an arrangement can be reasonably estimated. The amount of revenue recognized under the proportional performance method is determined by multiplying the total payments under the contract, excluding royalties and payments contingent upon achievement of milestones, by the ratio of the level of effort performed to date to the estimated total level of effort required to complete performance obligations under the arrangement. If the Company cannot reasonably estimate the level of effort to complete performance obligations under an arrangement, the Company recognizes revenue under the arrangement on a straight-line basis over the period the Company is expected to complete its performance obligations. Significant management judgment is required in determining the level of effort required under an arrangement and the period over which the Company is expected to complete its performance obligations under an arrangement.

Many of the Company’s collaboration agreements entitle the Company to additional payments upon the achievement of development, regulatory and sales performance-based milestones. If the achievement of a milestone is considered probable at the inception of the collaboration agreement, the related milestone payment is included with other collaboration consideration, such as upfront fees and research funding, in the Company’s revenue calculation. Typically these milestones are not considered probable at the inception of the collaboration. As such, milestones will typically be recognized in one of two ways depending on the timing of when the milestone is achieved. If the milestone is achieved during the performance period, the Company will only recognize revenue to the extent of the proportional performance achieved at that date, or the proportion of the straight-line basis achieved at that date, and the remainder will be recorded as deferred revenue to be amortized over the remaining performance period. If the milestone is achieved after the performance period has completed and all performance obligations have been delivered, the Company will recognize the milestone payment as revenue in its entirety in the period the milestone was achieved.

Deferred revenue will be classified as part of Current or Long-Term Liabilities in the accompanying Consolidated Balance Sheets based on the Company's estimate of the portion of the performance obligations regarding that revenue will be completed within the next 12 months divided by the total performance period estimate. This estimate is based on the Company's current operating plan and, if the Company's operating plan should change in the future, the Company may recognize a different amount of deferred revenue over the next 12-month period.

Allowance for Doubtful Accounts—The Company accrues an allowance for doubtful accounts based on estimates of uncollectible revenues by analyzing historical collections, accounts receivable aging and other factors. Accounts receivable are written off when all collection attempts have failed.

Research and Development—Costs and expenses that can be clearly identified as research and development are charged to expense as incurred in accordance with FASB ASC 730-10. Included in research and development costs are operating costs, facilities, supplies, external services, clinical trial and manufacturing costs, overhead directly related to the Company's research and development operations, and costs to acquire technology licenses.

Earnings (Loss) per Share—Basic earnings (loss) per share is computed using the weighted-average number of common shares outstanding during the period. Diluted earnings (loss) per share are computed using the weighted-average number of common shares and dilutive potential common shares outstanding during the period. Dilutive potential common shares primarily consist of stock options and restricted stock units issued to employees and warrants to purchase Common Stock of the Company. All outstanding stock options, restricted stock units and warrants for the years ended September 30, 2017, 2016 and 2015 have been excluded from the calculation of Diluted earnings (loss) per share due to their anti-dilutive effect.

Stock-Based Compensation—The Company accounts for share-based compensation arrangements in accordance with FASB ASC 718, which requires the measurement and recognition of compensation expense for all share-based payment awards to be based on estimated fair values. The Company uses the Black-Scholes option valuation model to estimate the fair value of its stock options at the date of grant. The Black-Scholes option valuation model requires the input of subjective assumptions to calculate the value of stock options. For restricted stock units, the value of the award is based on the Company's stock price at the grant date. For performance-based restricted stock unit awards, the value of the award is based on the Company's stock price at the grant date. The Company uses historical data and other information to estimate the expected price volatility for stock option awards and the expected forfeiture rate for all awards. Expense is recognized over the vesting period for all awards, and commences at the grant date for time-based awards and upon the Company's determination that the achievement of such performance conditions is probable for performance-based awards. This determination requires significant judgment by management.

Derivative Assets and Liabilities – The Company accounts for warrants and other derivative financial instruments as either equity or assets/liabilities based upon the characteristics and provisions of each instrument. Warrants classified as equity are recorded as Additional Paid-In Capital on the Company's Consolidated Balance Sheet. Some of the Company's warrants were determined to be ineligible for equity classification due to provisions that may result in an adjustment to their exercise price. Warrants classified as derivative liabilities and other derivative financial instruments that require separate accounting as assets or liabilities are recorded on the Company's Consolidated

Balance Sheet at their fair value on the date of issuance and are revalued on each subsequent balance sheet date until such instruments are exercised or expire, with any changes in the fair value between reporting periods recorded as Other Income or Expense. The Company estimates the fair value of these assets/liabilities using option pricing models that are based on the individual characteristics of the warrants or instruments on the valuation date, as well as assumptions for expected volatility, expected life and risk-free interest rate.

Income Taxes—The Company accounts for income taxes under the liability method, which requires the recognition of deferred income tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements or tax returns. Under this method, deferred income taxes are recognized for the tax consequences in future years of differences between the tax bases of assets and liabilities and their financial reporting amounts at each period end based on enacted tax laws and statutory tax rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established, when necessary, to reduce deferred income tax assets to the amount expected to be realized. The provision for income taxes, if any, represents the tax payable for the period and the change in deferred income tax assets and liabilities during the period.

Recent Accounting Pronouncements

In May 2014, the FASB issued ASU No. 2014-09 Revenue from Contracts with Customers (Topic 606), which will supersede nearly all existing revenue recognition guidance under GAAP. ASU No. 2014-09 provides that an entity recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This update also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments, and assets recognized from costs incurred to obtain or fulfill a contract. ASU No. 2014-09 allows for either full retrospective or modified retrospective adoption and will become effective for the Company in the first quarter of 2019. The Company is evaluating the potential effects of the adoption of this update on its financial statements.

