ARCA biopharma, Inc.
Form 10-Q
August 10, 2009
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

x QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2009

OR

¨ TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE TRANSITION PERIOD FROM _____ TO _____

Commission File Number 000-22873

ARCA BIOPHARMA, INC.

(Exact Name of Registrant as Specified in Its Charter)

Delaware	**36-3855489**
(State or Other Jurisdiction of Incorporation or Organization)	**(I.R.S. Employer Identification Number)**
8001 Arista Place, Suite 200 Broomfield, CO	**80021**
(Address of Principal Executive Offices)	**(Zip Code)**

(720) 940-2200

(Registrant s Telephone Number, including Area Code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Sections 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ¨ No ¨

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

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

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

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date.

Class	**Number of Shares Outstanding**
Common Stock $0.001 par value	**On August 3, 2009: 7,591,319**

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ARCA BIOPHARMA, INC.

FORM 10-Q

FOR THE QUARTER ENDED JUNE 30, 2009

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PART I. FINANCIAL INFORMATION

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

ARCA BIOPHARMA, INC.

(a development stage enterprise)

CONSOLIDATED BALANCE SHEETS

(unaudited)

	June 30, 2009	December 31, 2008
	(in thousands, except share and per share amounts)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 19,014	$ 7,740
Marketable securities	5,026	
Deferred transaction costs		1,668
Other current assets	1,233	270
Total current assets	25,273	9,678
Restricted cash	6,000	
Property and equipment, net	1,376	1,303
In-process research and development	6,000	
Other assets	1,172	98
Total assets	$ 39,821	$ 11,079
LIABILITIES AND STOCKHOLDERS DEFICIT		
Current liabilities:		
Accounts payable	$ 1,001	$ 804
Accrued compensation and employee benefits	2,417	1,071
Accrued expenses and other liabilities	1,836	1,549
Bank note payable	2,993	3,948
Convertible notes payable		8,351
Deferred rent, current portion	149	107
Accrued facility exit costs	10,851	
Total current liabilities	19,247	15,830
Deferred rent, net of current portion	374	430
Deferred tax liability	2,281	
Other long-term liabilities	662	132
Total liabilities	22,564	16,392
Commitments and contingencies		
Preferred Stock:		
Redeemable, convertible preferred stock, $0.001 par value.		

Series A, 9,222,257 shares authorized; 0 and 9,222,257 shares issued and outstanding at June 30, 2009 and December 31, 2008, respectively; liquidation preference of $15 million at December 31, 2008		14,958
Series B, 6,511,961 shares authorized; 0 and 6,455,579 shares issued and outstanding at June 30, 2009 and December 31, 2008, respectively; liquidation preference of $18 million at December 31, 2008		17,907
Stockholders equity (deficit):		
Common stock, $0.001 par value; 100 million and 40 million shares authorized at June 30, 2009 and December 31, 2008, respectively; 7,575,353 and 954,420 shares issued and outstanding at June 30, 2009 and December 31, 2008, respectively	8	1
Additional paid-in capital	56,657	2,573
Unrealized loss on marketable securities	(12)	
Deficit accumulated during the development stage	(39,396)	(40,752)
Total stockholders equity (deficit)	17,257	(38,178)
Total liabilities and stockholders equity (deficit)	$ 39,821	$ 11,079

See accompanying notes to consolidated financial statements.

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ARCA BIOPHARMA, INC.

(a development stage enterprise)

CONSOLIDATED STATEMENTS OF OPERATIONS

(unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,		Period from December 17, 2001 (date of inception) to June 30, 2009
	2009	2008	2009	2008	
	(in thousands, except share and per share amounts)				
Costs and expenses:					
Research and development	$ 3,505	$ 2,235	$ 8,097	$ 4,596	$ 34,251
Selling, general and administrative	3,861	1,745	9,185	3,379	24,586
Merger transaction costs			5,470		5,470
Restructuring expense	1,265		1,265		1,265
Total costs and expenses	8,631	3,980	24,017	7,975	65,572
Loss from operations	(8,631)	(3,980)	(24,017)	(7,975)	(65,572)
Gain on bargain purchase			25,282		25,282
Interest and other income	103	49	204	173	1,248
Interest and other expense	(49)	(34)	(113)	(39)	(354)
Net (loss) income	$ (8,577)	$ (3,965)	$ 1,356	$ (7,841)	$ (39,396)
Less: Accretion of redeemable convertible preferred stock		(15)	(135)	(29)	(245)
Less: Deemed preferred stock dividend for additional common shares issuable under anti-dilution provisions			(781)		(781)
Net (loss) income attributable to common stockholders	$ (8,577)	$ (3,980)	$ 440	$ (7,870)	$ (40,422)
Net (loss) income attributable to common stockholders per share:					
Basic	$ (1.14)	$ (5.42)	$ 0.07	$ (11.09)	
Diluted	$ (1.14)	$ (5.42)	$ 0.07	$ (11.09)	
Weighted average shares outstanding:					
Basic	7,556,577	733,705	6,589,455	709,894	
Diluted	7,556,577	733,705	7,072,510	709,894	

See accompanying notes to consolidated financial statements.

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ARCA BIOPHARMA, INC.

(a development stage enterprise)

CONSOLIDATED STATEMENTS OF PREFERRED STOCK AND STOCKHOLDERS EQUITY (DEFICIT)

(unaudited)

	Preferred Stock				Stockholders Equity (Deficit)				
	Series A Redeemable Convertible Preferred Stock		Series B Redeemable Convertible Preferred Stock		Common stock		Additional Paid In Capital	Deficit Accumulated During the Development Stage	Other Comprehensive Income (Loss)	Total
	Shares	Amount	Shares	Amount	Shares	Amount				
	(in thousands, except share and per share amounts)									
Balance, December 17, 2001 (date of inception)		$		$		$	$	$	$	$
Issuance of common stock to founders on December 31, 2002, for cash, at $0.06 per share					15,529		1			1
Net loss								(116)		(116)
Balance, December 31, 2003					15,529		1	(116)		(115)
Issuance of common stock on September 30, 2004, for cash, at $0.06 per share					118,319		7			7
Net loss								(511)		(511)
Balance, December 31, 2004					133,848		8	(627)		(619)
Issuance of common stock on January 3, 2005, for cash, at $0.06 per share					17,533		1			1
Issuance of common stock on January 3, 2005, upon conversion of notes payable and related accrued interest at $0.06 per share					17,867		1			1
Issuance of common stock on October 14, 2005, for intellectual property license rights, at $8.14 per share					5,419		44			44
Issuance of common stock on October 14, 2005, upon conversion of notes payable and related accrued interest					186,571		1,354			1,354
Net loss								(1,459)		(1,459)
Balance, December 31, 2005					361,238		1,408	(2,086)		(678)

Issuance of common stock on February 21, 2006, for intellectual property license rights, at $0.72 per share					104,229		75		75
Issuance of Series A on February 22, 2006, for cash, at $1.6265 per share	5,727,354	9,316							
Issuance of Series A on February 22, 2006, upon conversion of notes payable and related accrued interest, at $1.6265 per share	420,817	684							
Issuance of common stock upon exercise of stock options, for cash					48,111		3		3
Issuance of common stock on February 22, 2006, for intellectual property and product license rights, at $0.72 per share					83,443	1	59		60
Issuance of common stock on June 23, 2006, for intellectual property license rights, at $0.90 per share					15,028		15		15
Issuance of common stock on November 7, 2006, for intellectual property license rights, at $0.90 per share					229				
Issuance of Series A on December 8, 2006, for cash, at $1.6265 per share	3,074,086	5,000							
Series A offering costs		(98)							
Share-based compensation							39		39
Accretion of offering costs of redeemable convertible preferred stock		17					(17)		(17)
Net loss								(5,241)	(5,241)
Balance, December 31, 2006	9,222,257	14,919			612,278	1	1,582	(7,327)	(5,744)
Issuance of Series B convertible redeemable preferred stock, on May 31, 2007 for $2.439 per share			3,688,902	9,000					
Issuance of Series B convertible redeemable preferred stock, on December 28, 2007 for $3.253 per share			2,766,677	9,000					
Series B offering Costs				(147)					
Accretion of Series A offering costs		19					(19)		(19)
Accretion of Series B offering costs				18			(18)		(18)
Issuance of common stock for intellectual property license rights, on January 18, 2007 at $1.68 per share					7,817		13		13
Issuance of common stock for intellectual property license rights, on					3,852		7		7

June 30, 2007 at $1.80 per share				
Issuance of common stock for commercial license rights, on July 19, 2007, vests upon achievement of specified criteria	16,698			
Share-based compensation		50		50
Issuance of shares to executive on February 19, 2007, vesting upon achievement of specified criteria, subject to repurchase	83,490			
Issuance of common stock upon exercise of stock options for cash	13,359	16		16
Net loss			(13,994)	(13,994)

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ARCA BIOPHARMA, INC.

