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SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

☑ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2004

or

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Commission File Number: 0-22873

NUVELO, 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 No.)**
675 Almanor Avenue, Sunnyvale, CA	**94085**
(Address of principal executive offices)	**(Zip Code)**

Registrant's telephone number, including area code:
408-215-4000

Securities registered pursuant to Section 12(b) of the Exchange Act: None

Securities registered pursuant to Section 12(g) of the Exchange Act:
Common Stock, $.001

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 75 days. Yes ☑ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☑

Indicate by check mark whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2). Yes ☑ No ☐

The aggregate market value of the common stock held by non-affiliates of the Registrant on June 30, 2004 was $244,079,679, based on the last sale price of the common stock as reported by the Nasdaq Stock Market.

As of February 28, 2005, the Registrant had 42,003,840 shares of common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's Definitive Proxy Statement, which will be filed with the Commission pursuant to Section 14A in connection with the 2005 meeting of stockholders, are incorporated by reference into Part III of this Form 10-K.

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PART I

On February 23, 2004, we completed a one-for-three reverse split of our common stock. Unless otherwise indicated, all per share amounts in this Form 10-K have been adjusted to reflect the reverse split.

Item 1. *Business*

We have included or incorporated by reference into this Annual Report on Form 10-K statements that may constitute "forward-looking statements" as that term is defined in the Private Securities Litigation Reform Act of 1995. Forward-looking statements may be identified by words including "anticipate", "believe", "intends", "estimates", "expect", "should", "may", "potential", and similar expressions. Such statements are based on our management's current expectations and involve risks and uncertainties. Our actual results and performance could differ materially from those projected in the forward-looking statements as a result of many factors discussed in this Annual Report, including those set forth in this section under the caption "Risk Factors," as well as those under "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" and those discussed elsewhere in this Annual Report on Form 10-K.

Company Overview

We are a biopharmaceutical company focused on the discovery, development and commercialization of therapeutics for the treatment of acute cardiovascular indications and cancer.

We currently have three drug candidates in clinical trials. Our lead drug candidate, alfimeprase, is a thrombolytic agent, or blood clot dissolver. In 2004, we completed two separate Phase 2 clinical trials for alfimeprase for the treatment of acute peripheral arterial occlusion, or PAO, and catheter occlusion. We anticipate initiating a Phase 3 trial for alfimeprase in acute PAO in the first quarter of 2005 and a Phase 3 trial for alfimeprase in patients with central venous catheter occlusion in the second half of 2005.

Our second drug candidate, recombinant nematode anticoagulant protein c2, or rNAPc2, is a recombinant version of a naturally occurring protein that has anticoagulant properties. These properties arise from its ability to block the factor VIIa/tissue factor protease complex, which is responsible for the initiation of the process leading to blood clot formation. rNAPc2, which was licensed from Dendreon in February 2004, is currently undergoing a Phase 2a double-blind, placebo-controlled clinical trial for use in treating acute coronary syndromes, or ACS, including unstable angina, and non-ST segment elevation myocardial infarction. We expect to complete enrollment of this trial in the first half of 2005.

Our third drug candidate is ARC183, a novel thrombin inhibitor, which is currently in a Phase 1 clinical development program for use as an anticoagulant in coronary artery bypass graft, or CABG, surgery. We entered into a 50/50 cost/profit sharing collaboration agreement with Archemix Corporation in January 2004 for the development and commercialization of ARC183. We anticipate completing enrollment of the Phase 1 clinical program for ARC183 in the first half of 2005.

We have exclusive worldwide rights to develop and commercialize alfimeprase, exclusive worldwide rights to all indications of rNAPc2 and all rNAPc molecules owned by Dendreon, and we share worldwide commercialization rights to ARC183 with Archemix.

In addition to our clinical and development stage drug candidates, we have an on-going discovery effort that is focused on therapeutic secreted proteins and antibody targets. Our secreted proteins program includes our collaboration with the pharmaceutical division of Kirin Brewery Company, Ltd. and our own internal discovery program. Our antibody targets program is focused on screening our proprietary gene sequence collection to identify proteins located on the surface of tumor cells that could be targeted by therapeutic monoclonal antibodies. We recently initiated pre-clinical studies on our first internally-discovered drug candidate, NU206. We expect to leverage discoveries in our research programs to extend and expand our drug pipeline and to create revenue-generating licensing and partnering arrangements.

In February 2005, we raised approximately $68.3 million in a public offering, net of underwriters' fees and stock issuance costs of approximately $5.0 million, from the sale of 9,775,000 shares of our common stock, including 1,275,000 shares related to the exercise of an over-allotment option granted to the underwriters, at a public offering price of $7.50 per share. We intend to use the net proceeds from this offering for general corporate purposes, including capital expenditures, working capital needs, current and future clinical trials of our lead drug candidate, alfimeprase, as well as other research and drug development activities. The amounts and timing of the expenditures will depend on numerous factors, such as the timing and progress of our clinical trials and research and development efforts, technological advances and the competitive environment for our drug candidates. We expect from time to time to evaluate the acquisition of businesses, products and technologies for which a portion of the net proceeds may be used, although we currently are not planning or negotiating any such transactions.

In January 2005, we entered into a five-year lease for approximately 55,000 square feet of space at 201 Industrial Road, San Carlos, California, which we intend to become our primary headquarters.

We are currently operating at a loss and have no significant sources of revenue. We do not expect to be profitable, or to generate revenues from product sales, in the foreseeable future.

We were established in August 1992 as an Illinois corporation, reincorporated as a Nevada corporation in November 1993 and subsequently reincorporated as a Delaware corporation on March 25, 2004. On October 24, 2001, we began doing business as Hyseq Pharmaceuticals, Inc., previously having done business as Hyseq, Inc. We changed our name to Nuvelo, Inc. on January 31, 2003 upon the closing of a merger with Variagenics, Inc.

Available Information

Our headquarters address is 675 Almanor Avenue, Sunnyvale, California 94085. Our telephone number is (408) 215-4000. We file our annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 electronically with the Securities and Exchange Commission. The public may read or copy any materials we file with the SEC at the SEC's Public Reference Room at 450 Fifth Street, NW, Washington, D.C. 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains an Internet site that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC. The address of that site is http://www.sec.gov.

You may obtain a free copy of our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports on the day of filing with the SEC on our website, on the World Wide Web at http://www.nuvelo.com or by contacting the Investor Relations Department at our corporate office by calling (408) 215-4000 or sending an e-mail message to ir@nuvelo.com. Information found on our website is not incorporated by reference into this report.

Strategy

We are focused on building a successful biopharmaceutical business and committed to creating a valuable product-focused company that leverages our drug discovery and development expertise. Key elements of our strategy are to:

Successfully develop and commercialize our lead drug candidate, alfimeprase

We are seeking to develop and commercialize our lead drug candidate, alfimeprase, for the treatment of acute PAO and catheter occlusion. We recently completed Phase 2 clinical trials in these two indications, and we expect to initiate pivotal Phase 3 trials in both indications in 2005. We have acquired worldwide, exclusive rights to this compound and are currently exploring potential partnering opportunities that would enable commercialization outside of the United States and advance us towards our goal of establishing our own

domestic sales force. Alfimeprase may also have alternative uses in other indications not currently being studied, including, but not limited to, deep vein thrombosis, stroke, myocardial infarction and pulmonary embolism.

Leverage our expertise in cardiovascular disease to advance our clinical development programs

We are primarily focused on the development of acute, hospital-based, cardiovascular drug candidates. We believe this portfolio leverages our expertise in cardiovascular drug development, provides synergy with alfimeprase during both development and commercialization and enables us to pursue a more rapid path toward drug development.

Build a diversified pipeline of product candidates

We are pursuing several drug development candidates in various stages of clinical and pre-clinical development. We believe this strategy reduces our exposure to the impact of any single product failure and increases our flexibility to eliminate programs we deem less promising. By broadening our product portfolio, we intend to increase the probability of clinical and commercial success. In addition, we focus on molecules that we believe have a greater chance of success due to the predictability of pre-clinical models used in their development.

Opportunistically seek to license or acquire complementary products and technologies

We intend to supplement our internal drug discovery efforts through the acquisition of products and technologies that complement our development strategy. We continue to identify, evaluate and pursue the acquisition or licensing of strategically valuable product opportunities.

Lead Drug Candidates

Alfimeprase

Alfimeprase, our lead development candidate, recently completed Phase 2 clinical trials in two distinct indications, acute PAO and catheter occlusion. Alfimeprase is a thrombolytic agent, or blood clot dissolver, with a novel mechanism of action. It is a modified and recombinant version of fibrolase, a naturally occurring enzyme that directly degrades fibrin, the protein that provides the structural scaffold of blood clots. Thrombolytics currently on the market such as urokinase (Abbokinase®) or alteplase (Cathflo® Activase®), are plasminogen activators that work by activating plasminogen to form plasmin which, in turn, degrades fibrin. In contrast, alfimeprase directly degrades fibrin, creating the potential for more rapid clot dissolution, or lysis. Alfimeprase is locally delivered at the site of the blood clot and is inactivated quickly by a naturally occurring protein in the bloodstream. We believe this clearance mechanism limits the amount of drug in systemic circulation and implies that patients may experience fewer associated side effects. In particular, pre-clinical and Phase 2 clinical data suggest that alfimeprase has the potential to rapidly lyse clots while also reducing the bleeding complications seen with currently available agents.

Alfimeprase was identified through a research program at Amgen Inc. In January 2002 we entered into a 50/50 cost/profit sharing arrangement with Amgen for the development and commercialization of alfimeprase. In October 2004, Amgen exercised its rights pursuant to the terms of this collaboration agreement to terminate its collaboration with us and enter instead into an exclusive license whereby we are granted the worldwide rights to develop and commercialize alfimeprase in exchange for the payment to Amgen of previously negotiated milestone payments and royalties. Under the terms of our license agreement, Amgen will transfer the technology necessary for the manufacture of alfimeprase to us or to Avecia Limited, our designated manufacturer. Amgen is required to continue to supply alfimeprase to us during the transition period. In connection with the termination of the collaboration agreement with Amgen, we also entered into an opt-out, termination, settlement and release agreement with Amgen in October 2004, whereby we made a payment of $8.5 million to Amgen, of which $8.3

million was related to the remaining reimbursement of its manufacturing costs incurred under the collaboration agreement. We believe the inventory to which these manufacturing costs relate is sufficient to supply the Phase 3 program for alfimeprase as currently contemplated.

Alfimeprase in acute Peripheral Arterial Occlusion (PAO)

Our lead medical indication for alfimeprase is acute PAO. Acute PAO is a significant cause of morbidity in the United States with over 100,000 cases reported annually. Acute PAO occurs when arterial blood flow is blocked to a distant part of the body, usually the leg, by a blood clot. Traditionally, bypass surgery and angioplasty have been used to treat acute PAO. However, thrombolytic agents such as Abbokinase or Cathflo Activase have been increasingly used as a less-invasive alternative, even though they have not received regulatory approval to treat acute PAO. Studies have shown that patients receiving current thrombolytic therapies can experience bleeding, including intracerebral hemorrhage at rates of between one to two percent. We believe alfimeprase has the potential to be more effective than existing agents for use in treating acute PAO by reducing the treatment time and potential bleeding side effects.

We completed our Phase 2 alfimeprase trial in patients with acute PAO in the second quarter of 2004. This trial was a multi-center, open label, dose-escalation study to evaluate the safety and activity of alfimeprase, and involved 113 patients across centers in the United States, Western Europe, Hungary, Russia and South Africa. The Phase 2 results indicate that alfimeprase has the potential to offer significant advances in the rapid resolution of a clot while minimizing potentially fatal side effects such as hemorrhagic stroke and other bleeding complications. In analysis of the Phase 2 results, alfimeprase showed potential to break up blood clots within four hours of initiation of dosing with rates of up to 76 percent, and was able to restore arterial flow with rates of up to 60 percent. Up to 69 percent of study patients were able to avoid open vascular surgical intervention in the 30 days following treatment with alfimeprase. Among the 113 patients enrolled, there were no intracerebral hemorrhages or deaths at 30 days. There were seven major bleeding events reported, most of which occurred at the catheter entry site. Of these, only one was categorized by the investigator as possibly related to alfimeprase. Incidents of transient hypotension were also reported and were dose related.

We expect to initiate a multi-center, multi-national, randomized, double-blind, placebo-controlled Phase 3 program to determine the efficacy and safety of alfimeprase for the treatment of patients with acute PAO in the first quarter of 2005. This Phase 3 program, also known as NAPA-2, or Novel Arterial Perfusion with Alfimprase-2, is expected to consist of two overlapping trials that will include a total of approximately 700 patients, who will be randomized to receive either 0.3 mg/kg of alfimeprase or placebo. The primary endpoint will be avoidance of open vascular surgery within 30 days. Secondary endpoints will include safety measures such as the incidence of bleeding, restoration of arterial blood flow, increase in ankle brachial index, which is a measure of ankle blood pressure, and length of intensive care unit and hospital stay. Alfimeprase has orphan drug status in the United States for the treatment of acute PAO, which may provide us with seven years of market exclusivity in the United States.

Alfimeprase in catheter occlusion

Our second medical indication for alfimeprase is catheter occlusion. Catheter occlusion is the obstruction of blood flow through a central venous catheter by a blood clot. It is estimated that about five million catheters are implanted in patients each year in the United States, and approximately 25% become occluded. Current treatment for catheter occlusion includes invasive surgery to remove and replace the catheter, or treatment with Cathflo Activase. Based on clinical trial evidence, we believe alfimeprase has the potential to restore flow to these occluded catheters more rapidly than Cathflo Activase.

In the third quarter of 2004 we announced that we had closed patient enrollment in a Phase 2 multi-center, double-blind, randomized study in patients with occluded central venous catheters comparing three doses (0.3 mg, 1.0 mg and 3.0 mg) of alfimeprase against the approved dose of Cathflo Activase (2.0 mg). We treated 55

patients in this U.S. trial. The alfimeprase 3.0 mg dose produced cumulative flow rates of 40% at 5 minutes after the first dose, 50% at 15 minutes after the first dose, 60% at 120 minutes after the first dose, and 80% at 120 minutes after the second dose. This is compared to Cathflo Activase (2.0 mg), which produced flow rates of 0% at 5 minutes after the first dose, 0% at 15 minutes after the first dose, 46% at 120 minutes after the first dose, and 62% at 120 minutes after the second dose. No major hemorrhagic events were reported in any alfimeprase treated patients and only one patient had a catheter-related infection. We believe results from this Phase 2 study support further evaluation of alfimeprase in fixed doses ranging from 1.0 mg to 3.0 mg for the treatment of occluded catheters. We expect to initiate a Phase 3 pivotal trial of alfimeprase in catheter occlusion in the second half of 2005.

rNAPc2

Our second drug candidate, rNAPc2, is a recombinant version of a naturally occurring protein that has anticoagulant properties. Specifically, rNAPc2 has been shown to block the factor VIIa/tissue factor protease complex, which is responsible for the initiation of the process leading to blood clot formation. Compared to other commercially available anticoagulants, which all exert their effects at later stages of the blood coagulation cascade, rNAPc2 is designed to block the first step in the cascade. By blocking the coagulation cascade before amplification of the coagulation process, rNAPc2 could prove to be more effective in treating patients with conditions such as acute coronary syndrome, or ACS, or as a prophylactic against clot formation in conditions such as deep venous thrombosis.

ACS occurs when an atherosclerotic plaque ruptures in a coronary artery, which triggers the coagulation cascade and results in the formation of a blood clot. The clot blocks the flow of blood to the heart muscle, depriving it of oxygen and causing chest pain and, if severe, permanent heart muscle death. In the United States, ACS accounts for approximately 1.4 million hospital admissions annually. Patients with ACS are traditionally given aspirin and heparin, among other agents, to stabilize their medical condition. Recent guidelines also recommend the addition of the antiplatelet agent clopidogrel (Plavix®) to the standard of care. However, based upon the significant number of patients with ACS who continue to experience poor outcomes such as recurrent angina, myocardial infarction or death, we believe there is a clear need for better antithrombotic therapy.

rNAPc2, given alone or with standard therapy, may reduce the risk of subsequent heart attack or death in patients suffering from ACS. Unlike aspirin and heparin, or current antithrombotic agents, which all exert their effects at later stages of the blood coagulation cascade, rNAPc2 blocks the first step in the cascade. A medical regimen that includes rNAPc2 could, therefore, enable a multi-pronged attack at several points along the blood coagulation process. Alternatively, by stopping coagulation at the outset, rNAPc2 could also prove effective as a stand-alone therapy.

We licensed the worldwide rights for all indications of rNAPc2 and all of the rNAPc molecules owned by Dendreon Corporation in February 2004. The United States government may claim a non-exclusive right to use rNAPc2 with respect to the treatment of hemorrhagic fever. We do not currently contemplate development of rNAPc2 to treat hemorrhagic fever. To date, rNAPc2 has been shown to be well-tolerated in over 500 patients and healthy volunteers in several Phase 1 and 2 studies.

In May 2004, we reinitiated a Phase 2a double-blind, placebo controlled clinical trial to determine a safe and effective dose of rNAPc2 in moderate to high-risk patients with ACS. The study, which was originally initiated prior to our licensing of rNAPc2, is being conducted to investigate rNAPc2 in combination with current anticoagulant and antiplatelet therapies. Currently, the study is being conducted with the TIMI Study Group led by Dr. Eugene Braunwald of Brigham and Women’s Hospital and Harvard Medical School. We plan to complete patient enrollment of the Phase 2a study in the first half of 2005.

ARC183

Our third drug candidate, ARC183, is a DNA aptamer, a single-stranded nucleic acid that binds to thrombin with high affinity and specificity. The key advantage of ARC183 compared to other thrombin inhibitors is its rapid onset of action and short half-life, giving it the potential to be highly effective for medical procedures that require rapid reversal of anticoagulation shortly after the procedure is completed.

In January 2004, we announced a collaboration agreement with Archemix, a privately held biotechnology company, located in Cambridge, Massachusetts, for the development and commercialization of ARC183. Our lead indication for ARC183 is for use as a thrombin inhibitor in coronary artery bypass graft, or CABG, surgery.

According to the American Heart Association, more than 500,000 CABG procedures are performed in the United States annually. Currently, heparin is used to limit blood clotting in this indication, but it is difficult to dose and can cause side effects such as bleeding and heparin-induced thrombocytopenia, or HIT. Moreover, the effect of heparin must be reversed with the use of an antidote called protamine. Protamine is not approved by the FDA for reversal of heparin in CABG surgery and is associated with significant complications including hypotension, platelet dysfunction, complement activation and thrombus formation. We believe that there is a significant unmet medical need for a safe, fast-acting anticoagulant for use in CABG surgery that is easier to administer, does not require a reversal agent and limits adverse side effects such as bleeding and HIT.

ARC183 has shown potential in pre-clinical studies to be equally effective, with fewer side effects, than heparin and protamine in combination. Due to its very short half-life, we believe ARC183 has the potential for more predictable dosing as well as reduced incidence of bleeding side effects compared to heparin.

In August 2004, we and our partner, Archemix, initiated a Phase 1 clinical program for ARC183 for use in CABG surgery. These studies are evaluating the safety, tolerability, anticoagulation activity and titratability of ARC183. We expect to complete enrollment of the Phase 1 clinical program of ARC183 in the first half of 2005.

Product Pipeline

The following table summarizes selected information about our current product pipeline:

Scientific and Industry Background

Alfimeprase, rNAPc2, and many of the product candidates that we are identifying in our research programs belong to a class of drug compounds known as "therapeutic proteins." Therapeutic proteins include naturally occurring proteins that are administered to patients as drugs. Some naturally occurring proteins replace or supplement a protein that is deficient in the body or defective. Others signal the body to initiate or cease a biological function. Examples of therapeutic proteins include insulin, which regulates glucose metabolism for the treatment of diabetes, and tissue plasminogen activator, an enzyme that converts plasminogen to active plasmin, a protein that can break down blood clots. Other therapeutic protein-based drugs have been engineered to provide medical benefit. Examples include monoclonal antibodies such as Herceptin®, which targets and destroys breast cancer cells, and soluble receptors such as Enbrel®, which binds and blocks the activity of a protein implicated in rheumatoid arthritis. Therapeutic proteins, antibodies and other protein-based products represent a promising class of drugs in the biotechnology industry.

The use of recombinant DNA technology to manufacture therapeutic proteins has been a major breakthrough for the pharmaceutical industry. Recombinant DNA technology is used to insert a gene into non-human production cells. These cells are grown in culture and have been engineered to produce the desired protein in large quantities. The protein is then isolated from the culture and purified. Recombinant proteins have several advantages over proteins derived from natural sources, such as pooled human or animal blood. First, recombinant DNA technology enables the large-scale production of certain proteins that are scarce and thus too difficult or costly to derive from human or animal sources in therapeutically useful quantities. Second, recombinant DNA technology significantly reduces the contamination risks from blood-borne pathogens that cause diseases. Finally, recombinant DNA technology allows the production of therapeutic proteins using reproducible methodologies. This reproducibility in manufacturing provides for consistency between batches of the final protein product, a necessity for creating a safe drug capable of receiving regulatory approval.

Research

We begin our process of identifying potential therapeutic proteins and therapeutic antibodies by starting with a proprietary collection of genes that were identified earlier in our history, when we focused on the discovery of rarely-expressed genes. Starting in 1997, we discovered large numbers of novel human genes. We use advanced informatics tools techniques to identify candidate genes for biological screening. We believe genes with sequence characteristics and motifs similar to those found in known secreted proteins are more likely to be useful as protein therapeutics. We have also identified genes with sequence characteristics that suggest they are cell surface or transmembrane proteins, which we are investigating as targets for therapeutic antibodies.

The process of selecting and evaluating biopharmaceutical drug candidates involves a broad range of skills and a highly trained scientific staff. Following the initial gene sequence assessment, full-length complimentary DNAs (cDNA) encoding the secreted proteins are cloned, expressed, and screened for biological activity by our Molecular Core and Biology Research groups. Once biological activities have been identified, additional experiments are performed to support the development of a biological hypothesis that describes the protein's function. The protein candidate next moves to the validation stage, in which more directed and focused experiments are performed to confirm the biological activity and to establish a medical hypothesis. Our Protein Production and Purification group is responsible for providing larger quantities of selected proteins for further *in vitro* and *in vivo* testing. These tests are conducted by our Biology Research group, working in conjunction with contract research organizations. Throughout this process, information is provided to our legal group to pursue patent protection for our candidates. Once a product candidate is identified, it moves to the pre-clinical stage, at which time it is tested in specific animal models of diseases for safety and pharmacokinetic analysis. Following initial safety and pharmacokinetic analysis, we may contract with research organizations to conduct GLP toxicology and other studies required for filing an Investigative New Drug application, or IND. We plan to use contract organizations for the production of current Good Manufacturing Practices, or cGMP, compliant drug of our lead therapeutic protein candidates.

Secreted Proteins Program

We use a diverse set of tools to evaluate the biological functions of the secreted proteins we have discovered, in particular using animal models to provide physiologically relevant readouts. In our collaboration with the pharmaceutical division of Kirin Brewery Company, Ltd., we are developing transgenic mouse models in which our proprietary secreted protein encoding genes are expressed, allowing us to identify some of the fundamental biological activities of these proteins. To date, we have tested 50 secreted proteins genes in this collaboration and will be testing additional candidates in 2005. We can also identify the function of our genes by developing knockout mice, in which the corresponding mouse gene has been inactivated by genetic manipulation. We use dozens of independent assays to investigate the biological and biochemical activities of our novel proteins and rely on an external network of collaborators to investigate biology and conduct additional tests that we do not perform in-house.

Antibody Targets Program

The development of immunotherapeutic antibodies is initiated by producing cDNA microarrays that include sequence elements corresponding to the predicted cell surface or transmembrane encoded cDNAs from our proprietary collection. We evaluate the expression of these genes in normal and tumor tissue samples and identify genes whose mRNA is expressed predominantly in tumors and not in normal tissues. We then develop antibody reagents to the corresponding target proteins and evaluate the protein expression patterns in normal and cancerous tissues using immunohistochemical analysis. The result of this process is a validated cell surface protein target. We then develop murine monoclonal antibodies that bind to these targets and evaluate these antibody reagents for efficacy in pre-clinical studies using in vitro and animal models of human cancer. We anticipate that the identification and validation of these monoclonal antibodies will allow us to attract partners who can assist us in additional pre-clinical studies and these partners may also participate in the clinical development of one or more potential therapeutic antibodies. To date, we are evaluating monoclonal antibodies for two targets in solid cancers and four more in blood cancers.

Research and Development Collaborations

Amgen

Alfimeprase was identified through a research program at Amgen Inc. In January 2002 we entered into a 50/50 cost/profit sharing arrangement with Amgen for the development and commercialization of alfimeprase. In October 2004, Amgen exercised its rights pursuant to the terms of this collaboration agreement to terminate its collaboration with us and enter instead into an exclusive license whereby we are granted the worldwide rights to develop and commercialize alfimeprase in exchange for the payment to Amgen of previously negotiated milestone payments and royalties. Under the terms of our license agreement, Amgen will transfer the technology necessary for the manufacture of alfimeprase to us or to Avecia Limited, our designated manufacturer. Amgen is required to continue to supply alfimeprase to us during the transition period. In connection with the termination of the collaboration agreement with Amgen, we also entered into an opt-out, termination, settlement and release agreement with Amgen in October 2004, whereby we made a payment of $8.5 million to Amgen, of which $8.3 million was related to the remaining reimbursement of its manufacturing costs incurred under the collaboration agreement. We believe the inventory to which these manufacturing costs relate is sufficient to supply the Phase 3 program for alfimeprase as currently contemplated. In addition, we are also required to pay Amgen $5.0 million within 30 days of dosing of the first patient in the first Phase 3 clinical trial for alfimeprase. We expect this milestone to be achieved in the first quarter of 2005. Future milestone payments under the license agreement could total as much as $40.0 million. We have recorded expenses of $6.7 million in 2004, $7.5 million in 2003, and $12.7 million in 2002, under these agreements.

Dendreon

In February 2004, we entered into a worldwide licensing agreement with Dendreon for rNAPc2, a recombinant version of a naturally occurring protein that has anticoagulant properties, and all other rNAPc molecules owned by Dendreon. Under the terms of the agreement, we paid Dendreon an upfront fee of $4.0 million ($0.5 million in cash and $3.5 million in Nuvelo common stock) and have expensed $5.6 million for this and related clinical trial costs in 2004. We also will pay Dendreon milestone payments before and upon any commercialization of an rNAPc based product, as well as royalties if and when we reach commercialization. If all development and commercialization milestones are achieved, total milestone payments to Dendreon could reach as much as $23.5 million. Our license from Dendreon grants us exclusive worldwide rights to all indications for rNAPc products owned by Dendreon.

Archemix

In January 2004, we entered into a worldwide collaboration agreement with Archemix to develop and commercialize ARC183, a novel thrombin inhibitor, for use in acute cardiac surgical procedures, such as CABG surgery, PCI and other acute anticoagulant applications. In accordance with the terms of the agreement, we paid Archemix an upfront payment of $3.0 million and have expensed $7.7 million for this and related clinical trial costs in 2004. We and Archemix will equally share all revenues and costs associated with the development and commercialization of ARC183 after we fund the first $4.0 million in research and development costs, which occurred in the third quarter of 2004. Archemix will initially lead development and be responsible for all clinical development activities. We will have the option to lead commercialization efforts in which both companies may participate. We are required to pay total milestone payments of up to $11.0 million, including a $10.0 million milestone payment upon initiation of the Phase 2 trial and $1.0 million upon the designation of any backup compound. We estimate that the milestone payment of $10.0 million could occur in the first half of 2006.

Pharmaceutical Division of Kirin Brewery Company, Ltd.

In September 2004, we extended and expanded our research and development collaboration with Kirin. The amended agreement extends the term of the current collaboration to December 31, 2005 and expands the scope of the collaboration to include additional secreted protein genes from our full-length gene portfolio. The collaboration is expected to foster further development of therapeutic candidates using Kirin's proprietary site-directed transgenic mouse technology to identify and develop secreted proteins and associated antibodies with therapeutic utility. Under the current contract, we will jointly own discoveries resulting from the collaboration, and we will jointly develop and market the resulting products while sharing costs, efforts, and revenues. We will have marketing rights in North America on all products discovered and developed under the collaboration. Kirin will have marketing rights in Asia and Oceania. We will share marketing rights equally in Europe and the rest of the world. Under our Kirin collaboration, we have completed the initial analysis of 50 secreted protein genes in mouse models and will be testing additional candidate genes in 2005. We have already advanced several secreted protein candidates to more extensive studies to better define their therapeutic utility based upon early findings in initial mouse models. We have recorded expenses of $3.0 million in 2004, $0.2 million in 2003, and $0.1 million in 2002, in relation to this collaboration.

Callida Genomics

On December 3, 2004, we sold our subsidiary, Callida Genomics, Inc., or Callida, to SBH Genomics, Inc., a privately held Delaware corporation. This transaction is part of our strategy to monetize assets that are outside of our core business. Prior to the sale, we owned approximately 90% of Callida's issued and outstanding capital stock. Affymetrix, Inc., a minority stockholder in Callida, also sold its Callida shares to SBH Genomics as part of the same negotiated transaction. We and Affymetrix sold our stock in Callida in exchange for convertible promissory notes in the principal amount of $1.0 million, being $0.9 million for Nuvelo, and $0.1 million for

Affymetrix, and potential additional payments to us from SBH Genomics based on future revenues. The notes are convertible into preferred shares of SBH Genomics under certain circumstances. As part of this transaction, Affymetrix has waived the acceleration of a $4.0 million promissory note owed by us to Affymetrix that would have become immediately payable as a result of the change in control of Callida. This convertible note arose from a loan made to us by Affymetrix in 2001 to fund our initial capital contribution to Callida and is due in November 2006. The sale of our Callida stock resulted in a net non-cash charge to our earnings of approximately $1.1 million, representing the difference between the value of the convertible promissory notes received and the carrying value of Callida's assets and liabilities in our balance sheet. In addition, various cash and non-cash charges of approximately $0.5 million were associated with the sale of this subsidiary.

Manufacturing

On January 21, 2005, we entered into an Interim Agreement with Avecia Limited for initial work related to the manufacture by Avecia of alfimeprase. The initial work will include assessment and planning, transfer of processes and assays to Avecia, purchase of certain capital equipment, replicated fermentation and purification runs and consulting work in preparation for the manufacture of alfimeprase pursuant to Good Manufacturing Practices regulations. We will pay Avecia fees totaling £0.7 million (approximately equivalent to $1.3 million as of December 31, 2004) for completion of this initial work, and will also pay for the purchase of necessary items of equipment, together with certain related fees and expenses. The Interim Agreement will expire upon the first to occur of completion of the work under the agreement by Avecia, entry by Nuvelo and Avecia into a definitive agreement, or termination of the agreement by either party. Either party may terminate the agreement at any time, subject to certain cancellation fees, if applicable. The Interim Agreement requires negotiation in good faith towards the potential entry into a definitive agreement with Avecia that would cover activities under the Interim Agreement as well as other activities related to the manufacture of alfimeprase.

Patents and Trade Secrets

We own or have rights in a number of patents and patent applications relating to each of our clinical candidate molecules, and we also own or have acquired rights in many of our pre-clinical molecules and technologies. The table below shows the actual or estimated year that the primary patent for each of our three clinical candidate molecules expires:

Clinical Molecule	Territory	Anticipated Expiration
alfimeprase	U.S.	2019
alfimeprase	Europe	2020
rNAPc2	U.S.	2016
rNAPc2	Europe	2015
ARC183	U.S.	2015

In some cases, certain of the U.S. patents may be entitled to an extension of their term and certain European patents may be entitled to supplemental protection in one or more countries in Europe. The length of any such extension, if an extension is granted, will vary by country.

We cannot ensure that any of the patents which we own or have rights in will provide sufficient legal protection for the molecules or processes that such patents cover, or any competitive advantage. Any of our granted patents could be challenged, and held unenforceable or invalid in legal proceedings, or could be infringed or circumvented by others. Further, it is possible that others could obtain patent protection for molecules, processes and the like that are competitive with our potential products. In addition, other patent holders could assert their patents against us, claiming that such patents prevent us from marketing our products. Upon expiration of each of the relevant patents, other entities could enter the market with competitive products and/or processes in each country where a patent has expired.

We place a high value on our trade secrets. To protect these trade secrets, we generally require employees to enter in to a confidentiality agreement upon commencing employment. In addition, we generally require our consultants, licensing and collaboration partners, and scientific advisors to enter into confidentiality agreements. There can be no assurance, however, that these confidentiality agreements will be honored or that we can effectively protect our rights to such unpatented trade secrets. Moreover, there can be no assurance that others will not independently develop substantially equivalent proprietary information and techniques or otherwise gain access to our trade secrets.

Competition

The pharmaceutical and biopharmaceutical industries are subject to intense competition and rapid and significant technological change. Our lead drug candidate, alfimeprase, is a thrombolytic agent, or blood clot dissolver.

We believe that the principal competitive factors in the markets for alfimeprase, rNAPc2 and ARC183 include the following:

- the length of time to receive regulatory approval;
- product performance;
- product price;
- product supply;
- marketing and sales capability; and
- enforceability of patent and other proprietary rights.

We believe that we and our collaborative partners are, or will be, competitive with respect to these factors. Nonetheless, because our products are still under development, our relative competitive position in the future is difficult to predict.

We believe the principal competitive factors we face in identifying and commercializing therapeutic protein-based products are the following:

- securing rights to develop and commercialize the products, including appropriate patent and proprietary rights;
- safety and effectiveness of the products;
- the availability of alternative therapeutic products or treatments; and
- the factors identified above for our existing drug candidates.

We expect to face increased competition in the future as new companies enter our markets. Research and discoveries by others may result in breakthroughs that render our potential products obsolete even before they begin to generate any revenue. Our competitors include major pharmaceutical and biotechnology firms, many of which have substantially greater research and product development capabilities and financial, scientific, marketing and human resources than we have. Our lead product candidate alfimeprase, if approved, will face competition in the catheter occlusion indication from alteplase, an approved Genentech, Inc. product, and will potentially face competition in the peripheral arterial occlusion, or PAO, indication from product candidates being developed and/or marketed by Abbot Laboratories, Centocor, Inc. and Genentech. Although we believe that we are well positioned to compete adequately with respect to these factors in the future, our future success is currently difficult to predict because these potential therapies are still in various stages of pre-clinical and clinical development.

Government Regulation

Regulation by governmental authorities in the United States and most foreign countries will be a significant factor in manufacturing and marketing our potential products and in our ongoing research and product development activities. Virtually all of our products and those of our partners will require regulatory approval by governmental agencies prior to commercialization. In particular, human therapeutic products are subject to rigorous pre-clinical and clinical testing and other approval requirements by the U.S. Food and Drug Administration, or FDA, and comparable agencies in foreign countries.

The time required for development and commercialization of our drug candidates and obtaining regulatory approvals is uncertain. Unexpected biological activities, some of which may result in safety issues, may arise during pre-clinical evaluation. Such observations could delay or alter the course of a development program or ultimately result in the termination of a program. Any delay in clinical testing may also delay product development. In addition, delays or rejections may be encountered based on changes in FDA or foreign regulatory policy during the period of product development and testing. Various federal statutes and regulations also regulate the manufacturing, safety, labeling, storage, record-keeping and marketing of such products. The lengthy process of obtaining regulatory approvals and ensuring compliance with appropriate federal statutes and regulations requires the expenditure of substantial resources. Any delay or failure by us or by our collaboration partners to obtain regulatory approval could adversely affect the commercialization of products we or they are developing, our ability to achieve product collaboration milestones or receive royalty revenue and thus negatively impact our liquidity and capital resources.

Pre-clinical studies are generally conducted in the laboratory to evaluate the potential efficacy and safety of a therapeutic product. The results of these studies are submitted to the FDA as part of an Investigational New Drug application, or IND, which must be reviewed by FDA personnel before clinical testing can begin. Typically, clinical evaluation involves three sequential phases, which may overlap. During Phase 1, clinical trials are conducted with a relatively small number of subjects to determine the early safety profile of a drug, as well as the pattern of drug distribution and drug metabolism. In Phase 2, trials are conducted with groups of patients afflicted by a specific target disease to determine preliminary efficacy, optimal dosages, and dosage tolerance and to gather additional safety data. In Phase 3, larger-scale, multi-center trials are conducted with patients afflicted with a specific target disease to provide data for the statistical proof of efficacy and safety as required by the FDA and foreign regulatory agencies. The FDA, the clinical trial sponsor or the investigator may suspend clinical trials at any time if they believe that clinical subjects are being exposed to an unacceptable health risk.

The results of pre-clinical and clinical testing are submitted to the FDA in the form of a New Drug Application, or NDA, for small molecule products or a Biologic License Application, or BLA, for biological products. In responding to a NDA or BLA, the FDA may grant marketing approval, request additional information, or deny the application if the FDA determines that the application does not satisfy its regulatory approval criteria. There can be no assurance that approvals will be granted on a timely basis, if at all. The failure to obtain timely permission for clinical testing or timely approval for product marketing would have a material negative effect on us. Product approvals may subsequently be withdrawn if compliance with regulatory standards is not maintained or if problems are identified after the product reaches the market. The FDA may require testing and surveillance programs to monitor the effect of a new product and may prevent or limit future marketing of the product based on the results of these post-marketing programs.

Currently one of our product candidates, alfimeprase, qualifies as an orphan drug for the treatment of acute peripheral arterial occlusion. This act generally provides incentives to manufacturers to undertake development and marketing of products to treat relatively rare diseases or those diseases that affect fewer than 200,000 persons annually in the United States. A drug that receives orphan drug designation by the FDA and is the first product to receive FDA marketing approval for its product claim is entitled to various advantages, including a seven-year exclusive marketing period in the United States for that product claim. However, any drug that is considered by the FDA to be different from or clinically superior to a particular orphan drug, including any orphan drug of ours

that has been so designated by the FDA, will not be precluded from sale in the United States during the seven-year exclusive marketing period. We cannot assure you that any of our other product candidates will be designated as an orphan drug by the FDA or, if so designated, will have a positive effect on our revenues.

To manufacture our potential products, a domestic or foreign drug manufacturing facility must be registered with the FDA as a manufacturing establishment, must submit to periodic inspection by the FDA and must comply with current Good Manufacturing Practices regulations. In addition, the FDA imposes a number of complex regulations on entities that advertise and promote biologics, including, among others, standards and regulations for direct-to-consumer advertising, off-label promotions, industry-sponsored scientific and educational activities, and promotional activities involving the Internet. The FDA has very broad enforcement authority under the Federal Food, Drug and Cosmetic Act, and failure to abide by these regulations can result in penalties, including the issuance of a warning letter directing us to correct deviations from FDA standards, a requirement that future advertising and promotional materials be pre-cleared by the FDA, and civil and criminal penalties.

Whether or not FDA approval has been obtained, approval of a product by comparable foreign regulatory authorities is necessary prior to the commencement of marketing of a product in those countries. The approval procedures vary among countries and can involve additional testing. The time required to obtain approval may differ from that required for FDA approval. Although there are some centralized procedures for filings in the European Union countries, in general each country has its own procedures and requirements, and compliance with these procedures and requirements may be expensive and time-consuming. Accordingly, there may be substantial delays in obtaining required approvals from foreign regulatory authorities after the relevant applications are filed, if we ultimately receive any approvals at all.

Even if regulatory approval for a product is obtained, the product and the facilities manufacturing the product are subject to continued review and periodic inspection. Each drug-manufacturing establishment in the United States must be registered with the FDA. Domestic manufacturing establishments are subject to inspections by the FDA and must comply with the FDA's cGMP regulations, as well as regulatory agencies in other countries if products are sold outside the United States. We will need to spend funds, time and effort to ensure full technical compliance with these regulations. The FDA stringently applies regulatory standards for manufacturing drugs, biologics, and medical devices. The FDA's cGMP regulations require that drugs and medical devices be manufactured and records be maintained in a prescribed manner with respect to manufacturing, testing and control activities.

Our policy is to conduct research activities in compliance with the National Institute of Health Guidelines for Research Involving Recombinant DNA Molecules. We also are subject to various federal, state and local laws, regulations and recommendations relating to safe working conditions, laboratory and manufacturing practices, the experimental use of animals and the use and disposal of hazardous or potentially hazardous substances, including radioactive compounds and infectious disease agents, used in connection with our work. The extent and character of governmental regulation that might result from future legislation or administrative action and its effect on us cannot be accurately predicted.

Human Resources

As of December 31, 2004, we had 80 full-time equivalent employees, 37 of whom hold Ph.D., M.D., J.D., or other advanced degrees. Approximately 53 of our employees are engaged in research and development activities, and approximately 27 are engaged in business development, finance, operations support, and administration. None of our employees are represented by a collective bargaining agreement, nor have we experienced work stoppages. We believe that relations with our employees are good.

RISK FACTORS

We operate in a rapidly changing environment that involves a number of risks, some of which are beyond our control. The following discussion highlights some of these risks.

RISKS RELATED TO OUR BUSINESS

Development of our products will take years, and our products require regulatory approval before they can be sold.

We have three clinical stage drug candidates. All of our other potential products currently are in research or pre-clinical development and revenues from the sales of any products resulting from this research and development may not occur for several years, if at all. We cannot be certain that any of our products will be demonstrated to be safe and effective or that we will obtain regulatory approvals. We cannot predict whether we will be able to develop and commercialize any of our drug candidates successfully. If we are unable to obtain regulatory approval and successfully commercialize our potential products, our business, results of operations and financial condition will be affected in a materially adverse manner.

We do not yet have products in the commercial markets. We must demonstrate that our product candidates satisfy rigorous standards of safety and efficacy before the FDA and comparable agencies in foreign markets. We cannot apply for regulatory approval of our potential products until we have performed significant additional research and development and testing. We cannot be certain that we, or our strategic partners, will be permitted to undertake clinical testing of our potential products or continue clinical testing of alfimeprase, rNAPc2, or ARC183. If we are successful in initiating clinical trials, we may experience delays in conducting them. Our clinical trials may not demonstrate the safety and efficacy of our potential products, and we may encounter unacceptable side effects or other problems in the clinical trials that may prevent or limit the use of our products. Should this occur, we may have to delay or discontinue development of the potential product that causes the problem. After a successful clinical trial, we cannot market products in the United States until we receive regulatory approval. Even if we are able to gain regulatory approval of our products after successful clinical trials and then commercialize and sell those products, we may be unable to manufacture enough products to maintain our business, which could have a negative impact on our financial condition.

Our clinical trials may not yield results that will enable us to obtain regulatory approval for our products.

We will only receive regulatory approval for a drug candidate if we can demonstrate in carefully designed and conducted clinical trials that the drug candidate is safe and effective. We do not know whether our pending or any future clinical trials will demonstrate sufficient safety and efficacy to obtain the requisite regulatory approvals or will result in marketable products. Clinical trials are lengthy, complex, and expensive processes with uncertain results. It will take us several years to complete our testing, and failure can occur at any stage of testing. Results attained in pre-clinical testing and early clinical studies, or trials, may not be predictive of results that are obtained in later studies. We may suffer significant setbacks in advanced clinical trials, even after promising results in earlier studies. Based on results at any stage of clinical trials, we may decide to repeat or redesign a trial or discontinue development of one or more of our drug candidates. If we fail to adequately demonstrate the safety and efficacy of our products under development, we will not be able to obtain the required regulatory approvals to commercialize our drug candidates, and our business, results of operations and financial condition will be materially adversely affected.

Clinical trials are subject to continuing oversight by governmental regulatory authorities and institutional review boards, or IRBs, and must meet the requirements of these authorities in the United States, including those for informed consent and good clinical practices. We may not be able to comply with these requirements and the FDA, an IRB or we may suspend or terminate clinical trials at any time.

Administering our drug candidates to humans may produce undesirable side effects. These side effects could interrupt, delay or halt clinical trials of our drug candidates and could result in the FDA or other regulatory authorities denying approval of our drug candidates for any or all targeted indications.

We rely on third parties, including contract research organizations and outside consultants, to assist us in managing and monitoring clinical trials. Our reliance on these third parties may result in delays in completing, or in failing to complete, these trials if they fail to perform with the speed and competency we expect.

If clinical trials for a drug candidate are unsuccessful, we will be unable to commercialize the drug candidate. If one or more of our clinical trials are delayed, we will be unable to meet our anticipated development or commercialization timelines. Either circumstance could cause the price of our shares to decline.

If we encounter difficulties enrolling patients in our clinical trials, our trials could be delayed or otherwise adversely affected.

Clinical trials for our drug candidates require that we identify and enroll a large number of patients with the disorder under investigation. We may not be able to enroll a sufficient number of patients to complete our clinical trials in a timely manner.

Patient enrollment is affected by factors including:

- design of the protocol;
- the size of the patient population;
- eligibility criteria for the study in question;
- perceived risks and benefits of the drug under study;
- availability of competing therapies;
- efforts to facilitate timely enrollment in clinical trials;
- patient referral practices of physicians; and
- availability of clinical trial sites.

If we have difficulty enrolling a sufficient number of patients to conduct our clinical trials as planned, we may need to delay or terminate ongoing or planned clinical trials, either of which would have a negative effect on our business. Delays in enrolling patients in our clinical trials would also adversely affect our ability to generate product and royalty revenues and could impose significant additional costs on us or our collaborators. In addition, we have never conducted Phase 3 clinical trials, and we may be unable to successfully conduct multiple Phase 3 clinical trials involving the numbers of clinical sites and the numbers of patients planned for our alfimeprase Phase 3 clinical trials.

We face heavy government regulation, and FDA regulatory approval of our products is uncertain.

The research, testing, manufacturing and marketing of drug products such as those proposed to be developed by us or our collaboration partners are subject to extensive regulation by federal, state and local governmental authorities, including the FDA, and comparable agencies in other countries. To obtain regulatory approval of a drug product, we or our collaboration partners must demonstrate to the satisfaction of the applicable regulatory agency, among other things, that the product is safe and effective for its intended uses. In addition, we must show that the manufacturing facilities used to produce the products are in compliance with current Good Manufacturing Practices, or cGMP, requirements.

The process of obtaining FDA and other required regulatory approvals and clearances typically takes several years and will require us to expend substantial capital and resources. Despite the time and expense expended, regulatory approval is never guaranteed. The number of pre-clinical and clinical tests that will be required for FDA approval varies depending on the drug candidate, the disease or condition that the drug candidate is in development for, and the regulations applicable to that particular drug candidate. The FDA or comparable international regulatory authorities can delay, limit or deny approval of a drug candidate for many reasons, including:

- a drug candidate may not be safe or effective;
- FDA or comparable international regulatory authorities may interpret data from pre-clinical and clinical testing in different ways than we and our collaboration partners interpret them;
- the FDA or comparable international regulatory authorities may not approve our manufacturing processes or facilities or the processes or facilities of our collaboration partners; or
- the FDA or comparable international regulatory officials may change their approval polices or adopt new regulations.

Moreover, if and when our products do obtain such approval or clearances, the marketing, distribution and manufacture of such products would remain subject to extensive ongoing regulatory requirements. Failure to comply with applicable regulatory requirements could result in:

- warning letters;
- fines;
- civil penalties;
- injunctions;
- recall or seizure of products;
- total or partial suspension of production;
- refusal of the government to grant approvals; or
- withdrawal of approvals and criminal prosecution.

Any delay or failure by us or our collaboration partners to obtain regulatory approvals for our product candidates:

- would adversely affect our ability to generate product and royalty revenues;
- could impose significant additional costs on us or our collaboration partners;
- could diminish competitive advantages that we may attain;
- would adversely affect the marketing of our products; and
- could cause the price of our shares to decline.

Even if we do receive regulatory approval for our drug candidates, the FDA or international regulatory authorities may impose limitations on the indicated uses for which our products may be marketed, subsequently withdraw approval or take other actions against us or our products that are adverse to our business. The FDA and comparable international regulatory authorities generally approve products for particular indications. An approval for a limited indication reduces the size of the potential market for the product. Product approvals, once granted, may be withdrawn if problems occur after initial marketing.

We also are subject to numerous federal, state and local laws, regulations and recommendations relating to safe working conditions, laboratory and manufacturing practices, the experimental use of animals, the environment and the use and disposal of hazardous substances used in connection with our discovery, research and development work, including radioactive compounds and infectious disease agents. In addition, we cannot predict the extent of government regulations or the impact of new governmental regulations that might significantly harm the discovery, development, production and marketing of our products. We may be required to incur significant costs to comply with current or future laws or regulations, and we may be adversely affected by the cost of such compliance.

If we fail to maintain existing third-party arrangements and collaborative agreements or fail to develop new collaborative arrangements, our business will be harmed.

The success of our business is dependent, in significant part, upon our ability to enter into multiple collaboration agreements and to manage effectively the numerous issues that arise from such arrangements. Management of our relationships with these third parties has required and will require:

- a significant amount of our management team's time and effort;
- effective allocation of our and third-party resources to multiple projects;
- agreements with third parties as to ownership of proprietary rights and development plans, including clinical trials or regulatory approval strategy; and
- an ability to obtain and retain management, scientific and other personnel.

In October 2004, Amgen Inc. exercised its rights under the collaboration agreement entered into by us and Amgen in January 2002 to convert the relationship from a collaboration into a licensing arrangement in accordance with terms agreed upon by us and Amgen. In November 2004, we and Amgen entered into a license agreement granting us worldwide rights to develop and commercialize alfimeprase in exchange for payment of previously negotiated development milestones and royalties. We are required to pay Amgen $5.0 million within 30 days of dosing of the first patient in the first Phase 3 clinical trial for alfimeprase. We expect this milestone to be achieved in the first quarter of 2005. Future milestone payments under the license agreement could total as much as $40.0 million. Under the terms of the license agreement, Amgen will transfer the technology necessary for the manufacture of alfimeprase to us or to Avecia Limited, our designated manufacturer. Amgen is required to continue to supply alfimeprase to us during the transition period. On January 21, 2005, we entered into an Interim Agreement with Avecia Limited for the manufacture of alfimeprase, and we are currently in negotiations with Avecia for a definitive agreement for the manufacture of commercial quantities of alfimeprase. Either party may terminate this agreement at any time. While we currently believe we have enough supplies of alfimeprase for phase 3 trials for the treatment of acute PAO and catheter occlusion, additional supplies may be necessary, and we do not yet have a definitive agreement for the manufacture of additional supplies of alfimeprase. We cannot be certain that we will be able to reach a definitive agreement with Avecia or any other manufacturer, upon commercially reasonable terms for alfimeprase's manufacture or that Avecia or any other manufacturer will be able to produce alfimeprase in the quantities and with the quality we need for our clinical trials. If we are unable to find a manufacturer, or manufacturers, to produce alfimeprase in the quantities and with the quality we need, at a commercially reasonable price, we may incur significant, additional expenses and our efforts to complete our clinical trials and obtain FDA approval to market alfimeprase could be significantly delayed.

In our collaboration with Archemix for the development and commercialization of ARC183, we will share equally all research and development costs and revenues after we fund the first $4.0 million in research and development costs, which occurred in the third quarter of 2004. We will make milestone payments of $10.0 million upon commencement of a Phase 2 trial and $1.0 million upon the designation of any backup compound selected by both Nuvelo and Archemix for pre-clinical studies. We are obligated to make the Phase 2 milestone payment to Archemix even if Archemix terminates the collaboration or Archemix does not meet its obligations under the agreement and we terminate the collaboration for Archemix's default. We have the option to lead

commercialization in which both parties may participate if we establish commercialization capabilities; however, if we do not establish such commercialization capabilities, Archemix, or a third party selected by the parties' joint steering committee, will have the option to lead commercialization. We do not currently have established commercialization experience or an internal trained sales force and we may not successfully develop such capabilities without incurring additional expenses. If we cannot develop an internal sales force, we will not be able to lead commercialization activities on our own. If we do not lead the commercialization efforts, we are dependent on Archemix or a third party's experience in commercialization and ability to perform and we may also incur additional expenses for a third party to undertake commercialization efforts.

We are subject to a number of additional risks associated with our collaboration with Archemix for ARC183, including the right of Archemix to terminate its collaboration with us on limited notice and for reasons outside our control, and to the loss of significant rights if the collaboration is terminated because we fail to meet our obligations under it. In particular, if Archemix terminates the collaboration for our breach, all of our rights to ARC183 and other collaboration products will become the property of Archemix, and we may not practice certain activities related to anti-thrombin compounds in the field of modifying blood-clotting times in therapeutic applications through the use of aptamers such as ARC183, including research and development, manufacturing and commercialization activities.

Pursuant to our licensing arrangement with Dendreon relating to rNAPc2, we are obligated to make milestone payments ranging from $2.0 million to $6.0 million upon the first dosing of the first patient in a Phase 3 clinical trial, upon submission of a new drug application, or NDA, and upon commercialization for the first and second indications. If all milestones are achieved, total milestone payments to Dendreon can reach as much as $23.5 million.

Our efforts to manage simultaneously a number of collaboration arrangements may not be successful, and our failure to manage effectively such collaborations would significantly harm our business, financial condition and results of operations.

Due to these factors and other possible disagreements with Amgen, Archemix, Dendreon and Kirin, we may be delayed or prevented from developing or commercializing alfimeprase, ARC183 and rNAPc2 or our pre-clinical product candidates or we may become involved in litigation or arbitration, which would be time-consuming or expensive and could have a material adverse effect on our stock price.

In addition to our existing collaborations, we will focus on effecting new collaborative arrangements where we would share costs of identifying, developing and marketing drug candidates. We cannot assure you that we will be able to negotiate new collaboration arrangements of this type on acceptable terms, or at all.

We are currently dependent on third parties for a variety of functions and may enter into future arrangements for the manufacture and sale of our products. Our arrangements with these third parties may not provide us with the benefits we expect.

We currently rely upon third parties to perform administrative functions and functions related to the research, development, pre-clinical testing and clinical trials of our drug candidates. In addition, because we do not have the resources, facilities or experience to manufacture our drug candidates on our own, we currently rely, and will continue to rely, on third parties to manufacture our drug candidates for clinical trials, and, if our products are approved, in quantities for commercial sales. We currently rely on a number of sole-source service providers and suppliers and do not have long-term supply agreements with our third-party manufacturers.

We do not currently have significant manufacturing facilities for clinical or commercial production of our drug candidates and depend on contract research and manufacturing organizations. We may not be able to finalize contractual arrangements, transfer technology or maintain relationships with such organizations in order to file an investigational new drug application, or IND, with the FDA, and proceed with clinical trials for any of

our drug candidates. We currently rely on Amgen to manufacture our clinical drug product, alfimeprase. We have entered into an Interim Agreement with Avecia and are in the process of transitioning manufacture of alfimeprase from Amgen to Avecia, but do not yet have a definitive agreement with Avecia for the manufacture of commercial quantities of alfimeprase. If our efforts are unsuccessful, we may not have adequate supplies of alfimeprase to complete our clinical trials or to commercialize alfimeprase on our anticipated schedule.

We are dependent on third-party contract research organizations to conduct certain research, including good laboratory practices toxicology studies, in order to gather the data necessary to file INDs with the FDA for any of our drug candidates. Our drug candidates have never been manufactured on a commercial scale. Third-party manufacturers may not be able to manufacture these drug candidates at a cost or in quantities necessary to make them commercially viable. In addition, if and when any of our other drug candidates enter the clinical trial phase, we will initially depend on third-party contract manufacturers to produce the volume of current good manufacturing practices materials needed to complete such trials. We will need to enter into contractual relationships with these or other organizations in order to (1) complete the Good Laboratory Practices, or GLP, toxicology and other studies necessary to file an IND with the FDA, and (2) produce a sufficient volume of current cGMP grade material in order to conduct clinical trials of ARC183 and our other drug candidates. We cannot be certain that we will be able to do so on a timely basis or that we will be able to obtain sufficient quantities of material on commercially reasonable terms. In addition, the failure of any of these relationships with third-party contract organizations may delay our filing for an IND or impede our progress through the clinical trial phase. Any significant delay or interruption would have a material adverse effect on our ability to file an IND with the FDA and/or proceed with the clinical trial phase for any of our drug candidates.

Moreover, contract manufacturers that we may use must continually adhere to current cGMP regulations enforced by the FDA through a facilities inspection program. If one of our contract manufacturers fails to maintain compliance, the production of our product candidates could be interrupted, resulting in delays, additional costs and potentially lost revenues. In addition, if the facilities of such manufacturers do not pass a pre-approval plant inspection, the FDA will not grant pre-market approval of our products.

Our reliance on these relationships poses a number of risks, including:

- disagreements with third parties that could disrupt our operation or delay or terminate the research, development or manufacturing of drug candidates, or result in litigation or arbitration;
- our inability to effectively control the resources devoted by our partners to our programs or products;
- inadequate contractual protection or difficulty in enforcing the contracts if one of our partners fails to perform;
- failure of these third parties to comply with regulatory requirements;
- conflicts of interest between third parties' work for us and their work for another entity, and the resulting loss of their services;
- failure to identify acceptable manufacturers or other suppliers or enter into favorable long-term agreements with them;
- inability of third parties to manufacture our drug candidates in a cost-effective or timely manner or in quantities needed for clinical trials or commercial sales;
- delays in, or failures to achieve, scale-up to commercial quantities, or changes to current raw material suppliers or product manufacturers (whether the change is attributable to us or the supplier or manufacturer), resulting in delayed clinical studies, regulatory submissions and commercialization of our drug candidates; and
- lack of all necessary intellectual property rights to manufacture and sell our drug candidates.

Given these risks, our current and future collaborative efforts with third parties may not be successful. If these efforts fail, we would be required to devote additional internal resources to the activities currently performed, or to be performed, by third parties, to seek alternative third-party collaborators, or to delay our product development or commercialization.

We may not achieve our projected development goals in the time frames we announce and expect.

We set goals for and make public statements regarding the timing of certain accomplishments, such as the commencement and completion of clinical trials, anticipated regulatory approval dates and time of product launch, which we sometimes refer to as milestones. The actual timing of these events can vary dramatically due to a number of factors such as delays or failures in our clinical trials, the uncertainties inherent in the regulatory approval process and delays in achieving manufacturing or marketing arrangements sufficient to commercialize our products. There can be no assurance that our clinical trials will be completed, that we will make regulatory submissions or receive regulatory approvals as planned or that we will be able to adhere to our current schedule for the launch of any of our products. If we fail to achieve one or more of these milestones as planned, our business will be materially adversely affected and the price of our shares could decline.

The success of our potential products in pre-clinical studies does not guarantee that these results will be replicated in humans.

Although our clinical development-stage drug candidates have shown results in pre-clinical studies, these results may not be replicated in our clinical trials with humans. Consequently, there is no assurance that the results in our pre-clinical studies are predictive of the results that we will see in our clinical trials with humans or that they are predictive of whether the resulting products will be safe and effective in humans.

We are dependent on key personnel and we must attract and retain qualified employees, collaborators and consultants.

The success of our business is highly dependent on the principal members of our scientific and management staff, including our senior management team. The loss of the services of any such individual might seriously harm our product development and commercialization efforts. In addition, we will require additional skilled personnel in areas such as clinical development. Retaining and training personnel with the requisite skills is challenging, and, if general economic conditions improve, is likely to become extremely competitive, particularly in Northern California where we are located.

Our success will depend on our ability to attract and retain qualified employees to help develop our potential products and execute our research and development strategy. We have programs in place to retain personnel, including programs to create a positive work environment and competitive compensation packages. Because competition for employees in our field is intense, however, we may be unable to retain our existing personnel or attract additional qualified employees. Our success also depends on the continued availability of outside scientific collaborators, including collaborators at research institutions, to perform research and develop processes to advance and augment our internal research efforts. Competition for collaborators is intense. We also rely on services provided by outside consultants. Attracting and retaining qualified outside consultants is competitive, and, generally, outside consultants can terminate their relationship with us at will. If we do not attract and retain qualified personnel, outside consultants and scientific collaborators, or if we experience turnover or difficulties recruiting new employees or outside consultants, our research and development programs could be delayed and we could experience difficulties in generating sufficient revenue to maintain our business.

In addition, we do not currently have a marketing and sales organization. As the potential commercialization of our products approaches, we intend to hire marketing and sales personnel to enable us to participate in the commercialization of our products in the United States. If we are unsuccessful in hiring and retaining sales and marketing personnel with appropriate qualifications and talent, our ability to generate product revenues would be adversely affected.

Because we have not yet commercialized any of our drug candidates, our ability to develop and subsequently commercialize products is unproven.

We have not yet commercialized any of our in-licensed therapeutic product candidates. Moreover, we have not developed any therapeutic products using proteins produced by the genes we have discovered in our internal research programs. Before we make any products available to the public from our internal research and development programs, we or our collaboration partners will need to conduct further research and development and complete laboratory testing and animal and human studies. We or our collaboration partners will need to obtain regulatory approval before releasing any drug products. We have spent, and expect to continue to spend, significant amounts of time and money in our internal research programs in determining the function of genes and the proteins they produce, using our own capabilities and those of our collaboration partners. Such a determination process constitutes the first step in developing commercial products from our internal research programs. We also have spent and will continue to spend significant amounts of time and money in developing processes for manufacturing of our recombinant proteins under pre-clinical development, yet we may not be able to produce sufficient proteins for pre-clinical studies. A commercially viable product may never be developed from our gene discoveries.

Our commercialization of products is subject to several risks, including but not limited to:

- the possibility that a product is toxic, ineffective or unreliable;
- failure to obtain regulatory approval for the product;
- difficulties in manufacturing the product on a large scale, or inability to market in an economically feasible manner;
- competition from superior products; or
- third-party patents that preclude us from marketing a product.

Our internally developed drug development programs are currently in the research stage or in pre-clinical development. None of our potential therapeutic protein candidates from our own portfolio has advanced to Phase 1 clinical trials. Our programs may not move beyond their current stages of development. Even if our internal research does advance, we will need to engage in certain additional pre-clinical development efforts to determine whether a product is sufficiently safe and effective to enter clinical trials. We have little experience with these activities and may not be successful in developing or commercializing products.

Under our Kirin collaboration arrangement, Kirin has primary responsibility for clinical development in its territory and we have primary responsibility in our territory. Under our collaboration with Archemix, Archemix leads development until Phase 2 clinical trials are reached, and thereafter, a joint steering committee will designate one party to lead development until commercialization. With respect to these arrangements, we run the risk that Kirin or Archemix may not pursue clinical development in a timely or effective manner.

Any regulatory approvals that we or our collaboration partners receive for our product candidates may be subject to limitations on the intended uses for which the product candidates may be marketed or contain requirements for potentially costly post-marketing follow-up studies. In addition, if the FDA approved of our or our collaboration partners' product candidates, the labeling, packaging, adverse event reporting, storage, advertising, promotion and record-keeping for the products will be subject to extensive regulatory requirements.

We, our collaborators and our suppliers may also not be able to produce any products in commercial quantities at a reasonable cost or may not be able to successfully market such products. If we do not develop a commercially viable product, then we will suffer significant harm to our business, financial condition and operating results.

We lack marketing and commercialization experience for biopharmaceutical products and we may have to rely on third parties for these capabilities.

We currently have no sales, marketing or distribution capability. As the potential commercialization of our products approaches, we intend to hire marketing and sales personnel to enable us to participate in the commercialization of our products in the United States. If we are unsuccessful in hiring and retaining sales and marketing personnel with appropriate technical and sales expertise or in developing an adequate distribution capability to support them, our ability to generate product revenues would be adversely affected. To the extent we cannot or choose not to use internal resources for the marketing, sales or distribution of any potential products in the United States or elsewhere, we intend to rely on collaboration partners or licensees. We may not be able to establish or maintain such relationships. To the extent that we depend on collaboration partners or other third parties for marketing and distribution, any revenues we receive will depend upon their efforts. Such efforts may not be successful, and we will not be able to control the amount and timing of resources that collaboration partners or other third parties devote to our products.

Our products may not be accepted in the marketplace, and we may not be able to generate significant revenue, if any.

Even if they are approved for marketing, our products, if any, may never achieve market acceptance among physicians, patients and the medical community. Our products, if successfully developed, will compete with a number of traditional drugs and therapies manufactured and marketed by major pharmaceutical and other biotechnology companies. Our products will also compete with new products currently under development by such companies and others. The degree of market acceptance of any products developed by us, alone, or in conjunction with our collaboration partners, will depend on a number of factors, including:

- the establishment and demonstration of the clinical efficacy and safety of the products;
- convenience and ease of administration;
- cost-effectiveness;
- our products' potential advantages over alternative treatment methods;
- marketing, sales and distribution support of our products; and
- reimbursement policies of government and third-party payers.

Physicians, patients or the medical community in general may not accept and utilize any of the products that we alone, or in conjunction with our collaboration partners, develop. In practice, competitors may be more effective in marketing their drugs. The lack of such market acceptance would significantly harm our business, financial condition and results of operations.

We face intense competition.

The biopharmaceutical industry is intensely competitive and is accentuated by the rapid pace of technological development. We expect to face increased competition in the future as new companies enter our markets. Research and discoveries by others may result in breakthroughs that render our potential products obsolete even before they begin to generate any revenue. Our competitors include major pharmaceutical and biotechnology firms, many of which have substantially greater research and product development capabilities and financial, scientific, marketing and human resources than we have. Our lead product candidate alfimeprase, if approved, will face competition in the catheter occlusion indication from alteplase, an approved Genentech, Inc. product, and will potentially face competition in the peripheral arterial occlusion, or PAO, indication from product candidates being developed and/or marketed by Abbot Laboratories, Centocor, Inc. and Genentech.

Our competitors may obtain patents and regulatory approvals for their competing products more rapidly than we or our collaboration partners, or develop products that are more effective than those developed by us or

our collaboration partners. Any potential products based on genes we identify ultimately will face competition from other companies developing gene-based products as well as from companies developing other forms of treatment for diseases which may be caused by, or related to, the genes we identify. Similarly, our products will face competition from other companies developing similar products as well as from companies developing other forms of treatment for the same conditions.

Many of the companies developing competing products have significantly greater financial resources than we have. Many such companies also have greater expertise than we or our collaboration partners have in discovery, research and development, manufacturing, pre-clinical and clinical testing, obtaining regulatory approvals and marketing. Other smaller companies may also prove to be significant competitors, particularly through collaborative arrangements with large and established companies. These companies and institutions compete with us in recruiting and retaining qualified scientific and management personnel as well as in acquiring technologies complementary to our programs. We will face competition with respect to:

- product efficacy and safety;
- the timing and scope of regulatory approvals;
- availability of resources;
- reimbursement coverage; and
- price and patent position, including the potentially dominant patent positions of others.

There can be no assurance that research and development by others will not render the products that we may develop obsolete or uneconomical, or result in treatments or cures superior to any therapy developed by us or that any therapy we develop will be preferred to any existing or newly developed alternative products.

We face uncertainty with respect to coverage, pricing, third-party reimbursements and health care reform.

Our ability to collect significant royalties from our products may depend on our ability, and the ability of our collaboration partners or customers, to obtain adequate levels of coverage for our products and reimbursement from third-party payers such as:

- government health administration authorities;
- private health insurers;
- health maintenance organizations;
- pharmacy benefit management companies; and
- other health care related organizations.

Third-party payers may deny coverage or offer inadequate levels of reimbursement if they determine that a prescribed product or device has not received appropriate clearances from the FDA or other government regulators, is not used in accordance with cost-effective treatment methods as determined by the third-party payer, or is experimental, unnecessary or inappropriate. If third-party payers deny coverage or offer inadequate levels of reimbursement, we may not be able to market our products effectively. We also face the risk that we will have to offer our products at prices lower than anticipated as a result of the current trend in the United States towards managed health care through health maintenance organizations. Currently, third-party payers are increasingly challenging the prices charged for medical products and services. Prices could be driven down by health maintenance organizations that control or significantly influence purchases of health care services and products. Existing U.S. laws, such as the Medicare Prescription Drug and Modernization Act of 2003, or future legislation to reform health care or reduce government insurance programs could also adversely affect prices of our approved products, if any. The cost containment measures that health care providers are instituting and the

results of potential health care reforms may prevent us from maintaining prices for our products that are sufficient for us to realize profits and may otherwise significantly harm our business, financial condition and operating results. In addition, to the extent that our products are marketed outside of the United States, foreign government pricing controls and other regulations may prevent us from maintaining prices for our products that are sufficient for us to realize profits and may otherwise significantly harm our business, financial condition and operating results.

We may merge with or acquire other companies and our failure to receive the anticipated benefits in these transactions could harm our business.

In January 2003, we merged with Variagenics, and we may merge with or acquire other companies in the future. The success of any merger or acquisition depends, in part, on our ability to realize the anticipated synergies, cost savings and growth opportunities from integrating the business of the merged or acquired company with our business. The integration of two independent companies is a complex, costly and time-consuming process. The difficulties of combining the operations of the companies and/or our subsidiary include, among others:

- consolidating research and development operations;
- retaining key employees;
- consolidating corporate and administrative infrastructures;
- preserving the research and development and other important relationships of the companies;
- integrating and managing the technology of two companies;
- using the merged or acquired company's liquid capital and other assets efficiently to develop the business of the combined company;
- minimizing the diversion of management's attention from ongoing business concerns; and
- coordinating geographically separate organizations.

Moreover, we have assumed the costs of defending against litigation claims asserted against Variagenics, and anytime we or our subsidiary merge with or acquire another company, we will be exposed to similar costs. In addition, we may be exposed to a number of other risks in connection with future transactions, including:

- we may experience unbudgeted expenses in attempting to complete the transaction and integration process and exposure to unknown liabilities of the merged or acquired business; and
- our stock price may suffer if the former stockholders of the merged or acquired entity dispose of significant numbers of shares of our common stock that they receive in the transaction within a short period of time.

We cannot assure you that we will receive all of the anticipated benefits of any mergers or acquisitions, or that any of the risks described above will not occur. Our failure to receive anticipated benefits of, and our exposure to inherent risks in, any such merger or acquisition transaction could significantly harm our business, financial condition and operating results.

We may not receive any benefits from and we may have lost potential income as a result of the sale of our equity holdings in our former Callida subsidiary.

On December 3, 2004, we entered into and consummated a Stock Purchase Agreement with SBH Genomics, Inc., Radoje Drmanac, Snezana Drmanac and Affymetrix, Inc., pursuant to which we sold all of the stock we held in our subsidiary, Callida Genomics, Inc., or Callida, to SBH Genomics, Inc., a privately held Delaware corporation. Prior to the sale, we owned approximately 90% of Callida's issued and outstanding capital stock.

Affymetrix, a minority stockholder in Callida, also sold its Callida shares to SBH Genomics as part of the same negotiated transaction. We and Affymetrix sold our stock in Callida in exchange for convertible promissory notes in the principal amount of $1.0 million, being $0.9 million for Nuvelo and $0.1 million for Affymetrix, and potential additional payments to us from SBH Genomics based on future revenues. The notes are convertible into preferred shares of SBH Genomics under certain circumstances. The notes may prove uncollectible, and we cannot assure you that we will receive the anticipated benefits, if any, of our sale of Callida stock, and through this transaction we may have lost certain benefits that we would have otherwise received from the continued ownership of our Callida holdings.

We are subject to the risk of natural disasters.

Our facilities are located in Northern California. If a fire or other natural disaster (such as an earthquake) disrupts our research or development efforts, our business, financial condition and operating results could be materially adversely affected. Some of our landlords maintain earthquake coverage for our facilities. Although we maintain personal property and business interruption coverage, we do not maintain earthquake coverage for personal property or resulting business interruption.

RISKS RELATED TO OUR CAPITAL STRUCTURE AND FINANCIAL RESULTS

We have not been profitable, anticipate continuing losses and may never become profitable.

We had net losses of $52.5 million in 2004, $50.2 million in 2003, and $45.0 million in 2002. As of December 31, 2004, we had an accumulated deficit of $256.0 million.

All of our product candidates are in various stages of product development, and some are still in research or in early development. None of them are approved for sale. The process of developing our drug products will require significant additional research and development, pre-clinical testing, clinical trials and regulatory approvals.

These activities, together with general administrative and other expenses, are expected to result in operating losses for the foreseeable future. To date, we have not generated any revenues from product sales. We do not expect to achieve significant product sales or royalty revenue for several years, and we may never do so. We expect to incur additional operating losses in the future, and these losses may increase significantly as we continue pre-clinical research and clinical trials, apply for regulatory approvals, develop our drug candidates, expand our operations and develop systems that support commercialization of our potential products. These losses, among other things, have caused and may cause our stockholders' equity and working capital to decrease. We may not be successful in developing our drug candidates, obtaining regulatory approvals and commercializing our products, and our operations may not be profitable even if any of our drug candidates are commercialized. We may never generate profits and, as a result, the trading price of our common stock could decline.

Moreover, utilization of our net operating loss carryforwards and credits may be subject to an annual limitation due to the "change in ownership" provisions of the Internal Revenue Code of 1986 and similar state law provisions. It is possible that certain transactions that we have entered into, including our merger with Variagenics that occurred in January 2003, when considered in connection with other transactions, may result in a "change in ownership" for purposes of these provisions.

In January 2005, we entered into a lease agreement for approximately 55,000 square feet of industrial space in San Carlos, California. In connection with our lease of this new facility, we are examining the potential to sublease or otherwise exit our existing facility at 985 Almanor Avenue in Sunnyvale, California, which is currently primarily being used for storage and for which we have a lease through May 30, 2011. In accordance with Statement of Financial Accounting Standards No. 146, "Accounting for Costs Associated with Exit or

Disposal Activities," if we sublease or otherwise exit this facility, we could incur a potentially significant charge to our earnings based on the remaining lease rental expense as of December 31, 2004 of $36.1 million for our existing facility, reduced by the estimated income from sublease rental, if any. Our remaining lease obligations as of December 31, 2004 with respect to the facility at 985 Almanor Avenue total approximately $46.2 million, excluding deferred rent credits of $10.1 million. We are obligated to pay the full amount of such remaining lease rental obligation, net of any sublease payments we may receive, from time to time as it comes due under the terms of the lease for this facility.

We will need to raise additional capital, and such capital may be unavailable to us when we need it or not available on acceptable terms.

We will need to raise significant additional capital to finance the research and clinical development of our drug products. If future securities offerings are successful, they could dilute our current shareholders' equity interests and reduce the market price of our common stock. Financing may be unavailable when we need it or may not be available on acceptable terms. The unavailability of financing may require us to delay, scale back or eliminate expenditures for our research, development and marketing activities necessary to commercialize our potential biopharmaceutical products. We may also be required to raise capital by granting rights to third parties to develop and market drug candidates that we would prefer to develop and market on our own, potentially reducing the ultimate value that we could realize from these drug candidates.

If we are unable to obtain additional financing when we need it, the capital markets may perceive that we are not able to raise the amount of financing we desire, or on the terms that we desire. This perception, if it occurs, may negatively affect the trading price of our common stock. If sufficient capital is not available, we may be forced to delay, reduce the scope of, eliminate or divest one or more of our research or development programs. Any such action could significantly harm our business, financial condition and results of operations.

Our future capital requirements and the adequacy of our currently available funds will depend on many factors, including, among others, the following:

- our ability to maintain, and the financial commitments involved in, our existing collaborative and licensing arrangements;
- our ability to establish new collaborative relationships with other companies to share costs and expertise of identifying and developing drug candidates;
- the magnitude and scope of our research and development programs, including development of product candidates;
- continued scientific progress in our research and development programs, including progress in our research and pre-clinical studies;
- the cost involved in any facilities expansion to support research and development of our product candidates;
- the cost of manufacturing our material for pre-clinical, clinical and commercial purposes;
- progress in clinical studies of our products, including alfimeprase, rNAPc2 and ARC 183;
- the cost of prosecuting and enforcing our intellectual property rights;
- the time and cost involved in obtaining regulatory approvals;
- our need to develop, acquire or license new technologies or products;
- competing technological and market developments;
- our ability to use our common stock to repay the outstanding note to Affymetrix and our line of credit from our Chairman, Dr. George B. Rathmann;

- future funding commitments to our collaborators;
- general conditions in the financial markets and in the biotech sector;
- the uncertain condition of the capital markets and in the biotech sector; and
- other factors not within our control.

We may face fluctuations in operating results.

Our operating results may rise or fall significantly as a result of many factors, including:

- the amount of research and development we engage in;
- the number of product candidates we have and their progress in research and pre-clinical studies;
- our ability to expand our facilities to support our operations;
- our ability to maintain existing and enter into new strategic relationships;
- the scope, duration and effectiveness of our collaborative arrangements;
- the costs involved in prosecuting, maintaining and enforcing patent claims;
- the possibility that others may have or obtain patent rights that are superior to ours;
- changes in government regulation; and
- release of successful products into the market by our competitors.

Excluding our three clinical stage drug candidates, our potential products currently are in research or pre-clinical development, and revenues from the sales of any products resulting from this research and development may not occur for several years, if at all. A high percentage of our expenses are fixed costs such as lease obligations. As a result, we may experience fluctuations in our operating results from quarter to quarter and continue to generate losses. Quarterly comparisons of our financial results may not necessarily be meaningful, and investors should not rely upon such results as an indication of our future performance. In addition, investors may react adversely if our reported operating results are less favorable than in a prior period or are less favorable than those anticipated by investors or the financial community, which may result in a drop of our stock price.

Our stock price has historically been and is likely to remain highly volatile, and an investment in our stock could suffer a decline in value.

Stock prices and trading volumes for many biopharmaceutical companies fluctuate widely for a number of reasons, including factors which may be unrelated to their businesses or results of operations such as media coverage, legislative and regulatory measures and the activities of various interest groups or organizations. This market volatility, as well as general domestic or international economic, market and political conditions, could materially and adversely affect the market price of our common stock and the return on your investment.

Historically, our stock price has been extremely volatile. Between January 1, 2004 and December 31, 2004, the price ranged between a high of $16.50 per share and a low of $6.77 per share. The significant market price fluctuations of our common stock are due to a variety of factors, including:

- the depth of the market for the common stock;
- the experimental nature of our potential products;
- actual or anticipated fluctuations in our operating results;
- sales of our common stock by existing holders, or sales of shares issuable upon exercise of outstanding options and warrants, upon repayment of our outstanding note to Affymetrix, or upon repayment of our line of credit with Dr. Rathmann;

- market conditions relating to the biopharmaceutical and pharmaceutical industries;
- any announcements of technological innovations, new commercial products, or clinical progress or lack thereof by us, our collaborative partners or our competitors;
- announcements concerning regulatory developments, developments with respect to proprietary rights and our collaborations;
- changes in or our failure to meet market or, to the extent securities analysts follow our common stock, securities analysts' expectations;
- loss of key personnel;
- changes in accounting principles;
- general market conditions; or
- public concern with respect to our products.

In addition, the stock market in general, and the market for biotechnology and other life science stocks in particular, has historically been subject to extreme price and volume fluctuations. This volatility has had a significant effect on the market prices of securities issued by many companies for reasons unrelated to the operating performance of these companies. In the past, following periods of volatility in the market price of a company's securities, class action securities litigation has often been instituted against such a company. Any such litigation instigated against us could result in substantial costs and a diversion of management's attention and resources, which could significantly harm our business, financial condition and operating results.

Future sales of our common stock may depress the market price of our common stock.

Sales in the public market of substantial amounts of our common stock could depress prevailing market prices of our common stock. As of February 28, 2005, we had 42,003,840 shares of our common stock outstanding, including 9,775,000 shares sold in an offering in February 2005. All of these shares are freely transferable without restriction or further registration under the Securities Act of 1933, as amended, or the Securities Act, except for shares held by our directors, officers and greater than five percent stockholders and unregistered shares held by non-affiliates. As of February 28, 2005, our directors, officers and greater than five percent stockholders held 3,566,900 shares of our common stock, which are transferable pursuant to Rule 144 or in some cases Rule 145, each as promulgated under the Securities Act, or pursuant to effective registration statements. Although we do not believe that our directors, officers and greater than five percent stockholders have any present intentions to dispose of any shares of common stock owned by them, there can be no assurance that such intentions will not change in the future. The sale of these additional shares could depress the market price of our common stock.

We have granted registration rights in connection with the issuance of our securities to a number of our stockholders and warrant holders. In the aggregate, as of February 28, 2005, these registration rights covered approximately 1,516,792 shares of our common stock which were then outstanding or which may become outstanding upon the exercise of warrants that were then outstanding. If these registration rights, or similar registration rights that may apply to securities we may issue in the future, are exercised, it could result in additional sales of our common stock in the market, which may have an adverse effect on our stock price.

In addition, under registration statements on Form S-8 under the Securities Act, as of February 28, 2005 we have registered approximately 5,239,537 shares of our common stock for sale upon the exercise of outstanding options under our 2004 Equity Incentive Plan, 2002 Equity Incentive Plan, 1995 Stock Option Plan, Non-Employee Director Stock Option Plan, Scientific Advisory Board/Consultants Stock Option Plan, the Variagenics, Inc. Amended 1997 Employee Director and Consultant Stock Option Plan and stock option agreements entered into outside of any of our stock option plans. Included in the 5,239,537 shares, options to

exercise 4,344,462 shares of our common stock were outstanding under the specified plans, and shares of our common stock acquired pursuant to these plans and agreements are available for sale in the open market. Additionally, included in the 5,239,537 shares, we have reserved approximately 895,075 shares of our common stock for issuance upon the exercise of outstanding options under stock option agreements entered into outside of any of our stock option plans. As of February 28, 2005, 3,705,285 shares of the total 6,756,329 shares related to these warrants and options were exercisable. In addition, as of February 28, 2005, we had 3,287,321 shares of our common stock remaining for future option grants under our 2004 Equity Incentive Plan. Under our Employee Stock Purchase Plan, we have approximately 47,242 shares of our common stock reserved for future issuance as of February 28, 2005. The existence of the currently outstanding warrants and options to purchase our common stock may negatively affect our ability to complete future equity financings at acceptable prices and on acceptable terms. The exercise of those options or warrants, and the prompt resale of shares of our common stock received, may result in downward pressure on the price of our common stock.

As of February 28, 2005, 725,306 shares of our common stock were issuable, at our option, to repay a note in the principal amount of $4.0 million held by Affymetrix. Affymetrix has the ability to declare all outstanding principal and interest under the note immediately due and payable in the event that our market capitalization is under $50.0 million and Affymetrix reasonably determines that the loan evidenced by the note is impaired, and we have an obligation to prepay amounts owing under the note to the extent that the amounts outstanding exceed 10% of our market capitalization. Moreover, we have registered for resale a portion of these shares on a registration statement that has been declared effective by the Securities and Exchange Commission. If we decide to repay this note with our common stock, whether pursuant to acceleration of the note or otherwise, the resale of shares of our common stock by Affymetrix may also result in significant downward pressure on the price of our common stock. In addition, as of February 28, 2005, 1,117,315 shares of common stock were issuable, upon mutual agreement, to convert the promissory note that we have issued under a line of credit with George Rathmann. If we agree to repay this note with our common stock, whether pursuant to acceleration of the note or otherwise, the resale of shares of our common stock received by George Rathmann may also result in significant downward pressure on the price of our common stock.

We will need to raise significant additional capital to finance the research and clinical development of our drug products. If future securities offerings are successful, they could dilute our current shareholders' equity interests and reduce the market price of our common stock.

We do not intend to pay cash dividends on our common stock in the foreseeable future.