In March 2016, the FASB issued ASU No. 2016-02, Leases. Under ASU 2016-02, lessees will be required to recognize a right-of-use asset and a lease liability for virtually all of their leases (other than leases that meet the definition of a short-term lease). For income statement purposes, a dual model was retained, requiring leases to be classified as either operating or finance. Operating leases will result in straight-line expense (similar to current operating leases) while finance leases will result in a front-loaded expense pattern (similar to current capital leases). ASU 2016-02 becomes effective for the Company in the first quarter of fiscal 2020. The Company expects the adoption of this update to have a material effect on the classification and disclosure of its leased facilities in Madison, Wisconsin.

In May 2017, the FASB issued ASU No. 2017-09, which is an update to Topic 718, Compensation - Stock Compensation. The update provides guidance on determining which changes to the terms and conditions of share-based payment awards, including stock options, require an entity to apply modification accounting under Topic 718. ASU 2017-09 becomes effective for the Company in the first quarter of fiscal 2019. The Company does not expect that ASU 2017-09 will have a material impact on the Company's results of operations and consolidated financial statements.

NOTE 2. COLLABORATION AND LICENSE AGREEMENTS – AMGEN, INC.

On September 28, 2016, the Company entered into two Collaboration and License agreements, and a Common Stock Purchase Agreement with Amgen Inc., a Delaware corporation (“Amgen”). Under one of the license agreements (the “Second Collaboration and License Agreement” or “ARO-LPA (AMG 890) Agreement”), Amgen has received a worldwide, exclusive license to Arrowhead’s novel, RNAi ARO-LPA (AMG 890) program. These RNAi molecules are designed to reduce elevated lipoprotein(a), which is a genetically validated, independent risk factor for atherosclerotic cardiovascular disease. Under the other license agreement (the “First Collaboration and License Agreement” or “ARO-AMG1 Agreement”), Amgen received an option to a worldwide, exclusive license for ARO-AMG1, an RNAi therapy for an undisclosed genetically validated cardiovascular target. In both agreements, Amgen is wholly responsible for clinical development and commercialization.

Under the Common Stock Purchase Agreement, the Company has sold 3,002,793 shares of Common Stock to Amgen at a price of $7.16 per share, which represents the 30-day volume-weighted average price of the Common Stock on the NASDAQ stock market over the 30 trading days preceding contract execution. Subject to Amgen’s exercise of the Option, as defined in the ARO-AMG1 Agreement, Amgen has agreed to purchase, and the Company has agreed to sell, an additional $5 million worth of shares of Common Stock based on a 30 trading day formula surrounding the date of the Option exercise.

Under the terms of the agreements taken together, the Company has received $35 million in upfront payments, $21.5 million in the form of an equity investment by Amgen in the Company's Common Stock, and could receive up to $617 million in option payments, and development, regulatory and sales milestone payments. The Company is further eligible to receive single-digit royalties for sales of products under the ARO-AMG1 Agreement and up to low double-digit royalties for sales of products under the ARO-LPA (AMG 890) Agreement.

Under the terms of the ARO-AMG1 Agreement, the Company has granted an option to a worldwide, exclusive license to ARO-AMG1, an undisclosed genetically validated cardiovascular target. The collaboration between the Company and Amgen is governed by a joint steering committee comprised of an equal number of representatives from each party. The Company is also responsible for developing, optimizing and manufacturing the candidate through certain preclinical efficacy and toxicology studies to determine whether the candidate the Company has developed meets the required criteria as defined in the agreement (the "Arrowhead Deliverable"). If this is achieved, Amgen will then have the option to an exclusive license for the intellectual property generated through the Company's development efforts, and will likely assume all development, regulatory and commercialization efforts for the candidate upon the option exercise. The Company has determined that the significant deliverables under the ARO-AMG1 Agreement include the license, the joint research committee and the development and manufacturing activities toward achieving the Arrowhead Deliverable. The Company also determined that, pursuant to the accounting guidance governing revenue recognition on multiple element arrangements, the license and collective undelivered activities and services do not have standalone value due to the specialized nature of the activities and services to be provided by the Company. Therefore, the deliverables are not separable and, accordingly, the license and undelivered services are being treated as a single unit of accounting. The Company will recognize revenue on a straight-line basis from October 1, 2016, through September 30, 2018. The due date for achieving the Arrowhead Deliverable is September 28, 2018. The initial $5 million upfront payment was recorded as Deferred Revenue and $2.5 million of this initial payment was amortized into Revenue during the year ended September 30, 2017. Should the Company achieve the Arrowhead Deliverable prior to the due date, unrecognized revenue will be accelerated and recognized.

Under the terms of the ARO-LPA (AMG 890) Agreement, the Company has granted a worldwide, exclusive license to ARO-LPA (AMG 890). The collaboration between the Company and Amgen is governed by a joint research committee comprised of an equal number of representatives from each party, however Amgen has the final decision making authority regarding ARO-LPA (AMG 890) in this committee. The Company is also responsible for assisting Amgen in the oversight of certain development and manufacturing activities, most of which are to be covered at Amgen's cost. The Company has determined that the significant deliverables under the ARO-LPA (AMG 890) Agreement include the license and the oversight of certain of the development and manufacturing activities. The Company also determined that, pursuant to the accounting guidance governing revenue recognition on multiple element arrangements, the license and collective undelivered activities and services do not have standalone value due to the specialized nature of the activities and services to be provided by the Company. Therefore, the deliverables are not separable and, accordingly, the license and undelivered services are being treated as a single unit of accounting. The Company will recognize revenue on a straight-line basis from November 18, 2016 (the Hart-Scott-Rodino clearance date), through October 31, 2017, which is the date where the significant development and manufacturing related deliverables were completed. The initial $30 million payment was recorded as Deferred Revenue, and $27.3 million of this initial payment was amortized into Revenue during the year ended September 30, 2017.