(a development stage enterprise)

CONSOLIDATED STATEMENTS OF PREFERRED STOCK AND STOCKHOLDERS EQUITY (DEFICIT)

(unaudited)

	Preffered Stock				Stockholders Equity (Deficit)					
	Series A Redeemable Convertible Preferred Stock		Series B Redeemable Convertible Preferred Stock		Common Stock		Additional Paid In Capital	Deficit Accumulated During The Development Stage	Other Comprehensive Income (Loss)	Total
	Shares	Amount	Shares	Amount	Shares	Amount				
	(in thousands, except share and per share amounts)									
Balance, December 31, 2007	9,222,257	14,938	6,455,579	17,871	737,494	1	1,631	(21,321)		(19,689)
Accretion of Series A offering costs		20					(20)			(20)
Accretion of Series B offering costs				36			(36)			(36)
Share-based compensation							545			545
Estimated fair value of warrants issued in connection with convertible notes payable							399			399
Issuance of common stock upon exercise of stock options, for cash					216,926		54			54
Net loss								(19,431)		(19,431)
Balance, December 31, 2008	9,222,257	14,958	6,455,579	17,907	954,420	1	2,573	(40,752)		(38,178)
Adjustment for fractional shares on common conversion					(39)					
Deemed preferred stock dividend for additional common shares issuable under anti-dilution provision				781			(781)			(781)
Accretion of Series A offering costs		42					(42)			(42)

Accretion of Series B offering costs				93			(93)		(93)
Conversion of preferred stock	(9,222,257)	(15,000)	(6,455,579)	(18,781)	3,042,740	3	33,778		33,781
Restricted stock release from restriction							75		75
Conversion of convertible notes and related accrued interest					872,792	1	8,500		8,501
Conversion of warrants for preferred stock							36		36
Share-based compensation							674		674
Merger / reverse stock split Nuvelo, Inc.					2,686,957	3	11,910		11,913
Adjustment for fractional shares					(609)				
Issuance of common stock upon exercise of stock options for cash					18,028		25		25
Issuance of common stock under employee stock purchase plan and upon vesting of restricted stock units					1,064		2		2
Comprehensive income (loss):									
Net income								1,356	1,356
Unrealized loss on marketable securities								(12)	(12)
Comprehensive income									1,344
Balance, June 30, 2009		**$**		**$**	**7,575,353**	**$ 8**	**$ 56,657**	**$ (39,396)**	**$ (12)**	**$ 17,257**

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ARCA BIOPHARMA, INC.

(a development stage enterprise)

CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited)

	Six Months Ended June 30,		Period from December 17, 2001 (date of inception) to June 30, 2009
	2009	2008	
	(in thousands)		
Cash flows used in operating activities:			
Net income (loss)	$ 1,356	$ (7,841)	$ (39,396)
Adjustments to reconcile net income (loss) to net cash used in operating activities:			
Gain on bargain purchase	(25,282)		(25,282)
Depreciation and amortization	250	51	590
Non-cash interest expense	59	39	168
Share-based compensation	674	41	1,345
Issuance of common stock for license rights			214
Interest on notes converted to Series A Preferred Stock			5
Interest on notes converted to common stock			48
Accretion of liabilities	163		163
Impairment of property and equipment	83		83
(Gain) loss from disposal of property and equipment	(9)		15
Change in operating assets and liabilities (net of amounts acquired):			
Other current assets	2,677	(247)	2,413
Other assets	1		(74)
Accounts payable	(1,992)	(421)	(1,189)
Accrued expenses and other liabilities	(6,281)	(123)	(4,275)
Deferred rent	(13)	606	524
Net cash used in operating activities	(28,314)	(7,895)	(64,648)
Cash flows provided by (used in) investing activities:			
Cash received from Merger	30,392		30,392
Payment of deferred transaction costs			(1,186)
Purchase of property and equipment	(183)	(1,045)	(1,854)
Proceeds from sale of marketable securities	10,044		10,044
Proceeds from sale of property and equipment	276		281
Net cash provided by (used in) investing activities	40,529	(1,045)	37,677
Cash flows (used in) provided by financing activities:			
Proceeds from issuance of convertible notes payable and related warrants for common stock			10,841
Proceeds from issuance of bank note payable			4,000
Proceeds from stock subject to repurchase			38
Proceeds from the issuance of preferred stock			32,316
Preferred stock offering costs			(246)
Proceeds from the issuance of common stock	25	5	107

Repayment of principal on bank note payable	(966)		(966)
Repayment of principal on convertible notes payables			(105)
Net cash (used in) provided by financing activities	(941)	5	45,985
Net increase (decrease) in cash and cash equivalents	11,274	(8,935)	19,014
Cash and cash equivalents, beginning of period	7,740	15,862	
Cash and cash equivalents, end of period	$ 19,014	$ 6,927	$ 19,014
Supplemental cash flow information:			
Interest paid	$ 81	$	$ 91
Supplemental disclosure of noncash investing and financing transactions:			
Accrued interest on notes payable converted to equity	$ 151	$	$ 163

See accompanying notes to consolidated financial statements.

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ARCA BIOPHARMA, INC.

(a development stage enterprise)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(1) The Company and Summary of Significant Accounting Policies

Description of Business

ARCA biopharma, Inc. (the Company or ARCA), a Delaware corporation, is headquartered in Broomfield, Colorado and is principally focused on developing genetically-targeted therapies for heart failure and other cardiovascular diseases. The Company s lead product candidate is Gencaro™ (bucindolol hydrochloride), a pharmacologically unique beta-blocker and mild vasodilator for chronic heart failure, or HF. Gencaro was the subject of a Phase 3 heart failure mortality trial involving more than 2,700 patients and was unique in gathering DNA data on over 1,000 of its participants. The Company has licensed exclusive, worldwide rights to Gencaro. In September 2008, the U.S. Food and Drug Administration (FDA) accepted for filing the Company s New Drug Application (NDA) for Gencaro. On May 29, 2009, the FDA issued a Complete Response Letter to the Company which stated that the FDA could not approve the Gencaro NDA in its current form and specified additional actions and information required by the FDA for approval of the NDA. The Company is in the process of reviewing the Complete Response Letter with the FDA, including the necessary actions required to address the issues identified in the Complete Response Letter. As a result of the issues identified in the Complete Response Letter, the Company believes that FDA approval of Gencaro, if it occurs, may be substantially delayed.

Merger with Nuvelo, Inc.

On January 27, 2009, the Company completed a business combination (the Merger) with ARCA Colorado in accordance with the terms of that Agreement and Plan of Merger and Reorganization, dated September 24, 2008, and amended on October 28, 2008 (as amended, the Merger Agreement), in which a wholly-owned subsidiary of Nuvelo merged with and into ARCA Colorado, with ARCA Colorado continuing after the Merger as the surviving corporation and a wholly-owned subsidiary of Nuvelo. Immediately following the Merger, the Company changed its name from Nuvelo, Inc. to ARCA biopharma, Inc. The business combination is treated as a reverse merger for accounting purposes, and ARCA Colorado is the accounting acquirer, and the entity formerly known as Nuvelo, Inc. is the acquired company (Nuvelo or the acquired company). The results of operations and cash flows for the six months ended June, 2009 include the activities of the acquired company since the date of the Merger. Pursuant to the rules and regulations of the United States Securities and Exchange Commission (the SEC), the historical financial statements of ARCA Colorado replaced the historical financial statements of the acquired company, and the disclosures in this report relating to the pre-Merger business of the Company, unless noted as being the business of Nuvelo prior to the Merger, pertain to the business of ARCA Colorado prior to the Merger. See Note 2 for further discussion of the Merger.

Merger Exchange Ratio and Reverse Stock Split

In conjunction with and immediately prior to the Merger, Nuvelo effected a 20-for-1 reverse stock split. As a result, and in accordance with the Merger Agreement, each outstanding common share and warrant or option to purchase ARCA Colorado s common stock prior to the Merger was converted into the right to receive or purchase 0.16698070 (the Exchange Ratio) shares of the Company s common stock (see Note 2), which Exchange Ratio incorporates the effect of the reverse stock split. All common shares, options and warrants to purchase common shares and per common share amounts for all periods presented in the accompanying financial statements and notes have been adjusted retroactively to reflect the effect of the Exchange Ratio, except for the par value per share and the number of shares authorized, which are not affected by the Exchange Ratio.

The accompanying financial statements and notes have not been adjusted to retroactively reflect the effect of the Exchange Ratio on preferred shares, warrants to purchase preferred shares, and per preferred share amounts. The ratios used to convert ARCA Colorado s preferred stock and warrants to purchase ARCA Colorado s preferred stock prior to the Merger into the right to receive or purchase shares of the Company s common stock as a result of the Merger is discussed in Note 2.

