ARCA biopharma, Inc.
Form 10-Q
May 08, 2018

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, 2018

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 (State or Other Jurisdiction of Incorporation or Organization)	36-3855489 (I.R.S. Employer Identification Number)
11080 CirclePoint Road, Suite 140, Westminster, CO (Address of Principal Executive Offices)	80020 (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 Section 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 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, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer		Accelerated filer
Non-accelerated filer	(Do not check if a small reporting company)	Small reporting company
Emerging growth company		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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	Number of Shares Outstanding
Common Stock $0.001 par value	On May 4, 2018: 13,923,825

ARCA BIOPHARMA, INC.

FORM 10-Q

FOR THE QUARTER ENDED MARCH 31, 2018

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

ARCA BIOPHARMA, INC.

BALANCE SHEETS

(Unaudited)

	March 31, 2018	December 31, 2017
	(in thousands, except share and per share amounts)	
ASSETS		
Current assets:		
Cash and cash equivalents	$12,096	$8,702
Marketable securities	—	3,050
Other current assets	631	547
Total current assets	12,727	12,299
Property and equipment, net	37	42
Other assets	24	24
Total assets	$12,788	$12,365
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$772	$622
Accrued compensation and employee benefits	239	757
Accrued expenses and other liabilities	708	691
Total current liabilities	1,719	2,070
Deferred rent, net of current portion	15	20
Total liabilities	1,734	2,090
Commitments and contingencies		
Stockholders' equity:		
Common stock, $0.001 par value; 100 million shares authorized	14	12

at March 31, 2018 and December 31, 2017; 13,914,320 and 11,775,062 shares issued and outstanding at March 31, 2018 and December 31, 2017, respectively		
Additional paid-in capital	144,776	141,266
Accumulated other comprehensive loss	—	(2)
Accumulated deficit	(133,736)	(131,001)
Total stockholders' equity	11,054	10,275
Total liabilities and stockholders' equity	$12,788	$12,365

See accompanying Notes to Financial Statements

ARCA BIOPHARMA, INC.

STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS

(unaudited)

	Three Months Ended March 31,	
	2018	2017
	(in thousands, except share and per share amounts)	
Costs and expenses:		
Research and development	$1,720	$3,246
General and administrative	1,053	1,135
Total costs and expenses	2,773	4,381
Loss from operations	(2,773)	(4,381)
Interest and other income	41	45
Interest expense	(3)	(2)
Net loss	$(2,735)	$(4,338)
Change in unrealized loss on marketable securities	2	10
Comprehensive loss	$(2,733)	$(4,328)
Net loss per share:		
Basic and diluted	$(0.20)	$(0.48)
Weighted average shares outstanding:		
Basic and diluted	13,620,710	9,094,276

See accompanying Notes to Financial Statements

ARCA BIOPHARMA, INC.

STATEMENTS OF STOCKHOLDERS' EQUITY

(unaudited)

	Stockholders' Equity					
	Common stock		Additional Paid-In	Accumulated Other Comprehensive	Accumulated	
	Shares	Amount	Capital	Loss	Deficit	Total
	(in thousands, except share amounts)					
Balance, December 31, 2016	9,082,366	$ 9	$ 134,715	$ (19)	$ (112,511)	$ 22,194
Issuance of common stock for cash, net of offering costs	2,677,525	3	6,093	—	—	6,096
Issuance of common stock upon vesting of Restricted Stock Units	15,171	—	—	—	—	—
Share-based compensation	—	—	458	—	—	458
Change in unrealized loss on marketable securities	—	—	—	17	—	17
Net loss	—	—	—	—	(18,490)	(18,490)
Balance, December 31, 2017	11,775,062	12	141,266	(2)	(131,001)	10,275
Issuance of common stock for cash, net of offering costs	2,133,828	2	3,413	—	—	3,415
Issuance of common stock upon vesting of Restricted Stock Units	5,430	—	—	—	—	—
Share-based compensation	—	—	97	—	—	97
Change in unrealized loss on marketable securities	—	—	—	2	—	2
Net loss	—	—	—	—	(2,735)	(2,735)
Balance, March 31, 2018	13,914,320	$ 14	$ 144,776	$ —	$ (133,736)	$ 11,054

See accompanying Notes to Financial Statements

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ARCA BIOPHARMA, INC.