In January 2017, the Company also entered into a separate services agreement with Amgen to provide certain services related to process development, manufacturing, materials supply, discovery studies, and other consulting services related to ARO-LPA (AMG 890). During the year ended September 30, 2017, work orders under this services agreement generated approximately $1.5 million of Revenue.

NOTE 3. PROPERTY AND EQUIPMENT

The following table summarizes the Company's major classes of property and equipment:

	September 30, 2017	September 30, 2016
Computers, office equipment and furniture	$600,334	$442,915
Research equipment	9,660,960	7,490,400
Software	132,078	80,841
Leasehold improvements	12,208,380	11,885,365
Total gross fixed assets	22,601,752	19,899,521
Less: Accumulated depreciation and amortization	(7,088,733)	(4,512,760)
Property and equipment, net	$15,513,019	$15,386,761

During the year ended September 30, 2017, the Company's research equipment increased as the Company has moved into a larger research facility in Madison, Wisconsin.

NOTE 4. INVESTMENTS

The Company invests a portion of its excess cash balances in short-term debt securities and may, from time to time, also invest in long-term debt securities. Investments at September 30, 2017 consisted of corporate bonds with maturities remaining of less than one year. The Company may also invest excess cash balances in certificates of deposits, money market accounts, government-sponsored enterprise securities, corporate bonds and/or commercial paper. The Company accounts for its investments in accordance with FASB ASC 320, Investments – Debt and Equity Securities. At September 30, 2017, all investments were classified as held-to-maturity securities.

The following tables summarize the Company's short-term investments as of September 30, 2017, and September 30, 2016.

	As of September 30, 2017			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Commercial notes (due within one year)	$40,769,539	$ —	$(334,755)	$40,434,784

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	As of September 30, 2016			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Commercial notes (due within one year)	$ —	$ —	$ —	$ —

NOTE 5. INTANGIBLE ASSETS

Intangible assets subject to amortization include patents and a license agreement capitalized as part of the Novartis RNAi asset acquisition in March 2015. The license agreement associated with the Novartis RNAi asset acquisition is being amortized over the estimated life remaining at the time of acquisition, which was 21 years, and the accumulated amortization of the asset is approximately $383,330. The patents associated with the Novartis RNAi asset acquisition are being amortized over the estimated life remaining at the time of acquisition, which was 14 years, and the accumulated amortization of the assets is approximately $4,009,395. Amortization expense for the years ended September 30, 2017, 2016 and 2015 was $1,700,429, $1,714,313 and $1,046,571, respectively. Amortization expense is expected to be approximately $1,700,429 for fiscal year 2018, $1,700,429 in 2019, $1,700,429 in 2020, $1,700,429 in 2021, $1,700,429 in 2022, and $11,962,294 thereafter.

The following table provides details on the Company's intangible asset balances:

	Intangible assets subject to amortization	
Balance at September 30, 2016	$	22,164,868
Impairment		-
Amortization		(1,700,429)
Balance at September 30, 2017	$	20,464,439

NOTE 6. STOCKHOLDERS' EQUITY

At September 30, 2017, the Company had a total of 150,000,000 shares of capital stock authorized for issuance, consisting of 145,000,000 shares of Common Stock, par value $0.001 per share, and 5,000,000 shares of Preferred Stock, par value $0.001 per share.

At September 30, 2017, 74,785,426 shares of Common Stock were outstanding. At September 30, 2017, 8,902,416 shares of Common Stock were reserved for issuance upon exercise of options and vesting of restricted stock units granted or available for grant under Arrowhead's 2004 Equity Incentive Plan and 2013 Incentive Plan, as well as for inducement grants made to new employees.

During the year ended September 30, 2017, 15,652 shares of Series C Preferred Stock were converted into 2,670,989 shares of Common Stock. No preferred stock was outstanding as of September 30, 2017.

On March 21, 2017, the Board of Directors (the "Board") of the Company authorized and declared a dividend distribution of one right (a "Right") for each outstanding share of Common Stock of the Company to stockholders of record at the close of business on March 22, 2017 (the "Record Date"). Each Right entitles the registered holder to purchase from the Company one one-thousandth of a share of Series D Junior Participating Preferred Stock, par value $0.001 per share (the "Preferred Shares"), of the Company at a purchase price of $20 per one one-thousandth of a Preferred Share (the "Purchase Price"). This portion of a share of Preferred Stock would give the holder thereof approximately the same dividend, voting and liquidation rights as would one share of Common Stock, with any variations set forth in the Certificate of Designation, Preferences, and Rights of Series D Junior Participating Preferred Stock attached hereto as Exhibit 3.3. The Rights become exercisable on the earlier of (i) 10 business days following a public announcement that a person has become an "Acquiring Person" by acquiring beneficial ownership of 15% or more of the Common Stock then outstanding, other than as a result of repurchases of Common Stock by the Company or certain inadvertent acquisitions; or (ii) 10 business days (or such later date as the Board shall determine prior to the time a person becomes an Acquiring Person) after the commencement of a tender offer or an exchange offer by or on behalf of any person (other than the Company and certain related entities) that, if completed, would result in such person becoming an Acquiring Person. In the event that a person becomes an Acquiring Person, each holder of a Right shall thereafter have the right to receive, upon exercise, Common Stock (or, in certain circumstances, other securities, cash, or other assets of the Company) having a value equal to two times the Purchase Price. The Rights expire on March 21, 2018.