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Development Stage Risks, Liquidity and Going Concern

The Company is in the development stage and devotes substantially all of its efforts towards obtaining regulatory approval, exploring strategic alternatives for commercializing Gencaro, if approved, and raising capital necessary to fund its operations. The Company has not generated revenue to date and is subject to a number of risks similar to those of other development stage companies, including dependence on key individuals, the development of and regulatory approval of commercially viable products, the need to obtain adequate additional financing necessary to fund the development and commercialization of its products, and competition from larger companies. The Company has historically funded its operations through issuances of convertible promissory notes, and shares of its common and preferred stock. As a result of the closing of the Merger, the Company acquired approximately $45.5 million in cash and short-term investments.

Since ARCA Colorado was founded on December 11, 2001 (Inception), the Company has incurred substantial losses and negative cash flows from operations. For the six months ended June 30, 2009, the Company incurred a loss from operations of $24.0 million and had negative cash flows from operations of $28.3 million.

On May 29, 2009, the FDA issued a Complete Response Letter to the Company which stated that the FDA could not approve the Gencaro NDA in its current form and specified additional actions and information required by the FDA for approval of the NDA. The Company is in the process of reviewing the Complete Response Letter with the FDA, including the necessary actions required to address the issues identified in the Complete Response Letter. As a result of the issues identified in the Complete Response Letter, the Company believes that FDA approval of Gencaro, if it occurs, may be substantially delayed. In light of the potential substantial delay in obtaining FDA approval for Gencaro, the cost of commercializing Gencaro if it is approved, the continuing substantial disruption in the capital markets, and the difficulty of raising a significant amount of capital on acceptable terms in light of these factors, the Company has reduced its operating expenses and is evaluating strategic alternatives. The Company may need to obtain substantial additional funding through public or private debt or equity markets to support the continued development of Gencaro, including additional clinical development which may be required as a result of the issues identified in the Complete Response Letter. If approved, the Company will need to complete a strategic transaction, such as a potential strategic combination or a license of the Gencaro commercialization rights to support commercialization or, alternatively, seek substantial additional funding through public or private debt or equity markets. The Company believes that, after giving effect to the restructuring, its current cash, cash equivalents and marketable securities balances will be sufficient to fund operations through at least December 31, 2009. The Company is unable to assert that its current cash, cash equivalents and marketable securities are sufficient to fund operations for the next twelve months, and as a result, there is substantial doubt about the Company s ability to continue as a going concern after December 31, 2009. The accompanying consolidated financial statements have been prepared with the assumption that the Company is a going concern and will be able to realize its assets and discharge its liabilities in the normal course of business and do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classification of liabilities that may result from the inability of the Company to continue as a going concern.

The Company s liquidity, and its ability to raise additional capital or complete any strategic transaction, depends on a number of factors, including, but not limited to, the following:

- results of further discussions with the FDA regarding the requirements for approval of the Gencaro NDA. If significant additional development of Gencaro is required, particularly completion of an additional Phase 3 efficacy trial, the Company may not be able to raise sufficient capital on acceptable terms or at all to complete development of Gencaro or continue operations and may not be able to execute any strategic transaction.
- general economic and industry conditions affecting the availability and cost of capital;
- the Company s ability to reduce costs associated with its operations;
- the costs of filing, prosecuting, defending and enforcing any patent claims and other intellectual property rights; and
- the terms and conditions of the Company s existing collaborative and licensing agreements.

The sale of additional equity or convertible debt securities would likely result in substantial additional dilution to the Company s stockholders. If the Company raises additional funds through the incurrence of additional indebtedness, the obligations related to such indebtedness would be senior to rights of holders of the Company s capital stock and could contain covenants that would restrict the Company s operations. The Company also cannot predict what consideration

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might be available, if any, to the Company or its stockholders, in connection with any strategic transaction. Should strategic alternatives or additional capital not be available to the Company in the near term, or not be available on acceptable terms, the Company may be unable to realize value from its assets and discharge its liabilities in the normal course of business which may, among other alternatives, cause the Company to further delay, substantially reduce or discontinue operational activities to conserve its cash resources.

Basis of Presentation

The Company has generated no revenue to date and its activities have consisted of seeking regulatory approval, product commercialization, and raising capital. Accordingly, the Company is considered to be in the development stage at June 30, 2009, as defined in Statement of Financial Accounting Standards (SFAS) No. 7, *Accounting and Reporting by Development Stage Enterprises*.

Accounting Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 expenses during the reporting period. The Company bases estimates on various assumptions that are believed to be reasonable under the circumstances. The Company believes significant judgment was involved in estimating the fair value of assets acquired and liabilities assumed in the Merger, including in-process research and development, facility exit costs, clinical trial accruals, and in estimating other accrued liabilities, stock-based compensation, and income taxes. Management is continually evaluating and updating these estimates, and it is possible that these estimates will change in the future or that actual results may differ from these estimates.

Cash Equivalents and Marketable Securities

Cash equivalents consist of money market funds and debt securities with maturities of 90 days or less at the time of purchase. The Company considers its investments in marketable debt securities, which consist of U.S. Treasury, U.S. government agency, corporate debt and asset-backed securities, as available for use in current operations. Accordingly, the Company classifies these investments as short-term. The Company invests its excess cash in securities with strong ratings and has established guidelines relative to diversification and maturity with the objective of maintaining safety of principal and liquidity.

The Company classifies all cash equivalents and marketable securities as available-for-sale securities, as defined by SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities,* and records investments at fair value. Unrealized holding gains and losses on available-for-sale securities, net of any tax effect, are excluded from earnings and are reported in accumulated other comprehensive income (loss), a separate component of stockholders equity, until realized. The specific identification method is utilized to calculate the cost to determine realized gains and losses from the sale of available-for-sale securities. Realized gains and losses are included in interest income in the statements of operations.

Concentrations of Credit Risk

Financial instruments that potentially subject the Company to significant concentrations of credit risk consist primarily of cash and cash equivalents, marketable securities and other receivables. The Company has no off-balance-sheet concentrations of credit risk, such as foreign exchange contracts, option contracts, or foreign currency hedging arrangements. The Company maintains cash and cash equivalent balances in the form of bank demand deposits, money market fund accounts and debt securities with financial institutions that management believes are creditworthy. Such balances may at times exceed the insured amount.

Fair Value of Financial Instruments

On January 1, 2008, the Company adopted SFAS No. 157, *Fair Value Measurements,* or SFAS No. 157. SFAS No. 157 establishes a common definition for fair value to be applied to U.S. Generally Accepted Accounting Principles (GAAP) requiring use of fair value, establishes a framework for measuring fair value, and expands disclosure about such fair value measurements. In February 2008, the Financial Accounting Standards Board (the FASB) issued FASB Staff Position No. FAS 157-2, *Effective Date of FASB Statement No. 157,* or FSP 157-2, which delayed the effective date

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for SFAS No. 157 for all nonfinancial assets and nonfinancial liabilities, except items that are recognized or disclosed at fair value on a recurring basis (at least annually), until fiscal years beginning after November 15, 2008. The implementation of SFAS No. 157 for financial assets and financial liabilities and FSP 157-2 for nonfinancial assets and nonfinancial liabilities did not have a material impact on the Company s financial position and results of operations.

SFAS No. 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (exit price). SFAS No. 157 classifies the inputs used to measure fair value into the following hierarchy:

Level 1 Unadjusted quoted prices in active markets for identical assets or liabilities

Level 2 Unadjusted quoted prices in active markets for similar assets or liabilities; unadjusted quoted prices for identical or similar assets or liabilities in markets that are not active; or inputs other than quotes prices that are observable for the asset or liability

Level 3 Unobservable inputs for the asset or liability

The following table represents the Company s fair value hierarchy for its financial assets (cash equivalents and marketable securities) measured at fair value on a recurring basis as of June 30, 2009 (in thousands):

	Level 1	Level 2	Level 3	Total
Money market fund	$ 11,369	$	$	$ 11,369
Corporate debt securities		5,026		5,026
Total	$ 11,369	$ 5,026	$	$ 16,395

The money market fund, which is expected to maintain a net asset value of $1 per share, was categorized in Level 1 of the fair value hierarchy. Corporate debt securities were categorized in Level 2 of the fair value hierarchy. The fair value of these securities was generally based on pricing models which took into consideration market prices of identical or similar securities from multiple sources and the securities accreted balance on the reporting day.

SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities,* allows entities to voluntarily choose, at specified election dates, to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. To date, the Company has not elected this fair value option for any assets or liabilities.

Restricted Cash

Restricted cash represents a certificate of deposit used to collateralize a letter of credit as required by the lease agreement assumed in the Merger for the acquired company s facility in Sunnyvale, California. See Note 6, Facility Exit Costs, for discussion of the related lease commitment, Note 9, Commitments and Contingencies, for discussion of the letter of credit arrangement, and Note 16, Subsequent Events, for discussion of the early termination of this lease commitment and related termination payment.