STATEMENTS OF CASH FLOWS

(unaudited)

	Three Months Ended March 31,	
	2018	2017
	(in thousands)	
Cash flows from operating activities:		
Net loss	$(2,735)	$(4,338)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	6	7
Amortization of other assets	—	90
Amortization of premiums and discounts on marketable securities	2	55
Share-based compensation	97	101
Change in operating assets and liabilities:		
Other current assets	287	(74)
Accounts payable	(14)	(234)
Accrued compensation and employee benefits	(518)	(478)
Accrued expenses and other liabilities	(196)	527
Net cash used in operating activities	(3,071)	(4,344)
Cash flows from investing activities:		
Purchases of property and equipment	(1)	—
Purchases of marketable securities	—	(1,542)
Proceeds from maturities of marketable securities	3,050	4,550
Net cash provided by investing activities	3,049	3,008
Cash flows from financing activities:		
Proceeds from the issuance of common stock	3,532	210
Common stock offering costs	(116)	(105)
Net cash provided by financing activities	3,416	105
Net increase (decrease) in cash and cash equivalents	3,394	(1,231)
Cash and cash equivalents, beginning of period	8,702	7,401
Cash and cash equivalents, end of period	$12,096	$6,170
Supplemental cash flow information:		
Interest paid	$—	$—
Supplemental disclosure of noncash investing and financing transactions:		
Vendor finance agreement	$311	$256

Proceeds receivable from the issuance of common stock	$—	$11
Common stock offering costs accrued but not yet paid	$1	$47
Change in unrealized loss on marketable securities	$2	$10

See accompanying Notes to Financial Statements

ARCA BIOPHARMA, INC.

NOTES TO 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 Westminster, Colorado. The Company is a biopharmaceutical company applying a precision medicine approach to developing genetically-targeted therapies for cardiovascular diseases. The Company's lead product candidate, Gencaro™ (bucindolol hydrochloride), is an investigational, pharmacologically unique beta-blocker and mild vasodilator that ARCA is developing for the potential treatment of patients with atrial fibrillation (AF) and chronic heart failure (HF).

In February 2018, the Company completed its Phase 2B clinical superiority trial, known as GENETIC-AF, in which the Company evaluated Gencaro for the treatment of AF in patients with heart failure with reduced left ventricular ejection fraction (HFrEF) against an active comparator, the beta-blocker TOPROL-XL (metoprolol succinate), a drug approved for treating HFrEF that is also prescribed, but not approved, for treating AF in patients with HFrEF. Enrollment in GENETIC-AF was limited to patients that possess the specific genotype that the Company believes enhances Gencaro's potential therapeutic effects. The current development of Gencaro is, in part, based on a prospectively designed DNA substudy of adrenergic receptor polymorphisms in the BEST trial, a previous Phase 3 study of HF patients.

GENETIC-AF was a Phase 2B, multi-center, randomized, double-blind, clinical superiority trial comparing the safety and efficacy of Gencaro against TOPROL-XL, that enrolled 267 patients. Eligible patients had HFrEF, a history of paroxysmal AF (episodes lasting 7 days or less) or persistent AF (episodes lasting more than 7 days and less than 1 year) in the past 6 months, and the beta-1 389 arginine homozygous genotype that the Company believes responds most favorably to Gencaro. The primary endpoint of the study was time to recurrent AF/atrial flutter (AFL), or all-cause mortality. The Company reported top-line Phase 2B data in February 2018. Overall, Gencaro demonstrated a similar treatment benefit compared to the active comparator, metoprolol succinate. An End-of-Phase 2 meeting is scheduled with the U.S. Food and Drug Administration (FDA) for the last week of June 2018 to review the GENETIC-AF Phase 2 data and to discuss potential future development plans for Gencaro. The meeting is expected to guide potential next steps in Gencaro development.