On September 28, 2016, the Company sold 1,256,983 shares of Common Stock to Amgen, Inc. at a price of $7.16 per share as part of the Common Stock Purchase Agreement executed with Amgen and discussed further in Note 2 – Collaboration and License Agreements – Amgen, Inc. The Company received proceeds of $9 million. On November 18, 2016, a second tranche of 1,745,810 shares was also sold to Amgen at a price of $7.16 per share as part of the Common Stock Purchase Agreement. The Company received proceeds of $12.5 million in November 2016.

The following table summarizes information about warrants outstanding at September 30, 2017:

Exercise prices	Number of Warrants	Remaining Life in Years
$ 2.12	75,000	0.4
$ 1.83	277,284	0.2
$ 7.14	80,000	0.7
Total warrants outstanding	432,284	

NOTE 7. COMMITMENTS AND CONTINGENCIES

Leases

The Company leases approximately 8,500 square feet of office space for its corporate headquarters in Pasadena, California. The lease will expire in September 2019. Rental costs, including common area maintenance and real estate taxes, are approximately $27,000 per month, increasing approximately 3% annually.

The Company also leases approximately 60,000 square feet of office and laboratory space for its research facility in Madison, Wisconsin. The lease will expire in September 2026. As part of this lease, the Company was provided a primary tenant improvement allowance of $2.1 million, which is accounted for as Deferred Rent and a secondary tenant improvement allowance of $2.7 million, which is accounted for as a Note Payable on the Company's Consolidated Balance Sheet. Monthly rental payments, including common area maintenance, real estate taxes and payments of principal and interest on the Note Payable are approximately $182,200 per month. The monthly rental payments (excluding principal and interest on the Note Payable), will increase approximately 2.5% annually.

The Company previously leased additional research facility space in Middleton, Wisconsin; however this lease expired in December 2016. Monthly rental payments including common area maintenance and real estate taxes for the additional space was approximately $18,000.

Facility rent expense for the years ended September 30, 2017, 2016 and 2015 was $1,554,000, $926,000 and $831,000, respectively.

As of September 30, 2017, future minimum lease payments due in fiscal years under operating leases are as follows:

2018	$ 1,531,234
2019	1,435,409
2020	1,044,431
2021	1,070,496
2022	1,097,168
2023 and thereafter	4,669,328
Total	$ 10,848,066

Note Payable

As part of the Company's lease for its research facility in Madison, Wisconsin discussed above, the Company entered into a $2.7 million promissory note payable with its landlord to finance certain tenant improvements made to the new facility. The note will be amortized over the 10-year term of the lease, commencing on October 1, 2016. The note will bear interest at a rate of 7.1% and shall be payable in equal monthly installments of principal and interest.

As of September 30, 2017, future principal payments due in fiscal years under the note payable are as follows:

2018	$208,506
2019	223,820
2020	240,258
2021	257,903
2022	276,845
2023 and thereafter	1,326,192
Total	$2,533,524

Litigation

The Company and certain of its officers and directors were named as defendants in a putative consolidated class action in the United States District Court for the Central District of California regarding certain public statements in connection with the Company's hepatitis B drug research. The consolidated class action, initially filed as Wang v. Arrowhead Research Corp., et al., No. 2:14-cv-07890 (C.D. Cal., filed Oct. 10, 2014), and Eskinazi v. Arrowhead Research Corp., et al., No. 2:14-cv-07911 (C.D. Cal., filed Oct. 13, 2014), asserted claims under Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 and sought damages in an unspecified amount. Additionally, three putative stockholder derivative actions captioned Weisman v. Anzalone et al., No. 2:14-cv-08982 (C.D. Cal., filed Nov. 20, 2014), Bernstein (Backus) v. Anzalone, et al., No. 2:14-cv-09247 (C.D. Cal., filed Dec. 2, 2014); and Johnson v. Anzalone, et al., No. 2:15-cv-00446 (C.D. Cal., filed Jan. 22, 2015), were filed in the United States District Court for the Central District of California, alleging breach of fiduciary duty by the Company's Board of Directors in connection with the alleged facts underlying the securities claims. An additional consolidated derivative action asserting similar claims is pending in Los Angeles County Superior Court, initially filed as Bacchus v. Anzalone, et al., (L.A. Super., filed Mar. 5, 2015); and Jackson v. Anzalone, et al. (L.A. Super., filed Mar. 16, 2015). Each of these suits seeks damages in unspecified amounts and some seek various forms of injunctive relief. On October 7, 2016, the federal district court dismissed the consolidated class action with prejudice. On October 10, 2016, the plaintiffs appealed the dismissal of the consolidated class action to the United States Court of Appeals for the Ninth Circuit. The Weisman and Johnson derivative actions have been dismissed without prejudice. The Bernstein derivative action remains pending and is stayed pending the related consolidated class action. The Company believes it has meritorious defenses and intends to vigorously defend itself in each of these matters. The Company makes provisions for liabilities when it is both probable that a liability has been incurred and the amount can be reasonably estimated. No such liability has been recorded related to these matters. The Company does not expect these matters to have a material effect on its Consolidated Financial Statements. With regard to legal fees, such as attorney fees related to these matters or any other legal matters, the Company recognizes such costs as incurred.