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation and amortization. Cost includes expenditures for equipment, leasehold improvements, replacements, and renewals. Maintenance and repairs are charged to expense as incurred. When assets are sold, retired, or otherwise disposed of, the cost and accumulated depreciation are removed from the accounts and any resulting gain or loss is reflected in operations. The cost of property and equipment is depreciated using the straight-line method over the estimated useful lives of the related assets. Leasehold improvements are amortized over the shorter of the life of the lease or the estimated useful life of the assets. Property and equipment acquired in the Merger were recorded at the estimated fair value as of the date of the Merger, and are subsequently depreciated using the

straight-line method over the estimated useful lives of the related assets.

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Long-Lived Assets and Impairments

The Company reviews long-lived assets whenever events or changes in circumstances indicate that the carrying value of such assets may not be recoverable. As a development stage company, the Company has not generated positive cash flows from operations, and such cash flows may not materialize for a significant period in the future, if ever. Additionally, the Company may make changes to its business plan that would result in changes to expected cash flows from long-lived assets. As a result of the restructuring plan implemented in the second quarter of 2009, management reviewed excess computer and office equipment for impairment. Management compared the carrying value to the fair value less cost to sell and determined that an impairment charge of approximately $83,000 had been incurred. See Note 4, Property and Equipment, for additional discussion. It is reasonably possible that future evaluations of long-lived assets, including changes from the Company s current expected use of long-lived assets, may result in additional impairments.

Valuation & Impairment Review of Acquired In-process Research and Development

The Company acquired a significant in-process research and development (IPR&D) asset through the Merger primarily related to NU172. A valuation firm was engaged to assist the Company in determining the estimated fair value of this asset as of the acquisition date. Discounted cash flow models are typically used in these valuations, and the models require the use of significant estimates and assumptions including but not limited to:

- projected development costs, timing of such costs, and outcomes of clinical trials,
- projecting regulatory approvals,
- estimating future cash flows from product sales resulting from completed products and in-process projects, and
- developing appropriate discount rates and probability rates by project.

The IPR&D asset is considered an indefinite-lived intangible asset and is not subject to amortization. IPR&D must be tested for impairment annually or more frequently if events or changes in circumstances indicate that the asset might be impaired. The impairment test consists of a comparison of the fair value of the IPR&D with its carrying amount. If the carrying amount of the IPR&D exceeds its estimated fair value, an impairment loss must be recognized in an amount equal to that excess. After an impairment loss is recognized, the adjusted carrying amount of the IPR&D will be its new accounting basis. Subsequent reversal of a previously recognized impairment loss is prohibited. The initial determination and subsequent evaluation for impairment, of the IPR&D asset requires management to make significant judgments and estimates.

Accrued Expenses

As part of the process of preparing its financial statements, the Company is required to estimate accrued expenses. This process involves identifying services that third parties have performed on the Company s behalf and estimating the level of service performed and the associated cost incurred for these services as of the balance sheet date. Examples of estimated accrued expenses include contract service fees, such as fees payable to contract manufacturers in connection with the production of materials related to the Company s drug product, and professional service fees, such as attorneys, consultants, and clinical research organizations. The Company develops estimates of liabilities using its judgment based upon the facts and circumstances known at the time.

Segments

The Company operates in one segment. Management uses one measure of profitability and does not segment its business for internal reporting.

Research and Development

Research and development costs are expensed as incurred. These consist primarily of salaries, contract services, and supplies.

Costs related to clinical trial and drug manufacturing activities are based upon estimates of the services received and related expenses incurred by contract research organizations (CROs), clinical study sites, drug manufacturers,

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collaboration partners, laboratories, consultants, or otherwise. Related contracts vary significantly in length, and could be for a fixed amount, a variable amount based on actual costs incurred, capped at a certain limit, or for a combination of these elements. Activity levels are monitored through communications with the CROs and other vendors, including detailed invoices and task completion review, analysis of expenses against budgeted amounts, and pre-approval of any changes in scope of the services to be performed. Certain significant vendors may also provide an estimate of costs incurred but not invoiced on a periodic basis. Expenses related to the CROs and clinical studies are primarily based on progress made against specified milestones or targets in each period.

Stock-Based Compensation

Effective January 1, 2006, the Company adopted SFAS No. 123(R), *Share-Based Payment*, using the prospective method of transition. Under that transition method, compensation cost recognized in each subsequent period includes: (a) compensation costs for current period vesting of all share-based payments granted prior to January 1, 2006, based on the intrinsic value method prescribed by APB Opinion No. 25, and (b) compensation cost for current period vesting of all share-based payments granted or modified subsequent to January 1, 2006, based on the grant date fair value estimated in accordance with the provisions of SFAS No. 123(R). The Company recognizes compensation costs for its share-based awards on a straight-line basis over the requisite service period for the entire award.

From Inception through December 31, 2005, the Company accounted for issuances of stock-based compensation under the intrinsic-value-based method of accounting prescribed by Accounting Principles Board, or APB, Opinion No. 25, *Accounting for Stock Issued to Employees* , and related interpretations, including FASB Interpretation No. 44, *Accounting for Certain Transactions involving Stock Compensation an Interpretation of APB Opinion No. 25* . Under this method, compensation expense is generally recorded on the date of grant only if the estimated fair value of the underlying stock exceeds the exercise price.

Exit and Disposal Activities

As a result of the Merger, the Company assumed a facility lease agreement for a facility which the acquired company had previously exited. The fair value of the obligation related to such lease was estimated as of the date of the Merger using a discounted cash flow model which considered the estimated future cash flows under the lease and an estimate of sublease rental income and other lease operating expenses. The estimated fair value of the liability was recorded as accrued facility exit costs on the consolidated balance sheet. The accretion of the liability due to the passage of time is recorded as a general and administrative expense. In August 2009, the Company and the landlord for this facility entered into an agreement providing for the early termination of the lease agreement in exchange for a termination payment. See Note 16, Subsequent Events, for discussion of the early termination of this lease commitment and related termination payment.

Income Taxes

The current provision for income taxes represents actual or estimated amounts payable or refundable on tax returns filed or to be filed each year. Deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the period that includes the enactment date. The overall change in deferred tax assets and liabilities for the period measures the deferred tax expense or benefit for the period. The measurement of deferred tax assets may be reduced by a valuation allowance based on judgmental assessment of available evidence if deemed more likely than not that some or all of the deferred tax assets will not be realized. The Company has recorded a valuation allowance against its deferred tax assets, as management has concluded that it is more likely than not that the net deferred tax asset will not be realized through future taxable income, based primarily on the Company s history of operating losses. As a result of the Merger, a change of ownership of Nuvelo per IRC Section 382 has occurred, and accordingly, the Company s ability to utilize Nuvelo s historical net operating loss carryforwards has been substantially reduced.

(Loss) Earnings Per Share

The Company calculates net (loss) earnings per share in accordance with SFAS No. 128, *Earnings Per Share*. Basic net (loss) earnings per share was determined by dividing net (loss) earnings attributable to common stockholders by the weighted average common shares outstanding during the period, excluding common stock subject to vesting provisions. Diluted net (loss) earnings per share is computed by dividing the net (loss) earnings attributable to common stockholders

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by the weighted average number of common shares outstanding during the period increased to include, if dilutive, the number of additional common shares that would have been outstanding if the potential common shares had been issued. The Company s potentially dilutive shares include redeemable convertible preferred stock and convertible notes payable outstanding prior to the Merger and options and warrants.

A reconciliation of the numerator and denominator used in the calculation of basic and diluted net (loss) earnings per share follows:

(In thousands, except shares and per share data)	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
BASIC				
Net (loss) income	$ (8,577)	$ (3,965)	$ 1,356	$ (7,841)
Less: Accretion of redeemable convertible preferred stock	-	(15)	(135)	(29)
Deemed preferred stock dividend for additional common shares issuable under anti-dilution provision	-	-	(781)	-
Net (loss) income available to common shareholders	$ (8,577)	$ (3,980)	$ 440	$ (7,870)
Weighted average shares of common stock outstanding	7,573,275	833,893	6,618,607	810,082
Less: Weighted-average shares of unvested common stock	(16,698)	(100,188)	(29,152)	(100,188)
Total weighted-average shares used in computing net income (loss) per share attributed to common stockholders	7,556,577	733,705	6,589,455	709,894
Basic (loss) earnings per share	$ (1.14)	$ (5.42)	$ 0.07	$ (11.09)
DILUTED				
Net (loss) income	$ (8,577)	$ (3,965)	$ 1,356	$ (7,841)
Add: Interest on convertible notes payable	-	-	33	-
Less: Accretion of redeemable convertible preferred stock	-	(15)	(135)	(29)
Deemed preferred stock dividend for additional common shares issuable under anti-dilution provision	-	-	(781)	-
Net (loss) income available to common shareholders	$ (8,577)	$ (3,980)	$ 473	$ (7,870)
Weighted-average shares used in computing net income (loss) per share attributed to common stockholders	7,556,577	733,705	6,589,455	709,894
Dilutive impact of stock plans	-	-	357,682	-
Dilutive impact of warrants	-	-	-	-
Dilutive impact of convertible securities	-	-	125,373	-
Dilutive shares outstanding	7,556,577	733,705	7,072,510	709,894
Diluted (loss) earnings per share	$ (1.14)	$ (5.42)	$ 0.07	$ (11.09)

Potentially dilutive securities representing 1.8 million and 3.6 million weighted average shares of common stock were excluded for the three months ended June 30, 2009 and 2008, respectively, and 1.1 million and 3.1 million for the six months ended June 30, 2009 and 2008,

respectively, because including them would have an anti-dilutive effect on net (loss) earnings attributable to common stockholders per share.