We do not anticipate paying cash dividends on our common stock in the foreseeable future. Any payment of cash dividends will depend upon our financial condition, results of operations, capital requirements and other factors and will be at the discretion of the Board of Directors. Under our August 31, 2004 Loan and Security Agreement with Silicon Valley Bank, we cannot pay dividends without Silicon Valley Bank's prior written consent, except for dividends paid in shares of our capital stock. Furthermore, we may incur additional indebtedness that may severely restrict or prohibit the payment of dividends.

We have implemented anti-takeover provisions that could discourage, prevent or delay a takeover, even if the acquisition would be beneficial to our stockholders.

The existence of our stockholder rights plan and provisions of our certificate of incorporation and bylaws, as well as provisions of Delaware law, could make it more difficult for a third party to acquire us, even if doing so would benefit our stockholders. These provisions:

- establish a classified board of directors so that not all members of our board may be elected at one time;
- authorize the issuance of up to 5,000,000 shares of preferred stock that could be issued by our board of directors to increase the number of outstanding shares and hinder a takeover attempt;
- limit who may call a special meeting of stockholders;

- prohibit stockholder action by written consent, thereby requiring all stockholder actions to be taken at a meeting of our stockholders; and
- establish advance notice requirements for nominations for election to our board of directors or for proposing matters that can be acted upon at a stockholder meeting.

Specifically, our certificate of incorporation provides that all stockholder action must be effected at a duly called meeting and not by a consent in writing. The by-laws provide, however, that our stockholders may call a special meeting of stockholders only upon a request of stockholders owning at least 50% of our common stock. These provisions of our certificate of incorporation and our by-laws could discourage potential acquisition proposals and could delay or prevent a change in control. We designed these provisions to reduce our vulnerability to unsolicited acquisition proposals and to discourage certain tactics that may be used in proxy fights. These provisions, however, could also have the effect of discouraging others from making tender offers for our shares. As a consequence, they also may inhibit fluctuations in the market price of our shares that could result from actual or rumored takeover attempts. Such provisions also may have the effect of preventing changes in our management.

We are permitted to issue shares of our preferred stock without stockholder approval upon such terms as our board of directors determines. Therefore, the rights of the holders of our common stock are subject to, and may be adversely affected by, the rights of the holders of our preferred stock that may be issued in the future. In addition, the issuance of preferred stock could have a dilutive effect on the holdings of our current stockholders.

On June 5, 1998, our board of directors adopted a rights plan and declared a dividend with respect to each share of our common stock then outstanding. This dividend took the form of a right, which entitles the holders to purchase one one-thousandth of a share of our Series A junior participating preferred stock at a purchase price that is subject to adjustment from time to time. These rights have also been issued in connection with each share of our common stock issued after June 15, 1998. The rights are exercisable only if a person or entity or affiliated group of persons or entities acquires, or has announced its intention to acquire, 15% (27.5% in the case of certain approved stockholders) or more of our outstanding common stock. The adoption of the rights plan makes it more difficult for a third party to acquire control of us without the approval of our board of directors. This rights agreement was amended on March 19, 2004, to reflect our reincorporation under Delaware law.

We are subject to the Delaware anti-takeover laws regulating corporate takeovers. These anti-takeover laws prevent a Delaware corporation from engaging in a merger or sale of more than 10 percent of its assets with any stockholder, including all affiliates and associates of the stockholder, who owns 15 percent or more of the corporation's outstanding voting stock, for three years following the date that the stockholder acquired 15 percent or more of the corporation's stock unless:

- the board of directors approved the transaction where the stockholder acquired 15 percent or more of the corporation's stock;
- after the transaction in which the stockholder acquired 15 percent or more of the corporation's stock, the stockholder owned at least 85 percent of the corporation's outstanding voting stock, excluding shares owned by directors, officers and employee stock plans in which employee participants do not have the right to determine confidentially whether shares held under the plan will be tendered in a tender or exchange offer; or
- on or after this date, the merger or sale is approved by the board of directors and the holders of at least two-thirds of the outstanding voting stock that is not owned by the stockholder.

The provisions of our governing documents, stockholder rights plan and current Delaware law may, collectively:

- lengthen the time required for a person or entity to acquire control of us through a proxy contest for the election of a majority of our board of directors;

- discourage bids for our common stock at a premium over market price; and
- generally deter efforts to obtain control of us.

Recent Accounting Pronouncements May Impact Our Future Financial Position and Results of Operations

There may be potential new accounting pronouncements or regulatory rulings, which may have an impact on our future financial position and results of operations. On December 16, 2004, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 123(R), *"Share-Based Payment"* (SFAS 123(R)), an amendment of Statements of Accounting Standards No. 123 and 95, that addresses the accounting for share-based awards to employees. The standard requires companies to recognize as an expense the fair value of stock options and other stock-based compensation to employees. The statement eliminates the ability to account for share-based compensation transactions using APB Opinion No. 25, *"Accounting for Stock Issued to Employees,"* (APB 25), and generally requires instead that such transactions be accounted for using a fair-value-based method, such as Black-Scholes, to fairly value stock options and recognize that value as an expense. The standard will be effective for public companies as of the beginning of the first fiscal quarter after June 15, 2005. We currently account for our stock-based compensation plans in accordance with APB 25. We will be required to implement SFAS 123(R) effective from the beginning of our third fiscal quarter of 2005, and we expect that its adoption will have a material adverse impact on our consolidated results of operations and financial position.

We have adopted an Executive Change in Control and Severance Benefit Plan that could discourage, prevent or delay a takeover, even if the acquisition would be beneficial to our stockholders.

On December 14, 2004, our Board of Directors approved an "Executive Change in Control and Severance Benefit Plan" for our executive officers and other eligible employees. The purpose of the plan is to provide for the payment of severance benefits and/or change in control benefits to certain of our eligible employees, and the plan supersedes and replaces any change in control and/or severance plans adopted by us previously. All of our executive employees at the level of Vice President or above are expected to be eligible to participate in the plan and our Board of Directors may designate certain other individuals as eligible to participate. The plan provides that, upon a change in control of the company as defined under the plan, all Nuvelo stock options and stock awards held by a plan participant will become fully vested. Such shares held by a plan participant will also become fully vested if the participant is terminated without cause or constructively terminated within one month preceding our change in control. If a participant is terminated without cause or constructively terminated one month before or one year after our change in control, he or she will also be entitled to certain cash severance and continued medical benefits and shall be credited with an additional year of vesting with respect to Nuvelo stock options and stock awards held by such participant. The change in control and severance benefits for certain of our employees provided for under this plan could make it more difficult and expensive, or less desirable, for a third party to acquire us, even if doing so would benefit our stockholders.

RISKS RELATED TO INTELLECTUAL PROPERTY AND OTHER LEGAL MATTERS

The commercial success of our products will be dependent upon our ability to protect the intellectual property rights associated with our products and drug candidates.

Our competitive success will depend in part on our ability to obtain and maintain patent protection for our inventions, technologies and discoveries, including intellectual property that we license. The patent positions of biotechnology companies involve complex legal and factual questions, and we cannot assure you that our patents and licenses will successfully preclude others from using our technology. We could incur substantial costs in seeking enforcement of our proprietary rights against infringement. In addition, to obtain a patent on a novel gene or the protein it encodes, we need to identify a utility for the novel gene or the encoded protein we seek to protect under patent law. Identifying a utility may require significant research and development with respect to which we may incur a substantial expense and invest a significant amount of time.

We currently have, or have in-licensed, issued patents and pending patent applications that cover portions of our in-licensed clinical products. ARC183 is covered both by a U.S. patent specifically claiming ARC183 and by U.S. patents covering aptamers generically. However, there are no equivalent international applications pending specifically claiming ARC183. International patent applications generically covering aptamers are pending but we cannot assure you that such patents will issue. We licensed the worldwide rights for all indications of rNAPc2 and all of the rNAPc molecules owned by Dendreon in February 2004. The United States government may claim a non-exclusive right to use rNAPc2 with respect to the treatment of hemorrhagic fever. We also currently have patents that cover some of our technological discoveries and patent applications that we expect to protect some of our gene, protein and technological discoveries. We will continue to apply for patents for our discoveries. We cannot assure you that any of our applications will issue as patents, or that any patent issued or licensed to us will not be challenged, invalidated, circumvented or held unenforceable by way of an interference proceeding or litigation.

The timing of the grant of a patent cannot be predicted. Patent applications describing and seeking patent protection of methods, compositions, or processes relating to proprietary inventions involving human therapeutics could require us to generate data, which may involve substantial costs. Our pending patent applications may lack priority over others' applications or may not result in the issuance of patents. Even if issued, our patents may not be sufficiently broad to provide protection against competitors with similar technologies and may be challenged, invalidated or circumvented.

In addition to patents, we rely on a combination of trade secrets, copyright and trademark laws, nondisclosure agreements, licenses and other contractual provisions and technical measures to maintain and develop our competitive position with respect to intellectual property. Nevertheless, these measures may not be adequate to safeguard the technology underlying our products. For example, employees, consultants and others who participate in the development of our products may breach their agreements with us regarding our intellectual property and we may not have adequate remedies for the breach. Our trade secrets could become known through other unforeseen means. We depend on our collaborators and other third parties that license intellectual property to us to protect our licensed intellectual property. These collaborators and other third parties could fail to take a necessary step to protect our licensed intellectual property, which could seriously harm our intellectual property position.

We also may not be able to effectively protect our intellectual property rights in some foreign countries, as many countries do not offer the same level of legal protection for intellectual property as the United States. Furthermore, certain of the patent applications describing our proprietary methods are filed only in the United States. Even where we have filed our patent applications internationally, for some cases and in certain countries, we have chosen not to maintain foreign patent protection by opting not to enter national phase or opting not to pay maintenance annuities.

Notwithstanding our efforts to protect our intellectual property, our competitors may independently develop similar or alternative technologies or products that are equal or superior to our technology. Our competitors may also develop similar products without infringing on any of our intellectual property rights or design around our proprietary technologies.

If our products infringe on the intellectual property rights of others, we could face costly litigation, which could cause us to pay substantial damages and limit our ability to sell some or all of our products.

Extensive litigation regarding patents and other intellectual property rights has been common in the biopharmaceutical industry. Litigation may be necessary to assert infringement claims, enforce patent rights, protect trade secrets or know-how and determine the enforceability, scope and validity of certain proprietary rights. The defense and prosecution of intellectual property lawsuits, United States Patent and Trademark Office interference proceedings, and related legal and administrative proceedings in the United States and internationally involve complex legal and factual questions. As a result, such proceedings are costly and time-consuming to pursue and their outcome is uncertain.

Regardless of merit or outcome, our involvement in any litigation, interference or other administrative proceedings could cause us to incur substantial expense and could significantly divert the efforts of our technical and management personnel. An adverse determination may subject us to the loss of our proprietary position or to significant liabilities, or require us to seek licenses that may include substantial cost and ongoing royalties. Licenses may not be available from third parties, or may not be obtainable on satisfactory terms. An adverse determination or a failure to obtain necessary licenses may restrict or prevent us from manufacturing and selling our products, if any. These outcomes could materially harm our business, financial condition and results of operations.

Our market success depends in part on us neither infringing valid, enforceable patents or proprietary rights of third parties, nor breaching any licenses that may relate to our technologies and products. We are aware of third-party patents that may relate to our technology. We may be required to obtain licenses to patents or other proprietary rights of others in order to conduct research, development, or commercialization of some or all of our programs. We plan to seek licenses, as we deem appropriate, but it is possible that we may infringe upon these patents or proprietary rights of third parties. If we do not obtain these licenses, we may encounter delays in product market introductions, incur substantial costs while we attempt to design around existing patents or not be able to develop, manufacture or sell products. In response, third parties may assert infringement or other intellectual property claims against us. We may consequently be subjected to substantial damages for past infringement or be required to modify our products if it is ultimately determined that our products infringe a third party's proprietary rights. Further, we may be prohibited from selling our products before we obtain a license, which, if available at all, may require us to pay substantial royalties, which could adversely impact our product costs and have an impact on our business. Further, if we do obtain these licenses, the agreed terms may necessitate reevaluation of the potential commercialization of any one of our programs. Failing to obtain a license could result in litigation. Even if these claims are without merit, defending a lawsuit takes significant time, may be expensive and may divert management attention from other business concerns. Any public announcements related to litigation or interference proceedings initiated or threatened against us could cause our stock price to decline.

We face product liability exposure and potential unavailability of insurance.

We risk financial exposure to product liability claims in the event that the use of products developed by us or our collaboration partners, if any, result in personal injury.

We may experience losses due to product liability claims in the future. We have obtained limited product liability insurance coverage. Such coverage, however, may not be adequate or may not continue to be available to us in sufficient amounts or at an acceptable cost, or at all. We may not be able to obtain commercially reasonable product liability insurance for any product approved for marketing. A product liability claim or other claim, product recalls, as well as any claims for uninsured liabilities or in excess of insured liabilities, may significantly harm our business, financial condition and results of operations.

We use hazardous materials, chemicals and patient samples in our business and any disputes relating to improper handling, storage or disposal of these materials could be time consuming and costly.

Our research and development and production activities involve the controlled use of hazardous or radioactive materials, chemicals, including oxidizing and reducing reagents, patient tissue and blood samples. We, our collaborators and service providers are subject to federal, state and local laws and regulations governing the use, storage, handling and disposal of these materials and certain waste products. We could be liable for accidental contamination or discharge or any resultant injury from hazardous materials, and conveyance, processing, and storage of and data on patient samples. If we, our collaborators or service providers fail to comply with applicable laws or regulations, we could be required to pay penalties or be held liable for any damages that result and this liability could exceed our financial resources. Further, future changes to environmental health and safety laws could cause us to incur additional expense or restrict our operations. In

addition, our collaborators and service providers may be working with these types of hazardous materials, including viruses and hazardous chemicals, in connection with our collaborations. In the event of a lawsuit or investigation, we could be held responsible for any injury caused to persons or property by exposure to, or release of, patient samples that may contain viruses and hazardous materials. The cost of this liability could exceed our resources.

Variagenics has been named as a defendant in a class action suit and defending this litigation could hurt our business.

Variagenics has been named as a defendant in a securities class action lawsuit alleging the failure to disclose additional and excessive commissions purportedly solicited by and paid to underwriters who are also named defendants in the lawsuit. Plaintiffs in the suit allege that underwriters took these commissions and in exchange allocated shares of Variagenics' stock to their preferred customers through alleged agreements with these preferred customers that tied the allocation of initial public offering shares to agreements by the customers to make additional aftermarket purchases at pre-determined prices. As a result of our merger with Variagenics, we are obligated to continue to defend against this litigation. Currently we are in the process of approving a settlement by and between the issuers that are defendants in the lawsuit, the insurers of those issuers, and the plaintiffs. We believe that any loss or settlement amount will not be material to our financial position or results of operation, and that any settlement payment and attorneys' fees accrued with respect to the suit will be paid by our insurance provider. However, we cannot assure you that this will be the case until a final settlement is executed. Failure to finalize a settlement could require us to pay substantial damages.

Item 2. ***Properties***

We lease approximately 59,000 square feet of space at 675 Almanor Avenue, Sunnyvale, California, which is currently our primary headquarters. This lease expires on June 30, 2005, and has a five-year renewal option, which, if exercised, would extend the lease to June 30, 2010. On January 11, 2005, we entered into a five-year lease for approximately 55,000 square feet of space at 201 Industrial Road, San Carlos, California, which we intend to become our primary headquarters, and therefore we will likely forego the five-year renewal option on our existing headquarters. We also lease a 12,000 square foot facility at 670 Almanor Avenue, Sunnyvale, California, which is across the street from 675 Almanor, under a lease that expires June 30, 2005. This facility is currently being used by SBH Genomics, Inc., which purchased our Callida subsidiary in December 2004, and the related operations continue to be housed in this facility under terms of the purchase agreement for this subsidiary. We also lease approximately 140,000 square feet of space at 985 Almanor Avenue in Sunnyvale, California, which is adjacent to 675 Almanor, and is currently primarily being used for storage. The lease on this space extends through May 2011.

Item 3. ***Legal Proceeding***

On or about December 6, 2001, Variagenics was sued in a complaint filed in the United States District Court for the Southern District of New York naming it and certain of its officers and underwriters as defendants. The complaint purportedly is filed on behalf of persons purchasing the Company's stock between July 21, 2000 and December 6, 2000, and alleges violations of Sections 11, 12(a)(2) and 15 of the Securities Act of 1933, as amended and Section 10(b) of the Securities Exchange Act of 1934, as amended, and Rule 10b-5 promulgated thereunder.

The complaint alleges that, in connection with Variagenics' July 21, 2000 initial public offering, or IPO, the defendants failed to disclose additional and excessive commissions purportedly solicited by and paid to the underwriter defendants in exchange for allocating shares of Variagenics' stock to preferred customers and alleged agreements among the underwriter defendants and preferred customers tying the allocation of IPO shares to agreements to make additional aftermarket purchases at predetermined prices. Plaintiffs claim that the failure to disclose these alleged arrangements made Variagenics' registration statement on Form S-1 filed with the SEC

in July 2000 and the prospectus, a part of the registration statement, materially false and misleading. Plaintiffs seek unspecified damages. On or about April 19, 2002, an amended complaint was filed which makes essentially the same allegations. On or about July 15, 2002, Variagenics and the individuals filed a motion to dismiss. We are involved in this litigation as a result of our merger with Variagenics in January 2003.

On July 16, 2003, Nuvelo's Board of Directors approved a settlement proposal initiated by the plaintiffs. The final terms of the settlement are still being negotiated. It is possible that the parties may not reach agreement on the final settlement documents or that the Federal District Court may not approve the settlement in whole or part. We believe we have meritorious defenses and intend to defend this action vigorously; however, we could be forced to incur material expenses in the litigation if the parties do not reach agreement of the final settlement documents, and in the event there is an adverse outcome, our business could be harmed.

Item 4. ***Submission of Matters to a Vote of Security Holders***

No matters were submitted to the vote of stockholders through the solicitation of proxies or otherwise during the fourth quarter of the year ended December 31, 2004.

PART II

Item 5. ***Market for Registrant's Common Equity and Related Stockholder Matters***

Our common stock began trading on the Nasdaq Stock Market on August 8, 1997 as Hyseq, Inc. (HYSQ), and has traded under the symbol "NUVO" since January 31, 2003, (except for the period between June 19, 2003 and March 19, 2004, where we temporarily traded under the symbol "NUVOD"). The following table sets forth, for the periods indicated, the high and low bid information for our common stock, as reported by the Nasdaq Stock Market under these symbols:

	High	Low
Year ended December 31, 2003		
First quarter	$ 4.47	$ 1.92
Second quarter	8.16	2.58
Third quarter	12.03	5.28
Fourth quarter	12.66	7.47
Year ended December 31, 2004		
First quarter	$ 16.50	$ 10.36
Second quarter	13.20	7.57
Third quarter	10.44	6.77
Fourth quarter	11.23	8.36

As of February 28, 2005, there were approximately 263 stockholders of record of our common stock, and the last sale price reported on The Nasdaq National Market for our common stock was $7.77 per share.

The holders of our common stock are entitled to dividends in such amounts and at such times, if any, as may be declared by our board of directors out of legally available funds. We have not paid any dividends on our common stock and do not anticipate paying any cash dividends on our common stock in the foreseeable future. Under our August 31, 2004 Loan and Security Agreement with Silicon Valley Bank, we cannot pay dividends without Silicon Valley Bank's prior written consent, except for dividends paid in shares of our capital stock.

Information relating to compensation plans under which our equity securities are authorized for issuance is included in Item 12 of Part III of this Annual Report, which is incorporated by reference from our Definitive Proxy Statement to be filed pursuant to Regulation 14A under the Securities Exchange Act of 1934, relating to our 2005 Annual Meeting of Stockholders.

Recent Sales of Unregistered Securities

On February 11, 2004 we issued an aggregate of 70,538 shares of common stock to Atlas Venture Fund III and Atlas Venture Entrepreneurs' Fund III, pursuant to the cashless exercise of a warrant, dated July 30, 1999. The warrant was exercisable for a total of 105,596 shares of common stock and had an exercise price of $4.98 per share. In connection with the cashless exercise, the number of shares issuable pursuant to the warrant was reduced by 35,058 shares pursuant to the operation of the cashless exercise provisions in the warrant. The issuance of the shares pursuant to this warrant was exempt from registration under the Securities Act of 1933 in reliance on Section 4(2) promulgated thereunder as a transaction not involving any public offering.

On February 19, 2004 we issued an aggregate of 16,380 shares of common stock to Comerica, Inc., pursuant to the cashless exercise of a warrant, dated June 24, 1999. The warrant was exercisable for a total of 24,084 shares of common stock and had an exercise price of $4.98 per share. In connection with the cashless exercise, the number of shares issuable pursuant to the warrant was reduced by 7,704 shares pursuant to the operation of the cashless exercise provisions in the warrant. The issuance of the shares pursuant to this warrant was exempt from registration under the Securities Act of 1933 in reliance on Section 4(2) promulgated thereunder as a transaction not involving any public offering.

On September 9, 2004, we issued an aggregate of 240,842 shares of common stock to Wells Fargo Bank Indiana, N.A., pursuant to the cash exercise of four warrants, each dated July 30, 1999. The warrants were exercisable for a total of 240,842 shares of common stock and each warrant had an exercise price of $4.98 per share. The issuances of the shares pursuant to these warrants were exempt from registration under the Securities Act of 1933 in reliance on Section 4(2) promulgated thereunder as a transaction not involving any public offering.

Item 6. ***Selected Consolidated Financial Data***

	Year Ended December 31,				
	2004	2003	2002	2001	2000
	(In thousands, except per share amounts)				
Statement of Operations Data:					
Contract revenues	$ 195	$ 1,024	$ 25,554	$ 24,550	$ 15,604
Loss from continuing operations	(48,942)	(46,229)	(39,512)	(33,836)	(22,253)
Loss from discontinued operations, including loss on disposal	(3,547)	(3,958)	(5,466)	(2,636)	—
Net loss	$ (52,489)	$ (50,187)	$ (44,978)	$ (36,472)	$ (22,253)
Basic and diluted net loss per share:					
Continuing operations	(1.59)	(2.19)	(5.48)	(6.29)	(4.95)
Discontinued operations	(0.11)	(0.18)	(0.76)	(0.49)	—
Total basic and diluted net loss per share	$ (1.70)	$ (2.37)	$ (6.24)	$ (6.78)	$ (4.95)
Weighted average shares used in computing basic and diluted net loss per share	30,874	21,054	7,220	5,386	4,483

	December 31,				
	2004	2003	2002	2001	2000
	(In thousands)				
Balance Sheet Data:					
Working capital	$ 43,382	$ 25,772	$ (20,728)	$ (1,717)	$ (2,577)
Total assets	79,264	57,809	27,072	39,904	21,288
Bank loan	2,600	—	—	—	—
Notes payable	4,000	6,600	6,600	4,000	—
Capital lease obligations	1,079	3,070	2,242	4,734	7,101
Related party line of credit	7,792	10,542	10,000	—	—
Accumulated deficit	(256,048)	(203,559)	(153,372)	(108,394)	(71,922)
Total stockholders equity (deficit)	45,589	22,701	(4,564)	15,421	8,362

A factor affecting the comparability of information between 2003 and 2004 was our public offering in March 2004, in which an aggregate of approximately 5.8 million shares of common stock were sold for net proceeds of approximately $69.5 million.

Two factors affecting the comparability of information between 2002 and 2003 was our merger with Variagenics, Inc. on January 31, 2003, in which approximately 13.3 million shares of common stock were issued to Variagenics shareholders for an approximate net purchase price of $48.6 million. In addition, in October 2003, an aggregate of approximately 3.8 million shares of common stock were sold in an underwritten public offering for net proceeds of approximately $26.3 million.

A factor affecting the comparability of information between 2001 and 2002 was our private placement offering in April 2002, in which an aggregate of approximately 1.2 million shares of common stock and warrants to purchase an aggregate of approximately 0.3 million shares of common stock were sold for net proceeds of approximately $14.3 million.

A factor affecting the comparability of information between 2000 and 2001 was our private placement offering in August 2001, in which an aggregate approximately of 1.0 million shares of common stock and warrants to purchase an aggregate of approximately 0.5 million shares of common stock were sold for net proceeds of approximately $20.7 million, and the conversion of our loan from our Chairman's first line of credit into approximately 0.75 million shares of common stock.

Item 7. ***Management's Discussion and Analysis of Financial Condition and Results of Operations***

We have included or incorporated by reference into this Management's Discussion and Analysis of Financial Condition and Results of Operations and elsewhere in this Annual Report on Form 10-K, and from time to time our management may make statements that constitute "forward-looking statements" as that term is defined in the Private Securities Litigation Reform Act of 1995. Forward-looking statements may be identified by words including "anticipate," "believe," "intends," "estimates," "expect," "should," "may," "potential" and similar expressions. Such statements are based on our management's current expectations and involve risks and uncertainties. Although we believe that the expectations reflected in the forward-looking statements are reasonable, our actual results and performance could differ materially from those projected in the forward-looking statements as a result of many factors discussed in this Annual Report, including those set forth in this Item 7 as well as under "Item 1. Business," including "Risk Factors." We do not intend to update any of the forward-looking statements after the date of this Annual Report to conform these statements to actual results unless required by law.

Overview

We are engaged in the discovery, development and commercialization of life improving therapeutics for the treatment of human disease. Our lead product candidate, alfimeprase, has completed two Phase 2 trials in two indications, acute peripheral arterial occlusion (PAO) and catheter occlusion, and is expected to enter Phase 3 trials in 2005. Adding to our cardiovascular portfolio, we announced in the first quarter of 2004 a partnership with Archemix for the development and commercialization of ARC183, a novel thrombin inhibitor, and a license agreement with Dendreon for worldwide rights to rNAPc2, an anticoagulant that blocks tissue factor. ARC183 is currently in a Phase 1 program and rNAPc2 is in a Phase 2a trial. Both trials are expected to conclude in the first half of 2005.

In addition, we plan to leverage our proprietary gene collection and expertise in secreted proteins and antibody discovery to expand our pipeline and create partnering and licensing opportunities.

Alfimeprase, our lead development candidate, recently completed Phase 2 clinical trials in two distinct indications, acute PAO and catheter occlusion. Alfimeprase is a thrombolytic agent, or blood clot dissolver, with a novel mechanism of action, and was identified through a research program at Amgen Inc. In January 2002 we entered into a 50/50 cost/profit sharing arrangement with Amgen for the development and commercialization of alfimeprase. In October 2004, Amgen exercised its rights pursuant to the terms of this collaboration agreement to terminate its collaboration with us and enter instead into an exclusive license whereby we are granted the worldwide rights to develop and commercialize alfimeprase in exchange for the payment to Amgen of previously negotiated milestone payments and royalties. Under the terms of our license agreement, Amgen will transfer the technology necessary for the manufacture of alfimeprase to us or to Avecia Limited, our designated manufacturer. On January 21, 2005, we entered into an Interim Agreement with Avecia for the manufacture of alfimeprase, and we are currently in negotiations with Avecia for a definitive agreement for the manufacture of commercial quantities of alfimeprase. Amgen is required to continue to supply alfimeprase to us during the transition period. In connection with the termination of the collaboration agreement with Amgen, we also entered into an opt-out, termination, settlement and release agreement with Amgen in October 2004, whereby we made a payment of $8.5 million to Amgen, of which $8.3 million was related to the remaining reimbursement of its manufacturing costs incurred under the collaboration agreement. We believe the inventory to which these manufacturing costs relate is sufficient to supply the Phase 3 program for alfimeprase as currently contemplated. In addition, we are also required to pay Amgen $5.0 million within 30 days of dosing of the first patient in the first Phase 3 clinical trial for alfimeprase. We expect this milestone to be achieved in the first quarter of 2005. Future milestone payments under the license agreement could total as much as $40.0 million.

In February 2004, we entered into a licensing agreement with Dendreon Corporation for worldwide rights to all indications of rNAPc2 and all other rNAPc molecules owned by Dendreon. rNAPc2 is a recombinant version of a naturally occurring protein that has anticoagulant properties. Under the terms of the agreement, we paid

Dendreon an upfront fee of $4.0 million ($0.5 million in cash and $3.5 million in Nuvelo common stock) and have expensed $5.6 million for this and related clinical trial costs in 2004. We are required to pay Dendreon milestone payments, ranging from $2.0 million to $6.0 million, for both rNAPc2's first and second indications upon dosing of the first patient in a Phase 3 clinical trial, upon submission of a New Drug Application, or NDA, and upon first commercial sale. If all development and commercialization milestones are achieved, total milestone payments to Dendreon can reach as much as $23.5 million. We believe that achieving these milestones is uncertain and we currently cannot predict when any may be achieved. Upon reaching commercialization, we are also responsible for paying future royalties to Dendreon depending on certain sales volume of rNAPc2. We are currently investigating rNAPc2 in a Phase 2a double-blind, placebo-controlled clinical trial for potential use in treating acute coronary syndromes, or ACS, including unstable angina, or UA, and non-ST segment elevation myocardial infarction, or NSTEMI. We plan to complete patient enrollment of this study in the first half of 2005.

In January 2004, we announced a collaboration agreement with Archemix, a privately held biotechnology company located in Cambridge, Massachusetts, for the development and commercialization of ARC183. Our lead indication for ARC183 is as a thrombin inhibitor for use in CABG surgery. Under the terms of our agreement, we paid Archemix an upfront fee of $3.0 million in cash, and have expensed $7.7 million for this and related clinical trial costs in 2004. Under the terms of the collaboration agreement, Archemix is initially responsible for leading development and for all clinical development activities. As part of the agreement, we and Archemix equally share all costs associated with the development and commercialization of ARC 183 after we have funded the first $4.0 million in research and development costs, and will jointly share any revenues resulting from its commercialization. Since these joint research and development costs have already exceeded $4.0 million as of the third quarter of 2004, we and Archemix have begun the 50/50 cost sharing arrangement. Under the collaboration agreement, we have the option to lead commercialization efforts in which both we and Archemix may participate. We are required to pay Archemix total development milestone payments of up to $11.0 million, including $10.0 million upon commencement of a Phase 2 trial and $1.0 million upon the designation of any backup compound selected by both Nuvelo and Archemix for IND-enabling studies. We estimate that the milestone payment of $10.0 million could occur in the first half of 2006. We are obligated to make the Phase 2 milestone payment to Archemix even if the collaboration is terminated by Archemix, or if Archemix does not meet its obligations under the agreement and we terminate the collaboration for default by Archemix. Upon reaching commercialization, both companies are responsible for paying any related royalties to each other depending on product sales volume. In August 2004, we and our partner, Archemix, initiated a Phase 1 clinical program for ARC183 for use in CABG surgery. These studies are evaluating the safety, tolerability, anticoagulation activity and titratability of ARC183. We expect to complete enrollment of the Phase 1 clinical program of ARC183 in the first half of 2005.

In September 2004, we extended and expanded our research and development collaboration with Kirin. The amended agreement extends the term of the current collaboration to December 31, 2005 and expands the scope of the collaboration to include additional secreted protein genes from our full-length gene portfolio. Under the current contract, we will jointly own discoveries resulting from the collaboration, and we will jointly develop and market the resulting products while sharing costs, efforts and revenues. Under our Kirin collaboration, we have completed the initial analysis of 50 secreted protein genes in mouse models and will be testing additional candidates genes in 2005. We plan to announce a primary indication for our pre-clinical candidate, NU206, in the first half of 2005. NU206 was identified as a result of this collaboration.

Our efforts to manage simultaneously a number of collaboration and licensing arrangements may not be successful, and the failure to manage effectively such collaborations would significantly harm our business, financial condition and results of operations. Due to these factors and other possible disagreements with Amgen, Archemix, Dendreon and Kirin, we may be delayed or prevented from developing or commercializing alfimeprase, ARC183 and rNAPc2 or our pre-clinical product candidates or we may become involved in litigation or arbitration, which would be time-consuming or expensive and could have a material adverse effect on our stock price.

In December 2004, we sold our subsidiary, Callida Genomics, Inc., or Callida, to SBH Genomics, Inc., a privately held Delaware corporation. This transaction is part of our strategy to monetize assets that are outside of our core business. Prior to the sale, we owned approximately 90% of Callida's issued and outstanding capital stock. Affymetrix, a minority stockholder in Callida, also sold its Callida shares to SBH Genomics as part of the same negotiated transaction. We and Affymetrix sold our stock in Callida in exchange for convertible promissory notes in the principal amount of $1.0 million, being $0.9 million for Nuvelo and $0.1 million for Affymetrix, and potential additional payments to us from SBH Genomics based on future revenues. The notes are convertible into preferred shares of SBH Genomics under certain circumstances. As part of this transaction, Affymetrix has waived the acceleration of a $4.0 million promissory note owed by us to Affymetrix that would have become immediately payable as a result of the change in control of Callida. This convertible note arose from a loan made to us by Affymetrix in 2001 to fund our initial capital contribution to Callida and is due in November 2006. The sale of our Callida stock results in a net non-cash charge to our earnings of approximately $1.1 million, representing the difference between the value of the convertible promissory notes received and the carrying value of Callida's assets and liabilities in our balance sheet. In addition, various cash and non-cash charges of approximately $0.5 million are associated with the sale of this subsidiary. The sale of the Callida business segment meets the criteria for presentation as a discontinued operation under the provisions of the Statement of Financial Accounting Standards No. 144, *"Accounting for the Impairment or Disposal of Long-Lived Assets"*. Therefore, the historical results of Callida are reported in our consolidated financial statements as a discontinued operation.

In January 2005, we entered into a seven-year facility lease agreement with BMR-201 Industrial Road LLC for approximately 55,000 square feet of industrial space at 201 Industrial Road in San Carlos, California at $2.35 per square foot per month, subject to annual adjustments. The lease will commence on or around September 1, 2005 and contains an option to cancel the lease after five years, two options to extend the lease for five additional years at 95% of the then-current fair market rental rate (but not less than the existing rental rate), and rights of first refusal over all vacant space in the building during the first two years of the lease. The lease contains a tenant improvement allowance of $7.7 million, or $140 per square foot.

In March 2004, we raised approximately $69.5 million in a public offering, net of underwriters' fees and stock issuance costs of $5.3 million, from the sale of 5,750,000 shares of our common stock, including 750,000 shares related to the exercise of an over-allotment option granted to the underwriters, at a public offering price of $13.00 per share.

In February 2005, we raised approximately $68.3 million in a public offering, net of underwriters' fees and stock issuance costs of approximately $5.0 million, from the sale of 9,775,000 shares of our common stock, including 1,275,000 shares related to the exercise of an over-allotment option granted to the underwriters, at a public offering price of $7.50 per share. We intend to use the net proceeds from this offering for general corporate purposes, including capital expenditures, working capital needs, current and future clinical trials of our lead drug candidate, alfimeprase, as well as other research and drug development activities. The amounts and timing of the expenditures will depend on numerous factors, such as the timing and progress of our clinical trials and research and development efforts, technological advances and the competitive environment for our drug candidates. We expect from time to time to evaluate the acquisition of businesses, products and technologies for which a portion of the net proceeds may be used, although we currently are not planning or negotiating any such transactions.

Results of Operations

Nuvelo's core business is to develop and market therapeutic drugs for the treatment of human diseases. The following results of operations include those of both Nuvelo and Callida Genomics, Inc. (Callida), through its disposal on December 3, 2004. The results of Callida have been reclassified to discontinued operations for all periods presented.

Contract Revenues

Contract revenues were $0.2 million in 2004, compared to $1.0 million in 2003 and $25.6 million in 2002. The $0.8 million decrease in 2004 from 2003 was primarily due to $0.5 million of deferred revenues recognized in 2003 from the $4.0 million license payment received from Affymetrix as part of the October 2001 settlement of all our outstanding litigation with Affymetrix, with no corresponding amount in 2004. The $24.6 million decrease in 2003 from 2002 was primarily due to completion of our gene screening services collaboration with BASF in January 2003 and from the $4.0 million Affymetrix license payment, for which we recognized revenues of $21.9 million and $2.7 million, respectively, in 2002.

Our revenues may vary significantly from quarter to quarter as a result of licensing or collaboration activities. In the future, we may not be able to maintain existing collaborations, obtain additional collaboration partners or obtain revenue from other sources, which could have a material adverse effect on our revenues, operating results and cash flows.

Research and Development Expenses

	Years Ended December 31,				
	2004	2003	2002	% Change in 2004	% Change in 2003
	(Dollars in Thousands)				
Research and development	$39,970	$30,014	$46,827	33%	(36)%

Research and development (R&D) expenses, primarily consist of R&D personnel costs, clinical trial and drug manufacturing costs, license, collaboration and royalty fees, outside services, supplies, depreciation and amortization, and allocated facilities expenses.

The $10.0 million increase in R&D expense in 2004 as compared to 2003 was primarily due to $7.0 million in upfront fees related to our license and collaboration agreements signed with Dendreon and Archemix, respectively, in the first quarter of 2004, and an increase of $4.7 million in overall clinical trial and research-related costs to continue supporting development of our current drug candidates in 2004, partially offset by $2.7 million in R&D savings realized during 2004 from completion of the shut-down of our Variagenics research operations in Cambridge, Massachusetts in 2003.

The $16.8 million decrease in R&D expense in 2003 as compared to 2002 was primarily due to net savings of $15.0 million of research and personnel costs as a result of the early completion of our agricultural gene screening services agreement with BASF in January 2003, total rent savings of $3.5 million realized from our early lease termination of the Humboldt Court, Sunnyvale facility executed in November 2002, and a decrease of $1.5 million in depreciation expense due to significantly lower capital expenditures in 2003 and with fixed assets becoming fully depreciated in 2003. The decrease was partially offset by additional R&D expense of $2.7 million in 2003 from Variagenics' operations assumed in connection with the merger completed on January 31, 2003 and subsequently shut down at the end of the third quarter of 2003.

R&D expenses included in the statement of operations for 2004 and since inception for our significant programs are as follows (including license and collaboration fees):

Program	2004	Since Inception
	(Dollars in Millions)	
alfimeprase	$ 6.7	$ 26.8
rNAPc2	$ 5.6	$ 5.6
ARC183	$ 7.7	$ 7.7

We expect to expense up to $12.6 million of drug manufacturing costs within the next twelve months as we start to advance alfimeprase into Phase 3 clinical trials in 2005. We also are required to pay Amgen $5.0 million

within 30 days of dosing of the first patient in the first phase 3 clinical trial for alfimeprase, resulting from the license agreement signed in November 2004. We expect this milestone to be achieved in the first quarter of 2005. We currently do not expect to incur any milestone expense for our rNAPc2 and ARC183 drug candidates in 2005. We expect other R&D expenses to increase during 2005 as we continue to dedicate our resources to advance ongoing alfimeprase clinical trials as well as work to enhance our pipeline by seeking attractive therapeutic candidates that complement our ongoing development programs, while prosecuting and enforcing our intellectual property rights.

The timing, cost of completing the clinical development of any product candidate, and any potential future product revenues will depend on a number of factors, including the disease or medical condition to be treated, clinical trial design and endpoints, availability of patients to participate in trials and the relative efficacy of the product versus treatments already approved. Due to these uncertainties, we are unable to estimate the length of time or the costs that will be required to complete the development of these product candidates. We do not expect to generate any product revenue until we reach the commercialization stage for any of our drug products, if this ever occurs.

General and Administrative Expenses

	Years Ended December 31,				
	2004	2003	2002	% Change in 2004	% Change in 2003
	(Dollars in Thousands)				
General and administrative	$8,702	$15,069	$14,981	(42)%	1%

General and administrative (G&A) expenses primarily consist of G&A personnel costs, consulting and professional fees, insurance, facilities and depreciation expenses, and various other administrative costs.

The $6.4 million decrease in G&A expense in 2004 as compared to 2003 was primarily due to a $4.6 million decrease from rent and option termination expenses in 2003 related to the Humboldt Court facility lease, and $3.6 million in G&A savings realized during 2004 from completion of the shut-down of our Variagenics' operations in 2003, offset by increases in consulting and professional fees associated with the internal controls documentation, testing and auditing required under the Sarbanes-Oxley Act of 2002.

The $0.1 million increase in G&A expense in 2003 as compared to 2002 was primarily due to an increase of $3.6 million from Variagenics' G&A costs before it was shut down in the third quarter of 2003, largely offset by cost savings in 2003 from decreased average headcount and decreased rent expense as a result of the Humboldt Court facility lease termination in November 2002.

We expect general and administrative expenses to increase during 2005 to support our growth in general operating activity.

Loss on Sale of Assets

Losses on sales of assets were $0.2 million in 2004, compared to $1.2 million in 2003 and $36,000 in 2002. The $1.0 million decrease in 2004 and the $1.2 million increase in 2003 were both primarily due to the $1.2 million write-off in 2003 of Humboldt Court leasehold improvements in connection with our decision not to exercise a purchase option in April 2003 related to an early lease termination agreement executed in November 2002.

Restructuring Expenses

There were no restructuring expenses in 2004 or 2003, compared to restructuring costs of $2.1 million in 2002 related to headcount reductions in connection with the early completion of our BASF collaboration.

Interest Income and Expense, Net

	Years Ended December 31,				
	2004	2003	2002	% Change in 2004	% Change in 2003
	(Dollars in Thousands)				
Interest income	$ 2,889	$ 747	$ 87	287%	759%
Interest expense — related party	(481)	(557)	(252)	(14)%	121%
Interest expense — other	(2,706)	(1,135)	(990)	138%	15%
Interest income and expense, net	$ (298)	$ (945)	$(1,155)	(68)%	(18)%

The $0.6 million decrease in net interest expense for 2004 as compared to 2003 was primarily due to the increase in interest income resulting from higher average cash and investment balances due to public offerings completed in October 2003 and March 2004, partially offset by increased amortization of premium/discount related to our investment balances.

The $0.2 million decrease in net interest expense for 2003 as compared to 2002 was primarily due to the increase in interest income resulting from higher average cash and investment balances due to our merger with Variagenics in January 2003 and the public offering completed in October 2003, partially offset by increased interest expense from the line of credit with our Chairman, increased amortization of premium/discount related to our investment balances and additional capital leases assumed from the merger with Variagenics.

Loss from Continuing Operations

Since our inception, we have incurred significant net losses, and as of December 31, 2004, our accumulated deficit was $256.0 million. During 2004, we incurred a net loss from continuing operations of $48.9 million as compared to $46.2 million in 2003 and $39.5 million in 2002.

We expect to continue to incur significant losses from continuing operations for the foreseeable future, which may increase substantially as we continue clinical development of our lead drug candidate, alfimeprase, continue clinical development of rNAPc2 and ARC183, further expand research and development of our potential biopharmaceutical product candidates, potentially in-license other drug candidates, and continue to prosecute and enforce our intellectual property rights.

Loss from Discontinued Operations

On December 3, 2004, we sold our subsidiary, Callida Genomics, Inc. (Callida). In accordance with Statement of Financial Accounting Standards No. 144, *"Accounting for the Impairment or Disposal of Long-Lived Assets"*, the operating results of Callida have been reclassified to discontinued operations for all periods presented. The sale resulted in a net non-cash charge of approximately $1.1 million, representing the difference between the value of the convertible promissory notes received and the carrying value of Callida's assets and liabilities on our balance sheet. In addition, various cash and non-cash charges of approximately $0.5 million were associated with the sale. All of the charges related to the disposal have been classified within discontinued operations.

Liquidity and Capital Resources

Cash, cash equivalents and short-term investment balances at the end of 2004 and 2003 were as follows:

	December 31, 2004	December 31, 2003
	(Dollars in Thousands)	
Cash and cash equivalents	$ 16,811	$ 13,141
Short-term investments	33,814	21,048
Cash, cash equivalents and short-term investments	$ 50,625	$ 34,189

Cash flows from operating, investing and financing activities in 2004, 2003 and 2002 were as follows:

	2004	2003	2002
		(Dollars in Thousands)	
Cash flows from operating activities	$(50,112)	$(45,066)	$(30,908)
Cash flows from investing activities	(13,576)	28,393	(2,001)
Cash flows from financing activities	67,358	27,589	22,805
Net increase (decrease) in cash and cash equivalents	$ 3,670	$ 10,916	$(10,104)

Cash, Cash Equivalents and Short-Term Investments

As of December 31, 2004, we had $50.6 million in cash, cash equivalents and short-term investments. These amounts reflect a net increase of $16.4 million from the $34.2 million total as of December 31, 2003. This increase resulted primarily from the net proceeds of approximately $69.5 million from a public offering in March 2004, partially offset by $50.1 million of cash used in operating activities in 2004.

In February 2005, we raised approximately $68.3 million in a public offering, net of underwriters' fees and stock issuance costs of approximately $5.0 million, from the sale of 9,775,000 shares of our common stock, including 1,275,000 shares related to the exercise of an over-allotment option granted to the underwriters, at a public offering price of $7.50 per share.

As of December 31, 2004, all of our short-term investments in marketable securities have maturities of less than one year, and have been classified as available-for-sale securities, as defined by Statement of Financial Accounting Standards No. 115, *"Accounting for Certain Investments in Debt and Equity Securities"* (SFAS 115). These securities are recorded at their fair value and consist of corporate debt and asset-backed securities. We make our investments in accordance with our investment policy. The primary objectives of our investment policy are liquidity, safety of principal and diversity of investments.

Sources and Uses of Capital

To date, our primary sources of liquidity have been cash from financing activities, collaboration receipts and our merger with Variagenics in January 2003. We plan to continue to raise funds through additional public and/or private offerings and collaboration activities in the future.

In March 2004, we raised approximately $69.5 million in a public offering, net of underwriters' fees and stock issuance costs of $5.3 million, from the sale of 5,750,000 shares of our common stock, including 750,000 shares related to the exercise of an over-allotment option granted to the underwriters, at a public offering price of $13.00 per share.

In August 2004, we entered into a Loan and Security Agreement (Loan Agreement), with Silicon Valley Bank that provides us with a $6.0 million term loan facility and a $4.0 million revolving credit line and grants Silicon Valley Bank a security interest over certain of our assets, excluding intellectual property. As a condition precedent to the Loan Agreement, we agreed, among other things, to certain covenants and reporting requirements. On December 15, 2004, we completed a planned $2.6 million initial draw-down on the term loan, the proceeds of which were used entirely to repay a note for the same amount that was owed to AMB Property, LP in relation to the termination of a lease agreement for facilities at Humboldt Court, Sunnyvale, California. We have not used any of the funds available under the revolving credit line. The proceeds of all other term loan draw-downs and the revolving credit line may be used solely for our working capital or other general business requirements. Since September 2004, the revolving credit line has been used to collateralize a $4.0 million letter of credit issued to the Irvine Company related to the 985 Almanor facility lease that was previously guaranteed and collateralized by Dr. Rathmann. Our term loan borrowings under the new loan facility shall bear interest at a fixed rate per annum equal to the 36-month Treasury Rate in effect on the funding date plus three and one-quarter

percent (3.25%), and, in any event, shall not be less than 6.43% per annum. Our revolving credit borrowings shall bear interest at Silicon Valley Bank's prime rate in effect from time to time. As of December 31, 2004, we had received waivers for any breaches of related covenants and reporting requirements, and the applicable interest rate for the outstanding amount under the term loan was 6.43%.

Dr. Rathmann, the chairman of our board of directors, provided us with a $20.0 million line of credit in August 2001, of which we have drawn down $11.0 million, with the remaining $9.0 million having expired. The related promissory note bears interest at the prime rate plus 1%. In November 2003, we began repaying the outstanding balance over 48 months with equal principal payments of approximately $0.2 million. Accrued interest will be paid with the final payment in October 2007. As of December 31, 2004, the remaining principal and accrued interest to date totaled $9.2 million. The outstanding principal and interest under the note may be repaid at any time upon mutual agreement, by conversion into shares of our common stock at a price based upon the average price of our common stock over a 20-day period ending 2 days prior to the conversion or, if in connection with an equity financing, at the offering price. As of December 31, 2004, 907,113 shares would be issuable to fully repay the principal and interest outstanding upon conversion. Dr. Rathmann's guarantee of our $2.6 million promissory note to AMB Property, LP was canceled upon repayment of this note in December 2004.

We issued Affymetrix a 5-year promissory note for $4.0 million in November 2001, bearing a fixed annual interest rate of 7.5 %. Accrued interest will be paid with the final payment in November 2006. As of December 31, 2004, the remaining principal and accrued interest to date totaled $4.9 million. The outstanding principal and interest under the note may be repaid in whole or in part at any time, at our option, by conversion into shares of our common stock at a price based upon 90% of the average price of our common stock over a 10-day period ending 2 days prior to the conversion. As of December 31, 2004, 542,235 shares would be issuable to fully repay the principal and interest outstanding upon conversion. Affymetrix has the ability to declare all outstanding principal and interest under the note immediately due and payable if our market capitalization is under $50.0 million and Affymetrix reasonably determines that the loan evidenced by the note is impaired, and we have an obligation to prepay amounts owing under the note to the extent that the amounts outstanding exceed 10% of our market capitalization. Moreover, we have registered for resale a portion of these shares issuable to Affymetrix on a registration statement that has been declared effective by the SEC.

Our primary use of capital resources has been to fund operating activities, including license payments, to acquire capital equipment and to make leasehold improvements. We used cash of $50.1 million and $45.1 million for operating activities, and cash of $0.7 million and $0.3 million to acquire capital equipment and make leasehold improvements in 2004 and 2003, respectively.

In August 2002 we amended our lease on the property at 985 Almanor Ave. to provide for a rent deferral of approximately $4.9 million over the subsequent three years, retroactive to June 1, 2002. We will be required to repay the deferred rent liability, plus interest, over a four-year period beginning June 1, 2005 in equal monthly installments of approximately $0.1 million. In October 2003, we amended the lease for a second time, to provide for an additional rent deferral. In order to receive this rent deferral, we pre-paid approximately $2.7 million of base rental payments in October 2003 to cover the 9 month period beginning October 1, 2003 and ending June 30, 2004. The amendment provides that no base rent will be due for the period July 1, 2004 through March 30, 2005, resulting in a $2.9 million deferral and approximately $0.2 million of savings. The deferral amount will be repaid on May 30, 2011, the end of the lease term. Other terms of the agreement include the ability to repay the $2.9 million deferred rent in 36 monthly installments of approximately $0.1 million, commencing on June 1, 2011 if the lease term is extended for at least 36 months, and early reinstatement of the original rental rates if we successfully raise $75.0 million in a single public or private equity offering, with the remaining amount of rent deferred under both lease amendments up to that date coming due immediately.

Cash Used in Operating Activities

Net cash used in operating activities increased by $5.0 million to $50.1 million in 2004, compared to $45.1 million in 2003. The increase in cash used was primarily due to payments to Amgen of $8.5 million in relation

to the termination of the collaboration agreement in October 2004, of which $8.3 million was related to the remaining reimbursement of its manufacturing costs incurred under the collaboration agreement, and of $0.4 million in related technology transfer fees, as well as total license and collaboration agreement fees of $3.5 million paid to Dendreon and Archemix, partially offset by the elimination of $6.3 million of expenses incurred in 2003 resulting from our merger with Variagenics in January 2003. Net cash used in operating activities increased by $14.2 million to $45.1 million in 2003, compared to $30.9 million in 2002, primarily due to an increase in net loss before non-cash license expenses.

We expect an increase in operating expenses in 2005, as we continue to incur increased clinical development and manufacturing costs related to our three drug candidates. In addition, we are required to pay Amgen $5.0 million within 30 days of dosing of the first patient in the first Phase 3 clinical trial for alfimeprase, as part of the license agreement signed on November 3, 2004. We expect this milestone to be achieved in the first quarter of 2005. If we are successful in reaching the commercialization stage, we will also be responsible for paying our collaboration and licensing partners certain product royalties, depending on product sales volumes. We do not foresee a significantly negative impact in our liquidity based on potential royalty payment obligations, as the majority of these payments are related to commercial sales, which provide us with offsetting cash inflows. Our future milestone payments under current agreements could total $74.5 million if all milestones are achieved, which would significantly affect our future cash flows. Only $5.0 million of this amount is expected to be paid in 2005, as noted above.

Cash Used in / Provided by Investing Activities

Net cash used in investing activities was $13.6 million in 2004, compared to $28.4 million provided by investing activities in 2003 and $2.0 million used in investing activities in 2002. The increased use of cash in 2004 was primarily due to $25.7 million of cash received from the acquisition of Variagenics in 2003, and increased purchases of short-term investments as a result of cash raised from the public offering completed in March 2004, partially offset by an increase in proceeds from the subsequent sales or maturities of those investments. The increase in cash provided by investing activities in 2003 was primarily due to the cash received from the acquisition of Variagenics.

We expect capital expenditures to increase significantly during 2005 as compared to 2004, as we prepare our newly-leased facilities at 201 Industrial Road in San Carlos, California to be our primary headquarters.

Cash Provided by Financing Activities

Net cash provided by financing activities increased by $39.8 million to $67.4 million in 2004, compared to $27.6 million in 2003. The cash provided in 2004 and 2003 primarily resulted from public offerings completed in March 2004 and October 2003, respectively. Net cash provided by financing activities increased by $4.8 million from 2002 to 2003, resulting from the increase in size of the public offering in 2003 from the private investment in 2002.

In February 2005, we raised approximately $68.3 million in a public offering, net of underwriters' fees and stock issuance costs of approximately $5.0 million, from the sale of 9,775,000 shares of our common stock, including 1,275,000 shares related to the exercise of an over-allotment option granted to the underwriters, at a public offering price of $7.50 per share. We may also raise further funds through additional public or private financings in 2005.

Our future capital requirements and the adequacy of available funds will depend on many factors, including those set forth under "Risk Factors". We may not be able to secure additional financing to meet our funding requirements on acceptable terms, if at all. If we raise additional funds by issuing equity securities, substantial dilution to our existing stockholders may result. If we are unable to obtain additional funds, we will have to reduce our operating costs and delay our research and development programs. Including the $68.3 million of net

proceeds from the offering in February 2005, we believe that we have adequate cash reserves to fund our operations through 2006.

Contractual Obligations

The following table summarizes our significant contractual obligations as of December 31, 2004, and the effect such obligations are expected to have on our liquidity and cash flow in future periods (in thousands):

	2005	2006	2007	2008	2009	2010 and Thereafter	Total
Contractual obligations:							
Operating lease obligations	$ 5,693	$ 7,260	$ 7,479	$ 7,707	$ 6,906	$ 12,004	$ 47,049
Bank loan(a)	844	1,133	893	—	—	—	2,870
Note payable(b)	—	4,939	—	—	—	—	4,939
Capital lease obligations(a)	1,010	105	14	—	—	—	1,129
Related party line of credit(c)	2,750	2,750	3,694	—	—	—	9,194
Total contractual obligations	$ 10,297	$ 16,187	$ 12,080	$ 7,707	$ 6,906	$ 12,004	$ 65,181

(a) Includes interest payments at fixed rates of interest.

(b) Fixed interest of 7.5% per annum is accrued and due with the final loan payment in November 2006. Includes $0.9 million interest accrued as of December 31, 2004.

(c) Interest is accrued at a variable rate based on the current prime rate plus 1% and is due with the final line of credit payment in October 2007. Includes $1.4 million interest accrued as of December 31, 2004.

The foregoing table does not include milestone payments potentially payable by us under our collaboration agreements and licenses. Such milestone payments are dependent upon the occurrence of specific milestones events and not the passage of time. We currently expect only one milestone to be achieved in 2005, being a payment to Amgen of $5.0 million within 30 days of dosing of the first patient in the first phase 3 clinical trial for alfimeprase. This milestone may or may not be achieved in this timeframe, if at all, and we cannot accurately estimate when any such milestone events will occur, if ever.

Critical Accounting Policies and Estimates

Our discussion and analysis of our operating results and financial condition is based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of the financial statements requires us to make estimates, judgments, and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent amounts. While we believe our estimates, judgments, and assumptions are reasonable, the inherent nature of estimates is that actual results will likely be different from the estimates made.

We believe the following critical accounting policies, among others, affect the more significant judgments and estimates used in the preparation of our consolidated financial statements.

Clinical Trial Drug Manufacturing Expense and Clinical Trial Supplies Asset

We recognize clinical trial drug manufacturing expense when manufacturing is completed and the clinical trial drug material is shipped from the manufacturing or storage facility to the testing site. In accordance with Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standards No. 2, *"Accounting for Research and Development Costs"* (SFAS 2), we have accounted for this clinical trial drug material as Clinical Trial Supplies, a current asset on our balance sheet as there are alternative future uses for the supply in other indications not currently being studied, including deep vein thrombosis, stroke, acute myocardial infarction and pulmonary embolism. On a quarterly basis we evaluate if there continues to be alternative future use for the

alfimeprase clinical drug material, and if the material is obsolete or in excess of anticipated requirements. Any unconsumed Clinical Trial Supplies will be charged as research and development expense in the quarter in which there ceases to exist a future alternative use, or if the material is obsolete or in excess of anticipated requirements, which may result in a significant adverse impact on our financial condition and results of operations.

Impairment or Disposal of Long-Lived Assets

Periodically, we determine whether any property and equipment or any other assets have been impaired based on the criteria established in Statement of Financial Accounting Standards No. 144, *"Accounting for the Impairment or Disposal of Long-Lived Assets"* (SFAS 144). SFAS 144 requires, among other things, that impairment losses be recognized whenever the carrying amount exceeds the fair value of the asset. Intangibles with determinable lives and other long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable, and we perform an annual impairment review regardless of any such events or changes. Our judgments regarding the existence of impairment indicators are based on historical and projected future operating results, changes in the manner of our use of the acquired assets or our overall business strategy, and market and economic trends. Events may occur that could cause us to conclude that impairment indicators exist and that certain intangibles with determinable lives and other long-lived assets are impaired, which may result in a significant adverse impact on our financial condition and results of operations.

Goodwill

We applied the provisions of Statement of Financial Accounting Standards No. 142, *"Goodwill and Other Intangible Assets"* (SFAS 142) upon the completion of the merger with Variagenics in January 2003. SFAS 142 requires that goodwill and intangible assets with indefinite useful lives no longer be amortized, but instead be tested for impairment at least annually in accordance with provisions of SFAS 142. SFAS 142 also requires that intangible assets with estimable useful lives be amortized over their respective estimated useful lives, and reviewed for impairment in accordance with SFAS 144.

The SFAS 142 goodwill impairment model involves a two-step process. During the first step, we compare the fair value of the reporting unit with its carrying value, including goodwill. The estimated fair value of the reporting unit, in this case the Nuvelo business segment, is computed by multiplying the quoted market price of the company's common stock on the Nasdaq National Market by the outstanding common stock of the company at that time. Previously, we used the present value of expected cash flows for our Nuvelo business segment, discounted at a risk-adjusted weighted average cost of capital. However, due to the disposal of the Callida business segment in the fourth quarter and its insignificant fair value and carrying value at the time of disposal, we now believe the market capitalization of Nuvelo as a whole to be a more reliable indicator of the fair value of the Nuvelo reporting unit, being our only remaining business segment.

If the fair value of the reporting unit is determined to be more than its carrying value, including goodwill, no goodwill impairment is recognized. If the fair value of the reporting unit is determined to be less than its carrying value, goodwill impairment, if any, is computed using the second step. The second step requires the fair value of the reporting unit to be allocated to all the assets and liabilities of the reporting unit as if the reporting unit had been acquired in a business combination at the date of the impairment test and the fair value of the reporting unit was the price paid to acquire it. The excess of the fair value of the reporting unit over the amounts assigned to its assets and liabilities is the implied value of goodwill, which is used to determine the impairment amount.

We have designated October 31 as the annual impairment testing date for our goodwill, although additional testing may be performed if circumstances warrant a re-evaluation. If it is determined that the carrying value of goodwill has been impaired, the value would be reduced by a charge to operations in the amount of the impairment, which may result in a significant adverse impact on our financial condition and results of operations. There was assessed to be no goodwill impairment based on the testing performed on October 31, 2004.

Capitalization of Software Developed for Internal Use

We account for software developed for internal use in accordance with Statement of Position 98-1, *"Accounting for the Costs of Computer Software Developed or Obtained for Internal Use"* (SOP 98-1) which requires research and development costs associated with the development stage of the internal-use software application to be capitalized. Platform and software development costs incurred prior to the application development stage are charged to expense as incurred. Management is required to use professional judgment in determining whether development costs meet the criteria in SOP 98-1 for immediate expense or capitalization. Amortization of the capitalized costs begins when all substantial testing is completed and the software is ready for its intended use. Management periodically reviews the carrying value of the projects that have been capitalized to determine if impairment may exist. If it is determined that the carrying value of the asset has been impaired, the value would be reduced by a charge to operations in the amount of the impairment, which may result in a significant adverse impact on our financial condition and results of operations.

Clinical Trial and Drug Manufacturing Accruals

We accrue costs for clinical trial and drug manufacturing activities based upon estimates of the services received and related expenses incurred that have yet to be invoiced by the contract research organizations (CROs), clinical study sites, drug manufacturers, collaboration partners, laboratories, consultants, or other clinical trial vendors that perform the activities. Related contracts vary significantly in length, and may 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 close communication with the CROs and other clinical trial vendors, including detailed invoice and task completion review, analysis of expenses against budgeted amounts, and pre-approval of any changes in scope of the services to be performed. Each CRO and significant clinical trial vendor provides an estimate of costs incurred but not invoiced at the end of each period for each individual trial. The estimates are reviewed and discussed with the CRO or vendor as necessary, and are included in research and development expenses for the related period. For clinical study sites, which are paid quarterly on a per-patient basis to the institutions performing the clinical study, we accrue an estimated amount based on patient enrollment in each quarter. All estimates may differ significantly from the actual amount subsequently invoiced. No adjustments for material changes in estimates have been recognized in any period presented.

Revenue Recognition

We recognize revenue when (i) persuasive evidence of an arrangement exists, (ii) delivery has occurred or services have been rendered, (iii) the price is fixed and determinable, and (iv) collectibility is reasonably assured. We defer up-front refundable fees and recognize revenues upon the later of when they become nonrefundable or when performance obligations are completed. In situations where we have no continuing performance obligations, we recognize up-front nonrefundable fees as revenues when received. In situations where continuing performance obligations exist, we defer and amortize up-front nonrefundable fees over the performance period. Revenues related to collaborative research agreements and government grants are generally recognized over the related funding periods for each contract as the services are performed. The terms of such arrangements may cause our operating results to vary considerably from period to period.

Stock-Based Compensation

In accordance with the provisions of Statement of Financial Accounting Standards No. 123, *"Accounting for Stock-Based Compensation"* (SFAS 123), as amended by SFAS No. 148, *"Accounting for Stock-Based Compensation — Transition and Disclosure"* (SFAS 148) we have elected to account for stock-based compensation to employees under the provisions of Accounting Principles Board Opinion No. 25, *"Accounting for Stock Issued to Employees,"* and its related interpretations, and to adopt the "disclosure only" alternative described in SFAS 123, as amended by SFAS 148. Stock options granted to non-employees are accounted for in accordance with SFAS 123 and Emerging Issues Task Force No. 96-18, *"Accounting for Equity Instruments that*

Are Issued to Other than Employees for Acquiring, or in Conjunction with Selling, Goods or Services." Effective from the beginning of our third fiscal quarter of 2005, we will be subject to Statement of Financial Accounting Standards No. 123(R), *"Share-Based Payment"*, which is expected to have a material adverse effect on our results of operations (see Recent Accounting Pronouncements below).

Income Taxes

Income taxes are accounted for under the asset and liability method pursuant to Statement of Financial Accounting Standards No. 109, *"Accounting for Income Taxes"* (SFAS 109). Under SFAS 109, deferred tax assets and liabilities are recognized for the 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. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

We record a valuation allowance to reduce deferred income tax assets to an amount that is more likely than not to be realized. Assessment of the realization of deferred income tax assets requires that estimates and assumptions be made as to the taxable income of future periods. Our deferred tax assets are reduced to zero, as management believes that it is more likely than not that the deferred tax assets will not be realized. Projection of future period earnings is inherently difficult as it involves consideration of numerous factors such as our overall strategies and estimates of new product development and acceptance, product lifecycles, selling prices and volumes, responses by competitors, manufacturing costs and assumptions as to operating expenses and other industry specific and macro and micro economic factors. In addition, consideration is also given to ongoing and constantly evolving global tax laws and our own tax minimization strategies.

Recent Accounting Pronouncements

In June 2004, the FASB ratified Emerging Issues Task Force Issue No. 03-1, *"The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments"* (EITF 03-1). EITF 03-1 includes new guidance for evaluating and recording impairment losses on debt and equity investments, as well as new disclosure requirements for investments that are deemed to be temporarily impaired. Adoption of the recognition and measurement guidance of EITF 03-1 has been temporarily deferred by the FASB, but the disclosure requirements of EITF 03-1 are effective for our 2004 consolidated financial statements. Accordingly, additional disclosures as required by EITF 03-1 are included in Note 5 of the Notes to the Consolidated Financial Statements.

On December 16, 2004, the FASB issued Statement of Financial Accounting Standards No. 123(R), *"Share-Based Payment"* (SFAS 123(R)), an amendment of Statements of Accounting Standards No. 123 and 95, that addresses the accounting for share-based awards to employees. The standard requires companies to recognize as an expense the fair value of stock options and other stock-based compensation to employees. The statement eliminates the ability to account for share-based compensation transactions using APB Opinion No. 25, *"Accounting for Stock Issued to Employees,"* (APB 25), and generally requires instead that such transactions be accounted for using a fair-value-based method, such as Black-Scholes, to fairly value stock options and recognize that value as an expense. The standard will be effective for public companies as of the beginning of the first fiscal quarter after June 15, 2005. We currently account for our stock-based compensation plans in accordance with APB 25. SFAS 123(R) offers companies alternative methods of adopting this standard. At present, we have not yet determined which method we will adopt, but regardless of the method, adoption of this statement is expected to have a material adverse effect on our consolidated financial statements, specifically, the consolidated statements of operations and stockholders' equity (deficit).

Off-Balance Sheet Arrangements

We have not participated in any transactions with unconsolidated entities, such as special purpose entities (SPEs), which would have been established for the purpose of facilitating off-balance sheet arrangements.

Indemnifications

In the ordinary course of business, we enter into contractual arrangements under which we may agree to indemnify certain parties from any losses incurred relating to the services they perform on our behalf or for losses arising from certain events as defined within the particular contract. Such indemnification obligations may not be subject to maximum loss clauses. Historically, payments made related to these indemnifications have been immaterial. In addition, we have entered into indemnity agreements with each of our directors and executive officers. Such indemnity agreements contain provisions, which are in some respects broader than the specific indemnification provisions contained in Delaware law. We also maintain an insurance policy for our directors and executive officers insuring against certain liabilities arising in their capacities as such.

Item 7A. ***Qualitativeand Quantitative Disclosures About Market Risk***

Interest Rate Risk

We have exposure to changes in interest rates on our cash equivalents, which are held primarily in money market funds and debt securities with original maturities of 90 days or less that earn interest at variable rates. We do not use derivative financial instruments in our investment portfolio. We place our investments with high quality issuers and, by policy, limit the amount of credit exposure with any one issuer. We are averse to principal loss, and ensure the safety and preservation of our invested funds by limiting default, market and reinvestment risk. The recorded carrying amounts of our cash equivalents approximate fair value due to their short-term maturities.

Changes in interest rates do not affect interest income on our short-term investments as they are maintained in corporate debt and asset-backed securities with fixed rates and original maturities of less than 24 months.

Changes in interest rates do not affect interest income on our restricted cash as it is maintained in commercial paper with fixed rates and original maturities of less than 90 days.

Changes in interest rates do not affect interest expense on our outstanding bank loan, note payable and capital leases, as they bear fixed rates of interest.

We have exposure to changes in interest rates on our revolving bank line of credit with Silicon Valley Bank, which bears interest at their prime rate. No draw-downs have been made on this line of credit to date.

We have exposure to changes in interest rates on our line of credit with our chairman, which bears interest at the prime rate plus 1%. Our interest rate exposure is mitigated by our ability to repay amounts outstanding under the line of credit with our common stock.

A hypothetical 10% change in market interest rates is not expected to have a material effect on our near-term financial condition or results of operations.

The table below summarizes the carrying amounts as of December 31, 2004 and 2003 and related average annual interest rates of our various financial instruments:

	2004 Average Rate	2004 Carrying Amount	2003 Average Rate	2003 Carrying Amount
		(In thousands)		(In thousands)
Cash equivalents	0.97%	$ 16,811	0.61%	$ 13,141
Short-term investments	1.49%	$ 13,814	1.66%	$ 21,048
Restricted cash	1.37%	$ 191	1.02%	$ 501
Bank loan	6.43%	$ 2,600	—%	$ —
Notes payable	7.50%	$ 4,000	7.67%	$ 6,600
Capital lease obligations	10.18%	$ 1,079	10.59%	$ 3,070
Related party line of credit	5.38%	$ 7,792	5.10%	$ 10,542

Item 8. ***Financial Statements and Supplementary Data***

Nuvelo, Inc.'s financial statements and notes thereto appear on pages 58 to 85 of this Annual Report on Form 10-K.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders of Nuvelo, Inc.:

We have audited the accompanying consolidated balance sheets of Nuvelo, Inc. and subsidiaries as of December 31, 2004 and 2003, and the related consolidated statements of operations, stockholders' equity (deficit), and cash flows for each of the years in the three-year period ended December 31, 2004. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Nuvelo, Inc. and subsidiaries as of December 31, 2004 and 2003, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2004, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Nuvelo, Inc. and subsidiaries' internal control over financial reporting as of December 31, 2004, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 15, 2005 expressed an unqualified opinion on management's assessment of, and the effective operation of, internal control over financial reporting.

/s/ KPMG LLP

San Francisco, California
March 15, 2005.

NUVELO, INC.

CONSOLIDATED BALANCE SHEETS

	As of December 31,	
	2004	2003
	(In thousands, except share information)	
ASSETS		
Cash and cash equivalents	$ 16,811	$ 13,141
Short-term investments	33,814	21,048
Accounts receivable	271	341
Clinical trial supplies	12,637	4,026
Other current assets	2,462	1,301
Total current assets	65,995	39,857
Restricted cash	191	501
Equipment, leasehold improvements and capitalized software, net	6,048	9,955
Goodwill	4,671	4,671
Patents, licenses and other assets, net	2,359	2,825
Total assets	$ 79,264	$ 57,809
LIABILITIES AND STOCKHOLDERS' EQUITY		
Accounts payable	$ 3,107	$ 2,110
Accrued employee liabilities	1,337	763
Current portion of accrued clinical trial and drug manufacturing costs	931	96
Deferred rent	10,138	4,597
Accrued interest	2,341	1,560
Current portion of bank loan	693	—
Current portion of capital lease obligations	966	1,991
Current portion of related party line of credit	2,750	2,750
Other current liabilities	350	218
Total current liabilities	22,613	14,085
Noncurrent portion of accrued clinical trial and drug manufacturing costs	—	5,552
Noncurrent portion of bank loan	1,907	—
Noncurrent portion of notes payable	4,000	6,600
Noncurrent portion of capital lease obligations	113	1,079
Noncurrent portion of related party line of credit	5,042	7,792
Total liabilities	33,675	35,108
Commitments and contingencies (Note 11)		
Stockholders' equity:		
Preferred stock, par value $0.001; 5,000,000 shares authorized; none issued and outstanding as of December 31, 2004 and 2003	—	—
Common stock, par value $0.001; 100,000,000 shares authorized; 32,228,732 and 25,621,235 issued and outstanding as of December 31, 2004 and 2003, respectively	32	26
Additional paid-in capital	301,811	226,279
Deferred stock compensation	—	(30)
Accumulated other comprehensive loss	(206)	(15)
Accumulated deficit	(256,048)	(203,559)
Total stockholders' equity	45,589	22,701
Total liabilities and stockholders' equity	$ 79,264	$ 57,809

See accompanying Notes to Consolidated Financial Statements.

NUVELO, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

	Year Ended December 31,		
	2004	2003	2002
	(In thousands, except per share data)		
Contract revenues	$ 195	$ 1,024	$ 25,554
Operating expenses:			
Research and development	39,970	30,014	46,827
General and administrative	8,702	15,069	14,981
Restructuring	—	—	2,067
Loss on sale of assets	167	1,225	36
Total operating expenses	48,839	46,308	63,911
Operating loss	(48,644)	(45,284)	(38,357)
Interest income	2,889	747	87
Interest expense — related party	(481)	(557)	(252)
Interest expense — other	(2,706)	(1,135)	(990)
Loss from continuing operations	(48,942)	(46,229)	(39,512)
Discontinued operations:			
Loss from discontinued operations (including loss on disposal of $1,641 in 2004, net of tax of $0)	(3,547)	(3,958)	(5,466)
Net loss	$ (52,489)	$ (50,187)	$ (44,978)
Basic and diluted net loss per share:			
Continuing operations	$ (1.59)	$ (2.19)	$ (5.48)
Discontinued operations	$ (0.11)	$ (0.18)	$ (0.76)
Total basic and diluted net loss per share	$ (1.70)	$ (2.37)	$ (6.24)
Weighted average shares used in computing basic and diluted net loss per share	30,874	21,054	7,220

See accompanying Notes to Consolidated Financial Statements.

NUVELO, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT)
For the Years Ended December 31, 2004, 2003 and 2002

	Common Stock		Additional Paid-in Capital	Deferred Compen-sation	Accumu-lated Other Compre-hensive Loss	Accumu-lated Deficit	Total Stock-holders' Equity (Deficit)	Compre-hensive Loss
	Shares	Amount						
					(In thousands)			
Balance at December 31, 2001	6,435	$ 7	$ 123,861	$ (53)	$ —	$(108,394)	$ 15,421	(36,472)
Issuance of common stock upon exercise of stock options and under employee stock purchase plan	73	—	511	—	—	—	511	—
Warrants issued	—	—	10,200	—	—	—	10,200	—
Issuance of common stock through private placement in April 2002, net of issuance cost of $751	1,192	1	14,266	—	—	—	14,267	—
Market value adjustment of deferred stock compensation	—	—	(32)	32	—	—	—	—
Amortization of deferred stock compensation	—	—	—	15	—	—	15	—
Net loss						(44,978)	(44,978)	(44,978)
Balance at December 31, 2002	7,700	$ 8	$ 148,806	$ (6)	$ —	$(153,372)	$ (4,564)	$ (44,978)
Issuance of common stock upon exercise of stock options and under employee stock purchase plan	700	1	1,524	—	—	—	1,525	—
Issuance of common stock in connection with Variagenics merger	13,262	13	48,755	—	—	—	48,768	—
Warrants issued	—	—	192	—	—	—	192	—
Issuance of common stock upon cashless exercise of warrants	126	—	—	—	—	—	—	—
Issuance of common stock through a public offering in October 2003, net of issuance cost of $1,846	3,833	4	26,326	—	—	—	26,330	—
Deferred stock compensation in connection with Variagenics merger	—	—	322	(160)	—	—	162	—
Compensation expense related to stock option modifications	—	—	415	—	—	—	415	—
Amortization of deferred stock compensation	—	—	—	75	—	—	75	—
Market value adjustment of deferred stock compensation	—	—	(61)	61	—	—	—	—
Unrealized loss on short-term investments	—	—	—	—	(15)	—	(15)	(15)
Net loss	—	—	—	—	—	(50,187)	(50,187)	(50,187)
Balance at December 31, 2003	25,621	$ 26	$ 226,279	$ (30)	$ (15)	$(203,559)	$ 22,701	$ (50,202)
Issuance of common stock upon exercise of stock options and under employee stock purchase plan	267	—	1,148	—	—	—	1,148	—
Issuance of common stock upon exercise of warrants	241	—	1,199	—	—	—	1,199	—
Issuance of common stock upon cashless exercise of warrants	87	—	—	—	—	—	—	—
Issuance of common stock through a public offering in March 2004, net of issuance cost of $5,308	5,750	6	69,436	—	—	—	69,442	—
Issuance of common stock in connection with Dendreon license agreement	263	—	3,500	—	—	—	3,500	—
Compensation expense related to stock option modification	—	—	152	—	—	—	152	—
Consultant stock compensation expense	—	—	127	—	—	—	127	—
Market value adjustment of deferred stock compensation	—	—	(30)	30	—	—	—	—
Unrealized loss on short-term investments	—	—	—	—	(191)	—	(191)	(191)
Net loss	—	—	—	—	—	(52,489)	(52,489)	(52,489)
Balance at December 31, 2004	32,229	$ 32	$ 301,811	$ —	$ (206)	$(256,048)	$ 45,589	$ (52,680)

See accompanying Notes to Consolidated Financial Statements.

NUVELO, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31,		
	2004	2003	2002
		(In thousands)	
Cash flows from operating activities:			
Net loss	$ (52,489)	$ (50,187)	$ (44,978)
Adjustments to reconcile net loss to net cash used in operating activities			
Depreciation and amortization	4,117	5,529	6,247
Loss on disposal of assets	167	1,225	36
Non-cash stock compensation expense	279	490	15
Non-cash change in deferred revenue	—	(565)	(25,054)
Non-cash license expense	3,500	—	10,000
Other non-cash items	—	192	(112)
Loss on disposal of discontinued operations	1,641	—	—
Changes in operating assets and liabilities:			
Accounts receivable	70	2,210	303
Clinical trial supplies	(8,611)	(4,026)	—
Other current assets	(1,161)	650	213
Other non-current assets	(559)	2,010	(2,389)
Accounts payable	997	(1,976)	(2,585)
Accrued employee liabilities	574	(1,542)	(465)
Current portion of accrued clinical trial and drug manufacturing costs	835	94	2
Deferred revenue	—	40	21,877
Deferred rent	5,391	759	2,230
Accrued interest	781	856	552
Accrued license fee	—	(1,775)	(725)
Other current liabilities	(92)	(4,602)	4,050
Noncurrent portion of accrued clinical trial and drug manufacturing costs	(5,552)	5,552	—
Other non-current liabilities	—	—	(125)
Net cash used in operating activities	(50,112)	(45,066)	(30,908)
Cash flows from investing activities:			
Sales or maturities of short-term investments	50,866	22,480	—
Purchases of short-term investments	(63,823)	(20,227)	—
Purchases of property and equipment	(664)	(320)	(2,063)
Proceeds from sale of assets	45	745	62
Cash received in conjunction with the acquisition of Variagenics, net of merger costs	—	25,715	—
Net cash (used in) provided by investing activities	(13,576)	28,393	(2,001)
Cash flows from financing activities:			
Proceeds from release of cash on deposit	310	1,355	500
Payment of promissory note	(2,600)	—	—
Proceeds from bank loan	2,600	—	—
Payments on capital lease obligations	(1,991)	(2,318)	(2,491)
Payments on line of credit	(2,750)	(458)	—
Proceeds from line of credit	—	1,000	10,000
Proceeds from issuance of common stock (public offerings), net	69,442	26,485	—
Proceeds from issuance of common stock (PIPE), net	—	—	14,263
Proceeds from issuance of common stock upon the exercise of options, warrants and employee stock purchase plan	2,347	1,525	533
Net cash provided by financing activities	67,358	27,589	22,805
Net increase (decrease) in cash and cash equivalents	3,670	10,916	(10,104)
Cash and cash equivalents at beginning of year	13,141	2,225	12,329
Cash and cash equivalents at end of year	$ 16,811	$ 13,141	$ 2,225
Supplemental disclosures of cash flow information:			
Interest paid	$ 436	$ 535	$ 691
Non-cash investing and financing activities:			
Cashless exercise of warrants	$ 646	$ 1,208	$ 6
Fair value of common stock, stock options and warrants issued and exchanged in connection with the acquisition of Variagenics	$ —	$ 48,768	$ —

See accompanying Notes to Consolidated Financial Statements.

NUVELO, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Organization and Summary of Significant Accounting Policies

Organization

The Company was established in August 1992 as an Illinois corporation, reincorporated as a Nevada corporation in November 1993 and subsequently reincorporated as a Delaware corporation on March 25, 2004. On October 24, 2001 the Company began doing business as Hyseq Pharmaceuticals, Inc., previously having done business as Hyseq, Inc. The Company's wholly owned subsidiary, Hyseq Diagnostics, Inc. is inactive. The Company's prior wholly owned subsidiary, GeneSolutions Inc. was merged into the Company on January 8, 2002. The Company's majority-owned subsidiary, Callida Genomics, Inc. (Callida), which was formed to carry out the Company's business relating to sequencing-by-hybridization (SBH) technology, and its wholly owned subsidiary, N-Mer, Inc., which was formed to collaborate with Affymetrix, Inc (See Note 12), were sold by the Company on December 3, 2004 (see Note 3). The Company changed its name to Nuvelo, Inc. on January 31, 2003 upon the closing of a merger with Variagenics, Inc.

The Company is engaged in the discovery, development and commercialization of life improving therapeutics for the treatment of human disease. The Company's lead product candidate, alfimeprase, has completed two Phase 2 trials in two indications, peripheral arterial occlusion (PAO) and catheter occlusion, and is expected to enter Phase 3 trials in 2005. Adding to its emerging cardiovascular portfolio, the Company announced in the first quarter of 2004 a partnership with Archemix for the development and commercialization of a novel thrombin inhibitor, ARC183, and a license agreement with Dendreon for worldwide rights to rNAPc2, an anticoagulant that blocks tissue factor. ARC183 is currently in a Phase 1 program and rNAPc2 is in a Phase 2a trial, both of which are expected to conclude in the first half of 2005.

Basis of Presentation and Principles of Consolidation

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). Certain prior period items have been reclassified to conform to the current year presentation, including reclassifications related to prepaid clinical trial costs, (which have been renamed as clinical trial supplies), and certain other assets and liabilities. Conformity with GAAP requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. 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 if there continues to be alternative future use for alfimeprase clinical drug material, estimating goodwill and long-lived asset impairment, estimating clinical trial accruals, stock-based compensation and losses on disposals of assets.

The consolidated financial statements include the accounts of Nuvelo, Inc., Hyseq Diagnostics, Inc. and Callida, through its disposal on December 3, 2004. The results of operations of Callida have been reclassified to discontinued operations for all periods presented. All significant intercompany transactions and accounts have been eliminated in consolidation.

Liquidity

To date, the Company's primary sources of liquidity have been cash from financing activities, collaboration receipts and the merger with Variagenics in January 2003. 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 resources has been to fund operating activities, including license payments, to acquire capital equipment and to make leasehold improvements. In the event that the Company is unable to raise additional funds through financing activities, the Company will have to reduce its operating costs and delay its research and development programs.

Cash Equivalents and Short-term Investments

Cash equivalents consist of money market funds and debt securities with original maturities of 90 days or less. Short-term investments consist of corporate debt and asset-backed securities with maturities of less than one year from the balance sheet date. The Company invests its excess cash in securities with strong ratings and has established guidelines relative to diversification and their maturity with the objective of maintaining safety of principal and liquidity. These guidelines are periodically reviewed and modified to take advantage of trends in yields and interest rates.

The Company classifies all cash equivalents and short-term investments as available-for-sale securities, as defined by Statement of Financial Accounting Standards No. 115, *"Accounting for Certain Investments in Debt and Equity Securities."* Unrealized holding gains and losses, net of the related tax effect, if any, on available-for-sale securities are excluded from earnings and are reported in accumulated other comprehensive income (loss), a separate component of stockholders' equity, until realized. The specific identification basis is utilized to calculate the cost to determine realized gains and losses from the sale of available-for-sale securities. Realized gains and losses and declines in value judged to be other than temporary are included in interest income or expense in the statements of operations. Gross realized losses on available-for-sale investments were $4,000, $0 and $0, and gross realized gains were $0, $40,000 and $0, in 2004, 2003 and 2002, respectively.