The Company and certain executive officers were named as defendants in a putative consolidated class action in the United States District Court for the Central District of California regarding certain public statements in connection with the Company's drug research programs. The consolidated class action, initially filed as Meller v. Arrowhead Pharmaceuticals, Inc., et al., No. 2:16-cv-08505 (C.D. Cal, filed Nov. 15, 2016), Siegel v. Arrowhead Pharmaceuticals, Inc., et al., No. 2:16-cv-8954 (C.D. Cal., filed Dec. 2, 2016), and Unz v. Arrowhead

Pharmaceuticals, Inc., et al., No.2:17-cv-00310 (C.D. Cal., filed Jan. 13, 2017) asserts claims under Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 regarding certain public statements in connection with the Company's drug research programs and seek damages in an unspecified amount. Additionally, a putative stockholder derivative action captioned Johnson v. Anzalone, et al., (Los Angeles County Superior Court, filed January 19, 2017) asserting substantially similar claims is pending in Los Angeles County Superior Court and is stayed pending the related consolidated class action. Two additional putative stockholder derivative actions, captioned Lucas v. Anzalone, et al., No. 2:17-cv-03207 (C.D. Cal., filed April 28, 2017), and Singh v. Anzalone, et al., No. 2:17-cv-03160 (C.D. Cal., filed April 27, 2017), alleging breach of fiduciary duty by the Company's Board of Directors in connection with the alleged facts underlying the securities claims, are pending in the United States District Court for the Central District of California. The Lucas and Singh actions have been consolidated. On September 20, 2017, the United States District Court dismissed the consolidated class action without prejudice. On October 26, 2017, the plaintiffs filed a second amended consolidated complaint, and a motion to dismiss was filed on November 8, 2017. The Company believes it has meritorious defenses and intends to vigorously defend itself in these matters. The Company makes provisions for liabilities when it is both probable that a liability has been incurred and the amount can be reasonably estimated. No such liability has been recorded related to these matters. The Company cannot predict the ultimate outcome of this matter and cannot accurately estimate any potential liability the Company may incur or the impact of the results of this matter on the Company. With regard to legal fees, such as attorney fees related to these matters or any other legal matters, the Company recognizes such costs as incurred.

Purchase Commitments

In the normal course of business, we enter into various purchase commitments for the manufacture of drug components, for toxicology studies, and for pre-clinical and clinical studies. As of September 30, 2017, these future commitments were estimated at approximately $11.4 million, all of which are expected to be incurred in fiscal 2018.

Technology License Commitments

The Company has licensed from third parties the rights to use certain technologies for its research and development activities, as well as in any products the Company may develop using these licensed technologies. These agreements and other similar agreements often require milestone and royalty payments. Milestone payments, for example, may be required as the research and development process progresses through various stages of development, such as when clinical candidates enter or progress through clinical trials, upon NDA and upon certain sales level milestones. These milestone payments could amount to the mid to upper double-digit millions of dollars. During the year ended September 30, 2017, 2016, and 2015, we reached milestones amounting to $0, $3.0 million and $1.0 million, respectively, based on progress achieved on our previous clinical candidates. In certain agreements, the Company may be required to make mid to high single-digit percentage royalty payments based on a percentage of the sales of the relevant products.

NOTE 8. STOCK-BASED COMPENSATION

Arrowhead has two plans that provide for equity-based compensation. Under the 2004 Equity Incentive Plan and 2013 Incentive Plan, as of September 30, 2017, 2,119,286 and 6,329,079 shares, respectively, of Arrowhead's Common Stock are reserved for the grant of stock options, stock appreciation rights, restricted stock awards and performance unit/share award to employees, consultants and others. No further grants may be made under the 2004 Equity Incentive Plan. As of September 30, 2017, there were options granted and outstanding to purchase 2,119,286 and 2,986,207 shares of Common Stock under the 2004 Equity Incentive Plan and the 2013 Incentive Plan, respectively, and there were 3,098,000 restricted stock units granted and outstanding under the 2013 Incentive Plan. Also, as of September 30, 2017, there were 444,050 shares reserved for options and 10,000 restricted stock units issued as inducement grants to new employees outside of equity compensation plans. During the year ended September 30, 2017, no options or restricted stock units were granted under the 2004 Equity Incentive Plan, 591,000 options and 2,623,000 restricted stock units were granted under the 2013 Incentive Plan, and 47,000 options and 0 restricted stock units were granted as inducement awards to new employees outside of equity incentive plans.

The following table summarizes information about stock options:

	Number of Options Outstanding	Weighted-Average Exercise Price Per Share	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value
Balance At September 30, 2016	6,691,200	$ 6.56		
Granted	638,000	1.95		
Cancelled	(1,643,927)	7.02		
Exercised	(135,730)	2.01		

Balance At September 30, 2017	5,549,543	$ 6.00	6.5 years	$3,390,029
Exercisable At September 30, 2017	4,065,611	$ 6.32	5.8 years	$1,872,018

Stock-based compensation expense related to stock options for the years ended September 30, 2017, 2016 and 2015 was $4,524,833, $6,361,396, and $4,760,831, respectively. The Company does not recognize an income tax benefit as the Company is currently operating at a loss and an actual income tax benefit may not be realized. For non-qualified stock options, the loss creates a timing difference, resulting in a deferred tax asset, which is fully reserved by a valuation allowance.

The grant date fair value of the options granted by the Company for the years ended September 30, 2017, 2016 and 2015 was estimated at $849,816, $6,426,207 and $7,338,395, respectively.