Recent Accounting Pronouncements

In June 2009, the FASB issued SFAS No. 165, *Subsequent Events* (SFAS No. 165). Prior to SFAS No. 165, the authoritative guidance for subsequent events was previously addressed only in U.S. auditing standards. SFAS No. 165 establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued and requires the Company to disclose the date through which it has evaluated subsequent events and whether that was the date the financial statements were issued or available to be issued. SFAS No. 165 does not apply to subsequent events or transactions that are within the scope of other applicable U.S. GAAP that provide different guidance on the accounting treatment for subsequent events or transactions. SFAS No. 165 became effective for the Company on June 30, 2009. The Company followed SFAS No. 165 in evaluating its subsequent events disclosed in Note 16.

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In June 2009, the FASB issued SFAS No. 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles A Replacement of FASB Statement No. 162*. The FASB Accounting Standards Codification (the Codification) will become the source of authoritative GAAP recognized by the FASB to be applied by nongovernmental entities. Rules and interpretive releases of the SEC under authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. On the effective date, the Codification will supersede all then-existing non-SEC accounting and reporting standards. This standard will become effective for the Company on July 1, 2009. The Company does not expect that the adoption of this standard will have a material impact on the consolidated financial statements.

Effective January 1, 2008, the Company adopted SFAS No. 157. In February 2008, the FASB issued FASB Staff Position No. 157-2, which provided a one year deferral of the effective date of SFAS No. 157 for nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed in the financial statements at fair value at least annually. SFAS No. 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. SFAS No. 157 applies under other accounting pronouncements that require or permit fair value measurements and does not require any new fair value measurements. The standard describes a fair value hierarchy based on three levels of inputs, the first two of which are considered observable and the last unobservable, that may be used to measure fair value. The adoption of SFAS No. 157 had no material impact on the Company s consolidated financial statements. The Company adopted the provisions of SFAS No. 157 with respect to non-financial assets and liabilities effective January 1, 2009. Such adoption did not have a material impact on the Company s consolidated financial statements.

In December 2007, the FASB issued SFAS No. 141(R), *Business Combinations,* and SFAS No. 160, *Accounting and Reporting of Noncontrolling interest in Consolidated Financial Statements, an amendment of ARB No. 51*. These new standards have significantly changed the financial accounting and reporting of business combination transactions and noncontrolling (or minority) interests in consolidated financial statements. SFAS No. 141(R) requires the acquirer of a business to recognize and measure the identifiable assets acquired, the liabilities assumed, and any non-controlling interest in the acquiree at fair value on the acquisition date. SFAS No. 141(R) also requires that transactions costs related to the business combination be expensed as incurred and that changes in accounting for business combination related deferred tax asset valuation allowances and income tax uncertainties after the measurement period be recognized as current period income tax expense. SFAS No. 141(R) applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. The Company applied the provisions of SFAS No. 141(R) to the Merger transaction. Costs incurred during 2008 associated with the Merger were recorded as deferred transaction costs at December 31, 2008. On January 1, 2009, as part of the Company s adoption of SFAS No. 141(R), the balance of deferred transaction costs was expensed.

In December 2007, the FASB ratified the consensus reached by the Emerging Issues Task Force (EITF) on EITF Issue 07-1, *Accounting for Collaborative Arrangements* (EITF No. 07-1). EITF No. 07-1 requires collaborators to present the results of activities for which they act as the principal on a gross basis and report any payments received from (made to) other collaborators based on other applicable GAAP or, in the absence of other applicable GAAP, based on analogy to authoritative accounting literature or a reasonable, rational, and consistently applied accounting policy election. The effective date for the Company was January 1, 2009. The adoption of EITF No. 07-1 had no impact on the Company s financial statements.

In June 2008, the FASB ratified the consensus reached on EITF Issue No. 07-05, *Determining Whether an Instrument (or Embedded Feature) Is Indexed to an Entity s Own Stock* (EITF No. 07-05). EITF No. 07-05 clarifies the determination of whether an instrument (or an embedded feature) is indexed to an entity s own stock, which would qualify as a scope exception under SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*. EITF No. 07-05 is effective for financial statements issued for fiscal years beginning after December 15, 2008. Early adoption for an existing instrument is not permitted. The adoption of EITF 07-5 had no impact on the Company s financial statements.

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(2) Merger with Nuvelo, Inc. on January 27, 2009

On January 27, 2009, the Company completed the Merger contemplated by the Merger Agreement. Pursuant to the Merger Agreement, a wholly-owned subsidiary of Nuvelo merged with and into ARCA Colorado, with ARCA Colorado continuing after the Merger as the surviving corporation and a wholly-owned subsidiary of Nuvelo. Immediately following the Merger, the Company changed its name from Nuvelo, Inc. to ARCA biopharma, Inc., and its common stock began trading on the Nasdaq Global Market under the symbol ABIO on January 28, 2009.

The Merger is treated as a reverse merger and accounted for as a business combination using the acquisition method of accounting in accordance with SFAS No. 141(R). For accounting purposes, ARCA Colorado is considered to have acquired Nuvelo in the Merger, as the stockholders of ARCA Colorado prior to the Merger now have a controlling interest in the combined company and the Company s management is the former management of ARCA Colorado. Under the acquisition method of accounting, the assets acquired and liabilities assumed of Nuvelo are recorded as of the acquisition date, at their respective fair values. The results of operations and cash flows for the six months ended June 30, 2009 include the activities of the acquired company since the date of the Merger.

Immediately prior to the Merger, each share of ARCA Colorado s Series A preferred stock automatically converted into 1 share of ARCA Colorado s common stock; each share and warrant to purchase ARCA Colorado s Series B-1 preferred stock automatically converted into 1.219875 shares or warrants to purchase, as applicable, ARCA Colorado s common stock; each share and warrant to purchase ARCA Colorado s Series B-2 preferred stock automatically converted into 1.6265 shares or warrants to purchase, as applicable, ARCA Colorado s common stock. In connection with the Merger, each share of ARCA Colorado s common stock was converted into the right to receive 0.16698070 shares of the Company s common stock.

Each option and warrant to purchase shares of ARCA Colorado s common stock outstanding at the effective time of the Merger was assumed by the Company at the effective time of the Merger. Each such option or warrant became an option or warrant, as applicable, to acquire that number of shares of the Company s common stock equal to the product obtained by multiplying the number of shares of ARCA Colorado s common stock subject to such option or warrant by 0.16698070, rounded down to the nearest whole share of the Company s common stock. Following the Merger, each such option or warrant has an exercise price per share of the Company s common stock equal to the quotient obtained by dividing the per share purchase price of ARCA Colorado s common stock subject to such option or warrant by 0.16698070, rounded up to the nearest whole cent.

Immediately following the Merger, ARCA Colorado s former stockholders, together with the former holders of ARCA Colorado s options and warrants owned or had the right to acquire upon the exercise of outstanding options and warrants approximately 67% of the common stock of the Company and Nuvelo stockholders prior to the Merger owned approximately 33% of the common stock of the Company. The Merger is intended to qualify for federal income tax purposes as a tax-free reorganization under the provisions of Section 368(a) of the U.S. Internal Revenue Code of 1986, as amended.

Prior to the completion of the Merger, Nuvelo was developing drugs for acute cardiovascular disease, gastro-intestinal, or GI, diseases and other debilitating medical conditions. Its development pipeline included NU172, a direct acting thrombin inhibitor that has completed Phase 1 development for use as a short-acting anticoagulant during medical or surgical procedures, and Phase 1 clinical candidate NU206, a recombinant, secreted protein for the potential treatment of GI, diseases, including inflammatory bowel disease, mucositis and bone disease. In the first quarter of 2008, Nuvelo discontinued the clinical development of its only clinical-stage product candidate, alfimeprase. ARCA Colorado merged with Nuvelo primarily to increase its cash resources in the short-term while enhancing its access to capital necessary to commercialize its late stage product candidate, Gencaro, and to build its product development pipeline.