In the first quarter of 2018, ARCA initiated Investigational New Drug enabling development activities with AB171, a thiol-substituted isosorbide mononitrate, as a potential genetically-targeted treatment for peripheral arterial disease and for HF.

The Company will need to raise additional capital to fund future operations and any additional development of Gencaro or AB171. If the Company is unable to obtain additional funding or is unable to complete a strategic transaction, it may have to discontinue development activities on Gencaro or discontinue its operations.

Liquidity and Going Concern

The Company devotes substantially all of its efforts towards obtaining regulatory approval and raising capital necessary to fund its operations and it is subject to a number of risks associated with clinical research and development, including dependence on key individuals, the development of and regulatory approval of commercially viable products, the need to raise adequate additional financing necessary to fund the development and commercialization of its products, and competition from larger companies. The Company has not generated revenue to date and has incurred substantial losses and negative cash flows from operations since its inception. The Company has historically funded its operations through issuances of common and preferred stock.

The Company believes that its current cash and cash equivalents will be sufficient to fund its operations, at its projected cost structure, through the end of 2018. In light of the significant uncertainties regarding clinical development timelines and costs for developing drugs such as Gencaro, the Company will need to raise additional capital to finance the Company's future operations and any additional development of Gencaro or any other product candidates. If the Company is delayed in completing or is unable to complete additional financing and/or a strategic transaction, the Company may discontinue its development activities or operations.

Due to the current status of the Gencaro development program, the current amount of cash and cash equivalents held, the anticipated costs to be incurred for existing operations as well as exploring other corporate strategic alternatives through the end of 2018, and the uncertainty of the Company's ability to raise a significant amount of capital, management has determined there is substantial doubt about the Company's ability to continue as a going concern from one year after the Company's financial statements have been issued. The Company could delay or cancel certain planned expenditures related to its drug development programs and/or implement cost reduction measures to conserve its cash balances; however, there is no assurance that those measures would be adequate to allow the Company to continue as a going concern for a period beyond one year from the issuance of these financial statements. These financial statements have been prepared with the assumption that the Company will continue as 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 may not be able to raise sufficient capital on acceptable terms, or at all, to continue development of Gencaro or to otherwise continue operations and may not be able to execute any strategic transaction.

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:

- the costs and timing for the potential additional clinical trials in order to gain possible regulatory approval for Gencaro or any other product candidate;
- the market price of the Company's stock and the availability and cost of additional equity capital from existing and potential new investors;
- the Company's ability to retain the listing of its common stock on The Nasdaq Capital Market;
- general economic and industry conditions affecting the availability and cost of capital;
- the Company's ability to control 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 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 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, 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 accompanying unaudited financial statements of the Company were prepared in accordance with generally accepted accounting principles for interim financial information and instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, these financial statements do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America (GAAP) for complete financial statements. In the opinion of management, these financial statements include all normal and recurring adjustments considered necessary for a fair presentation of these interim financial statements. The results of operations for the three months ended March 31, 2018 are not necessarily indicative of results expected for the full year ending December 31, 2018. The Company has generated no revenue to date and its activities have consisted of seeking regulatory approval, research and development, exploring strategic alternatives for further developing and commercializing Gencaro, and raising capital. These unaudited financial statements should be read in conjunction

with the audited financial statements and footnotes thereto for the year ended December 31, 2017 included in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission. Amounts presented are rounded to the nearest thousand, where indicated, except per share data and par values.

Concentrations of Credit Risk

Financial instruments that potentially subject the Company to significant concentrations of credit risk consist primarily of cash and cash equivalents. 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 and money market fund accounts with financial institutions that management believes are creditworthy. Such balances may at times exceed the insured amount.

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.