The intrinsic value of the options exercised during the years ended September 30, 2017, 2016 and 2015 was $35,512, $142,690 and $128,391, respectively.

As of September 30, 2017, the pre-tax compensation expense for all outstanding unvested stock options in the amount of approximately $4,627,267 will be recognized in the Company’s results of operations over a weighted average period of 1.8 years.

The fair value of each stock option award is estimated on the date of grant using the Black-Scholes option pricing model. The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options, which do not have vesting restrictions and are fully transferable. The determination of the fair value of each stock option is affected by the Company's stock price on the date of grant, as well as assumptions regarding a number of highly complex and subjective variables. Because the Company's employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its employee stock options.

The assumptions used to value stock options are as follows:

	Years ended September 30,		
	2017	2016	2015
Dividend yield	—	—	—
Risk-free interest rate	1.34 – 2.31%	1.05 – 1.89%	1.46 – 1.89%
Volatility	79%	89%	75%
Expected life (in years)	5.85	6.25	6 - 6.25
Weighted average grant date fair value per share of options granted	$1.33	$4.58	$4.24

The dividend yield is zero as the Company currently does not pay a dividend.

The risk-free interest rate is based on that of the U.S. Treasury bond.

Volatility is estimated based on volatility average of the Company's Common Stock price.

Restricted Stock Units

Restricted stock units (RSUs), including time-based and performance-based awards, were granted under the Company's 2013 Incentive Plan and as inducement grants granted outside of the Plan. During the year ended September 30, 2017, the Company awarded 2,623,000 restricted stock units to certain members of management. Of the restricted stock units granted during the year ended September 30, 2017, 0 were granted outside of the Plan as an inducement grant to a new employee. At vesting, each RSU will be exchanged for one share of the Company's Common Stock. Restricted stock unit awards generally vest subject to the satisfaction of service requirements or the satisfaction of both service requirements and achievement of certain performance targets.

The following table summarizes the activity of the Company's Restricted Stock Units:

	Number of RSUs	Weighted-Average Grant Date Fair Value
Unvested at September 30, 2016	1,356,667	$ 6.72
Granted	2,623,000	1.59
Vested	(786,667)	7.03

Forfeited	(85,000)		1.55
Unvested at September 30, 2017	3,108,000	$	2.45

During the years ended September 30, 2017, 2016 and 2015, the Company recorded $3,366,762, $5,234,420 and $4,489,931 of expense related to restricted stock units, respectively. Such expense is included in stock-based compensation expense in the Company's Consolidated Statement of Operations and Comprehensive Loss.

For restricted stock units, the grant date fair value of the award is based on the Company's closing stock price at the grant date. Expense is recognized over the vesting period for all awards, and commences at the grant date for time-based awards and upon the Company's determination that the achievement of such performance conditions is probable for performance-based awards.

As of September 30, 2017, the pre-tax compensation expense for all unvested restricted stock units in the amount of approximately $2,448,449 will be recognized in the Company's results of operations over a weighted average period of 1.1 years.

NOTE 9. FAIR VALUE MEASUREMENTS

The Company measures its financial assets and liabilities at fair value. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e., exit price) in an orderly transaction between market participants at the measurement date. Additionally, the Company is required to provide disclosure and categorize assets and liabilities measured at fair value into one of three different levels depending on the assumptions (i.e., inputs) used in the valuation. Level 1 provides the most reliable measure of fair value while Level 3 generally requires significant management judgment. Financial assets and liabilities are classified in their entirety based on the lowest level of input significant to the fair value measurement. The fair value hierarchy is defined as follows:

Level 1—Valuations are based on unadjusted quoted prices in active markets for identical assets or liabilities.

Level 2—Valuations are based on quoted prices for similar assets or liabilities in active markets, or quoted prices in markets that are not active for which significant inputs are observable, either directly or indirectly.

Level 3—Valuations are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. Inputs reflect management's best estimate of what market participants would use in valuing the asset or liability at the measurement date.

The following table summarizes fair value measurements at September 30, 2017 and September 30, 2016 for assets and liabilities measured at fair value on a recurring basis:

September 30, 2017:

	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	$24,838,567	$ —	$—	$24,838,567
Short-term investments	$40,769,539	$ —	$—	$40,769,539
Derivative liabilities	$—	$ —	$695,114	$695,114
Contingent Consideration	$—	$ —	$—	$—

September 30, 2016:

	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	$85,366,448	$ —	$—	$85,366,448
Short-term investments	$—	$ —	$—	$—
Derivative liabilities	$—	$ —	$1,602,626	$1,602,626
Contingent Consideration	$—	$ —	$—	$—

As part of a financing in December 2012, Arrowhead issued warrants to purchase up to 912,543 shares of Common Stock (the "2012 Warrants") of which 265,161 warrants were outstanding at September 30, 2017. Further, as part of a financing in January 2013, Arrowhead issued warrants to purchase up to 833,530 shares of Common Stock (the "2013 Warrants" and, together with the 2012 Warrants, the "Warrants") of which 12,123 warrants were outstanding at September 30, 2017. Each of the Warrants contains a mechanism to adjust the strike price upon the issuance of certain dilutive equity securities. If during the terms of the Warrants, the Company issues Common Stock at a price lower than the exercise price for the Warrants, the exercise price would be reduced to the amount equal to the issuance price of the Common Stock. As a result of these features, the Warrants are subject to derivative accounting as prescribed under ASC 815. Accordingly, the fair value of the Warrants on the date of issuance was estimated using an option pricing model and recorded on the Company's Consolidated Balance Sheet as a derivative liability. The fair value of the Warrants is estimated at the end of each reporting period and the change in the fair value of the Warrants is recorded as a non-operating gain or loss as change in value of derivatives in the Company's Consolidated Statement of Operations and Comprehensive Loss. During the years ended September 30, 2017, 2016 and 2015 the Company recorded a non-cash gain/(loss) from the change in fair value of the derivative liability of $870,760, $(293,072) and $2,684,712, respectively. Additionally, as part of an equity financing in June 2010, Arrowhead issued warrants to purchase up to 329,649 shares of Common Stock (the "2010 Warrants"), of which warrants to exercise 24,324 shares remained unexercised and were cancelled at their expiration during fiscal 2016.