Clinical Trial Drug Manufacturing Expense and Clinical Trial Supplies Asset

The Company recognizes clinical trial drug manufacturing expense for alfimeprase when manufacturing is completed and the clinical trial drug material is shipped from the manufacturing or storage facility to the testing site. In accordance with Statement of Financial Accounting Standards No. 2, *"Accounting for Research and Development Costs"* (SFAS 2), the Company accounts for this clinical trial drug material as Clinical Trial Supplies, a current asset on the balance sheet, as there are alternative future uses for the supply in other indications not currently being studied, including deep vein thrombosis, stroke, acute myocardial infarction and pulmonary embolism. On a quarterly basis, the Company evaluates if there continues to be alternative future use for this clinical drug material, and if the material is obsolete or in excess of anticipated requirements. Any unconsumed clinical trial supplies will be charged as research and development expense in the quarter in which there ceases to exist a future alternative use, or if the material is obsolete or in excess of anticipated requirements.

Equipment, Leasehold Improvements and Capitalized Software

Equipment, leasehold improvements and capitalized software are recorded at cost. Equipment under capital leases is recorded at the lower of the net present value of the minimum lease payments required over the term of the lease or the fair value of the assets at the inception of the lease. Additions, renewals and betterments that significantly extend the life of an asset are capitalized. Minor replacements, maintenance, and repairs are charged to operations as incurred. Equipment is depreciated over the estimated useful lives of the related assets, ranging from three to five years, using the straight-line method. Equipment under capital leases and leasehold improvements are amortized over the shorter of their estimated useful life or the term of the lease, using the straight-line method. Capitalized software is amortized over the shorter of the estimated useful life or two years, using the straight-line method. When assets are retired or otherwise disposed of, the assets and related accumulated depreciation or amortization are eliminated from the accounts and any resulting gain or loss is reflected in the statements of operations.

Impairment or Disposal of Long-Lived Assets

Periodically, management determines whether any property and equipment or any other assets have been impaired based on the criteria established in Statement of Financial Accounting Standards No. 144, *"Accounting for the Impairment or Disposal of Long-Lived Assets"* (SFAS 144). SFAS 144 requires, among other things, that impairment losses be recognized whenever the carrying amount exceeds the fair value of the asset. Intangibles with determinable lives and other long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable, and an annual impairment review is performed regardless of any such events or changes.

The results of operations of components of the Company that have been sold or otherwise disposed are reclassified to discontinued operations for all periods presented, and any loss or gain related to the disposal of the component is included in discontinued operations in the period of the disposal.

Goodwill

The Company applied the provisions of Statement of Financial Accounting Standards No. 142, *"Goodwill and Other Intangible Assets"* (SFAS 142) upon the completion of the merger with Variagenics in January 2003. SFAS 142 requires that goodwill and intangible assets with indefinite useful lives no longer be amortized, but instead be tested for impairment at least annually in accordance with provisions of SFAS 142. SFAS 142 also requires that intangible assets with estimable useful lives be amortized over their respective estimated useful lives, and reviewed for impairment in accordance with SFAS 144.

The SFAS 142 goodwill impairment model involves a two-step process. During the first step, the fair value of the reporting unit is compared to its carrying value, including goodwill. The estimated fair value of the reporting unit, in this case the Nuvelo business segment, is computed by multiplying the quoted market price of the Company's common stock on the Nasdaq National Market by the outstanding common stock of the Company at that time. Previously, the Company used the present value of expected cash flows for its Nuvelo business segment, discounted at a risk-adjusted weighted average cost of capital. However, due to the disposal of the Callida business segment in the fourth quarter of 2004 and its insignificant fair value and carrying value at the time of disposal, the Company now believes the market capitalization of Nuvelo as a whole to be a more reliable indicator of the fair value of the Nuvelo reporting unit, being the only remaining business segment in the Company.

If the fair value of the reporting unit is determined to be more than its carrying value, including goodwill, no goodwill impairment is recognized. If the fair value of the reporting unit is determined to be less than its carrying value, goodwill impairment, if any, is computed using the second step. The second step requires the fair value of the reporting unit to be allocated to all the assets and liabilities of the reporting unit as if the reporting unit had been acquired in a business combination at the date of the impairment test and the fair value of the reporting unit was the price paid to acquire it. The excess of the fair value of the reporting unit over the amounts assigned to its assets and liabilities is the implied value of goodwill, which is used to determine the impairment amount.

The Company has designated October 31 as the annual impairment testing date for goodwill, although additional testing may be performed if circumstances warrant a re-evaluation. If it is determined that the carrying value of goodwill has been impaired, the value would be reduced by a charge to operations in the amount of the impairment. There was assessed to be no goodwill impairment based on the testing performed on October 31, 2004.

Fair Value of Financial Instruments

The carrying amount of certain of the Company's financial instruments, including accounts receivable, accounts payable, and accrued liabilities, approximates fair value due to the relatively short maturity of such

instruments. The carrying amount of the Company's debt instruments also approximate fair value as their fixed interest rates approximate current market lending rates offered for similar debt instruments proposed by the Company's current banking institution as of December 31, 2004.

Revenue Recognition

Revenues are recognized when (i) persuasive evidence of an arrangement exists, (ii) delivery has occurred or services have been rendered, (iii) the price is fixed and determinable, and (iv) collectibility is reasonably assured. Up-front refundable fees are deferred and recognized as revenue upon the later of when they become nonrefundable or when performance obligations are completed. In situations where there are no continuing performance obligations, up-front nonrefundable fees are recognized as revenues when received. In situations where continuing performance obligations exist, up-front nonrefundable fees are deferred and amortized over the performance period. Revenues related to collaborative research agreements and government grants are generally recognized over the related funding periods for each contract as the services are performed.

Revenues from collaborative agreements or other sources representing 10% or more of total revenues are as follows:

	Year Ended December 31,		
	2004	2003	2002
Source:			
MTHFR license	100 %	18 %	*
Affymetrix	*	51 %	11 %
Celera Diagnostics	*	24 %	*
BASF Plant Sciences GmbH	*	*	86 %

* less than 10%

Stock-Based Compensation

In accordance with the provisions of Statement of Financial Accounting Standards No. 123, *"Accounting for Stock-Based Compensation"* (SFAS 123), as amended by SFAS No. 148, *"Accounting for Stock-Based Compensation — Transition and Disclosure"* (SFAS 148) the Company has elected to account for stock-based compensation to employees under the provisions of Accounting Principles Board Opinion No. 25, *"Accounting for Stock Issued to Employees,"* and its related interpretations, and to adopt the "disclosure only" alternative described in SFAS 123, as amended by SFAS 148. Stock options granted to non-employees are accounted for in accordance with SFAS 123 and Emerging Issues Task Force No. 96-18, *"Accounting for Equity Instruments that Are Issued to Other than Employees for Acquiring, or in Conjunction with Selling, Goods or Services."*

The Company's pro forma information for employee stock options is as follows (in thousands, except for per share data):

	Year Ended December 31,		
	2004	2003	2002
Net loss, as reported	$(52,489)	$(50,187)	$(44,978)
Add: Stock-based employee compensation expense included in reported net loss, net of related tax effects	152	440	—
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(7,843)	(4,353)	(7,940)
Pro forma net loss	$(60,180)	$(54,100)	$(52,918)
Total basic and diluted net loss per share, as reported	$ (1.70)	$ (2.37)	$ (6.24)
Pro forma basic and diluted net loss per share	$ (1.95)	$ (2.58)	$ (7.32)

The fair value of employee stock options was estimated at the date of grant using the Black-Scholes option pricing model with the following weighted-average assumptions:

	Year Ended December 31,		
	2004	2003	2002
Volatility	0.94	0.95	0.93
Risk-free interest rate	3.68%	2.53%	3.56%
Dividend yield	—	—	—
Expected life of option	5.4 years	5.7 years	5.3 years

The fair value of employee purchase rights under the Company's Employee Stock Purchase Plan was estimated using the Black-Scholes model with the following assumptions:

	Year Ended December 31,		
	2004	2003	2002
Volatility	0.53	0.79	0.78
Risk-free interest rate	2.75%	1.31%	4.38%
Dividend yield	—	—	—
Expected life of option	1.0 years	1.0 years	1.0 years

Income Taxes

Income taxes are accounted for under the asset and liability method pursuant to Statement of Financial Accounting Standards No. 109, "*Accounting for Income Taxes*" (SFAS 109). Under SFAS 109, deferred tax assets and liabilities are recognized for the 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. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance is recorded to reduce deferred income tax assets to an amount that is more likely than not to be realized.

Net Loss per Share

Basic and diluted net loss per share are presented in conformity with Statement of Financial Accounting Standards No. 128, "*Earnings Per Share*" (SFAS 128) for all periods presented. In accordance with SFAS 128, basic and diluted net loss per share has been computed using the weighted average number of shares of common

stock outstanding during the period. In 2004, 2003 and 2002, outstanding options and warrants for 6,283,461, 4,567,501 and 3,338,880 shares of common stock, respectively, as determined using the treasury stock method, were not included in weighted average shares outstanding, as they were antidilutive.

Recent Accounting Pronouncements

In June 2004, the FASB ratified Emerging Issues Task Force Issue No. 03-1, "*The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments*" (EITF 03-1). EITF 03-1 includes new guidance for evaluating and recording impairment losses on debt and equity investments, as well as new disclosure requirements for investments that are deemed to be temporarily impaired. Adoption of the recognition and measurement guidance of EITF 03-1 has been temporarily deferred by the FASB, but the disclosure requirements of EITF 03-1 are effective for the Company's 2004 consolidated financial statements. Accordingly, additional disclosures as required by EITF 03-1 are included in Note 5.

On December 16, 2004, the FASB issued Statement of Financial Accounting Standards No. 123(R), *"Share-Based Payment"* (SFAS 123(R)), an amendment of Statements of Accounting Standards No. 123 and 95, that addresses the accounting for share-based awards to employees. The standard requires companies to recognize as an expense the fair value of stock options and other stock-based compensation to employees. The statement eliminates the ability to account for share-based compensation transactions using APB Opinion No. 25, "*Accounting for Stock Issued to Employees*," (APB 25), and generally requires instead that such transactions be accounted for using a fair value based method, such as Black-Scholes, to fairly value stock options and recognize that value as an expense. The standard will be effective for public companies as of the beginning of the first fiscal quarter after June 15, 2005. The Company currently accounts for stock-based compensation plans in accordance with APB 25. SFAS 123(R) offers companies alternative methods of adopting this standard. At present, the Company has not yet determined which method to adopt, but regardless of the method, adoption of this statement is expected to have a material adverse effect on the Company's consolidated financial statements, specifically, the consolidated statements of operations and stockholders' equity (deficit).

2. Stock Split

On February 23, 2004, the Company implemented a one-for-three reverse stock split and reduced the number of outstanding shares of common stock accordingly. On the effective date of February 23, 2004, each holder of record was deemed to hold one share of common stock for every three shares held immediately prior to the effective date, with cash payments being made for fractional shares. All share and per-share amounts, with the exception of par value, have been retroactively adjusted for all periods presented. The number of common shares authorized for issuance remained at 100,000,000 shares.

3. Sale of Callida Segment

On December 3, 2004, the Company sold its subsidiary, Callida Genomics, Inc. (Callida), to SBH Genomics, Inc., a privately held Delaware corporation. This transaction is part of the Company's strategy to monetize assets outside of its core business. Prior to the sale, the Company owned approximately 90% of Callida's issued and outstanding capital stock. Affymetrix, Inc., a minority stockholder in Callida, also sold its Callida shares to SBH Genomics as part of the same negotiated transaction. SBH Genomics is controlled by Radoje and Snezana Drmanac, who were employees of Callida prior to the sale. Radoje Drmanac was also an officer and director of Callida.

The Company and Affymetrix sold the Callida stock in exchange for convertible promissory notes in the principal amount of $1.0 million, being $0.9 million for the Company, and $0.1 million for Affymetrix, and potential additional earn-out payments as described below. The notes are convertible into SBH Genomics' preferred shares if SBH Genomics raises at least $2.0 million in venture capital financing within 4 years after the date of the closing. This preferred stock will be converted at the same price per share at which it is sold to the

venture capital investors, and will be granted the same rights and preferences as those provided to the venture capital investors. If SBH Genomics fails to raise at least $2.0 million in venture capital financing within this period, the notes will become due and payable. No interest or principal are payable on the notes for two years from the closing date. Simple interest of prime plus 1% per annum will be payable in years three and four on a quarterly basis. Prime will be set as of the second anniversary of the sale and adjusted on the third anniversary. The patents and patent applications owned by Callida are collateral for the notes. As additional consideration for the sale of Callida to SBH Genomics, SBH Genomics will make earn-out payments equal to 2.5% of its net annual revenues in excess of $5.0 million from the sale of, or license under, certain Callida patents for a period of 10 years. The earn-out will initially be paid to Affymetrix, until the $4.0 million promissory note owed by the Company to Affymetrix has been fully paid, and thereafter will be split in the same ratio as the original ownership of Callida by the two entities.

As part of this transaction, Affymetrix, Inc. has waived the acceleration of a $4.0 million promissory note owed by the Company to Affymetrix that would have become immediately payable as a result of the change in control of Callida. This convertible note arose from a loan made to the Company by Affymetrix in 2001 to fund the initial capital contribution to Callida. Additionally, as a part of this transaction, Affymetrix' option to buy out Callida's wholly-owned subsidiary, N-Mer Inc., was terminated.

The sale of Callida's net assets resulted in a net non-cash charge to earnings of approximately $1.1 million, representing the carrying value of Callida's assets and liabilities at the time of sale. The value of the $0.9 million convertible promissory note received from SBH Genomics was assessed to be zero, due to the improbability of any collection. This note serves as collateral for the $4.0 million promissory note owed by the Company to Affymetrix. Any interest income will be credited to income in the period received. In addition, various cash and non-cash charges of $0.5 million were associated with the sale. The sale of the Callida business segment meets the criteria for presentation as a discontinued operation under the provisions of SFAS 144, *"Accounting for the Impairment or Disposal of Long-Lived Assets"*. Therefore, the historical results of operations of Callida for all periods presented and the charges related to the disposal are reported under discontinued operations.

4. Merger with Variagenics, Inc.

On January 31, 2003, the Company completed its merger with Variagenics, Inc., a publicly traded company incorporated in Delaware. Variagenics developed molecular diagnostic tests by identifying genetic markers associated with response to cancer therapies, with the goal of optimizing patient care. Nuvelo and Variagenics merged because they believed the merger would benefit the stockholders of both companies by leveraging the companies' assets and management to develop biotherapeutic, pharmacogenomic and molecular diagnostic products and accelerate revenue generation. As a result of the merger, Variagenics' shareholders received approximately 13.2 million Company shares, at an approximate purchase price of $48.6 million, net of estimated transaction costs of $1.6 million.

Each employee stock option to purchase Variagenics' common stock outstanding at January 31, 2003 was assumed by Nuvelo and converted into an option to purchase Nuvelo common stock based on the terms specified in the merger agreement. As a result, approximately 1.6 million options to purchase Nuvelo common stock were assumed, on an as converted basis. In addition, each warrant to purchase Variagenics' common stock outstanding at January 31, 2003 was assumed by Nuvelo and converted into warrants to purchase Nuvelo common stock based on the terms specified in the merger agreement. As a result, warrants to purchase approximately 0.7 million shares of Nuvelo common stock were assumed, on an as converted basis.

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the date of acquisition. The allocation of the purchase price was based on the fair value of identifiable assets and liabilities:

	At January 31, 2003
	(In thousands)
Assets:	
Cash, cash equivalents and short-term investments	$ 50,867
Restricted cash	750
Other current assets	846
Property and equipment	1,522
Intangible assets	300
Total assets acquired	54,285
Liabilities:	
Accounts payable and accrued liabilities	(5,586)
Capital lease obligations	(3,146)
Total liabilities assumed	(8,732)
Fair value of net assets acquired	$ 45,553

The purchase price of $50.2 million exceeded the fair value of net assets acquired of $45.5 million, resulting in goodwill of $4.7 million reported in the Company's balance sheet. The Company evaluates its goodwill for impairment on an annual basis under the guidance of SFAS No. 142, *"Goodwill and Other Intangible Assets"*. The Company has accounted for this merger under the purchase method of accounting for business combinations in accordance with the provisions of SFAS No. 141, *"Business Combinations*". The accompanying financial statements include the results of operations of Variagenics commencing from February 1, 2003.

The following unaudited pro forma financial information presents the combined results of the operations of Variagenics and the Company as if the merger had occurred on January 1, 2003 and 2002:

	Year Ended December 31,	
	2003	2002
	(In thousands, except per share data)	
Contract revenues	$ 1,063	$ 26,984
Net loss	(50,236)	(71,995)
Total basic and diluted net loss per share	(2.39)	(3.55)

5. Available-For-Sale Investments

The following is a summary of the Company's available-for-sale investments as of December 31, 2004 and 2003 (in thousands):

	December 31, 2004			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Money market funds	$ 11,940	$ —	$ —	$ 11,940
U.S. government agencies	4,141	—	—	4,141
Corporate debt securities	29,712	—	(181)	29,531
Asset-backed securities	4,308	—	(25)	4,283
	$ 50,101	$ —	$ (206)	$ 49,895
Reported as:				
Cash equivalents				$ 16,081
Short-term investments				33,814
				$ 49,895

	December 31, 2003			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Money market funds	$ 12,378	$ —	$ —	$ 12,378
Corporate debt securities	21,063	—	(15)	21,048
	$ 33,441	$ —	$ (15)	$ 33,426
Reported as:				
Cash equivalents				$ 12,378
Short-term investments				21,048
				$ 33,426

The following is a summary of amortized cost and estimated fair value of available-for-sale investments by contract maturity (in thousands):

	December 31, 2004	
	Amortized Cost	Estimated Fair Value
Due in less than one year	$ 50,101	$ 49,895
Due in one year or more	—	—
	$ 50,101	$ 49,895

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):

	December 31, 2004	
	Unrealized Losses	Estimated Fair Value
Unrealized loss position for less than one year	$ 206	$ 36,457
Unrealized loss position for one year or more	—	—
	$ 206	$ 36,457

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.

6. Accumulated Other Comprehensive Loss

Accumulated other comprehensive income or loss consists entirely of unrealized gains and losses on securities. The change in accumulated other comprehensive loss was $191,000, $15,000 and $0 in 2004, 2003 and 2002 respectively. These changes consisted entirely of unrealized losses on securities.

7. Equipment, Leasehold Improvements and Capitalized Software

Equipment, leasehold improvements and capitalized software, net, consist of the following (in thousands):

	December 31,	
	2004	2003
Machinery, equipment and furniture	$ 7,513	$ 9,391
Computers and capitalized software	7,295	9,207
Leasehold improvements	11,058	11,363
	25,866	29,961
Less: accumulated depreciation	(19,818)	(20,006)
Equipment, leasehold improvements and capitalized software, net	$ 6,048	$ 9,955

Depreciation expense, including expense from discontinued operations, totaled $3.7 million, $5.1 million and $5.8 million for the years ended December 31, 2004, 2003 and 2002, respectively. Equipment as of December 31, 2004 and 2003 both include items under capital leases in the amount of $0.2 million and related accumulated depreciation of $0.1 million. These leases are secured by the equipment leased thereunder.

8. Patents and Licenses

Patent and License Assets

Patent and license costs are incurred in connection with obtaining or licensing certain patents and the filing of patent applications, and are capitalized and amortized on a straight-line basis over each patent's estimated useful life, which approximates 17 years. As of December 31, 2004 and 2003, the gross carrying amounts were $0.7 million and $2.2 million, respectively. Of the amount as of December 31, 2003, $1.7 million related to the Affymetrix Inc. patent licensed to Callida in 2003, which was subsequently disposed of by the Company in December 2004 as part of the sale of Callida (see Note 3). As of December 31, 2004 and 2003, accumulated amortization of patent costs was $0.4 million and $1.2 million, of which $0 and $0.9 million were related to the Affymetrix patent, respectively. Patent and license amortization expense, including expense from discontinued operations, was $0.4 million, $0.5 million and $0.5 million for the years ended December 31, 2004, 2003 and 2002, respectively. Additionally, impairment charges for patents of $0.2 million were recorded to loss on disposal of discontinued operations in the consolidated statement of operations for 2004, related to the disposal of Callida. Annual amortization expense for the next five years on existing balances as of December 31, 2004 is estimated to be $17,000 in each year.

Patent License Agreement

In 1994, the Company entered into a patent license agreement with an affiliate of the University of Chicago for an exclusive license to use certain proprietary technology developed by the Company's former Chief Scientific Officer and to develop, use and sell licensed products or processes. The Company issued 15,244

shares of Series A preferred stock (which converted to common stock in connection with the Company's initial public offering in 1997). The Company began paying minimum royalties of $25,000 per annum beginning in 1997 and increasing to $100,000 per annum in 1999, and will continue to pay minimum royalties at the rate of $100,000 per annum over the term of the agreement, which terminates upon the later to occur of (a) fifteen years after the date of the agreement, or (b) the expiration of the last-to-expire patents of the licensed patent rights.

9. Financing Arrangements

On August 31, 2004, the Company entered into a Loan and Security Agreement (Loan Agreement), with Silicon Valley Bank that provides a $6.0 million term loan facility through June 30, 2005 and a $4.0 million revolving credit line and grants Silicon Valley Bank a primary security interest over certain of our assets, excluding intellectual property. As a condition precedent to the Loan Agreement, the Company agreed, among other things, to certain financial and non-financial covenants, including a restriction on cash dividends, and certain reporting requirements. On December 15, 2004, the Company completed a planned $2.6 million initial draw-down on the term loan, the proceeds of which were used entirely to repay a note for the same amount that was owed to AMB Property, LP in relation to the termination of a lease agreement for facilities at Humboldt Court, Sunnyvale, California. Interest on the initial drawn-down is payable monthly through April 30, 2005 and both principal and accrued interest are payable in 30 equal monthly installments from May 1, 2005 to October 1, 2007. The Company has not used any of the funds available under the revolving credit line. The proceeds of all other term loan draw-downs and the revolving credit line may be used solely for working capital or other general business requirements. The term loan borrowings under the new loan facility shall bear interest at a fixed rate per annum equal to the 36-month Treasury Rate in effect on the funding date plus three and one-quarter percent (3.25%), and, in any event, shall not be less than 6.43% per annum. The revolving credit borrowings shall bear interest at Silicon Valley Bank's prime rate in effect from time to time. As of December 31, 2004, the Company had received waivers for any breaches of related covenants and reporting requirements, and the applicable interest rate for the outstanding amount under the term loan was 6.43%.

Aggregate debt repayments for the next five years under long-term borrowings as of December 31, 2004 are as follows (in thousands):

	2005	2006	2007	2008	2009
Bank loan	693	1,040	867	—	—
Note payable (Note 12)	—	4,000	—	—	—
Related party line of credit (Note 15)	2,750	2,750	2,292	—	—
Aggregate debt repayments	$3,443	$7,790	$3,159	$—	$—

10. Capital Lease Obligations

The Company has financed equipment purchases through capital lease agreements. The capital lease obligations are to be repaid over terms of 36 to 60 months at interest rates ranging from 6.84% to 13.95% and are secured by the related equipment.

Minimum future payments under the capital lease agreements as of December 31, 2004 are as follows (in thousands):

Years Ending December 31,	
2005	$1,010
2006	105
2007	14
2008	—
2009	—
Total capital lease payments	1,129
Less: Amount representing interest	(50)
Present value of future capital lease payments	1,079
Less: Current portion	(966)
Noncurrent portion	$ 113

11. Commitments and Contingencies

Operating Leases

As of December 31, 2004, the Company had leases for three facilities under operating lease agreements, two that expire in June 2005 and one that expires in May 2011. The rent is being recognized as expense on a straight-line basis, except for the property at 670 Almanor Avenue, for which the remaining rent from January through June 2005 was expensed in the fourth quarter of 2004 due to the cessation of use of this property as a result of the sale of Callida (see Note 3). Rent expense, including expense from discontinued operations, was approximately $7.3 million, $8.0 million and $9.9 million in 2004, 2003 and 2002 respectively.

Minimum future rental commitments under non-cancelable operating leases as of December 31, 2004 are as follows (in thousands):

Years Ending December 31,	
2005	$ 5,693
2006	7,260
2007	7,479
2008	7,707
2009	6,906
2010 and thereafter	12,004
Minimum rental commitments	$ 47,049

In August 2002, the lease on the property at 985 Almanor Avenue was amended to provide for a rent deferral of approximately $4.9 million over the subsequent three years, retroactive to June 1, 2002. The Company will be required to repay the deferred rent liability, plus interest, over a four-year period beginning June 1, 2005 in equal monthly installments of approximately $0.1 million. In October 2003, the lease was amended for a second time, to provide for an additional rent deferral. In order to receive this rent deferral, the Company pre-paid approximately $2.7 million of base rental payments in October 2003 to cover the 9 month period beginning

October 1, 2003 and ending June 30, 2004. The amendment provides that no base rent will be due for the period July 1, 2004 through March 30, 2005, resulting in a $2.9 million deferral and approximately $0.2 million of savings. The deferral amount will be repaid on May 30, 2011. Other terms of the agreement include the ability to repay the $2.9 million deferred rent in 36 monthly installments of approximately $0.1 million, commencing on June 1, 2011 if the lease term is extended for at least 36 months, and early reinstatement of the original rental rates if the Company successfully raises $75.0 million in a single public or private equity offering, with the remaining amount of rent deferred under both lease amendments up to that date coming due immediately.

Letters of Credit

In accordance with the terms of a lease agreement signed in the fourth quarter of 1997, the Company was required to obtain an irrevocable standby letter of credit in the amount of $2.0 million as partial security for the Company's lease obligations. In connection with obtaining the letter of credit, the Company was required to place $2.1 million restricted cash on deposit with the Company's primary bank as security for the letter of credit. The letter of credit and the cash collateralizing it were reduced by $0.5 million in July 2001 and have been further reduced by $0.5 million each year thereafter to a minimum amount of $191,000 as of December 31, 2004, which is recorded as restricted cash on the Company's balance sheet.

12. Collaborative Agreements

Amgen

Alfimeprase was identified through a research program at Amgen Inc. In January 2002, the Company entered into a 50/50 cost/profit sharing arrangement with Amgen for the development and commercialization of alfimeprase and recorded a $10.0 million non-cash license fee as research and development expense for the fair value of warrants granted to Amgen under the terms of the collaboration, (as determined using the Black-Scholes option pricing model). In October 2004, Amgen exercised its rights pursuant to the terms of this collaboration agreement to terminate the collaboration and enter instead into an exclusive license whereby the Company is granted the worldwide rights to develop and commercialize alfimeprase in exchange for the payment to Amgen of previously negotiated milestone payments and royalties. Under the terms of the license agreement, Amgen will transfer the technology necessary for the manufacture of alfimeprase to the Company or to Avecia Limited, the Company's designated manufacturer. On January 21, 2005, the Company entered into an Interim Agreement with Avecia for the manufacture of alfimeprase, and is currently in negotiations with Avecia for a definitive agreement for the manufacture of commercial quantities of alfimeprase. Amgen is required to continue to supply alfimeprase during the transition period. In connection with the termination of the collaboration agreement with Amgen, the Company also entered into an opt-out, termination, settlement and release agreement with Amgen in October 2004, whereby the Company made a payment of $8.5 million to Amgen, of which $8.3 million was related to the remaining reimbursement of its manufacturing costs incurred under the collaboration agreement. In addition, the Company is also required to pay Amgen $5.0 million within 30 days of dosing of the first patient in the first Phase 3 clinical trial for alfimeprase. Future milestone payments under the license agreement could total as much as $40.0 million. The Company recognizes clinical trial drug manufacturing expense when manufacturing is completed and the clinical trial drug material is shipped from the manufacturing or storage facility to the testing site. Prior to shipment of alfimeprase from the drug manufacturing or storage facility, the Company reflects the manufacturing work in process as Clinical Trial Supplies, a current asset on the balance sheet, which totaled $12.6 million as of December 31, 2004. Including the non-cash license fee above, in 2004, 2003 and 2002, the Company expensed $6.7 million, $7.5 million and $12.7 million, respectively, under these agreements.

Dendreon

In February 2004, the Company entered into a licensing agreement with Dendreon Corporation for worldwide rights to all indications of rNAPc2, a recombinant version of a naturally occurring protein that has

anticoagulant properties, and all other rNAPc molecules owned by Dendreon. Under the terms of the agreement, the Company paid Dendreon an upfront fee of $4.0 million ($0.5 million in cash and $3.5 million in Nuvelo common stock) and has expensed $5.6 million for this and related clinical trial costs in 2004. The Company is required to pay Dendreon milestone payments, ranging from $2.0 million to $6.0 million, for both rNAPc2's first and second indications upon dosing of the first patient in a Phase 3 clinical trial, upon submission of a New Drug Application (NDA), and upon first commercial sale. If all development and commercialization milestones are achieved, total milestone payments to Dendreon can reach as much as $23.5 million. Upon reaching commercialization, the Company is also responsible for paying future royalties to Dendreon depending on certain sales volume of rNAPc2. The Company is currently investigating rNAPc2 in a Phase 2a double-blind, placebo-controlled clinical trial for potential use in treating acute coronary syndromes (ACS), including unstable angina and non-ST segment elevation myocardial infarction.

Archemix

In January 2004, the Company entered into a worldwide collaboration agreement with Archemix Corporation to develop and commercialize ARC183, a novel thrombin inhibitor, for use in acute cardiac surgical procedures, such as coronary artery bypass graft (CABG) surgery. Under the terms of the agreement, the Company paid Archemix an upfront fee of $3.0 million in cash, and has expensed $7.7 million for this and related clinical trial costs in 2004. Under the terms of the collaboration agreement, Archemix is initially responsible for leading development and for all clinical development activities. As part of the agreement, the Company and Archemix equally share all costs associated with the development and commercialization of ARC 183 after the Company has funded the first $4.0 million in research and development costs, and will jointly share any revenues resulting from its commercialization. Since these joint research and development costs have already exceeded $4.0 million as of the third quarter of 2004, the Company and Archemix have begun the 50/50 cost sharing arrangement. Under the collaboration agreement, the Company has the option to lead commercialization efforts in which both the Company and Archemix may participate. An Investigational New Drug (IND) application for ARC183 was filed in June 2004, and the Company subsequently initiated a Phase 1 clinical trial in August 2004. The Company is required to pay Archemix total development milestone payments of up to $11.0 million, including $10.0 million upon commencement of a Phase 2 trial and $1.0 million upon the designation of any backup compound selected by both Nuvelo and Archemix for IND-enabling studies. The Company is obligated to make the Phase 2 milestone payment to Archemix even if the collaboration is terminated by Archemix, or if Archemix does not meet its obligations under the agreement and the Company terminates the collaboration for default by Archemix. Upon reaching commercialization, both companies are responsible for paying any related royalties to each other depending on product sales volume.

Pharmaceutical Division of Kirin Brewery Company, Ltd.

In August 2001, the Company entered into a collaboration with Kirin Brewery Co. Ltd., in which Kirin will fund three years of collaborative research work, and both companies will conduct research directed toward discovering proteins and antibodies for a variety of diseases, including hematopoietic and inflammatory diseases. In September 2004, the Company extended and expanded the research and development collaboration with Kirin, The amended agreement extends the term of the current collaboration to December 31, 2005 and expands the scope of the collaboration to include additional secreted protein genes from Nuvelo's full-length gene portfolio. Discoveries during the collaboration will be jointly owned by Kirin and the Company, and will be jointly developed and marketed with costs, efforts and revenues shared by both companies. The Company will have marketing rights in North America on all products discovered and developed under the collaboration. Kirin will have marketing rights in Asia and Oceania. Marketing rights will be shared by both companies in Europe and the rest of the world. During 2004, 2003 and 2002, the Company recorded expenses of $3.0 million, $0.2 million and $0.1 million, respectively, in relation to this collaboration.

BASF

In December 1999, the Company entered into a collaboration with American Cyanamid Company in which the Company used its signature-by-hybridization technology to target agricultural products. During 2000, BASF Aktiengesellschaft acquired the crop protection business of American Cyanamid Company and subsequently assigned our collaboration with American Cyanamid to BASF Plant Sciences GmbH (BASF). The collaboration originally provided for funding of $60.0 million over its initial term of three and one half years. BASF had the exclusive right to commercialize any agricultural products resulting from the collaboration. In May 2002 the collaboration was amended to accelerate completion of the Company's gene discovery activities and BASF's payment schedule, resulting in a cost savings to both parties. Future royalties due the Company under the agreement were eliminated. Revenues recognized in 2004, 2003 and 2002 under the agreement were $0, $40,000 and $21.9 million, respectively. All activities under the collaboration were successfully completed in January 2003.

Deltagen

In October 2001, the Company entered into a collaboration with Deltagen, Inc. to undertake research and development activities on approximately 200 novel secreted protein genes. The Company provided gene sequences encoding for the secreted proteins, and Deltagen utilized its in vivo mammalian gene Knock-Out Technology to identify and validate potential commercially relevant biopharmaceutical drug targets. Deltagen and the Company each had certain joint development and commercialization rights around potential biopharmaceutical drug targets discovered through the collaboration. Deltagen and the Company were to share the collaboration's costs. The Company agreed to provide Deltagen with up to $10.0 million in research and development payments for approximately 200 project genes over the two years ending October 2003.

On June 27, 2003 Deltagen filed for Chapter 11 bankruptcy protection and on January 28, 2004 the Company entered into an amended agreement with Deltagen which, when effective, would grant certain rights to Deltagen's Knock-Out Technology. On March 8, 2004, the California Bankruptcy Court approved an amendment to the agreement with Deltagen. Under the amendment, the Company assigned to Deltagen its rights in 46 of the genes that entered the collaboration and granted Deltagen a non-exclusive license to certain technology arising out of the collaboration related to those 46 genes. In exchange, Deltagen relinquished any rights it had under the agreement to the other 115 genes that entered the collaboration and granted the Company certain rights to Deltagen's Knock-Out Technology related to those 115 genes. In addition, Nuvelo and Deltagen granted each other general releases under the amendment with respect to any obligations or activities under the collaboration. During 2004, 2003 and 2002, the Company recorded operating expenses of $0.8 million, $0.2 million and $0.2 million, respectively, for research and development under the collaboration, and as of December 31, 2004, there are no continuing financial obligations under this agreement.

Affymetrix

In October 2001, the Company and Affymetrix Inc. resolved all outstanding litigation and entered into a collaboration to accelerate development and commercialization of a high speed universal DNA sequencing chip. This collaboration with Affymetrix was through N-Mer, Inc., a wholly-owned subsidiary of Callida, which in turn was a majority-owned subsidiary of the Company until its sale on December 3, 2004. The Company contributed cash and certain assets consisting primarily of equipment, capitalized software, and intellectual property to Callida upon its formation in exchange for a 90% interest in Callida. Affymetrix received a 10% equity interest in Callida in exchange for a contribution of certain intellectual property to Callida. The Company accounted for the Affymetrix 10% ownership share as minority interest in Callida in the statement of operations until Affymetrix' initial minority interest investment was depleted. Beyond that point, which occurred in 2002, the Company absorbed 100% of Callida's net losses until December 3, 2004, when the Company and Affymetrix sold all Callida stock respectively owned (see Note 3).

Affymetrix paid a total of $8.0 million in cash to the Company at the close of the settlement. The $8.0 million payment comprised of two pieces. Firstly, Affymetrix made a license payment of $4.0 million in return for a non-exclusive license, without the right to grant sublicenses, under 11 U.S. patents and 30 U.S. patent applications and counterpart foreign patents and applications to make, use, sell, and import products in the non-universal array field. The remaining deferred revenues of $0.5 million and $2.7 million from the original $4.0 million license payment were recognized in 2003 and 2002, respectively.

Secondly, Affymetrix made a loan to the Company of $4.0 million in the form of a 5-year promissory note bearing annual interest of 7.5%, for the Company's cash investment in Callida. Consequent to the sale of Callida, the note is collateralized by the $0.9 million promissory note issued by SBH Genomics to the Company, patents and patent applications transferred to SBH Genomics and any royalties payable by SBH Genomics related to them. Accrued interest will be paid with the final payment in November 2006. As of December 31, 2004, the remaining principal and accrued interest to date totaled $4.9 million. In lieu of cash repayment, the Company has the right, at any time, to convert the outstanding principal and interest of the note, in whole or in part, into shares of its common stock based upon 90% of the average price of the Company's common stock over a 10-day period ending 2 days prior to conversion. As of December 31, 2004, 542,235 shares would be issuable to fully repay the principal and interest outstanding upon conversion.

13. Stockholders' Equity

Preferred Stock

Since reincorporation as a Delaware corporation on March 25, 2004, the Company is authorized to issue 5,000,000 shares of preferred stock. The Company's Board of Directors may set the rights and privileges of any preferred stock issued. As of December 31, 2004 and 2003, there were no issued and outstanding shares of preferred stock.

On June 5, 1998, the Company's Board of Directors adopted a rights plan and declared a dividend with respect to each share of common stock then outstanding. This dividend took the form of a right that entitles the holders to purchase one one-thousandth of a share of our Series A junior participating preferred stock at a purchase price of $175, subject to adjustment from time to time. These rights have also been issued in connection with each share of common stock issued after June 5, 1998. The rights are exercisable only if a person or entity or affiliated group of persons or entities acquires, or has announced its intention to acquire, 15% (27.5% in the case of certain approved stockholders) or more of the Company's outstanding common stock. The adoption of the rights plan makes it more difficult for a third party to acquire control of the Company without the approval of the Board of Directors. This rights agreement was amended on March 19, 2004, to reflect our reincorporation under Delaware law.

Common Stock

In March 2004, the Company raised approximately $69.5 million in a public offering, net of underwriters' fees and stock issuance costs of $5.3 million, from the sale of 5,750,000 shares of common stock, including 750,000 shares related to the exercise of an over-allotment option granted to the underwriters, at a public offering price of $13.00 per share. Under the August 2004 Loan and Security Agreement with Silicon Valley Bank, the Company cannot pay dividends without Silicon Valley Bank's prior written consent, except for dividends paid in shares of its capital stock.

Warrants

As of December 31, 2004, warrants to purchase 1,516,792 shares of common stock were outstanding at exercise prices ranging from $4.05 to $25.53, with a weighted average exercise price per share of $20.88. These warrants, which were granted as part of various financing and business agreements, are held by certain investors,

businesses and an executive officer, and expire at various times between July 2005 and November 2009. Warrants are recorded at their estimated fair market value at the date of grant using the Black-Scholes option pricing model.

Stock Option Plans

In May 2004, the Company adopted the 2004 Equity Incentive Plan, (2004 Plan), to authorize the grant of stock options (including indexed options), stock appreciation rights, restricted stock purchase rights, restricted stock bonuses, restricted stock units, performance shares, performance units and deferred stock units. Under the 2004 Plan, all awards may be granted to employees, directors and consultants of the Company, except for incentive stock options, which may be granted only to employees. The 2004 Plan replaces all prior option plans (detailed below), which were terminated upon its adoption, with no new awards to be granted thereunder. A total of 4,750,000 common shares were initially reserved for issuance under the 2004 Plan, including shares previously reserved for issuance under prior plans, and as of December 31, 2004 there were 3,760,298 shares reserved for future option grants. For stock options, the 2004 Plan requires that the exercise price of each option may not be less than the fair market value of a share of common stock on the date of grant, and in the case of incentive stock options granted to an owner of more than 10% of the total combined voting power of all classes of the Company's stock (10% Owners), must have an exercise price equal to at least 110% of the fair market value on the date of grant. Options granted to employees generally vest over a four-year period and are exercisable in installments beginning one year after the grant date and expire after 10 years if not exercised. As of December 31, 2004, 2,611,774 options were outstanding under the 2004 Plan. The maximum term of any option granted under the 2004 Plan is ten years, provided that incentive stock options granted to 10% Owners must have a term not exceeding five years.

In 1995, the Company's stockholders adopted the 1995 Employee Stock Option Plan (Employee Plan). Options granted under the Employee Plan were either incentive stock options or nonstatutory stock options. Incentive stock options were granted to employees with exercise prices of not less than fair market value and nonstatutory options were granted to employees at exercise prices of not less than par value of the common stock on the date of grant as determined by the Board of Directors. Options vest as determined by the Board of Directors (generally in four equal annual installments commencing one year after the date of grant), and expire 10 years from the date of grant. As a result of the adoption of the 2004 Plan, all shares previously reserved for issuance under this plan and remaining for grant are now reserved for issuance under the 2004 Plan. As of December 31, 2004, options to purchase 556,811 shares were outstanding under the Employee Plan.

In 1997, the Company's stockholders adopted the Non-Employee Director Stock Option Plan (Directors Plan), providing for periodic stock option grants to non-employee directors of the Company. Under the Directors Plan, each new, non-employee director received a one-time grant of options to purchase 7,680 shares of common stock, of which options to purchase 3,840 shares vest immediately, with the balance vesting in two equal allotments on the first and second anniversaries of joining the Board. All non-employee directors automatically received options to purchase up to 1,920 shares each year (such that the amount received under the Directors Plan when added to all prior options granted to a director which vest in that year totaled 1,920) on the date of the annual meeting of the stockholders. Options under the Directors Plan were granted at the fair market value of the Company's common stock on the date of the grant. In 2000, the Company's stockholders approved an amendment to the Directors Plan that changed the method for determining the number of shares granted under the plan, and lengthened the vesting date for the new director's initial and first annual grants of options. Under the amendment, the number of shares granted were equal to the lesser of the number determined by dividing $200,000 by the fair market value of the Company's common stock on the date of grant, or 3,333 shares. The amendment also revised the vesting date for initial options that were granted when a new director joined the Company's Board such that 50% of a new director's option vest one year after the grant date and the other 50% vest two years after the grant date. As a result of the adoption of the 2004 Plan, all shares previously reserved for issuance under this plan and remaining for grant are now reserved for issuance under the 2004 Plan. As of December 31, 2004, options to purchase 94,046 shares were outstanding under the Directors Plan.

In 1999, the Company adopted a Scientific Advisory Board/Consultants Stock Option Plan (SAB/Consultant Plan) that provided for periodic grants of non-qualified stock options to members of the Company's scientific advisory board and allowed the Board of Directors to approve grants of stock options to consultants. As a result of the adoption of the 2004 Plan, all shares previously reserved for issuance under this plan and remaining for grant are now reserved for issuance under the 2004 Plan. At December 31, 2004, options to purchase 9,331 shares were outstanding under the SAB/Consultant Plan.

In August 2002, the Company adopted the 2002 Equity Incentive Plan (2002 Plan), to grant stock options or make restricted stock awards to employees (including officers or employee directors) and consultants. The 2002 Plan authorized the grant of incentive stock options and restricted stock awards to employees and of non-qualified stock options and restricted stock awards to employees and consultants. The 2002 Plan required that the exercise price of options be not less than the fair value of the common shares at the grant date for those options intended to qualify as performance-based compensation and be not less than 110% of the fair value in the case of incentive stock options granted to 10% Owners. Options generally vest over a four-year period and are exercisable in installments beginning one year after the grant date and expire after 10 years if not exercised. As a result of the adoption of the 2004 Plan, all shares previously reserved for issuance under this plan and remaining for grant are now reserved for issuance under the 2004 Plan. As of December 31, 2004, options to purchase 426,009 shares were outstanding under the 2002 Plan.

On January 31, 2003, in connection with the merger of Variagenics, Inc., the Company assumed Variagenics' existing stock option plan, the Amended 1997 Employee, Director and Consultant Stock Option Plan (1997 Plan), by reserving and registering an additional 2,269,666 shares of common stock. The 1997 Plan authorized the grant of incentive and non-qualified stock options to employees, directors and consultants of the Company. Options generally vest ratably over three- to five-year periods and expire after 10 years if not exercised. As a result of the adoption of the 2004 Plan, all shares previously reserved for issuance under this plan and remaining for grant are now reserved for issuance under the 2004 Plan. As of December 31, 2004, options to purchase 173,623 shares were outstanding under the 1997 Plan.

The Company granted options to purchase common stock to several key employees, directors, scientific advisory board members and scientists prior to adoption of the Employee Plan. Each option gives the holder the right to purchase common stock at prices between $2.34 and $5.46 per share. In 1998, the Company granted options outside of any of the Company's stock option plans to purchase a total of 3,806 shares of common stock to three non-employee directors and a scientific advisory board member at prices between $14.25 and $30.19 per share. The options vest over periods of up to four years. In February 2000, a director who was previously an officer of the Company was granted an option to purchase 333,333 shares of common stock at $95.06 per share, the closing price on the day prior to the grant, as an inducement to become an employee of the Company. This option became exercisable one-third upon the date of grant, one-third on the one-year anniversary and one third on the two-year anniversary of the date of grant. In 2001, the Company granted options outside of any of the Company's stock option plans to purchase a total of 422,720 shares to five employee officers at prices between $29.87 and $37.69 per share as inducements to become employees of the Company. In August 2001, a director of the Company was granted an option to purchase 333,333 shares of common stock at $25.91 per share, the closing price on the day prior to the grant. In June 2002, an officer of the Company was granted an option to purchase 58,333 shares of common stock at $5.67, the average of the high and low price on the day of the grant. In June 2003, a new high-level employee was granted an option to purchase 66,666 shares of common stock at $7.05, the average of the high and low price on the day of the grant. As of December 31, 2004, 895,075 options issued outside of any of the Company's stock option plans were outstanding.

The Directors Plan, the Employee Plan, the 2002 Plan, the 2004 Plan and the options granted to a director to purchase 666,666 shares (as described above) provide for the acceleration of vesting of options upon certain specified events.

On December 14, 2004, the Company's Board of Directors approved an "Executive Change in Control and Severance Benefit Plan" for executive officers and other eligible employees. The purpose of the plan is to provide for the payment of severance benefits and/or change in control benefits to certain eligible employees, and the plan supersedes and replaces any change in control and/or severance plans adopted previously. The plan provides that, upon a change in control of the Company as defined under the plan, all Nuvelo stock options and stock awards held by a plan participant will become fully vested. Such shares held by a plan participant will also become fully vested if the participant is terminated without cause or constructively terminated within one month preceding a change in control. If a participant is terminated without cause or constructively terminated one month before or one year after a change in control, he or she will also be entitled to certain cash severance and medical benefits. In addition, if a participant is terminated without cause or constructively terminated outside the context of change in control, he or she will be entitled to certain cash severance and continued medical benefits and shall be credited with an additional year of vesting with respect to Nuvelo stock options and stock awards held. If a change in control occurs in the future, it is possible that material additional stock-based compensation expense could be incurred.

A summary of the Company's stock option activity, and related information follows:

	Year Ended December 31,					
	2004		2003		2002	
	Number of Shares	Weighted-Average Exercise Price	Number of Shares	Weighted-Average Exercise Price	Number of Shares	Weighted-Average Exercise Price
Options outstanding at beginning of period	2,680,170	$ 26.52	1,968,373	$ 36.33	1,874,780	$ 42.96
Options assumed from Variagenics acquisition	—	$ —	1,576,356	$ 5.64	—	$ —
Options granted	2,773,980	$ 9.76	755,873	$ 4.89	700,970	$ 8.40
Options exercised	(234,534)	$ 3.79	(641,918)	$ 2.07	(16,664)	$ 10.71
Options canceled	(452,947)	$ 17.23	(978,514)	$ 12.00	(590,713)	$ 24.87
Options outstanding at end of period	4,766,669	$ 18.77	2,680,170	$ 26.52	1,968,373	$ 36.33

The following table summarizes information about stock options outstanding and exercisable as of December 31, 2004:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number of Shares	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number of Shares	Weighted-Average Exercise Price
$ 0.03 – $ 6.45	601,651	7.41	$ 4.66	343,880	$ 4.56
6.62 – 8.41	557,537	8.23	7.34	193,640	6.70
8.46 – 9.21	455,877	9.48	9.10	45,294	9.12
9.28 – 9.67	488,666	9.54	9.65	203,987	9.67
9.75 – 9.91	294,240	9.79	9.85	9,310	9.83
10.02 – 10.18	950,897	8.91	10.17	159,085	10.18
10.19 – 25.91	691,982	7.24	19.94	451,344	22.48
26.01 – 95.06	716,753	5.69	64.02	659,196	66.63
97.13 – 285.56	8,066	5.53	140.03	8,066	140.03
304.31 – 304.31	1,000	5.16	304.31	1,000	304.31
	4,766,669	8.08	$ 18.77	2,074,802	$ 30.10

The weighted-average grant date fair values of options granted during the years ended December 31, 2004, 2003 and 2002 were $7.17, $3.69 and $6.93, respectively.

Employee Stock Purchase Plan

The Company's stockholders have approved an Employee Stock Purchase Plan, covering an aggregate of 250,000 shares of the Company's common stock. Each quarter, an eligible employee may elect to purchase shares of the Company's stock through payroll deductions at a price equal to the lower of 85% of the fair market value of the stock as of the first business day of the quarter or the last business day. In the year ended December 31, 2004, 31,959 shares of the Company's stock were sold under the Employee Stock Purchase Plan at a weighted-average price of $8.12 per share. The weighted-average grant date fair values of the purchase rights granted during the years ended December 31, 2004, 2003 and 2002 were $9.77, $1.71 and $2.25 per share, respectively.

14. Income Taxes

The Company had no current state or federal income taxes for the years ended December 31, 2004, 2003, and 2002. The reconciliations between the amounts computed by applying the U.S. federal statutory tax rate of 34% to loss from continuing operations and the actual provision for income taxes for the years ended December 31, 2004, 2003 and 2002 are as follows (in thousands):

	2004	2003	2002
Loss from continuing operations	(48,942)	(46,229)	(39,512)
Federal tax benefit at statutory rate	(16,640)	(15,718)	(13,434)
Current year net operating losses and temporary differences, no tax benefit recognized	16,655	15,978	14,748
State taxes, net of federal benefit	16	4	3
Other permanent differences	(31)	(264)	(1,317)
Provision for income taxes	—	—	—

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets for financial reporting and the amounts used for income tax purposes. Significant components of the Company's deferred tax assets for federal and state income taxes are as follows (in thousands):

	December 31,		
	2004	2003	2002
Deferred tax assets:			
Book depreciation in excess of tax depreciation	3,843	2,535	870
Accruals and reserves	4,361	4,292	3,190
Research and other credits	18,065	16,158	13,540
Capital loss carryforward — discontinued operations	3,152	—	—
Stock-based compensation	3,485	5,070	—
Net operating loss	110,093	96,272	53,330
Deferred revenue	—	—	210
State taxes	8	2	—
Capitalized research costs	6,858	5,250	3,100
Gross deferred tax assets	149,865	129,579	74,240
Valuation allowance	(149,865)	(129,579)	(74,240)
Net deferred tax assets	—	—	—

Deferred tax assets are reduced by a valuation allowance, as management believes that it is more likely than not that the deferred tax assets will not be realized. The net valuation allowance increased by $20.3 million, $55.3 million and $24.0 million for the years ended December 31, 2004, 2003 and 2002, respectively.

As of December 31, 2004, the Company had net operating loss carryforwards for federal and state income tax purposes of approximately $313.1 million and $62.7 million, respectively. The Company also had federal and California research and development tax credit carryforwards of approximately $9.7 million and $7.5 million, respectively. The federal net operating loss and credit carryforwards will expire at various dates beginning in the year 2008 through 2024, if not utilized. The State of California net operating losses will expire at various dates beginning in 2005 through 2014, if not utilized.

On December 3, 2004, the Company sold its subsidiaries, Callida Genomics and N-Mer. The related capital loss carryforward is $7.9 million. The federal and California capital loss carryforwards will expire in 2009.

Utilization of the Company's net operating loss carryforwards and credits may be subject to an annual limitation due to the "change in ownership" provisions of the Internal Revenue Code of 1986 and similar state provisions. The annual limitation may result in the expiration of net operating losses and credits before utilization.

Approximately $13.2 million of the federal net operating losses and $7.1 million of the state net operating losses relate to deductions from stock-based compensation. No income statement benefit will result from the realization of these losses.

The tax benefit of approximately $5.0 million in deferred tax assets related to the merger with Variagenics will be treated as a reduction to goodwill and other intangible assets under the provisions of SFAS 109 when realized.

15. Transactions with Related Parties

Dr. Rathmann, the Company's Chairman, provided a $20.0 million line of credit in August 2001, of which $11.0 million was drawn down, with the remaining $9.0 million having expired. The related promissory note bears interest at the prime rate plus 1%. In November 2003, the Company began repaying the outstanding balance over 48 months with equal monthly principal payments of approximately $0.2 million. Accrued interest will be paid with the final payment in October 2007. The remaining principal and accrued interest to date totaled $9.2 million as of December 31, 2004, and the interest rate on the note was 6.25%. The outstanding principal and interest under the note may be repaid at any time upon mutual agreement, by conversion into shares of the Company's common stock at a price based upon the average stock price over a 20-day period ending 2 days prior to the conversion or, if in connection with an equity financing, at the offering price. As of December 31, 2004, 907,113 shares would be issuable to fully repay the principal and interest outstanding upon conversion. A $4.0 million letter of credit issued to the Irvine Company related to the 985 Almanor facility lease that was guaranteed and collateralized by Dr. Rathmann was canceled and replaced in September 2004 by a letter of credit collateralized by the Company's $4.0 million revolving credit line with Silicon Valley Bank. Dr. Rathmann's guarantee of the Company's $2.6 million promissory note to AMB Property, LP was canceled upon repayment of this note in December 2004.

16. Segment and Geographic Data

Segment data

The Company is engaged in the discovery, development and commercialization of life improving therapeutics for the treatment of human disease. Reportable segments reflect the Company's structure, reporting responsibilities to the chief executive officer and the nature of the products under development. The Company has only one reportable segment since the sale of its majority-owned subsidiary Callida Genomics, Inc. (Callida) in December 2004. Callida was created in October 2001 to develop and commercialize sequencing-by-

hybridization technology, and the Company had chosen to organize and manage Callida as a separate business segment through the time of its disposal. In accordance with Statement of Financial Accounting Standards No. 144, "*Accounting for the Impairment or Disposal of Long-Lived Assets*", the results of operations of Callida have been reclassified to discontinued operations for all periods presented.

Geographic data

	Year Ended December 31		
	2004	2003	2002
		(In thousands)	
Revenues:			
Domestic	$195	$ 984	$ 3,678
Germany	—	40	21,876
Total revenues	$195	$1,024	$25,554

17. Legal Matters

On or about December 6, 2001, Variagenics was sued in a complaint filed in the United States District Court for the Southern District of New York naming it and certain of its officers and underwriters as defendants. The complaint purportedly is filed on behalf of persons purchasing the Company's stock between July 21, 2000 and December 6, 2000, and alleges violations of Sections 11, 12(a)(2) and 15 of the Securities Act of 1933, as amended and Section 10(b) of the Securities Exchange Act of 1934, as amended, and Rule 10b-5 promulgated thereunder.

The complaint alleges that, in connection with Variagenics' July 21, 2000 initial public offering, or IPO, the defendants failed to disclose additional and excessive commissions purportedly solicited by and paid to the underwriter defendants in exchange for allocating shares of Variagenics' stock to preferred customers and alleged agreements among the underwriter defendants and preferred customers tying the allocation of IPO shares to agreements to make additional aftermarket purchases at predetermined prices. Plaintiffs claim that the failure to disclose these alleged arrangements made Variagenics' registration statement on Form S-1 filed with the SEC in July 2000 and the prospectus, a part of the registration statement, materially false and misleading. Plaintiffs seek unspecified damages. On or about April 19, 2002, an amended complaint was filed which makes essentially the same allegations. On or about July 15, 2002, Variagenics and the individuals filed a motion to dismiss. The Company is involved in this litigation as a result of the merger with Variagenics in January 2003.

On July 16, 2003, the Company's Board of Directors approved a settlement proposal initiated by the plaintiffs. The final terms of the settlement are still being negotiated. It is possible that the parties may not reach agreement on the final settlement documents or that the Federal District Court may not approve the settlement in whole or part. The Company believes it has meritorious defenses and intends to defend this action vigorously; however, the Company could be forced to incur material expenses in the litigation if the parties do not reach agreement of the final settlement documents, and in the event there is an adverse outcome, the Company's business could be harmed.

18. Subsequent Events

On January 11, 2005, the Company entered into a seven-year facility lease agreement with BMR-201 Industrial Road LLC for approximately 55,000 square feet of industrial space at 201 Industrial Road in San Carlos, California at $2.35 per square foot per month, subject to annual increases of $0.07 per square foot per month. The lease will commence on or around September 1, 2005 and contains an option to cancel the lease after five years, two options to extend the lease for five additional years at 95% of the then-current fair market rental rate (but not less than the existing rental rate), and rights of first refusal over all vacant space in the building during the first two years of the lease. The lease contains a tenant improvement allowance of $7.7 million, or $140 per square foot. As a result of the entry into this lease, a review for impairment of leasehold improvements

at 985 Almanor Avenue will take place in the first quarter of 2005. The net book value of these leasehold improvements as of December 31, 2004 was $4.0 million.

On January 21, 2005, the Company entered into an Interim Agreement with Avecia Limited for initial work related to the manufacture by Avecia of alfimeprase. The initial work will include assessment and planning, transfer of processes and assays to Avecia, purchase of certain capital equipment, replicated fermentation and purification runs and consulting work in preparation for the manufacture of alfimeprase pursuant to Good Manufacturing Practices regulations. The Company will pay Avecia fees totaling £0.7 million (approximately equivalent to $1.3 million as of December 31, 2004) for completion of this initial work, and will also pay for the purchase of necessary items of equipment, together with certain related fees and expenses. The Interim Agreement will expire upon the first to occur of completion of the work under the agreement by Avecia, entry by Nuvelo and Avecia into a definitive agreement, or termination of the agreement by either party. Either party may terminate the agreement at any time, subject to certain cancellation fees, if applicable. The Interim Agreement requires negotiation in good faith towards the potential entry into a definitive agreement with Avecia that would cover activities under the Interim Agreement as well as other activities related to the manufacture of alfimeprase.

In February 2005, the Company raised approximately $68.3 million in a public offering, net of underwriters' fees and stock issuance costs of approximately $5.0 million, from the sale of 9,775,000 shares of common stock, including 1,275,000 shares related to the exercise of an over-allotment option granted to the underwriters, at a public offering price of $7.50 per share. The Company intends to use the net proceeds from this offering for general corporate purposes, including capital expenditures, working capital needs, current and future clinical trials of the lead drug candidate, alfimeprase, as well as other research and drug development activities.

19. Selected Quarterly Financial Data (Unaudited)

Summarized selected quarterly financial data is as follows (in thousands, except per share amounts):

	Quarter Ended			
	December 31, 2004	September 30, 2004	June 30, 2004	March 31, 2004
Contract revenues	$ 43	$ 54	$ 20	$ 78
Operating loss	(10,778)	(10,274)	(10,629)	(16,963)
Loss from continuing operations	(10,837)	(10,295)	(10,643)	(17,166)
Loss from discontinued operations	(2,145)	(574)	(317)	(512)
Net loss	(12,982)	(10,869)	(10,960)	(17,678)
Basic and diluted net loss per share from continuing operations*	(0.33)	(0.32)	(0.33)	(0.63)
Total basic and diluted net loss per share*	(0.40)	(0.34)	(0.34)	(0.65)

	Quarter Ended			
	December 31, 2003	September 30, 2003	June 30, 2003	March 31, 2003
Contract revenues	$ 12	$ 55	$ 198	$ 759
Operating loss	(8,658)	(9,841)	(15,085)	(11,699)
Loss from continuing operations	(8,882)	(10,151)	(15,324)	(11,871)
Loss from discontinued operations	(507)	(756)	(984)	(1,712)
Net loss	(9,389)	(10,907)	(16,308)	(13,583)
Basic and diluted net loss per share from continuing operations*	(0.35)	(0.48)	(0.73)	(0.72)
Total basic and diluted net loss per share*	(0.37)	(0.51)	(0.78)	(0.82)

* The sum of earnings per share for the four quarters may be different from the full year amount as a result of computing the quarterly and full year amounts based on the weighted average number of common shares outstanding in the respective periods.

Historically, the Company's revenues have varied considerably from period to period due to the nature of the Company's collaborative arrangements. As a consequence, the Company's results in any one quarter are not necessarily indicative of results to be expected for a full year.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Under the supervision and with the participation of management, including our Chief Executive Officer and our Chief Financial Officer, we have evaluated the effectiveness of the design and operation of our disclosure controls and procedures. Disclosure controls and procedures are controls and procedures that are designed to ensure that information required to be disclosed in our reports filed or submitted under the 1934 Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were effective as of the end of the period covered by this annual report.

Changes in Internal Control over Financial Reporting

We have recently completed our first annual company-wide review of our internal control over financial reporting as part of the process of preparing for compliance with Section 404 of the Sarbanes-Oxley Act of 2002, and as a complement to our existing overall internal control over financial reporting. As a result, we have continued to improve the design and effectiveness of our internal control over financial reporting. We anticipate that improvements and changes will continue to be made. However, there has been no change in the Company's internal controls over financial reporting during the Company's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Limitations on the Effectiveness of Controls

Our management, including the Chief Executive Officer and Chief Financial Officer, does not expect that our disclosure controls and procedures or our internal control over financial reporting will prevent all errors and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected.

Management's Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934, as amended). Our internal control system was designed to provide reasonable assurance to management and our board of directors regarding the preparation and fair presentation of published financial statements.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Company's ability to initiate, authorize, record, process, or report external financial data reliably in accordance with generally accepted accounting principles such that there is a more than a remote likelihood that a misstatement of the Company's annual or interim financial statements that is more than

inconsequential will not be prevented or detected. A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected.

Under the supervision and with the participation of management, including our Chief Executive Officer and Chief Financial Officer, we have assessed the effectiveness of our internal control over financial reporting as of December 31, 2004. In making our assessment of internal control over financial reporting, we used the criteria issued in the report Internal Control-Integrated Framework by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). We have concluded that our internal control over financial reporting was effective as of December 31, 2004 based on these criteria.

Our independent registered public accounting firm, KPMG LLP, has issued an attestation report on management's assessment of our internal control over financial reporting, which is included hereunder.

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
Nuvelo, Inc.:

We have audited management's assessment, included in Management's Annual Report on Internal Control over Financial Reporting, that Nuvelo, Inc. and subsidiaries maintained effective internal control over financial reporting as of December 31, 2004, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Nuvelo, Inc. and subsidiaries' management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

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

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

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

In our opinion, management's assessment that Nuvelo, Inc. and subsidiaries maintained effective internal control over financial reporting as of December 31, 2004, is fairly stated, in all material respects, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Also, in our opinion, Nuvelo, Inc. and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2004, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of Nuvelo, Inc. and subsidiaries as of December 31, 2004 and 2003, and the related consolidated statements of operations, stockholders' equity (deficit), and cash flows for each of the years in the three-year period ended December 31, 2004, and our report dated March 15, 2005 expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP

San Francisco, California
March 15, 2005.

PART III

Item 10. ***Directors and Executive Officers of the Registrant***

The information required by this item is incorporated by reference to "General Information" and "Section 16(a) Beneficial Ownership Reporting Compliance" under Proposal No. 1 in our Definitive Proxy Statement to be filed pursuant to Regulation 14A under the Securities Exchange Act of 1934, relating to our 2005 Annual Meeting of Stockholders.

Item 11. ***E xecutive Compensation***

The response to this item is incorporated by reference to "Certain Information With Respect to Executive Officers" in our Definitive Proxy Statement to be filed pursuant to Regulation 14A under the Securities Exchange Act of 1934, relating to our 2005 Annual Meeting of Stockholders.

Item 12. ***Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters***

The response to this item is incorporated by reference to "Security Ownership of Certain Beneficial Owners and Management" in our Definitive Proxy Statement to be filed pursuant to Regulation 14A under the Securities Exchange Act of 1934, relating to our 2005 Annual Meeting of Stockholders.

Item 13. ***Certain Relationships and Related Transactions***

The response to this item is incorporated by reference to "Certain Relationships and Related Transactions" in our Definitive Proxy Statement to be filed pursuant to Regulation 14A under the Securities Exchange Act of 1934, relating to our 2005 Annual Meeting of Stockholders.

Item 14. ***Principal Accountant Fees and Services***

The response to this item is incorporated by reference to "Ratification of Selection of Independent Auditors" in our Definitive Proxy Statement to be filed pursuant to Regulation 14A under the Securities Exchange Act of 1934, relating to our 2005 Annual Meeting of Stockholders.

Consistent with Section 10A(i)(2) of the Securities Exchange Act of 1934, as added by Section 202 of the Sarbanes-Oxley Act of 2002, we are responsible for listing the non-audit services approved by our Audit Committee to be performed by KPMG LLP, our external auditor. Non-audit services are defined as services other than those provided in connection with an audit or a review of our financial statements. The Audit Committee approved the engagement of KPMG LLP in 2004 for the following non-audit services: the preparation of property tax returns, and tax advice in preparing for and in connection with the filing of such returns.

PART IV

Item 15. ***Exhibits and Financial Statement Schedules***

(a) *The following documents are filed as part of this Report:*

1. Consolidated financial statements filed as part of this Report are listed under Part II, Item 8, page 32 of this Form 10-K.
2. No schedules are required because either the required information is not present or is not present in amounts sufficient to require submission of the schedule, or because the information required is included in the consolidated financial statements or the notes thereto.

(b) *Exhibits*

The following documents are filed as part of this annual report on Form 10-K. The Company will furnish a copy of any exhibit listed to requesting stockholders upon payment of the Company's reasonable expenses in furnishing those materials.

Exhibit Number	Description
2.1	Agreement and Plan of Merger, dated as of November 9, 2002, among Hyseq, Inc., Vertical Merger Corp. and Variagenics, Inc.(1)
2.2	Agreement and Plan of Merger, dated March 19, 2004, between the Registrant and Nuvelo, Inc., a Nevada corporation and the Registrant's predecessor in interest.(27)
2.3	Stock Purchase Agreement, dated December 3, 2004, entered into by and between SBH Genomics, Inc., Radoje Drmanac, Snezana Drmanac, Nuvelo, Inc., and Affymetrix, Inc.(28)
3.1	Amended and Restated Certificate of Incorporation of the Registrant.(27)
3.2	Amended and Restated By-Laws of the Registrant.(29)
3.3	Certificate of Ownership and Merger of Variagenics, Inc. with and into Hyseq, Inc.(30)
3.4	Form of Certificate of Amendment to the Amended and Restated Articles of Incorporation, filed in connection with our 1-for-3 reverse stock split.(26)
4.1	Form of Nuvelo, Inc. Common Stock Certificate.(27)
4.2	Rights Agreement between Hyseq, Inc. and U.S. Stock Transfer Corporation dated June 5, 1998.(5)
4.3	Hyseq Promissory Note, dated as of November 13, 2001, in the principal amount of $4,000,000.(6)
4.4	Registration Rights Agreement, dated as of November 13, 2001, between Hyseq, Inc. and Affymetrix, Inc.(6)
4.5	Pledge and Security Agreement, dated as of November 13, 2001, between Hyseq, Inc. and Affymetrix, Inc.(6)
4.6	Amendment to Rights Agreement, dated as of November 9, 2002, between Hyseq, Inc. and U.S. Stock Transfer Corporation.(7)
4.7	Form of Warrant to purchase 1,491,544 shares of Common Stock of Hyseq, Inc., entered into January 8, 2002.(36)
4.8	Form of Warrant, dated as of April 5, 2002.(3)
4.9*	Replacement Warrant to purchase 195,130 shares of Common Stock of Nuvelo, Inc, dated as of January 20, 2005.

Exhibit Number	Description
4.10*	Replacement Warrant to purchase 200,000 shares of Common Stock of Nuvelo, Inc, dated as of January 20, 2005.
4.11	Amendment to Rights Agreement, dated as of March 19, 2004, between Nuvelo, Inc. and U.S. Stock Transfer Corporation.(27)
4.12	Certificate of Designations of Series A Junior Participating Preferred Stock.(27)
4.13	Reference is made to Exhibits 3.1 through 3.4.
10.1	Form of Indemnification Agreement between Hyseq, Inc. and each of its directors and officers.(2)
10.2	Patent License Agreement between Arch Development Corporation and Hyseq, Inc. dated June 7, 1994.(2)
10.3	Stock Purchase Agreement for Series B Convertible Preferred Stock dated May 28, 1997.(2)
10.4†	Stock Option Plan, as amended.(9)
10.5*†	Employee Stock Purchase Plan, as amended and restated on December 14, 2004.
10.6†	Non-Employee Director Stock Option Plan, as amended.(10)
10.7	Collaboration and License Agreement between Hyseq, Inc. and American Cyanamid Company dated December 10, 1999.(11)
10.8†	Non-Qualified Employee Stock Purchase Plan.(12)
10.9†	Scientific Advisory Board/ Consultants Stock Option Plan.(12)
10.10†	Employment and Confidential Information Agreement between Hyseq, Inc. and Dr. Ted W. Love dated January 11, 2001.(13)
10.11	Lease between The Irvine Company and Hyseq, Inc. dated as of April 30, 2001.(14)
10.12	Industrial Multi-Tenant Lease between AMB Property, L.P. and Hyseq, Inc. dated June 23, 2000, as amended.(13)
10.13	Form of Registration Rights Agreement, dated as of August 28, 2001, among Hyseq, Inc. and the investors party thereto.(4)
10.14†	Stock Option Agreement, dated as of February 1, 2000, between Hyseq, Inc. and Dr. George B. Rathmann.(6)
10.15	Line of Credit Agreement, dated as of August 6, 2001, between Hyseq, Inc. and Dr. George B. Rathmann.(6)
10.16†	Stock Option Agreement, dated as of August 21, 2001, between Hyseq, Inc. and Dr. George B. Rathmann.(6)
10.17	Interference Settlement Agreement, dated as of October 24, 2001, between Hyseq, Inc. and Affymetrix, Inc.(6)
10.18†	Form of Non-Stockholder Approved Stock Option Agreement for Officers.(15)
10.19	Registration Rights Agreement, dated as of April 5, 2002, among Hyseq, Inc. and the investors party thereto.(3)
10.20	Settlement Agreement, dated as of October 24, 2001, between Hyseq, Inc. and Affymetrix, Inc.(15)
10.21	Collaboration Agreement, dated of January 8, 2002, between Hyseq, Inc. and Amgen, Inc.(16)

Exhibit Number	Description
10.22	Amendment No. 1 to Lease Agreement, dated as of August 1, 2002, between Hyseq, Inc. and The Irvine Company.(17)
10.23†	Form of Severance Agreement.(8)
10.24	Master Lease Agreement, dated as of May 10, 2001 between General Electric Capital Corporation and Variagenics, Inc.(18)
10.25	Equipment Schedules 3 and 4, dated July 27, 2001, to the Master Lease Agreement, dated as of May 10, 2001 between General Electric Capital Corporation and Variagenics, Inc.(19)
10.26	Equipment Schedule 5, dated November 28, 2001, to the Master Lease Agreement, dated as of May 10, 2001 between General Electric Capital Corporation and Variagenics, Inc.(20)
10.27	Equipment Schedules 6 and 7, dated March 18, 2002, to the Master Lease Agreement, dated as of May 10, 2001 between General Electric Capital Corporation and Variagenics, Inc.(21)
10.28	Securities Purchase Agreement, dated as of April 5, 2002, among Hyseq, Inc. and the investors party thereto.(3)
10.29	Form of Warrant Purchase Agreement, entered into January 8, 2002, between Hyseq, Inc. and Amgen, Inc.(2)
10.30†	Variagenics, Inc. Amended 1997 Employee, Director and Consultant Stock Option Plan.(22)
10.31	Guarantee by George Rathmann in favor of AMB Property, L.P., dated October 1, 2002.(23)
10.32	Amendment to Amended and Restated Line of Credit, dated as of November 9, 2002, between Hyseq, Inc. and Dr. George B. Rathmann.(23)
10.33†	Nuvelo, Inc. 2002 Equity Incentive Plan.(24)
10.34†	Form of Non-Stockholder Approved Option Agreement for Officers.(24)
10.35†	Stock Option Agreement, dated as of September 21, 2001, between Nuvelo, Inc. and Dr. George B. Rathmann.(24)
10.36	Second Amendment to Lease by and between the Irvine Company and Nuvelo, Inc. dated October 21, 2003.(25)
10.37	Assignment and Assumption of Lease by and between the Company and Idenix, Inc. dated October 28, 2003.(25)
10.38	Collaboration Agreement, dated as of January 12, 2004, between Nuvelo, Inc. and Archemix Corp.(26)
10.39	License Agreement, dated as of February 4, 2004, among Dendreon San Diego LLC, Dendreon Corporation and Nuvelo, Inc.(26)
10.40	Amended and Restated Secreted Protein Development and Collaboration Agreement, dated January 28, 2004, between Deltagen, Inc. and Nuvelo, Inc.(31)
10.41†	Nuvelo, Inc. 2004 Equity Incentive Plan.(32)
10.42†	Form of Notice of Grant of Stock Option under Nuvelo, Inc. 2004 Equity Incentive Plan.(33)
10.43†	Form of Nuvelo, Inc. Stock Option Agreement (Single Trigger Acceleration) under Nuvelo, Inc. 2004 Equity Incentive Plan.(33)
10.44†	Form of Nuvelo, Inc. Stock Option Agreement (Double Trigger Acceleration) under Nuvelo, Inc. 2004 Equity Incentive Plan.(34)
10.45	Amendment No. 3 to Collaboration Agreement, dated as of September 10, 2004, between Nuvelo, Inc. and Kirin Brewery Co., Ltd.(34)

Exhibit Number	Description
10.46	Loan and Security Agreement, dated as of August 31, 2004, between Nuvelo, Inc., and Silicon Valley Bank.(34)
10.47†	Nuvelo, Inc. Executive Change in Control and Severance Benefit Plan.(35)
10.48*§	Opt-Out, Termination, Settlement and Release Agreement, dated October 29, 2004, between Nuvelo, Inc. and Amgen, Inc.
10.49*§	License Agreement, dated November 3, 2004, between Nuvelo, Inc. and Amgen, Inc.
10.50*	Lease Agreement, dated January 11, 2005, between Nuvelo, Inc. and BMR-201 Industrial Road LLC.
10.51*§	Interim Agreement, dated January 21, 2005, between Nuvelo, Inc. and Avecia Limited.
21.1*	Subsidiaries of Nuvelo, Inc. as of December 31, 2004.
23.1*	Consent of Independent Registered Public Accounting Firm.
31.1*	Certificate of Chief Executive Officer pursuant to Rule 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certificate of Chief Financial Officer pursuant to Rule 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1*	Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. sec. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

* Filed herewith.

† Compensatory plan or agreement.

§ Confidential treatment requested.

(1) Previously filed with the SEC as an Exhibit to and incorporated herein by reference from Hyseq, Inc.'s Form 8-K, filed on November 12, 2002, File No. 000-22873.

(2) Previously filed with the SEC as an Exhibit to and incorporated herein by reference from Hyseq, Inc.'s Registration Statement filed on Form S-1, as amended, File No. 333-29091.

(3) Previously filed with the SEC as an Exhibit to and incorporated herein by reference from Hyseq, Inc.'s report on Form S-3, filed on June 14, 2002, File No. 333-90458.

(4) Previously filed with the SEC as an Exhibit to and incorporated herein by reference from Hyseq, Inc.'s Registration Statement on Form S-3, as amended, filed on September 25, 2001, File No. 333-70134.

(5) Previously filed with the SEC as an Exhibit to and incorporated herein by reference from Hyseq, Inc.'s Form 8-K, filed on July 31, 1998, File No. 00-22873.

(6) Previously filed with the SEC as an Exhibit to and incorporated herein by reference from Hyseq, Inc.'s Annual Report on Form 10-K, for the year ended December 31, 2001, filed on April 1, 2002, File No. 000-22873.

(7) Previously filed with the SEC as an Exhibit to and incorporated herein by reference from Hyseq, Inc.'s Registration Statement on Form S-4, filed on November 27, 2002, File No. 333-101503.

(8) Previously filed with the SEC as an Exhibit to and incorporated herein by reference from Hyseq, Inc.'s Registration Statement on Form S-4, filed on November 27, 2002, File No. 333-101503.

(9) Previously filed with the SEC as an Exhibit to and incorporated herein by reference from Hyseq, Inc.'s Registration Statement on Form S-8, filed on December 5, 1997, File No. 333-41663.

(10) Previously filed with the SEC as an Exhibit to and incorporated herein by reference from Hyseq, Inc.'s Registration Statement on Form S-8, filed on May 21, 1998, File No. 333-53089.

(11) Previously filed with the SEC as an Exhibit to and incorporated herein by reference from Hyseq, Inc.'s report on Form 8-K/ A, filed on March 17, 2000, File No. 00-22873.

(12) Previously filed with the SEC as an Exhibit to and incorporated herein by reference from Hyseq, Inc.'s Annual Report on Form 10-K for the year ended December 31, 1999, filed on March 20, 2000, File No. 000-22873.

(13) Previously filed with the SEC as an Exhibit to and incorporated herein by reference from Hyseq, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2000, filed April 2, 2001, File No. 000-22873.

(14) Previously filed with the SEC as an Exhibit to and incorporated herein by reference from Hyseq, Inc.'s report on Form 8-K, filed on May 21, 2001, File No. 000-22873.

(15) Previously filed with the SEC as an Exhibit to and incorporated herein by reference from Hyseq, Inc.'s report on Form 10-K/ A, for the year ended December 31, 2001, filed on May 9, 2002, File No. 000-22873.

(16) Previously filed with the SEC as an Exhibit to and incorporated herein by reference from Hyseq, Inc.'s report on Form 10-Q/ A, for the quarterly period ended March 31, 2002, filed on July 22, 2002, File No. 000-22873.

(17) Previously filed with the SEC as an Exhibit to and incorporated herein by reference from Hyseq, Inc.'s report on Form 10Q, for the quarterly period ended September 30, 2002, filed on November 8, 2002, File No. 000-22873.

(18) Previously filed with the SEC as an Exhibit to and incorporated herein by reference from Variagenics, Inc.'s report on Form 10-Q, for the quarterly period ended June 30, 2001, filed on August 14, 2001, File No. 000-31035.

(19) Previously filed with the SEC as an Exhibit to and incorporated herein by reference from Variagenics, Inc.'s report on Form 10-Q, for the quarterly period ended September 30, 2001, filed on November 14, 2001, File No. 000-31035.

(20) Previously filed with the SEC as an Exhibit to and incorporated herein by reference from Variagenics, Inc.'s Annual Report on Form 10-K, for the year ended December 31, 2001, filed on April 1, 2002, File No. 000-31035.

(21) Previously filed with the SEC as an Exhibit to and incorporated herein by reference from Variagenics, Inc.'s report on Form 10-Q, for the quarterly period ended March 31, 2002, filed on May 14, 2002, File No. 000-31035.

(22) Previously filed with the SEC as an Exhibit to and incorporated herein by reference from Nuvelo, Inc.'s Registration Statement on Form S-8, filed on February 7, 2003, File No. 333-103055.

(23) Previously filed with the SEC as an Exhibit to and incorporated herein by reference from Nuvelo, Inc.'s Annual Report on Form 10-K, filed on March 31, 2003, for the year ended December 31, 2002, File No. 000-22873.

(24) Previously filed with the SEC as an Exhibit to and incorporated herein by reference from Nuvelo, Inc.'s Registration Statement on Form S-8, filed on September 5, 2003, File No. 333-108563.

(25) Previously filed with the SEC as an Exhibit to and incorporated herein by reference from Nuvelo, Inc.'s report on Form 10-Q, for the quarterly period ended September 30, 2003, filed on November 14, 2003, File No. 000-22873.

(26) Previously filed with the SEC as an Exhibit to and incorporated herein by reference from Nuvelo, Inc.'s report on Form 8-K, filed on February 19, 2004, File No. 000-22873.

(27) Previously filed with the SEC as an Exhibit to and incorporated herein by reference from Nuvelo, Inc.'s Form 8-K, filed March 26, 2004, File No. 000-22873.

(28) Previously filed with the SEC as an Exhibit to and incorporated herein by reference from Nuvelo, Inc.'s Form 8-K, filed December 9, 2004, File No. 000-22873.

(29) Previously filed with the SEC as an Exhibit to and incorporated herein by reference from Nuvelo, Inc.'s Form 10-Q, filed on August 9, 2004, File No. 000-22873.

(30) Previously filed with the SEC as an Exhibit to and incorporated herein by reference from Nuvelo, Inc.'s Form 10-K, filed on March 12, 2004, File No. 000-22873.

(31) Previously filed with the SEC as an Exhibit to and incorporated herein by reference from Nuvelo, Inc.'s Form 10-Q, filed on May 10, 2004, File No. 000-22873.

(32) Previously filed with the SEC as an Exhibit to and incorporated herein by reference from Nuvelo, Inc.'s Registration Statement on Form S-8, filed on May 21, 2004, File No. 333-115747.

(33) Previously filed with the SEC as an Exhibit to and incorporated herein by reference from Nuvelo, Inc.'s Form 8-K, filed September 20, 2004, File No. 000-22873.

(34) Previously filed with the SEC as an Exhibit to and incorporated herein by reference from Nuvelo, Inc.'s Form 10-Q, filed on November 9, 2004, File No. 000-22873.

(35) Previously filed with the SEC as an Exhibit to and incorporated herein by reference from Nuvelo, Inc.'s Form 8-K, filed December 20, 2004, File No. 000-22873.

(36) Previously filed with the SEC as an Exhibit to and incorporated herein by reference from Hyseq, Inc.'s Form S-3, filed September 25, 2000, File No. 333-70134.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Sunnyvale, State of California, on March 15, 2005.

NUVELO, INC.

By: /s/ LEE BENDEKGEY

Lee Bendekgey
Senior Vice President,
Chief Financial Officer and General Counsel

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons on behalf of Nuvelo, Inc., in the capacities indicated, on March 15, 2005.

