

NUVELO INC
Form 10-Q
May 09, 2008
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2008

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

NUVELO, INC.

(Exact Name of Registrant as Specified in Its Charter)

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DELAWARE
(State or Other Jurisdiction of

36-3855489
(I.R.S. Employer

Incorporation or Organization)

Identification Number)

201 INDUSTRIAL ROAD, SUITE 310, SAN CARLOS, CA 94070-6211

(Address of Principal Executive Offices, including Zip Code)

650-517-8000

(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 No

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

Large accelerated filer Accelerated filer Non-accelerated filer Small reporting company

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

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

Class
Common Stock \$0.001 par value

Number of Shares Outstanding
On April 30, 2008: 53,505,956

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Table of Contents**PART I. FINANCIAL INFORMATION****ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
NUVELO, INC.****CONDENSED CONSOLIDATED BALANCE SHEETS****(unaudited)**

	March 31, 2008	December 31, 2007
	(In thousands)	
ASSETS		
Cash and cash equivalents	\$ 37,968	\$ 32,061
Marketable securities	43,200	65,506
Collaboration receivables	834	588
Other current assets	1,458	1,831
Total current assets	83,460	99,986
Restricted cash	6,000	6,000
Property and equipment, net	8,445	8,906
Goodwill	4,671	4,671
Other assets	1,110	1,120
Total assets	\$ 103,686	\$ 120,683
LIABILITIES AND STOCKHOLDERS' EQUITY		
Accounts payable	\$ 2,393	\$ 2,307
Accrued compensation and employee benefits	2,018	2,350
Accrued clinical trial and drug manufacturing costs	3,059	3,232
Current portion of deferred revenue	15,250	250
Current portion of deferred rent	1,415	1,400
Current portion of accrued facility exit costs	7,553	7,389
Other current liabilities	501	1,259
Total current liabilities	32,189	18,187
Non-current portion of deferred revenue	1,000	16,063
Non-current portion of deferred rent	5,236	5,597
Non-current portion of accrued facility exit costs	12,769	13,098
Other liabilities	869	79
Total liabilities	52,063	53,024
Stockholders' equity:		
Preferred stock		
Common stock	53	53
Additional paid-in capital	540,403	538,070
Accumulated other comprehensive income	88	49
Accumulated deficit	(488,921)	(470,513)
Total stockholders' equity	51,623	67,659

Total liabilities and stockholders equity	\$ 103,686	\$ 120,683
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See accompanying notes to condensed consolidated financial statements.

Table of Contents**NUVELO, INC.****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS****(unaudited)**

	Three Months Ended March 31,	
	2008	2007
	(In thousands, except per share data)	
Contract revenues	\$ 63	\$ 910
Operating expenses:		
Research and development	11,518	12,725
General and administrative	4,009	5,366
Restructuring	2,470	
Facility exit charge	1,472	
Total operating expenses	19,469	18,091
Operating loss	(19,406)	(17,181)
Interest income, net	998	1,832
Net loss	\$ (18,408)	\$ (15,349)
Basic and diluted net loss per share	\$ (0.34)	\$ (0.29)
Weighted average shares used in computing basic and diluted net loss per share	53,456	53,252

See accompanying notes to condensed consolidated financial statements.

Table of Contents**NUVELO, INC.****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****(unaudited)**

	Three Months Ended March 31,	
	2008	2007
	(In thousands)	
Cash flows from operating activities:		
Net loss	\$ (18,408)	\$ (15,349)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	589	586
Stock-based compensation expense	2,238	2,231
Non-cash facility exit charge and accretion expense	1,869	526
Other non-cash items		(1)
Changes in operating assets and liabilities:		
Collaboration receivables	(246)	5,248
Other current assets	373	1,357
Other assets	10	212
Accounts payable	86	(4,905)
Accrued compensation and employee benefits	(332)	(1,359)
Accrued clinical trial and drug manufacturing costs	(173)	(2,334)
Deferred revenue	(63)	(910)
Deferred rent	(346)	(332)
Accrued facility exit costs	(2,034)	(1,968)
Other current and non-current liabilities	44	(179)
Net cash used in operating activities	(16,393)	(17,177)
Cash flows from investing activities:		
Maturities of marketable securities	47,908	48,932
Purchases of marketable securities	(25,563)	(24,100)
Purchases of property and equipment	(128)	(218)
Net cash provided by investing activities	22,217	24,614
Cash flows from financing activities:		
Proceeds from issuance of common stock under employee stock purchase plan	95	166
Payments on bank loans and capital lease obligations	(12)	(395)
Payments on related party line of credit		(688)
Net cash provided by (used in) financing activities	83	(917)
Net increase in cash and cash equivalents	5,907	6,520
Cash and cash equivalents at beginning of period	32,061	60,335
Cash and cash equivalents at end of period	\$ 37,968	\$ 66,855

See accompanying notes to condensed consolidated financial statements.