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The estimated total acquisition consideration to acquire Nuvelo is based on the market capitalization of Nuvelo as of January 27, 2009, and the estimated fair values of its vested stock options and warrants outstanding on that date, as this was deemed the most reliable measure of the consideration effectively transferred to acquire Nuvelo on that date, and is as follows (in thousands):

Market capitalization of Nuvelo common stock	$	11,824
Estimated fair value of options and warrants assumed		88
Total acquisition consideration	$	11,912

The Company considered alternative approaches to measure the acquisition consideration, such as basing the acquisition consideration on the fair value of Nuvelo s net assets, or based on ARCA Colorado s fair value rather than the fair value of Nuvelo s common stock on the consummation date. The Company believes the most reliable measurement of consideration is based on the market capitalization of Nuvelo and the fair values of its vested stock options and warrants as of the date of the Merger, as it is the most objectively verifiable value.

Under the acquisition method of accounting, in accordance with SFAS No. 141(R), the total acquisition consideration is allocated to the assets acquired and liabilities assumed based on their estimated fair values as of the date of the Merger. The Company has not finalized the acquisition consideration allocation as of the date of this report. The preliminary allocation, based on the estimated fair values of the assets acquired and liabilities assumed as of the date of the Merger, is as follows (in thousands):

Estimated purchase price allocation:		
Cash and cash equivalents	$	30,392
Marketable securities		15,106
Collaboration receivable		626
Other current assets		1,247
Restricted cash		6,000
Property and equipment		489
In-process research and development		6,000
Other non-current assets		1,084
Accounts payable		(2,189)
Accrued employee liabilities		(3,579)
Other current liabilities		(1,406)
Accrued facility exit costs		(13,278)
Other liabilities		(74)
Deferred tax liability		(2,281)
Unfavorable lease obligation		(943)
Gain on bargain purchase		(25,282)
Total acquisition consideration	$	11,912

Cash and cash equivalents, marketable securities and other tangible assets and liabilities: The tangible assets and liabilities were valued at their respective carrying amounts by Nuvelo, except for adjustments to certain property and equipment, deferred revenue, deferred rent, facility exit costs and other liabilities, necessary to state such amounts at their estimated fair values at the acquisition date. See Note 6, Facility Exit Costs, for discussion of the accrued facility exit costs, and Note 9, Commitments and Contingencies, for discussion of the unfavorable lease liability.

In-process research and development: In-process research and development (IPR&D) represents projects under development by Nuvelo at the date of the Merger that had not yet been completed and had not achieved regulatory approval. It is estimated that approximately $6.0 million of the acquisition consideration represents purchased IPR&D primarily related to projects associated with the Nuvelo NU172 program. The fair value of IPR&D was determined using an income approach, as well as discussions with Nuvelo s management and a review of certain program-related documents and forecasts of future cash flows. The income approach, a valuation method that establishes the business value based on a stream of future economic benefits, such as net cash flows, discounted to their present value, included probability adjustments to projected expenses and revenue in order to reflect the expected probabilities of incurring development cost prior to commercialization and the probability of achieving commercial revenue due to drug discovery and regulatory risks. A risk-adjusted discount rate was utilized to discount

the probability adjusted net cash flows to their

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present value, to reflect the time value of money and risks of commercialization, sales, and competition, which are risk elements explicitly not addressed in the probability adjustments. The Company will continue to periodically reassess the value of purchased IPR&D, and in connection with those periodic reassessments, may determine that its valuation should change, even materially, based on, among other factors, changes in management s views regarding anticipated future economic benefits of the IPR&D. IPR&D is considered an indefinite-lived intangible asset. Depending upon the results of the research and development projects, the value of the IPR&D will either be amortized beginning upon successful completion of the project or impaired if the project fails or is abandoned. The Company has recorded a deferred tax liability of $2.3 million related to the IPR&D asset.

Pre-acquisition contingencies: The Company retains the obligations under Nuvelo s employment agreements and compensation plans, pursuant to which Nuvelo employees are entitled to termination benefits upon change of control and involuntary termination. Such plans were established prior to merger negotiations with ARCA Colorado, and were not entered into to benefit ARCA Colorado. These plans create a contingent liability for the Company as of the acquisition date, which was estimated for employees expected to be involuntary terminated at $1.7 million and is included in the consideration allocation above under the caption Accrued employee liabilities . The Company has not currently identified any other pre-acquisition contingencies where an acquisition-date liability was probable and the amount of the liability could be reasonably estimated. If information becomes available to the Company prior to the end of the measurement period, which would indicate that a liability was probable and the amount could be reasonably estimated, such items will be included in the acquisition consideration allocation.

Gain on bargain purchase: In accordance with SFAS No. 141(R), any excess of fair value of acquired net assets over the acquisition consideration results in a gain on bargain purchase. Prior to recording a gain, the acquiring entity must reassess whether all acquired assets and assumed liabilities have been identified and recognized and perform re-measurements to verify that the consideration paid, assets acquired, and liabilities assumed have been properly valued. The Company underwent such a reassessment, and as a result, has recorded a gain on bargain purchase of $25.3 million. If new information is obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the measurement of the amounts recognized for assets acquired and liabilities assumed, the Company will retrospectively adjust the amounts recognized as of the acquisition date. The final acquisition consideration and allocation thereof may change significantly from these estimates.

The acquisition consideration allocation indicates that the Merger resulted in a gain on bargain purchase of $25.3 million. In accordance with the acquisition method of accounting, any resulting gain on bargain purchase must be recognized in earnings on the acquisition date. This gain was largely determined by the trading price of Nuvelo s common stock on Nasdaq prior to the Merger. The Company believes that the gain on bargain purchase resulted from various factors that may have impacted the trading price of Nuvelo s common stock, including, without limitation, the significant declines in the securities markets during the fourth quarter of 2008; uncertainty concerning the combined entities ability to obtain regulatory approval of the Gencaro NDA; timing and conditions of an approval, its ability to successfully commercialize Gencaro, if approved, and to raise additional capital to support the commercialization of Gencaro and to fund other business objectives; uncertainty regarding the combined entities ability to successfully integrate the business operations of Nuvelo; and uncertainty regarding the combined entities ability to further identify, develop and achieve commercial success for products and technologies; all of which may have impacted Nuvelo s market capitalization at the time the Merger was consummated.

Merger transaction costs: The Company has incurred merger transaction costs of $5.5 million, including financial advisory, legal, accounting and due diligence costs, which are recorded as merger transaction expenses on the consolidated statement of operations. Through December 31, 2008, the Company had incurred $1.7 million of merger transaction expenses, which were recorded as deferred transaction costs on the consolidated balance sheet at that date. On January 1, 2009, as part of the adoption of SFAS No. 141(R), the balance of deferred transaction costs was expensed to merger transaction expenses on the consolidated statement of operations.

In connection with the Merger, a substantial majority of Nuvelo s employees were involuntarily terminated, subsequent to transition periods of up to 12 weeks from the date of the Merger. Pursuant to pre-existing employment agreements and compensation plans, termination benefits of $3.1 million had been accrued as of the date of the Merger. In addition to the termination benefits pursuant to the assumed Nuvelo compensation plans, the Company has offered retention bonuses to employees on transition plans totaling $290,000, which were expensed as incurred over the transition period.

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The following table provides supplemental pro forma financial information for the three and six months ended June 30, 2009 and 2008 as if the acquisition had occurred as of the beginning of each year presented. For each period presented, the unaudited pro forma results exclude the nonrecurring charges for the merger transaction costs and the gain on bargain purchase. The unaudited pro forma results do not reflect any operating efficiencies or potential cost savings that may result from the consolidation of the operations of ARCA Colorado and Nuvelo. Accordingly, these unaudited pro forma results are presented for illustrative purposes and are not intended to represent or be indicative of the actual results of operations of the combined company that would have been achieved had the acquisition occurred at the beginning of each period presented, nor are they intended to represent or be indicative of future results of operations.

	Three Months Ended,		Six Months Ended,	
	June 30,		June 30,	
(in thousands, except per share data)	2009	2008	2009	2008
Revenue	$ -	$ 15,000	$ -	$ 15,000
Net (loss) income	(8,577)	550	(24,443)	(21,741)
Net (loss) earnings per share,				
Basic and diluted	$ (1.14)	$ 0.09	$ (3.24)	$ (3.38)

(3) Financial Instruments

Available-for-sale Investments

The cost and fair value of the Company s available-for-sale investments as of June 30, 2009 and December 31, 2008 were as follows (in thousands):

	June 30, 2009			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Money market fund	$ 11,369			$ 11,369
Corporate debt securities	5,038		(12)	5,026
	$ 16,407	$ -	$ (12)	$ 16,395
Reported as:				
Cash equivalents				$ 11,369
Marketable securities				5,026
				$ 16,395

	December 31, 2008				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value	
Money market fund	$ 7,671			$ 7,671	(a)

(a) Reported as cash equivalents

The contract maturity of all of the Company s available-for-sale investments is less than one year.

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The following is a summary of available-for-sale investments with unrealized losses and their related fair value by the period of time each investment has been in an unrealized loss position (in thousands):

	June 30, 2009		December 31, 2008	
	Unrealized Losses	Estimated Fair Value	Unrealized Losses	Estimated Fair Value
Unrealized loss position for less than one year	$ (12)	$ 5,026	$	$

Due to the short maturities of investments, the type and quality of security held, the relatively small size of unrealized losses compared to fair value, and the short duration of such unrealized losses, the Company believes these unrealized losses to be temporary in nature.