Signature	Title
/s/ TED W. LOVE **Ted W. Love**	President and Chief Executive Officer (Principal Executive Officer), Director
/s/ LEE BENDEKGEY **Lee Bendekgey**	Senior Vice President, Chief Financial Officer and General Counsel (Principal Financial Officer)
/s/ GARY S. TITUS **Gary S. Titus**	Vice President and Chief Accounting Officer (Principal Accounting Officer)
/s/ GEORGE B. RATHMANN **George B. Rathmann**	Chairman of the Board
/s/ BURTON E. SOBEL **Burton E. Sobel**	Director
/s/ MARK L. PERRY **Mark L. Perry**	Director
/s/ MARY K. PENDERGAST **Mary K. Pendergast**	Director
/s/ BARRY L. ZUBROW **Barry L. Zubrow**	Director

EXHIBIT INDEX

Exhibit Number	Description
2.1	Agreement and Plan of Merger, dated as of November 9, 2002, among Hyseq, Inc., Vertical Merger Corp. and Variagenics, Inc.(1)
2.2	Agreement and Plan of Merger, dated March 19, 2004, between the Registrant and Nuvelo, Inc., a Nevada corporation and the Registrant's predecessor in interest.(27)
2.3	Stock Purchase Agreement, dated December 3, 2004, entered into by and between SBH Genomics, Inc., Radoje Drmanac, Snezana Drmanac, Nuvelo, Inc., and Affymetrix, Inc.(28)
3.1	Amended and Restated Certificate of Incorporation of the Registrant.(27)
3.2	Amended and Restated By-Laws of the Registrant.(29)
3.3	Certificate of Ownership and Merger of Variagenics, Inc. with and into Hyseq, Inc.(30)
3.4	Form of Certificate of Amendment to the Amended and Restated Articles of Incorporation, filed in connection with our 1-for-3 reverse stock split.(26)
4.1	Form of Nuvelo, Inc. Common Stock Certificate.(27)
4.2	Rights Agreement between Hyseq, Inc. and U.S. Stock Transfer Corporation dated June 5, 1998.(5)
4.3	Hyseq Promissory Note, dated as of November 13, 2001, in the principal amount of $4,000,000.(6)
4.4	Registration Rights Agreement, dated as of November 13, 2001, between Hyseq, Inc. and Affymetrix, Inc.(6)
4.5	Pledge and Security Agreement, dated as of November 13, 2001, between Hyseq, Inc. and Affymetrix, Inc.(6)
4.6	Amendment to Rights Agreement, dated as of November 9, 2002, between Hyseq, Inc. and U.S. Stock Transfer Corporation.(7)
4.7	Form of Warrant to purchase 1,491,544 shares of Common Stock of Hyseq, Inc., entered into January 8, 2002.(36)
4.8	Form of Warrant, dated as of April 5, 2002.(3)
4.9*	Replacement Warrant to purchase 195,130 shares of Common Stock of Nuvelo, Inc., dated as of January 20, 2005.
4.10*	Replacement Warrant to purchase 200,000 shares of Common Stock of Nuvelo, Inc., dated as of January 20, 2005.
4.11	Amendment to Rights Agreement, dated as of March 19, 2004, between Nuvelo, Inc. and U.S. Stock Transfer Corporation.(27)
4.12	Certificate of Designations of Series A Junior Participating Preferred Stock.(27)
4.13	Reference is made to Exhibits 3.1 through 3.4.
10.1	Form of Indemnification Agreement between Hyseq, Inc. and each of its directors and officers.(2)
10.2	Patent License Agreement between Arch Development Corporation and Hyseq, Inc. dated June 7, 1994.(2)
10.3	Stock Purchase Agreement for Series B Convertible Preferred Stock dated May 28, 1997.(2)
10.4†	Stock Option Plan, as amended.(9)
10.5*†	Employee Stock Purchase Plan, as amended and restated on December 14, 2004.

Exhibit Number	Description
10.6†	Non-Employee Director Stock Option Plan, as amended.(10)
10.7	Collaboration and License Agreement between Hyseq, Inc. and American Cyanamid Company dated December 10, 1999.(11)
10.8†	Non-Qualified Employee Stock Purchase Plan.(12)
10.9†	Scientific Advisory Board/ Consultants Stock Option Plan.(12)
10.10†	Employment and Confidential Information Agreement between Hyseq, Inc. and Dr. Ted W. Love dated January 11, 2001.(13)
10.11	Lease between The Irvine Company and Hyseq, Inc. dated as of April 30, 2001.(14)
10.12	Industrial Multi-Tenant Lease between AMB Property, L.P. and Hyseq, Inc. dated June 23, 2000, as amended.(13)
10.13	Form of Registration Rights Agreement, dated as of August 28, 2001, among Hyseq, Inc. and the investors party thereto.(4)
10.14†	Stock Option Agreement, dated as of February 1, 2000, between Hyseq, Inc. and Dr. George B. Rathmann.(6)
10.15	Line of Credit Agreement, dated as of August 6, 2001, between Hyseq, Inc. and Dr. George B. Rathmann.(6)
10.16†	Stock Option Agreement, dated as of August 21, 2001, between Hyseq, Inc. and Dr. George B. Rathmann.(6)
10.17	Interference Settlement Agreement, dated as of October 24, 2001, between Hyseq, Inc. and Affymetrix, Inc.(6)
10.18†	Form of Non-Stockholder Approved Stock Option Agreement for Officers.(15)
10.19	Registration Rights Agreement, dated as of April 5, 2002, among Hyseq, Inc. and the investors party thereto.(3)
10.20	Settlement Agreement, dated as of October 24, 2001, between Hyseq, Inc. and Affymetrix, Inc.(15)
10.21	Collaboration Agreement, dated of January 8, 2002, between Hyseq, Inc. and Amgen, Inc.(16)
10.22	Amendment No. 1 to Lease Agreement, dated as of August 1, 2002, between Hyseq, Inc. and The Irvine Company.(17)
10.23†	Form of Severance Agreement.(8)
10.24	Master Lease Agreement, dated as of May 10, 2001 between General Electric Capital Corporation and Variagenics, Inc.(18)
10.25	Equipment Schedules 3 and 4, dated July 27, 2001, to the Master Lease Agreement, dated as of May 10, 2001 between General Electric Capital Corporation and Variagenics, Inc.(19)
10.26	Equipment Schedule 5, dated November 28, 2001, to the Master Lease Agreement, dated as of May 10, 2001 between General Electric Capital Corporation and Variagenics, Inc.(20)
10.27	Equipment Schedules 6 and 7, dated March 18, 2002, to the Master Lease Agreement, dated as of May 10, 2001 between General Electric Capital Corporation and Variagenics, Inc.(21)
10.28	Securities Purchase Agreement, dated as of April 5, 2002, among Hyseq, Inc. and the investors party thereto.(3)

Exhibit Number	Description
10.29	Form of Warrant Purchase Agreement, entered into January 8, 2002, between Hyseq, Inc. and Amgen, Inc.(2)
10.30†	Variagenics, Inc. Amended 1997 Employee, Director and Consultant Stock Option Plan.(22)
10.31	Guarantee by George Rathmann in favor of AMB Property, L.P., dated October 1, 2002.(23)
10.32	Amendment to Amended and Restated Line of Credit, dated as of November 9, 2002, between Hyseq, Inc. and Dr. George B. Rathmann.(23)
10.33†	Nuvelo, Inc. 2002 Equity Incentive Plan.(24)
10.34†	Form of Non-Stockholder Approved Option Agreement for Officers.(24)
10.35†	Stock Option Agreement, dated as of September 21, 2001, between Nuvelo, Inc. and Dr. George B. Rathmann.(24)
10.36	Second Amendment to Lease by and between the Irvine Company and Nuvelo, Inc. dated October 21, 2003.(25)
10.37	Assignment and Assumption of Lease by and between the Company and Idenix, Inc. dated October 28, 2003.(25)
10.38	Collaboration Agreement, dated as of January 12, 2004, between Nuvelo, Inc. and Archemix Corp.(26)
10.39	License Agreement, dated as of February 4, 2004, among Dendreon San Diego LLC, Dendreon Corporation and Nuvelo, Inc.(26)
10.40	Amended and Restated Secreted Protein Development and Collaboration Agreement, dated January 28, 2004, between Deltagen, Inc. and Nuvelo, Inc.(31)
10.41†	Nuvelo, Inc. 2004 Equity Incentive Plan.(32)
10.42†	Form of Notice of Grant of Stock Option under Nuvelo, Inc. 2004 Equity Incentive Plan.(33)
10.43†	Form of Nuvelo, Inc. Stock Option Agreement (Single Trigger Acceleration) under Nuvelo, Inc. 2004 Equity Incentive Plan.(33)
10.44†	Form of Nuvelo, Inc. Stock Option Agreement (Double Trigger Acceleration) under Nuvelo, Inc. 2004 Equity Incentive Plan.(34)
10.45	Amendment No. 3 to Collaboration Agreement, dated as of September 10, 2004, between Nuvelo, Inc. and Kirin Brewery Co., Ltd.(34)
10.46	Loan and Security Agreement, dated as of August 31, 2004, between Nuvelo, Inc., and Silicon Valley Bank.(34)
10.47†	Nuvelo, Inc. Executive Change in Control and Severance Benefit Plan.(35)
10.48*§	Opt-Out, Termination, Settlement and Release Agreement, dated October 29, 2004, between Nuvelo, Inc. and Amgen, Inc.
10.49*§	License Agreement, dated November 3, 2004, between Nuvelo, Inc. and Amgen, Inc.
10.50*	Lease Agreement, dated January 11, 2005, between Nuvelo, Inc. and BMR-201 Industrial Road LLC.
10.51*§	Interim Agreement, dated January 21, 2005, between Nuvelo, Inc. and Avecia Limited.
21.1*	Subsidiaries of Nuvelo, Inc. as of December 31, 2004.
23.1*	Consent of Independent Registered Public Accounting Firm.

Exhibit Number	Description
31.1*	Certificate of Chief Executive Officer pursuant to Rule 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certificate of Chief Financial Officer pursuant to Rule 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1*	Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. sec. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

* Filed herewith.
† Compensatory plan or agreement.
§ Confidential treatment requested.
(1) Previously filed with the SEC as an Exhibit to and incorporated herein by reference from Hyseq, Inc.'s Form 8-K, filed on November 12, 2002, File No. 000-22873.
(2) Previously filed with the SEC as an Exhibit to and incorporated herein by reference from Hyseq, Inc.'s Registration Statement filed on Form S-1, as amended, File No. 333-29091.
(3) Previously filed with the SEC as an Exhibit to and incorporated herein by reference from Hyseq, Inc.'s report on Form S-3, filed on June 14, 2002, File No. 333-90458.
(4) Previously filed with the SEC as an Exhibit to and incorporated herein by reference from Hyseq, Inc.'s Registration Statement on Form S-3, as amended, filed on September 25, 2001, File No. 333-70134.
(5) Previously filed with the SEC as an Exhibit to and incorporated herein by reference from Hyseq, Inc.'s Form 8-K, filed on July 31, 1998, File No. 00-22873.
(6) Previously filed with the SEC as an Exhibit to and incorporated herein by reference from Hyseq, Inc.'s Annual Report on Form 10-K, for the year ended December 31, 2001, filed on April 1, 2002, File No. 000-22873.
(7) Previously filed with the SEC as an Exhibit to and incorporated herein by reference from Hyseq, Inc.'s Registration Statement on Form S-4, filed on November 27, 2002, File No. 333-101503.
(8) Previously filed with the SEC as an Exhibit to and incorporated herein by reference from Hyseq, Inc.'s Registration Statement on Form S-4, filed on November 27, 2002, File No. 333-101503.
(9) Previously filed with the SEC as an Exhibit to and incorporated herein by reference from Hyseq, Inc.'s Registration Statement on Form S-8, filed on December 5, 1997, File No. 333-41663.
(10) Previously filed with the SEC as an Exhibit to and incorporated herein by reference from Hyseq, Inc.'s Registration Statement on Form S-8, filed on May 21, 1998, File No. 333-53089.
(11) Previously filed with the SEC as an Exhibit to and incorporated herein by reference from Hyseq, Inc.'s report on Form 8-K/ A, filed on March 17, 2000, File No. 00-22873.
(12) Previously filed with the SEC as an Exhibit to and incorporated herein by reference from Hyseq, Inc.'s Annual Report on Form 10-K for the year ended December 31, 1999, filed on March 20, 2000, File No. 000-22873.
(13) Previously filed with the SEC as an Exhibit to and incorporated herein by reference from Hyseq, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2000, filed April 2, 2001, File No. 000-22873.
(14) Previously filed with the SEC as an Exhibit to and incorporated herein by reference from Hyseq, Inc.'s report on Form 8-K, filed on May 21, 2001, File No. 000-22873.
(15) Previously filed with the SEC as an Exhibit to and incorporated herein by reference from Hyseq, Inc.'s report on Form 10-K/ A, for the year ended December 31, 2001, filed on May 9, 2002, File No. 000-22873.
(16) Previously filed with the SEC as an Exhibit to and incorporated herein by reference from Hyseq, Inc.'s report on Form 10-Q/ A, for the quarterly period ended March 31, 2002, filed on July 22, 2002, File No. 000-22873.
(17) Previously filed with the SEC as an Exhibit to and incorporated herein by reference from Hyseq, Inc.'s report on Form 10 Q, for the quarterly period ended September 30, 2002, filed on November 8, 2002, File No. 000-22873.

(18) Previously filed with the SEC as an Exhibit to and incorporated herein by reference from Variagenics Inc.'s report on Form 10-Q, for the quarterly period ended June 30, 2001, filed on August 14, 2001, File No. 000-31035.
(19) Previously filed with the SEC as an Exhibit to and incorporated herein by reference from Variagenics Inc.'s report on Form 10-Q, for the quarterly period ended September 30, 2001, filed on November 14, 2001, File No. 000-31035.
(20) Previously filed with the SEC as an Exhibit to and incorporated herein by reference from Variagenics Inc.'s Annual Report on Form 10-K, for the year ended December 31, 2001, filed on April 1, 2002, File No. 000-31035.
(21) Previously filed with the SEC as an Exhibit to and incorporated herein by reference from Variagenics Inc.'s report on Form 10-Q, for the quarterly period ended March 31, 2002, filed on May 14, 2002, File No. 000-31035.
(22) Previously filed with the SEC as an Exhibit to and incorporated herein by reference from Nuvelo, Inc.'s Registration Statement on Form S-8, filed on February 7, 2003, File No. 333-103055.
(23) Previously filed with the SEC as an Exhibit to and incorporated herein by reference from Nuvelo, Inc.'s Annual Report on Form 10-K, filed on March 31, 2003, for the year ended December 31, 2002, File No. 000-22873.
(24) Previously filed with the SEC as an Exhibit to and incorporated herein by reference from Nuvelo, Inc.'s Registration Statement on Form S-8, filed on September 5, 2003, File No. 333-108563.
(25) Previously filed with the SEC as an Exhibit to and incorporated herein by reference from Nuvelo, Inc.'s report on Form 10-Q, for the quarterly period ended September 30, 2003, filed on November 14, 2003, File No. 000-22873.
(26) Previously filed with the SEC as an Exhibit to and incorporated herein by reference from Nuvelo, Inc.'s report on Form 8-K, filed on February 19, 2004, File No. 000-22873.
(27) Previously filed with the SEC as an Exhibit to and incorporated herein by reference from Nuvelo, Inc.'s Form 8-K, filed March 26, 2004, File No. 000-22873.
(28) Previously filed with the SEC as an Exhibit to and incorporated herein by reference from Nuvelo, Inc.'s Form 8-K, filed December 9, 2004, File No. 000-22873.
(29) Previously filed with the SEC as an Exhibit to and incorporated herein by reference from Nuvelo, Inc.'s Form 10-Q, filed on August 9, 2004, File No. 000-22873.
(30) Previously filed with the SEC as an Exhibit to and incorporated herein by reference from Nuvelo, Inc.'s Form 10-K, filed on March 12, 2004, File No. 000-22873.
(31) Previously filed with the SEC as an Exhibit to and incorporated herein by reference from Nuvelo, Inc.'s Form 10-Q, filed on May 10, 2004, File No. 000-22873.
(32) Previously filed with the SEC as an Exhibit to and incorporated herein by reference from Nuvelo, Inc.'s Registration Statement on Form S-8, filed on May 21, 2004, File No. 333-115747.
(33) Previously filed with the SEC as an Exhibit to and incorporated herein by reference from Nuvelo, Inc.'s Form 8-K, filed September 20, 2004, File No. 000-22873.
(34) Previously filed with the SEC as an Exhibit to and incorporated herein by reference from Nuvelo, Inc.'s Form 10-Q, filed on November 9, 2004, File No. 000-22873.
(35) Previously filed with the SEC as an Exhibit to and incorporated herein by reference from Nuvelo, Inc.'s Form 8-K, filed December 20, 2004, File No. 000-22873.
(36) Previously filed with the SEC as an Exhibit to and Incorporated herein by reference from Hyseq, Inc.'s Form S-3, filed September 25, 2000, File No. 333-70134.

THIS WARRANT AND THE SECURITIES ISSUABLE UPON THE EXERCISE HEREOF HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "ACT"). THE WARRANT AND THE SECURITIES ISSUABLE UPON EXERCISE HEREOF MAY NOT BE SOLD, OFFERED FOR SALE, PLEDGED, HYPOTHECATED OR OTHERWISE TRANSFERRED EXCEPT AS PERMITTED UNDER THE ACT AND THE APPLICABLE STATE SECURITIES LAWS, PURSUANT TO REGISTRATION OR EXEMPTION THEREFROM. NOTWITHSTANDING THE FOREGOING, THIS WARRANT MAY BE TRANSFERRED AS PROVIDED IN SECTION 14 OF THIS WARRANT.

Warrant No. C-1R
Date: January 20, 2005

NUVELO, INC.

WARRANT TO PURCHASE SHARES OF COMMON STOCK

This Warrant is issued to **SAGAMORE HILL HUB FUND LTD.,** a Delaware limited partnership ("Holder"), by **NUVELO, INC.,** a Nevada corporation (the "Company"), as of the date set forth beside the Company's signature below, to replace lost warrant No. C-1, originally dated November 1, 2002 (the "Lost Warrant").

1. Purchase of Shares. Subject to the terms and conditions hereinafter set forth, Holder is entitled, upon surrender of this Warrant at the principal office of the Company (or at such other place as the Company shall notify Holder in writing), to purchase from the Company up to one hundred ninety-five thousand one hundred thirty (195,130) shares (the "Shares") of common stock of the Company (the "Common Stock"), at an exercise price of $2.68 per share (the "Exercise Price"). The Shares and the Exercise Price are as of the date of the Lost Warrant, and do not reflect the 3:1 reverse stock split effected by the Company on February 23, 2004 or any other adjustments occurring subsequent to the date of the Lost Warrant. The Shares and Exercise Price shall be subject to adjustments occurring since the date of the Lost Warrant, as set forth in Section 7 hereof.

2. Exercise Period. This Warrant shall be fully vested in Holder as of the date hereof and shall be exercisable for a period of five (5) years from November 1, 2002 (the "Exercise Period").

3. Method of Exercise. While this Warrant remains outstanding and exercisable during the Exercise Period, Holder may exercise, in whole or in part, the purchase rights evidenced hereby. Such exercise shall be effected by: (i) the surrender of the Warrant, together with a duly executed copy of the form of Exercise Notice attached hereto as **Exhibit A**, to the Secretary of the Company at its principal offices; and (ii) the payment to the Company by cash, check or wire transfer of an amount equal to the aggregate Exercise Price for the number of Shares being purchased.

4. Net Issuance Provision. In lieu of exercising pursuant to paragraph 3 above, at the Holder's option, while this Warrant remains outstanding and exercisable during the Exercise

Period, Holder may exercise this Warrant by surrender of this Warrant as determined below ("Net Issuance"). If the Holder elects the Net Issuance method, the Company will issue Common Stock in accordance with the following formula:

$$X = \frac{Y(A-B)}{A}$$

Where:

X = the number of shares of Common Stock to be issued to the Holder.

Y = the number of shares of Common Stock requested to be exercised under this Warrant

A = the fair market value of one (1) share of Common Stock.

B = the Exercise Price.

For purposes of this Warrant, current fair market value of Common Stock shall mean with respect to each share of Common Stock.

(a) if the Common Stock is traded on a securities exchange, the fair market value shall be deemed to be the average of the closing prices over a twenty-one (21) day period ending three days before the day the current fair market value of the securities is being determined;

(b) if actively traded over-the-counter, the fair market value shall be deemed to be the average of the closing prices quoted on the Nasdaq system (or similar system) over the twenty-one (21) day period ending three days before the day the current fair market value of the securities is being determined; or

(c) if at any time the Common Stock is not listed on any securities exchange or quoted in the Nasdaq System or the over the counter market, the current fair market value of Common Stock shall be determined in good faith by the Company and Holder, provided that, if the parties are unable to reach agreement within a reasonable period of time, the fair market value of Common Stock shall be determined in good faith by an independent investment banking firm selected by the American Arbitration Association in accordance with its rules.

Upon partial exercise by either cash or Net Issuance, the Company shall promptly issue an amended Warrant representing the remaining number of shares purchasable thereunder. All other terms and conditions of such amended Warrant shall be identical to those contained herein, including, but not limited to, the Exercise Period.

5. Certificates for Shares. Upon the exercise of the purchase rights evidenced by this Warrant, one or more certificates for the number of Shares so purchased shall be issued as soon as reasonably practicable thereafter. Upon any partial exercise of this Warrant, the Company will forthwith issue and deliver to Holder a new warrant or warrants of like tenor as this Warrant for the remaining portion of the Common Stock for which this Warrant may still be exercised.

6. Issuance of Shares. The Company covenants that (a) the Shares, when issued pursuant to the exercise of this Warrant, will be duly and validly issued, fully-paid and non-assessable and free from all taxes, liens and charges with respect to the issuance thereof (except for any applicable transfer taxes, which shall be paid by Holder) and (b) during the Exercise Period, the Company will reserve from its authorized and unissued Common Stock a sufficient number of shares to provide for the issuance of Common Stock upon the exercise of this Warrant.

7. Adjustment of Exercise Price and Number of Shares. The number of and kind of securities purchasable upon exercise of this Warrant and the Exercise Price shall be subject to adjustment from time to time as follows:

(a) Subdivisions, Combinations and Other Issuances. If the Company shall at any time prior to the expiration of this Warrant subdivide its Common Stock, by split or otherwise, or combine its Common Stock, or issue additional shares of its Common Stock as a dividend with respect to any shares of its Common Stock, the number of Shares issuable on the exercise of this Warrant shall forthwith be proportionately increased in the case of a subdivision or stock dividend, or proportionately decreased in the case of a combination. Appropriate adjustments shall also be made to the purchase price payable per share, but the aggregate purchase price payable for the total number of Shares purchasable under this Warrant (as adjusted) shall remain the same. Any adjustment under this Section 7(a) shall become effective as of the record date of such subdivision, combination or dividend, or in the event that no record date is fixed, upon the making of such subdivision, combination or dividend.

(b) Reclassification, Reorganization and Consolidation. In case of any reclassification, capital reorganization, or change in the Common Stock of the Company (other than as a result of a subdivision, combination, or stock dividend provided for in Section 7(a) above), then, as a condition of such reclassification, reorganization or change, lawful provision shall be made, and duly executed documents evidencing the same from the Company or its successor shall be delivered to Holder, so that Holder shall have the right at any time prior to the expiration of this Warrant to purchase, at a total price equal to that payable upon the exercise of this Warrant, the kind and amount of shares of stock and other securities and property receivable in connection with such reclassification, reorganization or change by a holder of the same number of shares of Common Stock as were purchasable by Holder immediately prior to such reclassification, reorganization or change. In any such case, appropriate provisions shall be made with respect to the rights and interest of Holder so that the provisions hereof shall thereafter be applicable with respect to any shares of stock or other securities and property deliverable upon exercise hereof, and appropriate adjustments shall be made to the purchase price per share payable hereunder, provided the aggregate purchase price shall remain the same.

(c) Merger and Sale of Assets. If at any time there shall be a capital reorganization of the shares of the Company's stock (other than a combination, reclassification, exchange or subdivision of shares otherwise provided for herein), or a merger or consolidation of the Company with or into another corporation, whether or not the Company is the surviving

corporation, or the sale of all or substantially all of the Company's properties and assets to any other person (hereinafter referred to as a "Merger Event"), then, as a part of such Merger Event, lawful provision shall be made so that the Holder shall thereafter be entitled to receive, upon exercise of the Warrant, the number of shares of common stock or other securities of the successor corporation resulting from such Merger Event equivalent in value to that which would have been issuable if Holder had exercised this Warrant immediately prior to the Merger Event. In any such case, appropriate adjustment (as determined in good faith by the Company' s Board of Directors) shall be made in the application of the provisions of this Warrant with respect to the rights and interest of the Holder after the Merger Event to the end that the provisions of this Warrant (including adjustments of the Exercise Price and number of shares of Common Stock purchasable) shall be applicable to the extent possible.

(d) Certificate of Adjustment. When any adjustment is required to be made in the number or kind of shares purchasable upon exercise of the Warrant or in the Exercise Price, an officer of the Company shall promptly compute such adjustment in accordance with the terms of this Warrant and prepare a certificate setting forth, in reasonable detail, the event requiring the adjustment, the amount of the adjustment, the method by which such adjustment was calculated and the Exercise Price and number of shares purchasable hereunder after giving effect to such adjustment, and shall cause a copy of such certificate to be mailed (by first class mail, postage prepaid) to Holder.

8. Compliance with Securities Laws. Holder hereby represents and warrants that:

(a) Purchase Entirely for Own Account. This Warrant and the Common Stock issuable upon exercise hereof (collectively, the "Securities") will be acquired for investment for Holder's own account, not as a nominee or agent, and not with a view to the resale or distribution of any part thereof, and Holder has no present intention of selling, granting any participation in or otherwise distributing the same. Holder does not have any contract, undertaking, agreement or arrangement with any person to sell, transfer or grant participation to any person with respect to any of the Securities. Holder represents that it has full power and authority to enter into this Warrant.

(b) Investment Experience. Holder acknowledges that it is able to fend for itself, can bear the economic risk of its investment and has such knowledge and experience in financial or business matters that it is capable of evaluating the merits and risks of the investment in this Warrant. Holder also represents it has not been organized for the purpose of acquiring this Warrant.

(c) Accredited Investor. Holder is an "accredited investor" within the meaning of Rule 501 of Regulation D of the Securities and Exchange Commission (the "SEC"), as presently in effect.

(d) Restricted Securities. Holder understands that the Securities are characterized as "restricted securities" under the federal securities laws inasmuch as they are being acquired from the Company in a transaction not involving a public offering, and that under such laws and applicable regulations such securities may be resold without registration under the Act only in certain limited circumstances. In this connection, Holder represents that it is familiar with SEC Rule 144 promulgated under the Act, as presently in effect, and understands the resale limitations imposed thereby and by the Act.

9. Limitations on Disposition; Legends.

(a) Without in any way limiting the representations set forth above, Holder further agrees not to make any disposition of all or any portion of the Securities unless and until (I) there is then in effect a registration statement under the Act covering such proposed disposition and such disposition is made in accordance with such registration statement, or (II) Holder shall have notified the Company of the proposed disposition and shall have furnished the Company with a detailed statement of the circumstances surrounding the proposed disposition, and if reasonably requested by the Company, Holder shall have furnished the Company with an opinion of counsel, reasonably satisfactory to the Company, that such disposition will not require registration of such shares under the Act; *provided*, *however*, that an opinion of counsel will not be required for any disposition of Securities by the Holder to its affiliates or subsidiaries.

(b) Each person (other than the Company) to whom this Warrant or the Shares are transferred, in whole or in part, by means of a permitted transfer must, as a condition precedent to the validity of such transfer, acknowledge in writing to the Company that such person is bound by the provision of this Warrant to the same extent this Warrant or the Shares would be so subject if retained by Holder.

(c) Certificates evidencing the Shares will bear the following legend(s):

(i) "SHARES REPRESENTED HEREBY HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "ACT"). THEY MAY NOT BE SOLD, OFFERED FOR SALE, PLEDGED, HYPOTHECATED OR OTHERWISE TRANSFERRED EXCEPT AS PERMITTED UNDER THE ACT AND THE APPLICABLE STATE SECURITIES LAWS, PURSUANT TO REGISTRATION OR EXEMPTION THEREFROM OR UNLESS SOLD PURSUANT TO RULE 144 OF SUCH ACT."

(ii) Any legend required by any applicable state securities laws.

The legend set forth above will be removed by the Company from any certificate evidencing Shares if the Shares are registered under the Securities Act or upon delivery to the Company of an opinion by counsel, reasonably satisfactory to the Company, that such security can be freely transferred without such a registration statement being in effect.

(d) Notwithstanding any provision of this Section 9 to the contrary, an opinion of counsel shall not be required in connection with any transfer in compliance with Rule 144 of the Securities Act.

10. No Fractional Shares or Scrip. No fractional shares or scrip representing fractional shares shall be issued upon the exercise of this Warrant, but in lieu of such fractional shares the Company shall make a cash payment therefor on the basis of the fair market value of the Company's Common Stock.

11. No Stockholder Rights. Prior to exercise of this Warrant, Holder shall not be entitled to any rights of a stockholder with respect to the Shares, including (without limitation) the right to vote such Shares, receive dividends or other distributions thereon, exercise preemptive rights or be notified of stockholder meetings, and Holder, as such, shall not be entitled to any notice or other communication concerning the business or affairs of the Company, except as expressly set forth herein.

12. Replacement of Warrant. On receipt of evidence reasonably satisfactory to the Company of the loss, theft, destruction or mutilation of this Warrant and, in the case of loss, theft or destruction, on delivery of an indemnity agreement reasonably satisfactory in form and substance to the Company or, in the case of mutilation, on surrender and cancellation of this Warrant, the Company at its expense shall execute and deliver, in lieu of this Warrant, a new warrant of like tenor and amount.

13. Notices. All notices or other communications hereunder shall be in writing and shall be deemed given when (i) personally delivered, (ii) three days after being sent by prepaid certified or registered U.S. mail, or one day after being sent, if sent by nationally recognized overnight courier, to the address of the party to be noticed as set forth herein or such other address as such party last provided to the other by written notice, or (iii) upon receipt of electronic confirmation, if by facsimile. All notices shall be sent to the addresses and facsimile numbers set forth below or such other address as may be given from time to time under the terms of this notice provision:

If to the Company:

Nuvelo, Inc.
675 Almanor Avenue
Sunnyvale, California 94085
Attention: President
Fax: (408) 524-8141

If to Holder:

At the address and facsimile number
indicated on the signature page hereof.

14. Transfer of Warrant; Successors and Assigns. Subject to compliance with the terms of Section 9 hereof, this Warrant and all rights hereunder are transferable in whole or in part by the Holder to any person or entity upon written notice to the Company enclosing a properly executed assignment (in the form of **Exhibit B** hereto). In the event of a partial transfer, the Company shall issue to the holders one or more appropriate new warrants. The terms and provisions of this Warrant shall inure to the benefit of, and be binding upon, the Company and the Holder, and their respective successors and assigns. Except as permitted above, any purported transfer hereof shall be null and void and the Company is hereby expressly authorized to instruct its transfer agent (which may be the Company itself) to not honor any such purported transfer.

15. Amendments and Waivers. Any term of this Warrant may be amended and the observance of any term of this Warrant may be waived (either generally or in a particular instance and either retroactively or prospectively), with the written consent of each of the parties hereto. Any waiver or amendment effected in accordance with this section shall be binding upon Holder and the Company.

16. Governing Law. This Warrant shall be governed by the laws of the State of California as applied to agreements among California residents made and to be performed entirely within the State of California.

17. Entire Agreement. This Warrant and the other documents delivered pursuant hereto or referred to herein, constitute the full and entire understanding and agreement between the parties with regard to the subjects hereof.

18. Severability. In case any provision of this Warrant shall be invalid, illegal or unenforceable, the validity, legality and enforceability of the remaining provisions shall not in any way be affected or impaired thereby.

19. Counterparts. This Warrant may be executed in any number of counterparts, each of which shall be an original, but all of which together shall constitute one instrument.

20. Survival. Except as expressly set forth herein, the representations, warranties, covenants and agreements made herein shall survive the closing of the transactions contemplated hereby.

21. Notices of Certain Transactions.

In the event that:

(a) the Company shall take a record of the holders of its Common Stock (or other stock or securities at the time deliverable upon the exercise of this Warrant) for the purpose of entitling or enabling them to receive any dividend or other distribution, or to receive any right to subscribe for or purchase any shares of stock of any class or any other securities, or to receive any other right to subscribe for or purchase any shares of stock of any class or any other securities, or to receive any other right, or

(b) of any capital reorganization of the Company, any reclassification of the capital stock of the Company, any consolidation or merger of the Company with or into another corporation (other than a consolidation or merger in which the Company is the surviving entity), or any transfer of all or substantially all of the assets of the Company, or

(c) of the voluntary or involuntary dissolution, liquidation or winding-up of the Company,

then, and in each such case, the Company will mail or cause to be mailed to the Holder of this Warrant a notice specifying, as the case may be, (i) the date on which a record is to be taken for the purpose of such dividend, distribution or right, and stating the amount and character of such dividend, distribution or right, or (ii) the effective date on which such reorganization,

reclassification, consolidation, merger, transfer, dissolution, liquidation or winding-up is to take place, and the time, if any, to be fixed, as of which the holders of record of Common Stock (or such other stock or securities at the time deliverable upon such reorganization, reclassification, consolidation, merger, transfer, dissolution, liquidation or winding-up) are to be determined. Such notice shall be mailed at the earlier of (i) ten (10) days, or (ii) as soon as reasonably practicable, prior to the record date or effective date for the event specified in such notice.

22. Piggyback Registration Rights.

(a) If the Company decides to register any of its Common Stock under the Securities Act of 1933, as amended (the "Act") on a form that would be suitable for a registration involving the Shares, the Company shall so notify Holder (which shall include, if applicable, a list of the jurisdictions in which the Company intends to attempt to qualify such securities under the applicable Blue Sky or other state securities laws) and afford Holder an opportunity to include in such registration statement all or any part of the Shares issued or reserved for issuance to Holder upon exercise of this Warrant. If Holder desires to include in any such registration statement all or any part of such Shares, Holder shall, within (10) ten days after receipt of the above-described notice from the Company, so notify the Company in writing, and in such notice shall inform the Company of the number of Shares Holder wishes to include in such registration statement. In the event Holder elects to include its Shares in such registration statement (or any related qualification under Blue Sky laws or other compliance), subject to the terms and conditions of this Section 22, the Company shall include in such registration, and in any underwriting involved therein, the number of Shares specified by Holder. If Holder decides not to include all of the Shares issued or reserved for issuance to Holder upon the exercise of this Warrant in any registration statement thereafter filed by the Company, Holder shall nevertheless continue to have the right to include any such Shares in any subsequent registration statement or registration statements as may be filed by the Company with respect to offerings of its securities, all upon the terms and conditions set forth herein.

(b) In connection with any registration under this Section 22 involving an underwriting of shares of the Company's capital stock, the Company shall not be required under this Section 22 to include any of the Holder's Shares in such underwriting unless the Holder accepts the terms of the underwriting as agreed upon between the Company and the underwriters selected by the Company (or by other persons entitled to select the underwriters), and then only in such quantity as the underwriters determine in their sole discretion will not jeopardize the success of the offering by the Company. In connection with any other registration under this Section 22, the Company shall only be required under this Section 22 to include Holder's Shares in such registration only in such quantity as the Board of Directors in good faith determine in their sole discretion will not jeopardize the success of the offering. In connection with this subsection 22(b), the Company shall use its reasonable best efforts to insure that Holder will be treated in a similar manner as the other shareholders exercising piggyback registration rights in the same registration of shares of common stock. If, pursuant to its rights under this subsection 22(b), the Company elects not to include all or some of the Shares issued or reserved for issuance to Holder upon the exercise of this Warrant in any registration statement filed by the Company, Holder shall nevertheless continue to have the right to include any such Shares in any subsequent registration statement or registration statements as may be filed by the Company with respect to offerings of its securities, all upon the terms and conditions set forth in this Section 22.

(c) To the extent permitted by law, the Company agrees to indemnify and hold harmless Holder and each person, if any, who controls such Holder within the meaning of the Act or the Securities Exchange Act of 1934, as amended (the "1934 Act") from and against any losses, claims, damages or liabilities to which they may become subject under the Act, the 1934 Act or other federal or state law, insofar as such losses, claims, damages or liabilities arise out of or are based upon any of the following statements, omissions or violations (collectively a "Violation"): (i) any untrue or alleged untrue statement of material fact contained in any registration statement, or any amendment or supplement thereto, or (ii) the omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, or (iii) any violation of the Act or the 1934 Act in connection therewith, and will reimburse Holder and or controlling person for any legal or other expenses reasonably incurred in connection with investigating or defending any such action or claim as such expenses are incurred; *provided, however*, that the indemnity agreement contained in this subsection 22(c) shall not apply to amounts paid in settlement of any such losses, claims, damages or liabilities if such settlement is effected without the consent of the Company (which consent shall not be unreasonably withheld), nor shall the Company be liable in any such case of any such losses, claims, damages or liabilities to the extent that it arises out of or is based upon a Violation which occurs in reliance upon and in conformity with the written information furnished or expressly for use in connection with such registration by such Holder or controlling person.

(d) To the extent permitted by law, Holder agrees to indemnify and hold harmless the Company, each of its directors, each of its officers who has signed the registration statement and each person, if any, who controls the Company within the meaning of the Act or the 1934 Act, from and against any losses, claims, damages or liabilities to which they may become subject under the Act, the 1934 Act or other federal or state law, insofar as such losses, claims, damages or liabilities arise out of or are based upon any Violation, in each case to the extent (and only to the extent) that such Violation occurs in reliance upon and in conformity with written information furnished by Holder expressly for use in connection with such registration, and will reimburse Company or any such person intended to be indemnified by pursuant to this subsection 22(d), for any legal or other expenses reasonably incurred in connection with investigating or defending any such action or claim as such expenses are incurred; *provided, however*, that the indemnity agreement contained in this subsection 22(d) shall not apply to amounts paid in settlement of any such losses, claims, damages or liabilities if such settlement is effected without the consent of the Holder (which consent shall not be unreasonably withheld); provided, that, in no event shall any indemnity under this subsection 22(d) exceed the gross proceeds from the offering received by Holder.

(e) If any Shares are included in a registration statement relating to the direct issuance of common stock by the Company, all expenses incurred by the Company in complying with provision (a) above (expressly excluding Selling Expenses, as defined below), including, without limitation, all registration and filing fees (including all expenses incident to filing with the National Association of Securities Dealers, Inc.), fees and expenses of complying with securities and blue sky laws, expense allowances of the underwriters, printing expenses, fees and disbursements of counsel or other advisor to the Company, and of the accountants, are herein called "Registration Expenses." All fees and expenses of counsel for any Holder and all underwriting fees and commissions applicable to the Shares covered by any such registration are

herein called “Selling Expenses.” The Company shall pay all Registration Expenses in connection with each registration pursuant to Section 22(a). All Selling Expenses in connection with each registration pursuant to Section 22(a) shall be borne by the Holder.

(f) If any Shares are included in a registration statement relating to the resale of common stock of the Company, Holder shall pay its pro rata portion of all reasonable registration expenses agreed to be paid by the other selling shareholders.

(g) The Holder shall not have any right to obtain or seek an injunction restraining or otherwise delaying any such registration as the result of any controversy that might arise with respect to the interpretation or implementation of this Section 22.

(h) No Holder shall be entitled to exercise any right provided in this Section 22 when all shares held by such Holder can be sold pursuant to Rule 144 of the Act within a ninety (90) day period.

23. Counterparts. This Warrant may be executed in any number of counterparts, each of which shall be an original, but all of which together shall constitute one instrument.

(Remainder of page intentionally left blank)

IN WITNESS WHEREOF, this Warrant is executed as of the 20th day of January 2005.

COMPANY:

NUVELO, INC.

By: /s/ Lee Bendekgey

Name:
Title:

COMPANY:

HOLDER:

SAGAMORE HILL HUB FUND LTD.

/s/ Steven H. Bloom

Signature

Steven H. Bloom
Authorized Signatory

Address: Ten Glenville Street
Greenwich, CT 06831

Facsimile: (203) 532-7673

EXERCISE NOTICE

NUVELO, INC.

Attention: Chief Financial Officer

1. The undersigned hereby elects

(a) to purchase, pursuant to the provisions of the Warrant to Purchase Shares of Common Stock issued by Nuvelo, Inc. and held by the undersigned, the original of which is attached hereto, _____ shares of Common Stock of Nuvelo, Inc. Payment of the exercise price per share required under such Warrant accompanies this Exercise Notice; or

(b) to make a Net Issuance exercise as provided in Section 4 of the attached Warrant, to purchase _____ shares of Common Stock of Nuvelo, Inc., pursuant to the terms of the attached Warrant.

2. The undersigned hereby represents and warrants that the undersigned is acquiring such shares for its own account for investment purposes only and, unless such shares have been registered in compliance with applicable securities laws or an applicable exemption is available therefrom, not for resale or with a view to distribution of such shares or any part thereof.

HOLDER:

_____

Name:
Title:

Date: _____

Address:

_____

_____

Name in which shares should be registered:

_____

EXHIBIT B

ASSIGNMENT

(To be executed only upon assignment of attached Warrant (the "Warrant Certificate"))

For value received, _____ hereby sells, assigns and transfers unto _____ the within Warrant Certificate, together with all right, title and interest therein, and does hereby irrevocably constitute and appoint _____ attorney, to transfer said Warrant Certificate on the books of the within-named Company with respect to the number of Warrants set forth below, with full power of substitution in the premises:

Name(s) of Assignee(s)	Address	# of Warrants

And if said number of Warrants shall not be all the Warrants represented by the Warrant Certificate, a new Warrant Certificate is to be issued in the name of said undersigned for the balance remaining of the Warrants registered by said Warrant Certificate.

Dated:

Signature:

Notice: The signature to the foregoing Assignment must correspond to the name as written upon the face of this security in every particular, without alternation or any change whatsoever; signature(s) must be guaranteed by an eligible guarantor institution (banks, stock brokers, savings and loan associations and credit unions with membership in an approved signature guarantee medallion program) pursuant to Securities and Exchange Commission Rule 17Ad-15.

THIS WARRANT AND THE SECURITIES ISSUABLE UPON THE EXERCISE HEREOF HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "ACT"). THE WARRANT AND THE SECURITIES ISSUABLE UPON EXERCISE HEREOF MAY NOT BE SOLD, OFFERED FOR SALE, PLEDGED, HYPOTHECATED OR OTHERWISE TRANSFERRED EXCEPT AS PERMITTED UNDER THE ACT AND THE APPLICABLE STATE SECURITIES LAWS, PURSUANT TO REGISTRATION OR EXEMPTION THEREFROM. NOTWITHSTANDING THE FOREGOING, THIS WARRANT MAY BE TRANSFERRED AS PROVIDED IN SECTION 14 OF THIS WARRANT.

Warrant No. D-1R
Date: January 20, 2005

NUVELO, INC.

WARRANT TO PURCHASE SHARES OF COMMON STOCK

This Warrant is issued to **SAGAMORE HILL HUB FUND LTD.**, a Delaware limited partnership ("Holder" or the "Partnership"), by **NUVELO, INC.**, a Nevada corporation (the "Company"), as of the date set forth beside the Company's signature below, to replace lost warrant No. D-1, originally dated May 13, 2003 (the "Lost Warrant").

1. Purchase of Shares. Subject to the terms and conditions hereinafter set forth, Holder is entitled, upon surrender of this Warrant at the principal office of the Company (or at such other place as the Company shall notify Holder in writing), to purchase from the Company up to two hundred thousand (200,000) shares (the "Shares") of common stock of the Company (the "Common Stock"), at an exercise price of $1.35 per share (the "Exercise Price"). The Shares and the Exercise Price are as of the date of the Lost Warrant, and do not reflect the 3:1 reverse stock split effected by the Company on February 23, 2004 or any other adjustments occurring subsequent to the date of the Lost Warrant. The Shares and Exercise Price shall be subject to adjustments occurring since the date of the Lost Warrant, as set forth in Section 7 hereof. Notwithstanding anything to the contrary herein, this Warrant may not be exercised by the Partnership to the extent that, as a result of such exercise, it would result in a violation of the REIT Test (as defined in Section 24).

2. Exercise Period. This Warrant shall be fully vested in Holder as of the date hereof and shall be exercisable for a period of five (5) years from May 13, 2003 (the "Exercise Period").

3. Method of Exercise. While this Warrant remains outstanding and exercisable during the Exercise Period, Holder may exercise, in whole or in part, the purchase rights evidenced hereby. Such exercise shall be effected by: (i) the surrender of the Warrant, together with a duly executed copy of the form of Exercise Notice attached hereto as **Exhibit A**, to the Secretary of the Company at its principal offices; and (ii) the payment to the Company by cash, check or wire transfer of an amount equal to the aggregate Exercise Price for the number of Shares being purchased.

4. Net Issuance Provision. In lieu of exercising pursuant to paragraph 3 above, at the Holder's option, while this Warrant remains outstanding and exercisable during the Exercise Period, Holder may exercise this Warrant by surrender of this Warrant as determined below ("Net Issuance"). If the Holder elects the Net Issuance method, the Company will issue Common Stock in accordance with the following formula:

$$X = \frac{Y(A-B)}{A}$$

Where:

X = the number of shares of Common Stock to be issued to the Holder.

Y = the number of shares of Common Stock requested to be exercised under this Warrant

A = the fair market value of one (1) share of Common Stock.

B = the Exercise Price.

For purposes of this Warrant, current fair market value of Common Stock shall mean with respect to each share of Common Stock:

(a) if the Common Stock is traded on a securities exchange, the fair market value shall be deemed to be the average of the closing prices over a twenty-one (21) day period ending three days before the day the current fair market value of the securities is being determined;

(b) if actively traded over-the-counter, the fair market value shall be deemed to be the average of the closing prices quoted on the Nasdaq system (or similar system) over the twenty-one (21) day period ending three days before the day the current fair market value of the securities is being determined; or

(c) if at any time the Common Stock is not listed on any securities exchange or quoted in the Nasdaq System or the over the counter market, the current fair market value of Common Stock shall be determined in good faith by the Company and Holder, provided that, if the parties are unable to reach agreement within a reasonable period of time, the fair market value of Common Stock shall be determined in good faith by an independent investment banking firm selected by the American Arbitration Association in accordance with its rules.

Upon partial exercise by either cash or Net Issuance, the Company shall promptly issue an amended Warrant representing the remaining number of shares purchasable thereunder. All other terms and conditions of such amended Warrant shall be identical to those contained herein, including, but not limited to, the Exercise Period.

5. Certificates for Shares. Upon the exercise of the purchase rights evidenced by this Warrant, one or more certificates for the number of Shares so purchased shall be issued as soon as reasonably practicable thereafter. Upon any partial exercise of this Warrant, the Company will forthwith issue and deliver to Holder a new warrant or warrants of like tenor as this Warrant for the remaining portion of the Common Stock for which this Warrant may still be exercised.

6. Issuance of Shares. The Company covenants that (a) the Shares, when issued pursuant to the exercise of this Warrant, will be duly and validly issued, fully-paid and non-assessable and free from all taxes, liens and charges with respect to the issuance thereof (except for any applicable transfer taxes, which shall be paid by Holder) and (b) during the Exercise Period, the Company will reserve from its authorized and unissued Common Stock a sufficient number of shares to provide for the issuance of Common Stock upon the exercise of this Warrant.

7. Adjustment of Exercise Price and Number of Shares. The number of and kind of securities purchasable upon exercise of this Warrant and the Exercise Price shall be subject to adjustment from time to time as follows:

(a) Subdivisions, Combinations and Other Issuances. If the Company shall at any time prior to the expiration of this Warrant subdivide its Common Stock, by split or otherwise, or combine its Common Stock, or issue additional shares of its Common Stock as a dividend with respect to any shares of its Common Stock, the number of Shares issuable on the exercise of this Warrant shall forthwith be proportionately increased in the case of a subdivision or stock dividend, or proportionately decreased in the case of a combination. Appropriate adjustments shall also be made to the purchase price payable per share, but the aggregate purchase price payable for the total number of Shares purchasable under this Warrant (as adjusted) shall remain the same. Any adjustment under this Section 7(a) shall become effective as of the record date of such subdivision, combination or dividend, or in the event that no record date is fixed, upon the making of such subdivision, combination or dividend.

(b) Reclassification, Reorganization and Consolidation. In case of any reclassification, capital reorganization, or change in the Common Stock of the Company (other than as a result of a subdivision, combination, or stock dividend provided for in Section 7(a) above), then, as a condition of such reclassification, reorganization or change, lawful provision shall be made, and duly executed documents evidencing the same from the Company or its successor shall be delivered to Holder, so that Holder shall have the right at any time prior to the expiration of this Warrant to purchase, at a total price equal to that payable upon the exercise of this Warrant, the kind and amount of shares of stock and other securities and property receivable in connection with such reclassification, reorganization or change by a holder of the same number of shares of Common Stock as were purchasable by Holder immediately prior to such reclassification, reorganization or change. In any such case, appropriate provisions shall be made with respect to the rights and interest of Holder so that the provisions hereof shall thereafter be applicable with respect to any shares of stock or other securities and property deliverable upon exercise hereof, and appropriate adjustments shall be made to the purchase price per share payable hereunder, provided the aggregate purchase price shall remain the same.

(c) Merger and Sale of Assets. If at any time there shall be a capital reorganization of the shares of the Company's stock (other than a combination, reclassification, exchange or subdivision of shares otherwise provided for herein), or a merger or consolidation of the Company with or into another corporation, whether or not the Company is the surviving corporation, or the sale of all or substantially all of the Company's properties and assets to any other person (hereinafter referred to as a "Merger Event"), then, as a part of such Merger Event, lawful provision shall be made so that the Holder shall thereafter be entitled to receive, upon exercise of the Warrant, the number of shares of common stock or other securities of the successor corporation resulting from such Merger Event equivalent in value to that which would have been issuable if Holder had exercised this Warrant immediately prior to the Merger Event. In any such case, appropriate adjustment (as determined in good faith by the Company's Board of Directors) shall be made in the application of the provisions of this Warrant with respect to the rights and interest of the Holder after the Merger Event to the end that the provisions of this Warrant (including adjustments of the Exercise Price and number of shares of Common Stock purchasable) shall be applicable to the extent possible.

(d) Certificate of Adjustment. When any adjustment is required to be made in the number or kind of shares purchasable upon exercise of the Warrant or in the Exercise Price, an officer of the Company shall promptly compute such adjustment in accordance with the terms of this Warrant and prepare a certificate setting forth, in reasonable detail, the event requiring the adjustment, the amount of the adjustment, the method by which such adjustment was calculated and the Exercise Price and number of shares purchasable hereunder after giving effect to such adjustment, and shall cause a copy of such certificate to be mailed (by first class mail, postage prepaid) to Holder.

8. Compliance with Securities Laws. Holder hereby represents and warrants that:

(a) Purchase Entirely for Own Account. This Warrant and the Common Stock issuable upon exercise hereof (collectively, the "Securities") will be acquired for investment for Holder's own account, not as a nominee or agent, and not with a view to the resale or distribution of any part thereof, and Holder has no present intention of selling, granting any participation in or otherwise distributing the same. Holder does not have any contract, undertaking, agreement or arrangement with any person to sell, transfer or grant participation to any person with respect to any of the Securities. Holder represents that it has full power and authority to enter into this Warrant.

(b) Investment Experience. Holder acknowledges that it is able to fend for itself, can bear the economic risk of its investment and has such knowledge and experience in financial or business matters that it is capable of evaluating the merits and risks of the investment in this Warrant. Holder also represents it has not been organized for the purpose of acquiring this Warrant.

(c) Accredited Investor. Holder is an "accredited investor" within the meaning of Rule 501 of Regulation D of the Securities and Exchange Commission (the "SEC"), as presently in effect.

(d) Restricted Securities. Holder understands that the Securities are characterized as "restricted securities" under the federal securities laws inasmuch as they are being acquired from the Company in a transaction not involving a public offering, and that under such laws and applicable regulations such securities may be resold without registration under the Act only in certain limited circumstances. In this connection, Holder represents that it is familiar with SEC Rule 144 promulgated under the Act, as presently in effect, and understands the resale limitations imposed thereby and by the Act.

9. Limitations on Disposition; Legends.

(a) Without in any way limiting the representations set forth above, Holder further agrees not to make any disposition of all or any portion of the Securities unless and until (I) there is then in effect a registration statement under the Act covering such proposed disposition and such disposition is made in accordance with such registration statement, or (II) Holder shall have notified the Company of the proposed disposition and shall have furnished the Company with a detailed statement of the circumstances surrounding the proposed disposition, and if reasonably requested by the Company, Holder shall have furnished the Company with an opinion of counsel, reasonably satisfactory to the Company, that such disposition will not require registration of such shares under the Act; provided, however, that an opinion of counsel will not be required for any disposition of Securities by the Holder to its affiliates or subsidiaries so long as such disposition otherwise complies with the securities laws.

(b) Each person (other than the Company) to whom this Warrant or the Shares are transferred, in whole or in part, by means of a permitted transfer must, as a condition precedent to the validity of such transfer, acknowledge in writing to the Company that such person is bound by the provision of this Warrant to the same extent this Warrant or the Shares would be so subject if retained by Holder.

(c) Certificates evidencing the Shares will bear the following legend(s):

(i) "SHARES REPRESENTED HEREBY HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "ACT"). THEY MAY NOT BE SOLD, OFFERED FOR SALE, PLEDGED, HYPOTHECATED OR OTHERWISE TRANSFERRED EXCEPT AS PERMITTED UNDER THE ACT AND THE APPLICABLE STATE SECURITIES LAWS, PURSUANT TO REGISTRATION OR EXEMPTION THEREFROM OR UNLESS SOLD PURSUANT TO RULE 144 OF SUCH ACT."

(ii) Any legend required by any applicable state securities laws.

The legend set forth above will be removed by the Company from any certificate evidencing Shares if the Shares are registered under the Act or upon delivery to the Company of an opinion by counsel, reasonably satisfactory to the Company, that such security can be freely transferred without such a registration statement being in effect.

(d) Notwithstanding any provision of this Section 9 to the contrary, an opinion of counsel shall not be required in connection with any transfer in compliance with Rule 144 of the Act.

10. No Fractional Shares or Scrip. No fractional shares or scrip representing fractional shares shall be issued upon the exercise of this Warrant, but in lieu of such fractional shares the Company shall make a cash payment therefor on the basis of the fair market value of the Company's Common Stock.

11. No Stockholder Rights. Prior to exercise of this Warrant, Holder shall not be entitled to any rights of a stockholder with respect to the Shares, including (without limitation) the right to vote such Shares, receive dividends or other distributions thereon, exercise preemptive rights or be notified of stockholder meetings, and Holder, as such, shall not be entitled to any notice or other communication concerning the business or affairs of the Company, except as expressly set forth herein.

12. Replacement of Warrant. On receipt of evidence reasonably satisfactory to the Company of the loss, theft, destruction or mutilation of this Warrant and, in the case of loss, theft or destruction, on delivery of an indemnity agreement reasonably satisfactory in form and substance to the Company or, in the case of mutilation, on surrender and cancellation of this Warrant, the Company at its expense shall execute and deliver, in lieu of this Warrant, a new warrant of like tenor and amount.

13. Notices. All notices or other communications hereunder shall be in writing and shall be deemed given when (i) personally delivered, (ii) three days after being sent by prepaid certified or registered U.S. mail, or one day after being sent, if sent by nationally recognized overnight courier, to the address of the party to be noticed as set forth herein or such other address as such party last provided to the other by written notice, or (iii) upon receipt of electronic confirmation, if by facsimile. All notices shall be sent to the addresses and facsimile numbers set forth below or such other address as may be given from time to time under the terms of this notice provision:

If to the Company:

Nuvelo, Inc.
675 Almanor Avenue
Sunnyvale, California 94085
Attention: President
Fax: (408) 215-4000

If to Holder:

At the address and facsimile number
indicated on the signature page hereof.

14. Transfer of Warrant; Successors and Assigns. Subject to compliance with the terms of Section 9 hereof, this Warrant and all rights hereunder are transferable in whole or in part by the Holder to any person or entity upon written notice to the Company enclosing a

properly executed assignment (in the form of **Exhibit B** hereto). In the event of a partial transfer, the Company shall issue to the holders one or more appropriate new warrants. The terms and provisions of this Warrant shall inure to the benefit of, and be binding upon, the Company and the Holder, and their respective successors and assigns. Except as permitted above, any purported transfer hereof shall be null and void and the Company is hereby expressly authorized to instruct its transfer agent (which may be the Company itself) to not honor any such purported transfer.

15. Amendments and Waivers. Any term of this Warrant may be amended and the observance of any term of this Warrant may be waived (either generally or in a particular instance and either retroactively or prospectively), with the written consent of each of the parties hereto. Any waiver or amendment effected in accordance with this section shall be binding upon Holder and the Company.

16. Governing Law. This Warrant shall be governed by the laws of the State of California as applied to agreements among California residents made and to be performed entirely within the State of California.

17. Entire Agreement. This Warrant and the other documents delivered pursuant hereto or referred to herein, constitute the full and entire understanding and agreement between the parties with regard to the subjects hereof.

18. Severability. In case any provision of this Warrant shall be invalid, illegal or unenforceable, the validity, legality and enforceability of the remaining provisions shall not in any way be affected or impaired thereby.

19. Counterparts. This Warrant may be executed in any number of counterparts, each of which shall be an original, but all of which together shall constitute one instrument.

20. Survival. Except as expressly set forth herein, the representations, warranties, covenants and agreements made herein shall survive the closing of the transactions contemplated hereby.

21. Notices of Certain Transactions.

In the event that:

(a) the Company shall take a record of the holders of its Common Stock (or other stock or securities at the time deliverable upon the exercise of this Warrant) for the purpose of entitling or enabling them to receive any dividend or other distribution, or to receive any right to subscribe for or purchase any shares of stock of any class or any other securities, or to receive any other right to subscribe for or purchase any shares of stock of any class or any other securities, or to receive any other right, or

(b) of any capital reorganization of the Company, any reclassification of the capital stock of the Company, any consolidation or merger of the Company with or into another corporation (other than a consolidation or merger in which the Company is the surviving entity), or any transfer of all or substantially all of the assets of the Company, or

(c) of the voluntary or involuntary dissolution, liquidation or winding-up of the Company,

then, and in each such case, the Company will mail or cause to be mailed to the Holder of this Warrant a notice specifying, as the case may be, (i) the date on which a record is to be taken for the purpose of such dividend, distribution or right, and stating the amount and character of such dividend, distribution or right, or (ii) the effective date on which such reorganization, reclassification, consolidation, merger, transfer, dissolution, liquidation or winding-up is to take place, and the time, if any, to be fixed, as of which the holders of record of Common Stock (or such other stock or securities at the time deliverable upon such reorganization, reclassification, consolidation, merger, transfer, dissolution, liquidation or winding-up) are to be determined. Such notice shall be mailed at the earlier of (i) ten (10) days, or (ii) as soon as reasonably practicable, prior to the record date or effective date for the event specified in such notice.

22. Piggyback Registration Rights.

(a) If the Company decides to register any of its Common Stock under the Securities Act of 1933, as amended (the "Act") on a form that would be suitable for a registration involving the Shares, the Company shall so notify Holder (which shall include, if applicable, a list of the jurisdictions in which the Company intends to attempt to qualify such securities under the applicable Blue Sky or other state securities laws) and afford Holder an opportunity to include in such registration statement all or any part of the Shares issued or reserved for issuance to Holder upon exercise of this Warrant. If Holder desires to include in any such registration statement all or any part of such Shares, Holder shall, within ten (10) days after receipt of the above-described notice from the Company, so notify the Company in writing, and in such notice shall inform the Company of the number of Shares Holder wishes to include in such registration statement. In the event Holder elects to include its Shares in such registration statement (or any related qualification under Blue Sky laws or other compliance), subject to the terms and conditions of this Section 22, the Company shall include in such registration, and in any underwriting involved therein, the number of Shares specified by Holder. If Holder decides not to include all of the Shares issued or reserved for issuance to Holder upon the exercise of this Warrant in any registration statement thereafter filed by the Company, Holder shall nevertheless continue to have the right to include any such Shares in any subsequent registration statement or registration statements as may be filed by the Company with respect to offerings of its securities, all upon the terms and conditions set forth herein.

(b) In connection with any registration under this Section 22 involving an underwriting of shares of the Company's capital stock, the Company shall not be required under this Section 22 to include any of the Holder's Shares in such underwriting unless the Holder accepts the terms of the underwriting as agreed upon between the Company and the underwriters selected by the Company (or by other persons entitled to select the underwriters), and then only in such quantity as the underwriters determine in their sole discretion will not jeopardize the success of the offering by the Company. In connection with any other registration under this Section 22, the Company shall only be required under this Section 22 to include Holder's Shares in such registration only in such quantity as the Board of Directors in good faith determine in their sole discretion will not jeopardize the success of the offering. In connection with this subsection 22(b), the Company shall use its reasonable best efforts to insure that Holder will be

treated in a similar manner as the other shareholders exercising piggyback registration rights in the same registration of shares of common stock. If, pursuant to its rights under this subsection 22(b), the Company elects not to include all or some of the Shares issued or reserved for issuance to Holder upon the exercise of this Warrant in any registration statement filed by the Company, Holder shall nevertheless continue to have the right to include any such Shares in any subsequent registration statement or registration statements as may be filed by the Company with respect to offerings of its securities, all upon the terms and conditions set forth in this Section 22.

(c) To the extent permitted by law, the Company agrees to indemnify and hold harmless Holder and each person, if any, who controls such Holder within the meaning of the Act or the Securities Exchange Act of 1934, as amended (the "1934 Act") from and against any losses, claims, damages or liabilities to which they may become subject under the Act, the 1934 Act or other federal or state law, insofar as such losses, claims, damages or liabilities arise out of or are based upon any of the following statements, omissions or violations (collectively a "Violation"): (i) any untrue or alleged untrue statement of material fact contained in any registration statement, or any amendment or supplement thereto, or (ii) the omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, or (iii) any violation of the Act or the 1934 Act in connection therewith, and will reimburse Holder and or controlling person for any legal or other expenses reasonably incurred in connection with investigating or defending any such action or claim as such expenses are incurred; provided, however, that the indemnity agreement contained in this subsection 22(c) shall not apply to amounts paid in settlement of any such losses, claims, damages or liabilities if such settlement is effected without the consent of the Company (which consent shall not be unreasonably withheld), nor shall the Company be liable in any such case of any such losses, claims, damages or liabilities to the extent that it arises out of or is based upon a Violation which occurs in reliance upon and in conformity with the written information furnished or expressly for use in connection with such registration by such Holder or controlling person.

(d) To the extent permitted by law, Holder agrees to indemnify and hold harmless the Company, each of its directors, each of its officers who has signed the registration statement and each person, if any, who controls the Company within the meaning of the Act or the 1934 Act, from and against any losses, claims, damages or liabilities to which they may become subject under the Act, the 1934 Act or other federal or state law, insofar as such losses, claims, damages or liabilities arise out of or are based upon any Violation, in each case to the extent (and only to the extent) that such Violation occurs in reliance upon and in conformity with written information furnished by Holder expressly for use in connection with such registration, and will reimburse Company or any such person intended to be indemnified by pursuant to this subsection 22(d), for any legal or other expenses reasonably incurred in connection with investigating or defending any such action or claim as such expenses are incurred; provided, however, that the indemnity agreement contained in this subsection 22(d) shall not apply to amounts paid in settlement of any such losses, claims, damages or liabilities if such settlement is effected without the consent of the Holder (which consent shall not be unreasonably withheld); provided, that, in no event shall any indemnity under this subsection 22(d) exceed the gross proceeds from the offering received by Holder.

(e) If any Shares are included in a registration statement relating to the direct issuance of common stock by the Company, all expenses incurred by the Company in complying with provision (a) above (expressly excluding Selling Expenses, as defined below), including, without limitation, all registration and filing fees (including all expenses incident to filing with the National Association of Securities Dealers, Inc.), fees and expenses of complying with securities and blue sky laws, expense allowances of the underwriters, printing expenses, fees and disbursements of counsel or other advisor to the Company, and of the accountants, are herein called "Registration Expenses." All fees and expenses of counsel for any Holder and all underwriting fees and commissions applicable to the Shares covered by any such registration are herein called "Selling Expenses." The Company shall pay all Registration Expenses in connection with each registration pursuant to Section 22(a). All Selling Expenses in connection with each registration pursuant to Section 22(a) shall be borne by the Holder.

(f) If any Shares are included in a registration statement relating to the resale of common stock of the Company, Holder shall pay its pro rata portion of all reasonable registration expenses agreed to be paid by the other selling shareholders.

(g) The Holder shall not have any right to obtain or seek an injunction restraining or otherwise delaying any such registration as the result of any controversy that might arise with respect to the interpretation or implementation of this Section 22.

(h) No Holder shall be entitled to exercise any right provided in this Section 22 when all shares held by such Holder can be sold pursuant to Rule 144 of the Act within a ninety (90) day period.

(i) REIT Provisions. Notwithstanding the foregoing provisions of this Section 22 or any other provision of this Warrant but nonetheless subject to the provisions of Section 8(d), there shall be no limitation on a Holder's sale or other disposition of this Warrant or any securities issued or to be issued pursuant to this Warrant if the Holder intends to qualify as a real estate investment trust for federal income tax purposes and believes (as determined in the holder's sole discretion) that continued ownership of such securities could have an adverse impact on its ability to qualify as a real estate investment trust.

23. Counterparts. This Warrant may be executed in any number of counterparts, each of which shall be an original, but all of which together shall constitute one instrument.

24. Limitation to Preserve REIT Status. Notwithstanding anything to the contrary contained herein, the Holder agrees that in no event shall the Holder of this Warrant be issued or own capital stock of the Company, or warrants which would entitle it to acquire, or otherwise be entitled to receive (including as a result of the exercise of this Warrant), shares of capital stock of the Company or other assets (including partnership interests and shares of capital stock of other companies), to the extent that the Holder would acquire or own actually or Constructively in excess of (i) 9.9% of the total number of then outstanding shares of capital stock of the Company, (ii) 9.9% of the then outstanding securities of the Company entitled to vote for the election of directors of the Company, (iii) 9.9% of the total value of all then outstanding shares of capital stock of the Company, or (iv) a number or value of shares of capital stock of the Company, or any other assets, the ownership of which could jeopardize the status of AMB

Property Corporation, the general partner of the Partnership (the "General Partner"), as a Real Estate Investment Trust or the qualification as "rents from real property" as defined in Section 856(d) of the Internal Revenue Code of 1986, as amended (the "Code"), of amounts received by any partnership or limited liability company in which the General Partner directly or indirectly owns an interest, whichever of the four foregoing tests is the most restrictive (collectively, the "REIT Test"). For purposes of applying the REIT Test, (i) the Holder shall be treated as simultaneously acquiring all capital stock of the Company or other assets distributed by the Company as a result of any previous exercise or exercises by any Holder of this Warrant; (ii) any capital stock of the Company or other assets then actually or Constructively owned by the Holder which were not issued by the Company as a result of an exercise of this Warrant shall be taken into account; (iii) to the extent the exercising Holder is not the Partnership, the limit described above shall be applied as if it were the Partnership (if such application would be more restrictive); and (iv) "Constructively" shall mean constructively through the application of Section 318 of the Code, as modified by Section 856(d)(5) of the Code. The Holder acknowledges that the foregoing definition, among other things, generally requires the parties to give effect to the issuance of the Shares but not to give effect to any other capital stock of the Company issuable to third parties upon the exercise of securities convertible into capital stock of the Company (including options, warrants or other convertible securities).

In the event that any adjustment under this Section 24 would result in a violation by the General Partner of the REIT Test, any such shares or other securities which the Partnership would be entitled to acquire, or otherwise be entitled to receive, shall only be issued to the extent that such shares or other securities would not cause the General Partner to violate the REIT Test.

(Remainder of page intentionally left blank)

IN WITNESS WHEREOF, this Warrant is executed as of the 20th day of January 2005.

COMPANY:

NUVELO, INC.

By: /s/ Lee Bendekgey

Name:
Title:

HOLDER:

SAGAMORE HILL HUB FUND LTD.

/s/ Steven H. Bloom

Signature

Steven H. Bloom
Authorized Signatory

Address: Ten Glenville Street
Greenwich, CT 06831

Facsimile: (203) 532-7673

EXERCISE NOTICE

NUVELO, INC.

Attention: Chief Financial Officer

1. The undersigned hereby elects

(a) to purchase, pursuant to the provisions of the Warrant to Purchase Shares of Common Stock issued by Nuvelo, Inc. and held by the undersigned, the original of which is attached hereto, _____ shares of Common Stock of Nuvelo, Inc. Payment of the exercise price per share required under such Warrant accompanies this Exercise Notice; or

(b) to make a Net Issuance exercise as provided in Section 4 of the attached Warrant, to purchase _____ shares of Common Stock of Nuvelo, Inc., pursuant to the terms of the attached Warrant.

2. The undersigned hereby represents and warrants that the undersigned is acquiring such shares for its own account for investment purposes only and, unless such shares have been registered in compliance with applicable securities laws or an applicable exemption is available therefrom, not for resale or with a view to distribution of such shares or any part thereof.

3. The undersigned hereby represents and warrants that the exercise effected hereby will not result in a violation of the REIT Test based upon capitalization information provided by Nuvelo, Inc. (Nuvelo, Inc. must provide requested capitalization information within 24 hours of receipt of the written request from Holder or must accept this notice without the representation in this third section).

HOLDER:

_____

Name:
Title:

Date: _____

Address:

_____

_____

Name in which shares should be registered:

_____

EXHIBIT B

ASSIGNMENT

(To be executed only upon assignment of attached Warrant (the "Warrant Certificate"))

For value received, _____ hereby sells, assigns and transfers unto _____ the within Warrant Certificate, together with all right, title and interest therein, and does hereby irrevocably constitute and appoint _____ attorney, to transfer said Warrant Certificate on the books of the within-named Company with respect to the number of Warrants set forth below, with full power of substitution in the premises:

Name(s) of Assignee(s)	Address	# of Warrants

And if said number of Warrants shall not be all the Warrants represented by the Warrant Certificate, a new Warrant Certificate is to be issued in the name of said undersigned for the balance remaining of the Warrants registered by said Warrant Certificate.

Dated:

Signature:

Notice: The signature to the foregoing Assignment must correspond to the name as written upon the face of this security in every particular, without alteration or any change whatsoever; signature(s) must be guaranteed by an eligible guarantor institution (banks, stock brokers, savings and loan associations and credit unions with membership in an approved signature guarantee medallion program) pursuant to Securities and Exchange Commission Rule 17Ad-15.

NUVELO, INC.
EMPLOYEE STOCK PURCHASE PLAN

(As amended and restated on December 14, 2004)

1. PURPOSE

The purpose of the Nuvelo, Inc. Employee Stock Purchase Plan is to provide eligible Employees of Nuvelo, Inc. and its Affiliates with an opportunity to acquire a proprietary interest in the Company through the purchase of Common Stock of the Company on a payroll deduction basis. It is believed that participation in the ownership of the Company will be to the mutual benefit of the eligible Employees and the Company. It is intended that this Plan shall constitute an "employee stock purchase plan" within the meaning of Section 423 of the Internal Revenue Code of 1986, as amended. The provisions of the Plan shall, accordingly, be construed so as to extend and limit participation in a manner consistent with the requirements of Code Section 423.

2. DEFINITIONS

Unless otherwise specified or unless the context otherwise requires, the following terms, as used in this Plan, have the following meanings. Wherever appropriate, words used in the singular shall be deemed to include the plural and vice versa, and the masculine gender shall be deemed to include the feminine gender.

(a) **Account** means the funds accumulated with respect to an Employee as a result of deductions from his paycheck for the purpose of purchasing Common Stock under the Plan. The funds allocated to an Employee's Account shall remain the property of the Employee at all times prior to the purchase of the Common Stock, but may be commingled with the assets of the Company and used for general corporate purposes. No interest shall be paid or accrued on any funds accumulated in the Accounts of Employees.

(b) **Affiliate** means a corporation, as defined in Section 424(f) of the Code, that is a parent or subsidiary of the Company, direct or indirect.

(c) **Board** means the Board of Directors of the Company.

(d) **Code** means the Internal Revenue Code of 1986, as amended.

(e) **Committee** means the committee to which the Board delegates the power to act under or pursuant to the provisions of the Plan, or the Board if no committee is selected.

(f) **Common Stock** means the shares of common stock of the Company, $.001 par value.

(g) **Company** means Nuvelo, Inc., a Delaware corporation, and any corporate successor to all or substantially all of the assets or voting stock of the Company.

(h) **Compensation** means the compensation paid to an Employee by the Company during a payroll period for federal income tax purposes, as reported on an Employee's Form W-2 (or comparable reporting form) for income tax withholding purposes.

(i) **Effective Date** means the date the Plan is adopted by, and made effective by, the Board, subject to the limitations of Section 16.

(j) **Employee** means any person who is employed by the Company or an Affiliate on a regular full-time basis. A person shall be considered employed on a regular full-time basis if he is customarily employed for more than twenty (20) hours per week.

(k) **Offering Date** means the date on which the Committee grants Employees the option to purchase shares of Common Stock.

(1) **Offering Period** means the period between the Offering Date and the Purchase Date.

(m) **Purchase Date** means the date on which the Committee purchases the shares of Common Stock, which date shall be the last day of an Offering Period.

(n) **Participant** means an Employee who elects to participate in the Plan.

(o) **Plan** means the Nuvelo, Inc. Employee Stock Purchase Plan.

3. ELIGIBILITY

All Employees of the Company and, if designated by the Board, any Affiliate, who are employed by the Company and/or such designated Affiliate shall be eligible to participate in the Plan on the first Offering Date coincident with, or following the Employee's first day of employment.

4. ADMINISTRATION

The Plan shall be administered by the Committee, which shall consist of not less than two (2) members of the Board. Subject to the provisions of the Plan, the Committee shall be vested with full authority to make, administer, and interpret such rules and regulations as it deems necessary to administer the Plan, and any determination, decision, or action of the Committee in connection with the construction, interpretation, administration, and application of the Plan shall be final, conclusive, and binding upon all Participants and any and all persons claiming under or through any Participant. Notwithstanding anything to the contrary in the Plan, the Committee shall have the discretion to modify the terms of the Plan with respect to Participants who reside outside of the United States or who are employed by a subsidiary of the Company that has been formed under the laws of any foreign country, if such modification is necessary in order to conform such terms to the requirements of local laws.

5. STOCK

(a) The Common Stock to be sold to Participants under the Plan may, at the election of the Company, be either treasury shares, shares acquired on the open market, and/or

shares originally issued for such purpose. The aggregate number of shares of Common Stock that shall be made available for purchase under the Plan shall not exceed two hundred fifty thousand (250,000) shares, subject to adjustment upon changes in capitalization of the Company as provided in subparagraph (b) below. In the event any purchase right granted under the Plan expires or terminates for any reason without having been exercised in full or ceases for any reason to be exercisable in whole or in part, the unpurchased shares subject thereto will again be available for purchase by Employees upon the exercise of purchase rights. If the total number of shares that otherwise would have been acquired under the Plan on any Purchase Date exceeds the number of shares of Common Stock then available under the Plan, the Company shall make a pro rata allocation of the shares remaining available in as nearly a uniform manner as shall be practicable and as it shall determine to be equitable. In such event, the payroll deductions to be made pursuant to the Participants' authorizations shall be reduced accordingly, or refunded to the Participants, as the case may be, and the Company shall give written notice of such reduction or refund to each affected Participant.

(b) Appropriate adjustments in the aggregate number of shares of Common Stock that shall be made available for purchase under the Plan shall be made to give effect to any mergers, consolidations, acquisitions, reorganizations, stock splits, stock dividends, or other relevant changes in the capitalization of the Company occurring after the Effective Date. The establishment of the Plan shall not affect in any way the right or power of the Company to make adjustments, reclassifications, reorganizations, or changes in its capital or business structure or to merge, consolidate, dissolve, liquidate, sell, or otherwise transfer all or any part of its business or assets. Adjustments under this Section 5 shall be made in the sole discretion of the Committee, and its decision shall be binding and conclusive.

(c) A Participant shall not have any interest in shares covered by his authorized payroll deduction until shares of Common Stock are acquired for his Account.

6. **PARTICIPATION**

(a) Each Employee may become a Participant in the Plan by authorizing a payroll deduction on a form provided by the Committee. Such authorization shall become effective on the Offering Date coincident with, or the next Offering Date following the delivery of the authorization form to the Committee, provided that the Employee is eligible under Section 3 to participate in the Plan on such Offering Date.

(b) At the time an Employee files his authorization for a payroll deduction, he shall elect to have deductions made from each paycheck that he receives, such deductions to continue until the Participant withdraws from the Plan or otherwise becomes ineligible to participate in the Plan. Authorized payroll deductions shall be for a minimum of one percent (1%) and a maximum of ten percent (10%) of the Participant's Compensation. The deduction rate so authorized shall continue in effect through the Offering Period and each succeeding Offering Period. A Participant may increase the rate of his payroll deduction effective as of any subsequent Offering Date by filing a new authorization form with the Company fifteen (15) or more days prior to the next Offering Date. A

Participant may, at any time during any Offering Period, reduce his rate of payroll deduction by filing a new authorization form with the Company, which shall become effective as soon as practicable after it is filed.

(c) All Compensation deductions made for a Participant shall be credited to his Account. Except as may otherwise be provided by the Committee under Section 4, a Participant may not make any separate cash payment into his Account.

7. **PURCHASE OF SHARES**

(a) On the Offering Date when a Participant's authorization form for a deduction becomes effective, and on each succeeding Offering Date thereafter, he shall be deemed to have been granted an option to purchase as many full shares of Common Stock as he will be able to purchase with the Compensation deductions credited to his Account during the payroll periods within the applicable Offering Period for which the Compensation deductions are made. In addition to the foregoing, any cash dividends paid on shares of Common Stock held in his Account shall be added to the Account, and used to purchase Common Stock as otherwise provided herein.

(b) The purchase price for the shares of Common Stock to be purchased with payroll deductions from the Participant shall be equal to the lesser of ninety-five percent (95%) (or such other amount as the Committee shall authorize, but in no event less than eighty- five percent (85%)) of (i) the "fair market value" of a share of Common Stock on the Offering Date or (ii) the "fair market value" of a share on the Purchase Date. Fair market value shall be defined as the closing bid price of the Common Stock on the largest national securities exchange on which such Common Stock is listed at the time the Common Stock is to be valued. If the Common Stock is not then listed on any such exchange, the fair market value shall be the closing sales price if such is reported or otherwise the mean between the closing "Bid" and the closing "Ask" prices, if any, as reported in the National Association of Securities Dealers Automated Quotation System **("NASDAQ")** for the date of valuation, or if none, on the most recent trade date thirty (30) days or less prior to the date of valuation for which such quotations are reported. If the Common Stock is not then listed on any such exchange or quoted in NASDAQ, the fair market value shall be the mean between the average of the "Bid" and the average of the "Ask" prices, if any, as reported in the National Daily Quotation Service for the date of valuation, or, if none, for the most recent trade date thirty (30) days or less prior to the date of valuation for which such quotations are reported. If the fair market value cannot be determined under the preceding three sentences, it shall be determined in good faith by the Committee.

8. **TIME OF PURCHASE**

From time to time, the Committee shall grant to each Participant an option to purchase shares of Common Stock in an amount equal to the number of shares of Common Stock that the accumulated payroll deductions to be credited to his Account during the Offering Period may purchase at the applicable purchase price. Each Offering Period shall be for a specified period of time to be fixed by the Committee and shall be for no less than one month and no more than

twenty-seven (27) months' duration. Each Participant who elects to purchase shares of Common Stock hereunder shall be deemed to have exercised his option automatically on such date of purchase. Administrative and commission costs on purchases shall be paid by the Company. The Committee shall cause to be delivered periodically to each Participant a statement showing the aggregate number of shares of Common Stock in his Account, the number of shares of Common Stock purchased for him in the preceding Offering Period, his aggregate Compensation deductions for the preceding Offering Period, the price per share paid for the shares of Common Stock purchased for him during the preceding Offering Period, and the amount of cash, if any, remaining in his Account at the end of the preceding Offering Period.

A Participant may request delivery to him of the cash in his Account or of the shares of Common Stock held in his Account at any time (subject to any limitations imposed by Section 16(b) of the Securities Exchange Act of 1934), and the delivery thereof shall be made at such regular time as the Company or its transfer agent shall determine. If such delivery is required at a time other than the normal transfer date set by the Company or its transfer agent, the Participant requesting such transfer shall pay the costs thereof. All of the cash deposits in his Account shall be paid to him promptly after receipt of notice of withdrawal, without interest. Shares of Common Stock to be delivered to a Participant under the Plan shall be registered in the name of the Participant or, if the Participant so directs in writing to the Committee, in the name of the Participant and such person(s) as may be designated by the Participant, to the extent permitted by applicable law, and delivered to the Participant as soon as practicable after the request for a withdrawal. If a Participant wishes to sell the shares of Common Stock in his Account, he may notify the Committee to sell the same, in lieu of a distribution of such shares, in which event all commission costs incurred in connection with the sale of the shares of Common Stock shall be borne by the Participant. The Company shall pay administrative costs associated therewith other than costs arising from a sale occurring at a time different from the prearranged dates set by the Company or its transfer agent for making such sales.

9. CESSATION OF PARTICIPATION

A Participant may cease participation in the Plan at any time by notifying the Committee in writing of his intent to cease his participation. If such notice is received by the Committee the Company shall distribute to the Participant all of his accumulated payroll deductions, without interest. If any Participant ceases participation in the Plan, no further Compensation deductions shall be made on his behalf after the effective date of his cessation, except in accordance with a new authorization form filed with the Committee as provided in Section 6. Upon ceasing participation in the Plan, a Participant shall not be permitted to reenter the Plan until six (6) months have elapsed from the date his cessation becomes effective.

10. INELIGIBILITY

An Employee must be employed by the Company or an Affiliate on the Purchase Date in order to participate in the purchase for that Offering Period. If an option expires without first having been exercised, all funds credited to the Participant's Account shall be refunded without interest. If a Participant becomes ineligible to participate in the Plan at any time, all Compensation deductions made on behalf of the Participant that have not been used to purchase shares of Common Stock

shall be paid to the Participant within sixty (60) days after the Committee determines that the Participant is not eligible to participate in the Plan.

11. DESIGNATION OF BENEFICIARY

A Participant may file a written designation of a beneficiary who shall receive any shares of Common Stock (or remaining Compensation deductions) credited to the Participant's Account under the Plan in the event of such Participant's death prior to delivery to him of the certificates for such shares (or remaining Compensation deductions). The designation of a beneficiary may be changed by the Participant at any time by written notice given in accordance with rules and procedures established by the Committee. Upon the death of a Participant, and upon receipt by the Company of proof of the identity and existence, at the Participant's death, of a beneficiary validly designated by him under the Plan, the Company shall deliver such shares of Common Stock (or remaining Compensation deductions) to such beneficiary. In the event of the death of the Participant, and in the absence of a beneficiary validly designated under the Plan who is living at the time of such Participant's death, the Company shall deliver such shares (or remaining Compensation deductions) to the executor or administrator of the estate of the Participant, or if no such executor or administrator has been appointed, the Company, in its sole discretion, may deliver such shares (or remaining Compensation deductions) to the Participant's spouse or to any one or more dependents or relatives of the Participant, or to such other person or persons as the Company may designate on behalf of the estate of such deceased Participant.

12. TRANSFERABILITY

Neither Compensation deductions nor Plan contributions credited to a Participant's Account nor any rights with regard to Plan participation or the right to purchase shares of Common Stock under the Plan may be assigned, transferred, pledged, or otherwise disposed of in any way by a Participant other than by will or the laws of descent and distribution; provided, however, that shares of Common Stock purchased on behalf of a Participant and left in his Account shall be subject to his absolute control. Any attempted assignment, transfer, pledge, or other disposition shall be void and without effect.

13. AMENDMENT OR TERMINATION

The Board may, without further action on the part of the stockholders of the Company, at any time amend the Plan in any respect, or terminate the Plan, except that it may not:

(a) Permit the sale of more shares of Common Stock than are authorized under Section 5;

(b) Change the class of Affiliates whose Employees are eligible to participate in the Plan; or

(c) Effect a change inconsistent with Section 423 of the Code or the regulations issued thereunder.