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NUVELO, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2008

(Unaudited)

1. Basis of Presentation and Significant Accounting Policies

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared by Nuvelo, Inc. (Nuvelo, or the Company) in accordance with U.S. generally accepted accounting principles (GAAP) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. The accompanying financial information is unaudited but includes all adjustments (consisting only of normal recurring adjustments) that the Company considers necessary for a fair presentation of the financial position, operating results and cash flows for the periods presented. The condensed consolidated balance sheet as of December 31, 2007 is derived from the Company's audited financial statements. Certain prior period amounts have been reclassified to conform to the current period's presentation, including other current liabilities in the condensed consolidated balance sheets and statements of cash flows. The results of operations for the interim period shown herein are not necessarily indicative of operating results expected for the entire year. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2007.

The unaudited condensed consolidated financial statements include the accounts of Nuvelo, Inc. and Hyseq Diagnostics, Inc., Nuvelo's wholly owned and inactive subsidiary. All significant inter-company transactions and accounts have been eliminated on consolidation. Nuvelo is a biopharmaceutical company engaged in the discovery, development and commercialization of novel drugs for acute cardiovascular disease, cancer and other debilitating medical conditions.

Use of Estimates

Conformity with GAAP requires the use of estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent amounts. The Company bases its estimates on historical experience and on assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for the judgments made about the carrying values of assets and liabilities that are not readily apparent from other sources. Future results may differ from these estimates. The Company believes significant judgment is involved in evaluating whether alternative future use exists for materials and equipment acquired for use in research and development, in estimating goodwill and long-lived asset impairment, facility exit costs, clinical trial accruals, stock-based compensation, income taxes and in determining revenue recognition.

Liquidity and Concentration Risk

The Company's primary sources of liquidity are from financing activities and collaboration receipts. The Company plans to continue to raise funds through additional public and/or private offerings and collaboration activities in the future. The primary use of capital has been to fund operating activities, including research, clinical development and drug manufacturing expenses, license payments and spending on capital items.

Fair Value Disclosures

On January 1, 2008, the Company adopted FASB Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* (SFAS 157). SFAS 157 establishes a common definition for fair value to be applied to U.S. 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 FASB issued FASB Staff Position No. FAS 157-2, *Effective Date of FASB Statement No. 157* (FSP 157-2), which delays the effective date of SFAS 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 157 for financial assets and financial liabilities did not have a material impact on our consolidated financial position and results of operations. The Company is currently assessing the impact of adopting SFAS 157 for nonfinancial assets and nonfinancial liabilities on its financial position and results of operations.

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SFAS 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 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

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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 March 31, 2008 (in thousands):

	Level 1	Level 2	Level 3	Total
Money market funds	\$ 23,374	\$	\$	\$ 23,374
Corporate debt securities		47,050		47,050
Asset-backed securities		6,005		6,005
U.S. government agency securities		3,976		3,976
Total	\$ 23,374	\$ 57,031	\$	\$ 80,405

Money market funds, which are expected to maintain a net asset value of \$1 per share, are categorized in Level 1 of the fair value hierarchy. Other marketable debt securities, including corporate debt, asset-backed and U.S. government agency securities, are categorized in Level 2 of the fair value hierarchy. The fair value of these securities is generally based on pricing models which take into consideration market prices of identical or similar securities from multiple sources and the securities' accreted balance on the reporting day.

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* (SFAS 159). SFAS 159 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. The effective date for the Company is January 1, 2008. To date, the Company has not elected this fair value option for any assets or liabilities.

2. Net Loss Per Share

The Company has computed net loss per common share according to Statement of Financial Accounting Standards No. 128, *Earnings Per Share*, which requires disclosure of basic and diluted earnings per share. Basic net loss per share is computed using the weighted-average number of common shares outstanding during the period. Diluted net loss per share reflects the potential dilution of securities by adding other potential common shares to the weighted-average number of common shares outstanding during the period, if dilutive.

In calculating diluted net loss per share, the Company excluded the following outstanding shares of common stock equivalents, as the effect would be anti-dilutive (in thousands):

	March 31,	
	2008	2007
Stock options and restricted stock units	6,196	9,077
Warrants	850	1,096
Total	7,046	10,173

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

	Three Months Ended March 31,	
	2008	2007
Net loss, as reported	\$ (18,408)	\$ (15,349)
Change in unrealized gain (loss) on hedging instruments		(5)
Change in unrealized gain (loss) on available-for-sale securities	39	(8)
Comprehensive loss	\$ (18,369)	\$ (15,362)

4. Stock-based Compensation

Stock-based compensation expense related to employee stock options, restricted stock units and employee stock purchase plan purchase rights was as follows (in thousands):

	Three Months Ended March 31,	
	2008	2007
Research and development	\$ 222	\$ 1,033
General and administrative	779	1,193
Restructuring	1,237	
Total	\$ 2,238	\$ 2,226

Stock-based compensation expense related to non-employees was negligible in these periods.

The Company has not recognized, and does not expect to recognize in the near future, any tax benefit related to employee stock-based compensation expense and, as a result, a full valuation allowance is applied to this deferred tax asset.

The fair values of employee stock options granted under the Company's stock option plans during the periods presented were estimated at the date of grant using the Black-Scholes model with the following assumptions and had the following estimated weighted-average grant date fair values per share:

Three M