Recent Accounting Pronouncements

In January 2016, Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-01, Recognition and Measurement of Financial Assets and Financial Liabilities (ASU 2016-01). ASU 2016-01 requires equity investments to be measured at fair value with changes in fair value recognized in net income; simplifies the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment; eliminates the requirement for public business entities to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet; requires public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes; requires an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments; requires separate presentation of financial assets and financial liabilities by measurement category and form of financial assets on the balance sheet or the accompanying notes to the financial statements and clarifies that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to available-for-sale securities in combination with the entity's other deferred tax assets. ASU 2016-01 is effective for financial statements issued for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. The adoption of ASU 2016-01 as of January 1, 2018, had no impact to our financial statements and related disclosures.

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842) (ASU 2016-02), which requires lessees to recognize assets and liabilities for the rights and obligations created by most leases on their balance sheet. The guidance is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early application is permitted. ASU 2016-02 requires modified retrospective adoption for all leases existing at, or entered into after, the date of initial application, with an option to use certain transition relief. While the Company is currently evaluating the impact that ASU 2016-02 will have on its financial statements and related disclosures, it is expected that the operating lease commitment discussed in Note 6 will be recognized as operating lease liability and right-of-use asset.

In March 2017, the FASB issued ASU 2017-08, Receivables-Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities. The new guidance is effective for fiscal years beginning after December 15, 2018 and interim periods within those years. Early adoption is permitted for interim or annual reporting periods beginning after December 15, 2017. The guidance is to be applied on a modified retrospective basis through a cumulative-effect adjustment directly to retained earnings as of the beginning of the period of adoption. The guidance shortens the amortization period for certain callable debt securities held at a premium, requiring the premium to be amortized to the earliest call date. As of the adoption date of January 1, 2018, through March 31, 2018, the Company did not hold any such securities.

In May 2017, the FASB issued ASU 2017-09, Compensation - Stock Compensation (Topic 718): Scope of Modification Accounting, which provides guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting in Topic 718. The guidance is effective for annual periods beginning after December 15, 2017. The Company adopted this guidance January 1, 2018. There have been no modifications of any share-based payment awards in 2018. Therefore, there was no impact on the financial statements and related disclosures.

(2) Net Loss Per Share

The Company calculates basic earnings per share by dividing net loss by the weighted average common shares outstanding during the period. Diluted earnings per share is computed by dividing net loss 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 stock options, restricted stock units and warrants for common stock.

Because the Company reported a net loss for the three months ended March 31, 2018 and 2017, all potentially dilutive shares of common stock have been excluded from the computation of the dilutive net loss per share for all periods presented. Such potentially dilutive shares of common stock consist of the following:

	March 31, 2018	2017
Potentially dilutive securities, excluded:		
Outstanding stock options	641,933	826,617
Unvested restricted stock units	9,738	24,905
Warrants to purchase common stock	3,623,600	3,686,894
	4,275,271	4,538,416

(3) Marketable Securities and Fair Value Disclosures

There were no marketable securities as of March 31, 2018. Marketable securities consisted of the following as of December 31, 2017 (in thousands):

	December 31, 2017			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Short-term available-for-sale securities:				
Corporate bonds	$3,052	$ —	$ (2)	$3,050
Total	$3,052	$ —	$ (2)	$3,050

Fair value is defined 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). Inputs used to measure fair value are classified into the following hierarchy:

- Level 1—Unadjusted quoted prices in active markets for identical assets or liabilities. The Company's Level 1 assets consist of money market investments. The Company does not have any Level 1 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 quoted prices that are observable for the asset or liability. The Company's Level 2 assets consist of corporate bonds and commercial paper securities. The Company does not have any Level 2 liabilities.
- Level 3—Unobservable inputs for the asset or liability. The Company does not have any Level 3 assets or liabilities.