14. **NOTICES**

All notices or other communications by a Participant under or in connection with the Plan shall be deemed to have been duly given when received in writing by the Chief Financial Officer of the Company or when received in the form specified by the Committee at the location and by the person designated by the Committee for the receipt thereof.

15. **LIMITATIONS**

Notwithstanding any other provisions of the Plan:

(a) The Company intends that this Plan shall constitute an employee stock purchase plan within the meaning of Section 423 of the Code. Any provisions required to be included in the Plan under said Section, and under regulations issued thereunder, are hereby included as though set forth in the Plan at length.

(b) No Employee shall be entitled to participate in the Plan if, immediately after the grant of an option hereunder, the Employee would own stock possessing five percent (5%) or more of the total combined voting power or value of all classes of stock of the Company or an Affiliate. For purposes of this Section 15, stock ownership shall be determined under the rules of Section 424(d) of the Code and stock that the Employee may purchase under outstanding options shall be treated as stock owned by the Employee.

(c) No Employee shall be permitted to purchase Common Stock hereunder if his right and option to purchase Common Stock under this Plan and under all other employee stock purchase plans (as defined in Section 423 of the Code) of the Company or any Affiliates would result in an entitlement to purchase Common Stock in any one (1) calendar year in excess of a fair market value of $25,000 (determined at the time of grant).

(d) All Employees shall have the same rights and privileges under the Plan, except that the amount of Common Stock that may be purchased pursuant to the Plan shall bear a uniform relationship to an Employee's Compensation. All rules and determinations of the Committee shall be uniformly and consistently applied to all persons in similar circumstances.

(e) Nothing in the Plan shall confer upon any Employee the right to continue in the employment of the Company or any Affiliate or affect the right that the Company or any Affiliate may have to terminate the employment of such Employee.

(f) No Participant shall have any right as a stockholder unless and until certificates for shares of Common Stock are issued to him or allocated to his Account.

(g) If under any provision of the Plan that requires a computation of the number of shares of Common Stock to be purchased, the number so computed is not a whole number of shares of Common Stock, such number of shares of Common Stock shall be rounded down to the next whole number.

(h) The Plan is intended to provide shares of Common Stock for investment and not for resale. The Company does not, however, intend to restrict or influence any Participant in the conduct of his own affairs. A Participant, therefore, may sell shares of Common Stock purchased under the Plan at any time he chooses, subject to compliance with any applicable federal or state securities laws or any applicable Company restriction or blackout periods; provided, however, that because of certain federal tax requirements, each Participant shall agree, by entering the Plan:

(i) promptly to give the Company notice of any shares of Common Stock disposed of within two (2) years after the date of grant of the applicable option, or within one (1) year of the Purchase Date, and the number of such shares disposed of (a "disqualifying disposition");

(ii) that the Company may withhold, pursuant to Code §§ 3102, 3301, and 3402, from his wages and other cash compensation paid to him in all payroll periods following in the same calendar year, any additional taxes the Company may become liable for in respect of amounts includable in his income as additional compensation as a result of a disqualifying disposition of Common Stock acquired under the Plan, or as a result of the acquisition of Common Stock under the Plan; and

(iii) that he shall repay the Company any amount of additional taxes the Company may become liable for in respect of amounts includable in his income as additional compensation as a result of a disqualifying disposition of Common Stock acquired under the Plan, or as a result of the acquisition of Common Stock under the Plan, that cannot be satisfied by withholding from the wages and other cash compensation paid to him by the Company.

(i) This Plan is intended to comply in all respects with applicable law and regulations, including with respect to Participants who are officers or directors for purposes of Section 16 of the Securities Exchange Act of 1934, as amended from time to time, Rule 16b-3 of the Securities and Exchange Commission. In case any one or more provisions of this Plan shall be held invalid, illegal, or unenforceable in any respect under applicable law and regulation (including Rule 16b-3), the validity, legality, and enforceability of the remaining provisions shall not in any way be affected or impaired thereby and the invalid, illegal, or unenforceable provision shall be deemed null and void; however, to the extent permitted by law, any provision that could be deemed null and void shall first be construed, interpreted, or revised retroactively to permit this Plan to be construed in compliance with all applicable law (including Rule 16b-3), so as to further the intent of this Plan. Notwithstanding anything herein to the contrary, with respect to Participants who are officers and directors for purposes of Section 16(b) of the Securities Exchange Act of 1934, as amended from time to time, and if required to comply with the rules promulgated thereunder, such Participants shall not be permitted to direct the sale of any Common Stock purchased hereunder until at least six (6) months have elapsed from the date of a purchase, unless the Committee determines that the sale of the Common Stock otherwise satisfies the then current Rule 16b-3 requirements.

16. **EFFECTIVE DATE AND APPROVALS**

The Plan shall become effective at a time when:

(a) the Plan has been adopted by the Board; and

(b) a registration statement on Form S-8 under the Securities Act of 1933, as amended, has become effective with respect to the Plan; and

(c) the Committee has notified the eligible Employees that they may commence participation in the Plan; and

(d) the Plan is approved by the holders of a majority of the outstanding shares of Common Stock of the Company, which approval must occur within the period ending twelve (12) months after the date the Plan is adopted by the Board. In the event such stockholder approval is not obtained, the Plan shall terminate and have no further force or effect, and all amounts collected from the Participants during any initial Offering Period(s) hereunder shall be refunded.

Unless sooner terminated by the Board, or as set forth above, the Plan shall terminate upon the earlier of (i) the tenth (10th) anniversary of the adoption of the Plan by the Board, or (ii) the date on which all shares available for issuance under the Plan shall have been sold under the Plan.

17. **APPLICABLE LAW**

All questions pertaining to the validity, construction, and administration of the Plan shall be determined in conformity with the laws of Delaware, to the extent not inconsistent with Section 423 of the Code and the regulations thereunder.

Adopted the 16th day of March, 1998, amended on May 23, 2000, and amended and restated on December 14, 2004.

OPT-OUT, TERMINATION, SETTLEMENT AND RELEASE AGREEMENT

THIS OPT-OUT, TERMINATION SETTLEMENT AND RELEASE AGREEMENT (the "Opt-Out Agreement") is made effective as of October 29, 2004 (the "Effective Date") by and between **AMGEN INC.,** a Delaware corporation having its principal place of business at One Amgen Center Drive, Thousand Oaks, California 91320-1799 ("Amgen") and **NUVELO, INC.,** a Nevada corporation having its principal place of business at 670 Almanor Avenue, Sunnyvale, California 94085-1710 and formerly known as Hyseq, Inc. ("Nuvelo"). Amgen and Nuvelo are sometimes referred to herein individually as a "Party" and collectively as the "Parties".

RECITALS

WHEREAS, Amgen and Nuvelo have been collaborating in the joint development and commercialization of a protein known as Alfimeprase (and other variants of Alfimeprase) under the terms and conditions of that certain Collaboration Agreement between the Parties, dated January 8, 2002 ("Collaboration Agreement");

WHEREAS, pursuant to Article 15 of the Collaboration Agreement, Amgen has elected to exercise its right to convert its right to jointly develop and commercialize Alfimeprase (and other variants of Alfimeprase) into the grant to Nuvelo of an exclusive license under certain Amgen rights to Develop, manufacture and Commercialize Alfimeprase (and other variants of Alfimeprase);

WHEREAS, Nuvelo wishes to exclusively license such Amgen rights from Amgen in connection with the Development, manufacture and Commercialization of the Licensed Product(s) (as hereinafter defined), on the terms and conditions set forth in the form of License Agreement attached hereto as Attachment A (the "License Agreement");

WHEREAS, the Parties have engaged in an on-going discussion regarding the amounts each Party owed the other in respect of expenses incurred pursuant to the Collaboration Agreement and now desire to finally settle those discussions and all accounts relating to the Operating Profit or Loss up to and including the third Calendar Quarter of 2004;

NOW THEREFORE, based on the foregoing premises and the mutual covenants and obligations set forth below, the Parties agree as follows:

1. Definitions. Capitalized terms used but not otherwise defined herein have the meanings provided in the Collaboration Agreement.

2. Opt-Out. Pursuant to the terms and conditions of Article 15 of the Collaboration Agreement, Amgen hereby exercises its opt-out right, and the Collaboration is hereby terminated pursuant to Section 16.8 of the Collaboration Agreement.

[*] Certain confidential information contained in this document, marked by brackets, has been omitted and filed separately with the Securities and Exchange Commission pursuant to Rule 24b-2 of the Securities and Exchange Act of 1934, as amended.

3. Settlement and Release. Effective upon the receipt by Amgen of the payment described in Section 4 of this Opt-Out Agreement:

A. Amgen, on behalf of itself and its officers, directors, employees, agents and Affiliates and each of their respective successors and assigns, hereby irrevocably and unconditionally releases and forever discharges Nuvelo, and its officers, directors, employees, agents and Affiliates and each of their respective successors and assigns, from all claims, liabilities, indemnifications, obligations, causes of action and demands, solely to the extent relating to the calculation of costs and expenses charged to the Operating Profit or Loss under the Collaboration Agreement prior to the end of the third Calendar Quarter of 2004. Amgen hereby waives its right to audit any books and records of Nuvelo pursuant to Section 10.2 of the Collaboration Agreement with respect to costs and expenses incurred prior to the end of the third Calendar Quarter of 2004.

B. Nuvelo, on behalf of itself and its officers, directors, employees, agents and Affiliates and each of their respective successors and assigns, hereby irrevocably and unconditionally releases and forever discharges Amgen, and its officers, directors, employees, agents and Affiliates and each of their respective successors and assigns, from all claims, liabilities, indemnifications, obligations, causes of action and demands, solely to the extent relating to the calculation of costs and expenses charged to the Operating Profit or Loss under the Collaboration Agreement prior to the end of the third Calendar Quarter of 2004. Nuvelo hereby waives its right to audit any books and records of Amgen pursuant to Section 10.2 of the Collaboration Agreement with respect to costs and expenses incurred prior to the end of the third Calendar Quarter of 2004.

4. Payment. On or before November 5, 2004 Nuvelo shall pay to Amgen Eight Million Five Hundred Thousand Dollars ($8,500,000 U.S.), representing mutually agreed reimbursement of Amgen costs. Such payment shall be made via wire transfer in currently available U.S. funds to Amgen's account according to the following instructions:

Beneficiary Name:	**Amgen Inc.**
Beneficiary Account #:	
Bank Name:	**[*]**
ABA #:	

5. License Agreement. Notwithstanding any other term or condition of the Collaboration Agreement, Amgen shall have no obligation to enter into any license agreement, including, without limitation, the License Agreement unless Nuvelo timely meets its payment obligations set forth in Section 4 of this Opt-Out Agreement. In the event that Nuvelo does timely meet its payment obligations set forth in Section 4 of this Opt-Out Agreement then the Parties shall, within two (2) business days, execute the License Agreement.

6. General.

6.1 *No Strict Construction.* This Opt-Out Agreement has been prepared jointly and shall not be strictly construed against either Party.

6.2 *Assignment.* Neither Party may assign or transfer this Opt-Out Agreement or any rights or obligations hereunder without the prior written consent of the other., except that a Party may

[*] Certain confidential information contained in this document, marked by brackets, has been omitted and filed separately with the Securities and Exchange Commission pursuant to Rule 24b-2 of the Securities and Exchange Act of 1934, as amended.

make such an assignment without the other Party's consent to Affiliates or to an entity that acquires all or substantially all of the business of such Party, whether in a merger, consolidation, reorganization, acquisition, sale or otherwise. This Opt-Out Agreement shall be binding on the successors and assigns of the assigning Party, and the name of a Party appearing herein shall be deemed to include the name(s) of such Party's successors and permitted assigns to the extent necessary to carry out the intent of this Opt-Out Agreement. Any assignment or attempted assignment by either Party in violation of the terms of this Section 6.2 shall be null and void and of no legal effect. The assigning Party shall forward to the other Party a copy of those portions of each fully executed assignment agreement which relate to the assumption of the rights and responsibilities of the assigning Party, within sixty (60) days of the execution of such assignment agreement.

6.3 *Counterparts.* This Opt-Out Agreement may be executed in two (2) or more counterparts, each of which shall be deemed an original but all of which together shall constitute one and the same instrument.

6.4 *Severability.* If any one or more of the provisions of this Opt-Out Agreement are held to be invalid or unenforceable by any court of competent jurisdiction from which no appeal can be or is taken, such provisions shall be considered severed from this Opt-Out Agreement and shall not serve to invalidate any remaining provisions hereof.

6.5 *Independent Contractors.* The relationship between Nuvelo and Amgen created by this Opt-Out Agreement is one of independent contractors. This Opt-Out Agreement does not create any agency, distributorship, employee-employer, partnership, joint venture or similar business relationship between the parties. Neither Party is a legal representative of the other Party, and neither Party can assume or create any obligation, representation, warranty or guarantee (express or implied) on behalf of the other Party for any purpose whatsoever. Each Party shall use its own discretion and shall have complete and authoritative control over its employees and the details of performing its obligations under this License Agreement.

6.6 *No Benefit of Third Parties.* The representations, warranties, covenants and agreements set forth in this Opt-Out Agreement are for the sole benefit of the Parties hereto and their successors and permitted assigns, and they shall not be construed as conferring any rights on any Third Parties.

6.7 *Use of Name.* Except as expressly provided in this Opt-Out Agreement, no Party hereto shall use, and no rights are granted in or to, the names or Trademarks (including the names "Amgen" and "Nuvelo"), physical likeness, employee names or owner symbol of the other Party for any purpose (including, without limitation, private or public securities placements) without the prior written consent of the affected Party, such consent not to be unreasonably withheld or delayed so long as such use of name is limited to an objective statement of fact rather than for endorsement purposes, provided, further that in the event that such use is legally required the required Party shall provide the affected Party with a reasonable opportunity to comment on such use and the required Party shall reasonably consider the comments timely provided by such affected Party. Neither Party shall use any Trademark which either substantially resembles or is

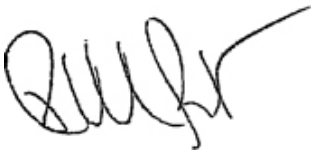
confusingly similar to, misleading or deceptive with respect to, or which dilutes any of the other Party's Trademarks in connection with the subject matter of this Opt-Out Agreement.

6.8 *No Waiver*. Any delay in enforcing a Party's rights under this Opt-Out Agreement or any waiver as to a particular default or other matter shall not constitute a waiver of such Party's rights to the future enforcement of its rights under this Opt-Out Agreement, except with respect to an express written and signed waiver relating to a particular matter for a particular period of time.

6.9 *Entire Agreement; Amendment*. This Opt-Out Agreement (including all Exhibits); that certain Warrant Purchase Agreement, dated January 8, 2002; and any rights and obligations surviving, by its terms, termination of that certain Collaboration Agreement (as defined herein on Page 1) set forth the complete, final and exclusive agreement and all the covenants, promises, agreements, warranties, representations, conditions and understandings between the Parties hereto and supersedes and terminates all prior agreements and understandings between the Parties. There are no covenants, promises, agreements, warranties, representations, conditions or understandings (either oral or written) between the Parties other than as are set forth herein and therein. This Opt-Out Agreement may only be modified or supplemented in a writing expressly stated for such purpose and signed by an authorized officer of each Party (i.e., it may not be modified by any purchase order, change order, acknowledgment, order acceptance, standard terms of sale, invoice or the like). The license agreement attached to the Collaboration Agreement as Schedule IV is hereby deleted in its entirety and replaced with the License Agreement attached hereto as Attachment A. Section 15.3 of the Collaboration Agreement is hereby deleted in its entirety.

IN WITNESS WHEREOF, the Parties have executed this License Agreement in duplicate originals by their duly authorized representatives as of the Effective Date.

AMGEN INC.

By: 

Print Name: Roger Perlmutter, M.D., Ph.D.

Title: Executive Vice President, Research and Development

NUVELO, INC.

By: 

Print Name: Ted W. Love

Title: President & CEO

Amgen Contract #200200783-004

LICENSE AGREEMENT

BY AND BETWEEN

AMGEN INC.

AND

NUVELO, INC.

LICENSE AGREEMENT

THIS LICENSE AGREEMENT (the "License Agreement") is made effective as of November 3, 2004 (the "Effective Date") by and between **AMGEN INC.**, a Delaware corporation having its principal place of business at One Amgen Center Drive, Thousand Oaks, California 91320-1799 ("Amgen") and **NUVELO, INC.**, a Nevada corporation having its principal place of business at 670 Almanor Avenue, Sunnyvale, California 94085-1710 and formerly known as Hyseq, Inc. ("Nuvelo"). Amgen and Nuvelo are sometimes referred to herein individually as a "Party" and collectively as the "Parties".

RECITALS

WHEREAS, Amgen and Nuvelo have been collaborating in the joint development and commercialization of a protein known as Alfimeprase (and other variants of Alfimeprase) under the terms and conditions of that certain Collaboration Agreement between the Parties, dated January 8, 2002 ("Collaboration Agreement");

WHEREAS, pursuant to Article 15 of the Collaboration Agreement, Amgen has elected to exercise its right to convert its right to jointly develop and commercialize Alfimeprase (and other variants of Alfimeprase) into the grant to Nuvelo of an exclusive license under certain Amgen rights to Develop, manufacture and Commercialize Alfimeprase (and other variants of Alfimeprase);

WHEREAS, Nuvelo wishes, to exclusively license such Amgen rights from Amgen in connection with the Development, manufacture and Commercialization of the Licensed Product(s) (as hereinafter defined), on the terms and conditions herein;

NOW THEREFORE, based on the foregoing premises and the mutual covenants and obligations set forth below, the Parties agree as follows:

ARTICLE 1
DEFINITIONS

Capitalized terms used but not otherwise defined herein have the meanings provided in ***Exhibit A*** hereto.

ARTICLE 2
GRANT OF LICENSES AND OTHER RIGHTS

2.1 Patent Licenses. Amgen hereby grants to Nuvelo an exclusive license (even as to Amgen) under Amgen Technology to make, have made, use, sell, lease, offer to sell or lease, have sold, import, export or otherwise exploit, transfer physical possession of and transfer title or interest in and to Licensed Products in the Territory.

2.2 Trademark; Copyright Licenses.

(a) Amgen hereby grants to Nuvelo an exclusive royalty-free license, with the right to grant sublicenses (subject to Nuvelo's compliance with Section 2.3), under Amgen's entire right,

title and interest in and to the Product Trademarks, to use and display the Product Trademarks in connection with Licensed Products in the Territory. For the avoidance of doubt, Nuvelo shall have the right to select for and use and display with Licensed Products such Trademarks as it desires.

(b) Amgen hereby grants to Nuvelo an exclusive royalty-free license under Amgen's entire right, title and interest in any copyrights in and to Promotional Materials, with the right to grant sublicenses subject to Nuvelo's compliance with Section 2.3 of this License Agreement), to reproduce, distribute copies of, prepare derivative works of and publicly perform and display such Promotional Materials in connection with Licensed Products in the Territory solely in compliance with the terms and conditions of this License Agreement.

(c) Other than with respect to the rights and licenses granted to Joint Know-How under this License Agreement, each Party shall have the unrestricted royalty-free, worldwide right to make, have made, use, sell, lease, offer to sell or lease, have sold, import, export or otherwise exploit, or transfer physical possession of or title in, Joint Know-How, without accounting.

2.3 Sublicensing.

(a) Nuvelo will have the sole right to determine whether to sublicense any of its rights under Section 2.1 or 2.2. Any such sublicense shall require the Sublicensee to comply with the obligations of Nuvelo as contained herein (specifically including without limitation, obligations under Section 6.6, Article 7, Section 11.2 and Section 14.15), and including an obligation of the Sublicensee to account for and report its sales of Licensed Products on the same basis as if such sales were Net Sales by Nuvelo. Any such sublicense shall provide for the termination of the sublicense, or the conversion to a license directly between such Sublicensee and Amgen, at the option of Amgen, upon termination of this License Agreement pursuant to Article 12. Nuvelo shall forward to Amgen a copy of each fully executed sublicense agreement within sixty (60) days of the execution of such agreement.

(b) Notwithstanding the sublicensing of all or part of Nuvelo's rights and obligations hereunder Nuvelo shall remain responsible for the full and complete performance of all of Nuvelo's obligations and duties under this License Agreement. For the avoidance of doubt, Nuvelo shall forward to Amgen and acknowledges that Amgen shall be entitled to receive Royalties on Net Sales of Licensed Product(s) sold by Sublicensees hereunder and that Nuvelo shall be responsible to Amgen for paying Royalties due on Net Sales of Product(s) sold by Sublicensees.

2.4 Assignment to Nuvelo. Pursuant to Section 16.9(c)(ii) of the Collaboration Agreement, Amgen shall have transferred or is in the process of transferring to Nuvelo all right, title and interest in all Regulatory Filings and Regulatory Approvals owned in each case by Amgen and shall have delivered or is in the process of delivering to Nuvelo all correspondence between Amgen and Regulatory Authorities relating to all Regulatory Filings and Regulatory Approvals. At Nuvelo's request and expense, within seven (7) days after such request Amgen will provide Nuvelo with access to any pre-clinical and clinical information (reasonably necessary to the continued Development, manufacturing and Commercialization of a

Collaboration Product), and Amgen will assist Nuvelo in responding to any request or inquiry regarding such information by a Regulatory Authority.

2.5 Manufacturing License to Nuvelo. Pursuant to Section 4.1, Amgen shall grant to Nuvelo an exclusive license, with a limited right to sublicense (to Third Party manufacturers pursuant to Section 4.2), to make, have made and use Amgen Material and Manufacturing Information solely for the purposes set forth in Section 3.1 below.

2.6 Retained Rights. With respect to the licenses granted under this Article 2, Amgen expressly reserves for itself and its Affiliates a non-transferable, non-sublicensable right to make, have made and use (but not to transfer, sell, have sold, offer to sell or lease, import, export or otherwise exploit or transfer possession of, title to or interest in) Licensed Products under Amgen Technology and Amgen Material and Manufacturing Information which are solely for internal research purposes unrelated to Licensed Products. For the avoidance of doubt, Amgen shall further retain all rights in Amgen Technology and the Amgen Material and Manufacturing Information not expressly licensed hereunder, including the right to make, have made, use, sell, lease, offer to sell or lease, have sold, import, export or otherwise exploit, transfer physical possession of and transfer title or interest in and to products, other than Licensed Products, for any purpose in the Territory.

ARTICLE 3
DEVELOPMENT AND COMMERCIALIZATION

3.1 Development and Commercialization. At its discretion Nuvelo shall have sole and full control, authority and responsibility for conducting, funding and pursuing all aspects of Development and Commercialization of each said Licensed Product in the Territory.

3.2 Regulatory Filings and Regulatory Approvals. With respect to each Licensed Product, at its discretion Nuvelo will prepare, file and own all right, title and interest in Regulatory Filings and Regulatory Approvals relating to each said Licensed Product in the Territory.

3.3 Annual Reports. Nuvelo will provide Amgen with detailed written annual reports concerning their efforts regarding Development and Commercialization (pursuant to Article 3) and regarding manufacturing (pursuant to Article 4) of the Licensed Products. At Amgen's request, Nuvelo shall promptly discuss such annual report and any progress regarding Development, manufacturing and Commercialization with Amgen.

ARTICLE 4
MANUFACTURE AND SUPPLY

4.1 Manufacturing Right. Nuvelo shall be responsible for manufacturing and supplying Licensed Products for Development and Commercialization in the Territory and for making all decisions with respect thereto in its sole discretion, including without limitation, decisions relating to process development work to support quality assurance, improving manufacturing/cost efficiency and commercial scale-up manufacturing. For the avoidance of doubt, Nuvelo shall have final decision making authority to fulfill its regulatory responsibilities

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over all steps of the manufacturing process (including bulk, finish and fill, labeling and packaging, lot release and management of subcontractors).

4.2 Transfer of Manufacturing Responsibilities. Transfer of manufacturing responsibilities from Amgen to Nuvelo or to a Third Party manufacturer approved by Amgen pursuant to Section 6.7 of the Collaboration Agreement will take place according to Section 16.9(c) of the Collaboration Agreement and notwithstanding any other provision of the Collaboration Agreement, the parties will work together to establish a manufacturing transition plan within the scope and bounds set forth in the outline attached to this License Agreement as Exhibit D.

4.3 Payment for Transfer Expenses. Within ten (10) days after the Effective Date Nuvelo shall pay to Amgen the amount of $373,750 (the "Transfer Deposit"), as a deposit against the 50% share of costs Amgen will incur (based on an FTE rate of [*] in transferring manufacturing responsibilities from Amgen to a Third Party manufacturer of Nuvelo's choosing, for which Nuvelo will be responsible. Within thirty (30) days after the completion of Amgen's tasks designated in the manufacturing plan the Parties shall meet and reconcile the charges recorded by Amgen in transferring manufacturing responsibilities with the Transfer Deposit. Within thirty (30) days after such reconciliation, Amgen shall pay to Nuvelo any amount by which the Transfer Deposit exceeded the 50% share of Amgen's costs in transferring manufacturing responsibilities or Nuvelo shall pay to Amgen the amount by which the 50% share of costs in transferring manufacturing responsibilities exceeds the Transfer Deposit. Pursuant to the terms of Section 8.3(f) of the Collaboration Agreement, the Parties will meet to reconcile post-third Calendar Quarter charges to the Operating Profit or Loss that were incurred prior to the Effective Date of this Opt-Out Agreement according to the terms of such Section. Failure by Nuvelo to make any such payment(s) described under this Section 4.3 when due shall be deemed a material breach of Nuvelo's obligations under this License Agreement.

ARTICLE 5
CONSIDERATION

5.1 Clinical Milestones.

(a) Within thirty (30) days following the first achievement or occurrence with the first Licensed Product(s) of each of the following milestone events by performance of Nuvelo or an Affiliate or Sublicensee of Nuvelo ("Milestone Event(s)"), Nuvelo shall pay to Amgen the corresponding one-time, non-creditable, non-refundable milestone payments set forth herein ("Milestone Payment(s)"):

	Milestone Event	Milestone Payment
(i)	Administration of a Licensed Product to the first patient in a Pivotal Trial	$5,000,000.00
(ii)	Upon the first BLA filing for a Licensed Product in the United States, EU or Japan	[*]
(iii)	Upon the first BLA approval for a Licensed Product in the United States	[*]
(iv)	Upon the first BLA approval for a Licensed Product in the EU	[*]
(v)	Upon the first BLA approval for a Licensed Product in Japan	[*]
	Total	**$40,000,000.00**

[*] Certain confidential information contained in this document, marked by brackets, has been omitted and filed separately with the Securities and Exchange Commission pursuant to Rule 24b-2 of the Securities and Exchange Act of 1934, as amended.

For the purposes of this Section 5.1(a) of the License Agreement, the first Milestone Event shall be deemed to have occurred upon the earlier of (I) the administration of a Licensed Product to the first patient in a clinical trial after the Effective Date or (II) [*] provided, however that in the event that Nuvelo has not commenced a clinical trial prior to [*] directly due to a decision by FDA that the Licensed Product produced by Amgen under Process B is not bio-equivalent to the Licensed Product produced by Amgen under Process A thus requiring further manufacturing be performed before the start of the next clinical trial, then such [*] date shall have no effect and the first Milestone Event shall be deemed to have occurred upon the administration of a Licensed Product to the first patient in a clinical trial after the Effective Date.

(b) For purposes of clarification, if any of the Milestone Events set forth above in Sections 5.1(a)(ii)-(v) are achieved prior to or in the absence of the achievement of the Milestone Event set forth in Section 5.1(a)(i) then, effective upon achievement of any of such Milestone Events, the previously unpaid Milestone Payment set forth in Section 5.1(a)(i) shall also become due and payable. No Milestone Payment shall be payable more than once, no matter how many times achieved by one or more Licensed Product(s). Each such Milestone Payment shall be nonrefundable and noncreditable against Royalties payable pursuant to Section 5.2 and any other fees, other Milestone Payments or other payments due Amgen with respect to Licensed Product(s) under this License Agreement.

(c) In the event catheter clearance shall be the first indication pursued by Nuvelo, and the Milestone Event(s) set forth in Sections 5.l(a)(i) or 5.1(a)(ii) is/are first achieved with respect to the catheter clearance indication. Nuvelo shall pay to Amgen fifty percent (50%) of the corresponding Milestone Payment for any such achieved Milestone Event, with the balance of any such corresponding Milestone Payment being due and payable upon the achievement of such Milestone Event with respect to any non-catheter clearance indication. In the event that Nuvelo shall not have obtained Regulatory Approval for the treatment of peripheral arterial occlusion in the United States, but off-label gross sales in the United States for the treatment of peripheral arterial occlusion are or exceed [*] Dollars [*] , (based on data provided by IMS International, or if such data shall not be available, based on such other data mutually agreed to by Amgen and Nuvelo), then Nuvelo shall immediately pay the balance of any partially paid Milestone Payment under this Section 5.3(c).

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(d) If the Effective Date of this License Agreement is after the date of achievement of any Milestone Event(s) set forth in Sections 5.1(a)(i) and 5.1(a)(ii), then the corresponding Milestone Payment of such previously achieved Milestone Event shall be deemed waived and not payable to Amgen.

(e) If the Effective Date of this License Agreement is after the date of achievement of any Milestone Event(s) set forth in Sections 5.1(a)(iii), (iv) or (v), the corresponding Milestone Payment shall be due within thirty (30) days after the Effective Date of this License Agreement. Notwithstanding the above sentence, the [*] Dollar ($ [*]) Regulatory Approval Milestone incurred by Nuvelo under Section 7.2 of the Collaboration Agreement as a consequence of the achievement of any such Milestone Event shall be creditable against any Milestone Payments due for the achievement of any Milestone Event(s) set forth in Sections 5.1(a)(iii), (iv) or (v) prior to or during the Term of this License Agreement.

5.2 Royalties. Subject to Sections 5.3 and 5.4, below, Nuvelo shall pay to Amgen a Royalty, based on the following Royalty rates, for annual Net Sales of each Licensed Product (on a Licensed Product-by-Licensed Product basis) by Nuvelo, its Affiliates, or its Sublicensees in the Territory:

(a) a Royalty rate of [*] percent ([*]) of that portion of annual Net Sales in the Territory of each such Licensed Product that is less than or equal to [*] [*] ([*]);

(b) a Royalty rate of [*] percent ([*]) of that portion of annual Net Sales in the Territory of each such Licensed Product that is greater than [*] Dollars ($ [*]) and less man or equal to [*] Dollars ($ [*]); and

(c) a Royalty rate of [*] percent ([*]) of that portion of annual Net Sales in the Territory of each such Licensed Product that is greater than [*] Dollars ($ [*]).

5.3 [*] Nuvelo acknowledges that Nuvelo may be obligated to pay Third Party Payments to [*] ") for licensing of certain [*] [*] technology with respect to Licensed Products, in addition to the Milestone Payments set forth in Section 5.1 and the Royalties set forth in Section 5.2 above. Such payments shall be non-creditable against any payments due to Amgen under this License Agreement.

5.4 Third Party Royalty Reduction. Nuvelo shall be responsible for obtaining any licenses, and for making any Third Party Payments thereunder, or making any then-due Third Party Payments to Amgen (for forwarding to the licensing Third Party) under any sublicenses granted by Amgen hereunder, for rights to any Third Party intellectual property required to make, have made, use, sell, lease, offer to sell or lease, have sold, import, export or otherwise exploit, or transfer physical possession of or title in, a Licensed Product in one or more countries in the Territory. With the exception of any Third Party Payments payable to [*] for licensing certain [*] technology, if, and for so long as Nuvelo is required to pay

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such Third Party royalties for such license, fifty percent (50%) of the royalties which are payable by Nuvelo shall be creditable by Nuvelo against any Royalties due to Amgen under Section 5.2 above for the Net Sales of such Licensed Product in such country, provided however, that, on a Licensed Product-by-Licensed Product basis, Nuvelo's Royalty rate set forth in Section 5.2 in any given year will not be reduced in excess of two percent (2.0%) (e.g.,[*]%, [*]% and [*]% respectively) as a consequence of any royalties being creditable against the Royalties to be paid to Amgen by Nuvelo. Nuvelo shall have sole discretion, authority and right with respect to determining whether to enter into an agreement for a license or other rights and to incur an obligation for any Third Party Payments.

5.5 Competition Reduction. If, and for so long as one or more Competitive Product(s) shall be commercially available in a country in the Territory and shall have in the aggregate a share of more than [*] percent ([*]%) of the total market of all Licensed Product(s) in that country as measured by sales units (based on data provided by IMS International, or if such data shall not be available, based on such other data mutually agreed to by Amgen and Nuvelo), Nuvelo shall have the immediate right to reduce the Royalty rates on Net Sales of each such Licensed Product(s) in such country by [*] percent ([*]%) of those set forth in Section 5.2.

5.6 Term of Royalties. Amgen's right to receive Royalties under Section 5.2 shall expire, on a Licensed Product-by-Licensed Product basis and country-by-country basis, upon the later of: (a) ten (10) years after the date of First Commercial Sale of each such Licensed Product; or (b) the expiration of the last-to-expire of the Amgen Patent Rights and (subject to the following sentence) Joint Patent Rights containing an issued Valid Claim that, but for the license granted by Amgen to Nuvelo, would be infringed by the use or sale by Nuvelo, its Affiliates and Sublicensees of such Licensed Product in such country. Where the Joint Patent Rights described in subparagraph (b) subsist after expiry of the Amgen Patent Rights, then upon such expiry the Royalties payable pursuant to Section 5.2 (as reduced by Sections 5.4 and 5.5, as applicable) shall be further reduced by [*] percent [*]%) of the amount payable immediately before expiry of the Amgen Patent Rights, and shall continue to be payable by Nuvelo if:

(i) a mutually acceptable outside patent counsel has provided a written opinion to both Parties to the effect that but for a license under such subsisting Joint Patent Rights, the actual or theoretical using (in accordance with a label claim of, or with published, statistically significant clinical human trial results regarding, a Licensed Product) or selling by a Third Party of a competing pharmaceutical product within the meaning of Competitive Product would infringe an issued Valid Claim under the Joint Patent Rights, or

(ii) Nuvelo has elected to continue to retain its exclusive rights to such subsisting Joint Patent Rights,

but failing which Nuvelo's obligation to pay all Royalties shall expire and each Party shall thereafter be free to use and exploit their respective interest in the Joint Patent Rights without the obligation to obtain the consent of, or to account to, the other Party. Notwithstanding any of the foregoing, after expiration of Amgen's right to receive Royalties for at least one Licensed Product (i.e. the first Licensed Product), Amgen's right to receive Royalties for any subsequent Licensed Product shall be determined solely by subparagraph (b) above and not by subparagraph (a).

[*] Certain confidential information contained in this document, marked by brackets, has been omitted and filed separately with the Securities and Exchange Commission pursuant to Rule 24b-2 of the Securities and Exchange Act of 1934, as amended.

5.7 Sublicensing in Asian Countries. In the event of a sublicensing by Nuvelo to a Third Party of the right to Develop and/or Commercialize Licensed Products in Asian Countries, Amgen will waive all of Nuvelo's Milestone Payments described in Section 5.1(a)(v) above (and the Milestone Payments due under Section 5.1(a)(i) or Section 5.1(a)(ii) shall only apply upon achievement of the corresponding Milestone Event in a country other than a country within the Asian Countries), and the Royalty payment described in Section 5.2 above with respect to Net Sales of Licensed Products in such Asian Countries, and will instead receive [*] percent ([*]%) of all consideration received by Nuvelo from such Sublicensee. In all other regions, Nuvelo shall remain responsible for all other rights and obligations under this License Agreement, including making all payments to Amgen in accordance with Sections 5.1 and 5.2 and in guaranteeing the performance of such Sublicensee for all other obligations to Amgen.

ARTICLE 6
INTELLECTUAL PROPERTY

6.1 Technology Ownership. Ownership of inventions shall be determined in accordance with the rules of inventorship under United States patent laws. Subject to the licenses granted in Section 2.1, as between the Parties, Amgen shall own all right, title and interest in and to Amgen Technology, and any Confidential Information contained therein shall be considered the Confidential Information of Amgen. As between the Parties, all right and interest in and to Joint Know-How (which shall be considered the joint Confidential Information of the Parties) and Joint Patent Rights shall be owned jointly by Nuvelo and Amgen, and shall be subject to the license granted to Nuvelo in Section 2.1.

6.2 Prosecution.

(a) At its sole cost and expense, Nuvelo will be responsible (using mutually acceptable outside counsel) for the filing, prosecution, defense and maintenance of Amgen Patent Rights before all patent authorities in the Territory. Amgen shall have the right to review and comment on such filing, prosecution and defense of the Amgen Patent Rights by Nuvelo and if such outside counsel concludes that taking any specific action(s) may likely have an adverse effect on the scope or validity of any such Amgen Patent Rights, then Nuvelo shall not take such specific action(s) without the prior express written consent of Amgen and. if Amgen shall not have given its consent to such action, Nuvelo shall propose an alternative strategy for Amgen's consideration. To that end, Nuvelo shall instruct such outside counsel to furnish Amgen with a reasonably complete draft of each potential submission to a patent authority regarding Amgen Patent Rights no later than twenty (20) days (or if given less than twenty (20) days to respond as soon as practicable) prior to the date such submission is proposed to be made, and shall reasonably consider any of Amgen's timely comments thereon. Additionally, Nuvelo shall instruct such outside counsel to provide Amgen with a copy of each submission made to and document received from a patent authority regarding any Amgen Patent Rights reasonably promptly after making such filing or receiving such document. If Nuvelo determines in its sole discretion to not file, prosecute, defend or maintain any claim or patent application or patent within Amgen Patent Rights in any country, then Nuvelo shall provide Amgen with thirty (30) days prior written notice of such determination to provide Amgen with the right and opportunity to file, prosecute and maintain such claim or patent application or patent at Amgen's sole cost and expense.

[*] Certain confidential information contained in this document, marked by brackets, has been omitted and filed separately with the Securities and Exchange Commission pursuant to Rule 24b-2 of the Securities and Exchange Act of 1934, as amended.

(b) At its own cost and expense, Nuvelo will be responsible (using mutually acceptable outside counsel) for the filing, prosecution, defense and maintenance of Joint Patent Rights before all patent authorities in the Territory. Amgen shall have the right to review and comment on such filing, prosecution and defense of the Joint Patent Rights by Nuvelo and if such outside counsel concludes that taking any specific action(s) may likely have an adverse effect on the scope or validity of any such Joint Patent Rights, then Nuvelo shall not take such specific action(s) without the prior express written consent of Amgen and, if Amgen shall not have given its consent to such action, Nuvelo shall propose an alternative strategy for Amgen's consideration. To that end, Nuvelo shall instruct such outside counsel to furnish Amgen with a reasonably complete draft of each potential submission to a patent authority regarding Joint Patent Rights no later than twenty (20) days (or if given less than twenty (20) days to respond as soon as practicable) prior to the date such submission is proposed to be made, and shall reasonably consider any of Amgen's timely comments thereon. Additionally, Nuvelo shall instruct such outside counsel to provide Amgen with a copy of each submission made to and document received from a patent authority regarding any Joint Patent Rights reasonably promptly after making such filing or receiving such document. If Nuvelo determines in its sole discretion to not file, prosecute, defend or maintain or any claim or patent application or patent within Joint Patent Rights in any country, then Nuvelo shall provide Amgen with thirty (30) days prior written notice of such determination to provide Amgen with the right and opportunity to file, prosecute, defend and maintain such claim or patent application or patent on behalf of both Parties (at Amgen's sole cost and expense).

(c) Amgen and Nuvelo shall each provide to the other any invention disclosures submitted to its respective outside or in-house patent counsel in the normal course of its business which disclose an invention within Amgen Know-How and Joint Know-How, respectively. Amgen and Nuvelo shall cooperate with each other and render all reasonable assistance in prosecuting and maintaining all intellectual property licensed under this License Agreement. Amgen and Nuvelo shall cooperate with each other in any such matters, and shall sign any necessary legal papers and provide the Party responsible for such prosecution with data or other information in support thereof (and use their best efforts to ensure the cooperation of any of their respective personnel and, in the case of Nuvelo, it's Affiliates and licensee(s) as might reasonably be requested).

(d) Nuvelo shall be responsible (using mutually acceptable outside counsel) for the filing, prosecution, defense and maintenance of the Product Trademarks before all trademark authorities in the Territory. For the Product Trademarks solely or jointly owned by Amgen, Amgen shall have the right to review and comment on such filing, prosecution and defense of the Product Trademarks by Nuvelo and if such outside counsel concludes that taking any specific action(s) may likely have an adverse effect on the scope or validity of any such Product Trademarks, then Nuvelo shall not take such specific action(s) without the prior express written consent of Amgen, and Nuvelo shall propose an alternative strategy for Amgen's consideration. To that end, Nuvelo shall instruct such outside counsel to furnish Amgen with a reasonably complete draft of each submission to a trademark authority regarding the Product Trademarks no later than twenty (20) days prior to the date such submission is proposed to be made, or if given less than twenty (20) days to respond as soon as practicable, and Nuvelo will consider any of Amgen's reasonably timely comments thereon. Additionally, Nuvelo shall instruct such outside counsel to provide Amgen with a copy of each submission made to or document received from a

trademark authority regarding any Product Trademarks reasonably promptly after making such filing or receiving of such document. If Nuvelo determines in its sole discretion to not file, prosecute, defend or maintain a Product Trademark in any country, then Nuvelo shall provide Amgen with thirty (30) days prior written notice of such determination and shall provide Amgen with the right and opportunity to file, prosecute, defend and maintain such Product Trademark on behalf of Nuvelo.

6.3 Infringement of Patents and Trademarks by Third Parties.

(a) At its sole cost and expense, Nuvelo may, but shall not be obligated to, elect to enforce Amgen Patent Rights against any actual, alleged or threatened infringement by Third Parties and to defend the Amgen Patent Rights against any challenges in the Territory. In the event Nuvelo shall so elect to enforce Amgen Patent Rights against a Third Party infringement, Nuvelo shall seek and reasonably consider Amgen's comments before determining the strategy and Amgen, at Nuvelo's reasonable request and sole cost and expense, shall reasonably assist and cooperate in any such enforcement or defense. If Nuvelo finds it necessary or desirable to join Amgen as a party, Amgen shall execute all papers or perform such other acts as may reasonably be requested by Nuvelo, at the sole expense of Nuvelo. In the event Nuvelo does not commence an enforcement and/or defense action pursuant to this Section 6.3(a) within forty-five (45) days after Amgen notifies Nuvelo or is notified by Nuvelo in writing of an actual, alleged or threatened infringement by a Third Party of the Amgen Patent Rights in the Territory (or of the filing of a declaratory judgment action), Amgen shall be entitled to bring and prosecute such an action at its own cost and expense. If Amgen elects to bring and prosecute such an action, then Nuvelo shall seek and reasonably consider Amgen's comments on strategy, and Nuvelo (at Amgen's request and sole cost and expense) shall reasonably assist and cooperate in any such enforcement or defense. If Amgen finds it necessary or desirable to join Nuvelo as a party, Nuvelo shall execute all papers or perform such other acts as may be reasonably be required by Amgen, at Amgen's expense. Amgen shall, at its own expense, be entitled to participate in and to have counsel selected by it participate in any action in which Nuvelo is a named party.

(b) At its own cost and expense, Nuvelo may, but shall not be obligated to, elect to enforce Joint Patent Rights against any actual, alleged or threatened infringement by Third Parties and to defend the Joint Patent Rights against any challenges in the Territory. In the event Nuvelo shall so elect, Nuvelo shall seek and reasonably consider Amgen's comments before determining the strategy, and Amgen (at Nuvelo's request and sole cost and expense) shall reasonably assist and cooperate in any such enforcement or defense. If Nuvelo finds it necessary or desirable to join Amgen as a party, Amgen shall execute all papers or perform such other acts as may reasonably be required by Nuvelo, at the expense of Nuvelo, In the event Nuvelo does not commence an enforcement and/or defense action pursuant to this Section 6.3(b) within forty-five (45) days after Amgen notifies Nuvelo or is notified by Nuvelo in writing of an actual, alleged or threatened infringement by a Third Party of the Joint Patent Rights in the Territory (or of the filing of a declaratory judgment action), Amgen shall be entitled to bring and prosecute such an action at its own cost and expense. If Amgen elects to bring and prosecute such an action, then Amen shall seek and reasonably consider Nuvelo's comments on strategy, and Nuvelo (at Amgen's request and sole cost and expense) shall reasonably assist and cooperate in any such enforcement or defense. If Amgen finds it necessary or desirable to join Nuvelo as a party, Nuvelo shall execute all papers or perform such other acts as may be reasonably be

required by Amgen, at Amgen's expense. Nuvelo shall, at its own expense, be entitled to participate in and to have counsel selected by it participate in any action in which Nuvelo is a named party.

(c) At its own cost and expense, Nuvelo may, but shall not be obligated to, elect to enforce the Product Trademarks against Third Parties and to defend the Product Trademarks against any challenges in the Territory. Nuvelo shall seek and reasonably consider Amgen's comments before determining the strategy and Amgen, at Nuvelo's request and sole cost and expense, shall reasonably assist and cooperate in any such enforcement or defense. If Nuvelo finds it necessary or desirable to join Amgen as a party, Amgen shall execute all papers or perform such other acts as may reasonably be required by Nuvelo, at the expense of Nuvelo. In the event Nuvelo does not commence an enforcement and/or defense action pursuant to this Section 6.3(c) within forty-five (45) days after Amgen notifies or is notified by Nuvelo in writing of an infringement of the Product Trademarks in the Territory (or of the filing of a declaratory judgment action, in the case of defense actions), Amgen shall be entitled to bring and prosecute such an action at its own cost and expense. If Amgen elects to bring and prosecute such an action, then Amen shall seek and reasonably consider Nuvelo's comments on strategy and Nuvelo, at Amgen's request and sole cost and expense, shall reasonably assist and cooperate in any such enforcement or defense. If Amgen finds it necessary or desirable to join Nuvelo as a party, Nuvelo shall execute all papers or perform such other acts as may be reasonably be required by Amgen and at Amgen's expense. Nuvelo shall, at its own expense, be entitled to participate in and to have counsel selected by it participate in any action in which Nuvelo is a named party.

(d) Any recovery realized as a result of any such litigation described in this Section 6.3 (after reimbursement of the Parties' reasonable attorneys' fees for outside counsel and litigation expenses) shall be allocated in proportion to each Party's respective profits realized from the Development, manufacturing and Commercialization of Licensed Products under this License Agreement during the immediately preceding Calendar year.

(e) Neither Party shall enter into any settlement of any suit brought under this Section 6.3 that affects the other Party's rights or interests without the other Party's written consent, which consent shall not be unreasonably withheld or delayed.

(f) A Party bringing suit under this Section 6.3 shall notify the other Party of all substantive developments with respect to such enforcement or defensive actions including, but not limited to, all material filings, court papers and other related documents, substantive settlement negotiations and offers of settlement.

(g) Each Party shall promptly notify the other upon becoming aware of any Third Party infringement of the Amgen Patent Rights, Joint Patent Rights, Product Trademarks, Amgen Know-How or Joint Know-How.

6.4 Infringement of Third Party Rights.

(a) At its own cost and expense, Nuvelo shall have the first right to defend any action naming Nuvelo, or both Parties, and claiming the infringement of (i) any Third Party Patent

Rights or other intellectual property rights through the making, having made, using, selling, offering to sell or having sold, importing, exporting or otherwise exploiting, transferring possession of title or interest in, Licensed Product, or (ii) any Third Party Trademark through the Development, manufacturing or Commercialization of a Licensed Product. The Parties shall confer with each other and cooperate during the defense of any such action. At Nuvelo's cost and expense, Amgen shall assist and cooperate with Nuvelo in the defense of any such action. If Nuvelo finds it necessary or desirable to join Amgen as a party, Amgen shall execute all papers or perform such other acts as may reasonably be required by Nuvelo, at Nuvelo's expense. Subject to the foregoing, Amgen shall, at its own expense, be entitled to participate in and to have counsel selected by it participate in any action in which Amgen is a named party.

(b) Each Party shall promptly notify the other upon becoming aware of any actual, alleged or threatened Third Party claim or action against Nuvelo and/or Amgen for infringement of any Third Party Trademark through the Development, manufacturing or Commercialization of a Licensed Product; or any Third Party Patent Rights through the making, having made, using, selling, offering to sell, and importing, exporting or otherwise transferring physical possession of or otherwise transferring title in and to Licensed Products in the Territory.

(c) Neither Party shall enter into any settlement of any suit referenced under this Section 6.4 that affects the other Party's rights or interests without the other Party's written consent, which consent shall not be unreasonably withheld or delayed.

(d) A Party defending suit under this Section 6.4 shall notify the other Party of all substantive developments with respect to such enforcement or defensive actions including, but not limited to, all material filings, court papers and other related documents, substantive settlement negotiations and offers of settlement.

6.5 Employee Obligations. Prior to beginning work relating to any aspect of the subject matter of this License Agreement and/or being given access to Amgen Know-How or Joint Know-How or the Confidential Information of the other Party, each employee, consultant or agent of Nuvelo and Amgen shall have signed or shall be required to sign a non-disclosure and invention assignment agreement pursuant to which each such person shall agree to comply with all of the obligations of Nuvelo or Amgen, as appropriate, substantially including: (a) promptly reporting any invention, discovery, process, software program or other intellectual property right, as appropriate within Amgen Know-How or Joint Know-How; (b) assigning to Nuvelo or Amgen, as appropriate, all of his or her right, title and interest in and to any such invention, discovery, process, software program or other intellectual property right; (c) cooperating in the preparation, filing, prosecution, maintenance and enforcement of any Patent Rights; (d) performing all acts and signing, executing, acknowledging and delivering any and all papers, documents and instruments required for effecting the obligations and purposes of this License Agreement; and (e) abiding by the obligations of confidentiality and non-use set forth in this License Agreement. It is understood and agreed that any such non-disclosure and invention assignment agreement need not be specific to this License Agreement.

6.6 Patent Marking. Licensed Products marketed and sold by Nuvelo hereunder shall be marked with appropriate patent numbers or indicia of Amgen Patent Rights and/or Joint

Patent Rights to the extent permitted by law in those countries of the Territory in which such markings have notice value as against infringers of patents.

6.7 Waiver.

(a) Nuvelo, on behalf of itself and its directors, employees, officers, shareholders, agents, successors and assigns hereby waives any and all actions and causes of action, claims and demands whatsoever, in law or equity, of any kind it or they may have against Amgen, its directors, employees, officers, shareholders, agents, successors and assigns, which may arise in any way, except as a result of Amgen's gross negligence, recklessness or willful misconduct in the performance of its rights or obligations under Sections 6.2, 6.3, 6.4 and 6.5.

(b) Amgen, on behalf of itself and its directors, employees, officers, shareholders, agents, successors and assigns hereby waives any and all actions and causes of action, claims and demands whatsoever, in law or equity, of any kind it or they may have against Nuvelo, its directors, employees, officers, shareholders, agents, successors and assigns, which may arise in any way, except as a result of Nuvelo's gross negligence, recklessness or willful misconduct in the performance of its rights or obligations under Sections 6.2, 6.3, 6.4 and 6.5.

ARTICLE 7
PAYMENTS; RECORDS; AUDIT

7.1 Payments.

(a) U.S. Dollars. All payments to be made under this License Agreement shall be made in United States Dollars by bank wire transfer in immediately available funds to a bank account designated from time-to-time by Amgen.

(b) Royalty Payments. All Royalties payable to Amgen under this License Agreement shall be paid within sixty (60) days of the end of each Calendar Quarter except as otherwise specifically provided herein. Each payment of Royalties owing to Amgen shall be accompanied by a statement certified by an executive officer of Nuvelo as accurate to the best of its ability consistent with Nuvelo's standard practices in performing such computations and in accordance with GAAP, (i) on a country-by-country basis, of the amount of gross sales of Licensed Products, an itemized calculation of Net Sales of each Licensed Product during such Calendar Quarter, (ii) the amount of aggregate worldwide gross sales of Licensed Product and Net Sales during such Calendar Quarter and (iii) on a cumulative basis for the current year and the amount of Royalty due on Net Sales during such Calendar Quarter.

(c) Foreign Exchange. Net Sales received in currencies other than United States Dollars shall be converted into the United States Dollar equivalent, at the average rate of exchange for the Calendar Quarter to which such payments relate, as reported in Bloomberg Professional, a service of Bloomberg L.P., during the Royalty period of such Net Sales, or in the event Bloomberg Professional is not available then The Wall Street Journal.

(d) Late Payments. Any amounts not paid by Nuvelo when due under this License Agreement shall be subject to interest from and including the date payment is due through and including the date upon which Nuvelo has made a wire transfer of immediately available funds

into an account designated by Amgen of such payment at a rate equal to the lesser of (i) the sum of three percent (3%) plus the annual prime rate or successive annual prime rates of interest quoted in the Money Rates section of the on-line edition, of the Wall Street Journal (at http://www.interactive.wsj.com) calculated daily on the basis of a 365-day year or (ii) the highest rate permitted by applicable law.

(e) Blocked Currency. If Nuvelo, its Affiliates and/or Sublicensees are unable to convert a foreign currency into United States Dollars for reasons beyond their respective control, or are restricted by law or regulation from remitting Royalties from any country of sale, Nuvelo shall cause such payment to be made by deposit to the credit and account of Amgen or its designated nominee in any commercial bank designated by Amgen in the applicable country. Nuvelo shall deliver to Amgen proper evidence of such deposit.

(f) Withholding Taxes. Any taxes, assessments and fees to be withheld by Nuvelo under the laws, rules or regulations of any foreign country for the account of Amgen shall be promptly paid by Nuvelo for and on behalf of Amgen to the appropriate governmental authority, and Nuvelo shall furnish Amgen with a copy of the original official receipt for the payment of such tax within thirty (30) days of payment. Any such tax, assessment and fee actually paid on Amgen's behalf shall be deducted from any Royalty payments due to Amgen. Nuvelo agrees to make all lawful and reasonable efforts to minimize such taxes, assessments and fees to Amgen.

7.2 Records; Audit. Nuvelo shall keep or cause to be kept such records as are required in sufficient detail to track and determine (in a manner consistent with GAAP) the accuracy of calculations of all sums or credits due under this License Agreement and to accurately account for the calculations of all Royalties due for Licensed Products under this License Agreement. Such records shall be retained for a period of the later of (i) a three (3) year period following the year in which any payments were made hereunder and/or (ii) the expiration of the applicable tax statute of limitations (or any extensions thereof), or such longer period as may be required by law. Once per Calendar Year, Amgen shall have the option to engage (at its own expense) an independent certified public accountant, appointed by Amgen and reasonably acceptable to Nuvelo, to examine in confidence the books and records of Nuvelo as may be necessary to determine, with respect to any Calendar Year, the correctness or completeness of any report or payment required to be made under this License Agreement; provided however, that the books and records for any particular Calendar Year shall only be subject to one audit. The report of such accountant shall be limited to a certificate verifying any report made or payment submitted by Nuvelo during such period but may include, in the event the accountant shall be unable to verify the correctness of any such payment, information relating to why such payment is unverifiable. All information contained in any such certificate shall be deemed the Confidential Information of Nuvelo hereunder. If any audit performed under this Section 7.2 discloses a variance of more than five percent (5%) from the amount of the "original report; showing the calculation of a Royalty under section 5.2 of this License Agreement or calculation of consideration due to Amgen under section 5.7 of this License Agreement, Nuvelo shall bear the full cost of the performance of such audit. Upon the expiration of three (3) years following the end of any Calendar Year, the calculation of any such amounts payable with respect to such Calendar Year shall be binding and conclusive upon Amgen, and Nuvelo shall be released from any liability or accountability with respect to such amounts for such Calendar Year.

ARTICLE 8
PUBLICATIONS

8.1 Procedure. Nuvelo shall determine the overall strategy for and have the right of publishing and presenting results of pre-clinical and clinical studies of Licensed Products. However, each Party to this License Agreement recognizes that the publication of papers regarding results of and other information involving the activities under this License Agreement (including oral presentations and abstracts) may be beneficial to both Parties, provided such publications are subject to reasonable controls to protect Confidential Information. In particular, it is the intent of the Parties to maintain the confidentiality of any Confidential Information included in any patent application until such patent application has been published. Accordingly, Amgen will have the right to review and approve any paper proposed for publication by Nuvelo (including oral presentations and abstracts) which utilizes Confidential Information of Amgen. Before any such paper is submitted for publication or an oral presentation made, Nuvelo will deliver a complete copy of the paper or materials and abstracts for oral presentation to Amgen at least sixty (60) days prior to submitting the paper to a publisher or making the presentation. Amgen will review any such paper and give its comments to Nuvelo within thirty (30) days after the delivery of such paper to Amgen. With respect to oral presentation materials and abstracts, Amgen will make reasonable efforts to expedite review of such materials and abstracts and will return such items as soon as practicable to Nuvelo with appropriate comments, if any, but in no event later than thirty (30) days from the date of delivery to Amgen. Nuvelo will comply with Amgen's request to delete references to Amgen's Confidential Information in any such paper and agrees to withhold publication of same for an additional thirty (30) days in order to permit the Parties to obtain patent protection, if either of the Parties deems it necessary, in accordance with the terms of this License Agreement. Nuvelo will have the right to review and approve any paper proposed for publication by Amgen (including oral presentations and abstracts) which describes Licensed Products or which includes Confidential Information of Nuvelo. Before any such paper is submitted for publication or an oral presentation made, Amgen will deliver a complete copy of the paper or materials and abstracts for oral presentation to Nuvelo at least sixty (60) days prior to submitting the paper to a publisher or making the presentation. Nuvelo will review any such paper, materials and abstracts and give its comments to Amgen within thirty (30) days after the delivery of such paper to Nuvelo. With respect to oral presentation materials and abstracts, Nuvelo will make reasonable efforts to expedite review of such materials and abstracts and will return such items as soon as practicable to Amgen with appropriate comments, if any, but in no event later than thirty (30) days from the date of delivery to Nuvelo. Amgen will comply with Nuvelo's request to delete references to Nuvelo's Confidential Information in any such paper and agrees to withhold publication of same for an additional thirty (30) days in order to permit the Parties to obtain patent protection, if either of the Parties deems it necessary, in accordance with the terms of this License Agreement.

8.2 Credit. Any such publication or presentation will include recognition of the contributions of the other Party according to standard practice for assigning scientific credit, either through authorship or acknowledgment as may be appropriate.

ARTICLE 9
CONFIDENTIALITY

9.1 Treatment of Confidential Information. The Parties agree that during the Term, and for a period of five (5) years after this License Agreement expires or terminates, a Party receiving Confidential Information of the other Party shall (a) maintain such Confidential Information in confidence to the same extent such Party maintains its own confidential or proprietary information or trade secrets of similar kind and value (but at a minimum each Party shall use reasonable best efforts to maintain such Confidential Information in confidence); (b) not disclose such Confidential Information to any Third Party without the prior written consent of the disclosing Party, except for disclosures to its Affiliates and Sublicensees who agree to be bound by obligations of non-disclosure and non-use at least as stringent as those contained in this Article 9; and (c) not use such Confidential Information for any purpose except those purposes permitted by this License Agreement. Neither Party shall knowingly disclose to the other Party any Third Party information or know-how that such Party does not have the legal right to disclose to the other Party and/or which it has a contractual obligation not to disclose to the other Party.

9.2 Authorized Disclosure. Notwithstanding any other provision of this License Agreement, each Party may disclose Confidential Information of the other Party:

(a) to the extent and to the persons and entities as required by an applicable law, rule, regulation, legal process, court order or the rules of the National Association of Securities Dealers or of a Regulatory Authority; or

(b) as necessary to file, prosecute or defend those patent applications or patents for which either Party has the right to assume filing, prosecution, defense or maintenance, pursuant to Section 6.2 of this License Agreement; or

(c) to prosecute or defend litigation or otherwise establish rights or enforce obligations under this License Agreement, but only to the extent that any such disclosure is necessary.

The Party required or intending to disclose the other Party's Confidential Information under Sections 9.2(a) or (c) shall first have given prompt notice to the other Party to enable it to seek any available exemptions from or limitations on such disclosure requirement and shall reasonably cooperate in such efforts by the other Party.

9.3 Materials. Pursuant to Section 16.9(c) of the Collaboration Agreement, the Parties anticipate that Amgen may transfer certain of its Amgen Know How and Amgen Material and Manufacturing Information to Nuvelo; provided however, that Nuvelo agrees and acknowledges that Amgen may, but shall be under no obligation, to transfer any Amgen Know How and Amgen Material and Manufacturing Information characterized, conceived, developed, derived, generated or identified by Amgen after the Effective Date. Nuvelo agrees that it shall use such Amgen Know How and Amgen Material and Manufacturing Information only in accordance with the terms and conditions of this License Agreement and will transfer such Amgen Know How and Amgen Material and Manufacturing Information only to a Third Party

which has agreed in writing to be bound by obligations of confidentiality and non-use at least as restrictive as set forth herein and only to use in accordance with the terms of this License Agreement. Nuvelo will promptly thereafter provide notice of such transfer to Amgen.

9.4 Publicity; Terms of Agreement. The Parties agree that the existence of and the material terms of this License Agreement shall be considered Confidential Information of both Parties, subject to the special authorized disclosure provisions set forth below in this Section 9.4 (in lieu of the authorized disclosure provisions set forth in Section 9.2, to the extent of any conflict) and without limiting the generality of the definition of Confidential Information. The Parties will mutually agree upon the text of a press release announcing the execution of this License Agreement. Thereafter, if either Party desires to make a public announcement concerning this License Agreement or the terms hereof that differs from this mutually agreed upon text, such Party shall give reasonable prior advance notice of the proposed text of such announcement to the other Party for its prior review and approval, such approval not to be unreasonably withheld or delayed. A Party shall not be required to seek permission from the other Party to repeat any information as to the terms of this License Agreement that have already been publicly disclosed by such Party, in accordance with the foregoing, or by the other Party. Either Party may disclose the terms of this License Agreement to potential investors who agree to be bound by obligations of non-disclosure and non-use at least as stringent as those contained in this Article 9. The Parties acknowledge that Amgen and/or Nuvelo may be obligated to file a copy of this License Agreement with the U.S. Securities and Exchange Commission (the "SEC") with its next quarterly report on Form 10-Q, annual report on Form 10-K or current report on Form 8-K or with any registration statement filed with the U.S. Securities and Exchange Commission pursuant to the Securities Act of 1933, as amended, and each such Party shall be entitled to make such filing; provided however, that it requests confidential treatment of the more sensitive terms hereof to the extent such confidential treatment is reasonably available to the filing Party under the circumstances then prevailing. In the event of any such filing, the filing Party will provide the non-filing Party with an advance copy of the License Agreement marked to show provisions for which the filing Party intends to seek confidential treatment and shall reasonably consider the non-filing Party's timely comments thereon.

9.5 Use of Names, Logos or Symbols. Subject to the licenses granted under Section 2.2, and further subject to the authorized disclosure provisions under Sections 9.2(a) and 9.4, no Party hereto shall use the name, Trademarks, physical likeness, employee names or owner symbol of any other party for any purpose (including, without limitation, private or public securities placements) without the prior written consent of the affected Party, such consent not to be unreasonably withheld or delayed so long as such use of name is limited to objective statement of fact rather than for endorsement purposes. Nuvelo shall not use any Trademark either substantially resembling or which is confusingly similar to any of Amgen's Trademarks in connection with the subject matter of this License Agreement.

ARTICLE 10
REPRESENTATIONS AND WARRANTIES

10.1 Representations and Warranties of Nuvelo. Nuvelo hereby represents and warrants to Amgen that as of the Effective Date of the Collaboration Agreement:

(a) Corporate Existence, Power and Authority. It is a corporation duly organized, validly existing and in good standing under the laws of the State of Nevada and has full corporate power and authority and the legal right to own and operate its property and assets and to carry on its business as it is now being conducted and as contemplated in this License Agreement and to perform its obligations hereunder including, without limitation the right to grant the licenses granted hereunder. It has taken all necessary corporate action on its part required to authorize the execution and delivery of this License Agreement and the performance of its obligations hereunder,

(b) Binding Agreement. This License Agreement has been duly executed and delivered on behalf of Nuvelo and constitutes a legal, valid and binding obligation of Nuvelo that is enforceable against it in accordance with its terms.

(c) No Conflict. The execution, delivery and performance of this License Agreement by Nuvelo does not conflict with and would not result in a breach of any agreement, instrument or understanding, oral or written, to which it is a party or by which it may be bound, nor does it violate any material law or regulation of any court, governmental body or administrative or other agency having jurisdiction over it.

(d) Validity. It is aware of no action, suit, inquiry or investigation instituted by any Third Party which questions or threatens the validity of this License Agreement.

(e) Expertise. In entering into this License Agreement, Nuvelo has relied solely on its own scientific and commercial experience and its own analysis and evaluation of both the scientific and commercial value of the Licensed Products.

(f) Business Condition. It is not in violation of its charter, bylaws, or any other organizational document, or in violation of any law, administrative regulation, ordinance or order of any court or governmental agency, arbitration panel or authority applicable to it, which violation, individually or in the aggregate, would reasonably likely have a materially adverse effect on its business or financial condition. Except as may be set forth in any documents required to be filed by it under the Securities Act or Exchange Act, as the case may be, it is not aware of any facts or circumstances, individually or in the aggregate, which would reasonably likely have a materially adverse effect on its business or financial condition.

10.2 Representations and Warranties of Amgen. Amgen hereby represents and warrants to Nuvelo that as of the Effective Date of the Collaboration Agreement:

(a) Corporate Existence, Power and Authority. It is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware and has full corporate power and authority and the legal right to own and operate its property and assets and to carry on its business as it is now being conducted and as contemplated in this License Agreement and to perform its obligations hereunder including, without limitation, the right to grant the licenses granted hereunder. It has taken all necessary corporate action on its part required to authorize the execution and delivery of this License Agreement and the performance of its obligations hereunder.

(b) Binding Agreement. This License Agreement has been duly executed and delivered on behalf of Amgen and constitutes a legal, valid and binding obligation of Amgen that is enforceable against it in accordance with its terms.

(c) No Conflict. The execution, delivery and performance of this License Agreement by Amgen does not conflict with and would not result in a breach of any agreement, instrument or understanding, oral or written, to which it is a party or by which it may be bound, nor does it violate any material law or regulation of any court, governmental body or administrative or other agency having jurisdiction over it.

(d) Validity. It is aware of no action, suit, inquiry or investigation instituted by any Third Party which questions or threatens the validity of this License Agreement.

(e) Business Condition. It is not in violation of its charter, bylaws, or any other organizational document, or in violation of any law, administrative regulation, ordinance or order of any court or governmental agency, arbitration panel or authority applicable to it, which violation, individually or in the aggregate, would reasonably likely have a materially adverse effect on its business or financial condition. Except as may be set forth in any documents filed with the Securities and Exchange Commission, as required to be filed by it under the Securities Act or Exchange Act, as the case may be, it is not aware of any facts or circumstances, individually or in the aggregate, which would reasonably likely have a materially adverse effect on its business or financial condition.

10.3 Mutual Covenants. Each Party hereby covenants to the other Party as follows:

(a) No Conflict. It shall not during the term of this License Agreement grant any right, license, consent or privilege to any Third Party(ies) in the Territory which would conflict with the rights granted to the other Party under this License Agreement, and shall not take any action that would in any way prevent it from assuming its obligations or granting the rights granted to the other Party under this License Agreement or that would otherwise materially conflict with or adversely affect its obligations or its assumption of the rights granted to the other Party under this License Agreement.

(b) Exclusivity. It shall work exclusively with the other Party with respect to Licensed Products (subject to Nuvelo's rights under Sections 2.3 and 4.1 of this License Agreement to grant sublicenses to Third Parties). It shall not, directly or indirectly, make, have made, use, sell, offer to sell, import, export or otherwise transfer physical possession of or otherwise transfer title in (for purposes of Developing, manufacturing or Commercializing) a Competitive Product in the Territory, nor license or otherwise enable a Third Party to take such actions during the Term. If either Party acquires Control of a Competitive Product as an incident to an otherwise strategic acquisition of or merger with a Third Party, such Competitive Product shall be deemed a "Licensed Product" and be subject to the terms and conditions of this License Agreement, with no additional obligation on the other Party to pay any other consideration, including any license fee or milestone payment or the like.

(c) Regulatory Data. It shall store and provide the other Party access to source data supporting all Regulatory Filings and Regulatory Approvals for the longer of (i) ten (10) years or

relating to Licensed Products or relating to requests regarding Licensed Products from any Regulatory Authority in the Territory.

10.4 Covenants of Nuvelo.

(a) No Debarment. In the course of the Development, manufacture and Commercialization of Licensed Products and during the Term, Nuvelo shall not knowingly use and shall not have knowingly used any employee or consultant who is or has been debarred by a Regulatory Authority or, to the best of Nuvelo's knowledge, is or has been the subject of debarment proceedings by a Regulatory Authority.

(b) Compliance. Nuvelo shall comply with all applicable statutes, regulations and guidance of Regulatory Authorities in carrying out its activities regarding the Development, manufacturing and Commercialization of Licensed Products in the Territory.

(c) Diligence. Nuvelo covenants that it shall use Commercially Reasonable Efforts to carry out its obligations in accordance with the terms of this License Agreement including, as applicable, the Development, manufacturing and Commercialization of Licensed Products in the Territory in accordance with the terms of this License Agreement. Without limiting the generality of the foregoing obligation, Nuvelo covenants that:

(i) Nuvelo shall use Commercially Reasonable Efforts to administer a Licensed Product to a patient in a government-approved clinical trial within eighteen (18) months after the Effective Date of the Collaboration Agreement. In the event Nuvelo fails to administer such Licensed Product in such time period then, within [*] ([*]) months after the Effective Date, Nuvelo shall either pay Amgen a [*] Dollar ($ [*]) maintenance fee or Amgen may terminate this License Agreement and Nuvelo shall immediately return all rights to Amgen.

(ii) Nuvelo shall use Commercially Reasonable Efforts to administer a Licensed Product to a patient in a government-approved clinical trial within [*] ([*]) months after the Effective Date of the Collaboration Agreement. In the event Nuvelo fails to administer such Licensed Product in such time period then, in addition to any payment that may have been due under subsection (i) above and within twenty-five (25) months after the Effective Date, in addition to the payment in subsection (i) above, Nuvelo will either pay Amgen a[*] [*] Dollar ($ [*]) maintenance fee or Amgen may terminate this License Agreement and Nuvelo shall immediately return all rights to Amgen.

(iii) Nuvelo shall use Commercially Reasonable Efforts to administer a Licensed Product to a patient in a government approved clinical trial within [*] ([*]) months after the Effective Date of the Collaboration Agreement. In the event Nuvelo fails to administer such Licensed Product in such time period, then Amgen shall have the right to terminate this License Agreement and Nuvelo shall immediately return all rights to Amgen.

(d) No Misappropriation. It shall not knowingly misappropriate the trade secret of a Third Party in its activities to Develop, manufacture or Commercialize Licensed Products.

[*] Certain confidential information contained in this document, marked by brackets, has been omitted and filed separately with the Securities and Exchange Commission pursuant to Rule 24b-2 of the Securities and Exchange Act of 1934, as amended.

(d) No Misappropriation. It shall not knowingly misappropriate the trade secret of a Third Party in its activities to Develop, manufacture or Commercialize Licensed Products.

10.5 Disclaimers. EXCEPT AS EXPRESSLY PROVIDED HEREIN, THE MATERIALS AND INFORMATION PROVIDED HEREUNDER ARE BEING PROVIDED "AS IS" AND WITHOUT ANY REPRESENTATIONS OR WARRANTIES. NEITHER PARTY MAKES ANY REPRESENTATIONS OR WARRANTIES, EXPRESS OR IMPLIED, OF ANY TYPE WHATSOEVER REGARDING THE MATERIALS AND INFORMATION. EACH PARTY EXPRESSLY DISCLAIMS ANY WARRANTY OF MERCHANTABILITY, OF FITNESS FOR A PARTICULAR PURPOSE OR OF NONINFRINGEMENT.

ARTICLE 11
INDEMNIFICATION

11.1 Indemnification by Amgen. Amgen hereby agrees to defend, hold harmless and indemnify (collectively "Indemnify" or be "Indemnified") Nuvelo and its Affiliates, agents, directors, officers and employees (the "Nuvelo Indemnitees") from and against any and all Losses resulting directly or indirectly from any Third Party claims, suits, actions or demands arising directly or indirectly out of (a) any of Amgen's representations and warranties set forth in this License Agreement being untrue in any material respect when made and/or (b) any material breach or material default by Amgen of its covenants and obligations under this License Agreement. Amgen's indemnification obligation does not include any responsibility for product liability claims, including but not limited to negligence, strict liability, and breach of warranty claims, arising out of or relating to the Licensed Product. To be eligible to be so Indemnified as described in this Section 11.1, the Nuvelo Indemnitees shall provide Amgen with prompt notice of any claims, suits, actions or demands (with a description of the claim and the nature and amount of any such Loss) giving rise to the indemnification obligation pursuant to this Section 11.1 and the exclusive ability to defend such claims, suits, actions or demands (with the reasonable cooperation of Nuvelo Indemnitees); provided however, that Amgen shall be relieved of its obligations only if any failure by the Nuvelo Indemnitee to deliver prompt notice shall have been prejudicial to its ability to defend such claims, suits, actions or demands. Nuvelo shall have the right to retain its own counsel, at its own expense, if representation of the counsel of Amgen would be inappropriate due to actual or potential differing interests between the Parties. Amgen shall not settle or consent to the entry of any judgment with respect to any claim for Loss for which indemnification is sought, in a manner that would materially adversely affect Nuvelo, without Nuvelo's prior written consent (not to be unreasonably withheld). Amgen's obligation to Indemnify the Nuvelo Indemnitees pursuant to this Section 11.1 shall not apply to the extent of any Losses (i) that arise from the negligence or intentional misconduct of any Nuvelo Indemnitee; (ii) that arise from Nuvelo's material breach of any representation, warranty, covenant or obligation under this License Agreement; or (iii) for which Nuvelo is obligated to Indemnify the Amgen Indemnitees pursuant to Section 11.2 of this License Agreement.

11.2 Indemnification by Nuvelo. Nuvelo hereby agrees to Indemnify Amgen and its Affiliates, agents, directors, officers and employees (the "Amgen Indemnitees") from and against any and all Losses arising from Third Party claims, suits, actions or demands resulting directly or indirectly from (a) any of Nuvelo's representations and warranties set forth in this License Agreement being untrue in any material respect when made; (b) the Development, manufacture

and Commercialization of Licensed Products by, on behalf of or under authority of Nuvelo, its Affiliates or its Sublicensees; and/or (c) any material breach or material default by Nuvelo of its covenants and obligations under this License Agreement. Nuvelo is responsible for the defense of any and all product liability claims, including but not limited to negligence, strict liability, and breach of warranty claims, arising out of or relating to the Licensed Product. Nuvelo is also responsible for any settlements or judgments arising from such product liability claims arising out of or relating to the Licensed Product. Nuvelo, its sublicensees, its successors and its Affiliates shall be deemed to bear the obligations under this Section 11.2 jointly and severally. To be eligible to be Indemnified as described above in this Section 11.2, the Amgen Indemnitees shall provide Nuvelo with prompt notice of any claims, suits, actions or demands (with a description of the claim and the nature and amount of any such Loss) giving rise to the indemnification obligation pursuant to this Section 11.2 and the exclusive ability to defend such claims, suits, actions or demands (with the reasonable cooperation of Amgen Indemnitees); provided however, that Nuvelo shall be relieved of its obligations only if any failure by the Amgen Indemnitee to deliver prompt notice shall have been prejudicial to its ability to defend such claims, suits, actions or demands. Amgen shall have the right to retain its own counsel, at its own expense, if representation of the counsel of Nuvelo would be inappropriate due to actual or potential differing interests between the Parties. Nuvelo shall not settle or consent to the entry of any judgment with respect to any claim for Loss for which indemnification is sought, in a manner that would materially adversely affect Amgen, without Amgen's prior written consent (not to be unreasonably withheld). Nuvelo's obligation to Indemnify the Amgen Indemnitees pursuant to this Section 11.2 shall not apply to the extent of any Losses (i) that arise from the negligence or intentional misconduct of any Amgen Indemnitee (including but not limited to that arising from the manufacture of Licensed Product by Amgen), (ii) that arise from any material breach by Amgen of any representation, warranty, covenant or obligation under this License Agreement or (iii) for which Amgen is obligated to Indemnify the Nuvelo Indemnitees pursuant to Section 11.1 of this License Agreement.

11.3 Insurance. Within thirty (30) days of the Effective Date, Nuvelo shall at its own expense procure and maintain an insurance policy/policies, including product liability insurance (but excluding clinical trial insurance policies which shall be required only while trials are ongoing), adequate to cover its obligations hereunder and which is/are consistent with normal business practices of prudent companies similarly situated. Nuvelo may self-insure all or part of any such obligation consistent with pharmaceutical industry practices but Nuvelo shall at all times maintain the following minimum Third Party insurance coverage:

Type of Coverage	Amount
Commercial General Liability Insurance	$ 2,000,000.00
Product Liability Insurance	$ 1,000,000.00
Excess Liability Insurance	$ 1,000,000.00
Clinical Trial Liability Insurance	$ 3,000,000.00
Workman's Compensation	Statutory Limits

Each insurance policy required by and procured by Nuvelo under this Section 11.3 shall name Amgen as an additional insured. Such insurance shall not be construed to create a limit of Nuvelo's liability with respect to its indemnification obligations under this Article 11. Nuvelo shall provide Amgen with a copy of the certificate of insurance or other evidence of such insurance and/or self-insurance, upon request. Nuvelo shall provide Amgen with written notice at least thirty (30) days prior to the cancellation, non-renewal or material change in such insurance or self-insurance which materially adversely affects the rights of Amgen hereunder. In addition to the foregoing requirements under this Section 11.3 of the License Agreement, prior to the First Commercial Sale, Nuvelo shall secure product liability insurance with limits no less than $15,000,000.00 per claim and $15,000,000.00 in aggregate.

11.4 Pre-Effective Date Losses. In accordance with Section 16.12 of the Collaboration Agreement, each Party shall retain its obligations for Losses accrued under the Collaboration Agreement and this License Agreement shall not release, waive, alter or otherwise modify the Parties' respective obligations thereunder. Other than with respect to its obligation for Losses due under and prior to the termination of the Collaboration Agreement, Nuvelo shall not assume or be liable for (pursuant to this License Agreement) any Losses for which Amgen is previously responsible, resulting from or arising in connection with the Development, manufacture or Commercialization of Licensed Product on or prior to the Effective Date.

11.5 Limitation of Liability. NEITHER PARTY NOR ITS RESPECTIVE AFFILIATES SHALL BE LIABLE FOR SPECIAL, EXEMPLARY, CONSEQUENTIAL OR PUNITIVE DAMAGES, WHETHER IN CONTRACT, WARRANTY, TORT, STRICT LIABILITY OR OTHERWISE INCURRED BY THE OTHER PARTY IN CONNECTION WITH THIS LICENSE AGREEMENT, INCLUDING BUT NOT LIMITED TO DAMAGES MEASURING LOST PROFITS OR BUSINESS OPPORTUNITIES.

ARTICLE 12
TERM AND TERMINATION

12.1. Term. This License Agreement shall become effective on the Effective Date and shall remain in full force and effect, unless earlier terminated pursuant to this Article 12, on a country-by-country basis until there is no remaining Royalty payment obligation in any country. Upon the expiry of Nuvelo's obligation to pay "Royalties under this License Agreement for a given Licensed Product in a country, Nuvelo shall have a fully paid, royalty free, unrestricted license under the Amgen Technology and the Amgen Material and Manufacturing Information to make, have made, use, sell, offer to sell, have sold, import, export and otherwise exploit, transfer physical possession of and transfer title or interest in or to such given Licensed Product in such country.

12.2 Termination for Convenience. Nuvelo may terminate this License Agreement at any time by providing ninety (90) days prior written notice of termination to Amgen.

12.3 Termination by Amgen. In the event Nuvelo shall not timely pay any maintenance fees due pursuant to either Section 10.4(c)(i) or 10.4(c)(ii) or shall not timely administer a Licensed Product to a patient pursuant to Section 10.4(c)(iii), Amgen shall have the sole right to terminate this License Agreement by providing thirty (30) days prior written notification of termination to Nuvelo.

12.4 Termination for Default.

(a) In the event any material representation or warranty made hereunder or under the Warrant Purchase Agreement by either Party shall have been untrue in any material respect ("Representation Default"), or upon any material breach or material default of a material obligation of this License Agreement or the Warrant Purchase Agreement (as defined in the Collaboration Agreement) by a Party ("Performance Default"), the Party not in default ("Non-Defaulting Party") must first give the other Party ("Defaulting Party") written notice thereof ("Notice of Default"), which notice must state the nature of the Representation Default or Performance Default in reasonable detail and must request the Defaulting Party cure such Representation Default or Performance Default within sixty (60) days. During any such 60-day period after receipt or delivery of a Notice of Default under this Section 12.4(a) for which termination of this License Agreement, in whole or in part is a remedy, all of the Party's respective rights and obligations under the affected parts of this License Agreement, including but not limited to Development, manufacturing and Commercialization, shall (to the extent applicable) remain in force and effect. If the Defaulting Party shall dispute the existence, extent or nature of any default set forth in a Notice of Default, the Parties shall use good faith efforts to resolve the dispute.

(b) Nuvelo. In the event of a Representation Default or a Performance Default by Nuvelo that shall not have been cured within the period set forth in Section 12.4(a) above after receipt of a Notice of Default (or Nuvelo shall not have presented a reasonably achievable plan to cure such Default as promptly as is reasonably practicable under the circumstances), Amgen, at its option, may terminate this License Agreement upon sixty (60) days prior written notice, unless such Representation Default is an unintentional Representation Default of the Warranty Agreement and Amgen did not provide Notice of Default within one (1) year after the Effective Date. In addition, in the event of termination pursuant to such uncured Representation Default as provided in the foregoing sentence, Amgen will be entitled to receive a refund of all money paid.

(c) Amgen. In the event of a Representation Default or a Performance Default by Amgen that shall not have been cured within the period set forth in Section 12.4(a) after receipt of a Notice of Default (or Amgen shall not have presented a reasonably achievable plan to cure such Default as promptly as is reasonably practicable under the circumstances), Nuvelo, at its option, may terminate this License Agreement upon sixty (60) days prior written notice. In addition, in the event of termination pursuant to such uncured Representation Default as provided in the foregoing sentence, Nuvelo will be entitled to receive a refund of all money paid.

12.5 Bankruptcy.

(a) Amgen may terminate this License Agreement if, during the term of the Research Program, Nuvelo shall file in any court or agency pursuant to any statute or regulation of any

state or country, a petition in bankruptcy or insolvency or for reorganization or for an arrangement or for the appointment of a receiver or trustee of Nuvelo or of its assets, or if Nuvelo proposes a written agreement of composition or extension of its debts, or if Nuvelo shall be served with an involuntary petition in bankruptcy or seeking reorganization, liquidation, dissolution, winding-up arrangement, composition or readjustment of its debts or any other relief under any bankruptcy, insolvency, reorganization or other similar act or law of any jurisdiction now or hereafter in effect, or there shall have been issued a warrant of attachment, execution, distraint or similar process against it, filed in any insolvency proceeding, and such petition shall not be dismissed within ninety (90) days after the filing thereof, or if Nuvelo shall propose or be a party to any dissolution or liquidation, or if Nuvelo shall make an assignment for the benefit of creditors.