Fair Value of Other Financial Instruments

The carrying amount of other financial instruments, including cash and accounts payable, approximated fair value due to their short maturities, and the carrying amount of the Company s bank note approximates the fair value, as the applicable interest rate approximated market rate. As of June 30, 2009 and December 31, 2008, the Company did not have any other debt or foreign exchange forward contracts outstanding.

(4) Property and Equipment

Property and equipment consist of the following:

	Estimated Life	June 30, 2009	December 31, 2008
		(in thousands)	
Computer equipment	3 years	$ 283	$ 218
Lab equipment	5 years	226	85
Furniture and fixtures	5 years	489	415
Computer software	3 years	186	149
Leasehold improvements	Lesser of useful life or life of the lease	743	739
		1,927	1,606
Less accumulated depreciation and amortization		(551)	(303)
		$ 1,376	$ 1,303

For the six months ended June 30, 2009 and 2008, and for the period from Inception through June 30, 2009, depreciation and amortization expense was $250,000, $51,000 and $590,000, respectively.

For the three and six months ended June 30, 2009, the Company recorded an impairment charge of $83,000 on certain computer and office equipment. As a result of the reduction in force implemented in the second quarter of 2009, management reviewed excess computer and office equipment for impairment. Management compared the carrying value to the fair value less cost to sell and determined that impairment had occurred. The impairment charge is classified as restructuring expense in the consolidated statement of operations.

(5) Restructuring Expense

In the second quarter of 2009, the Company implemented a restructuring plan under which it terminated 44 employees from its research and development and selling, general and administrative functions. The Company implemented the restructuring plan in connection with its previously announced strategy to seek strategic alternatives for commercializing Gencaro, rather than establish its own internal sales, marketing and distribution capabilities and to lower operating expenses to preserve the Company s capital resources. The Company honored the Nuvelo,

Inc. Change in Control Severance Benefit Plan for legacy Nuvelo employees affected; honored the employment agreement of one affected employee; and for the balance of affected employees, offered cash severance, acceleration of vesting on

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outstanding options representing the number of options that would have vested in one year had such employees continued to provide service to the Company, and an extension of the post-termination exercise period of the outstanding stock options to approximately one year. No employees were asked to perform service beyond a minimum retention period.

As a result of the restructuring plan implemented, the Company recorded a restructuring charge of approximately $1.2 million for personnel-related termination costs in the second quarter of 2009, of which $795,000 relates to severance amounts to be paid in cash and $387,000 relates to the acceleration of vesting on outstanding stock options. See Note 14, Stock-based Compensation, for further discussion of the stock option vesting acceleration. The Company expects to complete all payments associated with this restructuring plan by the end of 2009.

As a result of the reduction in force, management reviewed excess computer and office equipment for impairment. The Company recorded an impairment charge of $83,000, based on the excess of the carrying value over the fair value less cost to sell. The impairment charge is classified as restructuring expense in the consolidated statement of operations.

The following table summarizes activity in the severance accrual for the six months ended June 30, 2009 (in thousands):

Severance costs expected to be paid in cash, accrued through June 30, 2009	$	795
Cash payments prior to June 30, 2009		(305)
Severance accrual at June 30, 2009	$	490

The severance accrual is classified as accrued compensation and employee benefits on the consolidated balance sheet.

(6) Facility Exit Costs

As a result of the Merger, the Company assumed an operating lease for a 139,000-square-foot facility in Sunnyvale, California (the Sunnyvale Facility), which had previously been exited by the acquired company. The term of the lease for the facility expires on May 31, 2011. The Company recorded a facility exit liability of $13.3 million as of the acquisition date to reflect the estimated fair value of this liability using a discounted cash flow method. As of June 30, 2009, estimated future lease-related payments totaling $13.3 million are scheduled to be made periodically until the lease expires. The Company also assumed a sublease agreement related to this facility, pursuant to which estimated sublease income of $2.3 million is expected to be received over the remaining sublease term through May 31, 2011.

The following table summarizes the activities related to accrued facility exit costs for the six months ended June 30, 2009 (in thousands):

Fair value of facility exit cost liability assumed:	$	13,278
Amounts paid during the period		(2,860)
Amounts received during the period		168
Non-cash accretion, net		265
Balance as of June 30, 2009	$	10,851

The non-cash accretion expense of $265,000 for the six months ended June 30, 2009 was included in general and administrative expenses.

In August 2009, the Company and the landlord for the Sunnyvale Facility entered into an agreement providing for the early termination of the lease agreement in exchange for a termination payment. Due to the Company s intent at June 30, 2009 to settle this lease obligation, the full balance of the accrued exit facility cost of $10.9 million was classified as a current liability on the consolidated balance sheet. See Note 16, Subsequent Events, for discussion of the early termination of this lease commitment and related termination payment.

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(7) Convertible Promissory Notes

In October 2008, the Company entered into convertible promissory notes with certain of ARCA Colorado s existing investors. The principal amount of the convertible notes was $8.4 million and the notes bore interest at 6% per annum. The entire principal and accrued interest on the notes was due on March 31, 2009. In January 2009, upon closing of the Merger, the principal balance of $8.4 million and the accrued interest of $151,000 were converted into common stock at a rate consistent with the Series B-2 Preferred Stock into 872,792 shares of common stock. In connection with the issuance of the notes, the Company issued warrants, with an estimated fair value of $399,000, to the noteholders which allows them to purchase 179,659 shares of common stock at an exercise price of $9.7406 per share.

(8) Bank Note Payable

In July 2007 the Company obtained a credit facility of $4.0 million from Silicon Valley Bank (SVB), or the Credit Facility, to be used solely for working capital and to fund general business requirements. In August 2008, the Company borrowed the full $4.0 million available under the growth capital facility. In January 2009, the Credit Facility was amended to mature on March 23, 2009. Pending the execution and delivery of definitive documentation to amend the Credit Facility and extend the maturity date until December 1, 2010, SVB agreed to extend the maturity date of the Credit Facility until April 6, 2009 and subsequently to April 17, 2009.

On April 10, 2009, the Company and SVB agreed to amend the Credit Facility pursuant to which the maturity on the Credit Facility was extended until December 1, 2010. In addition, the principal amount outstanding under the Credit Facility will bear interest at a rate of 4.25% per annum, unless the Company and its subsidiaries fail to maintain the lesser of $10 million or 100% of all of their invested cash balances in designated accounts with SVB, in which event, the interest rate will be permanently increased to a rate equal to SVB s prime rate plus 2.0%, which shall be fixed as of the date such accounts fall below the thresholds. Monthly principal and interest payments are due on the Credit Facility through the maturity date of December 1, 2010.

The agreement contains customary affirmative and negative covenants including, without limitation, (i) covenants requiring the Company to comply with applicable laws, provide to SVB copies of the Company s financial statements, maintain appropriate levels of insurance, protect, defend and maintain the validity and enforceability of the Company s material intellectual property, and (ii) covenants restricting the Company s ability to dispose of all or substantially all of its assets, engage in other lines of business, change its senior management, enter into transactions constituting a change of control, assume additional indebtedness, incur liens on its assets, among other covenants. The Company s obligations under the Credit Facility are secured by a majority of the Company s assets.

The Company agreed to pledge to SVB restricted certificates of deposit (CD s) issued by SVB, with the aggregate amount of the pledged CD s varying from time to time depending on the aggregate amount of unrestricted cash maintained by the Company with SVB. So long as the Company and its subsidiaries maintain at least $20 million in cash at SVB, no pledged CD is required. So long as the Company and its subsidiaries maintain less than $20 million but at least $15 million in cash at SVB, the Company is required to pledge CD s to SVB in an aggregate amount equal to 33 ^{1} /3% of the then outstanding principal amount of the Credit Facility. So long as the Company and its subsidiaries maintain less than $15 million but at least $10 million in cash at SVB, it is required to pledge CD s to SVB in an aggregate amount equal to 66^{2} /3% of the then outstanding principal amount of the Credit Facility. Finally, for so long as the Company and its subsidiaries maintain less than $10 million in cash at SVB, the Company is required to pledge CD s to SVB equal to 100% of the then outstanding principal amount of the Credit Facility.

On July 10, 2009, subsequent to the scheduled July 1, 2009 payment, the Company repaid all amounts due under the Credit Facility, comprised primarily of $2.9 million of outstanding principal and interest. Due to the Company s intent at June 30, 2009 to repay the all amounts under the Credit Facility, the full balance of the Credit Facility was classified as a current liability on the consolidated balance sheet. See Note 16, Subsequent Events, for discussion of the repayment of the Credit Facility.