The following table identifies the Company's assets that were measured at fair value on a recurring basis (in thousands):

	Balance	Level 1	Level 2	Level 3
March 31, 2018				
Money market	$12,035	$12,035	$—	$ —
Total	$12,035	$12,035	$—	$ —
December 31, 2017				
Money market	$8,189	$8,189	$—	$ —
Corporate bonds	3,725	—	3,725	—
Total	$11,914	$8,189	$3,725	$ —

As of March 31, 2018 and December 31, 2017, the Company had $12.0 million and $8.9 million, respectively, of cash equivalents consisting of money market funds and commercial paper with original maturities of 90 days or less. The Company has the ability to liquidate these investments without restriction. The Company determines fair value for these money market funds and equity securities with Level 1 inputs through quoted market prices. There were no transfers of assets between fair value hierarchy levels during the three-month period ended March 31, 2018.

Fair Value of Other Financial Instruments

The carrying amount of other financial instruments, including accounts payable approximated fair value due to their short maturities.

(4) Property and Equipment

Property and equipment consist of the following (in thousands):

	Estimated Life	March 31, 2018	December 31, 2017
Computer equipment	3 years	$75	$ 74
Lab equipment	5 years	142	142
Furniture and fixtures	5 years	83	83
Computer software	3 years	85	85
Leasehold improvements	Lesser of useful life or life of the lease	59	59
		444	443
Accumulated depreciation and amortization		(407)	(401)
Property and equipment, net		$37	$ 42

For the three months ended March 31, 2018 and 2017, depreciation and amortization expense was $6,000 and $7,000, respectively.

(5) Related Party Arrangements

Transactions with the Company’s President and Chief Executive Officer

The Company has entered into unrestricted research grants with its President and Chief Executive Officer’s academic research laboratory at the University of Colorado. Funding of any unrestricted research grants is contingent upon the Company’s financial condition, and can be deferred or terminated at the Company’s discretion. Total expense under

these arrangements for the three months ended March 31, 2018 and 2017 was $90,000 and $103,000 respectively.

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(6) Commitments and Contingencies

The Company has or is subject to the following commitments and contingencies.

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 the 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.

Operating Lease

On August 1, 2013 the Company entered into a lease agreement for approximately 5,300 square feet of office facilities in Westminster, Colorado which has served as the Company's primary business office since October 1, 2013.

Effective March 2, 2016, the lease was renewed for an additional 38 month term beginning October 1, 2016 and expiring on November 30, 2019. Below is a summary of the future minimum lease payments committed for the Company's facility in Westminster, Colorado as of March 31, 2018 (in thousands):

Remainder of 2018	$66
2019	83
Total future minimum lease payments	$149

Rent expense for the three months ended March 31, 2018 and 2017 was $21,000 and $21,000, respectively.

Duke University

In November 2013, the Company entered into a clinical research agreement with Duke University (Duke) to serve as the clinical research organization for the Company's GENETIC-AF clinical study. Under the agreement the Company is responsible to pay Duke for their work managing certain aspects of the clinical study. Upon completion of the clinical study, the agreement will terminate. The agreement can be terminated earlier by the Company for any reason with 90 days written notice to Duke. In the event of an early termination, the Company and Duke would coordinate efforts for an orderly wind-down of the study, and the Company would be responsible to pay Duke for time and effort incurred through the date of termination and through the wind-down period.

Cardiovascular Pharmacology and Engineering Consultants, LLC

ARCA has licensed worldwide rights to all preclinical and clinical data from development of bucindolol through the BEST trial from Cardiovascular Pharmacology and Engineering Consultants, LLC (CPEC), who has licensed rights to this data from Bristol Myers Squib (BMS). CPEC is a licensing subsidiary of Indevus Pharmaceuticals Inc. (a wholly owned subsidiary of Endo Pharmaceuticals), holding ownership rights to certain clinical trial data of Gencaro. Under the terms of its license agreement with CPEC, the Company will incur milestone and royalty obligations upon the occurrence of certain events. If the FDA grants marketing approval for Gencaro, the license agreement states that the Company will owe CPEC a milestone payment of $8.0 million within six months after FDA approval. The license agreement states that a milestone payment of up to $5.0 million in the aggregate shall be paid upon regulatory marketing approval in Europe and Japan. The license agreement also states that 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 agreement states that 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.