(b) All rights and licenses granted under or pursuant to this License Agreement by Amgen or Nuvelo are and shall otherwise be deemed to be for purposes of Section 365(n) of the U.S. Bankruptcy Code, licenses of rights to "intellectual property" as defined under Section 101 of the U.S. Bankruptcy Code. The Parties agree that each Party shall retain and may fully exercise all of its rights and elections under the U.S. Bankruptcy Code. The Parties further agree that, in event of the commencement of a bankruptcy proceeding by or against a bankrupt Party under the U.S. Bankruptcy Code, the other Party shall be entitled to a complete duplicate of (or complete access to, as appropriate) any intellectual property and all embodiments of such intellectual property, and same, if not already in the other Party's possession, shall be promptly delivered to the other Party (a) upon any such commencement of a bankruptcy proceeding, upon the other Party's written request therefor, unless the non-bankrupt Party (or a trustee on behalf of the non-bankrupt Party) elects to continue to perform all of its obligations under this License Agreement or (b) if not delivered under (a) above, upon the rejection of this License Agreement by or on behalf of the non-bankrupt Party, upon written request therefor by the other Party. In the event of the commencement of a bankruptcy proceeding by or against Nuvelo, Amgen shall have no responsibility for any product liability claims arising out of or relating to Licensed Products.

12.6 Effects of Termination. In addition to any other remedies which may be available at law or equity upon termination of this License Agreement the rights and obligations of the Parties shall be as set forth in this Section 12.6.

(a) The following provisions shall remain in full force and effect after the expiration or termination of this License Agreement: Section 6.5 (solely with respect to any ongoing possession or exchange of the other Party's Confidential Information); Section 6.7; Article 7 (only with respect to accrued rights and obligations pursuant to Section 12.7); Article 9 (Confidentiality); Section 10.3(c), 10.5 (Disclaimers); Article 11 (Indemnification); Article 12 (Term and Termination); and Article 14 (General).

(b) The Parties shall retain their respective ownership rights as set forth in Section 6.l(a) Amgen shall have the right, mutatis mutandis, to file, prosecute, defend and maintain Joint Patent Rights under Section 6.2(b) (with Nuvelo having the right mutatis mutandis to comment with respects to the claims of Joint Patent Rights not relating to products which may in any way affect the rights conferred to Amgen to Develop, manufacture and Commercialize Licensed Products) and Product Trademarks under Section 6.2(d), enforce Joint Patent Rights

under Section 6.3(b) (with Nuvelo having the right mutatis mutandis to assume any enforcement and/or defense action not taken by Amgen with respect to the claims of Joint Patent Rights not relating to products which may in any way affect the rights conferred to Amgen to Develop, manufacture and Commercialize Licensed Products) and Product Trademarks under Section 6.3(c); and defend any action claiming the infringement of any Third Party Patent Rights or any Third Party Trademark under Section 6.4(a) and to publish under Article 8.

(c) Nuvelo shall within thirty (30) days (other than with respect to Amgen Material and Manufacturing Information, in which case by no later than completion of its obligations, if any under Section 12.6(g) below) destroy, or at Amgen's request return, all Amgen Confidential Information, Amgen Know-How and Amgen Material and Manufacturing Information (other than with respect to maintaining one (1) archival copy of Confidential Information related thereto for its legal files, for the sole purpose of determining its obligations hereunder) and shall provide Amgen with certification by an officer of Nuvelo that all such materials have been returned to Amgen.

(d) Nuvelo shall promptly transfer to Amgen ownership of all Regulatory Filings and Regulatory Approvals then in its name for all Licensed Products and shall notify the appropriate Regulatory Authorities and take any other action reasonably necessary to effect such transfer of ownership. Nuvelo shall assign to Amgen Nuvelo's right, title and interest in the Product Trademarks.

(e) Amgen shall have the right to use Nuvelo's Trademarks in the selling of any existing inventory of Licensed Product(s) and to use Promotional Materials it then has on hand, provided however, that Amgen promptly creates new Promotional Materials (which do not use Nuvelo's corporate name and/or logo), with no obligation of accounting to Nuvelo.

(f) Nuvelo shall within thirty (30) days (other than with respect to Third Party agreements entered into pursuant to Section 6.8, in which case by no later than completion of its obligations if any under Section 12.6(g) below), at the request of Amgen, assign (if assignable under its terms) to Amgen all of Nuvelo's rights and obligations under any then-existing Third Party licenses having a license grant limited specifically to Licensed Products, regarding the making, having made, use, selling, offering to sell, and importing, exporting or otherwise transferring physical possession of or otherwise transferring title in or to Licensed Products and shall not (until receiving notice of whether or not Amgen desires such an assignment) terminate or amend any such Third Party license. Otherwise, Nuvelo shall, at the request of Amgen, sublicense (if sublicensable under its terms) to Amgen all of Nuvelo's rights and obligations under any then-existing Third Party licenses regarding the making, having made, use, selling, offering to sell, and importing, exporting or otherwise transferring physical possession of or otherwise transferring title in or to Licensed Products and shall not (until receiving notice of whether or not Amgen desires such a sublicense) terminate or amend any such Third Party license. Such assignment or sublicense shall be made for no additional consideration and be under the same terms and conditions as the underlying agreement.

(g) In the event Nuvelo shall (i) have been using a Third Party contract manufacturer(s) to manufacture Licensed Products, it shall only be obligated with respect to the manufacture and supply of Licensed Products under this License Agreement to assign its

agreement with each such Third Party contract manufacturer to Amgen or (ii) have been manufacturing Licensed Products at its own facilities, it shall remain responsible for supplying the reasonable amounts of Licensed Products for such reasonable period of time as to allow Amgen to obtain an alternate source of supply, if necessary, while ensuring an uninterrupted supply of Licensed Product of suitable quality and quantity required for the Development and Commercialization to proceed. Once manufacturing responsibility has been successfully transferred, Nuvelo shall no longer be responsible for the manufacture and supply of Licensed Products to Amgen for the Development and Commercialization of Licensed Products in the Territory and for making any decision with respect thereto and shall no longer be responsible for any obligations pursuant to Article 4. In the event Nuvelo is obligated to continue to supply Licensed Products under this Section 12.6(g), Amgen shall use Commercially Reasonable Efforts to identify one or more viable Third Party manufacturers in order to transfer manufacturing operations as soon as commercially reasonable.

(h) Amgen hereby agrees to Indemnify the Nuvelo Indemnitees from and against any and all Losses resulting from any Third Party claims, suits, actions or demands resulting directly or indirectly from the Development, manufacture or Commercialization of Licensed Products (including a claim that a Licensed Product caused death or personal injury of any land). To be eligible to be Indemnified as described above in this Section 12.6(h), the Nuvelo Indemnitees shall provide Amgen with prompt notice of any claim (with a description of the claim and the nature and amount of any such Loss) giving rise to the indemnification obligation pursuant to this Section 12.6(h) and the exclusive ability to defend such claim (with the reasonable cooperation of Nuvelo Indemnitees); provided however, that Amgen shall be relieved of its obligations only if any failure by the Nuvelo Indemnitee to deliver prompt notice shall have been prejudicial to its ability to defend such action. Nuvelo shall have the right to retain its own counsel, at its own expense, if representation of the counsel of Amgen would be inappropriate due to actual or potential differing interests between the Parties. Neither Party shall settle or consent to the entry of any judgment with respect to any claim for Loss for which indemnification is sought, without the prior written consent of the other Party (not to be unreasonably withheld). Amgen’s obligation to Indemnify the Nuvelo Indemnitees pursuant to this Section 12.6(h) shall not apply to the extent of any Losses (i) that arise from the negligence or intentional misconduct of any Nuvelo Indemnitee (including but not limited to that arising from the Development of Collaboration Product by Nuvelo); (ii) that arise from Nuvelo’s breach of any representation, warranty, covenant or obligation under this License Agreement; or (iii) for which Nuvelo is obligated to Indemnify the Amgen Indemnitees pursuant to Section 11.2 of this License Agreement.

(i) In the event that Amgen becomes entitled to terminate this License Agreement at any time after the First Commercial Sale, the Parties will mutually agree upon the text of a press release announcing the termination of this License Agreement. After a notice of termination has been delivered pursuant to any one of Sections 12.2 to 12.4, Nuvelo shall, in no event in excess of ninety (90) days after the delivery date of such notice (other than with respect to obligations which explicitly exceed such 90-day period), conduct an orderly transition of rights and responsibilities from Nuvelo to Amgen or to a Third Party, as the case may be. Further, each Party shall cooperate and assist the other Party to effect any such transition of rights and responsibilities in an orderly, reasonable and businesslike manner. Such assistance shall include, but not be limited to (i) making its personnel and other resources reasonably available to Amgen,

as necessary and (ii) transferring copies of all relevant information, files or data containing Information and all Materials to Amgen.

(j) Except as expressly set forth in this Section 12.6, all other rights and obligations shall terminate.

12.7 Accrued Rights. Termination, relinquishment or expiration of any licenses under this License Agreement or of this License Agreement for any reason in accordance with this Article 12 shall he without prejudice to any rights which shall have accrued to the benefit of either Party or any liability incurred by either Party prior to the effective date of such termination, relinquishment or expiration nor preclude either Party from pursuing all rights and remedies it may have hereunder or at law or in equity with respect to any breach of this License Agreement nor prejudice either Party's right to obtain performance of any obligation.

ARTICLE 13
DISPUTE RESOLUTION

13.1 Disputes. The Parties recognize that disputes as to certain matters may from time to time arise during the term of this License Agreement which relate to either Party's rights and/or obligations hereunder. It is the objective of the Parties to establish procedures to facilitate the resolution of disputes arising from, concerning or in any way relating to this License Agreement in an expedient manner by mutual cooperation and without resort to litigation. To accomplish this objective, the Parties agree to follow the procedures set forth in this Section 13.1 if and when a dispute arises under this License Agreement. The Parties shall undertake good faith efforts to resolve any such dispute in good faith. In the event the Parties shall be unable to resolve such dispute, either Party may, by written notice to the other Party, have any dispute between the Parties referred to their respective executive officers designated below)or their designees or successors) for attempted resolution by good faith negotiations within fifteen (15) days after such notice is received. Such designated officers are as follows:

For Nuvelo: Nuvelo's General Counsel

For Amgen: Amgen's General Counsel

If the designated officers are not able to resolve such dispute within such fifteen (15) day period, the dispute will be referred to the respective Chief Executive Officers of each Party (or their respective Senior Vice President designee(s)). If the Chief Executive Officers (or their designees) are unable to resolve such dispute within a further fifteen (15) day period, either Party may at any time thereafter pursue any legal or equitable remedy available to it. Notwithstanding the above, either Party shall be entitled at all times and without delay to seek equitable relief.

13.2 Governing Law; Judicial Resolution. Resolution of all disputes arising out of or related to this License Agreement, or the performance, enforcement, breach or termination of this License Agreement and any remedies relating thereto, shall be governed by and construed under the substantive laws of the State of California as applied to agreements executed and performed entirely in the State of California by residents of the State of California, without regard to conflicts of law rules. Any dispute arising under this License Agreement shall be submitted to a state or federal court of competent jurisdiction in California; provided however,

that if Amgen is the initiating Party in a dispute, its shall bring such suit in a state or federal court which has jurisdiction over Sunnyvale, California; and if Nuvelo is the initiating Party in a dispute, its shall bring such suit in a state or federal court which has jurisdiction over Thousand Oaks, California.

13.3 Patent and Trademark Dispute Resolution. Notwithstanding the above Section 13.2, as between the Parties, any dispute, controversy or claim relating to the scope, validity, enforceability or infringement of any Amgen Patent Rights or Joint Patent Rights or of any Product Trademark shall be submitted to a court of competent jurisdiction in the Territory in which such Patent Rights or Trademark rights were granted or arose. Notwithstanding the foregoing, any dispute, controversy or claim relating to the scope, validity, enforceability or infringement of any United States patent application or patent within Amgen Patent Rights or Joint Patent Rights shall be submitted to a court of competent jurisdiction in the State of California.

ARTICLE 14
GENERAL

14.1 Force Majeure. Both Parties shall be excused from the performance of their obligations under this License Agreement to the extent that such performance is prevented by Force Majeure and the nonperforming Party promptly provides notice of the prevention to the other Party. Such excuse shall be continued so long as the condition constituting Force Majeure continues and the nonperforming Party uses reasonable efforts to remove the condition. When such circumstances arise, the Parties shall discuss what, if any, modification of the terms of this License Agreement may be required in order to arrive at an equitable solution.

14.2 Notices. Any notice required or permitted to be given under this License Agreement shall be in writing, shall specifically refer to this License Agreement and shall be deemed to have been sufficiently given for all purposes if mailed by first class certified or registered mail, postage prepaid, express delivery service or personally delivered or, if sent by facsimile, electronic transmission is confirmed. Unless otherwise notified in writing, the mailing addresses and fax numbers for notice of the Parties shall be as described below.

For Nuvelo:	Nuvelo, Inc. 670 Almanor Ave. Sunnyvale, CA 94085-1710 Phone: (408) 524-8100 Facsimile: (408) 524-8415 Attn: General Counsel
	With a copy to: Chief Financial Officer
For Amgen:	Amgen Inc. One Amgen Center Drive Thousand Oaks, CA 91320-1799 Fax: (805) 499-6058 Attention: Vice President, Licensing
	With a copy to: Corporate Secretary

14.3 Maintenance of Records. Each Party shall keep and maintain all records required by law or regulation with respect to Licensed Products and shall make copies of such records available to the other Party upon request.

14.4 No Strict Construction. This License Agreement has been prepared jointly and shall not be strictly construed against either Party.

14.5 Assignment. Other than as set forth in Sections 2.3 or 14.6, neither Party may assign or transfer this License Agreement or any lights or obligations hereunder without the prior written consent of the other, except that a Party may make such an assignment without the other Party's consent to Affiliates or to an entity that acquires all or substantially all of the business of such Party, whether in a merger, consolidation, reorganization, acquisition, sale or otherwise. This License Agreement shall be binding on the successors and assigns of the assigning Party, and the name of a Party appearing herein shall be deemed to include the name(s) of such Party's successors and permitted assigns to the extent necessary to carry out the intent of this License Agreement. Any assignment or attempted assignment by either Party in violation of the terms of this Section 14.5 shall be null and void and of no legal effect. The assigning Party shall forward to the other Party a copy of those portions of each fully executed assignment agreement which relate to the assumption of the rights and responsibilities of the assigning Party, within sixty (60) days of the execution of such assignment agreement.

14.6 Performance by Affiliates. Each of Amgen and Nuvelo acknowledge that obligations under this License Agreement may be performed by Affiliates of Amgen and Nuvelo. Each of Amgen and Nuvelo guarantee performance of this License Agreement by its Affiliates, notwithstanding any assignment to Affiliates in accordance with Section 14.5 of this License Agreement. Wherever in this License Agreement the Parties delegate responsibility to Affiliates or local operating entities, the Parties agree that such affiliates/entities may not make decisions inconsistent with this License Agreement, nor amend the terms of this License Agreement or act contrary to its terms in any way. Nuvelo shall forward to Amgen a copy of each fully executed license or sublicense agreement, within sixty (60) days of the execution of each such license or sublicense agreement.

14.7 Counterparts. This License Agreement may be executed in two (2) or more counterparts, each. of which shall be deemed an original but all of which together shall constitute one and the same instrument.

14.8 Severability. If any one or more of the provisions of this License Agreement are held to be invalid or unenforceable by any court of competent jurisdiction from which no appeal can be or is taken, such provisions shall be considered severed from this License Agreement and shall not serve to invalidate any remaining provisions hereof. The Parties shall make a good faith effort to replace any invalid or unenforceable provision with a valid and enforceable one such that the objectives contemplated by the Parties when entering this License Agreement, as

evidenced by the terms of this License Agreement in accordance with Section 14.16, may be realized.

14.9 Headings. The headings for each Article and Section in this License Agreement have been inserted for convenience of reference only and are not intended to limit or expand on the meaning of the language contained in the particular Article or Section. Unless otherwise specified, (a) references in this License Agreement to any Article, Section or Exhibit shall mean references to such Article, Section or Exhibit of this License Agreement, (b) references in any Section to any clause are references to such clause of such Section, and (c) references to any agreement, instrument or other document in this License Agreement refer to such agreement, instrument or other document as originally executed or, if subsequently varied, replaced or supplemented from time-to-time, as so varied, replaced or supplemented and in effect at the relevant time of reference thereto.

14.10 Further Actions. Each Party agrees to execute, acknowledge and deliver such further instruments, and to do all such other acts, as may be necessary or appropriate in order to carry out the purposes and intent of this License Agreement.

14.11 Independent Contractors. The relationship between Nuvelo and Amgen created by this License Agreement is one of independent contractors. This License Agreement does not create any agency, distributorship, employee-employer, partnership, joint venture or similar business relationship between the parties. Neither Party is a legal representative of the other Party, and neither Party can assume or create any obligation, representation, warranty or guarantee (express or implied) on behalf of the other Party for any purpose whatsoever. Each Party shall use its own discretion and shall have complete and authoritative control over its employees and the details of performing its obligations under this License Agreement.

14.12 No Benefit of Third Parties. The representations, warranties, covenants and agreements set forth in this License Agreement are for the sole benefit of the Parties hereto and their successors and permitted assigns, and they shall not be construed as conferring any rights on any Third Parties.

14.13 Use of Name. Except as expressly provided in this License Agreement, no Party hereto shall use, and no rights are granted in or to, the names or Trademarks (including the names “Amgen” and “Nuvelo”), physical likeness, employee names or owner symbol of the other Party for any purpose (including, without limitation, private or public securities placements) without the prior written consent of the affected Party, such consent not to be unreasonably withheld or delayed so long as such use of name is limited to an objective statement of fact rather than for endorsement purposes, provided, further that in the event that such use is legally required the required Party shall provide the affected Party with “reasonable opportunity to comment on such use and the required Party shall reasonably consider the comments timely provided by such affected Party. Neither Party shall use any Trademark which either substantially resembles or is confusingly similar to, misleading or deceptive with respect to, or which dilutes any of the other Party’s Trademarks in connection with the subject matter of this License Agreement.

14.14 No Waiver. Any delay in enforcing a Party's rights under this License Agreement or any waiver as to a particular default or other matter shall not constitute a waiver of such Party's rights to the future enforcement of its rights under this License Agreement, except with respect to an express written and signed waiver relating to a particular matter for a particular period of time.

14.15 Export Requirements. It is understood and acknowledged that the transfer of certain commodities and technical data is subject to United States laws and regulations controlling the export of such commodities and technical data, including all Export Administration Regulations of the United States Department of Commerce. Each Party hereby agrees and by entering into this License Agreement gives written assurance that it shall comply with all United States laws and regulations controlling the export of commodities and technical data within Information and Materials, that it will be solely responsible for any violation of any such laws and regulations by itself, its Affiliates or its Sublicensees, and that it will indemnify, defend and hold the other Party harmless from any liability in the event of any legal action of any nature occasioned by such violation, pursuant to Section 11.1 (in the case of Amgen) or Section 11.2 (in the case of Nuvelo).

14.16 Entire Agreement; Amendment. This License Agreement (including all Exhibits); that certain Warrant Purchase Agreement, dated January 8, 2002; and any rights and obligations surviving, by its terms, termination of that certain Collaboration Agreement (as defined herein on Page 1) set forth the complete, final and exclusive agreement and all the covenants, promises, agreements, warranties, representations, conditions and understandings between the Parties hereto and supersedes and terminates all prior agreements and understandings between the Parties. There are no covenants, promises, agreements, warranties, representations, conditions or understandings (either oral or written) between the Parties other than as are set forth herein and therein. This License Agreement may only be modified or supplemented in a writing expressly stated for such purpose and signed by an authorized officer of each Party (i.e., it may not be modified by any purchase order, change order, acknowledgment, order acceptance, standard terms of sale, invoice or the like).

14.17 Exhibits. All Exhibits referenced herein and attached hereto are incorporated in this License Agreement by reference.

SIGNATURE PAGE FOLLOWS

IN WITNESS WHEREOF, the Parties have executed this License Agreement in duplicate originals by their duly authorized representatives as of the Effective Date.

AMGEN INC.

By: 

Print Name: Roger M. Perlmutter, M.D., Ph.D.

Title: Executive Vice President, Research and Development

NUVELO, INC.

By: 

Print Name: Ted W. Love

Title: Pres & CEO

EXHIBIT A

Defined Terms

A.1 "Affiliate" shall mean, except as provided below, an individual, a partnership, a joint venture, a corporation, a trust, an estate, an unincorporated organization, a government or any department or agency thereof, or any other entity or any combination of the aforementioned entities that, directly or indirectly, through one or more intermediaries, controls, is controlled by or is under common control with Amgen or Nuvelo. For purposes of this definition, "control" shall mean the possession, direct or indirect, of the power to cause the direction of the management and policies of a Party, whether through ownership of more than fifty percent (50%) of the voting securities of such Party, by contract or otherwise.

A.2 "Alfimeprase" shall mean the polypeptide having the amino acid sequence which is set forth in Exhibit B.

A.3 "Amgen Know-How" shall mean all Information and Material Controlled by Amgen prior to or on the Effective Date necessary to Develop, manufacture or Commercialize Licensed Products, including but not limited to the following information: (1) information disclosed in the IND for Alfimeprase as of the Effective Date; (2) information disclosed as of the Effective Date in any IND supplements for Alfimeprase; (3) all Amgen-sponsored collaborator data and results (subject to any contractual confidentiality obligations of Amgen to Third Parties regarding such results); (4) any regulatory data which Amgen provides to Nuvelo; (5) sequence information of other Licensed Products and information regarding their activity; and (6) such information which Amgen expressly designates in writing it intends to include as Amgen Know-How under this License Agreement; provided however, that Amgen Know-How shall exclude Amgen Material and Manufacturing Information.

A.4 "Amgen Material and Manufacturing Information" shall mean the most current version of (i) the Materials (other than Licensed Products); and (ii) the Information pertaining to the manufacture of Licensed Products including, without limitation, Information contained in the CMC section of any applicable Regulatory Filings or Information regarding Amgen's manufacturing facility; and (iii) Information regarding the Materials.

A.5 "Amgen Patent Rights" shall mean Amgen's rights in (a) those Patent Rights Controlled by Amgen on the Effective Date with respect to the Licensed Products and listed in Exhibit C and (b) all Patent Rights Controlled by Amgen prior to or during the term of the License Agreement that claim Amgen Know-How.

A.6 "Amgen Technology" "shall mean all Amgen Patent Rights and Amgen Know-How and Amgen's interest in the Joint Patent Rights and Joint Know-How.

A.7 "Asian Countries" shall mean one or more of the following: Bangladesh, Cambodia, India, Indonesia, Japan, Laos, Malaysia, Myanmar, Nepal, North Korea, Pakistan, Peoples Republic of China (including Hong Kong and Macao), Philippines, Singapore, South Korea, Sri Lanka, Taiwan, Thailand and Vietnam.

A.8 "Calendar Quarter" shall mean the respective periods of three (3) consecutive calendar months ending on either March 31, June 30, September 30, or December 31 for so long as this License Agreement is in effect.

A.9 "Calendar Year" means each successive period of twelve (12) months commencing on January 1 and ending on December 31.

A.10 "Commercialize" or "Commercialization" shall mean all activities relating to the manufacturing, promotion, and other pre-launch and post-launch marketing and sale activities of Licensed Products and shall include without limitation, Phase IV clinical trials (as defined in the Collaboration Agreement) or equivalent clinical trials conducted following Regulatory Approval to market such Licensed Product.

A.11 "Commercially Reasonable Efforts" shall mean the level of efforts and resources required to Develop, manufacture or Commercialize a Licensed Product in a sustained manner consistent with the efforts a similarly situated biopharmaceutical company would typically devote to a product of similar market potential, profit potential or strategic value resulting from its own research efforts, based on conditions then prevailing. Commercially Reasonable Efforts shall be determined on a country-by-country (each country including its territories) basis for a particular Licensed Product, and it is anticipated that the level of effort will change over time reflecting changes in the status of the Licensed Product and the country (including its territories) involved.

A.12 "Competitive Product" shall mean any pharmaceutical product, other than a Licensed Product, that contains (a) Alfimeprase or (b) any fibrinolytic metalloproteinase product which has, incorporates or contains the following properties: (i) is directly fibrinolytic, (ii) does not require the involvement of the plasminogen system, and (iii) is complexed by alpha-2 macroglobulin.

A.13 "Confidential Information" shall mean all Information received by either Party from the other Party pursuant to this License Agreement, other than that portion of such Information which:

(a) is publicly disclosed by the disclosing Party, either before or after it becomes known to the receiving Party;

(b) was known to the receiving Party, without obligation to keep it confidential, prior to when it was received from the disclosing Party;

(c) is subsequently disclosed to the receiving Party, by a Third Party lawfully in possession thereof without obligation to keep it confidential;

(d) has been publicly disclosed other than by the disclosing Party and without breach of an obligation of confidentiality with respect thereto; or

(e) has been independently developed by the receiving Party without the aid, application or use of Confidential Information, as demonstrated by competent written proof.

A.14 "Control" or "Controlled" shall mean possession of the ability to grant a license or sublicense as provided for herein under such intellectual property right without violating the terms of any agreement or other arrangement with any Third Party.

A.15 "Development" or "Develop" shall mean all research, pre-clinical, process development/manufacturing and clinical activities undertaken for a Licensed Product required to successfully complete Pivotal Trials in the Territory. For the avoidance of doubt, these activities shall include clinical drug development activities, including among other things: test method development and stability testing, toxicology, formulation, statistical analysis and report writing, product approval and registration, and regulatory affairs related to the foregoing. When used as a verb, "Develop" means to engage in Development.

A.16 "Dollar" shall mean a United States dollar, and "$" shall be interpreted accordingly.

A.17 "Drug Approval Application" shall mean an application for Regulatory Approval required before commercial sale or use of a Licensed Product as a drug or to treat a particular indication in a regulatory jurisdiction, including without limitation: (a) (i) a Biologics License Application (BLA) pursuant to 21 C.F.R. 601.2, submitted to the FDA, or any successor application or procedure and (ii) any counterpart of a U.S. BLA in another country in the Territory; and (b) all supplements and amendments, including supplemental BLAs (and any foreign counterparts), that may be filed (e.g., to expand the label) with respect to the foregoing.

A.18 "FDA" shall mean the United States Food and Drug Administration, or any successor thereto.

A.19 "First Commercial Sale" shall mean the initial transfer by Nuvelo or its Affiliates or Sublicensees under this License Agreement of a Licensed Product to a non-Sublicensee Third Party in exchange for cash or some equivalent to which value can be assigned for the purpose of determining Net Sales, following Regulatory Approval to market such Licensed Product.

A.20 "Force Majeure" shall mean any occurrence beyond the reasonable control of a Party that prevents or substantially interferes with the performance by such Party of any of its obligations hereunder, if such occurs by reason of any act of God, flood, fire, explosion, earthquake, breakdown of plant, shortage of critical equipment, loss or unavailability of manufacturing facilities or material, strike, lockout, labor dispute, casualty or accident, or war, revolution, civil commotion, acts of public enemies, blockage or embargo, or any injunction, law, order, proclamation, regulation, ordinance, demand or requirement of any government or of any subdivision, authority or representative of any such government, inability to produce or use materials, labor, equipment, transportation, or energy sufficient to meet manufacturing needs without the necessity of allocation, or any other cause whatsoever, whether similar or dissimilar to those above enumerated, beyond the reasonable control of such Party, if and only if the Party affected shall have used reasonable efforts to avoid such occurrence and to remedy it promptly if it shall have occurred.

A.21 "GAAP" shall mean United States generally accepted accounting principles.

A.22 "IND" shall mean an Investigational New Drug application.

A.23 "Information" shall mean all tangible and intangible techniques, technology, practices, trade secrets, inventions (whether patentable or not), methods, knowledge, know-how, conclusions, skill, experience, test data and results (including pharmacological, toxicological and clinical test data and results), analytical and quality control data, results or descriptions, software and algorithms.

A.24 "Joint Know-How" shall mean Information and Materials characterized, conceived, developed, derived, generated or identified jointly by employees of or consultants to Nuvelo and employees of or consultants to Amgen from the Effective Date through the Term.

A.25 "Joint Patent Rights" shall mean all Patent Rights that claim or disclose Joint Know-How.

A.26 "Licensed Product(s)" shall mean (a) Alfimeprase or (b) any fibrinolytic metalloproteinase product which is owned or Controlled by Amgen and/or Nuvelo and which has, incorporates or contains the following properties: (i) is directly fibrinolytic, (ii) does not require the involvement of the plasminogen system, and (iii) is complexed by alpha-2 macroglobulin.

A.27 "Losses" shall mean liabilities, costs, fees, expenses and/or losses, including without limitation reasonable legal costs and expenses and attorneys' fees for outside counsel.

A.28 "Materials" shall mean certain biological materials including, but not limited to, Licensed Products, screens, animal models, cell lines, cells, nucleic acids, receptors and reagents.

A.29 "Net Sales" shall mean all revenues recognized in accordance with GAAP from the sale or other disposition of Licensed Products by Nuvelo or its Affiliates or Sublicensees to a non-Sublicensee Third Party after deducting returns and allowances (actually paid or allowed) including, but not limited to, prompt payment and volume discounts, price reductions, including Medicaid and similar types of rebates, chargebacks from wholesalers of Licensed Products (whether in cash or trade), freight, shipping, packing, insurance, rebates, and sales and other taxes based on sales prices when included in gross sales, but not including taxes when assessed on income derived from such sales. Amounts received by Nuvelo or its Affiliates for the sale of Licensed Products among Nuvelo or its Affiliates for resale or for transfer of Licensed Products to a Sublicensee for resale shall not be included in the computation of Net Sales hereunder.

A.30 "Patent Rights" shall mean (i) a pending application for a patent, including without limitation any provisional, converted provisional, continued prosecution application, continuation, divisional or continuation-in-part thereof; or (ii) an issued, unexpired patent (with the term "patent" being deemed to encompass, without limitation, an inventor's certificate) which has not been held invalid or unenforceable by a court of competent jurisdiction from which no appeal can be taken or has been taken within the required time period, including without limitation any substitution, extension, registration, confirmation, reissue, re-examination, renewal or any like filing thereof.

A.31 "Pivotal Trial(s)" shall mean those clinical trials on sufficient numbers of patients that, if the defined end-points are met, are designed (and agreed to by the FDA, or other Regulatory Authorities in the Territory based upon existing data in the same patient population) as of the start of the trial to definitively establish that a drug is safe and efficacious for its intended use, and to define warnings, precautions and adverse reactions that are associated with the drug in the dosage range to be prescribed, and provide pivotal data supporting Regulatory Approval of such drug or label expansion of such drug and that satisfy the requirements of 21 CFR 321.21(c) (or its successor regulation), or an equivalent foreign clinical trial.

A.32 "Product Trademark" shall mean any trademarks and trade names (and trademark applications (whether or not registered) together with all goodwill associated therewith, and any renewals, extensions or modifications thereto in the Territory), trade dress and packaging which (a) are owned by or Controlled by either Party and (b) are applied to or used with Licensed Products or any Promotional Materials. The Parties hereby acknowledge that as of the Effective Date no such Product Trademarks are owned or have been developed by Amgen.

A.33 "Promotional Materials" shall mean all sales representative training materials and all written, printed, graphic, electronic, audio or video matter including, but not limited to, journal advertisements, sales visual aids, direct mail, direct-to-consumer advertising, Internet postings, broadcast advertisements, and sales reminder aids (e.g., scratch pads, pens and other such items) intended for use or used by a Party in connection with any Promotion (as defined herein) or Detailing (as defined in the Collaboration Agreement) of a Licensed Product, except for (i) the Regulatory Authority-approved full prescribing information for a Licensed Product, including any required patient information and (ii) all labels and other written, printed or graphic matter upon any container, wrapper, or any package insert or outsert utilized with or for a Licensed Product.

A.34 "Regulatory Approval" shall mean any approvals (including supplements, amendments, pre- and post-approvals and price approvals), licenses, registrations or authorizations (including designations of a Licensed Product as an "Orphan Product" under the Orphan Drug Act) of any national, supra-national, regional, state or local regulatory agency, department, bureau, commission, council or other governmental entity, including the FDA or equivalent foreign Regulatory Authorities, necessary for the distribution, use or sale of a Licensed Product in a regulatory jurisdiction. Regulatory Approval shall not include any site license for an Amgen manufacturing facility.

A.35 "Regulatory Authority" shall mean the FDA or any counterpart of the FDA outside the United States.

A.36 "Regulatory Filings" shall mean collectively, INDs, BLAs, establishment license applications (ELAs) and drug master files (DMFs), applications for designation of a Licensed Product as an "Orphan Product" under the Orphan Drug Act, or any other similar filings (including any foreign equivalents and further including any related correspondence and discussions), and all data contained therein, as may be required by the FDA or equivalent foreign Regulatory Authorities for the Development, manufacture or Commercialization of a Licensed Product.

A.37 "Royalty" or "Royalties" shall mean those amounts payable as royalties by Nuvelo to Amgen pursuant to Section 5.2 of this License Agreement.

A.38 "Sublicensee" shall mean a Third Party to whom Nuvelo shall have granted a license or sublicense under Nuvelo's rights pursuant to Section. 2.3 to make, have made, use, sell, offer for sale, or import a Licensed Product in one or more countries in the Territory. Solely for the purpose of any compensation payable to Amgen hereunder, "Sublicensee" shall include a Third Party to whom Nuvelo or another Sublicensee shall have granted the right to distribute one or more Licensed Product(s), wherein such distributor pays to Nuvelo or such another Sublicensee a royalty based upon the revenues received by the distributor for the sale of such Licensed Product(s), but shall not include (i) any Third Party who receives an implied license to use a unit of Licensed Product(s), arising by operation of law, as a consequence of the purchase of said unit of Licensed Product(s); or (ii) any Third Party where Nuvelo or such another Sublicensee merely sells such Licensed Product(s) at a fixed transfer price to such distributor for resale by such distributor and Nuvelo is not compensated based on the resale price of such Licensed Product by such distributor.

A.39 "Term" shall have the meaning set forth in Section 12.1.

A.40 "Territory" shall mean the world.

A.41 "Third Party" shall mean any individual, a partnership, a joint venture, a corporation, a trust, an estate, an unincorporated organization, a government or any department or agency thereof, or any other than Amgen or Nuvelo or an Affiliate of either of them.

A.42 "Third Party Payment" shall mean all upfront payments, milestone payments, license fees, royalties or other payments, payable to any Third Party under any Third Party license agreement deemed necessary or useful to make, have made, use, sell, offer to sell, and import, export or otherwise transfer physical possession of or otherwise transfer title in a Licensed Product.

A.43 "Trademark" shall mean any and all corporate names, trade names, service marks, logos or trademarks and trademark applications (whether or not registered) together with all good will associated therewith, and any renewals, extensions or modifications thereto either filed or used.

A.44 "Valid Claim" shall mean (i) an unexpired claim of an issued patent within the Amgen Patent Rights and Joint Patent Rights that has not been found to be unpatentable, invalid or unenforceable by a court or other authority in the country of the patent, from which decision no appeal is taken or can be taken; or (ii) a claim of a pending application within the Amgen Patent Rights and Joint Patent Rights, wherein such pending application claims a first priority no more than five (5) years prior to the date upon which pendency is determined.

EXHIBIT B

PROTEIN SEQUENCE OF ALFIMEPRASE

RN 259074-76-5 ZREGISTRY
CN 3-203-Fibrolase [3-serine] (Agkistrodon contortrix contortrix recombinant) (9CI) (CA INDEX NAME)
FS PROTEIN SEQUENCE
SQL 201
NTE

type	location		description
bridge	Cys-116	- Cys-196	disulfide bridge
bridge	Cys-156	- Cys-180	disulfide bridge
bridge	Cys-158	- Cys-163	disulfide bridge

SEQ

1	SFPQRYVQLV	IV&DHRMNTK	YNGDSDKIRQ	WVHQIVNTIN	EIYRPLNIQF
51	TLVGLEIWSN	QDLITVTSVS	HDTLASFGNW	RETDLLRRQR	HDNAQLLTAI
101	DFDGDTVGLA	YVGGMCQLKH	STGVIQDHSA	INLLVALTMA	HELGHNLGMN
151	HDGNQCHCGA	NSCVMAAMLS	DQPSKLFSDC	SKKDYQTFLT	VNNPQCILNK
201	P				

SEQ.3

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  1 Ser-Phe-Pro-Gln-Arg-Tyr-Val-Gln-Leu-Val-
 11 Ile-Val-Ala-Asp-His-Arg-Met-Asn-Thr-Lys-
 21 Tyr-Asn-Gly-Asp-Ser-Asp-Lys-Ile-Arg-Gln-
 31 Trp-Val-His-Gln-Ile-Val-Asn-Thr-Ile-Asn-
 41 Glu-Ile-Tyr-Arg-Pro-Leu-Asn-Ile-Gln-Phe-
 51 Thr-Leu-Val-Gly-Leu-Glu-Ile-Trp-Ser-Asn-
 61 Gln-Asp-Leu-Ile-Thr-Val-Thr-Ser-Val-Ser-
 71 His-Asp-Thr-Leu-Ala-Ser-Phe-Gly-Asn-Trp-
 81 Arg-Glu-Thr-Asp-Leu-Leu-Arg-Arg-Gln-Arg-
 91 His-Asp-Asn-Ala-Gln-Leu-Leu-Thr-Ala-Ile-
101 Asp-Phe-Asp-Gly-Asp-Thr-Val-Gly-Leu-Ala-
111 Tyr-Val-Gly-Gly-Met-Cys-Gln-Leu-Lys-His-
121 Ser-Thr-Gly-Val-Ile-Gln-Asp-His-Ser-Ala-
131 Ile-Asn-Leu-Leu-Val-Ala-Leu-Thr-Met-Ala-
141 His-Glu-Leu-Gly-His-Asn-Leu-Gly-Met-Asn-
151 His-Asp-Gly-Asn-Gln-Cys-His-Cys-Gly-Ala-
161 Asn-Ser-Cys-Val-Met-Ala-Ala-Met-Leu-Ser-
171 Asp-Gln-Pro-Ser-Lys-Leu-Phe-Ser-Asp-Cys-
181 Ser-Lys-Lys-Asp-Tyr-Gln-Thr-Phe-Leu-Thr-
191 Val-Asn-Asn-Pro-Gln-Cys-Ile-Leu-Asn-Lys-
201 Pro
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EXHIBIT C

AMGEN PATENT RIGHTS AS OF THE EFFECTIVE DATE

PATENTS

COUNTRY	TITLE	PATENT #
ALBANIA	PHARMACEUTICAL COMPOSITIONS OF FIBRINOLYTIC AGENT	1220685
AUSTRIA	PHARMACEUTICAL COMPOSITIONS OF FIBRINOLYTIC AGENT	1220685
BELGIUM	PHARMACEUTICAL COMPOSITIONS OF FIBRINOLYTIC AGENT	1220685
BULGARIA	PHARMACEUTICAL COMPOSITIONS OF FIBRINOLYTIC AGENT	1220685
CYPRUS	PHARMACEUTICAL COMPOSITIONS OF FIBRINOLYTIC AGENT	1220685
DENMARK	PHARMACEUTICAL COMPOSITIONS OF FIBRINOLYTIC AGENT	1220685
EURASIAN PATENT OFFICE	PHARMACEUTICAL COMPOSITIONS OF FIBRINOLYTIC AGENT	4627
EUROPEAN PATENT OFFICE	PHARMACEUTICAL COMPOSITIONS OF FIBRINOLYTIC AGENT	1220685
FINLAND	PHARMACEUTICAL COMPOSITIONS OF FIBRINOLYTIC AGENT	1220685
FRANCE	PHARMACEUTICAL COMPOSITIONS OF FIBRINOLYTIC AGENT	1220685
GERMANY	PHARMACEUTICAL COMPOSITIONS OF FIBRINOLYTIC AGENT	1220685
GREAT BRITAIN	PHARMACEUTICAL COMPOSITIONS OF FIBRINOLYTIC AGENT	1220685
GREECE	PHARMACEUTICAL COMPOSITIONS OF FIBRINOLYTIC AGENT	1220685
IRELAND	PHARMACEUTICAL COMPOSITIONS OF FIBRINOLYTIC AGENT	1220685
ITALY	PHARMACEUTICAL COMPOSITIONS OF FIBRINOLYTIC AGENT	1220685
LATVIA	PHARMACEUTICAL COMPOSITIONS OF FIBRINOLYTIC AGENT	1220685
LITHUANIA	PHARMACEUTICAL COMPOSITIONS OF FIBRINOLYTIC AGENT	1220685
LUXEMBOURG	PHARMACEUTICAL COMPOSITIONS OF FIBRINOLYTIC AGENT	1220685
MACEDONIA	PHARMACEUTICAL COMPOSITIONS OF FIBRINOLYTIC AGENT	1220685
MONACO	PHARMACEUTICAL COMPOSITIONS OF FIBRINOLYTIC AGENT	1220685
NETHERLANDS	PHARMACEUTICAL COMPOSITIONS OF FIBRINOLYTIC AGENT	1220685
NEW ZEALAND	PHARMACEUTICAL COMPOSITIONS OF FIBRINOLYTIC AGENT	518007
PORTUGAL	PHARMACEUTICAL COMPOSITIONS OF FIBRINOLYTIC AGENT	1220685
ROMANIA	PHARMACEUTICAL COMPOSITIONS OF FIBRINOLYTIC AGENT	1220685
SLOVENIA	PHARMACEUTICAL COMPOSITIONS OF FIBRINOLYTIC AGENT	1220685
SOUTH AFRICA	PHARMACEUTICAL COMPOSITIONS OF FIBRINOLYTIC AGENT	02002/2400
SPAIN	PHARMACEUTICAL COMPOSITIONS OF FIBRINOLYTIC AGENT	1220685
SWEDEN	PHARMACEUTICAL COMPOSITIONS OF FIBRINOLYTIC AGENT	1220685
SWITZERLAND	PHARMACEUTICAL COMPOSITIONS OF FIBRINOLYTIC AGENT	1220685
UNITED STATES	PHARMACEUTICAL COMPOSITIONS OF FIBRINOLYTIC AGENT	6440414

PATENTS

COUNTRY	TITLE	PATENT #
UNITED STATES	METHOD FOR LOCALIZED ADMINISTRATION OF FIBRINOLYTIC METALLOPROTEINASES	6455269
UNITED STATES	DNA MOLECULES ENCODING FIBRINOLYTICALLY ACTIVE POLYPEPTIDE	6617145
AUSTRALIA	FIBRINOLYTICALLY ACTIVE POLYPEPTIDE	767827
NEW ZEALAND	FIBRINOLYTICALLY ACTIVE POLYPEPTIDE	517951
SINGAPORE	FIBRINOLYTICALLY ACTIVE POLYPEPTIDE	87654
SOUTH AFRICA	FIBRINOLYTICALLY ACTIVE POLYPEPTIDE	02002/2206
UNITED STATES	FIBRINOLYTICALLY ACTIVE POLYPEPTIDE	6261820
UNITED STATES	SIZE ENHANCED FIBRINOLYTIC ENZYMES; LIMITATIONS OF PLASMA INACTIVATION	6214594

PATENT APPLICATIONS

COUNTRY	TITLE	PATENT APPLICATIONS#
UNITED STATES	PHARMACEUTICAL COMPOSITIONS OF FIBRINOLYTIC AGENT	10/226408
PCT	METHOD FOR TREATMENT OF INDWELLING CATHETER OCCULSION USING FIBRINOLYTIC	US03/19702
UNITED STATES	METHOD FOR TREATMENT OF INDWELLING CATHETER OCCULSION USING FIBRINOLYTIC	10/177916
AUSTRALIA	PHARMACEUTICAL COMPOSITIONS OF FIBRINOLYTIC AGENT	77430/00
BRAZIL	PHARMACEUTICAL COMPOSITIONS OF FIBRINOLYTIC AGENT	PI00014420-7
CANADA	PHARMACEUTICAL COMPOSITIONS OF FIBRINOLYTIC AGENT	2385966
CHINA	PHARMACEUTICAL COMPOSITIONS OF FIBRINOLYTIC AGENT	816379
CZECH REPUBLIC	PHARMACEUTICAL COMPOSITIONS OF FIBRINOLYTIC AGENT	02002-1033
HONG KONG	PHARMACEUTICAL COMPOSITIONS OF FIBRINOLYTIC AGENT	3100282.4
HUNGARY	PHARMACEUTICAL COMPOSITIONS OF FIBRINOLYTIC AGENT	00P0202554
ISRAEL	PHARMACEUTICAL COMPOSITIONS OF FIBRINOLYTIC AGENT	148842
JAPAN	PHARMACEUTICAL COMPOSITIONS OF FIBRINOLYTIC AGENT	2001527816
MEXICO	PHARMACEUTICAL COMPOSITIONS OF FIBRINOLYTIC AGENT	3197
NORWAY	PHARMACEUTICAL COMPOSITIONS OF FIBRINOLYTIC AGENT	20021500
PCT	PHARMACEUTICAL COMPOSITIONS OF FIBRINOLYTIC AGENT	US00/27022
POLAND	PHARMACEUTICAL COMPOSITIONS OF FIBRINOLYTIC AGENT	P-355016
SERBIA AND MONTENEGRO	PHARMACEUTICAL COMPOSITIONS OF FIBRINOLYTIC AGENT	P-233/02
SINGAPORE	PHARMACEUTICAL COMPOSITIONS OF FIBRINOLYTIC AGENT	2002017465
SLOVAKIA	PHARMACEUTICAL COMPOSITIONS OF FIBRINOLYTIC AGENT	42402002

PATENT APPLICATIONS

COUNTRY	TITLE	PATENT APPLICATIONS#
SOUTH KOREA	PHARMACEUTICAL COMPOSITIONS OF FIBRINOLYTIC AGENT	7004128/02
AUSTRALIA	PHARMACEUTICAL COMPOSITIONS OF FIBRINOLYTIC AGENT	2004201694
EUROPEAN PATENT OFFICE	PHARMACEUTICAL COMPOSITIONS OF FIBRINOLYTIC AGENT	4007657.2
NEW ZEALAND	PHARMACEUTICAL COMPOSITIONS OF FIBRINOLYTIC AGENT	530959
SINGAPORE	PHARMACEUTICAL COMPOSITIONS OF FIBRINOLYTIC AGENT	2004005427
AUSTRALIA	METHOD FOR LOCALIZED ADMINISTRATION OF FIBRINOLYTIC METALLOPROTEINASES	0024346/01
CANADA	METHOD FOR LOCALIZED ADMINISTRATION OF FIBRINOLYTIC METALLOPROTEINASES	2394613
EUROPEAN PATENT OFFICE	METHOD FOR LOCALIZED ADMINISTRATION OF FIBRINOLYTIC METALLOPROTEINASES	988099.8
HONG KONG	METHOD FOR LOCALIZED ADMINISTRATION OF FIBRINOLYTIC METALLOPROTEINASES	3101990.5
JAPAN	METHOD FOR LOCALIZED ADMINISTRATION OF FIBRINOLYTIC METALLOPROTEINASES	2001544901
MEXICO	METHOD FOR LOCALIZED ADMINISTRATION OF FIBRINOLYTIC METALLOPROTEINASES	2002006024
PCT	METHOD FOR LOCALIZED ADMINISTRATION OF FIBRINOLYTIC METALLOPROTEINASES	US00/34143
UNITED STATES	METHODS FOR THE TREATMENT OF THROMBOSIS	10/441667
BRAZIL	FIBRINOLYTICALLY ACTIVE POLYPEPTIDE	00014414-2
BULGARIA	FIBRINOLYTICALLY ACTIVE POLYPEPTIDE	106578
CANADA	FIBRINOLYTICALLY ACTIVE POLYPEPTIDE	2386185
CHINA	FIBRINOLYTICALLY ACTIVE POLYPEPTIDE	816321.9
CZECH REPUBLIC	FIBRINOLYTICALLY ACTIVE POLYPEPTIDE	02002-1034
EURASIAN PATENT OFFICE	FIBRINOLYTICALLY ACTIVE POLYPEPTIDE	200200410
EUROPEAN PATENT OFFICE	FIBRINOLYTICALLY ACTIVE POLYPEPTIDE	965554.9
HONG KONG	FIBRINOLYTICALLY ACTIVE POLYPEPTIDE	3100667.9
HUNGARY	FIBRINOLYTICALLY ACTIVE POLYPEPTIDE	00P0202650
ISRAEL	FIBRINOLYTICALLY ACTIVE POLYPEPTIDE	148787
JAPAN	FIBRINOLYTICALLY ACTIVE POLYPEPTIDE	2001528597
MEXICO	FIBRINOLYTICALLY ACTIVE POLYPEPTIDE	2002003126
NORWAY	FIBRINOLYTICALLY ACTIVE POLYPEPTIDE	20021501
PCT	FIBRINOLYTICALLY ACTIVE POLYPEPTIDE	US00/27029
POLAND	FIBRINOLYTICALLY ACTIVE POLYPEPTIDE	00P-355017
SERBIA AND MONTENEGRO	FIBRINOLYTICALLY ACTIVE POLYPEPTIDE	00P-225/02

PATENT APPLICATIONS

COUNTRY	TITLE	PATENT APPLICATIONS#
SLOVAKIA	FIBRINOLYTICALLY ACTIVE POLYPEPTIDE	PV4232002S
SOUTH KOREA	FIBRINOLYTICALLY ACTIVE POLYPEPTIDE	7004225
AUSTRALIA	FIBRINOLYTICALLY ACTIVE POLYPEPTIDE	2004200775
EURASIAN PATENT OFFICE	FIBRINOLYTICALLY ACTIVE POLYPEPTIDE	1
MEXICO	FIBRINOLYTICALLY ACTIVE POLYPEPTIDE	1
NEW ZEALAND	FIBRINOLYTICALLY ACTIVE POLYPEPTIDE	530114
SERBIA AND MONTENEGRO	FIBRINOLYTICALLY ACTIVE POLYPEPTIDE	00P-596/04
SINGAPORE	FIBRINOLYTICALLY ACTIVE POLYPEPTIDE	2473790
PCT	SIZE ENHANCED FIBRINOLYTIC ENZYMES; LIMITATION OF PLASMA INACTIVATION	US99/10108

EXHIBIT D

MANUFACTURING TRANSFER OUTLINE

Summary

The Tech Transfer of the alfimeprase will occur on two fronts. First, the API process and fill/finish process will be transferred to Nuvelo and then Nuvelo will be responsible for transferring the process to the contract manufacturer, Avecia and the fill/finish contractor of Nuvelo's choice, which shall be either [*] or [*] Amgen will provide documentation currently in its possession necessary for the transfer of manufacturing and to support Nuvelo's BLA filing to the extent relating to Amgen's manufacturing prior of Licensed Product prior to the Effective Date of the License Agreement. Activities associated with transfers of analytical methods will be similar for both API and DP. All transfers would begin as soon as possible after entering into the License Agreement. Amgen would commit [*] [*] FTEs for a one-year period to performing the manufacturing technology transfer, one in Process Development, one in Drag Product Process Development and one in Quality/Analytics. Amgen's manufacturing technology transfer responsibilities will be complete upon Avecia's successful completion of the shakedown runs.

Transfer of API Process:

Time [*] LAUNCH ([*])

- Meeting with CMO
- Review and finalize process fit
- Review equipment specs and confirm for ordering
- Prepare activity plan (includes lab-scale, large-scale centrifugation runs, validation, etc.)
- Discuss analytical method transfer, and finalize assay validation responsibilities
- Outline timeline and activities for harvest development
- Discuss process characterization plan
- Discuss training plan for CMO operators
- Finalize communication process, points of contact, etc. (between CMO manufacturing operators, CMO tech transfer leads and ATO)
- Delivery of Technology Transfer Package

Time [*] EQUIPMENT and RAW MATERIALS ([*])

- Avecia/Nuvelo to order chromatography columns
- Avecia/Nuvelo to order depth filtration filter housings (6 housings)
- Avecia/Nuvelo to order delipid filtration filter housing (1 housings)
- Avecia/Nuvelo to order Stedim jacketed pallet tank for 1000-L bags, and confirm availability of sterile bags (possible custom bag design with 1" tubing – order)

[*] Certain confidential information contained in this document, marked by brackets, has been omitted and filed separately with the Securities and Exchange Commission pursuant to Rule 24b-2 of the Securities and Exchange Act of 1934, as amended.

- Avecia/Nuvelo to order membrane holders for existing CMO ultrafiltration skids
- Avecia/Nuvelo to order trace heating elements for media filtration lines
- Check on availability of all raw materials, and Avecia/Nuvelo to begin ordering

EQUIPMENT MODIFICATION / COMMISSIONING ([*])

- Avecia/Nuvelo to test and evaluate ammonia gas system in fermentation suite
- Avecia/Nuvelo to modify bioreactor controls for mass-flow (for lab-scale and production scale)
- Discuss and Avecia/Nuvelo to complete various piping modifications to support process
- Discuss and Avecia/Nuvelo to prepare microfiltration skid as possible alternative to centrifugation

VALIDATION PLAN ([*])

- Avecia/Nuvelo to Create validation Master Plan for conformance lots

PROCESS CHARACTERIATION ([*])

- Avecia/Nuvelo to Plan for characterization studies

Time [*] LAB SCALE DEMONSTRATION RUNS ([*])

- Avecia to create batch records for lab scale runs (both upstream and downstream)
- Avecia to perform a minimum of two runs
- Avecia collect and review lab scale data
- Avecia to develop and test microfiltration strategy for harvest (as alternative to centrifugation)
- Avecia to test and finalize analytical assays for process

PROCESS CHARACTERIATION ([*])

- Avecia to perform characterization studies

CENTRIFUGE CHARACTERIZATION ([*])

- Avecia to write, review and finalize batch records
- Avecia to perform two large scale centrifugation runs
- Avecia to collect and review data
- Avecia to decide on final clarification strategy for harvest (microfiltration versus centrifugation)

[*] Certain confidential information contained in this document, marked by brackets, has been omitted and filed separately with the Securities and Exchange Commission pursuant to Rule 24b-2 of the Securities and Exchange Act of 1934, as amended.

Time [*] WRITE MANUFACTURING PROCEDURES ([*]___)

- Avecia to create, review and finalize equipment validation procedures
- Avecia to create, review and finalize batch records/manufacturing procedures for “Shake-down” runs
- Avecia to create process validation protocols

Time [*] EQUIPMENT ([*]_)

- Avecia to perform Factory Acceptance Tests (FAT)
- Avecia to receive all equipment
- Avecia to perform IQ/OQ/ PQ equipment validation

Time [*] “SHAKE-DOWN” (ENGINEERING) RUNS (_[*]__)

- Avecia to perform two runs at large scale to test equipment, process, analytical assays, etc.
- Avecia to collect and review data (compare to clinical GMP data)
- Avecia to troubleshoot issues, and finalize logistics and process for preparation of conformance lots (including revision of batch records and manufacturing procedures)
- Avecia to finalize acceptance criteria for conformance lots

Time [*] CONFORMANCE LOTS (_[*]__)

- Avecia to perform five successful consecutive conformance lots
- Avecia to perform “blank” run following the five conformance lots
- Avecia to collect and review data
- Avecia to complete process validation protocols

[*]

Transfer of Drug Product (Fill/Finish)

It was anticipated that a contract manufacturer would be selected [*]

- Tech Transfer items
  - Amgen to prepare technical package for CM site
  - Nuvelo to ID and procure equipment for CM site (tanks, change parts, raw materials, components, freezers if needed, etc)
  - CM to conduct tank characterization
  - CM/Nuvelo to Review Batch record/MP/SOP draft

[*] Certain confidential information contained in this document, marked by brackets, has been omitted and filed separately with the Securities and Exchange Commission pursuant to Rule 24b-2 of the Securities and Exchange Act of 1934, as amended.

- Nuvelo to Develop validation strategy with CM site
- Nuvelo to work with CM on validation support of vial wash and sterilization, stopper processing, etc
- CM to support WFI runs
- Nuvelo to support shakedown engineering runs
- CM to complete Lyo robustness studies (full scale at CM)
- CM to complete any scale-down work needed based on site parameters
- Nuvelo to support Validation runs

- Nuvelo to partner with Contract Mfg on site selection for secondary packaging (may be a post-conformance activity)

Transfer of Analytical Methods:

- Amgen to transfer documentation to contract manufacturer
- Amgen to review Method Transfer Protocols (MTP) with CM and Nuvelo
- Amgen to provide support for method troubleshooting
- Nuvelo and Amgen to review data from CM on MTP execution
- Nuvelo to review draft of Method Transfer Reports with CM and Amgen
- Amgen to transfer of stability samples to CM
- Amgen to transfer of stability database to CM

LEASE

This LEASE ("Lease") is made as of January 11, 2005 ("Effective Date") between BMR-201 INDUSTRIAL ROAD LLC, a Delaware limited liability company ("Landlord"), and NUVELO, INC., a Delaware corporation ("Tenant"), who agree as follows:

RECITALS:

This Lease is executed by Landlord and Tenant in contemplation of the following facts and circumstances:

A. Landlord is the owner of certain real property located in the City of San Carlos, State of California, commonly known as 201 Industrial Road, San Carlos, California, and more particularly described on Exhibits A and B which are attached and made a part of this Lease. The land consists of approximately 4.701 acres (together with any easements and appurtenances thereto, the "Land") with two existing, connected buildings containing approximately 171,965 rentable square feet of space. The Land and the buildings are collectively referred to as the "Project."

B. Tenant desires to lease from Landlord, and Landlord is willing to lease to Tenant, that portion of the Project (hereinafter referred to as the "Premises") delineated on the floor plan attached hereto as Exhibit B-1 and made a part hereof, consisting of approximately 55,000 rentable square feet located on the third (3rd) floor and a portion of the fourth (4th) floor of the building known as "Building 2," which Building 2 consists of approximately 92,048 rentable square feet of space, upon the terms and conditions contained herein (Building 2 is hereinafter referred to as the "Building"). Landlord and Tenant agree that for all purposes of this Lease, the total rentable square feet for the third (3rd) floor shall be deemed to be 45,574 square feet (with 43,972 usable square feet) and the total rentable square feet for the fourth (4th) floor shall be deemed to be 46,474 square feet (with 44,840 usable square feet).

C. As consideration for Tenant entering into this Lease, Landlord shall provide Tenant with a tenant improvement allowance to construct certain improvements to the Premises. In addition, Landlord agrees to cooperate with Tenant to establish a shipping and receiving area on the ground floor of the Building and to rework the reception area on the second (2nd) floor of the Building to address Tenant's entry and aesthetic needs, the costs of which shall be paid from the Tenant Improvement Allowance (as defined in Section 4.5) except for those portions described as Landlord's Work in the Work Letter, which shall be at Landlord's sole cost and not as part of the Tenant Improvement Allowance.

NOW, THEREFORE, for valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties agree as follows:

1. DEFINITIONS. The terms defined in this paragraph, for all purposes of this Lease, shall have the meanings herein specified. Terms defined elsewhere in this Lease shall have the meanings as defined thereunder.

1.1 "Applicable Law" shall mean all federal, state, county, municipal and other governmental statutes, laws, rules, orders, permits, licenses, regulations, ordinances,

judgments, decrees, directions and injunctions affecting the Premises or any portion thereof or the use or occupancy thereof, whether now or hereafter enacted or in force, whether ordinary or extraordinary, foreseen or unforeseen.

1.2 "Claims" shall mean any and all liabilities (statutory or otherwise), obligations, claims, demands, damages, penalties, causes of action, costs, expenses (including attorneys' fees and expenses), losses and injuries arising from the subject matter of an indemnity granted herein.

1.3 "Common Areas" shall mean all portions of the Project which are for the non-exclusive use of tenants of the Project, including, without limitation, driveways, sidewalks, parking areas, landscaped areas, service corridors, stairways, elevators, public restrooms and building lobbies.

1.4 "Default Rate" shall mean the greater of (i) ten percent (10%) per annum, or (ii) five percent (5%) per annum plus the discount rate of the Federal Reserve Bank situated nearest the Premises; provided, however, in no event shall the Default Rate exceed the maximum interest rate permitted under applicable law.

1.5 "HVAC-Building" shall mean all heating, ventilation and air conditioning equipment and all equipment and fixtures related thereto that services the Building or the Project.

1.6 "Lease Commencement Date" shall be the Effective Date.

1.7 "Lease Term" shall mean the period commencing with the Lease Commencement Date and ending after the term described in Paragraph 4.1.

1.8 "Lender" shall mean any lender whose loan is secured by a deed of trust on any part of the Premises or this leasehold interest.

1.9 "Rent" shall include all Monthly Rent, Additional Rent and all other sums of any and every sort payable hereunder to Landlord by Tenant.

1.10 "Rent Commencement Date" shall be the earliest of (i) the date Tenant's Work (as defined in the Work Letter) is Substantially Completed; (ii) the date Tenant occupies substantially all of the Premises for the purpose of operating its business; (iii) such earlier date as provided in the Work Letter or as the parties hereto may agree; or (iv) September 1, 2005. Notwithstanding the foregoing, if Landlord does not cause temporary power to be provided to the Building with an electricity load equal to approximately 50 amps) on or prior to the February 1, 2005 (the "Outside Date"), then the Rent Commencement Date shall be extended by a day for each day that Landlord fails to complete such Landlord's work after the Outside Date. Landlord and Tenant shall each execute and deliver to the other written acknowledgement of the Rent Commencement Date and the expiration date of the Lease Term when such is established and shall attach the acknowledgement to this Lease as part of Exhibit C; provided, however, failure to execute and deliver such acknowledgement shall not affect Landlord or Tenant's rights or liabilities hereunder. Notwithstanding anything to the contrary in this Section 1.10, the Rent Commencement Date shall be delayed until Tenant shall have received a fully executed

non-disturbance and attornment agreement from any mortgagee or deed of trust beneficiary of record as of the date of the mutual execution of this Lease, if applicable.

1.11 "Security Deposit" shall be an amount equal to three (3) times the Initial Monthly Rent.

1.12 "Substantially Complete(d)" and "Substantial Completion" shall mean latest of (i) the date of issuance of a temporary certificate of occupancy subject only to such minor work as would not unreasonably interfere with Tenant's occupancy and use of the Premises for the purposes for which it is to be used, (ii) the date Tenant receive a Certificate of Substantial Completion in the form of the American Institute of Architects document G704 executed by the project architect and the general contractor, or (iii) the satisfaction of all requirements set forth in the Work Letter for project completion.

1.13 "Subtenant" shall mean any tenant, assignee, subtenant, licensee, concessionaire or other occupant of the Premises (other than Tenant); and the term "sublease" shall mean any lease, assignment, sublease, license or other agreement for the use or occupancy of any such space (other than this Lease).

1.14 "Taking" shall mean a taking or voluntary conveyance of title to or any interest in all or any part of the Premises, or the right to use all or any part thereof, pursuant to, as a result of, or in lieu or in anticipation of, the exercise of the right of condemnation, expropriation or eminent domain; and upon such a Taking the Premises, or such part thereof, shall be deemed to have been "taken."

1.15 "Taxes" shall mean all government impositions including, without limitation, property tax costs consisting of real and personal property taxes and assessments (including amounts due under any improvement bond upon the Building or the Project, including the parcel or parcels of real property upon which the Building and areas serving the Building are located or assessments levied in lieu thereof) imposed by any governmental authority or agency on the Project or improvements thereon, any tax on or measured by gross rentals received from the rental of space in the Project, or tax based on the square footage of the Premises, the Building or the Project as well as any parking charges, utilities surcharges, or any other costs levied, assessed or imposed by, or at the direction of, or resulting from statutes or regulations, or interpretations thereof, promulgated by any federal, state, regional, municipal or local government authority in connection with the use or occupancy of the Project or the parking facilities serving the Project; any tax on this transaction or any document to which Tenant is a party creating or transferring an interest in the Premises; any fee for a business license to operate an office building; and any expenses, including the reasonable cost of attorneys or experts, reasonably incurred by Landlord in seeking reduction by the taxing authority of the applicable taxes, less tax refunds obtained as a result of an application for review thereof; provided, however, that "Taxes" shall in no event include (i) any franchise or income tax or any tax based on net rentals received from the rental of space in the Project or taxes which are the personal obligation of Tenant or of another tenant of the Project; (ii) any Taxes that are fairly allocate to any period of time prior to the Lease Commencement Date or following the expiration or sooner termination of this Lease (except for Tenant's personal property taxes); and (iii) any Taxes that

are fairly allocable to any other tenant's personal property or payable as a result of a default by Landlord under this Lease or a default of any other tenant of the Project.

1.16 "Work Letter" shall mean the Work Letter attached hereto as Exhibit D.

2. FUNDAMENTAL LEASE PROVISIONS.

Initial Lease Term:	Seven (7) years
Rentable Area:	55,000 square feet, subject to adjustment pursuant to Paragraph 4.7
Rentable Area of Project:	171,965 square feet
Initial Annual Rent:	$28.20 per rentable square foot, subject to annual adjustments pursuant to Paragraph 5
Initial Monthly Rent:	$2.35 per rentable square foot, subject to annual adjustments pursuant to Paragraph 5
Security Deposit:	Three (3) times the Initial Monthly Rent
Target Rent Commencement Date:	
Tenant's Pro Rata Share of Operating Expenses:	62% with respect to Operating Expenses for the Building, subject to adjustment pursuant to Paragraph 4.7
	32% with respect to Operating Expenses for the Project, subject to adjustment pursuant to Paragraph 4.7
Address for Notices:	
To Landlord:	c/o BioMed Realty, L.P. 17140 Bernardo Center Drive, Suite 222 San Diego, California 92128 Attention: Gary A. Kreitzer

To Tenant:	Nuvelo, Inc. 201 Industrial Blvd. Bldg. #2 San Carlos, California 94070 Attention: Gary Titus
With a copy to:	Hopkins & Carley P.O. Box 1469 San Jose, California 95109-1469 Attention: Garth E. Pickett
Exhibits:	A (Legal Description) B (Site Plan) B-1 (Premises) B-2 (Roof Rights) C (Acknowledgement of Rent Commencement Date) D (Work Letter) E (Rules and Regulations) F (Estoppel Certificate) G (Expansion Space)

In the event of any conflict between any Fundamental Lease Provision and the balance of this Lease, the latter shall control.

3. AGREEMENT TO LEASE. Landlord hereby leases to Tenant, and Tenant hereby leases from Landlord, the Premises, under the terms and conditions of this Lease.

4. TERM AND POSSESSION.

4.1 Lease Term. The initial Lease Term shall begin as of the Lease Commencement Date and shall continue until seven (7) years after the Rent Commencement Date unless sooner terminated or renewed as provided in this Lease; provided that, if the Rent Commencement Date is other than the first of a calendar month, the initial Lease Term shall continue until seven (7) years after the first day of the calendar month following the month in which the Rent Commencement Date occurs. Provided that no Default has occurred and is continuing at the time Tenant elects to extend the Lease Term, Tenant, at its sole option, may extend the Lease Term for two (2) additional periods of five (5) years each (individually, an "Extension Period"), subject to all the provisions of this Lease, except, however the Rent (as defined in Paragraph 5 below) shall be adjusted at the commencement of each Extension Period to an amount equal to ninety-five percent (95%) of the then current fair market rental rate as agreed to by Landlord and Tenant, but in no event shall the Rent be less than the Rent payable on the date immediately preceding the commencement of such Extension Period. "Fair market rental rate" of the Premises shall be determined with reference to the then prevailing market rental rates for properties in the San Francisco mid-peninsula area with improvements and common area improvements comparable to those then existing in the Premises and paid for by Landlord. If after thirty (30) days following delivery of the written extension notice described in

Paragraph 4.2 below, Landlord and Tenant are unable to agree upon the fair market rental value of the Premises, Tenant shall obtain at its expense and deliver to Landlord an independent appraisal of the fair market rental value of the Premises as of the commencement of the Extension Period. Following its receipt of Tenant's appraisal, Landlord may elect to obtain at its expense and deliver to Tenant a second independent appraisal of the fair market rental value of the Premises as of the commencement of the Extension Period. If Landlord elects not to obtain a second appraisal, or if Landlord's appraisal is no more than five percent (5%) greater than Tenant's appraisal, Tenant's appraisal shall be conclusive. If Landlord's appraisal is more than five percent (5%) greater than Tenant's appraisal, the two appraisers shall appoint a third appraiser to appraise the fair market rental value of the Premises as of the commencement of the Extension Period, and the fair market rental value of the Premises shall be the arithmetical average of the two appraisals closest in their determination of fair market rental value. Landlord and Tenant shall bear equally the expense of the third appraiser. The Monthly Rent as so determined for each Extension Period shall be increased annually by $0.07 per rentable square foot above its then current amount as provided in Paragraph 5.1.4 below. All references in this Lease to "Lease Term" shall be considered to include both the initial term of this Lease and any properly executed Extension Period, and all references to termination or to the end of the Lease Term shall be considered to mean the termination or end of the initial term of this Lease or any exercised Extension Period, as the case may be.

4.2 Procedure to Extend Term. Tenant may exercise its option with respect to each Extension Period by complying with the following procedure: At least ten (10) months before the last day of the then applicable Lease Term (the "Exercise Period"), Tenant shall deliver written notice to Landlord setting forth Tenant's irrevocable election to exercise the option to extend. Extension Periods are personal to Tenant and not assignable separate and apart from this Lease, except for an assignment pursuant to a merger or consolidation, or an assignment to a parent, subsidiary or affiliate of Tenant.

4.3 Tenant's Default. Notwithstanding the foregoing, if a Default has occurred and is continuing at the time Tenant elects to extend the Lease Term (unless Tenant is diligently pursuing the cure of such Default), Tenant shall have no right to extend the Lease Term as herein provided, and Landlord shall be free to lease the Premises to any other party or parties. Furthermore, nothing in this Paragraph 4.3 shall increase or extend the Exercise Period.

4.4 Possession. Landlord shall endeavor to tender possession of the Premises to Tenant on or before January 5, 2005. Tenant may occupy any and all portions of the Premises, for the purpose of constructing Tenant's tenant improvements therein and installing its furniture, fixtures and equipment, prior to the Rent Commencement Date, with no obligation to pay Rent until the Rent Commencement Date. Landlord shall have the right to perform Landlord's Work after tendering possession, provided it does not materially interfere with Tenant's Work. Delivery of possession is conditioned upon receipt by Tenant of a fully executed non-disturbance and attornment agreement from any mortgagee or deed of trust beneficiary of record as of the date of the mutual execution of this Lease, if applicable. In the event Landlord does not tender possession of the Premises to Tenant on or prior to the Outside Date, the Rent Commencement Date shall be extended by a day for each day that Landlord fails to tender possession of the Premises to Tenant after the Outside Date.

4.5 Tenant Improvements. Tenant shall cause to be constructed the tenant improvements in the Building (the "Tenant Improvements") pursuant to the Work Letter at a cost to Landlord not to exceed **Seven Million Seven Hundred Thousand** Dollars **($7,700,000.00)** (based upon One Hundred Forty Dollars ($140.00) per rentable square foot and subject to adjustment in Rentable Area as provided in Section 4.7 herein) (the "Tenant Improvement Allowance") which shall include the cost of construction, cost of space planning, architect, engineering and other related services, building permits, signage, consulting fees, equipment (including personal property and trade fixtures, which shall not exceed fifteen percent (15%) of the Tenant Improvement Allowance), relocation costs, furniture, cabling and other planning and inspection fees. Any costs incurred in performing the Tenant Improvements described in the Work Letter in excess of the Tenant Improvement Allowance shall be borne solely by Tenant; provided, however, at Tenant's option, Landlord shall fund such excess in an amount not to exceed Twenty-Five Dollars ($25.00) per rentable square foot (the "Additional Allowance," and together with the Tenant Improvement Allowance, the "Combined Allowance"). The Additional Allowance shall be repaid by Tenant monthly as Additional Rent beginning with Tenant's first Rent payment, in a monthly amount equal to the Additional Allowance fully amortized at an interest rate of twelve percent (12%) per annum over twelve (12) years. Tenant may prepay the remaining Additional Allowance at any time without penalty, and shall repay the remaining Additional Allowance in full upon expiration of the Lease Term. Any unused portion of the Tenant Improvement Allowance shall be credited against Monthly Rent payments as such Monthly Rent payments become due. In addition to the Tenant Improvement Allowance and Additional Allowance, Landlord will provide Tenant with an additional allowance of up to 15/100 Dollars ($0.15) per rentable square foot for purposes of Dowler-Gruman Architects preparing a preliminary space planning "test-fit," payable upon Landlord's receipt of such test-fit prior to construction of any tenant improvements.

4.6 Termination Option. Tenant shall have an option to terminate this Lease (the "Termination Option") for a period commencing on the Lease Commencement Date and ending on the fourth (4th) anniversary of the Rent Commencement Date (the "Termination Option Period"). Tenant shall be entitled to exercise the Termination Option by giving notice to Landlord prior to the expiration of the Termination Option Period. If Tenant exercises the Termination Option, (a) the termination of the Lease shall be effective as of the fifth (5th) anniversary of the Rent Commencement Date (the "Termination Date"), (b) Tenant shall continue to meet all of its obligations under the Lease, including the payment of Rent, through the Termination Date and (c) on the Termination Date, Tenant will pay Landlord the remaining unamortized portion of the Tenant Improvement Allowance, the remaining Additional Allowance, if any, and leasing commissions (the "Termination Penalty"), based on an eighty-four (84) month amortization period for the Premises and the actual lease term of any Expansion Space (calculated using a flat average, with no interest). The Termination Penalty shall be pro rated based on the actual rentable square footage leased by Tenant under this Lease on the Termination Date. Tenant's right to exercise the Termination Option shall be subject to the conditions that (i) no voluntary or involuntary petition in bankruptcy naming Tenant as debtor has been filed, and no general assignment for the benefit of creditors has been made by Tenant prior to the termination of the Lease and (ii) Tenant shall not be in Default under the Lease beyond any applicable cure period provided in the Lease at the time Tenant exercises the Termination Option and through the Termination Date, and if Tenant is in Default beyond any

applicable cure period during such period, then any effort to exercise the Termination Option, whether occurring before or after any such Default by Tenant, shall be null and void. Notwithstanding the foregoing to the contrary, in the event Tenant is in Default but is diligently pursuing the cure of such default, Tenant may exercise the Termination Option provided that such Default is cured by Tenant within a reasonable time thereafter but in no event later than the Termination Date.

4.7 Rentable Square Footage. The term "Rentable Area" as set forth in Section 2 and as referenced within the Work Letter attached hereto as Exhibit "D" and as may otherwise be referenced within this Lease shall be adjusted after being calculated in accordance with the 1996 Standard Method for Measuring Floor Area in Office Buildings as adopted by the Building Owners and Managers Association. The calculation shall be based upon the Approved Tenant Plans, as defined in Section 3.2 of the Work Letter, and shall be made by Dowler-Gruman Architects as Tenant's architect. In addition to the Premises, the Rentable Area shall include any interior shipping and receiving area and storage area utilized by Tenant. After finalization of the calculation of the Rentable Area, Section 2 of the Lease shall be adjusted as to Rentable Area and Tenants Pro Rata Share of Operating Expenses, if necessary.

5. RENT; SECURITY DEPOSIT.

5.1 Monthly Rent.

5.1.1 Tenant shall pay the Rent to Landlord during the Lease Term, commencing as of the Rent Commencement Date, without deduction, setoff, prior notice or demand. Tenant shall pay the Rent in advance on the first day of each calendar month during the Lease Term. Rent for any partial months will be prorated based upon the number of days in the month, and will be paid in advance on the first day of each month.

5.1.2 Upon the Rent Commencement Date, Tenant shall pay to Landlord the Rent due and payable for the first full calendar month of the Lease Term. If the Rent Commencement Date is not on the first day of a calendar month, Tenant shall pay to Landlord the prorated Rent for the first partial month of the Lease Term.

5.1.3 All Rent payable hereunder shall be paid to Landlord in lawful money of the United States of America which shall be legal tender at the time of payment at Landlord's office or to such other person or at such other place as Landlord from time to time may designate in writing.

5.1.4 The Initial Annual Rent shall be the amount set forth in Paragraph 2. The Annual Rent will be payable in twelve (12) equal installments ("Monthly Rent"). The Landlord and Tenant shall attach an acknowledgement of the Initial Annual Rent to this Lease as part of Exhibit C; provided, however, failure to execute and deliver such acknowledgement shall not affect Landlord's or Tenant's rights or liabilities hereunder. Effective each year during the Lease Term (including any Extension Period) on the anniversary of the first day of the calendar

month following the month in which the Rent Commencement Date occurs, Monthly Rent shall be increased by $0.07 per rentable square foot above its then current amount.

5.2 Additional Rent. Commencing upon the Rent Commencement Date Tenant shall pay to Landlord (unless otherwise expressly required hereunder to pay directly to a third party), as additional rent ("Additional Rent"), all sums of money of any and every sort required to be paid by Tenant under this Lease, whether or not the same are designated as Additional Rent. If such amounts or charges are not paid at the time provided in this Lease, they shall nevertheless be collectible as Additional Rent with the next installment of Monthly Rent thereafter falling due, but nothing herein contained shall be deemed to suspend or delay the payment of any amount of money or charge at the time the same becomes due and payable hereunder, or limit any other remedy of Landlord.

5.3 Late Payment. If Tenant shall fail to pay, when the same is due and payable (after giving effect to any applicable notice and cure period), any Rent, such unpaid amounts shall bear interest at the Default Rate from the date which is two (2) business days after written notice from Landlord that such payment is due. Tenant further acknowledges that late payment of Monthly Rent will cause Landlord to incur certain costs not contemplated by this Lease, the exact amount of such costs being extremely difficult and impractical to determine with certainty. For this reason, in addition to interest, if Tenant shall fail to pay (which for purposes of this paragraph, "pay" shall mean actual receipt of the payment by Landlord) any installment of Monthly Rent by the fifth (5^{th}) day after receipt of written notice from Landlord of such late payment, a late charge equal to three and one-half percent (3.5%) of the overdue installment of Monthly Rent automatically shall be due without further notice, and shall be in addition to all other sums due. The Parties agree that this additional late charge represents a fair and reasonable estimate of the costs Landlord will incur by reason of late payment by Tenant.

5.4 No Right to Setoff. Tenant shall pay to Landlord, throughout the Lease Term, the Rent and other sums payable hereunder, free of any charges, assessments, deductions or reductions of any kind, and without abatement, deduction or setoff except as otherwise expressly provided for herein.

5.5 Payment of Security Deposit. Landlord hereby acknowledges receipt of Tenant's Security Deposit unless this Lease is executed on or before January 3, 2005, in which event the Security Deposit shall be delivered to Landlord on January 5, 2005. This amount shall be deposited by Landlord into a non-segregated, interest-bearing bank account (with interest accruing for the benefit of Landlord) in a federally insured bank or savings institution, and shall be held for the faithful performance of all of the provisions and conditions of this Lease to be kept and performed by Tenant hereunder and under the Work Letter. Landlord's obligation with respect to the Security Deposit is that of a debtor and not of a trustee.

5.6 Use of Security Deposit. If Tenant defaults with respect to the payment of Rent or any other covenant contained herein or in the Work Letter, Landlord may use or retain all or any part of the Security Deposit for the payment of any Monthly Rent, Additional Rent or any other sum in default, or for the payment of any amount which Landlord may spend or become obligated to spend by reason of Tenant's Default. Landlord also may apply the Security

Deposit toward costs incurred to repair damages to the Premises, other than ordinary wear and tear, and damage from casualty or condemnation, or to reasonably clean the Premises upon termination of this Lease. If any portion of the Security Deposit is so applied or used, Tenant shall, within five (5) business days after written notice thereof, deposit an additional amount with Landlord sufficient to restore the Security Deposit to the amount set forth in Paragraph 1.11, and Tenant's failure to do so shall constitute a material breach of this Lease. If Tenant shall fully and faithfully perform every provision of this Lease to be performed by Tenant, the Security Deposit (including interest thereon), or the balance thereof, shall be returned to Tenant (or, at Landlord's option to the last assignee of Tenant's interest hereunder) within thirty (30) days after the expiration or earlier termination of the Lease, subject to the provisions of Paragraph 27. Landlord and/or the Lender may use, apply or retain all or any part of the Security Deposit for the payment of Tenant Improvement costs incurred by Landlord in excess of the Combined Allowance. If any portion of the Security Deposit is so applied, upon the Rent Commencement Date, Tenant shall deposit cash or a replacement letter of credit with Landlord in an amount sufficient to restore the Security Deposit to its original amount, and Tenant's failure to do so shall constitute a material breach of this Lease. In the event of bankruptcy or other debtor-creditor proceedings against Tenant, the Security Deposit shall be deemed to be applied first to the payment of Rent and other charges due Landlord for all periods prior to the filing of such proceedings.

5.7 Pledge of Security Deposit. Subject to Tenant's right, title and interest in the Security Deposit, the Security Deposit may be pledged by Landlord as additional collateral to the Lender.

5.8 Letter of Credit. The Security Deposit may be delivered either in cash or in the form of letter of credit reasonably acceptable to Landlord.

5.8.1 In lieu of depositing cash as the Security Deposit, Tenant shall have the right to deliver to Landlord an unconditional, irrevocable standby letter of credit in the amount of the cash Security Deposit otherwise required hereunder, which letter of credit shall (a) be in a form reasonably acceptable to Landlord, (b) be issued by a financial institution selected by Tenant and reasonably acceptable to Landlord, (c) be for the benefit of Landlord, but shall be assignable by Landlord to any subsequent purchaser or encumbrancer of the Building or the Project, (d) be automatically renewable from year to year throughout the Lease Term, (e) be payable by draft sight in a location reasonably acceptable to Landlord upon presentation of a certification signed by an officer of Landlord which states that a default under the Lease has occurred and has not been cured within any applicable cure period, and (f) be payable in the event such letter of credit is not renewed on or before the date which is thirty (30) days prior to its expiration. Any amounts of cash drawn on a letter of credit Security Deposit will thereafter be treated as a cash Security Deposit hereunder.

5.8.2 Tenant shall have the right at any time during the Lease Term upon thirty (30) days prior written notice to Landlord (i) to replace a cash Security Deposit with a letter of credit which complies with all the terms of Paragraph 5.8.1, or (ii) to replace a letter of credit Security Deposit with an applicable amount of cash.

6. PERMITTED USE.

6.1 Permitted Use. Tenant shall use the Premises for the purposes of laboratory research (including animal testing), administration, pharmaceutical and related health care research uses (and only for such purposes) (the "Permitted Use"). During the Lease Term, the Premises and every part thereof shall be kept by the Tenant in a clean and wholesome condition, free of any noises or activities, which constitute any nuisance. Tenant shall comply with all Applicable Law in all respects and at all times during the Lease Term.