The assumptions used in valuing the derivative liability were as follows:

2012 Warrants	September 30, 2017	September 30, 2016	September 30, 2015
Risk-free interest rate	1.07%	0.68%	0.6%
Expected life	0.2 Years	1.2 Years	2.2 Years
Dividend yield	—	—	—
Volatility	79%	89%	75%
2013 Warrants	September 30, 2017	September 30, 2016	September 30, 2015
Risk-free interest rate	1.07%	0.68%	0.6%
Expected life	0.3 Years	1.3 Years	2.3 Years
Dividend yield	—	—	—
Volatility	79%	89%	75%

The following is a reconciliation of the derivative liability related to these warrants:

Value at September 30, 2016	$1,565,874
Issuance of instruments	—
Change in value	(870,760)
Net settlements	—
Value at September 30, 2017	$695,114

In conjunction with the financing of Ablaris in fiscal 2011, Arrowhead sold exchange rights to certain investors whereby the investors had the right to exchange their shares of Ablaris for a prescribed number of Arrowhead shares of Common Stock based upon a predefined ratio. The exchange rights had a seven-year term and a current exchange ratio of 0.01. Exchange rights for 675,000 Ablaris shares were sold in fiscal 2011, and 500,000 remained outstanding at September 30, 2016. The 500,000 remaining were exercised during the year ended September 30, 2017. The exchange rights were subject to derivative accounting as prescribed under ASC 815. Accordingly, the fair value of the exchange rights on the date of issuance was estimated using an option pricing model and recorded on the Company's Consolidated Balance Sheet as a derivative liability. The fair value of the exchange rights was estimated at the end of each reporting period and the change in the fair value of the exchange rights is recorded as a non-operating gain or loss in the Company's Consolidated Statement of Operations and Comprehensive Loss. During the years ended September 30, 2017, 2016 and 2015, the Company recorded a non-cash gain/(loss) from the change in fair value of the derivative liability of $19,602, $(7,950) and $184,555, respectively. There was no derivative liability remaining at September 30, 2017 given that all of the exchange rights had been exercised.

The derivative assets/liabilities are estimated using option pricing models that are based on the individual characteristics of the warrants or instruments on the valuation date, as well as assumptions for expected volatility, expected life and risk-free interest rate. Changes in the assumptions used could have a material impact on the resulting fair value. The primary input affecting the value of the Company's derivatives liabilities is the Company's stock price. Other inputs have a comparatively insignificant effect.

As of September 30, 2015, the Company had a liability for contingent consideration related to its acquisition of the Roche RNAi business completed in 2011. The fair value measurement of the contingent consideration obligations is determined using Level 3 inputs. The fair value of contingent consideration obligations is based on a discounted cash flow model using a probability-weighted income approach. The measurement is based upon unobservable inputs supported by little or no market activity based on the Company’s assumptions and experience. Estimating timing to complete the development and obtain approval of products is difficult, and there are inherent uncertainties in developing a product candidate, such as obtaining U.S. Food and Drug Administration (FDA) and other regulatory approvals. In determining the probability of regulatory approval and commercial success, the Company utilizes data regarding similar milestone events from several sources, including industry studies and its own experience. These fair value measurements represent Level 3 measurements as they are based on significant inputs not observable in the market. Significant judgment is employed in determining the appropriateness of these assumptions as of the acquisition date and for each subsequent period. Accordingly, changes in assumptions could have a material impact on the amount of contingent consideration expense the Company records in any given period. In November 2016, the Company announced the discontinuation of its clinical trial efforts for ARC-520, ARC-AAT and ARC-521. Given this development, the Company assessed the fair value of its contingent consideration obligation to be $0 at September 30, 2016 and 2017.

NOTE 10. - INCOME TAXES

The Company utilizes the guidance issued by the FASB for accounting for income taxes which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements or tax returns.

Under this method, deferred income taxes are recognized for the tax consequences in future years of differences between the tax bases of assets and liabilities and their financial reporting amounts at each year-end based on enacted tax laws and statutory tax rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established, when necessary, to reduce deferred tax assets to the amount expected to be realized. The provision for income taxes represents the tax payable for the period and the change during the period in deferred tax assets and liabilities.