In October 2017, the Company entered into an agreement with CPEC's minority owner, Aeolus Pharmaceuticals, Inc. (Aeolus) pursuant to which the Company acquired Aeolus' minority membership interest in CPEC. The transaction effectively bought out Aeolus' royalty interest thereby reducing or eliminating the stated milestone and royalty obligations that could be payable by the Company, if Gencaro receives regulatory approval and is commercialized. As a result of this transaction, the Company, together with Endo Pharmaceuticals, Inc., indirectly have the rights to the Gencaro program, discussed above. The acquisition cost of this interest did not have a material impact on the Company's financial statements.

(7) Equity Financings and Warrants

At the Market Equity Financing

On January 11, 2017, the Company entered into a Capital on Demand ™ Sales Agreement (the Sales Agreement) with JonesTrading Institutional Services LLC, as agent (JonesTrading), pursuant to which the Company may offer and sell, from time to time through JonesTrading, shares of the Company's common stock, par value $0.001 per share (the Common Stock), having an aggregate offering price of up to $7.3 million. On August 21, 2017, the Company amended its Capital on Demand Sales Agreement. The amendment, among other things, increased the maximum aggregate offering value of shares of the Company's common stock which the Company may issue and sell from time to time under the Sales Agreement from $7.3 million to $10.2 million (the Shares).

Under the amended Sales Agreement, JonesTrading may sell the Shares by any method permitted by law and deemed to be an "at the market offering" as defined in Rule 415 promulgated under the Securities Act of 1933, as amended, including sales made directly on or through The Nasdaq Capital Market, on any other existing trading market for the Common Stock or to or through a market maker. In addition, under the amended Sales Agreement, JonesTrading may sell the Shares by any other method permitted by law, including in negotiated transactions. The Company may instruct JonesTrading not to sell Shares if the sales cannot be effected at or above the price designated by the Company from time to time.

The Company is not obligated to make any sales of the Shares under the amended Sales Agreement. The offering of Shares pursuant to the amended Sales Agreement will terminate upon the earlier of (a) the sale of all of the Shares subject to the amended Sales Agreement or (b) the termination of the amended Sales Agreement by JonesTrading or the Company, as permitted therein.

The Company paid JonesTrading a commission rate equal to 3.0% of the aggregate gross proceeds from each sale of Shares and agreed to provide JonesTrading with customary indemnification and contribution rights. The Company will also reimburse JonesTrading for certain specified expenses in connection with entering into and amending the Sales Agreement.

Under this Sales Agreement, the Company sold an aggregate of 4,811,353 shares of Common Stock pursuant to the terms of such Sales Agreement, as amended, for aggregate gross proceeds of approximately $10.1 million and net proceeds received were approximately $9.5 million, including initial expenses for executing the "at the market offering" and commissions to the placement agent. As of March 31, 2018, the Company had sold all shares available under its prospectus to the Company's registration statement on Form S-3 (No. 333-217459).

Warrants

Warrants to purchase shares of common stock were previously granted as part of various financing and business agreements. All outstanding warrants were recorded in additional paid-in capital at their estimated fair market value at the date of grant using a Black-Scholes option-pricing model.

As of March 31, 2018, these warrants, by year of expiration, are summarized below:

Year of Expiration	Number of Warrants	Weighted Average Exercise Price
2018	953,745	$ 11.60
2019	224,323	15.73
2020	44,299	15.96
2022	2,401,233	6.10
	3,623,600	$ 8.26

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(8) Share-based Compensation

For the three month periods ended March 31, 2018 and 2017, the Company recognized the following non-cash, share-based compensation expense in the statements of operations (in thousands):

	Three Months Ended March 31,	
	2018	2017
Research and development	$38	$36
General and administrative	59	65
Total	$97	$101

Stock option transactions for the three month period ended March 31, 2018 under the Company's stock incentive plans were as follows:

	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)
Options outstanding at December 31, 2017	611,975	$ 6.00	