6.2 No Violations. Tenant shall not use or occupy the Premises in violation of any federal, state and local laws and regulations, zoning ordinances, or the certificate of occupancy issued for the Building or the Project, and shall, upon five (5) days written notice from Landlord, discontinue any use of the Premises upon demand of any governmental authority having jurisdiction which declares or claims a violation of law, regulation or zoning ordinance or of such certificate of occupancy, or which in the reasonable opinion of Landlord violates law, regulation or zoning ordinance or the certificate of occupancy. Tenant shall comply with any direction of any governmental authority having jurisdiction which shall, by reason of the nature of Tenant's use or occupancy of the Premises, impose any duty upon Tenant or Landlord with respect to the Premises or with respect to the use or occupation thereof. Tenant shall not do or permit anything to be done in or about the Premises, except as is reasonably consistent with the Permitted Use, which shall in any way obstruct or interfere with the rights of other tenants or occupants of the Project, or injure or annoy them, or use or allow the Premises to be used for unlawful purpose, nor shall Tenant knowingly cause, maintain or permit any nuisance or waste in, on or about the Premises, the Building or the Project.

6.3 Additional Locks. No additional locks or bolts of any kind shall be placed upon any of the doors or windows by Tenant nor shall any changes be made in existing locks or the mechanism thereof without the prior written consent of Landlord; provided, however. Tenant shall be entitled to change existing office, storage and other ancillary door locks or the mechanism thereof without the prior written consent of Landlord so long as a copy of the new key is promptly provided to Landlord. Tenant must, upon termination of this Lease, return to Landlord all keys to offices and restrooms either furnished to or otherwise procured by Tenant. In the event any key so furnished is lost, Tenant shall pay to Landlord the cost of replacing the same or of changing the lock or locks opened by such lost key if Landlord shall deem it necessary to make such change.

6.4 Exterior Appearance. No awnings or other projection shall be attached to any outside wall of the building other than as expressly permitted under this Lease. No curtains, blinds, shades or screens shall be attached to or hung in, or used in connection with, any window or door of the Premises other than Landlord's standard window coverings. Neither the interior nor exterior of any windows shall be coated or otherwise sunscreened without the express written consent of Landlord, nor shall any bottles, parcels, or other articles be placed on the windowsills. No equipment, furniture or other items of personal property shall be placed on any exterior balcony without the express written consent of Landlord.

6.5 Signs. No sign, advertisement, or notice shall be exhibited, painted or affixed by Tenant on any part of the Premises, the Building or the Project without the prior written consent of Landlord; provided, however, subject to the rights of Nektar Therapeutics to have a proportionate share of external and monument signage, in proportion to the ratio between the useable square footage in its premises and the total useable square footage on the Project, and to continue to display its corporate name and logo on the exterior of the buildings and the monument in the size and manner it is displayed as of the Effective Date, and in compliance with Applicable Laws relating to such signage, (a) Tenant shall have the right to ground monument signage at the entrance to the Project, and (b) during such time as the Premises encompasses the entire third (3rd) floor of the Building, Tenant (at its sole cost and expense) shall have the right to external, building-top signage on the southeastern side of the Building facing Highway 101, displaying Tenant's corporate logo, such external signage to be the maximum available signage permitted by Applicable Laws, but not greater than the external signage of Nectar Therapeutics as it is displayed as of the Effective Date subject to the foregoing. Landlord agrees to cooperate with Tenant, without any cost to itself, if Tenant chooses to seek a signage variance from the appropriate governmental agency in order to increase the size of its exterior signage. Common Area, Building ground monument and directory signs on doors and the directory tablet shall be inscribed, painted or affixed for Tenant by Landlord at the expense of Landlord (except ground monument signage, which shall be at the expense of Tenant), and shall be of a size, color and type typical of the Project. The directory tablet shall be provided exclusively for the display of the name and location of tenants only. In addition, Tenant may, at Tenant's sole cost and with Landlord's consent (which consent shall not be unreasonably withheld, delayed or conditioned), install signage in the reception area of the Building on the south wall abutting Tenant's Premises.

6.6 Structural Integrity. Landlord agrees and acknowledges that the Building load is one hundred (100) pounds per square foot for dead load and one hundred fifty (150) pounds per square foot for live load. Tenant shall cause any office equipment or machinery to be installed in the Premises so as to reasonably prevent sounds or vibrations therefrom from extending outside the Building. Further, no equipment or machinery weighing five hundred (500) pounds, or greater, shall be placed in the Premises without advance notice to and approval by Landlord. Such equipment or machinery, if approved by Landlord, shall be placed only at a location designed to carry the weight of such equipment.

6.7 ADA. Tenant shall be responsible for all liabilities, costs and expenses arising out of or in connection with the compliance of Tenant's particular use of the Premises with the Americans With Disabilities Act, 42 U.S.C. § 12101, et seq. (together with regulations promulgated pursuant thereto, "ADA") and Tenant shall indemnify, defend and hold Landlord harmless from and against any loss, cost, liability or expense (including reasonable attorneys' fees and disbursements) arising out of any failure of the Premises to comply with the ADA; provided that in no event shall Tenant be responsible for any alterations to the Premises that are part of Landlord's Work or any alterations to the Common Areas that are performed by Landlord. Notwithstanding the foregoing, Landlord represents and warrants to Tenant that, if based upon current interpretations of ADA as of the Commencement Date, the Premises (exclusive of furniture and equipment) fail, as of the Lease Commencement Date, to comply with ADA, Landlord will be solely responsible, at its cost and not as an Operating Expense, to correct such violation of ADA.

6.8 Roof Rights. During the Lease Term, Tenant shall have access to the roof of the Building for the purpose of installing and operating satellite or wireless communication equipment, which installation and operation shall be subject to Landlord's prior written consent (which consent shall not be unreasonably withheld, delayed or conditioned). Any such equipment shall be installed on the roof of the Building, in the permitted locations shown on Exhibit B-2 hereto, by means of a roof mount so that (1) no part of the equipment or mount can be seen from Industrial Road or any Common Area, (2) no penetration of the roof of the Building results from the installation of the equipment and (3) no alteration or damage is caused to the roof of the Building as a result of such installation. Tenant shall bear all costs related to any such equipment, including, but not limited to, installation, maintenance, repairs, operation, permitting and other governmental approvals, and any roofing damage, leaks, loss of warranty coverage by Landlord or other roofing issues, and returning the roof and installation site to its original condition at the end of the Lease Term (if so requested by Landlord). Notwithstanding the foregoing, Tenant shall not be required to restore any roof equipment or installation that are part of the initial Tenant Improvements. The presence or operation of such equipment shall not interfere in any way with or violate the rights of any other person or entity, including the rights of existing tenants and rooftop users and uses. Tenant shall indemnify Landlord and its officers, directors, employees, agents and affiliates from any loss, damage or claim (including reasonable attorneys' fees) made by any third party due to or arising out of Tenant's possession or operation of such equipment. Only licensed contractors with valid liability and worker's compensation insurance in place shall perform any work related to any such equipment, and Landlord, any ground lessor and any Lender (or its successors and assigns) shall be named as additional insureds.

7. TAXES; OPERATING EXPENSES.

7.1 Payment of Real Property Taxes. Commencing with the Rent Commencement Date and continuing for each calendar year, or tax year at Landlord's option (such "tax year" being a period of twelve (12) consecutive calendar months for which the applicable taxing authority levies or assesses Taxes), for the balance of the Lease Term, Tenant shall pay to Landlord Tenant's Pro Rata Share of all Taxes, pursuant to Paragraph 7.5 below. Such sum for any partial year of the Lease Term shall be prorated on the basis of the number of days of such partial year. At Tenant's request, Landlord shall provide Tenant with a copy of the applicable Tax bill or Tax statement from the taxing authority. In addition to any other amounts due from Tenant to Landlord, if Tenant fails to pay the Taxes to Landlord as herein required, Tenant shall pay to Landlord the amount of any interest, penalties or late charges caused by Tenant's late payment.

7.1.1 If the Premises are separately assessed, Tenant shall have the right, by appropriate proceedings, to protest or contest in good faith any assessment or reassessment of Taxes, any special assessment, or the validity of any Taxes or of any change in assessment or tax rate; provided, however, that prior to any such challenge Tenant must either (a) pay the taxes alleged to be due in their entirety and seek a refund from the appropriate authority, or (b) post bond in an amount sufficient to insure full payment of the Taxes. In any event, upon a final determination with respect to such contest or protest, Tenant shall promptly pay all sums found to be due with respect thereto. In any such protest or contest, Tenant may act in its own name,

and at the request of Tenant, Landlord shall cooperate with Tenant in any way Tenant may reasonably require in connection with such contest or protest, including signing such documents as Tenant reasonably shall request, provided that such cooperation shall be at no expense to Landlord and shall not require Landlord to attend any appeal or other hearing. Any such contest or protest shall be at Tenant's sole expense, and if any penalties, interest or late charges become payable with respect to the Taxes as a result of such contest or protest, Tenant shall pay the same.

7.1.2 If Tenant obtains a refund as the result of Tenant's protest or contest and subject to Tenant's obligation to pay Landlord's costs (if any) associated therewith, Tenant shall be entitled to such refund to the extent it relates to the Premises during the Lease Term.

7.2 Personal Property Taxes. Tenant shall be solely responsible for the payment of any and all taxes levied upon personal property and trade fixtures located upon the Premises and shall pay the same at least ten (10) days prior to delinquency. If any such taxes on Tenant's personal property or trade fixtures are levied against Landlord or Landlord's property or, if the assessed valuation of the Building or the Project is increased by the inclusion therein of a value attributable to Tenant's personal property or trade fixtures, and if Landlord after written notice to Tenant pays the taxes based upon such increase in the assessed value, then Tenant shall upon demand repay to Landlord the taxes so levied against Landlord.

7.3 Other Taxes. If at any time during the Lease Term under the laws of the United States Government, state, county or city, or any political subdivision thereof in which the Premises are situated, a tax or excise on rent or any other tax, however described, is levied or assessed by any such political body against Landlord on account of rentals payable to Landlord hereunder, such tax or excise shall be considered "Taxes" for the purposes of this Article 7, excluding, however, from such tax or excise any amount assessed against Landlord as state or federal income tax.

7.4 Intentionally Omitted.

7.5 Payment of Operating Expenses

7.5.1 As used herein, the term "Operating Expenses" shall include:

(a) Taxes as defined in Paragraph 1.15 above.

(b) All other reasonable costs paid or incurred by Landlord in connection with the operation and maintenance of the Building and the Project including, by way of examples and not as a limitation upon the generality of the foregoing, costs of repairs and replacements to improvements (other than capital improvements described in Paragraph 7.5.1(d)) within the Project as appropriate to maintain the Project as required hereunder; costs of utilities furnished to any Common Areas; sewer fees; cable TV, when applicable; trash collection; cleaning, including windows; costs of maintaining HVAC-Building; maintenance of landscape and grounds, drives and parking areas; security services and devices; building supplies; maintenance and replacement to equipment utilized for operation and maintenance of the Project

that are not included in the capital improvements described in Paragraph 7.5.1(d); license, permit and inspection fees; sales, use and excise taxes on goods and services purchased by Landlord in connection with the operation, maintenance or repair of the Project and Building systems and equipment; the cost of furniture, draperies, carpeting, landscaping and other customary and ordinary items of personal property provided by Landlord for use in the Common Areas; capital expenditures costing Fifty Thousand Dollars ($50,000) or less, provided that the cost of all other capital expenditures shall be amortized over the useful life of any such capital expenditure (calculated in accordance with GAAP) and included in Operating Expenses, and further provided that Tenant shall not be responsible for any amortized capital expenditures attributed to any period after the Lease Term; costs of complying with any applicable laws; hazard waste remediation, rules or regulations; insurance premiums including premiums for public liability, property casualty, earthquake and environmental coverages; portions of insured losses paid by Landlord as part of deductible portion of loss by reason of insurance policy terms not to exceed $100,000 per occurrence, with such amount to be amortized over the remainder of the Lease Term (provided, Tenant shall not be required to pay any such deductibles for events occurring in the last year of the Lease Term); service contracts; costs of services of independent contractors retained to do work of nature before referenced, and costs of compensation not to exceed market rate (including employment taxes and fringe benefits) of all persons who perform regular and recurring duties connected with the day-to-day operation and maintenance of the Project, its equipment, the adjacent walks, landscaped areas, drives and parking areas, including without limitation, janitors, floor waxers, window-washers, watchmen, gardeners, sweepers and handymen; and costs of management services, which costs of management services shall not exceed two percent (2%) of the Monthly Rent due from Tenant, whether or not Landlord incurs fees payable to any third party to provide such services and without regard to the actual costs incurred by Landlord for such services.

(c) Notwithstanding the foregoing, Operating Expenses shall not include any leasing commissions, including any legal fees, advertising costs, or other related expenses incurred by Landlord in connection with the leasing of space to individual tenants of the Project; expenses which relate to preparation of rental space for a tenant; expenses of initial development and construction, including but not limited to, grading, paving, landscaping and decorating (as distinguished from maintenance repair and replacement of the foregoing); repairs and maintenance of the structural and exterior portions and Common Areas of the Building and Project described in Paragraph 7.5.1(d); legal expenses relating to other tenants; costs of repair to the extent reimbursed by payment received by Landlord of insurance proceeds or from funds provided by Tenant or any other tenant; interest upon loans to Landlord or secured by mortgage or deed of trust covering the Project or a portion thereof (provided interest upon a government assessment or improvement bond payable in installments is an Operating Expense under subparagraph (a) above); salaries of executive officers of Landlord; depreciation claimed by Landlord for tax purposes (provided this exclusion of “depreciation” is not intended to delete from Operating Expenses actual costs of repairs and replacements in regard thereto which are provided for in subparagraph (b) above); and taxes of the types that are excluded from “Taxes” in Paragraph 1.15 above. In addition, Operating Expenses shall also not include the following: (i) the cost of constructing tenant improvements for any other tenant of the Project; (ii) the cost of special services, goods, or materials provided to any other tenant of the Project; (iii) repairs, alterations, additions, improvements, or replacements needed to rectify or correct any defects in

the original design, materials, or workmanship of the base building structural systems of the Building and Project, including the foundations, roof structure and exterior walls, Landlord's Work or any latent defects in the Building or Project; (iv) damage and repairs necessitated by the gross negligence or willful misconduct of Landlord, Landlord's employees, contractors, or agents; (v) Landlord's general overhead expenses not related to the Project; (vi) legal fees, accountants' fees, and other expenses incurred in connection with disputes of tenants or other occupants of the Project or associated with the enforcement of the terms of any leases with tenants or the defense of Landlord's title to or interest in the Project or any part thereof; (vii) costs incurred due to a violation by Landlord or any other tenant of the Project of the terms and conditions of a lease; (viii) costs of any service provided to Tenant or other occupants of the Project for which Landlord is reimbursed; and (ix) any cost of investigation, testing or cleanup relating to Hazardous Materials not related to Tenant's use or occupancy of the Premises.

(d) Notwithstanding anything to the contrary in this Paragraph 7.5, Landlord agrees to perform, at its sole cost and expense and not as part of the Operating Expenses during the Lease Term, including any renewal terms, all necessary and customary capital repairs and capital replacements involving the base building structural systems of the Building and Project, including the foundations, roof structure and exterior walls.

7.5.2 Tenant shall pay to Landlord on the first day of each calendar month of the Lease Term, as Additional Rent, Landlord's estimate of Tenant's Pro Rata Share of Operating Expenses for such month. Tenant's Pro Rata Share shall be as set forth in Paragraph 2 above and shall be separately calculated with respect to Operating Expenses of the Building, which shall include Operating Expenses relating solely to the Building, and Operating Expenses of the Project, which shall include Operating Expenses relating to the Project excluding Operating Expenses relating solely to the Building. The rentable square footage of the Premises, the Building and the Project referred to in the Recitals of this Lease shall be deemed the actual rentable square feet in the Premises, the Building and the Project.

(a) Within ninety (90) days after the conclusion of each calendar year (or such longer period as may be reasonably required), Landlord shall furnish to Tenant a statement showing in reasonable detail the actual Operating Expenses and Tenant's Pro Rata Share of Operating Expenses for the previous calendar year. Any additional sum due from Tenant to Landlord shall be due and payable within thirty (30) days of Landlord's written demand. If the amounts paid by Tenant pursuant to Paragraph 7.5.2 exceeds Tenant's Pro Rata Share of Operating Expenses for the previous calendar year, the difference shall be credited by Landlord against the Rent next due and owing from Tenant; provided that, if the Lease Term has expired, Landlord shall accompany said statement with payment for the amount of such difference.

(b) Any amount due under this Paragraph 7.5.2 for any period which is less than a full month shall be prorated (based on a 30-day month) for such fractional month.

7.5.3 Landlord's annual statement shall be final and binding upon Tenant unless Tenant, within one hundred and twenty (120) days after Tenant's receipt thereof,

shall contest any item therein by giving written notice to Landlord, specifying each item contested and the reason therefor. If, during such one hundred and twenty (120) day period, Tenant reasonably and in good faith questions or contests the correctness of Landlord's statement of Tenant's Pro Rata Share of Operating Expenses, Landlord will provide Tenant with access to Landlord's books and records and such information as Landlord reasonably determines to be responsive to Tenant's questions. In the event that after Tenant's review of such information, Landlord and Tenant cannot agree upon the amount of Tenant's Pro Rata Share of Operating Expenses, then Tenant shall have the right to have an independent public accounting firm hired by Tenant (at Tenant's sole cost and expense) and approved by Landlord (which approval shall not be unreasonably withheld or delayed) audit and/or review such Landlord's books and records for the year in question (the "Independent Review"). The results of any such Independent Review shall be binding on Landlord and Tenant. If the Independent Review shows that Tenant's Pro Rata Share of Operating Expenses actually paid for the calendar year in question exceeded Tenant's obligations for such calendar year, Landlord shall, at Tenant's option, either (1) credit the excess to the next succeeding installments of estimated Additional Rent or (2) pay the excess to Tenant within thirty (30) days after delivery of such statement. If the Independent Review shows that Tenant's payments of Tenant's Pro Rata Share of Operating Expenses for such calendar year were less than Tenant's obligation for the calendar year, Tenant shall pay the deficiency to the Landlord within thirty (30) days after delivery of such statement.

7.5.4 Tenant shall not be responsible for Operating Expenses attributable to the time period prior to the Rent Commencement Date, except to the extent owing under any prior lease with Landlord or, if Landlord shall permit Tenant occupancy of the Premises prior to the Rent Commencement Date for purposes of conducting Tenant's business therein, Tenant shall be responsible for Operating Expenses from such earlier date of occupancy pursuant to Paragraph 4.4. The responsibility of Tenant for Tenant's Pro Rata Share of Operating Expenses shall continue to the latest of (i) the date of termination of the Lease, (ii) the date Tenant has fully vacated the Premises, or (iii) if termination of the Lease is due to the default of Tenant, the date of rental commencement of a replacement tenant.

7.5.5 Operating Expenses for the calendar year in which Tenant's obligation to share therein commences and in the calendar year in which such obligation ceases, shall be prorated on a basis reasonably determined by Landlord. Expenses such as taxes, assessments and insurance premiums which are incurred for an extended time period shall be prorated based upon time periods to which applicable so that the amounts attributed to the Premises relate in a reasonable manner to the time period wherein Tenant has an obligation to share in Operating Expenses.

8. CONDITION OF PREMISES.

8.1 Condition of Premises. Tenant has determined to lease the Premises after a full and complete investigation and examination thereof. Subject to latent defects in Landlord's Work, Tenant accepts the Premises and all other rights under this Lease "as is." Except as is expressly provided herein or under the Work Letter, Landlord shall not be required to furnish any services or facilities or to make any repairs or alterations in or to the Premises throughout the Lease Term.

8.2 Landlord's Warranties. Landlord represents and warrants that, to its knowledge as of the date Landlord delivers possession of the Premises to Tenant, the Building and the Project, other than the Premises and Tenant's Work, are in compliance with all applicable building codes, permits, laws and regulations, including without limitation, ADA and Title 24. Landlord further represents and warrants that it shall deliver possession of the Premises with all structural elements and building systems, including, but not limited to, HVAC-Building (which shall be building standard), mechanical, electrical, and plumbing systems, in good operating order and repair and the roof watertight. Excluding the foregoing representations and warranties in this Paragraph 8.2, Landlord has not made and makes no representations or warranties to Tenant of any kind regarding the Premises, the Building or the Project, including, without limitation, any representation or warranty regarding the physical condition of the Premises, its suitability for Tenant's intended use, or the availability or capacity of sewer to the Premises.

9. ALTERATIONS AND IMPROVEMENTS.

9.1 Construction Requirements. Any alterations or improvements to the Premises of any kind by Tenant (other than those constructed pursuant to the Work Letter which will be subject to the terms thereof), the cost of which exceeds One Hundred Thousand Dollars ($100,000) or which alters, affects, or modifies Building or Project systems (including, without limitation, mechanical, electrical, plumbing, or HVAC-Building systems), structural components, or the exterior of the Building or Project shall be subject to satisfaction of each of the following conditions:

9.1.1 Architectural Review. Prior to commencement of any work, Tenant shall submit its proposed final plans and specifications to Landlord for Landlord's consent, which consent shall not be unreasonably withheld, delayed or conditioned. Landlord agrees to respond to Tenant's proposed final plans and specifications within ten (10) days after its receipt of such final plans and specifications. Landlord's failure to approve or disapprove within said ten (10) days shall be deemed approval.

9.1.2 Code Compliance. Tenant shall comply with all Applicable Law, and Tenant shall obtain all required permits and approvals, including, but not limited to, any grading permits, building permits, zoning and planning requirements and approvals from any and all necessary governmental agencies and bodies.

9.1.3 Insurance. Tenant shall deliver to Landlord certificates of insurance evidencing that Tenant or the general contractor has obtained builder's all-risk risk insurance in an amount not less than Two Million Dollars ($2,000,000), or in the alternative, a cost of construction endorsement to Tenant's or such general contractor's general liability insurance. Tenant also shall deliver to Landlord evidence of worker's compensation insurance coverage for all persons employed in connection with the construction and with respect to whom death or personal injury claims could be asserted against Landlord or the Premises. Tenant also shall deliver to Landlord evidence that Tenant has paid or caused to be paid all premiums for the

insurance described in this paragraph. Tenant shall maintain or cause to be paid all premiums required to maintain and keep in force all insurance described in this paragraph at all times during which the construction is in progress.

9.1.4 Construction Requirements. Once any work of construction has begun, Tenant shall prosecute with reasonable diligence the same to conclusion. All construction shall be performed in a good and workmanlike manner, shall comply with all Applicable Law and shall be completed in conformance with the plans and specifications approved by Landlord.

9.1.5 Notice of Construction; Mechanics' Liens. Landlord and its representatives shall have the right to go upon and inspect the Premises at all reasonable times upon reasonable prior notice and shall have the right to post and keep posted thereon notices of non-responsibility, or such other notices which Landlord may deem to be proper for the protection of Landlord's interest in the Premises; provided, however, that such rights shall not unreasonably interfere with Tenant's use or possession of the Premises. Before the commencement of any work, which might result in any lien, Tenant shall give to Landlord written notice of its intention to do so in sufficient time to enable the posting of such notices. Subject to Tenant's right to contest any Claim or lien, Tenant shall keep the Premises, the Building and the Project free and clear of any and all liens and encumbrances which may arise at any time in connection with the improvement of the Premises by Tenant or its agents and contractors. Subject to Tenant's right to contest any Claim or lien, Tenant shall pay and discharge all expenses incurred by Tenant for the services of mechanics and for the cost of goods and materials supplied by materialmen, and Tenant shall defend, indemnify and hold harmless Landlord and the Premises from and against any Claims by such mechanics or materialmen for labor or services performed or goods supplied at the request of Tenant. Furthermore, subject to Tenant's right to contest any Claim or lien, Tenant shall, at its cost and expense, remove all such mechanics' liens by bond or otherwise within ten (10) working days after the filing thereof. If Tenant desires to contest any Claim or lien, it shall be entitled to do so on the condition that Tenant first shall either (1) furnish Landlord a bond of a responsible corporate surety approved by Landlord in such amount as is sufficient to cause discharge of the lien of record, and conditioned on the discharge of the lien, or (2) furnish Landlord with other assurances satisfactory to Landlord that Landlord will be protected from the effect of such Claim or lien. If a final judgment establishing the validity or existence of a lien for any amount is entered, Tenant shall pay and satisfy the same at once. If Tenant shall not have paid, as and when required by this Paragraph 9.1.5, any charge for which a mechanics' lien claim and suit to foreclose the lien have been filed, or if Tenant shall not have given Landlord security to protect the Premises and Landlord against such Claim or lien as required by this Paragraph 9.1.5, Landlord, upon five (5) days notice to Tenant, may (but shall not be required to) pay said lien or Claim including any costs, in which event the amount so paid, together with reasonable attorneys' fees incurred in connection therewith, shall be immediately due and owing from Tenant to Landlord. Tenant shall pay the same to Landlord together with interest on the full amount thereof at the Default Rate from the date of Landlord's payment until paid. If any Claims or liens are filed against the Premises or, if any action affecting title to the Premises is commenced, the party receiving notice of such lien or action shall forthwith give the other party written notice thereof.

9.1.6 Notice of Completion. Upon completion of any construction, Tenant shall file or cause to be filed a notice of completion. Tenant hereby appoints Landlord as Tenant's attorney-in-fact solely for the purpose of filing the notice of completion if Tenant fails to do so after the construction has been substantially completed.

9.1.7 As-Built Plans. On completion of any construction, Tenant shall give Landlord notice of all changes in plans or specifications made during the course of the work and, at the same time and in the same manner, shall supply Landlord with "as built" drawings accurately reflecting all such changes.

9.1.8 Ownership of Improvements. All improvements and fixtures existing on the Premises, the Building and the Project including (without limiting the generality of the foregoing) all wallcoverings, carpeting, flooring, built-in cabinet work, paneling and the like, all HVAC system that are installed on the Premises for Tenant's laboratory or specific use ("Special HVAC"), electrical, mechanical, and plumbing equipment and related ducts, shafts, and conduits, all exterior venting fume hoods, walk-in freezers and refrigerators, clean-rooms, climatized rooms, electrical panels and power back-up distribution systems shall be the property of Landlord and shall remain upon, and be surrendered with the Premises, as a part thereof, at the end of the Lease Term. In the event that Tenant desires to make any alterations, additions or improvements upon the Premises during the Lease Term, Tenant shall submit to Landlord proposed final plans therefor, together with a request (the "Identification Notice") that Landlord identify to Tenant in writing which of the proposed alterations, additions or improvements Landlord elects to remain property of Tenant to be removed by Tenant at the end of the Lease Term (each a "Tenant-Owned Alteration"). If Landlord fails to respond in writing to the Identification Notice (or fails to designate in writing a proposed alteration, addition or improvement as a Tenant-Owned Alteration) within fifteen (15) days after Landlord's receipt of the Identification Notice, then Landlord shall be deemed to have elected to have any proposed alteration, addition or improvement not expressly designated as a Tenant-Owned Alteration within such fifteen (15) day period become property of Landlord (each a "Landlord-Owned Alteration"). If Tenant thereafter elects to make such proposed alterations, additions or improvements, then (a) all Landlord-Owned Alterations shall become property of Landlord and shall remain upon, and be surrendered with, the Premises, as a part thereof, at the end of the Lease Term, and (b) all Tenant-Owned Alterations shall remain the property of Tenant and shall be removed by Tenant at or prior to the end of the Lease Term. Tenant shall repair all damage resulting from its removal of Tenant-Owned Alterations, and restore the affected area to the condition existing prior to installation of Tenant-Owned Alterations. Nothing in the foregoing shall be construed to imply that Tenant's Equipment (as defined in Paragraph 13.2 below) or other property of Tenant may become the property of Landlord. All articles of personal property, business and trade fixtures, machinery and equipment, furniture and movable partitions owned by Tenant or installed by Tenant at its expense in the Premises shall be and remain the property of Tenant and may be removed by Tenant at any time during the term of this Lease, provided that removal of the same shall not materially affect or damage the Building's or Project's electrical, mechanical, or plumbing systems. Any items of Tenant's improvements which are paid for by Landlord, shall belong to Landlord and shall not be regarded as owned by Tenant. Notwithstanding the foregoing, at Landlord's option to be determined by written notice to Tenant at least nine (9) months before the last day of the then applicable Lease Term, the

personal property and trade fixtures acquired by Tenant and paid from the Tenant Improvement Allowance in accordance with Paragraph 4.5 shall belong to Tenant, shall not be regarded as owned by Landlord and shall be removed from the Premises by Tenant at the end of the Lease Term. If Tenant does not receive such notice from Landlord at least nine (9) months before the last day of the then applicable Lease Term, all such personal property and trade fixtures shall become the property of Landlord at the end of the Lease Term. If Tenant shall fail to remove all of its effects from the Premises upon termination of this Lease for any cause whatsoever, Landlord, at its option, upon written notification to Tenant, may remove the same in any manner that Landlord shall choose and store said effects without liability to Tenant for loss thereof. In such event, Tenant agrees to pay Landlord upon demand any and all expenses incurred in such removal, including court costs and reasonable attorneys' fees and storage charges on such effects, for any length of time that the same shall be in Landlord's possession. If Tenant shall fail to remove all of its effects from the Premises upon termination of this Lease, Landlord, at its option, without notice, may sell said effects, or any of the same, at private sale and without legal process, for such price as Landlord may obtain and apply the proceeds of such sale upon the amounts due under this Lease from Tenant to Landlord and upon the expense incident to the removal and sale of said effects. Tenant shall not be responsible for any restoration (or removal) of the fixed Tenant Improvements performed in accordance with Paragraph 4.5 and the Work Letter, except that Tenant shall be responsible for repairing any damage in removing its personal property or trade fixtures.

9.2 Landlord Not Responsible. Landlord's approvals as required by this Lease shall not make Landlord responsible for the improvement with respect to which an approval is given or the construction thereof, and Tenant shall indemnify, defend (by counsel reasonably acceptable to Landlord), and hold Landlord and the Premises harmless from and against any Claims arising out of or in connection with any construction in, on or about the Premises or any labor dispute arising in connection therewith.

10. UTILITIES AND SERVICES.

10.1 Tenant's Responsibility. Tenant shall be responsible for all utility and other services to the Premises, at Tenant's sole cost and expense. Tenant shall pay all costs therefor, including, without limitation, connection charges and billing deposits. Tenant shall pay (directly to the provider and prior to delinquency) for all water, gas, electricity, sewer, telephone, cable television and other utilities which may be furnished to the Premises during the term of this Lease. If any such utility is not separately metered to Tenant, Tenant shall pay a reasonable proportion to be determined by Landlord of all charges jointly metered with other premises as part of Tenant's Pro Rata Share of Operating Expenses, or in the alternative, Landlord may, at its option, monitor the usage of such utilities by Tenant and charge Tenant with the cost of purchasing, installing and monitoring such metering equipment, which shall be paid by Tenant as Additional Rent. Notwithstanding the foregoing, Landlord shall be responsible for the installation and connection of all utility and other services to the Building at Landlord's sole cost and expense prior to May 1, 2005. Tenant shall be entitled to rent abatement for each day that such installation and connection is not completed after May 1, 2005, to be credited against the first Monthly Rent payable to Landlord. On or after the Lease Commencement Date, Tenant

shall have access to the Building and the Premises, seven days a week, twenty-four (24) hours per day, with electric and elevator service being provided at all such times.

10.2 Additional Devices. Tenant shall not, without the prior written consent of Landlord, use any device in the Premises, including, but without limitation, data processing machines, which will in anyway materially increase the amount of ventilation, air exchange, gas, steam, electricity or water beyond the existing capacity of the Building and the Project as proportionately allocated to the Premises based upon Tenant's Pro Rata Share as usually furnished or supplied for the uses set forth in Paragraph 6.1 or be in excess of Tenant's Pro Rata Share of the Building's or Project's capacity to provide such utilities or services; provided, however, Tenant shall have the right, during the Lease Term, subject to all Applicable Laws, to install, maintain and operate an emergency generator in a size and location reasonably approved by Landlord (such approval not to be unreasonably withheld, conditioned or delayed).

10.3 Excess Services. If Tenant shall require services in excess of that usually furnished or supplied for similar space in the Building, by reason of equipment operated and/or extended hours of business operation, then Tenant shall first procure the consent of Landlord for the use thereof, which consent Landlord may condition upon the availability of such excess utilities or services and Tenant's payment as Additional Rent of an amount equal to the cost to provide such excess services and utility capacity.

10.4 Water. Landlord shall provide water in Common Areas for drinking and lavatory purposes only, but if Tenant requires, uses or consumes water for any purpose in addition to ordinary drinking and lavatory purposes of which fact Tenant constitutes Landlord to be the sole judge, Landlord may install a water meter and thereby measure Tenant's water consumption for all purposes. Tenant shall pay Landlord for the cost of the meter and the cost of the installation thereof and throughout the duration of Tenant's occupancy, thereof and throughout the duration of Tenant's occupancy, Tenant shall keep said meter and installation equipment in good working order and repair at Tenant's own cost and expense, in default of which Landlord may cause such meter and equipment to be replaced or repaired and collect the cost thereof from Tenant. Tenant agrees to pay for water consumed, as shown on said meter, as and when bills are rendered, and on default in making such payment, Landlord may pay such charges and collect the same from Tenant. Any such costs or expenses incurred, or payments made by Landlord for any of the reasons or purposes hereinabove stated shall be deemed to be Additional Rent payment by Tenant and collectible by Landlord as such.

10.5 Landlord Not Responsible. Landlord shall not be liable in damages or otherwise for any failure or interruption of any utility service or other services being furnished the Premises unless such is caused by the gross negligence or willful misconduct of Landlord, and no such failure or interruption shall entitle Tenant to terminate this Lease, abate Rent, or be relieved from any obligation or the operation of any covenant or agreement under this Lease unless the same is caused by the gross negligence or willful misconduct of Landlord. Landlord reserves the right to stop service of the elevator, plumbing, HVAC-Building and electric systems, when necessary, by reason of accident or emergency or for repairs, alterations or improvements, in the reasonable judgment of Landlord desirable or necessary to be made, until said repairs, alterations or improvements shall have been completed, and Landlord shall further have no

responsibility or liability for failure to supply elevator facilities, plumbing, HVAC-Building or electric service, when prevented from doing so by strike or accident, or by laws, rules, order, ordinances, directions, regulations or requirements of any federal, state, country or municipal authority or failure to deliver gas, oil or other suitable fuel supply or inability by exercise of reasonable diligence to obtain gas, oil or other suitable fuel. It is expressly understood and agreed that any covenants on Landlord's part to furnish any service pursuant to any of the terms, covenants, conditions, provisions or agreements of this Lease, or to perform any act or thing for the benefit of Tenant, shall not be deemed breached if Landlord is unable to furnish or perform the same by virtue of a strike or labor trouble or any other cause whatsoever.

11. MAINTENANCE AND REPAIRS.

11.1 Landlord's Responsibility. Landlord shall repair and maintain the structural and exterior portions and Common Areas of the Building and Project to a standard at least equal to other Class A office properties in the San Francisco mid-peninsula, including, without limitation, roofing and covering materials, foundations, exterior walls, the plumbing, fire sprinkler system (if any), HVAC-Building, elevator, and electrical systems installed or furnished by Landlord (and, except as provided in Paragraph 7.5.1(d), the full cost thereof shall be included as a part of Operating Expenses), unless such maintenance or repairs are required in whole or in part because of any act, neglect, fault of or omissions of any duty by Tenant, its agents, servants, employees or invitees, in which case Tenant shall pay to Landlord the cost of such maintenance and repairs. There shall be no abatement of Rent and no liability of Landlord by reason of any injury to or interference with Tenant's business arising from the making of any repairs, alterations or improvements in or to any portion of the Premises, or in or to improvements, fixtures, equipment and personal property therein unless caused by the gross negligence or willful misconduct of Landlord. Landlord shall use its best efforts not to unreasonably interfere with Tenant's use and occupancy of the Premises in making such repairs, alterations or improvements. Landlord shall not be liable for any failure to make any repairs or to perform any maintenance which is an obligation of Landlord unless such failure shall persist for an unreasonable time after written notice of the need of such repairs or maintenance is given to Landlord by Tenant.

11.2 Tenant's Responsibility. Except for services of Landlord, if any, required by Paragraph 11.1, Tenant shall at Tenant's sole cost and expense keep the Premises and every part thereof in good condition and repair, damage thereto from ordinary wear and tear excepted. During the Lease Term, except as expressly provided in the Lease, Landlord shall not be required to maintain or make any repairs or replacements of any nature or description whatsoever to the Premises.

11.3 Landlord's Right of Entry for Repairs. Landlord and Landlord's agents shall have the right to enter upon the Premises, or any part thereof, upon prior reasonable notice to Tenant not less than 24 hours in advance, for the purpose of performing any repairs or maintenance Landlord is permitted or required to make pursuant to this Lease and, provided a representative of Tenant is given the reasonable opportunity to accompany Landlord and Landlord's agents, of ascertaining the condition of the Premises or whether Tenant is observing and performing Tenant's obligations hereunder, all without unreasonable interference from

Tenant or Tenant's Agents. "Tenant's Agents" shall be defined to include Tenant's officers, employees, agents, contractors, invitees, customers and subcontractors. Except for emergency maintenance or repairs, the right of entry contained in this paragraph shall be exercisable at reasonable times, and at reasonable hours.

12. COMMON AREAS; PARKING.

12.1 Common Areas. Tenant shall have the non-exclusive right, in common with others, to use the Common Areas, subject to the rules and regulations adopted by Landlord and attached hereto as Exhibit E together with such other reasonable and non-discriminatory rules and regulations as are hereafter promulgated by Landlord in its discretion (the "Rules and Regulations"). Landlord shall not be responsible to Tenant for the violation or non-performance by any other tenant or any agent, employee or invitee thereof of any of said Rules and Regulations. Landlord reserves the right to modify Common Areas including the right to add or remove exterior and interior landscaping and to subdivide real property. It is recognized that Landlord specifically reserves the right as to a portion of the Building to allow exclusive use of corridors and restroom facilities located on specific floors to one or more tenants occupying such floors, provided Tenant herein shall not be deprived of the use of the corridors reasonably required to serve the Premises or of restroom facilities serving the floor upon which the Premise are located. Notwithstanding the foregoing, Landlord agrees to cooperate with Tenant to rework the reception area, at Tenant's option, on the second (2nd) floor of the Building, which Tenant will share with other tenants of the Project on a non-exclusive basis, to address Tenant's entry and aesthetic needs, the costs of which shall be paid from the Tenant Improvement Allowance or Tenant's own funds.

12.2 Parking. Subject to the other provisions of this Lease, and excluding those parking spaces designated by Landlord as being reserved for Nektar Therapeutics, commencing on the Rent Commencement Date and ending on the expiration date of the Lease Term, Tenant shall be entitled to 3.0 unreserved parking spaces per 1,000 rentable square feet for use by Tenant and its employees, business invitees and agents. Landlord may designate or redesignate from time to time the location of the parking spaces, provided that at all times Tenant and its employees shall be permitted to park in the underground garage of the Project. Notwithstanding the foregoing, six (6) of such parking spaces shall be designated by Landlord for Tenant's exclusive use, such designated spaces to be located near the main visitor entrance of the Building and marked in a manner reasonable acceptable to both Landlord and Tenant at Tenant's sole cost and expense. Tenant shall not park any trucks or any delivery vehicles in the parking areas or driveways, except as specifically designated by Landlord from time to time, and shall confine all truck parking, loading and unloading to times and locations specifically designated by Landlord from time to time. Tenant shall require all trucks servicing Tenant to be promptly loaded or unloaded and removed from the site. Landlord hereby reserves the exclusive right with respect to the use of parking facilities, roadways, sidewalks, driveways, islands and walkways for advertising purposes. Tenant covenants and agrees to enforce the provisions of this Lease against Tenant's employees and business invitees. Landlord may from time to time circulate parking stickers for the purpose of identifying motor vehicles of Tenant and Tenant's employees and/or circulate validation tickets for the purpose of identifying Tenant's business invitees. Landlord shall have the right, but not the obligation: (a) to police said parking facilities, (b) to

provide parking attendants, (c) to cause unauthorized and/or unregistered motor vehicles (but only upon 48 hours verbal or written notice to Tenant for first time offenders) to be towed away at the sole risk and expense of the owner of such motor vehicles, (d) to designate certain areas of the parking facilities for the exclusive use of motor vehicles having handicapped designations on their license plates and/or for the exclusive use of visitors to the Project, (e) to use any portion of the parking facilities from time to time and/or to deny access to the same temporarily in order to repair, maintain or restore such facilities or to construct improvements under, over, along, across and upon the same for the benefit of the site and to grant easements in the parking facilities to any authorities, (f) to adopt and modify from time to time rules and regulations for parking and vehicular ingress, egress, speed, no parking, no standing, and for times and places for move-in, move-out and deliveries, (g) to designate fire lanes, loading zones and restricted parking from time to time and to tow violators immediately with no notice and (h) to designate from time to time specific areas for the parking of Tenant's employees cars. Landlord shall use commercially reasonable efforts to insure that the rules and regulations promulgated by Landlord will be enforced in a non-discriminatory manner.

13. FIXTURES AND PERSONAL PROPERTY.

13.1 Removal of Fixtures. Except as provided in Paragraphs 9.1.8 or 13.2 herein, Tenant shall not remove any fixtures belonging to Landlord from the Premises without Landlord's prior written consent (not to be unreasonably withheld, conditioned or delayed); provided, however, Tenant shall have the right to sell or dispose of any existing building machinery, equipment or fixtures subject to this Lease which may have become obsolete or unfit for use or which are no longer useful, necessary or profitable in the conduct of Tenant's business, so long as (i) the Premises retain its primary use consistent with the Permitted Use, and (ii) Tenant shall have substituted or promptly shall substitute for the property so removed from the Premises other building machinery, equipment or fixtures not necessarily of the same character but at least of equal quality in the performance of the particular function in question as that of the property so removed unless, in Tenant's reasonable opinion, the property so removed was performing an obsolete function and replacement thereof is not necessary or appropriate to maintain the operation or character of the Premises or its overall value without impairment. Tenant shall give Landlord written notice of each material fixture removed by Tenant. All built-ins and fixtures installed in or attached to the Premises by Tenant must be new or like new when so installed or attached.

13.2 Trade Fixtures and Personal Property. Except for the personal property and trade fixtures acquired by Tenant and paid from the Tenant Improvement Allowance in accordance with Paragraph 4.5, the ownership of which shall be governed by Section 9.1.8, any trade fixtures, equipment, stock, inventory, machines (other than Special HVAC or other built-in machines or machinery, as provided in Paragraph 9.1.8), signs and other personal property of Tenant not permanently affixed to the Premises ("Tenant's Equipment") shall remain the property of Tenant. Landlord agrees that Tenant shall have the right, at any time, and from time to time, to remove any and all of Tenant's Equipment which it may have stored or installed in the Premises. Tenant, at its sole cost and expense, immediately shall repair any damage occasioned to the Premises by reason of the removal of Tenant's Equipment and, upon the last day of the Lease Term or upon earlier termination of this Lease, shall leave the Premises in a neat and clean

condition, free of debris, and in as good a condition as that existing on the Rent Commencement Date, reasonable wear and tear and damage from casualty or condemnation excepted, with all Special HVAC and other Building systems in good and operable condition.

13.3 Taxes on Trade Fixtures and Personal Property. Tenant shall pay before delinquency all taxes, assessments, license fees and public charges levied, assessed or imposed upon its business operation, as well as upon its trade fixtures, leasehold improvements (including, but not limited to, those Tenant is allowed or required to make in accordance with the provisions of this Lease), merchandise and other personal property in, on or upon the Premises. If any such items of property are assessed together with property owned by Landlord, then, and in such event, such assessment shall be equitably divided between Landlord and Tenant.

13.4 Ownership of Tenant's Equipment. All Tenant's Equipment shall be and remain the property of Tenant during the Lease Term. Tenant shall bear all costs and expenses incurred in installing, removing, storing or disposing of Tenant's Equipment pursuant to this paragraph and Paragraph 27 and shall repair at its expense all damage to the Premises caused by the installation and removal thereof, whether effectuated by Tenant or Landlord (as provided in Paragraph 27).

14. TENANT'S COVENANT. Tenant covenants and agrees that as to its leasehold estate and use and occupancy of the Premises, Tenant and all persons in possession or holding under Tenant shall conform to and shall not violate any Applicable Law.

15. INDEMNITY - WAIVER OF SUBROGATION.

15.1 Indemnification. Tenant shall indemnify, defend, and hold Landlord and its agents, employees, directors, officers, managers, members, partners, affiliates, independent contractors, and property managers (collectively, "Landlord's Agents" or "Agents") harmless from and against any and all claims, demands, liability, loss or damage, whether for injury to or death of persons or damage to real or personal property, arising out of or in connection with the Premises, Tenant's use of the Premises, any activity, work, or other thing done or permitted by Tenant in or about the Building or the Project, or arising from any reason or cause whatsoever in connection with the use or occupancy of the Premises by Tenant or its assignees, licensees or sublesees during the term of this Lease. This indemnification by Tenant shall include indemnity for the acts or omissions of Landlord and Landlord's Agents, unless caused by the willful act or gross negligence of the Landlord or its Agents. Tenant shall further indemnify, defend, and hold Landlord and Landlord's Agents harmless against and from any and all claims arising from any breach or default in the performance of any obligation on Tenant's part to be performed under the terms of this Lease, or arising from any act or negligence of Tenant or any officer, agent, employee, guest, or invitee of Tenant, and from and against all costs, attorneys' fees, expenses, and liabilities incurred as a result of any such claim or any action or proceeding brought thereon. In any case, action, or proceeding brought against Landlord or Landlord's Agents by reason of any such claim, Tenant, upon notice from Landlord, shall defend the same at Tenant's expense by counsel reasonably satisfactory to Landlord. Tenant, as a material part of the consideration to Landlord, hereby assumes all risk of damage to property or injury to persons in, upon, or about the Premises from any cause arising prior to the later of the termination of this Lease or the date

Tenant is no longer in possession of the Premises (except for such damage or injury caused by Landlord's or its Agents' willful misconduct or gross negligence), and Tenant hereby waives all claims in respect thereof against Landlord and Landlord's Agents. Tenant's obligation to indemnify under this paragraph shall include reasonable attorneys' fees, investigation costs, and other reasonable costs, expenses, and liabilities incurred by Landlord and Landlord's Agents. If the ability of Tenant to use the Premises, the Building or the Project is interrupted for any reason, Landlord and Landlord's Agents shall not be liable to Tenant for any loss or damages occasioned by such loss of use, except to the extent such loss or damages is caused solely by Landlord's or its Agents' willful misconduct or gross negligence, provided that Tenant shall be entitled to rent abatement.

15.2 Limitation on Landlord Liability. Neither Landlord nor Landlord's Agents shall be liable for loss or damage to any property by theft or otherwise, or for any injury to or damage to persons or property resulting from fire, explosion, falling plaster, steam, gas, electricity, water, or rain which may leak from any part of the Building or Project or from the pipes, appliances, or plumbing works therein or from the roof, street, or subsurface or from any other place resulting from dampness or any other cause whatsoever, unless caused by or due solely to the gross negligence or intentional acts of Landlord or Landlord's Agents. Landlord shall not be liable for any damages arising from any act, omission or neglect of any other tenant in the Building or Project or of any other third party. Except as otherwise provided herein, neither Landlord nor Landlord's Agents, shall be liable for interference with the light or other rights or loss of business by Tenant. Tenant shall give prompt notice to Landlord in case of fire or accidents in the Premises, the Building or the Project or of defects therein or in the fixtures or equipment belonging to Landlord.

15.3 Waiver of Subrogation. Landlord and Tenant hereby waive any rights each may have against the other on account of any loss or damage occasioned to Landlord or Tenant, as the case may be, their respective property or the Premises, caused by or resulting from risks insured against under any policies carried by the parties; provided, however, that this paragraph shall be inapplicable if it would have the effect, but only to the extent that it would have the effect, of invalidating any insurance coverage of Landlord or Tenant. To the extent available, the parties shall cause each insurance policy obtained by it hereunder to provide a waiver of subrogation.

16. INSURANCE.

16.1 Landlord's Insurance. During the Lease Term, Landlord shall keep and maintain, or cause to be kept and maintained, as part of Operating Expenses, a policy or policies of insurance on the Project insuring the same against loss or damage by the following risks: fire and extended coverage, vandalism, malicious mischief and sprinkler leakage (if sprinklers are required in the Project under applicable building code provisions, or are installed by Tenant in the absence of such requirement) in amounts at all times sufficient to prevent Landlord or Tenant from becoming a co-insurer under the terms of the applicable policies, but in any event in amounts not less than the Full Replacement Value of the Project (including both the Project and any tenant improvements), or if greater, the amount of such insurance Landlord's lender requires Landlord to maintain. The term "Full Replacement Value" shall mean actual replacement cost,

including changes required by new building codes or ordinances (exclusive of the cost of excavation, foundations and footings). Such insurance shall show, as a loss payee in respect of the Premises, Landlord, Tenant and any ground lessor or any Lender required to be named pursuant to its mortgage documents, as their interests may appear. Landlord, subject to availability thereof and, as part of Operating Expenses, shall further insure as Landlord deems appropriate coverage against flood, earthquake, environmental remediation, loss or failure of building equipment, rental loss for a period of eighteen (18) months for periods of repair or rebuild, worker's compensation insurance, fidelity bonds for employees employed to perform services and other insurance in types and amounts consistent with commercially reasonable practice. Landlord, as part of the Operating Expenses, shall further carry General Liability with General Aggregate Amount and Per Occurrence Limit insurance with a single loss limit of not less than Five Million Dollars ($5,000,000) for death or bodily injury, or property damage with respect to the Real Property.

16.2 Tenant's Insurance.

16.2.1 Comprehensive Liability Insurance. During the Lease Term, Tenant shall keep and maintain, or cause to be kept and maintained, at Tenant's sole cost and expense, a policy or policies of comprehensive general public liability insurance, showing, as an additional insured in respect of the Premises, Landlord, Tenant, any management company retained by Landlord to manage the Premises, any ground lessor and any Lender required to be named pursuant to its mortgage documents. Such policy shall insure against any and all Claims for injuries to persons, loss of life and damage to property occurring upon, in or about the Premises (including coverage for liability caused by independent contractors of Tenant or Subtenant working in or about the Premises), with minimum coverage in an amount not less than a Two Million Dollars ($2,000,000) combined single limit with respect to all bodily injury, death or property damage in any one accident or occurrence. In the event of a Claim relating to the Premises, the amount of any deductible or self-insured retention and/or any award in excess of the policy limits shall be the sole responsibility of Tenant. The insurance shall include (i) personal injury insurance with endorsement deleting the employee liability exclusions, and employee liability insurance, (ii) a broad form contractual liability endorsement insuring Tenant's indemnity obligation under Paragraph 15.1, (iii) a products liability coverage endorsement (or in the alternative, a separate product liability insurance policy), (iv) a boiler and machinery coverage endorsement, and (v) a products completed operations coverage endorsement (or in the alterative, a separate insurance policy that provides coverage for products completed operations).

16.2.2 Tenant's Risk. Tenant assumes the risk of damage to any fixtures, goods, inventory, merchandise and equipment, and Landlord shall not be liable for injury to Tenant's business or any loss of income therefrom relative to such damage except as more particularly heretofore set forth within this Lease. Tenant at Tenant's cost may carry such insurance as Tenant desires for Tenant's protection with respect to personal property of Tenant, business interruption or other coverages.

16.2.3 Other Insurance. In addition to all other insurance required to be carried by Tenant, Tenant, throughout the Lease Term, shall provide and keep in force at Tenant's sole cost and expense:

(a) Such further insurance against such other hazards and risks and in such amounts as the ground lessor or the holder of any mortgage or deed of trust lien may require under to the terms of such liens that are commercially reasonable;

(b) Rental value insurance with respect to the Premises, covering risk of loss of rental due to the occurrence of any of the hazards described above in Paragraph 16.1, in an amount not less than the aggregate requirements for the period of twelve (12) months following the occurrence of the casualty for Rent and premiums on the insurance required to be carried pursuant to this Paragraph 16;

(c) Worker's Compensation insurance to the full extent required under the law of the State of California;

(d) Insurance on Tenant's equipment, personal property and other contents in, on or about the Premises insuring against loss or damage by all risks covered by "special form" coverage, in amounts equal to ninety percent (90%) of their full replacement value;

(e) During the period of construction of the Tenant Improvements and any other construction, Builder's All Risk Insurance with Completed Operations Coverage; and

16.3 Insurers; Primary Insurance. All policies of insurance provided for herein shall be on an occurrence basis (except for the product liability coverage, which may be on a claims made basis) and shall be issued by insurance companies with a general policy holder's rating of not less than A- and a financial rating of not less than Class XV as rated in the most current available "Best's" Insurance Reports. Such insurance companies shall be qualified to do business in the State of California (except for the product liability coverage insurer, which may be a non-admitted insurance provider). All such policies carried by Tenant shall name Landlord, any ground lessor and any Lender (or its successors and assigns) as additional insureds, and shall be for the mutual and joint benefit and protection of Landlord, Tenant, any ground lessor and Landlord's first mortgagee or beneficiary. All public liability and property damage policies carried by Tenant shall contain a provision that Landlord, although named as an insured, nevertheless shall be entitled to recovery under said policies for any loss occasioned to it, its servants, agents and employees by reason of the negligence of Tenant. As often as any such policy shall expire or terminate, renewal or additional policies shall be procured and maintained by Tenant in like manner and to like extent. All policies of insurance must contain a provision that the company writing said policy will give to Landlord thirty (30) days notice in writing in advance of any cancellation or lapse or the effective date of any reduction in the amounts of insurance. All public liability, property damage and other casualty policies carried by Tenant shall be written as primary policies, not contributing with and not in excess of coverage which Landlord may carry. Tenant shall, upon request from Landlord from time to time, immediately deliver to Landlord copies of all insurance policies (including the declarations pages) in effect

with respect to Tenant's business and the Premises. All liability policies shall contain endorsements for cross-liability, fire, legal liability, broad form contractual liability, employer's automobile non-ownership, and products completed operation coverage.

16.4 Blanket Policy. Notwithstanding anything to the contrary contained within this Paragraph 16, Tenant's obligations to carry the insurance provided for herein may be brought within the coverage of a so-called blanket policy or policies of insurance carried and maintained by Tenant; provided, however, that Landlord, any ground lessor and Lender shall be named as an additional insured thereunder as their interests appear, the coverage afforded Landlord will not be reduced or diminished by reason of the use of such blanket policy of insurance, and the requirements set forth herein are otherwise satisfied.

16.5 Deductibles. The deductible amounts, if any, with respect to all insurance, which Tenant is required to maintain hereunder, shall not exceed Twenty-Five Thousand Dollars ($25,000) per claim or occurrence. The amount of the deductibles, if any, within this limitation shall be a business decision by Tenant. Under no circumstances shall Landlord be required to reimburse Tenant for the amount of any deductible incurred by Tenant in connection with any insured event.

16.6 Certificates. Upon the execution and delivery of this Lease and thereafter not less than thirty (30) days prior to the expiration dates of the expiring policies theretofore maintained, Tenant shall deliver to Landlord certificates of insurance with respect to the policies of insurance required by this Lease or duplicate originals of all such policies. Landlord, upon reasonable notice, may inspect and copy any policies of insurance, and any records relating thereto kept and maintained by Tenant.

16.7 Adjustment in the Event of Loss. Except as otherwise provided herein, all insurance proceeds payable with respect to any damage or destruction to the Premises (but not with respect to Tenant's personal property, it being understood that insurance proceeds allocable to Tenant's personal property shall be payable directly to Tenant) shall be payable to Landlord and Tenant, jointly, to be held in an interest bearing account. If Tenant and Landlord undertake to repair said damage in accordance with Article 17 below, the proceeds shall be made available to Tenant as to the tenant improvements and to Landlord as to the Project, Building and Common Area used to fund the reconstruction. In all other events, the proceeds shall be the sole property of Landlord except otherwise expressly provided herein, such as insurance proceeds with respect to Tenant's personal property. Each party agrees to execute and deliver to the other party such releases, endorsements and other instruments as the other party reasonably may require in order to compromise, adjust or settle any insurance claim which such other party shall be entitled to compromise, adjust or settle pursuant to this paragraph and to enable the other party or its designee to collect such insurance proceeds as are payable in respect of such claim.

17. DAMAGE OR DESTRUCTION.

17.1 Partial Destruction. In the event of a partial destruction of the Building wherein the Premises are located by fire or other perils covered by extended coverage insurance, and if the damage thereto is such that the Building may be repaired, reconstructed or restored

within a period of six (6) months from the date of the happening of such casualty and Landlord will receive insurance proceeds sufficient to cover the cost of such repairs (except for any deductible amount provided by Landlord's policy, which deductible amount if paid by Landlord shall be an Operating Expense, but not to exceed $100,000 per occurrence to be amortized over the remaining Lease Term), Landlord shall commence and proceed diligently with the work of repair, reconstruction and restoration and this Lease shall continue in full force and effect. In the event insurance proceeds are not sufficient to cover the cost of such repairs, and Landlord elects not to repair or restore, this Lease shall terminate as of the date of the casualty.

17.2 Other Destruction. In the event of any damage to or destruction of the Building wherein the Premises are located, other than as provided in Paragraph 17.1, Landlord may elect to repair, reconstruct and restore the Building, in which case this Lease shall continue in full force and effect. If Landlord elects not to repair then this Lease shall terminate as of date of destruction. Landlord shall give written notice to Tenant of its election not to repair, reconstruct or restore the Building or Project within the sixty (60) day period following the date of damage or destruction.

17.3 Termination of Lease. Upon any termination of this Lease under any of the provisions of this Article, the parties shall be released thereby without further obligation to the other from the date possession of the Premises is surrendered to the Landlord except for items which have theretofore occurred.

17.4 Abatement of Rent. In the event of repair, reconstruction and restoration as herein provided, the rental provided to be paid under this Lease shall be abated proportionately based on the extent to which Tenant's use of the Premises is impaired during the period of such repair, reconstruction or restoration, unless Landlord provides Tenant with other space during the period of repair, which in Tenant's reasonable opinion is suitable for the temporary conduct of Tenant's business.

17.5 Limitations on Landlord's Obligations. The obligations of Landlord pursuant to this Article are subject to the following limitations:

(a) Notwithstanding anything to the contrary contained in this Article, should Landlord be delayed or prevented from completing the repair or restoration of the damage to the Premises after the occurrence of such damage or destruction by reason of acts of God or war, governmental restrictions, inability to procure the necessary labor or materials, strikes, or other uses beyond the control of Landlord, the time for Landlord to commence or complete repairs shall be extended, provided, at the election of Landlord or Tenant, Landlord shall be relieved of its obligation to make such repairs or restoration and Tenant shall be released from its obligation under this Lease as of the end of eight (8) months from date of destruction, if repairs required to provide Tenant use of the Premises are not then substantially complete.

(b) If Landlord is obligated to or elects to repair or restore as herein provided, Landlord shall be obligated to make repairs or restoration only of those portions of the Building and the Premises which were originally provided at Landlord's expense. The repair and restoration of items not provide at Landlord's expense shall be the obligation of Tenant. In the

event Tenant elected to upgrade certain improvements from the standard normally provided by Landlord, Landlord shall upon the need for replacement due to an insured loss, provide only the standard Landlord improvements unless Tenant shall elect to again upgrade and pay any additional cost of such upgrades, except to such extent as insurance proceeds which, if received, the excess proceeds are adequate to provide such upgrades, in addition to providing for basic reconstruction and standard improvements.

(c) Notwithstanding anything to the contrary contained in this Article, Landlord shall not have any obligation whatsoever to repair, reconstruct or restore the Premises when the damage resulting from any casualty covered under this Article occurs during the last twelve (12) months of the term of this Lease or any extension hereof, or to the extent that insurance proceeds are not available therefor, in which case this Lease shall terminate as of the date of the casualty.

17.6 Tenant's Right to Terminate. If the Premises are damaged by any peril and Landlord does not elect to terminate this Lease or is not entitled to terminate this Lease pursuant to this Paragraph 17, then as soon as reasonably practicable, Landlord shall furnish Tenant with the written opinion of Landlord's architect or construction consultant as to when the restoration work required of Landlord may be completed. Tenant shall have the right to terminate this Lease in the event any of the following occurs, which right may be exercised only by delivery to Landlord of a written notice of election to terminate within thirty (30) days after Tenant receives from Landlord the estimate of the time needed to complete such restoration:

(a) The Premises are damaged by any peril and, in the reasonable opinion of Landlord's architect or construction consultant, the restoration of the Premises cannot be substantially completed within one hundred eighty (180) days after the date of such damage; or

(b) The Premises are materially damaged by any peril within twelve (12) months of the last day of the Lease Term and, in the reasonable opinion of Landlord's architect or construction consultant, the restoration of the Premises cannot be substantially completed within sixty (60) days after the date of such damage.

18. ASSIGNMENT AND SUBLETTING.

18.1 No Assignment. Tenant shall neither voluntarily nor by operation of law assign, sell, encumber, pledge or otherwise transfer all or any part of Tenant's leasehold estate hereunder, or permit any other person (excepting Tenant's agents and employees) to occupy the Premises or any portion thereof, without Landlord's prior written consent, which consent shall not be unreasonably withheld, conditioned or delayed. Consent by Landlord to one or more assignments of this Lease or to one or more sublettings of the Premises shall not constitute a waiver of Landlord's right to require consent to any subsequent assignment, subletting or other transfer. If Tenant is a corporation, unincorporated association or partnership, the transfer, assignment or hypothecation of any stock or interest in such corporation, association or partnership in the aggregate in excess of forty-nine percent (49%) of all outstanding stock or interests, or liquidation thereof, shall be deemed an assignment within the meaning and

provisions of this paragraph; provided, however, the transfer, assignment or hypothecation of any stock in a corporation or partnership which is a reporting company under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), shall not be deemed an assignment within the meaning and provisions of this paragraph. The sale of all or substantially all of the assets of Tenant, or the assignment of the Lease to an entity into which Tenant is merged or with which Tenant is consolidated, shall be deemed an assignment within the meanings and provisions of this paragraph, unless the successor entity has a net worth equal to or greater than Tenant's net worth immediately prior to the transfer. Tenant shall reimburse Landlord for all of Landlord's reasonable costs and attorneys' fees incurred in conjunction with the processing and documentation of any required consent to assignment, subletting, transfer, change of ownership or hypothecation of this Lease or Tenant's interest in and to the Premises not to exceed $1,500. Notwithstanding the foregoing, Tenant shall have the right, without the consent of Landlord, to assign its rights and obligations pursuant to this Lease to a parent, subsidiary or affiliate, provided that Tenant remains obligated under the Lease. For purposes of this Paragraph, the term "subsidiary" shall mean and refer to any subsidiary of Tenant in which Tenant owns eighty percent (80%) or more of the voting stock of such subsidiary. For purposes of this Paragraph, the term "affiliate" shall mean and refer to any entity in which Tenant or parent of Tenant owns eighty percent (80%) or more of the voting stock or ownership interest of such entity.

18.2 Consent Required. Landlord's consent may be based upon a determination that similar financial soundness of ownership shall exist after the proposed assignment or subletting and, provided further, that each and every covenant, condition and obligation imposed upon Tenant by this Lease and each and every right, remedy and benefit afforded Landlord by this Lease and the underlying purpose of this Lease is not thereby impaired or diminished. The determination by Landlord as to whether consent will be granted in any specific instance may be based on, without limitation, the following factors, which shall be in Landlord's reasonable discretion: (a) whether the transferee's use of the Premises will be compatible with the provisions of this Lease; (b) the financial capacity of the transferee; (c) the business reputation of the transferee; (d) the quality and type of the business operations of the transferee; and (e) the business experience of the proposed transferee. This list of factors is not intended to be exclusive, and Landlord may rely on such other basis for judgment as may apply from time to time.

18.3 Procedure to Obtain Consent. If Tenant desires at any time to assign this Lease or to sublet the Premises or any portions thereof, it first shall notify Landlord of its desire to do so and shall submit in writing to Landlord (a) the name and legal composition of the proposed subtenant or assignee; (b) the nature of the proposed subtenant's or assignee's business to be carried on in the Premises; (c) the terms and provisions of the proposed sublease or assignment and all transfer documents relating to the proposed transfer; and (d) such reasonable business and financial information as Landlord may request concerning the proposed subtenant or assignee. Landlord shall notify Tenant of its approval or disapproval of any such request within ten (10) business days of receipt of the foregoing information and payment. Landlord's failure to respond within such ten (10) business day period shall be deemed approval by Landlord. The provisions and conditions of any proposed sublease or assignment must not be inconsistent with any provision of this Lease, and must address all matters contained in this Lease. In addition, the transferee must expressly assume all of the obligations of Tenant under

this Lease. Notwithstanding the assumption of the obligations of this Lease by the transferee, no subletting or assignment, even with the consent of Landlord, shall relieve Tenant of its continuing obligation to pay the rent and perform all the other obligations to be performed by Tenant hereunder. The obligations and liability of Tenant hereunder shall continue notwithstanding the fact that Landlord may accept rent and other performance from the transferee. The acceptance of rent by Landlord from any other person shall not be deemed to be a waiver by Landlord of any provision of this Lease or to be a consent to any assignment or subletting.

18.4 Advertising. In no event shall Tenant display on or about the Premises any signs for the purpose of advertising the Premises for assignment, subletting or other transfer of rights, without Landlord's prior written consent, which shall not be unreasonably withheld, conditioned or delayed. It shall not be unreasonable for Landlord to withhold its consent if, at such time, it is advertising any other space at the Project for lease, sublease, assignment or other transfer.

18.5 Writing Required. Each permitted assignment or sublease shall be consummated by an instrument in writing executed by the transferor and transferee in form satisfactory to Landlord. Each assignee and subtenant shall agree in writing for the benefit of the Landlord herein to assume all obligations of Tenant hereunder, including the payment of all amounts due or to become due under this Lease directly to the Landlord. One executed copy of such written instrument shall be delivered to the Landlord.

18.6 Transfer Premiums. If Tenant assigns or sublets its rights under this Lease, Tenant shall pay to Landlord as Additional Rent, after Tenant has recovered any relevant leasing commissions, costs of tenant improvements and other expenses of the assignment or sublease, fifty percent (50%) of such excess consideration due and payable to Tenant from said assignment or sublease to the extent said consideration exceeds the Rent or a pro rata portion of the Rent, in the event only a portion of the Premises is sublet.

19. NO ENCUMBRANCE. Without Landlord's prior written consent, Tenant shall not mortgage, encumber or hypothecate its interest in this Lease, the Premises, the Building or the Project, and any attempt by Tenant to do so shall be a default hereunder, and at Landlord's option, shall terminate this Lease.

20. HAZARDOUS MATERIALS.

20.1 Hazardous Materials. Tenant shall not use, store, dispose of or permit to remain on the Premises, the Building, the Project, the Land, or any adjacent property other than in the normal course of its business and in compliance with all applicable laws, any solid, liquid or gaseous matter or any combination thereof, which is or may become, hazardous, toxic or radioactive including, but not limited to, any substance, gas, or waste, which is included in the definition of "hazardous substance," "toxic substance," "hazardous waste," or "toxic waste" under any federal, state, or local law, ordinance, or regulation, including those materials identified in Sections 66680 through 66685 of Title 22 of the California Administrative Code, Division 4, Chapter 30 (as may be amended from time to time) or any material which, if

discharged, leaked or emitted or permitted to be discharged, leaked or emitted into the atmosphere, the ground or any body of water, does or may (i) pollute or contaminate the same, or (ii) adversely affect (A) the health or safety of persons, whether on the Premises or anywhere else, (B) the condition, use or enjoyment of the Premises or anywhere else, or (C) the Premises, the Building, the Project or any of the improvements thereon (all of the foregoing collectively referred to herein as "Hazardous Materials").

20.2 Testing. At reasonable times and upon reasonable prior notice, prior to the expiration or earlier termination of the Lease Term, Landlord shall have the right to conduct (a) hazardous material and waste investigation(s) of the Premises and (b) if Landlord has reasonable cause to believe that any contamination exists on, in, under, or around the Building or the Premises, such other tests of the Premises and the Building as Landlord may deem necessary or desirable to demonstrate whether contamination has occurred as a result of Tenant's use of the Premises. Tenant shall be solely responsible for and shall defend, indemnify and hold the Landlord, its Agents and contractors harmless from and against any and all Claims that are attributable to Tenant's use and occupancy of the Premises, arising out of or in connection with any removal, clean up, restoration and materials required hereunder to return the Premises and any other property of whatever nature to their condition existing prior to the time of any such contamination, except for Claims caused by Landlord's or its Agents' gross negligence or willful misconduct. Tenant shall pay for the cost of the investigations and other tests of the Premises only if it is shown that Tenant is responsible for such contamination.

20.3 Duty to Dispose. Tenant shall not keep any trash, garbage, waste or other refuse on the Premises except in sanitary containers and shall regularly and frequently remove the same from the Premises. Tenant shall keep all incinerators, containers or other equipment used for the storage or disposal of such matter in a clean and sanitary condition. Tenant shall properly dispose of all sanitary sewage and shall not use the sewage disposal system of the Building or the Project (i) for the disposal of anything except sanitary sewage, or (ii) for disposal of sewage in excess of the lesser of the amount (A) reasonably contemplated by the uses permitted under this Lease, or (B) permitted by any governmental entity.

20.4 Hazardous Materials Laws. Tenant, at Tenant's own cost and expense, shall comply with all existing and any hereinafter enacted federal, state or local laws pertaining to or governing Hazardous Materials laws. Tenant, at Tenant's own cost and expense, shall make all submissions to, provide all information to and comply with all requirements of any appropriate governmental authority ("Authority") under all federal, state or local laws pertaining to or governing Hazardous Materials. In particular, Tenant shall comply with all laws relating to the storage, use and disposal of Hazardous Materials. Should any Authority require that a clean up or remediation plan be prepared or that a clean up or any other remediation action be undertaken because of any spills or discharges of Hazardous Materials at the Premises or on the Premises or any adjacent property that occur during the Lease Term or after expiration of the Lease Term as a result of Tenant's use of the Premises, then Tenant, at Tenant's own expense, shall prepare and submit the required plans and financial assurances and carry out the approved plans. At no expense to Landlord, Tenant promptly shall provide all information requested by Landlord for preparation of affidavits required by Landlord or for Landlord's own information,

to determine the applicability of the Hazardous Materials laws to the Premises and shall execute affidavits promptly when requested to so by Landlord.

20.5 Tenant Indemnification. Tenant shall indemnify, defend and hold harmless Landlord and Landlord's Agents from and against (i) Claims in connection with or arising out of any release, spill or discharge of Hazardous Materials due to, contributed to or caused by the activities of Tenant, Tenant's Agents, or parties in contractual relationship with Tenant or any of them; and (ii) all Claims arising out of Tenant's failure to provide all information, make all submissions and take all steps required by any Authority, under any federal, state or local laws pertaining to or governing Hazardous Materials laws or any other environmental law. Tenant's obligations and liabilities under this paragraph shall survive the expiration or earlier termination of this Lease. Without limiting the foregoing, if the release, spill, leakage, or discharge of any Hazardous Materials on or in the Premises or the Building or any adjacent property, caused or permitted by Tenant results in any contamination of the Premises or the Building or any adjacent property, Tenant shall promptly take all actions at its sole expense as are necessary to return the Premises or the Building or any adjacent property, to the condition existing prior to the time of such contamination, provided that Landlord's approval of such action shall first be obtained, which approval shall not unreasonably be withheld, delayed or conditioned so long as such actions would not potentially have any material adverse long-term or short-term effect on the Premises or the Building. Notwithstanding the foregoing, the indemnification herein shall not apply to the initial introduction of Hazardous Materials on or to the Premises by anyone other than the Tenant from and after the date that Tenant is neither the "Tenant" hereunder nor in possession of the Premises ("Tenant Relinquishment Date"); provided, however, that the Tenant shall bear the burden of proof that the initial introduction of such Hazardous Materials (i) occurred subsequent to the Tenant Relinquishment Date, (ii) did not occur as a result of any act or inaction of the Tenant, and (iii) did not occur as a result of a continuing migration or release of any Hazardous Materials initially introduced, stored, or manufactured on the Premises prior to the Tenant Relinquishment Date. Notwithstanding anything contained herein, neither Tenant nor any of Tenant's employees, agents, officers, contractors, directors and shareholders ("Tenant Party") shall be liable or responsible for any pre-existing Hazardous Materials in, on, under or about the Premises, the Building, the Project or any adjacent property, prior to the Lease Commencement Date, or any migration of Hazardous Materials in, on, under or about the Premises, the Building, the Project or any adjacent property, at any time, unless caused by Tenant or a Tenant Party.

20.6 Obligation to Remediate Upon Expiration of Lease. Tenant shall surrender the Premises at the expiration or earlier termination of this Lease free of any Hazardous Materials or contamination and free and clear of all judgments, liens, licenses, restrictions or encumbrances relating thereto and, at its own cost and expense, shall repair all damage and clean up or perform any remedial action necessary relating to any Hazardous Materials or contamination caused by Tenant's operation. Tenant, at its sole cost and expense, shall, following Landlord's request, remove any alterations or improvements that may be contaminated or contain Hazardous Materials.

20.7 Landlord Indemnity. To the best of Landlord's knowledge, except as may be in the possession of Nektar Therapeutics or any other tenant at the Project, no Hazardous

Materials are present in, on, under or about the Premises or the Project, and no action, proceeding, or claim is pending or threatened concerning any Hazardous Materials or pursuant to any Hazardous Materials laws or any other environmental law. Landlord shall defend, indemnify and hold Tenant and the Tenant Parties harmless from and against all claims, penalties, expenses and liabilities, including attorneys' and consultants' fees and costs, arising out of or caused in whole or in part, directly or indirectly, by or in connection with any Hazardous Materials in, on, under or about the Premises or Project, except to the extent the same results from Tenant's or Tenant's Agents' release or admission of Hazardous Substances in or about the Premises in violation of Hazardous Materials Laws. For the purposes of the indemnity provisions hereof, any acts or omissions of Landlord or Landlord's employees, agents, officers, contractors, directors and shareholders (whether or not they are negligent, intentional or unlawful) shall be strictly attributable to Landlord. Landlord's obligations under this Paragraph 20.7 shall survive the termination or expiration of this Lease.

21. CONDEMNATION.

21.1 Termination of Lease. If the Premises or any portion thereof are Taken under the power of eminent domain, or sold by Landlord under the threat of the exercise of such power, this Lease shall terminate as to the part so Taken as of the date that the condemning authority takes possession. This Lease shall remain in full force and effect with respect to the remaining portion of the Premises. If any part of the Premises is taken or sold under such threat, and Tenant reasonably determines the loss of such portion of the Premises materially affects Tenant's ability to conduct its business, either Landlord or Tenant may terminate this Lease as of the date that the condemning authority takes possession by delivery of written notice of such election within twenty (20) days after such party has been notified of the Taking or, in the absence thereof, within twenty (20) days after the condemning authority shall have taken possession. Notwithstanding the foregoing, Tenant's right to terminate this Lease under the preceding sentence is contingent upon all leasehold mortgages (if any) of Tenant being paid in full.

21.2 Rent Reduction; Tenant's Obligation To Repair. If this Lease is not terminated by Landlord or Tenant, it shall remain in full force and effect as to the portion of the Premises remaining; provided, however, that the Monthly Rent shall be reduced by the proportion that the floor area of the Building taken bears to the original floor area of the Building. In such event Tenant, at Tenant's sole cost and expense, but subject to the availability of condemnation proceeds therefor, shall restore the Premises to a complete unit of like quality and character, except as to size, as existed prior to the date on which the condemning authority took possession.

21.3 Award. All awards for the Taking of any part of the Premises or proceeds from the sale made under the threat of the exercise of the power of eminent domain (other than the portions of such award expressly attributed by the governmental authority to the diminution in value of the leasehold estate which portion, subject to the rights of any ground lessor, shall be the property of Tenant) shall be the property of Landlord, whether made for the Taking of the fee, or as severance damages; provided, however, that Tenant shall be entitled to any award

which is made for damage to Tenant's trade fixtures and removable personal property and to a portion of the award necessary to restore the Premises as provided in Paragraph 21.2 above.

22. DEFAULT PROVISIONS.

22.1 Events of Default. The occurrence of any of the following shall constitute a default hereunder ("Default"):

22.1.1 The failure of Tenant to pay or cause to be paid when past due, within five (5) days after written notice, any Rent, monies or other charge required by this Lease to be paid by Tenant;

22.1.2 The abandonment of the Premises by Tenant for a period in excess of sixty (60) days during any single twelve (12) month period;

22.1.3 Any default (after expiration of any applicable notice and cure period) by Tenant under the terms of any leasehold mortgage;

22.1.4 The failure of Tenant, within thirty (30) days after notice, to do or cause to be done any act required by this Lease, or the failure to observe and perform any other provision of this Lease to be observed or performed by Tenant, other than payment of Rent, monies or charges required by this Lease. If a cure cannot be made within thirty (30) days, Tenant shall have an additional reasonable amount of time necessary to complete the cure using its diligent efforts. Notwithstanding the foregoing, if any such failure on the part of Tenant affects the health or safety of others, or would result in the destruction of property, Tenant shall immediately begin to cure and shall use its diligent efforts in pursuing said cure to completion;

22.1.5 Tenant's causing or permitting, without the prior written consent of Landlord, any act for which this Lease requires Landlord's prior consent, or if this Lease prohibits such act, and Tenant does not reverse or undo such act within ten (10) days after written notice from Landlord of such violation. Notwithstanding the foregoing, if any such act on the part of Tenant affects the health or safety of others, or would result in the destruction of property, Tenant shall immediately begin to cure and shall use its diligent efforts in pursuing said cure to completion;

22.1.6 Any act of bankruptcy caused, suffered or permitted by Tenant or, if Tenant is a partnership, any general partner of Tenant. For purposes of this Lease, an "act of bankruptcy" shall include the following: (i) any general assignment or general arrangement for the benefit of creditors; (ii) the filing of any petition by or against Tenant to have Tenant adjudged a bankrupt, or a petition for reorganization or arrangement under any law relating to bankruptcy, unless such petition is filed against Tenant and the same is dismissed within ninety (90) days; (iii) the appointment of a trustee or receiver to take possession of substantially all of Tenant's assets located at the Premises or of Tenant's interest in this Lease; or (iv) the attachment, execution or other judicial seizure of substantially all of Tenant's assets located at the Premises or of Tenant's interest in this Lease.

22.2 Rights of Landlord. Upon the occurrence, and during the continuance, of any Default, and in addition to any or all other rights or remedies of the Landlord hereunder or by law, Landlord, without further notice or demand of any kind to Tenant or any other person, shall have the following rights and remedies:

22.2.1 Landlord has the remedy described in California Civil Code Section 1951.4 (Landlord may continue this Lease in effect after Tenant's breach and abandonment and recover rent as it becomes due, if Tenant has right to sublet or assign, subject only to reasonable limitations). Landlord may continue this Lease in full force and effect and enforce all Landlord's rights and remedies under this Lease, including the right to recover the Rent as it becomes due and any other amount necessary to compensate Landlord for all detriment proximately caused by Tenant's failure to perform its obligations under this Lease or which, in the ordinary course of things, would be likely to result therefrom. Landlord may sue monthly, annually or after such equal or unequal periods as Landlord desires for such amounts due.

22.2.2 Landlord (whether Landlord elects to continue this Lease in effect or terminate this Lease and Tenant's right to possession hereunder) may reenter the Premises or take possession pursuant to legal proceedings or pursuant to any notice provided by law, and thereafter collect rent from existing sub-tenants of the Premises, if any, and(or) relet the Premises, in whole or in part, to third parties for Tenant's account at such rent and upon such conditions and for such term as Landlord sees fit. Tenant shall pay to Landlord all costs actually and reasonably incurred in reletting the Premises or improvements thereon, including, without limitation, broker's commissions, repairs, expenses of remodeling required by the releting and like costs. Landlord may do all other acts necessary to maintain or preserve the Premises as Landlord deems reasonable and necessary, including removal of all persons and property, which property may be removed and stored in a public warehouse or elsewhere at the cost of and for the account of Tenant. If Landlord shall elect to so relet, rentals received by Landlord from such reletting shall be applied in the following order: (i) to the payment of any indebtedness other than Rent due hereunder from Tenant to Landlord; (ii) to the payment of any cost of such reletting; (iii) to the payment of the cost of any alterations and repairs; (iv) to the payment of Rent due and unpaid hereunder; (v) to the payment of any obligations of Tenant under any leasehold mortgage; and (vi) the residue, if any, shall be held by Landlord and applied in payment of future Rent as the same may become due and payable hereunder. If reletting results in the actual payment of rentals at less than the Rent payable during that month by Tenant as required hereunder, Tenant shall pay such deficiency to Landlord from time to time immediately upon demand therefor by Landlord.

22.2.3 Landlord, by written notice to Tenant, may terminate this Lease and Tenant's right to possession of the Premises. No act by Landlord other than giving written notice to Tenant shall terminate this Lease. Acts of maintenance, reletting, or the appointment of a receiver on Landlord's initiative shall not terminate this Lease. If Landlord elects to terminate this Lease, Landlord may recover all of the following:

(a) The worth at the time of award of the unpaid Rent which had been earned at the time of termination. "Worth at the time of award" shall be computed by allowing interest to accrue at the Default Rate from the first day a breach occurs.

(b) The worth at the time of award of the amount by which the unpaid Rent which would have been earned after termination until the time of award exceeds the amount of such rental loss that the Tenant proves could have been reasonably avoided. “Worth at the time of award” shall be determined by allowing interest at the Default Rate from the first day a breach occurs.

(c) The worth at the time of award of the amount by which the unpaid Rent for the balance of the term after the time of award exceeds the amount of such rental loss that the Tenant proves could be reasonably avoided. “Worth at the time of award” shall be computed by discounting such amount at the discount rate of the Federal Reserve Bank situated nearest the Premises at the time of award plus six percent (6%).

(d) Any other amount necessary to compensate Landlord for all the detriment proximately caused by Tenant’s failure to perform its obligations under this Lease or which in the ordinary course of events would be likely to result therefrom including, but not limited to, expenses of reletting, attorneys’ fees, costs of alterations and repairs, recording fees, filing fees and any other expenses customarily resulting from obtaining possession of Premises and releasing.

(e) At Landlord’s election, such other amounts in addition to or in lieu of the foregoing as may be permitted from time to time by applicable California law.

22.2.4 If Tenant shall be in Default in the observance or performance of any term or covenant on Tenant’s part to be observed or performed under this Lease, Landlord may perform (but is not obligated to do so) the same for the account of Tenant, and if Landlord makes expenditures or incurs any obligation for the payment of money thereby, including, but not limited to, attorneys’ fees in instituting, prosecuting or defending any action or proceeding, such sums paid or obligations incurred, with interest thereon at the Default Rate, shall be deemed to be Additional Rent hereunder and shall be paid by Tenant to Landlord (without offset) immediately upon demand therefor.

22.2.5 Landlord, where permitted by applicable law, may seek to restrain any breach or threatened breach of any of Tenant’s obligations hereunder and/or may exercise any and all rights and remedies of a secured party under applicable law with respect to any property in which Landlord is granted a security interest under this Lease or otherwise.