Components of the net deferred tax asset (liability) at September 30, 2017 and 2016 are as follows:

	2017	2016
Deferred tax assets:		
Accrued compensation	$1,337,619	$1,691,050
Stock compensation	5,670,468	7,224,958
Capitalized research and development	2,196,542	2,957,528
Fixed Assets	203,477	—
Net operating losses	132,119,837	125,120,957
Intangible Assets	5,358,700	5,544,091
Deferred Revenue	1,068,206	—
Deferred Rent	865,675	—
Capital Loss	1,020,162	—
Total deferred tax assets	149,840,686	142,538,584
Valuation allowance	(136,625,436)	(128,695,371)
Deferred tax liabilities:		
State taxes	(13,215,250)	(13,804,268)
Fixed assets	—	(38,945)
Total deferred tax liability	(13,215,250)	(13,843,213)
Net deferred tax assets (liabilities)	$—	$—

The Company has concluded, in accordance with the applicable accounting standards, that it is more likely than not that the Company may not realize the benefit of all of its deferred tax assets. Accordingly, management has provided a 100% valuation allowance against its deferred tax assets until such time as management believes that its projections of future profits as well as expected future tax rates make the realization of these deferred tax assets more-likely-than-not. Significant judgment is required in the evaluation of deferred tax benefits and differences in future results from our estimates could result in material differences in the realization of these assets. The Company has recorded a full valuation allowance related to all of its deferred tax assets. The Company has performed an assessment of positive and negative evidence regarding the realization of the net deferred tax asset in accordance with FASB ASC 740-10, “Accounting for Income Taxes.” This assessment included the evaluation of scheduled reversals of deferred tax liabilities, the availability of carry forwards and estimates of projected future taxable income.

As of September 30, 2016, the Company had available gross federal net operating loss (NOL) carry forwards of $260.7 million and gross state NOL carry forwards of $398.3 million. Gross federal NOL carry forwards for 2017 are estimated at $24.5 million, and gross state NOL carry forwards for 2017 are estimated at $24.2 million. The NOLs expire at various dates through 2037.

The provisions for income taxes for the years ended September 30, 2017 and 2016 are as follows:

	2017	2016
Federal:		
Current	—	—
Deferred	—	—
Total Federal	—	—
State:		
Current	$2,400	2,400
Deferred	—	—
Total State	$2,400	2,400
Provision from income taxes	$2,400	2,400

The Company’s effective income tax rate differs from the statutory federal income tax rate as follows for the years ended September 30, 2017 and 2016:

	2017	2016
At U.S. federal statutory rate	34.0 %	34.0 %
State taxes, net of federal effect	4.9	9.0
Stock compensation	(5.8)	(1.1)
Mark-to-market adjustments	0.9	(0.1)
Valuation allowance	(23.1)	(41.1)
True-up on deferred taxes	(3.0)	—
State blended rate change	(5.7)	—
Other	(2.2)	(0.7)
Effective income tax rate	0.0 %	0.0 %

The Company has adopted guidance issued by the FASB that clarifies the accounting for uncertainty in income taxes recognized in an enterprise’s financial statements and prescribes a recognition threshold of more likely than not and a measurement process for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. In making this assessment, a company must determine whether it is more likely than not that a tax position will be sustained upon examination, based solely on the technical merits of the position and must assume that the tax position will be examined by taxing authorities. The Company’s policy is to include interest and penalties related to unrecognized tax benefits in income tax expense. The Company has not recognized any unrecognized tax benefits and does not have any interest or penalties related to uncertain tax positions as of September 30, 2017 and 2016.

The Company files income tax returns with the Internal Revenue Service (“IRS”), the state of California, the Australia Tax Office (“ATO”) and certain other taxing jurisdictions. The Company is subject to income tax examinations by the IRS and by state tax authorities until the net operating losses are settled. During the three months ended September 30, 2016, the IRS commenced an audit for the tax year ended September 30, 2015. The audit concluded during the year ended September 30, 2017 with no material adjustments. In November 2017, the ATO commenced an audit for the tax year ended September 30, 2016.

NOTE 11. EMPLOYEE BENEFIT PLANS

In January 2005, the Company adopted a defined contribution 401(k) retirement savings plan covering substantially all of its employees. The Plan is administered under the “safe harbor” provision of ERISA. Under the terms of the plan, an eligible employee may elect to contribute a portion of their salary on a pre-tax basis, subject to federal statutory limitations. The plan allows for a discretionary match in an amount up to 100% of each participant’s first 3% of compensation contributed plus 50% of each participant’s next 2% of compensation contributed.

For the years ended September 30, 2017, 2016, and 2015, we recorded expenses under this plan of approximately $426,470, $476,835 and $407,603, respectively.

In addition to the employee benefit plans described above, the Company provides certain employee benefit plans, including those which provide health and life insurance benefits to employees.

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NOTE 12. UNAUDITED QUARTERLY FINANCIAL DATA

The following table presents selected unaudited quarterly financial data for each full quarterly period of the years ended September 30, 2017 and 2016:

Year ended September 30, 2017	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Revenues	$4,365,496	$8,985,930	$9,342,498	$8,713,785
Operating Losses	$(14,901,887)	$(6,129,642)	$(5,714,164)	$(10,250,216)
Net Loss	$(12,086,108)	$(6,042,557)	$(5,519,741)	$(10,731,889)
Net Loss Attributable to Arrowhead	$(12,086,108)	$(6,042,557)	$(5,519,741)	$(10,731,889)
Loss per share (Basic and Diluted)	$(0.17)	$(0.08)	$(0.07)	$(0.14)

Year ended September 30, 2016	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Revenues	$43,750	$43,750	$39,583	$31,250
Operating Losses	$(19,341,270)	$(21,264,855)	$(19,341,487)	$(21,795,114)
Net Loss	$(19,264,414)	$(20,815,860)	$(19,420,743)	$(22,221,985)
Net Loss Attributable to Arrowhead	$(19,264,414)	$(20,815,860)	$(19,420,743)	$(22,221,985)
Loss per share (Basic and Diluted)	$(0.32)	$(0.35)	$(0.32)	$(0.34)