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(9) Commitments and Contingencies

In addition to the legal matters discussed in Note 13, the Company has or is subject to the following commitments and contingencies:

(a) Employment Agreements

The Company maintains employment agreements with several key executive employees. The agreements may be terminated at any time by the Company with or without cause upon written notice to the employee, and entitle the employee to wages in lieu of notice for periods not exceeding one calendar year from date of termination without cause or by the employee for good reason. Certain of these agreements also provide for payments to be made under certain conditions related to a change in control of the Company.

(b) Operating Leases

As a result of the Merger, the Company assumed two facility operating leases, including the lease of the Sunnyvale facility. The term of the lease for the Sunnyvale Facility expires on May 31, 2011. The Company recorded a facility exit liability of $13.3 million as of the acquisition date to reflect the estimated fair value of this liability using a discounted cash flow method, which balance is $10.9 million as of June 30, 2009. The Sunnyvale Facility lease requires a letter of credit issued to the facility s landlord in the amount of $6.0 million. The letter of credit is being collateralized by a certificate of deposit of the same amount, which is recorded as restricted cash in the accompanying consolidated balance sheet. The Company also assumed a sublease agreement related to this facility, which requires the subtenant to pay a monthly base rent of $57,000, except during the first four months of the term, and a substantial majority of the facility operating expenses charged by the facility s landlord. The term of the sublease commenced on March 1, 2009 and ends on May 31, 2011. In August 2009, the Company and the landlord for the Sunnyvale Facility entered into an agreement providing for the early termination of the lease agreement in exchange for a termination payment. See Note 16, Subsequent Events, for discussion of the early termination of this lease commitment and related termination payment.

The second facility operating lease assumed in the Merger is a seven-year agreement for approximately 69,000 square feet of space in San Carlos, California. The lease term commenced on September 1, 2005, and contains an option to cancel after five years upon payment of certain amounts specified in the lease, and two options to extend the lease for five additional years, each at 95% of the then-current fair market rental rate (but not less than the existing rental rate). Nuvelo used this facility for its headquarters prior to the Merger. The Company also assumed a sublease agreement related to this facility for approximately 6,800 square feet of the space. The term of the sublease, which started in February 2008 and expires in January 2011, can be extended by the subtenant for three additional periods of one year each, subject to certain conditions contained in the sublease agreement. The Company has continued to use this facility for certain laboratory and general business purposes. The Company is seeking to sublease the entire facility. As of the date of the Merger, the Company determined that the net terms of the lease and sublease were unfavorable compared with the market terms of leases for similar facilities, and as a result recorded a liability representing the estimated fair value of such unfavorable terms. The Company estimated the fair value of the unfavorable lease liability to be $943,000 as of the acquisition date using a discounted cash flow model comparing the contractual lease payments and receipts to an estimated market rate for such receipts. The unfavorable lease liability is classified on the accompanying consolidated balance sheet as accrued expenses and other liabilities for the current portion and as other long-term liabilities for the non-current portion. The Company will amortize this liability to operating expense on a straight-line basis over the term of the lease and sublease.

On February 8, 2008 the Company entered into a lease agreement for approximately 15,000 square feet of newly constructed office facilities in Broomfield, Colorado, which serves as the Company s primary business offices. The Company relocated to the new facility upon its completion in July 2008. The lease has a term of 5 years with rights to extend the term for two additional three year periods. Per the lease agreement, base rent is subject to annual increases of approximately three percent per year. The rent expense for the lease is being recognized on a straight-line basis over the lease term. Tenant improvement reimbursements from the landlord totaled $593,000 which were recorded as deferred rent and are amortized as reductions to rent expense over the lease term.

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Below is a summary of the future minimum lease payments committed under the two leases assumed in the Merger and the Company s facility in Broomfield, Colorado as of June 30, 2009 (in thousands):

	San Carlos, CA & Broomfield, CO	Sunnyvale, CA	Total
Remainder of 2009	$ 1,206	$ 3,132	$ 4,338
2010	2,455	6,410	8,865
2011	2,509	2,715	5,224
2012	1,790		1,790
2013	127		127
Total future minimum rental payments	8,087	12,257	20,344
Less: aggregate estimated future sublease receipts	(396)	(1,308)	(1,704)
	$ 7,691	$ 10,949	$ 18,640

(c) CardioDx, Inc.

In June 2006, the Company entered into a license agreement with CardioDx, Inc (CardioDx). The license gives the Company a nonexclusive, royalty bearing license for diagnostic rights to key genetic markers that are relevant for prescribing Gencaro. The term of the agreement extends to the latest expiring patent underlying the diagnostic rights. The license permits the Company to sublicense its rights under certain conditions, and in February 2007, the Company sublicensed its rights and transferred its royalty and other fee obligations to Laboratory Corporation of America.

(d) Laboratory Corporation of America

In February 2007, the Company entered into a commercialization and licensing agreement with Laboratory Corporation of America, or LabCorp, to develop, make, market and sell diagnostic tests in connection with the medical prescription of the Company s lead compound, Gencaro. Under the agreement the Company granted to LabCorp an exclusive license to its diagnostic rights under the CardioDx agreement and the Company s diagnostic rights associated with Gencaro. The license agreement has a term of 10 years. The sublicense transferred the royalty and all other fee obligations of the Company arising out of the sale of diagnostic tests by LabCorp. Royalty payments will be made directly to CardioDx by LabCorp. If LabCorp does not fulfill its royalty payment and other fee obligations, the Company is responsible for the payments. In addition, the Company granted to LabCorp 16,698 shares of common stock. The shares are subject to a restricted stock agreement in which shares vest upon the attainment of certain regulatory approval and drug product sales milestones.

(e) Cardiovascular Pharmacology and Engineering Consultants, LLC, or CPEC

Under the terms of its strategic license agreement with CPEC, a licensing subsidiary of Indevus Pharmaceuticals Inc. (a wholly owned subsidiary of Endo Pharmaceuticals as of March 23, 2009), holding ownership rights to certain clinical trial data of Gencaro, the Company will incur milestone and royalty obligations upon the occurrence of certain events. In August 2008, the Company paid CPEC a milestone payment of $500,000 based on the July 31, 2008 submission of its NDA with the FDA. If the FDA grants marketing approval for Gencaro, the Company will owe CPEC another milestone payment of $8.0 million, which is due within six months after FDA approval. The Company s royalty obligation ranges from 12.5% to 25% of revenue from the related product based on achievement of specified product sales levels, including a 5% royalty that CPEC is obligated to pay under its original license agreement for Gencaro. The Company has the right to buy down the royalties to a range of 12.5% to 17% by making a payment to CPEC within six months of regulatory approval.

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(10) Collaborative Agreements

The following collaborative agreements have been assumed as a result of the Merger:

Archemix

In July 2006, Nuvelo entered into a collaboration agreement with Archemix Corporation. Under the agreement, Archemix is responsible for the discovery of short-acting aptamers targeting the coagulation cascade for use in acute cardiovascular procedures, and the Company is responsible for development and worldwide commercialization of these product candidates. In August 2006, Nuvelo made an upfront license fee payment to Archemix of $4.0 million, and pursuant to the terms of the agreement committed to funding at least $5.25 million of Archemix s research over the first three years of the agreement. Archemix may receive payments totaling up to $35.0 million per development compound on the achievement of specified development and regulatory milestones, along with potential royalty payments based on sales of licensed compounds. In February 2008, Nuvelo paid Archemix a $1.0 million milestone fee that was accrued upon dosing of the first patient in the Phase 1 trial for NU172. If the Company enrolls the first patient in a Phase 2 trial of NU172, which is not expected to occur in 2009, the Company is obligated to pay Archemix a $3.0 million milestone fee. At the initiation of the first Phase 3 study for any licensed compound, Archemix has the option to elect to participate in profits from sales of the compound by funding its pro rata share of prior and future product development and commercialization expenses, in lieu of receiving milestone payments and royalties with respect to that compound. In addition, the Company is obligated to purchase Archemix common stock having a value equal to the lesser of $10.0 million or 15% of the shares issued by Archemix in a qualified initial public offering of Archemix stock occurring within five years of the effective date of the 2006 collaboration agreement.

Kirin

In March 2005, Nuvelo entered into a collaboration agreement with Kyowa Hakko Kirin Company, Limited for the development and commercialization of NU206. In accordance with the terms of this agreement, Nuvelo received a $2.0 million upfront cash payment from Kirin in April 2005. Nuvelo agreed to lead worldwide development, manufacturing and commercialization of the compound. All operating expenses and any profits related to the development and commercialization of NU206 are being shared 60% by the Company and 40% by Kirin. If this agreement is terminated, or Kirin or the Company elects under certain circumstances to no longer actively participate in the collaboration, the relationship with respect to NU206 will convert from an expense and profit-sharing structure to a royalty-based structure.

(11) Comprehensive (Loss) Income

The components of comprehensive (loss) income for each period presented, net of any related tax effects, are as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Net (loss) income, as reported	$(8,577)	$(3,965)	$ 1,356	$(7,841)
Change in unrealized gain (loss) on available-for-sale securities	21			