22.3 Cumulative Remedies. Any right or remedy of Landlord under this Lease and any other right or remedy that Landlord may have at law, in equity or otherwise upon any Default or breach of any of the Tenant’s obligations hereunder shall be distinct, separate and cumulative rights or remedies and no right or remedy, whether exercised or not, shall be deemed to be in exclusion of any other.

22.4 Determining Rent on Default; Waiver; Security Interest.

22.4.1 For all purposes of this Paragraph 22, Rent, except Monthly Rent, shall be computed on the basis of the amount thereof accruing during the highest twelve (12) month period in the immediately preceding sixty (60) month period, except that if it becomes

necessary to compute such Rent before a sixty (60) month period has occurred, then Rent shall be computed on the basis of the amount accruing during such shorter period.

22.4.2 The waiver by Landlord of any breach of any term, covenant or condition herein contained shall not be deemed to be a waiver of such term, covenant or condition on any subsequent breach by Tenant. The acceptance of Rent hereunder by Landlord after any such breach shall not be deemed to be a waiver of any preceding breach by Tenant of any term, covenant or condition of this Lease, other than the failure of Tenant to pay the particular rental so accepted, regardless of Landlord's knowledge of such preceding breach at the time of acceptance of such Rent. No covenant, term or condition of this Lease or breach thereof by Tenant shall be deemed to have been waived by Landlord unless such waiver is in a writing executed by Landlord.

22.4.3 Tenant hereby grants and assigns to Landlord a security interest in all accounts, inventory, fixtures, equipment and personal property of Tenant originating from or hereafter placed in, on or about the Premises to secure each and every obligation of Tenant under this Lease. Upon demand from Landlord, Tenant shall execute, acknowledge and deliver such documents or instruments as reasonably may be required by Landlord to perfect its security interest in the above described property.

22.5 Curing of Default. Notwithstanding any other provision of this Paragraph 22, if an event of Default, other than for the payment of Rent or other monies owing from Tenant to Landlord hereunder, is of such a nature that the same cannot be cured upon demand by Landlord as specified in any written notice relating thereto, then such event of Default shall be deemed to be cured if Tenant upon such notice shall have commenced to cure such Default and shall continue thereafter with all due diligence to so cure and does so complete the same within a reasonable period of time.

22.6 Landlord's Default. If Landlord shall neglect or fail to perform or observe any of the covenants, provisions or conditions contained in this Lease on its part to be performed or observed within thirty (30) days after written notice of default (or if more than thirty (30) days shall be required because of the nature of the default, if Landlord shall fail to proceed diligently to cure such default after written notice thereof), Landlord shall be responsible to Tenant for any foreseeable and unavoidable damages sustained by Tenant as a result of Landlord's breach.

22.7 Tenant's Right to Perform. If, after such notice to Landlord and Assignee (as defined in Paragraph 22.9 below), if any, Landlord and Assignee shall fail to cure such default as provided herein, Tenant shall have the right, but not the obligation, to cure any such default at Landlord's sole cost and expense including in such expenditure all costs and attorneys' fees incurred to cure such default or breach of Lease. Tenant shall have no right to terminate this Lease for any such default by Landlord unless otherwise specifically provided in this Lease.

22.8 Abatement. Except as expressly otherwise provided herein, Landlord and Tenant hereby waive the provisions of any statutes, regulations, ordinances, or court decisions which relate to the abatement of rent or termination of leases when leased property is damaged or destroyed and agree that such event shall be exclusively governed by the terms of this Lease.

22.9 Tenant to Notify Mortgagees. If Landlord's estate in the Premises or any part thereof is at any time subject to a mortgage or a deed of trust, and if this Lease or the rentals due from Tenant hereunder are assigned to such mortgagee, trustee or beneficiary (called an "Assignee" for purposes of this paragraph 22 only) and if Tenant is given written notice thereof, including the post office address of such Assignee, Tenant shall give written notice to such Assignee, specifying the default of Landlord in reasonable detail and affording such Assignee a reasonable opportunity to render performance for and on behalf of Landlord. If and when the Assignee has rendered performance on behalf of Landlord, such default shall be deemed cured.

23. LIMITATION OF LANDLORD'S LIABILITY. If Landlord is in default of this Lease, and as a consequence, Tenant recovers a money judgment against Landlord, the judgment shall be satisfied only out of the proceeds of sale received on execution of the judgment and levy against the right, title, and interest of Landlord in the Premises, and out of rent or other income from the Premises receivable by Landlord or out of the consideration received by Landlord from the sale or other disposition of all or any part of Landlord's right, title, and interest in the Premises. Neither Landlord nor Landlord's Agents shall be personally liable for any deficiency except to the extent liability is based upon willful and intentional misconduct. If Landlord is a partnership, joint venture, or limited liability company, the partners or members of such partnership or limited liability company, as the case may be, shall not be personally liable, and no partner or member of Landlord (or of any affiliated entity) shall be sued or named as a party in any suit or action, or service of process be made against any partner or member of Landlord (or of any affiliated entity), except as may be necessary to secure jurisdiction of the partnership, joint venture, or limited liability company or to the extent liability is caused by willful and intentional misconduct. If Landlord is a corporation, the shareholders, directors, officers, employees, and/or agents of such corporation shall not be personally liable, and no shareholder, director, officer, employee, or agent of Landlord shall be sued or named as a party in any suit or action, or service of process be made against any shareholder, director, officer, employee or agent of Landlord, except as may be necessary to secure jurisdiction of the corporation. No partner, member, shareholder, director, employee, or agent of Landlord (or of any affiliated entity) shall be required to answer or otherwise plead to any service of process and no judgment will be taken or writ of execution levied against any partner, member shareholder, director, employee, or agent of Landlord.

24. SUBORDINATION-ATTORNMENT.

24.1 Tenant to Give Evidence of Subordination. Upon written request of Landlord, or any mortgagee or deed of trust beneficiary, or lessor of Landlord, Tenant in writing shall subordinate its rights hereunder to the lien of any mortgage or deed of trust now or hereafter in force against the land and buildings comprised of the Premises of which the Premises are a part, and upon any building hereafter placed upon the Premises, and to all advances made or hereafter to be made upon the security thereof; provided that Tenant obtains a non-disturbance agreement reasonably acceptable to Tenant from any such mortgagee or deed of trust beneficiary. Landlord agrees that as a condition precedent to delivery of possession of the Premises to Tenant, Landlord shall deliver to Tenant a fully executed non-disturbance and attornment from any mortgagee or deed of trust beneficiary of record as of the date of the mutual execution of this Lease.

24.2 Attornment. If any proceedings are brought for foreclosure, or in the event of the exercise of the power of sale under any mortgage or deed of trust made by or to which the Landlord is subject covering the Premises, Tenant shall attorn to the purchaser or lessor under said lease upon any such foreclosure, sale or lease termination and recognize such purchaser or lessor as the Landlord under this Lease; provided, however, that the purchaser or lessor shall acquire and accept the Premises subject to this Lease and execute a subordination, non-disturbance and attornment agreement as a condition to Tenant's attornment.

24.3 Execution of Documents by Tenant. Tenant, upon request of any party in interest, shall duly execute in recordable form such instruments and certificates as are necessary to carry out the intent of this Paragraph 24.

25. QUIET POSSESSION. Subject to the provisions and matters referred to in Paragraph 14 of this Lease, Tenant, upon paying the Rent and performing the covenants and conditions of this Lease, may quietly have, hold and enjoy the Premises during the Lease Term.

26. MISCELLANEOUS.

26.1 Captions and Terms. The captions to all paragraphs of this Lease are for convenience only, are not a part of this Lease, and do not in any way limit or amplify the terms and provisions of this Lease. The masculine pronoun used herein shall include the feminine or the neuter as the case may be, and the use of the singular shall include the plural when appropriate.

26.2 Obligations of Successors. Each of the provisions hereof are to be construed as covenants and agreements as though the words importing such covenants and agreements were used in each separate paragraph hereof, and all of the provisions hereof shall bind and inure to the benefit of the parties hereto, and their respective heirs, legal representatives, successors and assigns (subject to any restrictions on assignment).

26.3 No Joint Venture. Nothing contained in this Lease shall be deemed or construed as creating a partnership, joint venture or any other relationship between the parties hereto other than Landlord and Tenant according to the provisions contained herein, or cause Landlord to be responsible in any way for the debts or obligations of Tenant or any other party.

26.4 Authority of Tenant. If Tenant is a corporation, the persons executing this Lease on behalf of Tenant hereby covenant and warrant that they have the authority to bind the Tenant to this Lease. Tenant hereby represents and warrants that Tenant is a corporation in good standing in the state of its origination, all steps have been taken prior to the date hereof to qualify Tenant to do business in the State of California, all franchise and corporate taxes have been paid to date, and all future forms, reports, fees and other documents necessary to comply with applicable laws will be filed when due.

26.5 No Right of Redemption. Tenant hereby expressly waives any and all rights of redemption granted by or under any present or future laws in the event of Tenant being lawfully evicted or dispossessed for any cause, or in the event of Landlord obtaining possession of the premises by reason of a Default by Tenant hereunder.

26.6 Holding Over. If Tenant remains in possession of the Premises (a) after the expiration of the Lease Term without executing a new lease, or (b) after Landlord has declared a forfeiture by reason of a Default by Tenant, then such holding over shall be construed as a tenancy at sufferance from month-to-month, subject to all the conditions, provisions and obligations of this Lease insofar as they are applicable to a month-to-month tenancy, except that, beginning four (4) months after the initial date of such hold over, the Monthly Rent shall be increased to one hundred twenty-five percent (125%) of the Monthly Rent last due, payable monthly in advance. Notwithstanding the foregoing, if Tenant fails to vacate the Premises and fulfill all of its obligations hereunder at the end of the Lease Term, Tenant also shall be liable for all damages incurred by Landlord by reason of the latter's inability to deliver possession of the Premises or any portion thereof to any other person; provided, however, Tenant shall not be liable for consequential damages to Landlord unless and until Tenant has received thirty (30) days prior notice that the Premises has been leased to such other person, and Tenant does not vacate the Premises within such thirty (30) day period.

26.7 Brokers. Except for Staubach and BT Commercial Real Estate, who shall be compensated by Landlord under separate agreements, Tenant and Landlord each warrants and represents that it has had no dealings with any real estate brokers or agents in connection with the negotiation of this Lease, and it knows of no other real estate broker or agent who is entitled to a commission in connection with this Lease. Tenant and Landlord each shall defend, indemnify and hold the other harmless from and against any and all Claims by any person for any finder's fees or brokerage fees incurred as a result of any action by such indemnifying party.

26.8 Non-Merger. There shall be no merger of this Lease, or of the leasehold estate created hereby, with the fee estate in and to the Premises by reason of the fact that this Lease, or the leasehold estate created hereby, or any interest in either thereof, may be held directly or indirectly by or for the account of any person who shall own the fee estate in and to the Premises, or any portion thereof, and no such merger shall occur unless and until all persons at the time having any interest in the fee estate and all persons having any interest in this Lease or the leasehold estate, shall join in a written instrument effecting such merger.

26.9 Recordation of Lease. Neither Landlord nor Tenant shall record this Lease or any other document relating to this Lease without the prior written consent of the other party.

26.10 Notices. No notice, request, demand, instruction or other document to be given hereunder to any party shall be effective for any purpose unless personally delivered to the person or delivered by reputable overnight courier, to the addresses set forth in Paragraph 2 above. Notice shall be deemed to have been given when received, if by personal delivery, or the next business day after the date of the courier's receipt of mailing, if by reputable overnight courier. Notice shall not be deemed given unless and until, under the preceding sentence, notice shall be deemed given to all addressees to whom notice must be sent. The addresses and addressees for the purpose of this paragraph may be changed by giving written notice of such change in the manner herein provided for giving notice. Unless and until such written notice is received, the last address and addressee as stated by written notice, or provided herein if no

written notice of change has been sent or received, shall be deemed to continue in effect for all purposes hereunder.

26.11 Attorneys' Fees. If any action or proceeding (judicial or non-judicial) is commenced to enforce or interpret this Lease, the prevailing party shall be entitled to recover reasonable attorneys' fees and costs, together with all other costs and fees incurred by it in attempting to enforce the other party's obligations and/or to protect its rights under this Lease, whether or not such action or proceeding proceeds to judgment.

26.12 No Other Agreements. This Lease represents the entire agreement between the parties hereto and supersedes any and all previous written or oral agreements or discussions between said parties and any other person or legal entity concerning the transactions contemplated herein. There are no representations, warranties or agreements except as specifically set forth in this Lease or to be set forth in the instruments or other documents delivered or to be delivered hereunder.

26.13 Amendments. No change in or addition to, or waiver or termination of this Lease, or any part hereof, shall be valid unless in writing and signed by or on behalf of the parties hereto.

26.14 No Third Party Benefit. The parties acknowledge and agree that the provisions of this Lease are for the sole benefit of Landlord and Tenant, and not for the benefit, directly or indirectly, of any other person or entity, except as otherwise expressly provided herein.

26.15 Exhibits. Each of the Exhibits attached hereto is hereby incorporated herein by this reference.

26.16 Severability. If any one or more of the provisions of this Lease are held to be invalid, illegal or unenforceable in any respect or for any reason, the validity, legality and enforceability of such provision or provisions in every other respect and of the remaining provisions of this Lease shall not in any way be impaired.

26.17 Governing Law/Jurisdiction. This Lease shall, in all respects, be interpreted, enforced and governed by and under the laws of the State of California.

26.18 Venue. The parties hereby expressly acknowledge and agree that if an action is brought with respect to this Lease, sole and proper venue for such action shall be in San Mateo, County, California.

26.19 Time. Time is hereby expressly made of the essence with respect to each and every term and condition of this Lease.

26.20 Entry By Landlord.

26.20.1 Inspection. Tenant shall permit Landlord and Landlord's agents to enter the Premises at all reasonable times after reasonable prior notice not less than

twenty-four (24) hours in advance for the purpose of inspecting the same and for the purpose of exercising any of its other rights or performing any of its obligations under this Lease.

26.20.2 Sale or Lease of Premises. Landlord may at any time place on or about the Premises any ordinary "For Sale" signs, and at any time within ten (10) months prior to the expiration of this Lease, place on or about the Premises any usual or ordinary "For Lease" signs. Landlord may enter the Premises at reasonable times upon reasonable prior notice not less than twenty-four (24) hours in advance during the Lease Term to show the Premises to prospective tenants, lenders, investors, or purchasers. In exercising its rights under this Paragraph 26.20.2, Landlord shall not unreasonably interfere with Tenant's use or occupancy of the Premises.

26.20.3 Waiver. Landlord shall be permitted to enter upon the Premises in accordance with the terms hereof for any of the purposes stated herein without any liability to Tenant for any loss of occupation or quiet enjoyment resulting therefrom, except resulting from Landlord's or its Agents' gross negligence or willful misconduct, and Tenant hereby waives any claim for abatement of rent or for damages for any injury or inconvenience to or interference with Tenant's business, any loss of occupancy or quiet enjoyment, or any other loss occasioned thereby.

26.21 Estoppel Certificates. Tenant shall at any time during the Lease Term, within ten (10) business days after written request from Landlord, execute and deliver to Landlord a statement in writing in the form of the document attached hereto as Exhibit F, or any reasonable equivalent requested by Landlord, certifying that this Lease is unmodified and in full force and effect or, if modified, stating the nature of such modification. Tenant's statement shall include such other details as may be reasonably requested by Landlord. Any such statement may be relied upon conclusively by any existing or prospective purchaser or lender. Tenant's failure to deliver such statements within such time shall be conclusive upon Tenant that this Lease is in full force and effect, except to the extent any modification has been represented in writing by Landlord to such prospective purchaser or lender, that there are no uncured defaults in Landlord's performance, and that not more than one month's rent has been paid in advance.

26.22 No Surrender. Except to the extent expressly provided for herein, no event or occurrence during the Lease Term, whether foreseen or unforeseen, however extraordinary, shall permit Tenant to surrender or terminate this Lease or shall relieve Tenant from any of its obligations hereunder, and Tenant waives any rights now or hereafter conferred upon it by statute or otherwise, except any rights set forth herein, to surrender or terminate this Lease or to claim any abatement or suspension of Rent or other sums payable hereunder on account of any such event or occurrence.

26.23 Consent of Landlord and Tenant. Whenever Landlord or Tenant is required to give its consent or approval to any action on the part of the other, such consent or approval shall not be unreasonably withheld, conditioned or delayed, unless otherwise expressly provided. In the event of failure to give any such consent, the other party hereto shall be entitled to specific performance at law and shall have such other remedies as are reserved to it under this Lease; provided, however that in no event shall Landlord or Tenant be responsible in monetary

damages for such failure to give consent unless said consent is withheld maliciously or in bad faith.

26.24 Binding Effect. This Lease shall not be effective until fully executed by both Landlord and Tenant.

26.25 Covenants and Conditions. Each provision and obligation set forth in this Lease to be performed by Tenant shall be deemed both a covenant and a condition.

26.26 Furnishing of Financial Statements and Tenant's Representations. To induce Landlord to enter into this Lease, Tenant agrees, at any time that Tenant is not required to publicly file such financial statements pursuant to the Exchange Act or any successor statute, it shall promptly furnish to Landlord, from time to time, upon Landlord's written request, the most recent audited year-end financial statements reflecting Tenant's current financial condition. Tenant represents and warrants that all financial statements, records and information furnished by Tenant to Landlord in connection with this Lease are true, correct and complete in all respects.

26.27 Interpretation. This Lease has been negotiated at arm's length and between persons sophisticated and knowledgeable in the matters dealt with in this Lease. In addition, each party has been represented by experienced and knowledgeable legal counsel. Accordingly, any rule of law (including California Civil Code § 1654) or legal decision that would require interpretation of any ambiguities in this Lease against the party that has drafted it is not applicable and is waived. The provisions of this Lease shall be interpreted in a reasonable manner to effect the purpose and intent of the parties to this Lease.

26.28 Waiver of Jury Trial and Counterclaims. THE PARTIES HERETO SHALL AND THEY HEREBY DO WAIVE TRIAL BY JURY IN ANY ACTION, PROCEEDING OR COUNTERCLAIM BROUGHT BY EITHER OF THE PARTIES HERETO AGAINST THE OTHER ON ANY MATTERS WHATSOEVER ARISING OUT OF OR IN ANY WAY CONNECTED WITH THIS LEASE, THE RELATIONSHIP OF LANDLORD AND TENANT, TENANT'S USE OR OCCUPANCY OF THE PREMISES, AND OR ANY CLAIM OF INJURY OR DAMAGE.

27. END OF TERM.

27.1 Surrender of Premises.

27.1.1 Upon the expiration of the Lease Term or earlier termination hereof through the exercise of any option to terminate this Lease granted herein (collectively referred to as the "Surrender Date"), title to the Building and the Premises shall be vested in Landlord. Thereupon, Tenant shall peaceably and quietly vacate the entire Premises, including the Building (a) in good order, condition and repair, except for normal wear and tear and damage from casualty or condemnation; and (b) free and clear of all lettings, occupancies, agreements, easements, encumbrances or other liens other than those to which this Lease was subject on the Lease Commencement Date and those caused, created by or consented to in writing by Landlord or otherwise permitted by the terms hereof.

27.1.2 Notwithstanding the exercise by either party of any option contained herein to terminate this Lease, any unsatisfied obligations of Tenant accruing on or prior to the Surrender Date and the indemnification provisions of Tenant contained in Paragraphs 15.1 and 20.5 shall survive the Surrender Date unless excused as of the Surrender Date by the provisions elsewhere contained in this Lease.

27.2 Re-Entry by Landlord. Upon the Surrender Date, Landlord, without further notice, may enter upon, re-enter, possess and repossess itself of the Premises, by summary proceedings, ejectment or otherwise, may dispossess and remove Tenant and all other persons and property from the Premises, and may have, hold and enjoy the Premises and the right to receive all Rent and other income of and from the same. As used in this Lease, the words "enter" and "re-enter" are not restricted to their technical legal meanings.

27.3 Tenant's Equipment. Except as otherwise provided for in Paragraphs 9.1.8 and 13, any of Tenant's Equipment (as defined in Paragraph 13.2 above) or other personal property which shall remain on the Premises after the Surrender Date and the removal of Tenant from the Premises, at the option of Landlord, may be deemed to have been abandoned by Tenant or any Subtenant and either may be retained by Landlord as its property or be disposed of, without accountability, in such manner as Landlord may see fit. However, except as otherwise provided for in Paragraphs 9.1.8 and 13, Landlord also shall have the right to require Tenant to remove any such equipment or other personal property at any time after the Surrender Date and the removal of Tenant from the Premises at Tenant's own cost and expense and to repair any damage to the Premises resulting from such removal. From and after the Surrender Date, Landlord shall not be responsible for any loss or damage occurring to any property owned by Tenant or any Subtenant.

27.4 Survival. The provisions of this Paragraph 27 shall survive the Surrender Date.

28. Modifications Required by Landlord's Lender. If, in connection with Landlord obtaining construction, interim or permanent financing, the lending party shall request reasonable modifications that do not affect the material terms to this Lease as a condition to such financing, Tenant shall execute such modifications hereto within ten (10) business days following written request therefor.

29. Expansion Option.

29.1 Option to Expand. Subject to the conditions set forth in this Paragraph 29, Tenant shall have the right, but not the obligation, to expand the Premises (the "Expansion Option") to include approximately [10,000] rentable square feet of contiguous premises as more particularly shown on the floor plan attached hereto as Exhibit G (the "Expansion Space").

29.2 Procedure for Expansion. Tenant may exercise the Expansion Option by providing Landlord, no later than the one year anniversary of the Rent Commencement Date, with written notice that Tenant exercises the Expansion Option. Within ten (10) days after the proper exercise of the Expansion Option, Tenant and Landlord shall enter into a written amendment to the Lease (the "Amendment") which shall provide, unless otherwise agreed in

writing, (a) that the Expansion Space will be delivered ready for construction of tenant improvements no later than thirty (30) days after the proper exercise of the Expansion Option; (b) that the rent commencement date of the Expansion Space shall be no later than one hundred eighty (180) days after the proper exercise of the Expansion Option; (c) that the Premises under the Lease shall be increased to include the rentable square footage of the Expansion Space; (d) the new Annual Rent, with the Expansion Space increasing the Annual Rent at the square foot rental rate then applicable under the Lease; (e) Tenant's new Pro Rata Share of Operating Expenses based upon the addition of the Expansion Space to the Premises (provided that Tenant shall have no obligation to pay for any utilities or Operating Expenses with respect to the Expansion Space prior to the rent commencement date of the Expansion Space); (f) the proportionate increase to the Security Deposit (which shall be payable upon execution of the Amendment or provided by letter of credit as described in Paragraph 5.8 above); and (g) Landlord shall provide a tenant improvement allowance not to exceed One Hundred Forty Dollars ($140.00) per rentable square foot of Expansion Space (pro rated based on the remaining Lease Term (excluding any renewal options), and less the amount of Landlord improvements to the Expansion Space), which shall expire as to that portion not expended within twelve (12) months of the commencement date of the Expansion Space. In all other respects, the Lease shall remain in full force and effect, and shall apply to the Expansion Space.

29.3 Limitation on Expansion. Notwithstanding the above, the Expansion Option shall not be exercised by Tenant during such period of time that Tenant is in Default under any provision of the Lease beyond any applicable grace or cure period. Any attempted exercise of an Expansion Option during a period of time in which Tenant is in Default shall be void. Tenant shall also not be entitled to exercise the Expansion Option if Landlord has given Tenant three (3) or more notices of default under the Lease, whether or not the defaults are cured, during the five (5) month period prior to the date on which Tenant seeks to exercise any Option.

30. Right of First Refusal. In addition to Tenant's rights under Paragraph 29, for a period commencing on the Lease Commencement Date and ending on the second (2nd) anniversary of the Rent Commencement Date (the "ROFR Period"), Tenant shall have a right of first refusal (the "ROFR Option") to lease any future vacant space in the Building that may become available from time to time (any such space, "New Space"). During the ROFR Period, Landlord shall provide notice (the "ROFR Notice") to Tenant of the material terms of any letter of intent from any third party proposing to lease New Space. Tenant may exercise the ROFR Option by providing Landlord, no later than ten (10) days after receipt of the ROFR Notice, with written notice that Tenant exercises the ROFR Option. Within thirty (30) days after the proper exercise of the ROFR Option, Tenant and Landlord shall enter into a written amendment to the Lease setting forth the terms and conditions for the lease of the New Space described in the applicable ROFR Notice, which terms and conditions shall be no less favorable to Landlord than those set forth in the ROFR Notice.

31. Right of First Offer. For a period commencing on the second (2nd) anniversary of the Rent Commencement Date and ending upon the expiration of the Lease Term, including any renewal terms, prior to offering any New Space to a new tenant, Landlord shall provide notice to Tenant of the availability of such space. The terms and conditions of any lease of such space

shall be negotiated within ten (10) business days after Tenant receives notice from Landlord. Landlord shall be under no obligation to lease such space to Tenant if Tenant and Landlord are not able to reach an agreement of the material terms and conditions with respect to such New Space within such ten (10) business day period, then thereafter, Landlord may publicly market such space and may negotiate with other prospective tenants for the lease of such space.

WHEREFORE, the parties hereto have executed this Lease effective on the Effective Date first set forth above.

TENANT:

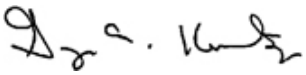
NUVELO, INC.,
a Delaware corporation

By: 

Name: Lee Bendekgey
Title: CFO

LANDLORD:

BMR-201 INDUSTRIAL ROAD LLC,
a Delaware limited liability company

By: 

Name: Gary A. Kreitzer
Title: Executive Vice President

EXHIBIT A

Legal Description

EXHIBIT B

Site Plan

EXHIBIT C

Acknowledgement of Rent Commencement Date

EXHIBIT D

Work Letter

Work Letter

THIS WORK LETTER (this "Work Letter") is made and entered into as of January 11, 2005 by and between BMR-201 INDUSTRIAL ROAD LLC, a Delaware limited liability company ("Landlord"), and NUVELO, INC., a Delaware corporation ("Tenant"), and is attached to and made a part of that certain Lease, dated as of January 11, 2005 (the "Lease"), by and between Landlord and Tenant, for the premises located at 201 Industrial Road, San Carlos, California. All capitalized terms used but not otherwise defined herein shall have the meanings given them in the Lease.

1. General Requirements.

1.1 Tenant's Authorized Representative. Tenant designates Rob Middleton, Brian McPherson, Ron Malouf and Bryce Mason (each, a "Tenant's Authorized Representative"), or any one of them, as the person or persons authorized to approve and initial all plans, drawings, change orders and approvals on Tenant's behalf pursuant to this Work Letter. Tenant may change Tenant's Authorized Representative at any time upon not less than five (5) business days advance written notice to Landlord. Landlord shall not be obligated to respond to or act upon any such item until such item has been initialed or approved in writing by one of Tenant's Authorized Representatives. The contact information for the Tenant's Authorized Representatives are as follows:

Bryce Mason
1770 Pacific Avenue, #103
San Francisco, CA 94109
Phone: (415) 317-2100
Fax: (415) 276-3065
Email: bryce@kbmpartners.com

Ron Malouf
675 Almanor
Sunnyvale, CA
Phone: (408) 215-4322
Email: rmalouf@nuvelo.com

Rob Middleton
153 Kearny Street, #409
San Francisco, CA 94108
Phone: (415) 393-8062
Fax: (415) 393-8008
Email: rob@colepm.com

Brian McPherson
153 Kearny Street, #409
San Francisco, CA 94108

Phone: (415)393-8062
Fax: (415)393-8008
Email: brianm@colepm.com

1.2 Development Schedule. The schedule for design and development of Tenant's Work (as hereinafter defined), including without limitation the time periods for preparation and review of construction documents, approvals and performance, whether by Landlord or by Tenant, shall be in accordance with that certain Time and Responsibility Schedule prepared by Landlord and Tenant, and attached as Schedule D-1 to this Work Letter, subject to adjustment as mutually agreed to in writing by the parties or as provided in this Work Letter (the "Development Schedule").

1.3 Architects and Consultants. The architect, engineering consultants, design team, general contractor and all subcontractors responsible for the construction of Tenant's Work shall be selected by Tenant and approved by Landlord. Landlord's approval of the same shall not be unreasonably withheld, conditioned or delayed. Landlord hereby approves Dowler-Gruman Architects as Tenant's architect.

2. Landlord's Work.

2.1 Landlord shall provide to Tenant on or before Rent Commencement Date the following items in a finished condition (collectively, "Landlord's Work"):

(a) Base Building HVAC to support the fourth (4th) floor Common Areas.

(b) Building fire exit stairways. Stair wells are considered Common Areas of the Building. Tenant shall have the right to secure access to any of Tenant's space from the common areas.

(c) Fire alarm systems for the Building Common Areas in compliance with applicable codes and regulations.

(d) Demise the fourth (4th) floor into a multi-tenant floor, which shall include corridors.

(e) Utility and electrical installation for 4,000 amps in the Building and to the Premises, including PG&E submeters for the Premises.

(f) Elevator service operational, with all inspections and maintenance completed.

(g) Concrete slab with a floor load capacity that is comparable to other life science laboratories in the San Francisco mid-peninsula area.

(h) Exterior ramp and exterior alterations to the Building or Common Areas to accommodate a shipping and receiving area for Tenant's use. For the avoidance of doubt, any alterations to the interior of the Building or Common Areas related to such shipping and receiving area shall be included in Tenant's Work (defined below), and

Landlord's obligation to construct improvements under this Section 2.1(h) shall be subject to Approved Tenant Plans related to the interior portion of such shipping and receiving area.

2.2 Landlord's Work shall be substantially completed by September 1, 2005. Landlord shall perform Landlord's Work without any material interference to Tenant's construction of Tenant's Work, and shall have the right to perform Landlord's Work after tendering possession to Tenant.

2.3 To the extent Landlord's Work is not completed substantially by September 1, 2005 ("Delay in Landlord's Work"), then the Rent Commencement Date shall be extended one day for each day of Delay in Landlord's Work.

3. Tenant's Work.

3.1 Work Plans. All work to be performed by Tenant ("Tenant's Work") shall be performed by Tenant at Tenant's sole cost and expense and without cost to Landlord (except for the Tenant Improvement Allowance and, at Tenant's option, the Additional Allowance) and in accordance with the Approved Tenant Plans (as defined below). The quality of Tenant's Work shall be of a nature and character not less than the quality of other Class A life science tenants in the San Francisco mid-peninsula area ("Standard Improvements"). The design drawings, plans and specifications contained on Schedule D-2 to this Work Letter (the "Work Plans") are the initial list of plans which Tenant shall develop and submit to Landlord for approval. Tenant shall prepare and submit to Landlord for approval schematics covering Tenant's Work prepared in conformity with the applicable provisions of this Work Letter (the "Draft Plans"). The Draft Plans shall contain sufficient information to convey Tenant's proposed design to Landlord and such other information as Landlord may reasonably request. Tenant shall be solely responsible for ensuring that the Work Plans and the Draft Plans reflect Tenant's requirements for Tenant's Work.

3.2 Landlord Approval of Plans. Landlord shall notify Tenant, within five (5) business days after receipt of the Draft Plans whether Landlord approves or objects to the Draft Plans and of the manner, if any, in which the Draft Plans are unacceptable. Landlord shall not object to any Draft Plans that set forth Standard Improvements. If Landlord makes objections to the Draft Plans, and provided such objections are reasonable, Tenant shall revise the Draft Plans and cause such objections to be remedied in the revised Draft Plans. Tenant shall then resubmit the revised Draft Plans to Landlord for approval. Within two (2) business days after Landlord receives the revised Draft Plans, Landlord shall approve or reasonably disapprove such Draft Plans. If Landlord does not respond within said two (2) business day period, Landlord shall be deemed to have approved of the Draft Plans. This procedure shall be repeated until the Draft Plans are finally approved by Landlord and written approval has been delivered to and received by Tenant. Landlord's approval or reasonable objection to the revised Draft Plans and Tenant's correction of the same shall be in accordance with this Section 3.2. The iteration of the Draft Plans which are finally approved by Landlord without objection are referred to as the "Approved Tenant Plans." For the avoidance of doubt, Landlord acknowledges that Tenant will provide Draft Plans for the following, which following Landlord's approval in accordance with this Section 3.2 shall be included as part of the Approved Tenant Plans: (a) a designated area for

Tenant's storage purposes to be located adjacent to the new non-exclusive shipping and receiving area in the parking garage, subject to City of San Carlos' ("City") minimum parking requirements; (b) a designated area for Tenant's Hazardous Materials storage area, which area may be located in the parking garage or outside on the parking lot, all subject to City's approval and parking requirements; (c) a reasonable location for an outside generator pad; and (d) reasonable structural improvements to the Premises to increase the Building load for Tenant's additional storage purposes.

3.3 Completion of Tenant's Work. Tenant will perform and cause to be completed Tenant's Work (a) in a good and workmanlike manner; (b) in compliance with the Lease and this Work Letter in strict conformance with the Approved Tenant Plans; (c) otherwise in compliance with the Lease and this Work Letter; and (d) in accordance with all Applicable Laws, Landlord's and Tenant's insurance carriers and the board of fire underwriters having jurisdiction. Completion of all Tenant's Work shall be subject to Landlord's reasonable approval.

3.4 Conditions to Performance of Tenant's Work. Prior to the commencement of Tenant's Work, Tenant shall submit to Landlord, for Landlord's approval (which approval shall not be unreasonably withheld, conditioned or delayed), a list (the "Contractor List") of project managers and licensed contractors and/or subcontractors who will perform Tenant's Work. Landlord shall give Tenant notice of its approval or disapproval of the Contractor List within five (5) business days after Landlord's receipt of the Contractor List. If Landlord does not respond within said five (5) business day period, Landlord shall be deemed to have approved of the Contractor List. If Landlord reasonably disapproves one or more parties on the Contractor List, Landlord shall state the reason for its disapproval and Tenant shall revise the Contractor List and resubmit the same to Landlord for Landlord's approval in accordance with the preceding two sentences. Notwithstanding the foregoing, Landlord hereby approves BCCI Construction as Tenant's general contractor; provided that Landlord shall receive a credit of $25,000 against the Tenant Improvement Allowance to cover the fees of Landlord's construction manager.

3.5 Requests for Consent. Landlord shall respond to all requests for consents, approvals, directions or the like made by Tenant pursuant to this Work Letter within five (5) business days following Landlord's receipt of such request. Requests need be sent only to Landlord's General Counsel at Landlord's San Diego office, either by fax (858-485-9843) or email (gkreitzer@biomedrealty.com). Landlord's failure to respond within such five (5) business day period shall be deemed approval by Landlord.

4. Tenant's Construction Obligations Do Not Delay Rent Commencement Date. Notwithstanding any Tenant Work to be performed by Tenant, the commencement of the Lease Term and Tenant's obligation to pay Rent shall not, under any circumstances, be extended or delayed beyond September 1, 2005, unless Landlord does not cause temporary power to be provided to the Building with an electricity load equal to approximately 50 amps on or prior to February 1, 2005 (in which case the Rent Commencement Date shall be extended by a day for each day that Landlord fails to complete such Landlord's work after February 1, 2005); provided that the Premises are delivered to Tenant on or before February 1, 2005 and there are no delays by Landlord in performing Landlord's Work pursuant to this Work Letter or the Lease. Tenant shall perform promptly such of its obligations contained in this Work Letter as are to be performed by it. Tenant shall also observe and perform all of its obligations under the Lease

from the Lease Commencement Date, while performing Tenant's Work, other than the payment of Rent.

5. Completion of Tenant's Construction Obligations. Tenant, at Tenant's sole cost and expense and without cost to Landlord (except for the Tenant Improvement Allowance and, at Tenant's option, the Additional Allowance), shall complete Tenant's Work described in this Work Letter in all respects in accordance with the provisions of the Lease, and not later than December 31, 2005, except for extensions due to Landlord delays or force majeure, after which date Landlord's obligation to fund the Tenant Improvement Allowance and the Additional Allowance shall expire. Tenant's Work shall be completed at such time as Tenant shall (1) furnish evidence reasonably satisfactory to Landlord that (i) all of Tenant's Work has been completed (which may be evidenced by the architect's certificate of completion and the general contractor's and subcontractor's final waivers and releases of liens), (ii) such work has been accepted by Landlord, which acceptance shall not be unreasonably withheld, (iii) any and all liens therefor that have been or might be filed have been discharged of record (by payment, bond, order of a court of competent jurisdiction or otherwise) or waived, and (iv) no security interests relating thereto are outstanding; (2) furnish to Landlord all certifications and approvals with respect to Tenant's Work that may be required from any governmental authority and any board of fire underwriters or similar body for the use and occupancy of the Premises; (3) furnish to Landlord the insurance required by the Lease; and (4) furnish an affidavit from Tenant's architect certifying that all of Tenant's Work performed in the Premises is in substantial accordance with the Approved Plans.

6. Insurance. Tenant shall provide, or shall cause Tenant's contractors and subcontractors to provide, in addition to the insurance required of Tenant pursuant to the Lease, the following types of insurance:

6.1 Builders Risk Insurance. At all times during the period between the commencement of construction of Tenant's Work and completion of Tenant's Work, Tenant shall maintain, or cause to be maintained, casualty insurance in Builder's Risk Form, covering Landlord, Landlord's agents, Tenant and Tenant's contractors, as their interests may appear, against loss or damage by fire, vandalism, and malicious mischief and other such risks as are customarily covered by the so-called "broad form extended coverage endorsement" upon all Tenant's Work and builder's machinery, tools and equipment, all while forming a part of, or contained in, such improvements or temporary structures while on the Premises, or when adjacent thereto, all on a completed value basis for the full insurable value at all times. Said Builder's Risk Insurance shall contain an express waiver of any right of subrogation by the insurer against Landlord, its agents and employees.

6.2 Workers' Compensation. At all times during the period of construction of Tenant's Work, Tenant will itself, if necessary, and will require contractors and subcontractors to maintain statutory Workers' Compensation insurance.

7. Liability.

7.1 Tenant's Liability. Tenant assumes the responsibility and liability for any and all injuries or death of any persons, including Tenant's contractors and subcontractors, and their

respective employees and for any and all damages to property caused by, or resulting from or arising out of any act or omission on the part of Tenant, Tenant's contractors or subcontractors or their respective employees, in the prosecution of Tenant's Work and with respect to such work. Tenant agrees to indemnify, defend, protect and save free and harmless Landlord, from and against all losses and/or expenses, including reasonable legal fees and expenses, which Landlord may suffer or pay as the result of claims or lawsuits due to, because of, or arising out of any and all such injuries or death and/or damage, whether real or alleged and Tenant and Tenant's contractors and/or subcontractors or their respective insurance companies shall assume and defend at their own expense all such claims or lawsuits; provided, however, that nothing contained in this Work Letter shall be deemed to indemnify or otherwise hold Landlord harmless from or against the negligent or wrongful acts or omissions of Landlord, its agents, employees and contractors nor to affect or modify the terms of the Lease. Any approval or consent by Landlord shall in no way obligate Landlord in any manner whatsoever in respect of the finished product designed and/or constructed by Tenant or its contractors. Any deficiency in design or construction, although the same has prior approval of Landlord, shall be solely the responsibility of Tenant. All construction materials and equipment furnished by Tenant as Tenant Work, except for personal property, furniture and trade equipment, shall be new or "like-new" and all work shall be performed in a first-class workmanlike manner.

7.2 Landlord's Liability. Landlord assumes the responsibility and liability for any and all injuries or death of any persons, including Landlord's contractors and subcontractors, and their respective employees and for any and all damages to property caused by, or resulting from or arising out of any act or omission on the part of Landlord, Landlord's contractors or subcontractors or their respective employees, in the prosecution of Landlord's Work and with respect to such work. Landlord agrees to indemnify, defend, protect and save free and harmless Tenant, from and against all losses and/or expenses, including reasonable legal fees and expenses, which Tenant may suffer or pay as the result of claims or lawsuits due to, because of, or arising out of any and all such injuries or death and/or damage, whether real or alleged and Landlord and Landlord's contractors and/or subcontractors or their respective insurance companies shall assume and defend at their own expense all such claims or lawsuits; provided, however, that nothing contained in this Work Letter shall be deemed to indemnify or otherwise hold Tenant harmless from or against the negligent or wrongful acts or omissions of Tenant, its agents, employees and contractors nor to affect or modify the terms of the Lease.

8. Tenant Improvement Allowance.

8.1 Application of Tenant Improvement Allowance. Landlord shall contribute first the Tenant Improvement Allowance and second, at Tenant's option, the Additional Allowance toward the costs and expenses incurred in connection with the performance of Tenant's Work. If the entire Tenant Improvement Allowance is not applied toward or reserved for the costs of Tenant's Work, any unused portion of the Tenant Improvement Allowance shall be credited against Monthly Rent payments as such Monthly Rent payments become due.

8.2 Approval of Budget for Tenant's Work. Notwithstanding anything to the contrary set forth elsewhere in this Work Letter, Landlord shall not have any obligation to advance to Tenant any portion of the Tenant Improvement Allowance or Additional Allowance until Landlord shall have reasonably approved, in writing, the project budget for the Tenant's Work

(an "Approved Budget"). Landlord shall respond to the proposed budget within five (5) business days of submittal by Tenant, and if Landlord does not respond within said five (5) business day period, such proposed budget shall be deemed approved. Landlord's consent to the proposed budget shall not be unreasonably withheld. If the Approved Budget exceeds the Tenant Improvement Allowance, then within five (5) business days of the day Landlord approves such budget, Tenant may request in writing that Landlord fund the Additional Allowance in accordance with Paragraph 4.5 of the Lease. In the event Tenant makes such election with respect to the Additional Allowance, the Combined Allowance shall be used to fund the Approved Budget; provided, however, that in the event Tenant does not request the Additional Allowance, or the Combined Allowance is still not sufficient to cover the Approved Budget (including any approved Tenant Changes), then Tenant shall deliver to Landlord within five (5) business days a letter of credit in favor of Landlord in an amount sufficient to cover such excess costs ("Tenant's Costs"). Once all funds in the Tenant Improvement Allowance and the Additional Allowance, if applicable, have been paid by Landlord, Tenant shall pay for the Tenant's Costs directly to the contractors, subcontractors or vendors, and in the event Tenant does not directly pay such Tenant's Costs within a reasonable period of time, Landlord shall be entitled to draw from the letter of credit described above. In the event Tenant pays for the Tenant's Costs directly to Tenant's contractors, subcontractors or vendors, Landlord shall return said letter of credit to Tenant upon Tenant's completion of Tenant's Work in accordance with Section 5 hereof.

8.3 Advance Requests. Upon submission by Tenant to Landlord of a statement (an "Advance Request") from Tenant's contractor, subcontractor or vendor setting forth the total amount requested therefrom and a reasonably detailed summary of the work performed (which shall be satisfied by a copy of an AIA standard form Application for Payment (G702) executed by the general contractor and by the architect) accompanied by unconditional partial lien releases from the general contractor and the relevant subcontractors in respect of the prior advance and conditional lien releases from the general contractor and the relevant subcontractors in respect of the current Advance Request, Landlord, within seven (7) business days following receipt by Landlord of an Advance Request and the accompanying materials, shall make such payment directly to Tenant's contractor, subcontractor or vendor, as applicable; provided, however, that Landlord shall not be responsible for payments for Tenant's Work once all funds in the Tenant Improvement Allowance and the Additional Allowance, if applicable, have been used.

8.4 Use of the Tenant Improvement Allowance. The Tenant Improvement Allowance may be used for the payment of Tenant's furniture, personal property, equipment (including non-building system equipment), and trade fixtures in accordance with Paragraph 4.5 of the Lease, including without limitation, data cabling, telephone and data equipment, security, audio/visual equipment, white noise and furniture systems ("FF&E"). As provided in Paragraph 4.5 of the Lease, in no event shall more than fifteen percent (15%) of the Tenant Improvement Allowance be used to purchase FF&E. The FF&E shall be part of the Approved Budget.

9. Existing Building Materials; Removal of Tenant's Property. Any existing building materials within the Premises that Tenant reuses (e.g., lights, doors, frames, hardware, etc.) shall be at no cost to Tenant and shall not be deducted from the Tenant Improvement Allowance or Additional Allowance.

10. Changes. Any major changes requested by Landlord or Tenant to Tenant's Work after Landlord signs the Approved Plans shall be requested and instituted in accordance with the provisions of this Section 10 and shall be subject to the reasonable written approval of the party not requesting the change.

10.1 Tenant Change Requests.

10.1.1 If, after Landlord signs the Approved Plans, Tenant shall request changes to Tenant's Work or request major changes to the Tenant's Work already installed ("Tenant Changes"), Tenant shall request such Tenant Changes by notifying Landlord in writing in substantially the same form as the AIA standard change order form (a "Tenant Change Request"), which Tenant Change Request shall detail (i) the nature and extent of any such Tenant Change and (ii) an estimate of the additional cost or savings and the time savings or delay involved with respect to such Tenant Change. If the nature of such Tenant Change requires revisions to the Approved Plans in order to comply with Applicable Laws, then Tenant shall be solely responsible for the cost of such revisions. Such Tenant Change Request must be signed by one of Tenant's Authorized Representatives or Landlord shall not be required to process such Tenant Change Request. Landlord, before approving a Tenant Change to Tenant's Work, shall use its best efforts to respond to Tenant as soon as is reasonably possible with an estimate of the time it will take Landlord to analyze the Tenant Change Request. Landlord shall thereafter submit to Tenant in writing, within five (5) business days receipt of the Tenant Change Request (or such longer period of time as is reasonably required depending on the extent of the Tenant Change Request), Landlord's approval or disapproval of the Tenant Change Request. If Landlord fails to respond to the Tenant Change Request, then the Tenant Change Request shall be deemed accepted and Tenant shall be permitted to proceed with the Tenant's Work in accordance with the Tenant Change Request.

10.1.2 Landlord shall approve or reject the Tenant Change Request according to the guidelines established pursuant to Section 3 hereof. If Landlord does not approve in writing the Tenant Change Request, the Tenant Change Request shall be deemed rejected and Tenant shall not be permitted to construct Tenant's Work in accordance with the Tenant Change Request.

10.2 Landlord Change Requests.

10.2.1 If, after Landlord signs the Approved Plans, Landlord shall request reasonable changes to Tenant's Work or request reasonable changes to the Tenant's Work already installed ("Landlord Changes"), Landlord shall request such Landlord Changes by notifying Tenant in writing in substantially the same form as the AIA standard change order form (a "Landlord Change Request"), which Landlord Change Request shall detail the nature and extent of any such Landlord Change. If the nature of such Landlord Change requires revisions to the Approved Plans, then Landlord shall be solely responsible for the cost of such revisions. Tenant shall, before proceeding with any Landlord Change to Tenant's Work, use its best efforts to respond to Landlord as soon as is reasonably possible within estimate of (i) the time it will take Tenant to analyze the Landlord Change Request, and (ii) the architectural and engineering fees and costs which will be incurred in order to analyze such Landlord Change Request and Tenant shall thereafter submit to Landlord in writing, within five (5) days receipt of

the Landlord Change Request (or such longer period of time as is reasonably required depending on the extent of the Landlord Change Request), an estimate of the additional cost or savings involved with respect to Tenant's Work.

10.2.2 If the Landlord Change impacts on Tenant's Work, then if Landlord approves in writing the cost or savings, Tenant shall cause the approved Landlord Change to be instituted. If Tenant does not approve in writing the cost or savings and the extension in the time for completion of Tenant's Work, then the Landlord Change Request shall be deemed rejected and Tenant shall not be required to construct Tenant's Work in accordance with the Landlord Change Request. All additional costs and expenses payable by Tenant to complete Tenant's Work due to the Landlord Change Request shall be reimbursed by Landlord, but shall not result in any reduction in the Tenant Improvement Allowance or Additional Allowance. If as a result of the Landlord Change, Tenant's Work is not completed by September 1, 2005, the Rent Commencement Date shall be extended a day for each day that such Landlord Change delays completion of Tenant's Work.

11. Costs. Except as provided in Section 10.2, Landlord is under no obligation to bear any portion of the cost of any of Tenant's Work except to the extent of the Tenant Improvement Allowance, Landlord's contribution to a preliminary space planning "test-fit" as provided in Section 4.5 of the Lease, and, at Tenant's option, the Additional Allowance.

12. Miscellaneous.

12.1 Consents. Whenever consent or approval of either party is required under this Work Letter, that party shall not unreasonably withhold, condition or delay such consent or approval, except as may be expressly set forth herein to the contrary.

12.2 Modification. No modification, waiver or amendment of this Work Letter or of any of its conditions or provisions shall be binding upon Landlord or Tenant unless the same is in writing, signed by Landlord and Tenant.

12.3 Counterparts. This Work Letter may be executed in any number of counterparts, but all counterparts taken together shall constitute a single document.

12.4 Governing Law. This Work Letter shall be governed by, construed and enforced in accordance with the laws of the State of California.

12.5 Time of the Essence. Time is of the essence of this Work Letter and of each and all provisions thereof.

12.6 Delay. Tenant shall be excused for any delay in completion of any portion of Tenant's Work caused by acts of God, acts of Landlord, inclement weather, labor trouble, acts of public utilities, or changes requested by Landlord which are, in each case, beyond the reasonable control of Tenant.

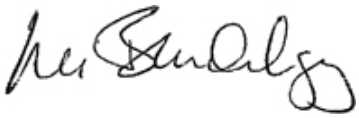
12.7 Severability. If any term or provision of this Work Letter is declared invalid or unenforceable, the remainder of this Work Letter shall not be affected by such determination and shall continue to be valid and enforceable.

12.8 Merger. All understandings and agreements, oral or written, heretofore made between the parties hereto and relating to Tenant's Work are merged in this Work Letter, which alone (but inclusive of provisions of the Lease incorporated herein and the final Approved Plans prepared pursuant hereto) fully and completely expresses the agreement between Landlord and Tenant with regard to the matters set forth in this Work Letter.

IN WITNESS WHEREOF, Landlord and Tenant have executed this Work Letter to be effective on the date first above written.

TENANT:

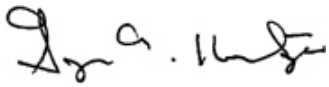
NUVELO, INC.,
a Delaware corporation

By: 

Name: Lee Bendekgey
Title: CFO

LANDLORD:

BMR-201 INDUSTRIAL ROAD LLC,
a Delaware limited liability company

By: 

Name: Gary A. Kreitzer
Title: Executive Vice President

EXHIBIT E

Rules and Regulations

EXHIBIT F

Estoppel Certificate

Avecia

CONFIDENTIAL

Avecia Limited

PO Box 2 Belasis Avenue
Billingham Cleveland TS23 1YN

Tel: +44 (0)1642 364499
Fax: +44 (0)1642 364463
www.avecia.com

Luis Pena
Vice President - Product Development
Nuvelo Inc.
675 Almanor Avenue
Sunnyvale
CA 94085
USA

Our Ref:	Direct Line:	Direct Fax:	E-mail:	Date:
RJC/SCT	+44 1642 364001	+44 1642 364463	Stephen.taylor@avecia.com	

Dear Sirs

Interim Agreement: Alfimeprase Project

Background

1. Nuvelo Inc. **("Nuvelo")** wishes Avecia Limited (**"Avecia"**) to carry out a range of activities in relation to Alfimeprase (**"the API"**) which are referred to in this Interim Agreement as **"the Project",** the details of which are more fully set out in the proposal attached hereto as Exhibit A **("the Proposal"),** the terms of which are incorporated into this Interim Agreement.

2. The parties are in negotiation for a definitive agreement anticipated to cover the activities under the Project, as well as Avecia's supply of commercial quantities of the API during the initial 1 year after Nuvelo receives regulatory approval in the United States for the API **("the Definitive Agreement").** It is recognised however that, in order to meet the desired overall timescale for the Project, it is necessary for the Project to be commenced prior to execution of the Definitive Agreement. This Interim Agreement therefore sets out the interim terms and conditions on which the following portions of the laboratory program set out in section 2 of the Proposal, consisting of (i) Assessment and Planning, (ii) Transfer of process and assays, (iii) purchase of capital equipment set forth in Exhibit B, [and] (iv) Replicate 15L fermentation and purification runs[, and (v) GMP consultancy preparatory to GMP manufacture (collectively **"the Initial Work"),** will be carried out prior to execution of the Definitive Agreement.

Commencement and Conduct of the Initial Work

3. Following signature of this Interim Agreement, Avecia shall commence the Initial Work in accordance with the terms and conditions of this Interim Agreement and Section 2 of the Proposal. In order for Avecia to carry out the Initial Work, Nuvelo shall carry out communication of the existing process for production of the API and associated data and intellectual property to Avecia necessary for the Initial Work in accordance with the terms and conditions of this Interim Agreement and Section 2 of the Proposal.

4. Avecia shall carry out the Interim Work in accordance with the terms and conditions of this Interim Agreement and the Proposal with reasonable skill and care and no less than the level of skill and care to be reasonably expected of a professional provider of such services. Avecia also shall perform the Initial Work in compliance with all relevant professional standards and all applicable supranational, national or local laws, rules and regulations, including without limitation: (i) the United States Federal Food, Drug and Cosmetic Act, the regulations promulgated pursuant thereto, any non-U.S. equivalents thereof, and any successor laws, rules or regulations thereto; and (ii) the Rules and Guidance for Pharmaceutical Manufacturers and Distributors (UK) 2002 Annex 18 and Good Manufacturing Practices for Active Pharmaceutical Ingredients (ICHQ7A) as incorporated in the Federal Register Vol. 66 No. 186 in the USA.

Consideration

5. Nuvelo shall pay to Avecia the following amounts at the following times:

Amount (£)	***Deliverables***	***Payment Event***
i) **105,000** in consideration for Avecia carrying out technical consultancy in relation to assessment and planning.	Commitment to secure staff to carry out project.	On signature of this Interim Agreement.
ii) **105,000** in consideration for Avecia carrying out technical consultancy in relation to transfer of process and assays.	Method transfer reports, gap analysis, action plan, process flow diagram, process description and time line.	Upon completion of transfer of process and assays.
iii) **50,000** in consideration for Avecia carrying out technical consultancy preparatory to GMP manufacture.	Commitment to secure manufacturing facility and investigate purchasing equipment.	On signature of this Interim Agreement.
iv) **109,000** in consideration for Avecia carrying out technical consultancy in relation to the 15L fermentation and purification runs.	Fermentation, purification and analytical comparability reports.	On completion of the replicate 15L fermentation and purification runs.
v) **300,000** in consideration for Avecia carrying out technical consultancy preparatory to GMP manufacture.	Weekly meetings updating on status of GMP preparation. Project plan with timings for centrifuge trials and GMP development batches	On 28th February 2005.

5.1 Payments to be made in accordance with this Section 5 shall be made in United States dollars. The currency exchange rate for such payments shall be calculated based upon the exchange rate quoted in the Wall Street Journal for the purchase of pounds using United States dollars on the calendar date the payment is due in accordance with this Section 5, or if no calendar date is stated, upon the date after the applicable payment is triggered in accordance with Section 5, that Nuvelo receives an invoice for the applicable payment. For any payment due for which no calendar date for payment is set forth above in this Section 5, such payment is due within 10 business days after Nuvelo’s receipt of the invoice for such payment.

6. Any payment under this Interim Agreement is stated exclusive of UK VAT. It is the understanding of both parties that the technical consultancy services being provided under this agreement are outside the scope of UK VAT. However in the unlikely event that UK VAT does become payable, this shall be for the account of Nuvelo and Avecia will give assistance to Nuvelo to seek recovery of such tax paid from the UK HM Customs and Excise.

Purchase of Equipment

7. In order for Avecia to provide technical consultancy services work under this Interim Agreement, it will be necessary for certain items of equipment **("the Equipment")** to be purchased by Avecia. Avecia will be authorised to proceed with the relevant services for which the Equipment is required on the following terms:

   7.1 Avecia shall obtain, from an independent third party, at least 2 quotations for each item of Equipment and send a copy of the quotations by fax or email to Nuvelo and Nuvelo shall inform Avecia within 5 business days of receipt whether it authorises Avecia to proceed with the services for which the item of Equipment is required. In the absence of such approval, Avecia shall not proceed with the relevant services.

   7.2 If Nuvelo gives its approval to the relevant quotation, Avecia shall be considered authorised to proceed with the relevant services and shall purchase the item of Equipment for such purpose. Any Equipment purchased by Avecia shall be dedicated to the Project, and shall not be used for any other use or purpose. Avecia shall keep the Equipment in good working order. The purchase price of the item of Equipment per the approved quotation shall thereupon form part of the consideration for the provision of the technical consultancy services by Avecia and Avecia shall invoice Nuvelo for: (i) such amount; and (ii) a sum equivalent to 10% of the cost of the Equipment as a handling fee (the **"Handling Fee"**). Nuvelo shall pay such invoices within ten (10) days of receipt.

   7.3 Following completion or termination of the Initial Work or Project, whichever occurs first, at any time within 12 months following such completion or termination, Nuvelo shall be entitled to purchase all or any of the Equipment from Avecia for £1.00 in its then current condition, subject to payment of any outstanding fees by Nuvelo to Avecia in respect of work carried out under this Interim Agreement in accordance with the terms and conditions of this Interim Agreement and the Proposal.

   7.4 Nuvelo shall provide to Avecia reasonable prior written notice of its wish to purchase the Equipment so as to minimize any unplanned facility downtime and Nuvelo shall be responsible for all commercially reasonable removal costs and expenses. If the removal is performed by Nuvelo personnel, Nuvelo agrees to pay for the making good of any damage caused to Avecia's facility as a result of such removal. If the removal is performed by Avecia personnel, Avecia agrees to pay for the making good of any damage caused to the Equipment being removed as a result of such removal.

Confidentiality and Intellectual Property

8. The provisions of the confidentiality agreement **("the CDA")** entered into, between the parties and dated 23rd September 2004 shall remain in full force and effect, except to the extent modified by the terms and conditions of this Interim Agreement. The obligations of confidentiality and non disclosure set forth in the CDA will continue for 7 years after the expiration or termination of this Interim Agreement, and the CDA shall not terminate or expire before the termination of this Interim Agreement. Avecia may use the Confidential Information solely for the purpose of the performance of the Initial Work. The CDA shall, with effect from the date hereof, be deemed to be extended to cover disclosures of information by either party pursuant to and subject to this Interim Agreement.

9. Nothing in this Interim Agreement shall affect the ownership by either party of its Background IP or imply any licence to a party's Background IP unless granted expressly. "Background IP" means any intellectual property owned by or in the possession of a party (and to which that party has the necessary rights): (a) at the date of this Interim Agreement; or (b) after the date of this Interim Agreement and either (i) acquired independently of the Project or (ii) developed independently of the Project by any employee of that party without use or reference to any of the Confidential Information of the other party (as defined in the CDA, as amended by this Interim Agreement) disclosed by the other party.

10. Nuvelo shall own any and all intellectual property directly resulting from or arising out of the performance of the Initial Work ("**New IP**"), and Avecia shall assign all its rights in any such New IP to Nuvelo. Avecia represents and warrants that its employees and contractors are required to assign any inventions and discoveries resulting from or arising out of the performance of the Initial Work to Avecia, to enable Avecia to make the assignments set forth in this Section 10. Nuvelo hereby grants to Avecia a royalty-free, non-exclusive, world-wide licence, with power to sub-license, under New IP for use other than to make, have made, use, sell, offer for sale, import, keep and otherwise deal in the API.

Licenses and Warranties

11. Nuvelo shall grant to Avecia a royalty free, non-exclusive licence to use any of its Background IP and the New IP necessary for the performance of the Initial Work for the purposes of carrying out the Initial Work, and for no other use or purpose (save, in respect of the New IP, as permitted under Section 10 of this Interim Agreement).

12. Except as otherwise disclosed by Nuvelo to Avecia, Nuvelo represents and warrants that, to its knowledge as of the effective date of this Interim Agreement, Avecia's application of Nuvelo's Background IP or information provided to Avecia by Nuvelo for use in the performance of the Initial Work will not infringe the intellectual property of any third party.

13. Avecia represents and warrants that, to its knowledge as of the effective date of this Interim Agreement, Avecia's Background IP, to be used by Avecia in the performance of the Initial Work will not infringe the intellectual property of any third party.

14. Avecia represents and warrants that it has not been debarred under Section 306 of the Federal Food, Drug, and Cosmetic Act, 21 U.S.C. §335a(a) or (b). In the event that Avecia becomes debarred, Avecia shall notify Nuvelo immediately.

Indemnification and Limitation of Liability

15. Except as provided below in this Section 15, Nuvelo shall indemnify Avecia from and against any loss, claim, suit, liability, damages or expense, of whatsoever kind or nature ("**Loss**"), resulting from or arising out of: (i) actual or suspected infringement of the intellectual property of any third party arising from Avecia's application of Nuvelo's Background IP or information provided to Avecia by Nuvelo, in the performance of the Initial Work; (ii) Nuvelo's use of any results of the Initial Work performed by Avecia hereunder (including API or other materials manufactured); or (iii) the negligence, willful misconduct or breach of any applicable laws or regulations by Nuvelo or its affiliates. Nuvelo shall have no obligation to indemnify Avecia for any Loss to the extent resulting from or arising out of: (a) the actual or suspected infringement of the intellectual property of any third party arising from Avecia's application of Avecia's Background IP or information not provided to Avecia by Nuvelo, in the performance of the Initial Work; (b) the negligence or willful misconduct of Avecia or any of its affiliates; (c) any breach of this Interim Agreement by Avecia or any of its affiliates; (d) any failure by Avecia or any of its affiliates to comply with applicable laws or regulations.

16. Except as provided below in this Section 16, Avecia shall indemnify Nuvelo from and against any Loss resulting from or arising out of: (i) actual or suspected infringement of the intellectual property of any third party arising from Avecia's application of Avecia's Background IP in the performance of the Initial Work; (ii) Nuvelo's use of any results of the Initial Work performed by Avecia hereunder (including API or other materials manufactured) to the extent Nuvelo's use results in the actual or suspected infringement of the intellectual property of any third party arising from Avecia's application of Avecia's Background IP, in the performance of the Initial Work; or (iii) the negligence, willful misconduct or breach of any applicable laws or regulations by Avecia or its affiliates. Avecia shall have no obligation to indemnify Nuvelo for any Loss to the extent resulting from or arising out of: (a) the negligence or willful misconduct of Nuvelo or any of its affiliates; (b) any breach of this Interim Agreement by Nuvelo or any of its affiliates; (c) any failure by Nuvelo or any of its affiliates to comply with applicable laws or regulations.

17. EXCEPT WITH RESPECT TO INDEMNITY UNDER SECTIONS 15 and 16 ABOVE OR ANY BREACH OF CONFIDENTIALITY IN ACCORDANCE WITH SECTION 8, IN NO EVENT SHALL EITHER PARTY BE LIABLE FOR ANY SPECIAL, INCIDENTAL, CONSEQUENTIAL OR INDIRECT DAMAGES ARISING IN ANY WAY OUT OF OR RELATING TO THIS INTERIM AGREEMENT, HOWEVER CAUSED AND ON ANY THEORY OF LIABILITY. THIS LIMITATION WILL APPLY EVEN IF THE OTHER PARTY HAS BEEN ADVISED OF THE POSSIBILITY OF SUCH DAMAGES.

18. NEITHER PARTY'S LIABILITY UNDER THIS INTERIM AGREEMENT WILL EXCEED THE TOTAL AMOUNT THAT WOULD BE DUE TO AVECIA UNDER THIS INTERIM AGREEMENT FOR THE INITIAL WORK.

Duration and Termination/Cancellation

19. The term of this Interim Agreement shall be from the date of signature by both parties until the first to occur of entry into the Definitive Agreement, completion of the Initial Work or earlier termination. The parties may agree to extend the duration and scope of the work carried out under this Interim Agreement by written agreement. Sections 8, 9, 10, 15, 16, 17, 18, 19, 21, 22, 23, 25 and 26 survive the termination or expiration of this Interim Agreement for the period set forth therein, or if no period is specified, perpetually or the maximum permitted by applicable law.

20. Nuvelo may terminate this Interim Agreement at any time with or without cause for its convenience, effective immediately upon written notice to Avecia. Avecia may terminate this Interim Agreement immediately upon written notice to Nuvelo if Nuvelo fails to pay an amount owed to Avecia under this Interim Agreement within 5 days of when it is due.

21. Upon termination of this Interim Agreement, other than for termination by Nuvelo in connection with a breach by Avecia, Nuvelo will pay Avecia:

    21.1 all sums due and payable up to the date of termination but not yet paid, but excluding any payments (other than the Handling Fee) due for Equipment: (i) that can be returned; or (ii) the ordering of which can be cancelled;

    21.2 all reasonable costs already incurred by Avecia at the date of termination in accordance with the terms and conditions of this Interim Agreement and the Proposal and uncancellable expenses incurred by Avecia after termination which could not reasonably be avoided after a reasonable attempt by Avecia to mitigate such costs, including cancellation charges payable by Avecia to the seller of Equipment in respect of Equipment (i) that has been returned to the seller, or (ii) the order of which has been cancelled; and

    21.3 if and only if the Agreement is terminated by Nuvelo other than for breach by Avecia, in consideration for technical consultancy services performed up to date of termination and

in winding down and cancelling the Project, the Cancellation Fee set out in paragraph 14 below.

22. The Cancellation Fee shall be a proportion of the total £2,951,000 fee for technical consultancy associated with GMP manufacture of development batches referred to in more detail in Section 3.2 of the Proposal ("**the GMP Fee**"), less any sums paid by Nuvelo in consideration for Avecia carrying out technical consultancy preparatory to GMP manufacture already received under this Interim Agreement at the date on which notice is given. The proportion shall be dependent on the date on which notice of termination is given in relation to the anticipated date for commencement of the GMP manufacturing stage. At the date hereof, the anticipated commencement date of GMP manufacture is 1st October 2005. In the event that the parties agree to change this date, the table below shall be amended accordingly.

22.1 The Cancellation Fee shall be calculated as follows:

If terminated between dates (2005)	*Proportion of the GMP Fee (%)*	*Amount (£)*
1 Feb to 28 Feb	10	295,100
1 Mar to 30 Mar	20	590,200
1 Apr to 30 Apr	30	885,300

22.2 Avecia shall make commercially reasonable efforts to raise revenue by utilising the production facility during the period during which the manufacturing stage was intended to take place but for early termination. Avecia shall refund to Nuvelo a sum equivalent to the revenue raised as a result of such alternative use up to a maximum of 80% of the Cancellation Fee paid.

22.3 Where the Cancellation Fee is less than the amount already paid to Avecia by Nuvelo under this Interim Agreement in consideration for technical consultancy preparatory to GMP manufacture, Avecia shall pay to Nuvelo the difference between the applicable Cancellation Fee and the amount already paid in consideration for technical consultancy preparatory to GMP manufacture.

23. If Nuvelo terminates for Avecia's unremedied breach or insolvency, Avecia shall refund to Nuvelo any monies paid to Avecia, less amounts paid for consultancy work done by Avecia in accordance with the terms and conditions of this Interim Agreement and the Proposal and not affected by the breach. In the event of a material error by Avecia in the performance of any portion of the Initial Work, Nuvelo is entitled to request Avecia to: (i) repeat the applicable portion at Avecia's own cost or (ii) reimburse Nuvelo for the price for that particular portion of the Initial Work. The preceding provision does not limit Nuvelo's rights under any provision of this Interim Agreement.

Definitive Agreement

24. Avecia and Nuvelo agree to commence negotiations in good faith for a Definitive Agreement, such Definitive Agreement to contain, amongst other things, the timing of the fees payable during the remainder of the Project, a detailed description of the work to be undertaken during the Project, including detailed stage start/end trigger points, together with provisions relating to termination, liability, compliance with applicable law and regulations, confidentiality, quality assurance, indemnity and intellectual property ownership and access.

Governing Law & Miscellaneous

25. This Interim Agreement is, and is intended by the parties to be, legally binding. This Interim Agreement is governed by, and should be construed in accordance with the laws of the U.S.

State of Delaware and the parties expressly agree to submit to the exclusive jurisdiction and venue of the Courts of Delaware.

26. A waiver of any provision or right under this Interim Agreement will be in writing and will not constitute a waiver of any subsequent similar or dissimilar occurrence. If any provision of this Interim Agreement is held to be illegal, invalid, or unenforceable, the applicable provision is severed from this Interim Agreement and the remaining provisions remain in full force and effect.

27. Avecia shall not subcontract any work under this Interim Agreement without Nuvelo's prior written consent.

The parties to this Interim Agreement, by the signature of their duly authorized representatives below, have executed this Interim Agreement as of the last date set forth below.

For Avecia Limited

Signature: 

SC Taylor (Dr)
General Manager, Biologics Business

Date: 21 January 2005

For Nuvelo, Inc.

Signature: /s/ Michael D. Levy

Name: Michael Levy

Position: SR VP R&D

Date: 1.20.2005

PROPOSAL B2422.01 For Nuvelo Inc

Program to carry out technology transfer of the Alfimeprase process, Process Characterization and Validation of in-process and bulk API assays by Avecia and manufacture of three GMP development batches and five conformance batches of Alfimeprase in Avecia's ABC 5000 facility.

Prepared by:

Avecia Biotechnology

22 November 2004

1. INTRODUCTION

This proposal incorporates information from discussions held at Amgen over 2003/2004 and the recent meeting at with the Nuvelo team on 17 November 2004.

The proposal includes the activities listed below. It is unclear at this point what the exact scope of the program will need to be since data from Amgen has not been evaluated and assessed. However it is Avecia's belief that most of the process characterisation and all the assay validation remains to be done.

- Data assessment and planning activity
- Transfer to Avecia of process and assays
- Validation of in-process and bulk API assays by Avecia, 24 assays in total
- Replicate 15L fermentation and purification runs to establish the process at Avecia
- Laboratory scale process characterisation (content to be defined)
- Two x 3000L fermentation batches to scale up the process and define centrifugation conditions
- Purification of product (non-GMP) from the 3000L batch supernatant but at 15L scale
- Three full scale GMP development batches – product to be supplied from one to two of them for clinical purposes.
- Process confirmation using process intermediates from Engineering runs
- Five conformance batches

This proposal is subject to agreement of formal contractual terms.

QUALITY ASSURANCE

Avecia operates its Quality System according to the Quality Policy as described in its Quality Manual. Avecia manufactures non-sterile bulk biologic Active Pharmaceutical Ingredients (API) in compliance with the Rules and Guidance for Pharmaceutical Manufacturers and Distributors (UK) 2002 Annex 18 and Good Manufacturing Practices for Active Pharmaceutical Ingredients (ICHQ7A) as incorporated in the Federal Register Vol 66 No 186 in the USA.

Avecia and Nuvelo will jointly approve a Quality Agreement which defines the roles and responsibilities and interaction of Avecia and Nuvelo when dealing with quality related issues during the manufacture of the API. The QA agreement shall be incorporated with, constitute a part of and be read in conjunction with the Contract between the two companies.

The content of the Quality Agreement will include:

- Supplier management
- Change control
- Document management
- Nonconformance system
- Training
- Internal audits

This list is illustrative only

2. WORK PROGRAM

Assessment and Planning. Data from Amgen will be reviewed and evaluated and the scope and extent of the work required to complete the laboratory process characterisation package will be determined. This activity should be completed as soon as possible and will lead to definition of a detailed work program.

Transfer of process and assays. The process and assays will be transferred to and operated by Avecia.

Validation of in process and bulk API assays. Avecia has a list of assays that were to be used by Avecia and Amgen for in process and API analysis. The list is attached as Appendix 1. Following assessment of the Amgen data and in discussion with Nuvelo a final list of assays will be derived. A validation program can then be defined. **In arriving at the costings below an assumption has been that all the current assays will be used and will need to be validated.**

The features typically included in a validation by Avecia are given below.

specificity
precision (repeatability)
precision (intermediate)
linearity
range
accuracy
limit of quantitation
limit of detection
robustness
system suitability test

Replicate 15L fermentation and purification runs. It is our preference to carry out a number of replicate runs at 15L scale to establish data on the robustness and reproducibility of the process. These data will also be valuable in establishing a baseline for the process characterisation work.

It was felt that the effort and resource that would need to be devoted to 100L runs of the process would not be cost effective for the following reasons.

- Scale up to 100L is only a small step towards 3000L and is unlikely to indicate performance at that scale.
- It has been Avecia experience that 15L, 100L and 1000L runs have all given closely similar results.
- Nuvelo already have data concerning performance of the process at 300L and Avecia 15L data can be compared with this and other laboratory scale fermentations carried out at Amgen.

In addition supernatant from the 3000L fermentation carried out to establish centrifuge conditions will be processed through the purification process at 15L scale to gain experience with plant produced material.

Fermentation scale up and Centrifuge trials. This was increasing felt to be a prudent step to take since it would;

- provide the first data on fermentation performance at 3000L scale
- provide early definition of centrifuge operating conditions which can only be determined empirically
- give time for batch record modification and writing
- allow greater chance that the first engineering batch would make useful product and de-risk that stage of the program

Laboratory scale purification of Alfimeprase from the supernatant produced will be carried out as mentioned above to confirm that product from the larger scale fermentation was comparable to that from laboratory fermentations and previously manufactured material.

Process characterisation. This work will be carried out concurrently with assay validation, the 3000L trial fermentation and GMP preparation. Analytical methods used for the process characterisation will be considered qualified. The program content will be agreed with Nuvelo once the Amgen data has been acquired and progress has been assessed. A process characterisation plan will be established and will be documented.

The purpose of the process characterization is to establish the operating parameters for the alfimeprase Process B. The studies will include fermentation operating parameters, harvest operating parameters, operation parameters for each chromatographic, dead end filtration and untrafiltration and diafiltration step.

NOTE No definite figure has been included in the costings since the extent of the program required is not known.

Validation Documentation

Documentation to support successful validation will be produced according to the Table below. Ahead of the Validation Campaign further changes may be made by agreement of Nuvelo and Avecia Quality Groups and the associated payment amended accordingly.

Document	Purpose	Accountable Function	Approving Functions (Final formal release by QA)
Validation Master Plan	Defines overview Validation strategy for Product	QA	QA,QC, M, R&D
Validation Sub Plans	Defines specific Validation plans for Project relating to Equipment Qualification Cleaning Validation Analytical Validation Process Validation Electronic systems Training	Various	QA,QC, M, R&D
Process Validation Sub Plan	Defines specific activities to be undertaken in Process Validation programme And links these to relevant technical reports and the Development Report	R&D	QA,QC, M, R&D

Process Validation Protocol	Document listing: Runs to be undertaken in the manufacturing campaign, the expected specification of material produced (and the acceptances ranges for this). Critical process control parameters and acceptance ranges. The results derived from the process validation campaign shall be recorded in this document	R&D	QA,QC, M, R&D
Process Validation Sub Plan Report	Report detailing and analysing the outcome and data derived from the process validation campaign	R&D Note Please. QA will make very strong input into this document	QA,QC, M, R&D
Validation Summary Report	Document Summarising and reviewing output from Validation Programme and formally closing it.	QA	QA,QC, M, R&D

Confirmation of Small Scale Process Characterisation

Intermediate samples will be taken at appropriate scale to allow for the confirmation of Process B at the 15 L scale. From DOE experiments performed during the initial process characterisation runs will be used to determine process extremes or failure points. The process extremes or failure points will be tested using the collected intermediates at small scale. The selection of the steps and ranges to be tested will be determined by risk analysis.

GMP development batches and conformance batches. Two to three overlapping GMP development batches are scheduled followed by an extended gap. Avecia and Nuvelo will continue to discuss the optimum period for this hold such that it will allow the data required for successful operation of the conformance batches to be obtained, final GMP documentation to be put in place and Avecia to make practical use of the time with another process.

The third GMP Development batch will be carried out immediately prior to the conformance batches. Since a long gap is planned after the end of GMP development batches it was felt more appropriate to and run one of the batches before the validation campaign rather than start up the process and immediately run a validation batch.

Five overlapping conformance batches will be run

3. COST SUMMARY

3.1. Laboratory Program

Activity	Price £000's
Data acquisition and assessment	105
Process transfer into Avecia	105
Replicate 15L runs	109
Process characterisation Fermentation and downstream process	Up to 1000 depending on the work program required
Assay validation	1067
Total	1492 (+ process characterisation)

3.2. Manufacturing

The freeze step at the DCCB stage has been retained since this allows fermenter purity checks to be carried out and results developed before loading the broth onto the first column.

Activity	Price £000s
Process transfer and preparation for large scale manufacture	260
Laboratory based cleaning studies [note 1]	10
2 x 3000L batches for centrifuge trials including small scale purification and PD support	1114
2 x GMP Development batches includes blank run and PD support	2951
Review period [note 2]	200
1 X GMP Development batch 5 x Conformance batches Overlapping batches, includes blank run and PD support	5397
Validation Master Plan/Protocols	50
Execution of validation plan including validation reports [note 3]	TBA
PAI Preparation and Inspection Quality and Regulatory Support FTE rate	£11K per month

NOTES

1. Laboratory based cleaning studies will be required to establish the “cleanability” of Alfimeprase in relation to the protein used in cleaning validation studies. This work is costed at £10K. Further cleaning validation at a cost of £10K per item may be required if Alfimeprase proves more difficult to clean than this protein.

2. The extended review period following the GMP Development batches will be a period of intense activity when product is analysed to ensure that the process is delivering product with the required specification, batch record logistics are reviewed to ensure smooth operation, any equipment modifications are implemented and documentation changes carried out.
3. No costs have been attributed to this activity at this point since the content of the validation plan has not been defined. The Validation Master Plan will be drafted by Avecia and agreed with Nuvelo. Validation reports will be written at the end of the conformance batch campaign.

Compendial testing of raw materials can be carried out at a cost of £500 to £1000 per raw material depending on the tests required.

Raw materials, consumables, chromatography resins and UF membranes are not included in the above costs for the ABC5000 campaigns and will be charged on a pass through basis plus 10% for administration and handling.

In addition pre-agreed expenses associated with visits of Avecia technical personnel to Amgen or Nuvelo facilities will be charged back to Nuvelo

3.3 Capital

Work with Amgen on process fit established that a number of items of process specific equipment would be required to operate the Alfimeprase process. In addition Avecia would need to make certain plant modifications and provide items of a generic nature.

3.3.1 Process specific equipment.

Equipment	Estimated cost £000s
Lenticular depth filtration skid	200
Delipid filter skid	20
Columns (2 x 900mm)	200
UF cassette holder	25
Total	**445**

Qualification costs will be in addition to this sum. Amgen were investigating whether the equipment can be purchased at a lower price by them in the US and shipped to Avecia. The status of these enquiries is not known.

3.3.2 Generic modifications and equipment

Modification to fermenter control software
Trace heating on glucose line
Ammonia feed tank
Various tankage
0.2u filtration skid
Small UF rib (Sartorious Beta)

4. ESTIMATED OVERALL TIMELINES

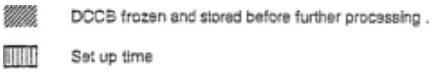
[*]

NOTE

The review period in Nov-05 to Jan 06 is illustrative only. Avecia and Nuvelo will continue to discuss the optimum period for this gap such that it will allow the data required for successful operation of the conformance batches to be obtained and Avecia to make practical use of the time.

5. DRAFT MANUFACTURING SCHEDULE

[*]



[*] = Certain confidential information contained in this document, marked by brackets, has been omitted and filed separately with the Securities and Exchange Commission pursuant to Rule 24b-2 of the Securities and Exchange Act of 1934, as amended.

APPENDIX 1. ASSAY LIST

[*]

[*] = Certain confidential information contained in this document, marked by brackets, has been omitted and filed separately with the Securities and Exchange Commission pursuant to Rule 24b-2 of the Securities and Exchange Act of 1934, as amended.

Exhibit B

Capital Equipment List

[*]

* Nuvelo desires that Avecia provide input with respect to these issues.

[*] = Certain confidential information contained in this document, marked by brackets, has been omitted and filed separately with the Securities and Exchange Commission pursuant to Rule 24b-2 of the Securities and Exchange Act of 1934, as amended.

Exhibit 21.1

LIST OF SUBSIDIARIES
AS OF DECEMBER 31, 2004

1. Hyseq Diagnostics, Inc., a Nevada corporation.

Exhibit 23.1

Consent of Independent Registered Public Accounting Firm

The Board of Directors
Nuvelo, Inc,:

We consent to the incorporation by reference in the registration statements on Form S-3 (Nos. 333-112209, 333-90458, 333-103257, 333-106873, and 333-118821) and the registration statements on Form S-8 (Nos. 333-68170, 333-68172, 333-101276, 333-103055, 333-108563, 333-115747 and 333-96313) of Nuvelo, Inc. of our reports dated March 15, 2005, with respect to the consolidated balance sheets of Nuvelo, Inc. and subsidiaries as of December 31, 2004 and 2003 and the related consolidated statements of operations, stockholders' equity (deficit) and cash flows for each of the years in the three-year period ended December 31, 2004, management's assessment of the effectiveness of internal control over financial reporting as of December 31, 2004, and the effectiveness of internal control over financial reporting as of December 31, 2004, which reports appear in the December 31, 2004 annual report on Form 10-K of Nuvelo, Inc.

/s/ KPMG LLP

San Francisco, California
March 15, 2005

Exhibit 31.1

CERTIFICATION

I, Ted W. Love, certify that:

1. I have reviewed this annual report on Form 10-K of Nuvelo, Inc.;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) designed such disclosure controls and procedures or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

   b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in the report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this annual report based on such evaluation;

   d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 15, 2005

/s/ TED W. LOVE

Ted W. Love
President, Chief Executive Officer and Director

Exhibit 31.2

CERTIFICATION

I, Lee Bendekgey, certify that:

1. I have reviewed this annual report on Form 10-K of Nuvelo, Inc.;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) designed such disclosure controls and procedures or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

   b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in the report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this annual report based on such evaluation;

   d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 15, 2005

/s/ LEE BENDEKGEY

Lee Bendekgey
Senior Vice President,
Chief Financial Officer and General Counsel

Exhibit 32.1

NUVELO, INC.

CERTIFICATION PURSUANT TO
18 U.S.C. SEC. 1350
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

Pursuant to the requirement set forth in Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and Section 1350 of Chapter 63 of Title 18 of the United States Code (18 U.S.C. §1350), Ted W. Love, Chief Executive Officer of Nuvelo, Inc. (the "Company"), and Lee Bendekgey, Chief Financial Officer of the Company, each hereby certifies that, to the best of his or her knowledge:

(1) The Company's Annual Report on Form 10-K for the period ended December 31, 2004, to which this Certification is attached as Exhibit 32.1 (the "Annual Report") fully complies with the requirements of Section 13(a) or Section 15(d) of the Exchange Act, and

(2) The information contained in the Annual Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

In Witness Whereof, the undersigned have set their hands hereto as of the 15th day of March, 2005.

/s/ TED W. LOVE
Ted W. Love
President, Chief Executive Officer and Director

/s/ LEE BENDEKGEY
Lee Bendekgey
Senior Vice President,
Chief Financial Officer and General Counsel

"This certification accompanies the Form 10-K to which it relates, is not deemed filed with the Securities and Exchange Commission and is not to be incorporated by reference into any filing of Nuvelo, Inc. under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended (whether made before or after the date of the Form 10-K), irrespective of any general incorporation language contained in such filing."

Date: March 15, 2005